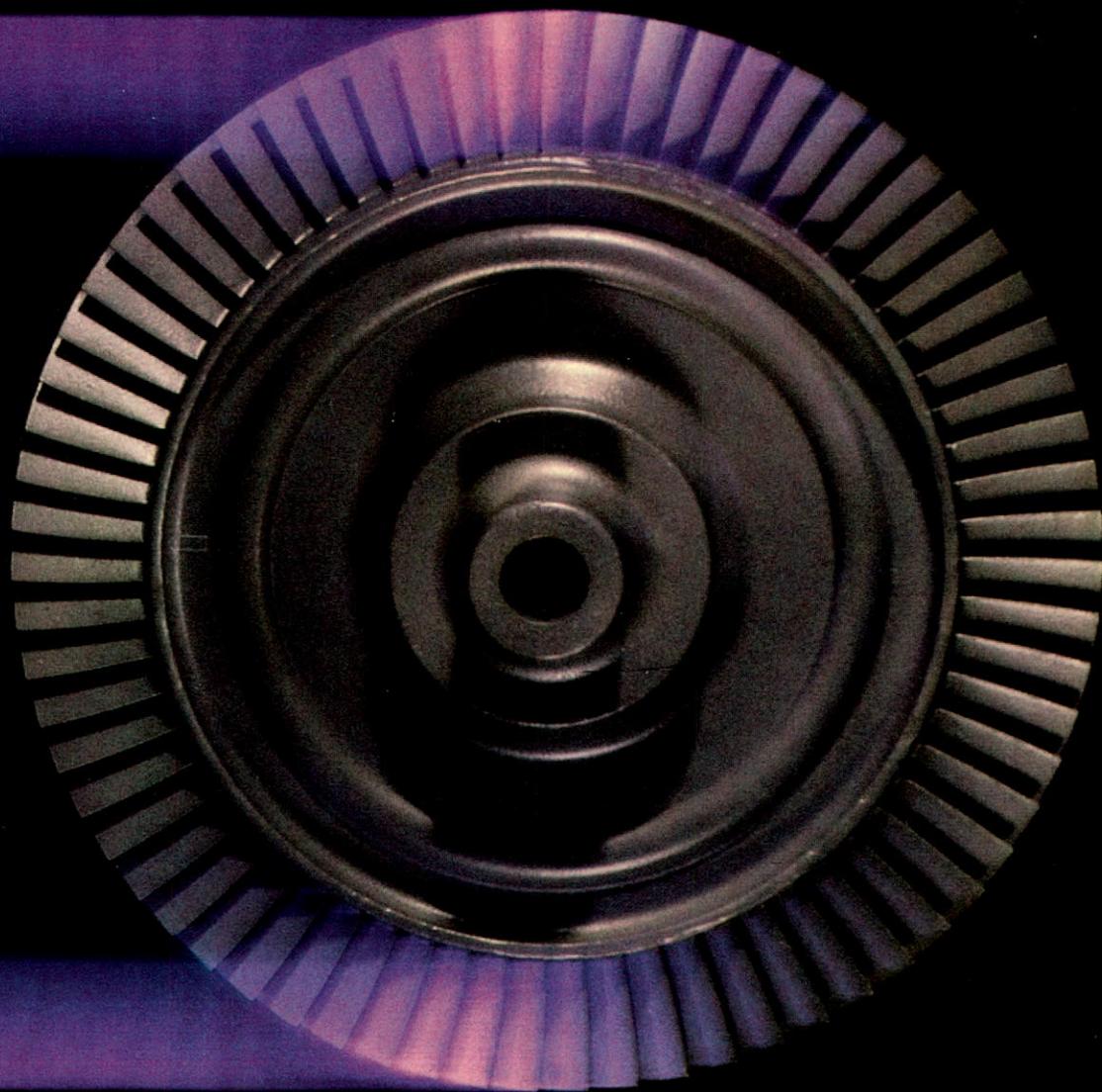


Interlake, Inc.

1980

Annual Report



Interlake, Inc. is a Chicago-based international company engaged in two major businesses: metals and material handling.

Annual Meeting

Shareholders are invited to attend the Corporation's 1981 Annual Meeting at 10:00 A.M. (Eastern Standard Time) on Thursday, April 23, 1981, in the Meeting Room, first floor, of Bankers Trust Company, 280 Park Avenue, New York. Proxy statements will be mailed in late March.

Dividend Reinvestment Plan

Interlake, Inc. offers its shareholders a dividend reinvestment plan. Participants may reinvest all or part of their cash dividends in Interlake stock at a 5% discount from market price and without payment of brokerage commissions. Optional cash purchases may also be made commission-free. For information write: Secretary, Interlake, Inc., 2015 Spring Road, Oak Brook, Illinois 60521.

Common Stock Listed and Traded

New York Stock Exchange, Midwest Stock Exchange

Stock Symbol: IK

Transfer Agent and Registrar

The First National Bank of Chicago, Chicago, Illinois

Independent Accountants

Price Waterhouse & Co., Chicago, Illinois

Form 10-K Available

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

Cover: Technological leadership in investment casting enables Interlake's Arwood Corporation to create highly complex, precision parts.

Interlake, Inc. 1980 Financial Highlights

For The Year (In thousands)	1980	1979	% Change
Net sales	\$1,055,883	\$1,104,588	- 4.4
Net income	13,818	39,735	-65.2
Capital expenditures	31,276	69,556	-55.0
Cash dividends paid	13,287	13,127	+ 1.2

At Year End (In thousands)

Working capital	\$ 181,145	\$ 162,270	+11.6
Current ratio	2.0 to 1	1.7 to 1	+17.6
Property, plant and equipment-net	254,855	280,821	- 9.2
Long-term debt, less current maturities	133,020	135,503	- 1.8
Shareholders' equity	336,707	333,981	+ 0.8
Shares outstanding	6,089	6,003	+ 1.4

Per Share Statistics

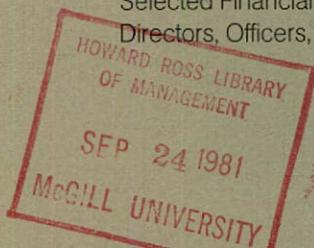
Net income	\$2.29	\$6.66	-65.6
Cash dividends paid	2.20	2.20	-
Shareholders' equity at year-end	55.30	55.64	- 0.6

Sales and Earnings by Business Segments

(In millions)	Sales		Earnings	
	1980	1979	1980	1979
Metals				
Investment/Die Castings	\$ 114.3	\$ 102.4	\$ 22.0	\$ 20.5
Metal Powders	70.9	83.5	8.9	17.3
Silicon Metal/Ferroalloys	84.5	88.7	6.2	8.5
Iron/Steel	325.2	422.2	(34.5)	(10.6)
Material Handling				
Material Handling/Storage	350.5	294.6	22.6	11.3
Packaging	164.1	177.2	8.9	10.5
Corporate Items/Eliminations	(53.6)	(64.0)	(13.5)	(12.3)
	<u>\$1,055.9</u>	<u>\$1,104.6</u>	<u>\$ 20.6</u>	<u>\$ 45.2</u>

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Directors, Officers, and Operating Executives	Inside Back Cover



To Our Shareholders and Employees:

1980 was one of the toughest years we have ever faced. We were gratified by the pay-off of our hard work. But, we were saddened by the death of G. Findley Griffiths, our former chairman.

Mr. Griffiths passed away in April at age 74. He had contributed to the steel industry for 40 years, and was the architect of the 1964 merger of Acme Steel Company and Interlake Iron Corporation. He served as your chairman until 1971, and will indeed be missed by all of us.

The tough part of 1980 revolved around general business conditions. The year started strong, weakened dramatically by summer and picked up again in December.

One of Interlake's major markets, the automotive industry, had a calamitous 12 months. Several of our businesses felt the aftershocks. And yet, measured by operating income before the shutdown provision, Interlake had one of its best years in history. Net operating income of \$38.5 million equaled \$6.39 per share, which was only 4% short of 1979's performance.

However, as reported to you last summer, we were forced to close Interlake's two Kentucky steel plants permanently in August after union members there rejected our request for a one-year containment of wage and benefit increases. This was a difficult decision.

The shutdown, therefore, was the dominant negative factor in 1980 performance. You will recall that the third quarter, \$37 million pre-tax provision reduced operating income performance by \$4.10 per share for the year.

Fourth Quarter Rebound Business conditions improved late in the year. Interlake's fourth quarter performance was well ahead of 1979's strong results.

Net income was \$19.4 million, or \$3.21 per share, compared with \$13.6 million, or \$2.28 per share, for the fourth quarter of 1979.

1980 Results Net income for fiscal 1980 was \$13.8 million, equal to \$2.29 per share. Last year, net income was \$39.7 million, or \$6.66 per share.

Sales passed the billion dollar mark for the second year, but at \$1.06 billion, were slightly below 1979's record \$1.10 billion.

We Are Gratified Overall, we are rather gratified by the year's results. It is becoming clear that the course charted for your company will pay off.

We have realigned the company along lines of divisional responsibility. We moved ahead on new manufacturing and administrative facilities for the packaging division; new headquarters for material handling/storage products. Benefits of these efficiencies will accrue in the future.

Performance in 1980 was helped by our diversification, both geographically and in new businesses. Strict controls, good operating performance, and returns from recent capital expenditures helped, too.

1980 was also the year to reduce inventories sharply. We did, bringing them down \$17.7 million. This management program gained us improved cash flow, a plus-side impact on net interest costs, and a \$23.2 million pre-tax income benefit from reducing LIFO based inventories.

Highlighting Our Businesses All product lines and businesses were hit by the recession, some harder than others.

Arwood Corporation, investment and die castings, gained 12% in sales and at \$22.0 million, 7% in earnings—both new records. Strength in markets for investment castings was the major source of improvement. Several expansions of Arwood facilities will be completed in 1981, further enhancing our stature in these markets.

Hoeganaes, our powdered metal subsidiary, was hard hit by recession and the automotive downturn. With sales down, earnings were further hurt by a higher cost structure as the new Gallatin, Tennessee, atomizing plant came on stream. Weak demand marred an otherwise excellent start-up. But Hoeganaes rebounded, with December the strongest month of 1980.

Globe Metallurgical Division labored under many of the same burdens. Sales of \$84.5 million and \$6.2 million in earnings, down from sales of \$88.7 million and earnings of \$8.5 million last year, clearly demonstrates the impact of recession on this supplier to basic industry.

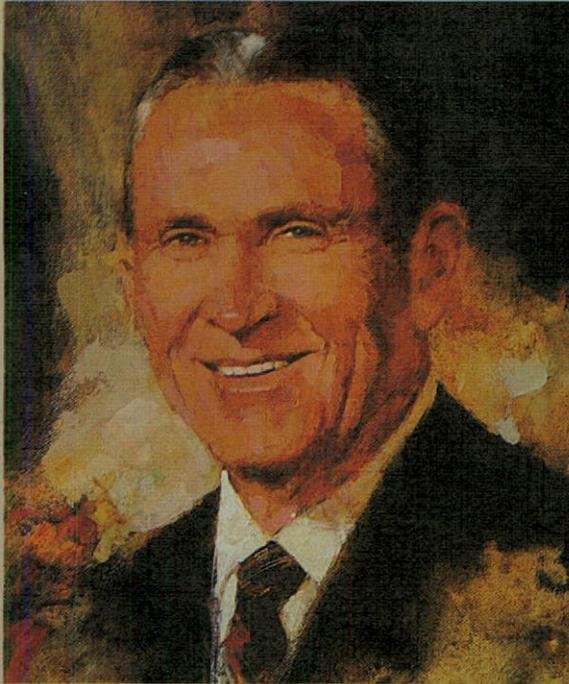
Iron and Steel Division sales were down 23% from 1979, impacted by recession and the Kentucky plants shutdown. Excluding the shutdown costs, earnings made a good positive swing to \$2.5 million from last year's \$10.6 million loss.

Material Handling/Storage Products Division had record sales and higher income. The division is nearing completion on the Hallmark Distribution Center, Enfield, Connecticut. This massive project is one of the world's largest—a showcase for Interlake material handling/storage technology. (See photo page 12.) One of the strongest 1980 performers was Dexion-Comino International Ltd., our international material handling/storage operation. An 18% sales increase, plus cost controls, manufacturing efficiencies, and price increases, generated an 89% earnings increase.

Newly-named Acme Packaging Division's sales were down 7.4%. Earnings of \$8.9 million were off 15.2%. Results, however, included relocation costs of a new plant in Sumter, South Carolina, to produce strapping tools and machines, plus start-up costs on our non-metallic strapping manufacturing facility in Fountain Inn, South Carolina. Otherwise, division earnings would have been up a bit. Gerrard Industries, our European packaging company, had a slight sales decrease, while Acme Canada reported a 10.8% gain in 1980 sales, setting sales and earnings records.

Tight Rein on Capital Spending We had planned about \$50 million in capital expenditures in 1980, but held that to only \$31.3 million: about 60% to replacement and improvements, and 40% to expansion. Major projects include: expanding Arwood's Groton, Connecticut; Tilton, New Hampshire; and Cleveland, Ohio; investment casting plants; constructing new facilities for Acme Packaging Division in Sumter and Fountain Inn, South Carolina; improving the Chicago "A" blast furnace; and expanding Acme Canada.

We are looking at an increased capital expenditure program in 1981, highlighted by doubling the research and development facility in powder metallurgy for Hoeganaes in Riverton, New Jersey.



Reynold C. MacDonald



Frederick C. Langenberg

Labor Relations Active 1980 was a peak negotiating year, with contract discussions covering all divisions and most hourly employees.

As reported earlier, union rejection of Interlake's proposals resulted in the shutdown of the Kentucky steel plants. Fifteen other negotiations, two resulting in strikes, were concluded with reasonable long-term agreements. Each included competitive increases in wages and benefits.

Safety Record Set In 1980, our plants had the lowest number of disabling injuries and the lowest disabling injury frequency rate in Interlake's history. Three plants had none at all—Pontiac, Illinois; City of Industry and Pittsburg, California.

We are proud of this record. Our employees set it because safety training and education are part of our operating strategy at all locations.

Financial Position Strengthens Although 1980 was a challenging year in which to do business, we nevertheless were able to bolster Interlake's traditionally strong financial position.

Cash flow improved, and cash and equivalents rose \$9.9 million over 1979 year-end. Accounts payable were brought down \$31.9 million; our debt was reduced \$24.3 million.

Dividend Payout Firm Your Board of Directors continued Interlake's \$.55 per share quarterly dividend rate which was first set in May, 1976. Again in 1980, shareholders received \$2.20 per common share.

Guendel New Board Member In January, 1981, your Board elected Thomas J. Guendel, president and chief executive officer of Portec, Inc. to its membership. Mr. Guendel has extensive industrial experience and will make an important contribution as the 12th member of your Board, which includes only three inside directors.

Technology the Key We have included a special section in the annual report this year. It is on Interlake technology... technologies of metals and material handling: castings, metal powders, alloys, iron and steel,

storage, and packaging. Our technologies are designed to provide productive answers in metals and material handling.

Outlook About all we can say with conviction concerning the coming months is that we are prepared. The tedious uncertainties of recent years remain to be confronted—again: inflation, wild interest rate cycles, ever-increasing energy costs, unpredictable levels of business activity, mounting costs and levels of government regulation, and fluctuations in the dollars' value on world markets.

But, we have been dealing with these uncertainties for some years now.

1980 was a good barometer of the qualities of your company. We are strong, financially sound, diversified and, we are moving ahead in areas of high potential.

We faced some adversities in 1980. We had some disappointments, even some failures.

But we also set some new records. We made investments in programs and businesses that help assure future profitability. In short, Interlake employees worldwide showed what they could do when the chips were down.

For that effort, for the cooperation of the management team, the contributions of our directors, and for the continued confidence of our shareholders, we extend our thanks.

Reynold C. MacDonald
Chairman & Chief Executive Officer

Frederick C. Langenberg
President & Chief Operating Officer

February 26, 1981

Finding answers in productive technology

Technology.

A powerful word...and a powerful tool that constantly defines and redefines our world.

Interlake's technologies are those of metals and material handling. We apply them worldwide to help customers find productive answers: to improve processes and products, increase efficiency, reduce cost, enhance quality, durability and performance. Interlake technologies have found ways to do things that have never been done before. Things that no one else can do.

To define Interlake's technologies, we quote Webster... "Technology is the science of the application of knowledge to practical purposes."

We apply our knowledge of the physical and chemical properties of metals and their alloys...and investigate the capabilities and limitations of many metal-forming processes. Energy and material shortages in the 1980's underscore the practicality of the near-net-to-shape technologies possible with our castings and metal powders.

Interlake people also apply their knowledge of material handling systems—and of packaging techniques and materials. Understanding the full range of handling and packaging options allows us to find the most effective answer for the customer. The practical purpose—efficient, secure storage, handling and packaging.

Interlake technologies have still another dimension. Understanding the material and the process is enough only for today. The future demands understanding of possibilities and potentials. In other words, the key ingredient in technology is imagination. Ingenuity. Applying knowledge is static and mechanical; applying knowledge with imagination leads directly to innovation.

And that is the stuff leaders are made of.

Arwood Corporation, a wholly-owned Interlake subsidiary, is one of the nation's leaders in investment and die casting. Arwood's casting technology gives customers a quality product, cost-effective design innovation and a reliable source of supply.

Arwood investment and die casting applications are found throughout industry, in aerospace, electronics, communications, power generation, industrial equipment, appliances, defense and other industries.

Arwood's investment castings are produced in many metals and alloys: aluminum, magnesium, tool steels, stainless steels, cobalt, copper and nickel-base alloys, vacuum and air-foil alloys. Precise chemical compositions and heat treatments within the alloy groups create castings with physical and mechanical properties suited to highly specialized applications.

Die castings are produced from zinc and aluminum. Arwood research has identified variables in the die casting process that influence finished product quality.

Molten metal temperature, die temperature, casting size and speed of hot metal injection into the die all interact and affect the finished part's integrity.

Arwood's newest die casting machines have automatic controls that achieve optimum casting conditions. This process technology helps Arwood offer customers production runs that control costs and repeat uniform high quality, part after part after part. Here are a few of Arwood's technological achievements in castings:

...an electronic chassis for a missile launch control system with more than 100 cast-to-size holes and cutouts

...a die cast aluminum fin for a ground-based missile system that provided adequate strength at a price lower than any comparable product

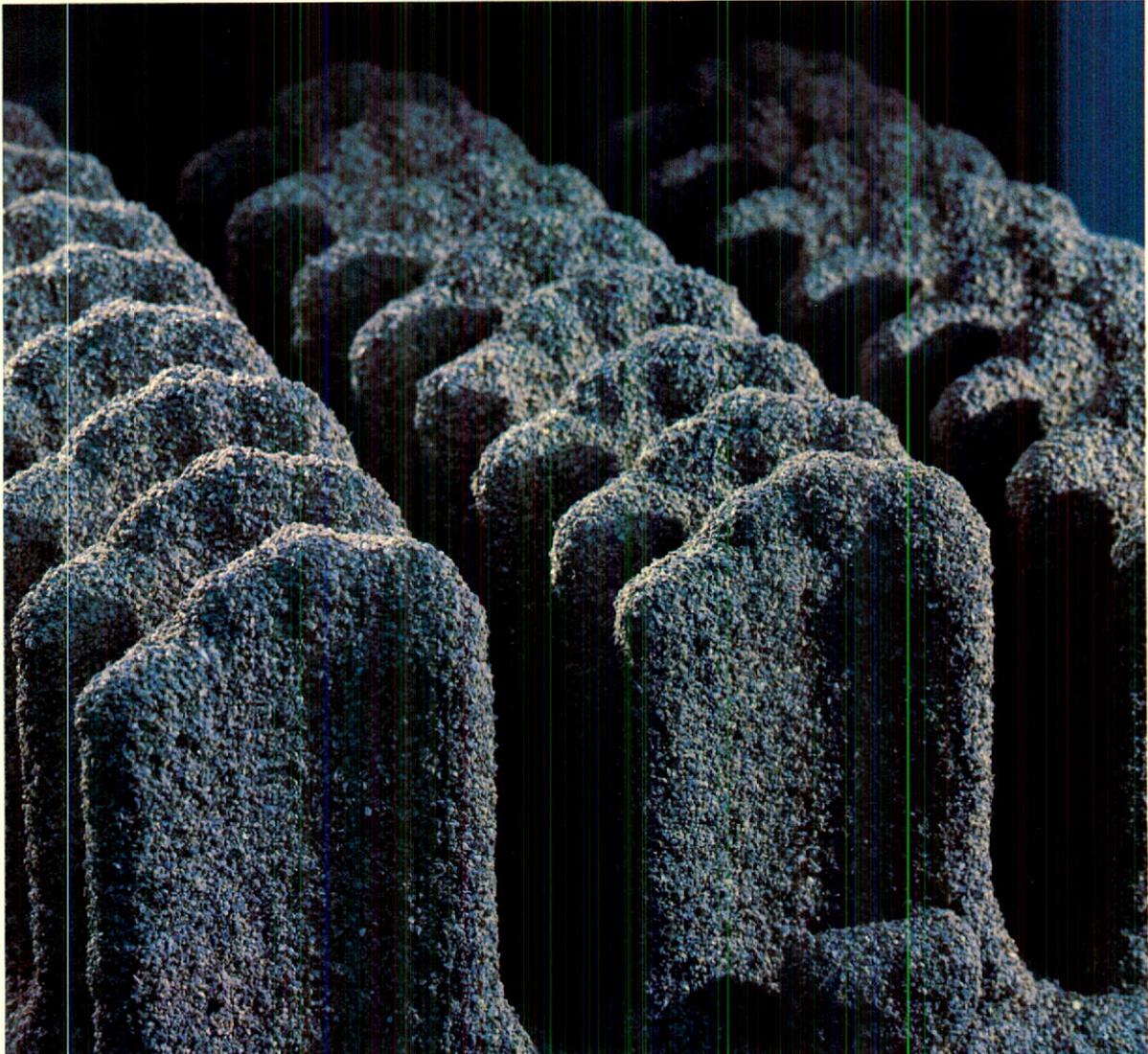
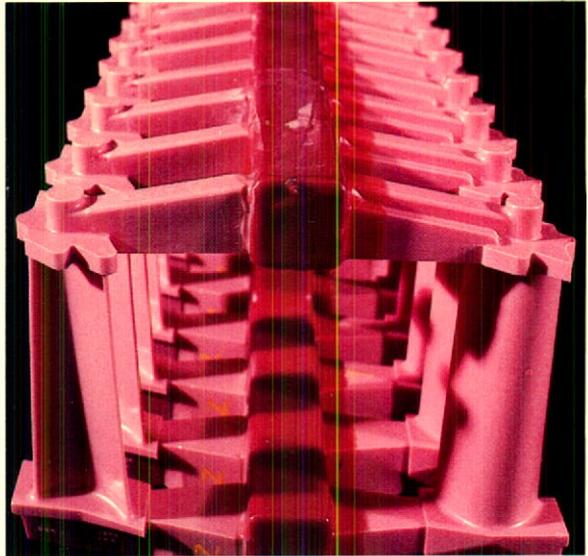
...a die cast, four-wheel drive vehicle transmission housing combined several castings into one and won



Investment casting processes and finished part properties may be improved by a metallographic analysis of alloy micro-structures.

an Award of Merit in *Modern Metals* magazine
...a bracket for a helicopter rotor that replaced a forging and greatly reduced secondary machining, yet still met demanding fatigue standards
...gas turbine engine blades with unidirectional grain formation or single crystal formation that can withstand greater stress and help improve engine performance
...being named "Custom Producer of the Year" by *Precision Metal* magazine for design of a highly unusual jet engine oil tank.

Hoeganaes Corporation, an 80% owned Interlake subsidiary, is the world's largest producer of ferrous metal powders, capable of supplying nearly 200,000 tons annually to customers worldwide. We have the only full range of ferrous powder products in this hemisphere. Hoeganaes' research has helped expand the boundaries of powder metallurgy for more than a quarter century.



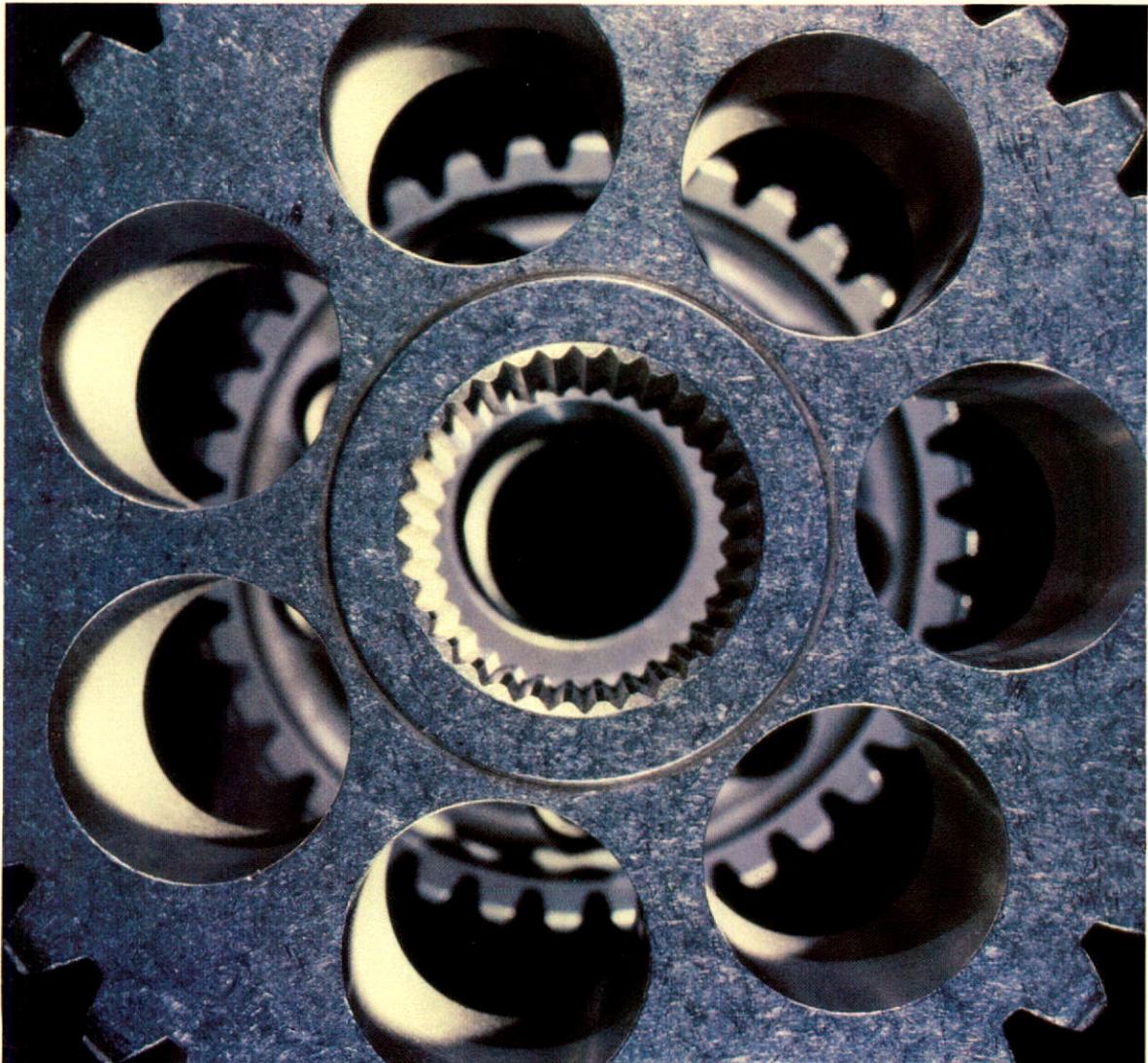
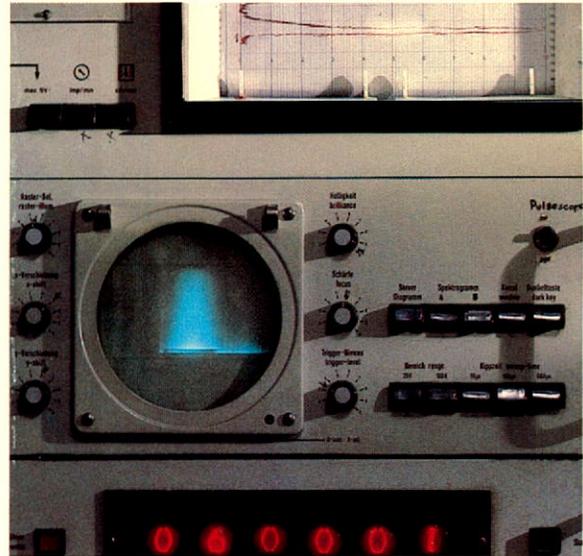
Investment castings: Precisely shaped wax patterns (top) are coated with ceramic (below) creating the mold for molten metal.

Hoeganaes technology has introduced many ferrous powders to industry since the 1950s. Just a few include: basic sponge iron powders, atomized high compressibility steel and low alloy powders, and stainless steel powders for powder metallurgy; filler powders for welding electrode coatings and submerged arc welding; plus powders for hardfacing, oxy-acetylene flame cutting and dry magnetic particle inspection.

Each development offered new or improved applications in powder metallurgy. Each new product expanded the market possibilities for P/M and underscored the Hoeganaes tradition of leadership.

Continuing to define the state of the art, Hoeganaes has launched an ambitious new research and development program which includes expanding the professional staff and doubling the size of its laboratory.

Currently under development are production techniques for cleaner, more economical heat-treatable



High alloy powder chemistry is analyzed with the X-ray spectrometer (top). Applied P/M technology created these automotive sprockets (below).

powders having better performance characteristics. Such powders can be forged to full density to replace products such as bearings previously produced from wrought steel. Tests show P/M forgings have the potential for substantially better performance, particularly in fatigue life and impact strength. The current challenge is to duplicate these results consistently in a regular production environment. Higher compressibility and different alloy powders also open potentials for magnetic and electrical applications, improved machinability or injection molding and extrusion.

To speed these potentials to reality, Hoeganaes' researchers manipulate and improve process steps, develop new alloy systems and work to improve production techniques. The results have historically shown technological progress and expanded markets.

Applying that technology, a Hoeganaes customer was named the 1980 first place winner in the P/M category by *Precision Metal* magazine. The winning parts



Inmold grade magnesium ferrosilicon (below) helps produce ductile iron, a metal product with rapidly growing automotive applications (top).

—sprockets used in transfer cases for four-wheel drive trucks—would not have been practical to produce except by powder metallurgy. This is another example of leadership in a technology selected by the Federal Office of Technology Assessment as one of the nation's three most promising fields of technical development.

Interlake's **Globe Metallurgical Division** manufactures ferroalloys and silicon metal. Precise, quality controlled chemical properties and exact sizes are the strength of our product. The capacity to manufacture what others can't or don't is our special position in the marketplace.

Globe is a major producer of silicon metal, an essential material for the aluminum, silicone chemical and semi-conductor industries. The division is also the only domestic producer of standard low carbon ferrochromium used in specialty steels, and a leading producer of low-nitrogen grades of this material.

Other major products include magnesium ferrosilicon, ferrosilicon, high carbon ferrochromium, manganese silicon alloys and rare earth alloys.

Globe's products supply such industries as chemical, aluminum, electronics, specialty steels, carbon steel and iron foundries. Finished products containing ferroalloys and silicon metal run the gamut of home and industrial uses from furniture polish to jet engines.

Globe's advanced production technology has positioned this Interlake division in one of the most rapidly growing areas of metallurgical application—the ductile iron market.

Ductile iron was developed in the late 1940s. It differs from grey iron in its internal distribution of carbon.

Grey iron has carbon flakes throughout causing some weakness, brittleness and limiting its applications in manufacturing. Ductile iron is treated with a magnesium which causes the carbon to agglomerate in spheroids,



Thermovision—measuring heat and heat loss—checks the blast furnace stack for localized hot spots indicating refractory wear.

adding strength to the product and expanding its manufacturing usefulness.

While the use of ductile iron has grown rapidly since its development, its full potential has been limited by difficulties in treating iron with magnesium. At temperatures where iron is molten, magnesium flares...causing an uneven carbon spheroid formation, a relatively low yield in treated finished product, plus an air quality control problem in manufacturing.

Ductile iron production technology made a quantum leap in the late 1960s with the development of the Inmold process, introduced in North America in 1973 by Pickands Mather & Co., sales agent for Globe.

Briefly, the Inmold process adds the magnesium alloy to molten iron in a fully enclosed chamber, contrasted to an open ladle in other processes. Advantages are greater treatment efficiency, energy savings, higher productivity, lower capital expenses, a capacity for automation, elimination of air quality control problems,

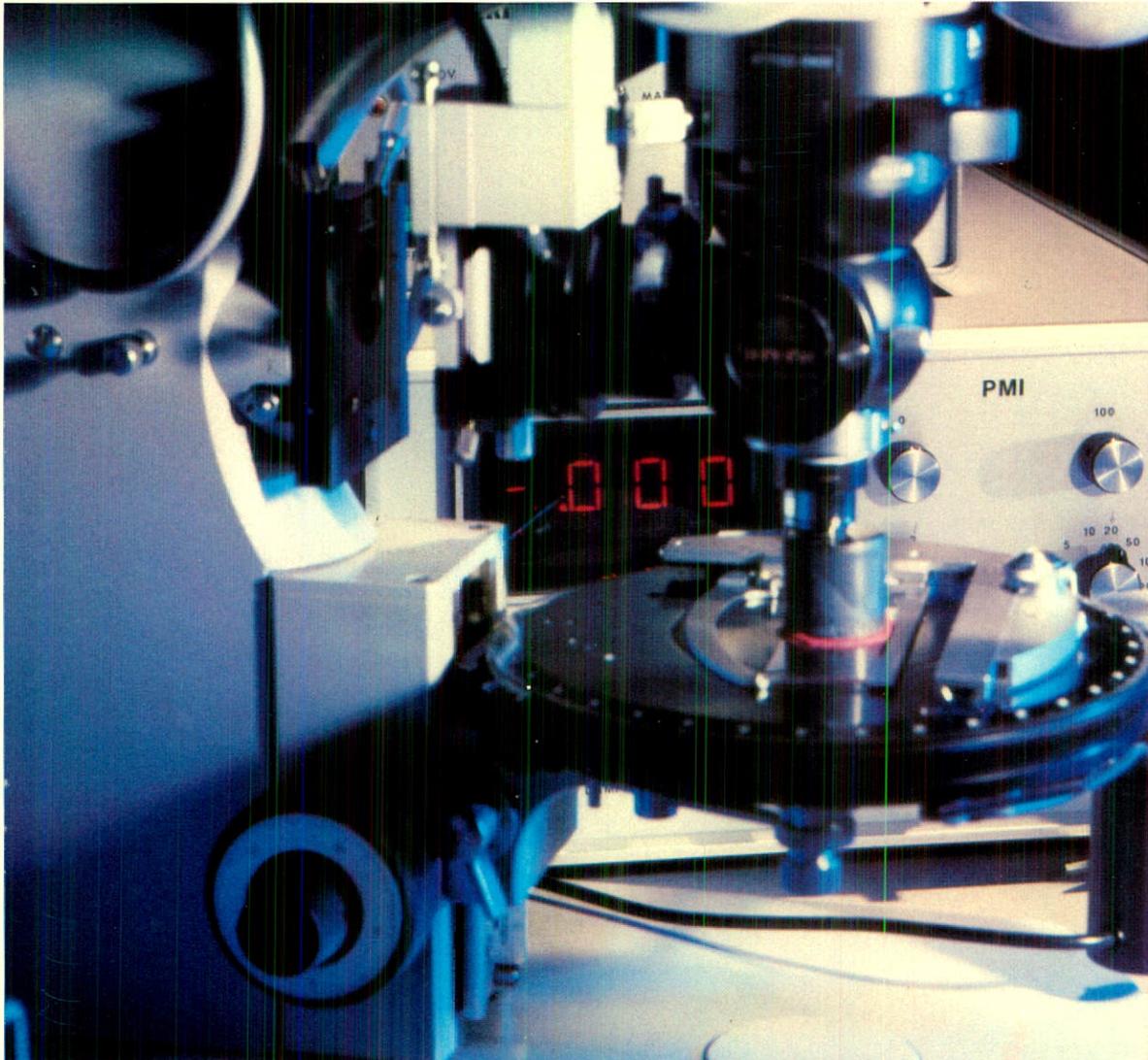
higher yield and improved physical properties.

However, the magnesium alloy added to produce ductile iron through the Inmold process must fall in a very narrow range of chemical composition and physical size limitations.

Interlake's Globe Metallurgical Division has been a pioneer in developing the production technologies necessary to meet these exacting standards. At present, Globe is the nation's most accepted manufacturer of Inmold grade magnesium ferrosilicon; we are the sole supplier to some of the country's leading producers of ductile iron.

Interlake's **Iron and Steel Division** is active in one of the world's oldest manufacturing technologies—the production of iron and steel.

New technologies in iron and steel production are applied in five primary areas. Mill production equipment: including hot strip mill water curtains and a new coil build-up line with improved welding capabilities.



The petrographic microscope analyzes coal properties, helping to assure consistently high quality coke for iron production.

Instrumentation and quality control: spectrographic analysis for the basic oxygen furnace shop and petrographic microscopic analysis to monitor coal and coke quality. Manufacturing process control: hot metal desulfurization and teaming ladle metallurgy. And, technologies in energy conservation and environmental control.

Interlake is a specialized quality producer. Our products include high quality hot and cold rolled carbon sheets and strip, hot rolled plates and bars, and alloy sheet, strip, plates and bars...plus molten and merchant pig iron.

Our strength lies in our flexibility and reliability as a supplier. A fully integrated steel company, we have interests in iron ore mines, pelletizing operations and coal mines. We produce and use our own molten metal. We produce and use our own coke. We produce and use our own steel. In short, we're in control from start to finish...supplying steel to exacting customer specifications. We specialize in fast delivery, narrow

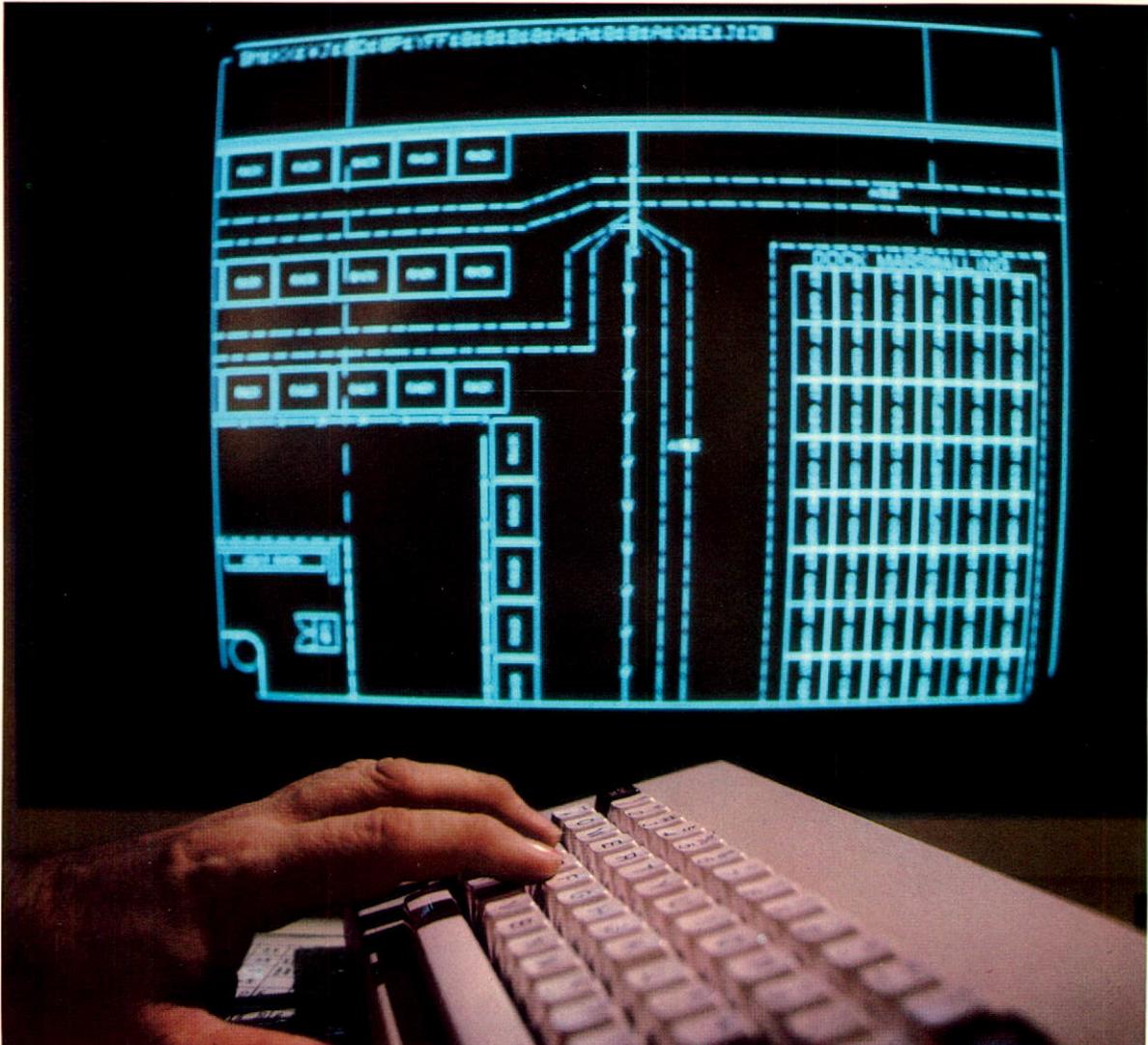
widths and technical sales service.

These Interlake specialties are demanded by customers in most major industries—metalworking, fabricating, automotive, agricultural, appliances, light and heavy machinery and recreational equipment.

Over the years, one of the most severe technological demands made on our iron and steel division has been in environmental control. Our responsive and innovative programs have helped us maintain high environmental quality standards.

Interlake's **Material Handling and Storage Products** businesses have become the industry's technological pacesetter, both on the domestic and international scene.

Interlake manufactures a complete line of storage, material handling and retrieval products: basic rack, mezzanines and decking, cantilever rack, powered and gravity conveyors, small parts storage systems, order picking systems...and fully automated computer



CAD—computer aided design—designs storage systems or rack supported buildings, creates bills of material or engineering drawings.

controlled storage and retrieval systems.

Our experts have the technology at hand to solve storage/handling problems. We offer the customer our capability to design and install the right storage system. Big or small. Simple or complex. One storage product or a series of interconnected products that together best satisfy customer requirements.

In computerized systems the division can engineer the complete software package necessary to interface a storage/retrieval system with the customer's receiving, inventory control, order and shipping activities.

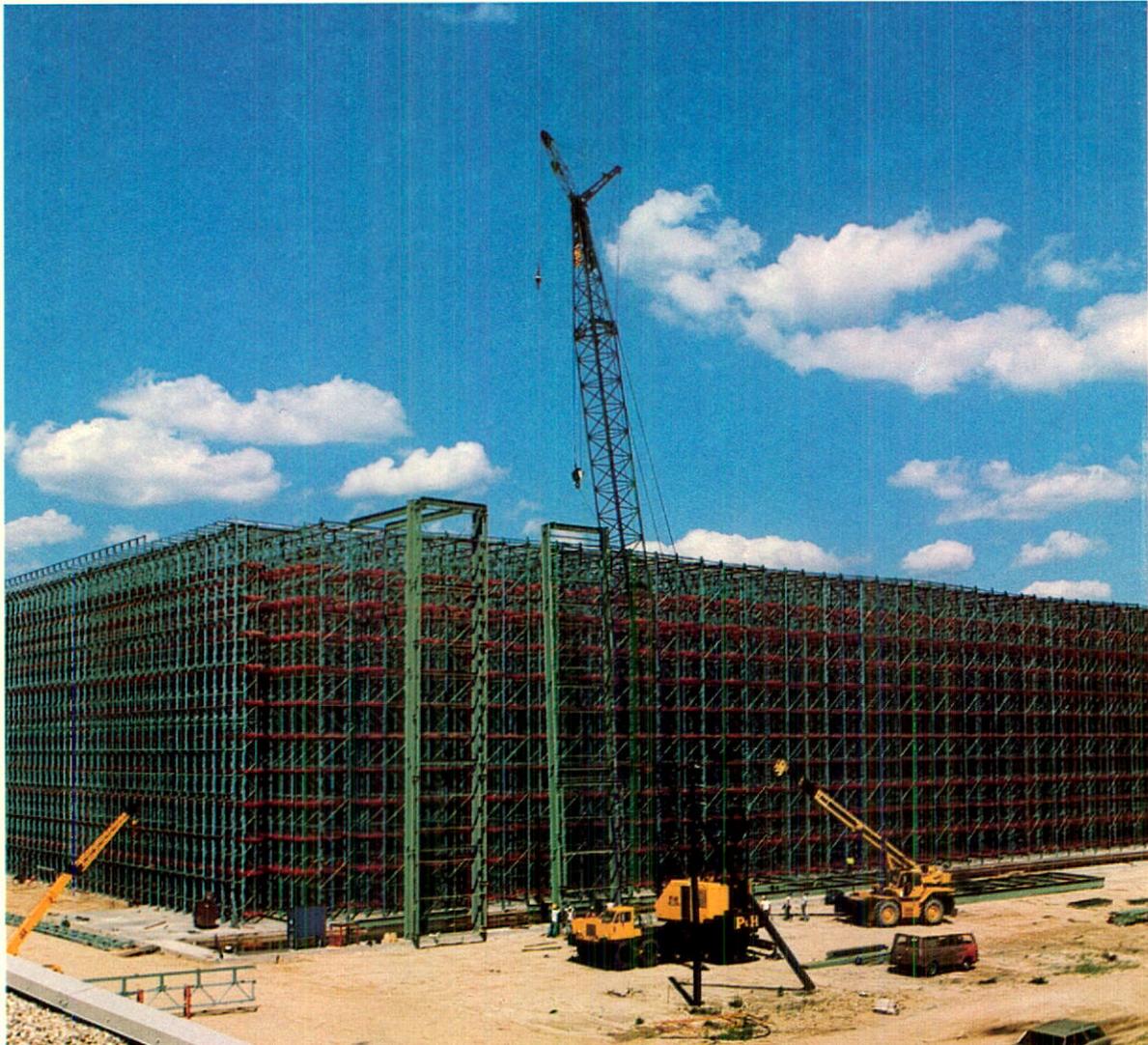
This advanced technology is best applied to large, complex distribution centers. Here, all the storage/handling components—rack supported warehouses, automated systems, powered conveyors, gravity conveyors, gravity flow racks—can interact. And with Interlake, all these components, plus the engineering and software designs to coordinate them, come from the same manufacturer.

Tomorrow this technology will reach its potential in the automated factory. Similar storage/handling components will interface with the manufacturing process, moving raw materials to production areas, storing and moving in-process or semi-finished goods to various assembly and shipping areas.

Our businesses serve industry worldwide. Our markets include the United States, Canada, Australia, United Kingdom, West Germany, Japan, Belgium, France, Denmark, Austria and Ireland.

Interlake's **Acme Packaging Division** ranks among the most experienced suppliers of packaging products in the world. We produce steel and non-metallic strapping. We make stitching wire. We manufacture and market the tools, machines and systems for their application.

Major industries we serve include: corrugated, lumber, bottles and cans, apparel, primary metal, fruit and produce, automotive, textile, paper and publishing.



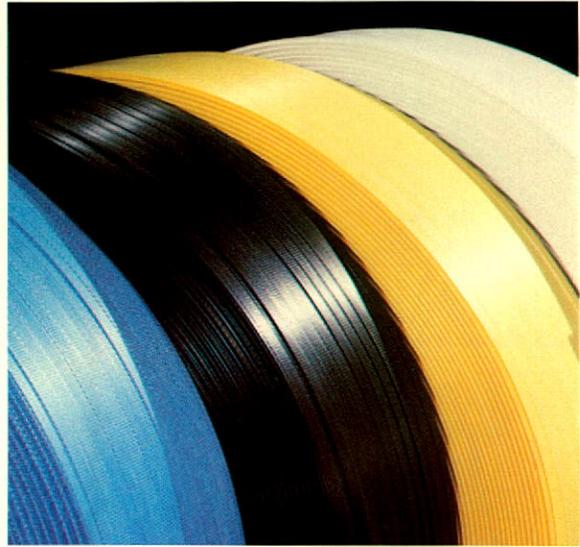
Hallmark's distribution center, Enfield, Conn. The largest installation of its kind ever assigned to a single supplier—Interlake.

Our packaging technologies are extensive...and proven. They are vital to our customers who draw on our years of experience in finding the best answers to their packaging and shipping problems.

Steel strapping is available in a variety of thicknesses, strengths and various coatings. Non-metallic strapping – polypropylene, polyester or nylon – has special capabilities suited to specific customer needs.

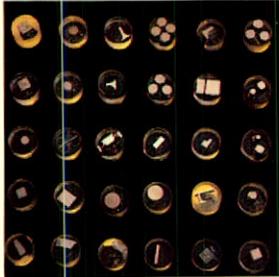
Machines range from standard hand tools through semi-automatic equipment on up to custom designed and built packaging systems. The division has just introduced a new lightweight, economy line stitching machine – important considerations to any customer in any industry.

Our packaging division knows these products and their capabilities. Selecting the right product or system for the job equals productive answers to customers' problems. Answers that work efficiently, cost effectively and reliably: that's our packaging technology.

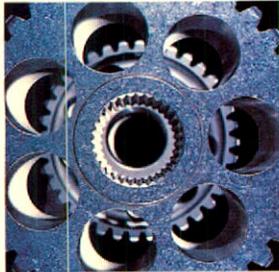
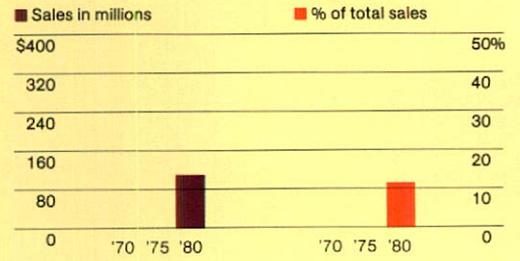


Interlake's SilverMate (below) offers economical, high speed production for stitching operations. Acme Packaging Division also manufactures non-metallic strapping (top).

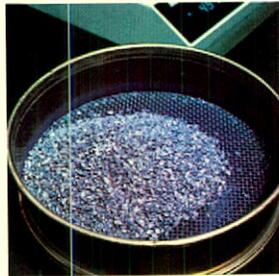
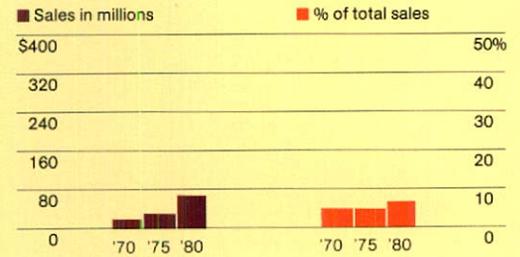
1980—Sales: \$1.1 billion
 1975—Sales: \$641 million
 1970—Sales: \$300 million



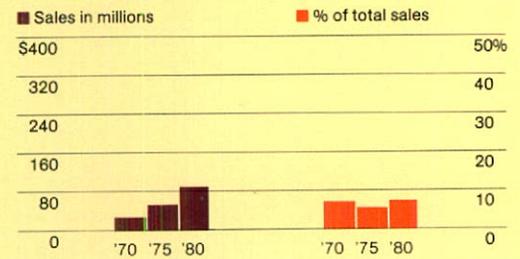
Investment/Die Casting



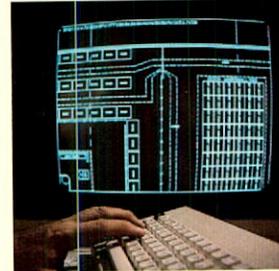
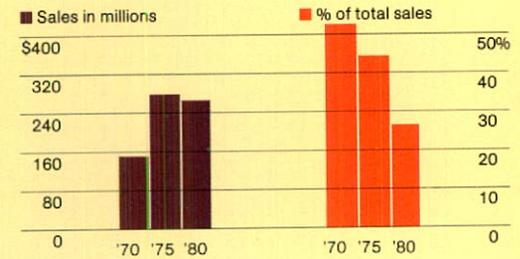
Metal Powders



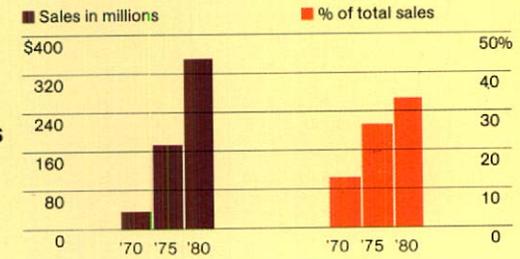
Silicon Metal/Ferroalloys



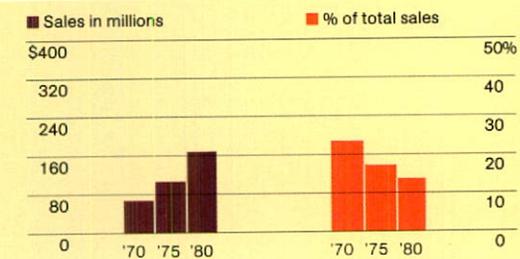
Iron/Steel



Material Handling/Storage Products



Packaging



Interlake is in two major businesses: metals and material handling

Trademarks of Interlake companies

Production, management and marketing facilities worldwide

Acquired in 1976, Arwood's products include investment castings and die castings.

Major markets: aerospace, electronics, communications, power generation, medical, appliance, defense.

ARWOOD CORP.

Headquarters: Rockleigh, NJ.
Investment casting facilities: Rockleigh, N.J., Groton, CN, Tilton, NH, Cleveland, OH.
Die casting operations: City of Industry, CA, High Point, NC, Hazleton, PA, Garland, TX.

Hoeganaes produces low carbon and low alloy steels, powders for coating welding electrodes, high-density powders for flux-cored wire, atomized carbon powders, stainless and high alloy steel powders.

Major markets: automotive, appliances, communications, agriculture, office machines, recreation equipment.



Headquarters: Riverton, NJ.
Powdered metal production facilities are located in Riverton, NJ, and Gallatin, TN. The \$31 million atomized metal powder plant in Gallatin was completed in late 1979.

Globe's products include silicon metal, ferrochrome, ferrosilicon, chrome silicides, manganese, magnesium alloys, magnesium ferrosilicon.

Major markets: aluminum, silicon chemical, semi-conductor, specialty steel, electronics, carbon steel and iron foundries.



Headquarters: Beverly, OH.
Ferroalloy plants: Beverly, OH, Selma, AL.

Interlake's Iron and Steel Division produces pig iron and molten iron, hot and cold rolled carbon sheets and strip, hot rolled plates and bars, alloy sheet, strip, plates and bars.

Major markets: metalworking and fabricating, automotive, agriculture, appliances, light and heavy machinery, recreation equipment.

interlake.inc.

1980—Production facilities located in Riverdale, IL, and Chicago, IL.
Closed plants in Newport and Wilder, KY. Sold facility in Blue Island, IL.

Interlake's Material Handling and Storage Products businesses produce cantilever rack, automatic storage and retrieval systems, gravity flow rack systems, high-rise storage systems, and conveyors.

Major markets: most businesses and industries, anywhere materials are processed, stored or distributed.

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1980—Plants located in Pontiac, IL, Lodi, CA, Newburgh, NY, Shepherdsville, KY, Nivelles, Belgium, Weston, Ontario, Canada, Kilnhurst, England. Through 1974 acquisition of Dexion-Comino Int'l. Ltd., added facilities in Hemel Hempstead and Gainsborough, England, Blacktown, Australia, Sezanne, France, Laubach, West Germany.

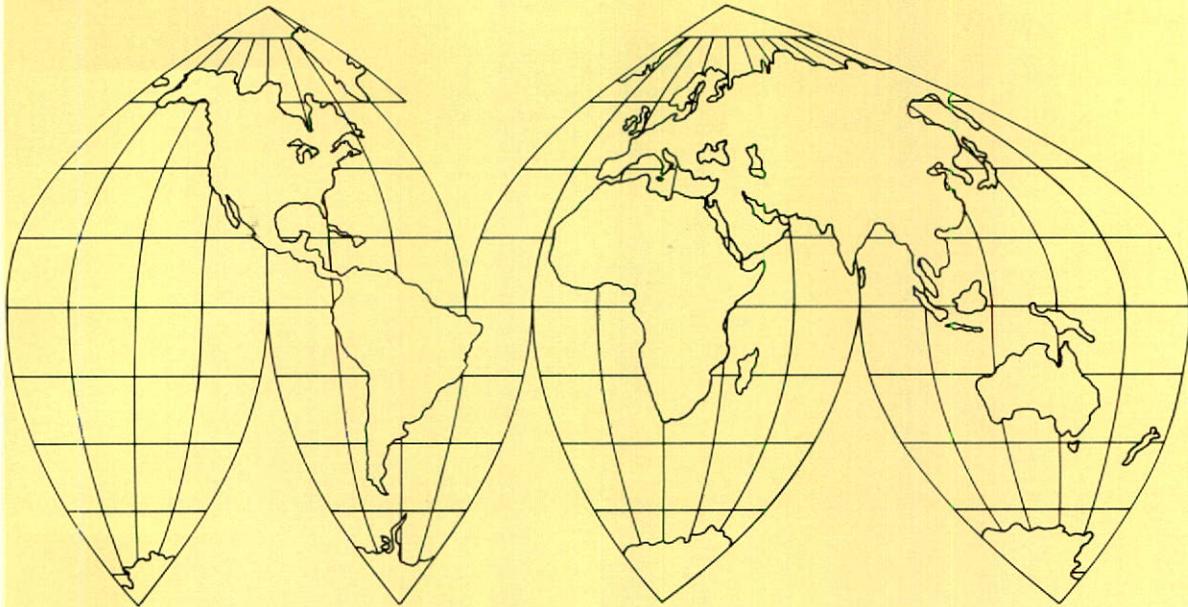
Interlake's Acme Packaging Division manufactures steel and non-metallic strapping, manual and automated tools and machines, stitching wire, staples and machines.

Major markets: corrugated, paper, lumber, bottles and cans, apparel, primary metal, fruit and produce, automotive, textiles, printing.



Production facilities located in Riverdale, IL, Pittsburg, CA, Racine, WI, Scarborough, Ontario, Canada, Welwyn, Kilnhurst & Woolmer Green, England.

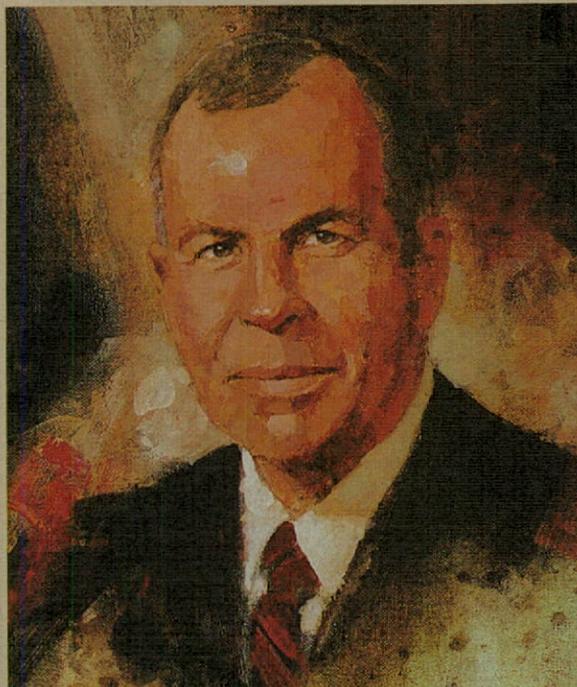
1980—Completed facility in Fountain Inn, SC. Began construction of plant in Sumter, SC. Closed small facility in Ottawa, IL.



Interlake products are marketed worldwide. Through its own divisions and subsidiaries, licensees and distributors, the company is active in countries that include the following.

- | | | |
|--------------------|-------------|----------------------------|
| Africa | Guatemala | Nigeria |
| Argentina | Guyana | Norway |
| Austria | Holland | Panama |
| Australia | Honduras | Paraguay |
| Bahamas | Hungary | Peru |
| Belgium | Iceland | Philippines |
| Bermuda | India | Portugal |
| Brazil | Indonesia | Puerto Rico |
| Canada | Iraq | Republic of China (Taiwan) |
| Chile | Ireland | Saudi Arabia |
| Columbia | Israel | Singapore |
| Costa Rica | Italy | Spain |
| Cyprus | Jamaica | Surinam |
| Denmark | Japan | Sweden |
| Dominican Republic | Jordan | Switzerland |
| Ecuador | Korea | Trinidad |
| Egypt | Kuwait | Tobago |
| El Salvador | Lebanon | Tunisia |
| England | Libya | Venezuela |
| Finland | Luxembourg | Virgin Islands |
| France | Malta | West Germany |
| Gibraltar | Mexico | West Indies |
| Greece | Morocco | Yemen |
| | New Zealand | |
| | Nicaragua | |

Chief Financial Officer's Letter



Robert Jacobs

An Overview of 1980 Interlake's sales and operating earnings held up well in 1980, and the company's financial strength improved. These results were achieved in spite of a generally weak economy and absorbing the costs of a major facility shutdown.

Net sales were \$1,056,000,000, and net income was \$13,818,000, equivalent to \$2.29 per share of common stock.

The year started strong. But by late spring there was a sharp decline in overall business activity. It was triggered by sharply escalating interest rates, the decline in the U.S. automotive industry and a general economic slowdown. Late in the third quarter, however, there were signs of an upswing in orders for our iron, steel and strapping. The strengthening gained momentum in the fourth quarter, and the year closed with 1980's highest quarterly earnings. 1980 foreign operations held up well, despite a lingering recession in the United Kingdom where Interlake has substantial interests.

International sales and earnings reached record levels.

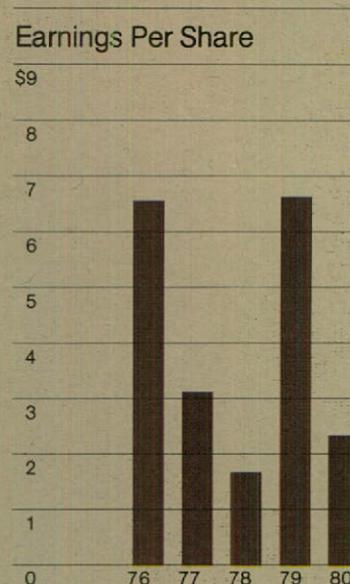
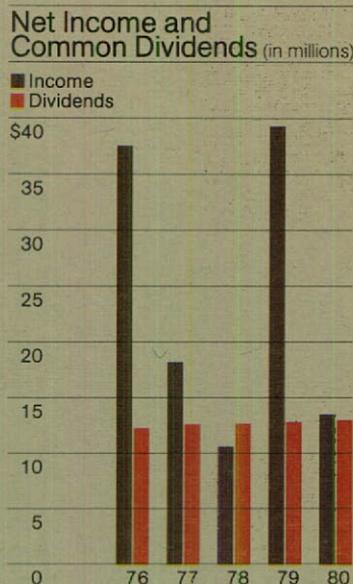
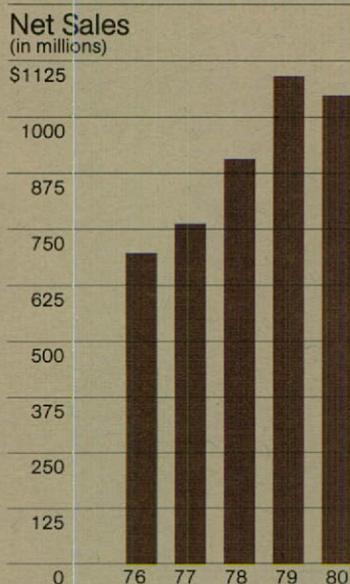
Sales and Other Revenues Interlake's sales for 1980 exceeded the billion dollar level for the second year, although 1980's volume of \$1,056,000,000 was approximately 5% below 1979 sales of \$1,105,000,000. Real volume declined, for the most part, and only the generally inflationary impact of price increases kept sales close to 1979 levels.

The largest decline in volume sales was in the iron and steel products groups, a trend which began in 1978. Iron and steel has become a much less significant factor in Interlake's overall sales dollar—26% of 1980 total sales versus 40% of total sales in 1977. This is a natural result of the 1978 closing of the Toledo, Ohio iron facilities, and the 1980 shutdown of the Newport and Wilder, Kentucky steel plants. (See discussion of shutdown/disposal provision below.)

Sales in other business segments have increased substantially in recent years and accounted for 74% of Interlake's 1980 sales. Their results were mixed during the year. Material Handling and Storage Products showed an increase primarily because of a major domestic storage system installation and overall worldwide price increases. Arwood's investment/die castings started the year with a record backlog and finished up strongly. Hoeganaes' metal powders sales—largely dependent on the automotive industry—were down. Sluggish domestic industrial activity resulted in lower sales for Acme Packaging and Globe's Silicon Metal/Ferroalloys. A separate review of each of Interlake's six business segments, including further details of sales, follows this letter.

Other revenues of \$7,880,000 in 1980 were a bit higher than 1979. These revenues include rents, royalties, interest income and gains on sales of property and equipment.

Net Income To better understand Interlake's 1980 performance, net income should be reviewed as two distinct elements—a shutdown/disposal provision



and earnings from on-going operations. The related amounts, for 1980, were:

	Per Common Share
From on-going operations	\$ 6.39
Shutdown/Disposal provision	(4.10)
Net Income	\$ 2.29

The shutdown/disposal provision was \$37,000,000 before taxes, equivalent on an after-tax basis to a loss of \$4.10 per share. This provision covers the estimated costs of closing the company's Newport and Wilder, Kentucky steel operations. Flat rolled and tubular steel products were made there. The facilities had incurred losses, before interest and taxes, in excess of \$20,000,000 in the four years preceeding the shutdown. An extensive \$16 million rehabilitation program during 1977 and 1978 did generate some improvements, but the plants remained marginal operations. The hourly employees would not agree to the company's request for a one-year freeze of employment cost increases, but insisted upon receiving the steel industry labor "package," an economic cost the facilities could not absorb without further substantial losses. As a result, operations were shut down at the end of July. The loss provision covers substantial severance and pension costs, as well as the anticipated losses upon eventual disposition of the property. The write-off was lessened by the sale of certain of the plant's inventories resulting in LIFO liquidation benefits of \$7,800,000.

Despite the write-off, the company was in a net profitable position for the year, as on-going operations showed a net profit of \$6.39 a share—only about 4% less than 1979's \$6.66 per share. These results are

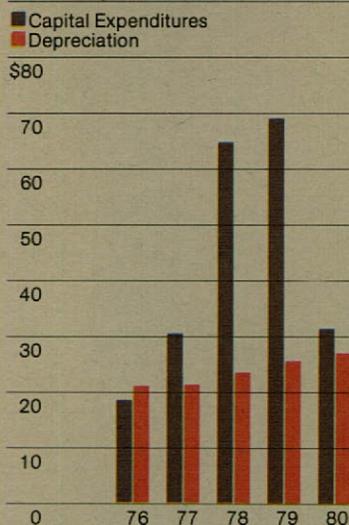
considered very satisfactory, particularly in view of the pervasive economic slowdown which severely hit several of our major businesses.

On a pre-tax basis, 1980 earnings from on-going operations were \$57,553,000, compared with \$45,177,000 in 1979, and only \$31,626,000 in 1978. One important reason behind the 1980 gain was the realization of \$15,400,000 from the liquidation of LIFO (last-in first-out) inventories. Inventories, particularly in the businesses most severely affected by the recession, were closely controlled and reduced during the year. In addition to lower inventory working capital requirements, the liquidations favorably affected cost of goods sold by using costs of inventory accumulated in earlier, lower-cost years.

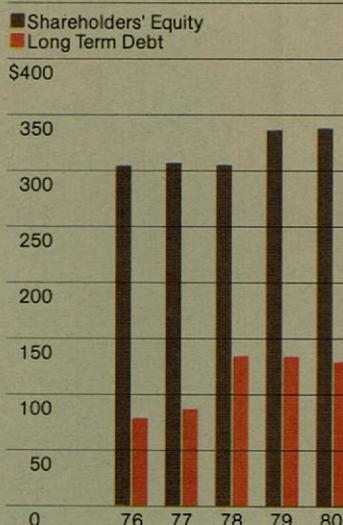
On a year-to-year basis, earnings in 1980 were essentially stable even though in most areas there were volume declines. Three key factors helped in this process. First, sales of the more profitable products were emphasized. Second, strong efforts were made to position various segments of the company so they could generate needed sales revenue by raising prices, matching the inflationary effects of escalating labor, material and energy costs. Third, and very importantly, dramatically improved efficiency and productivity gains were achieved in iron and steel's Chicago and Riverdale operations. Substantial operating improvements were also made in other areas of the company. As noted earlier, a separate review of the company's business segments follows, with added detail on these items.

Lower tax benefits from investment credits in the United States and from United Kingdom stock relief countered gains in pre-tax earnings. Interlake's effective income tax rate rose to 29.2% in 1980 after reaching lows of 6.9% in 1979 and 19.4% in 1978. In

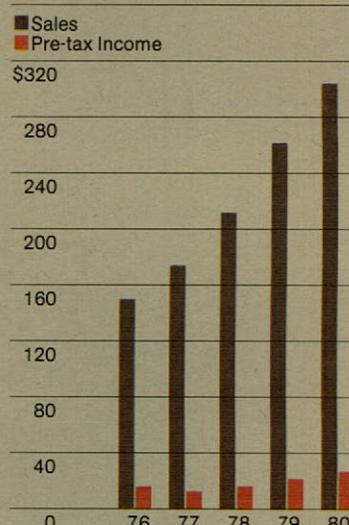
Capital Expenditures and Depreciation (in millions)



Capitalization (in millions)



Foreign Operations (in millions)



1979, investment credits associated with record capital spending and favorable United Kingdom income tax legislation contributed to the low effective tax rate and added \$2.75 per share to net income. These items totaled only \$.78 per share in 1980.

Financial Condition—Liquidity—Capital Resources

Interlake improved its financial strength during 1980, in spite of a faltering economy and the substantial costs of closing a major facility.

There are four key indicators of a company's financial strength, and Interlake improved each of them during 1980.

- The *current ratio*, current assets to current liabilities, was 2.0/1 at the end of 1980. It was 1.7/1 at year-end 1979.
- The *quick asset ratio*, cash, cash equivalents and receivables to current liabilities, was 1.0/1 at the end of 1980. It was .9/1 at year-end 1979.
- The *debt/equity ratio* was 31/69 at the end of 1980—35/65 at the end of 1979. (For this ratio, debt includes short-term borrowings.)
- *Interest coverage* (not including the shutdown/disposal provision) rose from 3.4 times for 1979 to 4.1 times for 1980.

These improvements reflected 1980's close control of working capital by reducing inventories, close control of capital expenditures and reduced other cash requirements. Short-term borrowings, which stood at \$39,947,000 at year-end 1979, were cut down by \$21,616,000 during the year and were only \$18,331,000 at year-end 1980. Long-term debt was also reduced by \$2,483,000 during the year.

Interlake has substantial capital resources to meet future financial requirements. A domestic revolving credit agreement is in place with eight major banks.

This line was set up in 1979 for \$50,000,000 and was increased to \$75,000,000 during 1980. Under terms of the agreement, Interlake can borrow up to the full amount during the three-year period ending September 1, 1983, and, at its option, then convert all or part of it to a five-year term loan. Foreign requirements are covered by a number of credit lines tailored to the requirements of each subsidiary. These credit lines aggregate approximately \$42,000,000, and at year-end 1980, \$18,331,000 was being used.

A small but growing source of capital for Interlake is the company's dividend reinvestment program. During 1980, almost \$2,000,000 was derived from this program.

Capital Expenditures and Depreciation

Many Interlake operations are capital intensive, and funds from depreciation and funds for capital additions are important to our financial planning.

As capital spending has increased during recent years, depreciation has also increased—from \$23.0 million in 1978, to \$25.0 million in 1979—and \$26.9 million in 1980. But this depreciation expense, while significant, does not meet the inflation-affected prices to replace existing facilities. The impact of this problem, common to most U.S. industrial companies, is further discussed in the section entitled—"Supplementary Financial Data Adjusted for Effects of Changing Prices," beginning on page 38.

In 1978 and 1979, Interlake's capital spending was at extremely high levels. In 1980, it returned to more normal levels:

1978	\$65,974,000
1979	69,556,000
1980	31,276,000

In 1978 and 1979, capital spending was directed to major rehabilitation and modernization projects to maintain iron and steel operations and to the new powdered metal facility at Gallatin, Tennessee. Most iron and steel capital spending went to repair the Chicago coke ovens, related environmental control facilities, and to blast furnace relines.

The percentage distribution of capital spending shows movement to our faster growing and more profitable businesses in the three years ending 1980:

	1980	1979	1978
Material handling/ storage products	23%	14%	17%
Packaging	21	3	4
Arwood's investment/ die castings	17	5	6
Hoeganaes' metal powders	11	30	16
Silicon metal/ferroalloys	4	1	1
Iron/steel	24	47	56

Major expansion and profit improvement projects in 1980 were:

- increased capacity for Arwood's investment casting plants
- increased metallic strapping capacity in Canada and England
- new and increased domestic non-metallic strapping capacity
- a new domestic packaging tool and machine plant.

Replacement and modernization projects are always necessary to maintain and upgrade productive capacities. Such projects were common to all our businesses but in 1980 the most significant were in iron and steel and material handling/storage products.

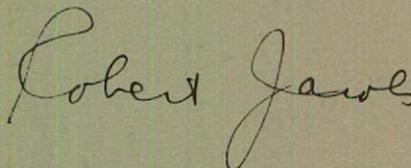
Near-term capital spending will reach higher levels than in 1980. But the emphasis will stay on expansion and profit improvement projects. Closing the iron and steel making facilities at Toledo, Ohio; and Newport/Wilder, Kentucky; has eliminated the capital demands required to maintain those facilities.

Management's Responsibility for Financial Reporting

Management is responsible for the manner of presentation and the integrity of financial information presented in this Annual Report. The financial statements were prepared by management in conformity with generally accepted accounting principles considered appropriate to the circumstances and applied in a consistent manner.

Interlake's policy is to have a comprehensive system of internal accounting controls and organization arrangements which provide for delegation of authority and appropriate divisions of responsibility to provide reasonable assurance as to the integrity of its financial reporting and the protection of assets. Management believes that Interlake's system of internal control provides such reasonable assurance.

The Board of Directors, through the Audit Review Committee, oversees management's discharge of its financial reporting responsibilities. The Audit Review Committee consists of three outside directors who are charged with the responsibility to review, appraise and report to the Board on accounting and reporting practices, the internal control system and the internal auditors. The Audit Review Committee meets at least twice each year with the internal auditors and the independent accountants to review the scope, timing and results of audit activities.



Robert Jacobs
Executive Vice President
Finance and Planning

February 26, 1981

A Review of Interlake's Business Segments

Interlake is an international company in the metals and materials handling businesses. These two major business groups are classified into six distinct business segments. Each segment has its own particular markets, products, production processes, pricing, demand levels and costs, and these vary significantly. The following review highlights the varying factors and their impact on operating results for the past three years.

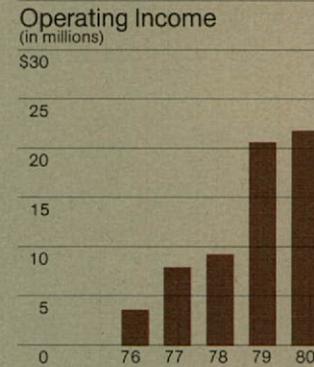
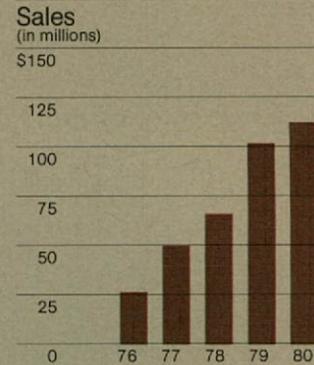
Investment/Die Castings Arwood has turned in record performances every year since acquisition in 1976. Sales were up 12% over last year and 127% since 1977. Growth over the last three years is credited to:

- production and shipping volume improvements
- price increases sufficient to absorb cost escalations
- acquisition in 1977 of a die casting company in Garland, Texas
- purchase in 1978 of the remaining 50% interest in the Jetshapes investment castings joint venture.

Capital spending over the three-year period of almost \$13 million added capacity and increased productivity.

Most of Arwood's sales growth came from the investment castings business, reflecting the strength of the aerospace and related industries. Investment castings sales were 21% ahead of 1979 and 212% over those in 1977. All four locations have reported improved sales in each of the last three years. Incoming orders matched shipments during 1980 and Arwood's investment castings order backlog remained high. To meet this demand, expansion projects were underway at all four investment castings plants by the end of 1980. The die casting business is different. It is oriented toward consumer product markets. The recession in 1980 had a direct impact on orders and results. Good order backlogs were on hand going into the year and helped limit 1980 die casting sales declines to only 4%. But backlogs are quite low now. Only the Garland plant ran counter to this trend to show a 20% sales gain and doubling of order backlog. This operation has provided over one-third of the total 42% increase in die casting sales since 1977.

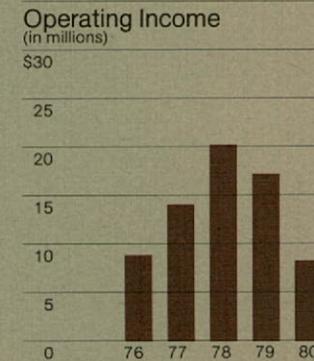
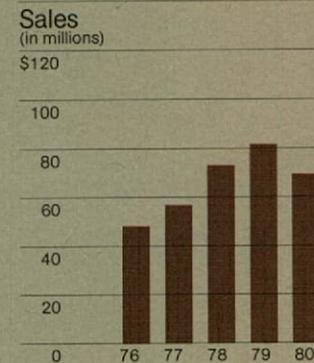
Arwood's operating income established another record in 1980, an increase of 7% above 1979. Jetshapes was the only investment casting facility that didn't do better, the result of break-in difficulties with some new parts and disruptive labor negotiations at the end of 1980. The Garland and Los Angeles die casting plants also showed earnings gains due to volume growth and cost improvements. Arwood's operating income has risen 178% since 1977.



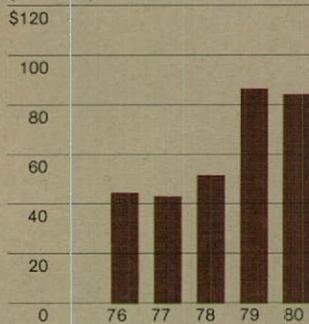
Metal Powders Hoeganaes Corporation's metal powders business has had unusually good growth rates in recent years. Customers developed more and more part applications, and demand exceeded the Riverton, New Jersey plant capacity in 1978 and 1979. Customers were reluctant to move aggressively into new part applications without assurance that more product and vital technical assistance would be available.

To satisfy this demand, a new \$31 million atomized steel powder plant was completed in 1979 at Gallatin, Tennessee. This plant added 52,500 tons, or 36% to Hoeganaes' capacity. About this time, the U.S. automotive industry—a large powdered metal user—entered into the most critical slump in history. Demand dropped sharply in 1980; sales were down 15% from 1979 but were still 21% ahead of 1977. Shipments, on the other hand, fell to their lowest point since 1976, dropping 22% from both 1979 and 1978.

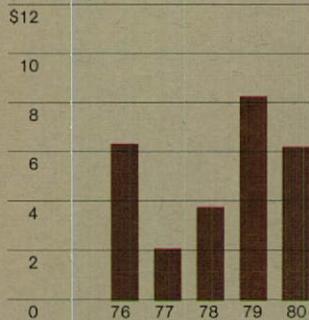
The Gallatin plant did not reach its potential in 1980. The adverse economic climate caused limited operating levels. Overall operating levels were held to only 55% of total capacity. This had a correspondingly severe impact on earnings performance. Operating income in 1980 was 48% under 1979, which had already been troubled by escalating labor and material costs plus start-up expenses at the new plant. But the Gallatin plant moved to higher production levels by the end of 1980 as general demand increased.



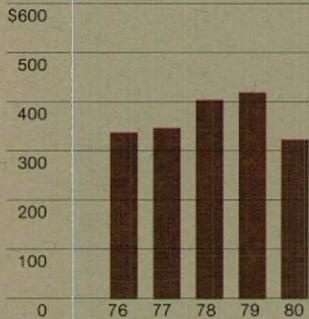
Sales
(in millions)



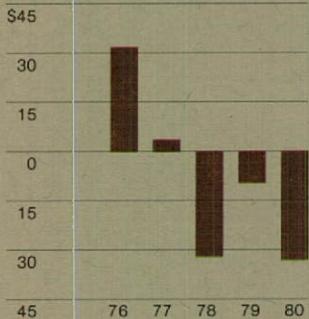
Operating Income
(in millions)



Sales
(in millions)



Operating Income
(in millions)



Silicon Metal/Ferroalloys The silicon metal/ferroalloy business was dampened by recessionary pressures and a labor disruption in 1980 and sales fell 5% under 1979's record. Operating income dropped 27%. Unfortunately, these results broke the more favorable trend of 1978-79, but still bettered 1977 results by 91% in sales and 182% in operating income. Shipping volume in 1980 was down 11% from a year earlier, but remained 56% ahead of 1977.

Silicon metal is sold primarily to the chemical and aluminum industries. Chemical industry demand has remained relatively firm. But an automotive related decline in aluminum castings led to a sharp drop in shipments to this industry. Silicon metal volume was down 13% from 1979, but 7% higher than in 1977.

Ferroalloys can be divided into three groups: ferrosilicon, magnesium ferrosilicon, ferrochromes. Ferrosilicon and magnesium ferrosilicon are heavily influenced by automotive market activity and volume of these products dropped 8% from 1979.

Ferrochromes, on the other hand, are sold primarily to domestic stainless steel producers. This market was severely hurt by a decline in overall domestic demand and by an influx of foreign stainless steel. Loss of import quota protection created this situation. As a result, ferrochrome volume was down 12% from last year.

Over the last three years, ferroalloy growth has come from the 1977 introduction of magnesium ferrosilicon products and the re-entry into the ferrosilicon market in 1978. While ferrochrome shipments were 16% over 1977, shipments of ferrosilicon and magnesium ferrosilicon were up several fold.

The improving operating income performance through 1979 was aided by price increases that helped offset rising costs. But the biggest boost came from much higher sales which generated near-capacity levels in 1979. This trend was broken in 1980 when the negative income effect of lower sales could not be offset by efficiencies and other improvements.

Iron/Steel The three-year period 1978-1980 was most difficult for the nation's iron and steel industry and ended with the lowest annual volume since the early 1960's. The period was typified by deteriorating cost/price relationships and frustrating efforts to restore profit margins sufficient to justify continuing investment in this capital intensive business.

Interlake's iron and steel business shared in these problems but a rebuilding program was initiated to combat them. At the Chicago plant, an extensive rehabilitation of the coke oven batteries was completed, including the installation of modern emission control equipment, and two blast furnaces were relined. In addition, at the Newport/Wilder steel plants, about \$16 million was spent to upgrade the hot strip mill.

These actions did generate cost reductions and productivity improvements. And they did help to offset the spiraling cost/price squeeze. But this was not enough, and certain facilities had to be shut down.

In 1978, the Toledo, Ohio pig iron operation was closed because of continuing sales declines coupled with a depressed market being dominated by low-cost imported iron. The market would not accept the price increases needed to keep pace with cost increases. As a result of this action, the Toledo coke oven facilities were sold and, at about the same time, the sintering plant in Chicago was shut down.

In 1980, the steel operations in Kentucky were shut down despite major efforts to restore profitability at the Newport and Wilder plants. Part of this effort was to negotiate a one-year containment of labor costs. But, as reported earlier, union members rejected this proposal and the plants were shut down.

Iron and steel sales in 1980 were down 23% from 1979, primarily due to loss of volume from Kentucky operations after they were closed in July and because of generally poor economic conditions in the U.S. Sales from on-going locations were off 13% while shipping volume dropped 15% from 1979. For the three-year comparison, 1980 sales were down only 8% from 1977 levels because higher selling prices partially offset the effects of a 30% decline in shipments.

Iron and steel reported operating losses in each of the last three years. The most significant elements were the pre-tax shutdown/disposal provisions of \$37.0 million in 1980 and \$15.7 million in 1978, added costs and disruptions from our major rehab programs in 1978 and 1979 and the severe winter and an extended United Mine Workers' strike in 1978. In 1980, productivity and efficiency gains helped to overcome the deficiency left as selling price increases fell short of meeting cost increases; further, the impact of volume declines was largely offset by the liquidation of LIFO inventories.

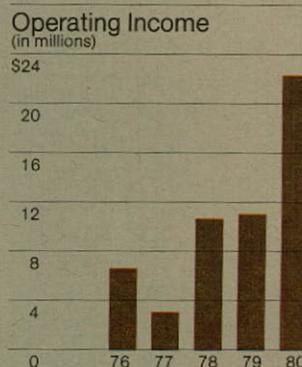
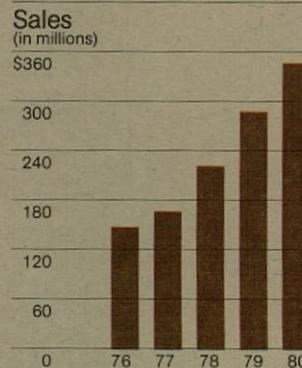
Material Handling/Storage Products The materials handling/storage products business set new sales and operating income records during 1978-1980. Sales were 19% higher in 1980, helped by strong order backlogs early in the year. These helped offset poor economic conditions in U.S. and English markets. Annual growth rates in 1978 and 1979 were 30%, raising sales 102% in the three year-period. The key reasons were higher selling prices, stronger foreign currency values measured against the U.S. dollar, higher pallet rack volume and increased billings for storage system installations.

Domestic and foreign sales grew at about the same rates in 1980. U.S. sales were boosted by work on a major warehouse distribution center on the East Coast. This is the largest single systems order ever received by Interlake. This one million square foot center is a significant achievement in storage engineering and is scheduled for completion early in 1981.

Foreign sales increases in 1980 were reported primarily in England, France, Germany, Canada and Australia. Operations in England did a good job offsetting effects of the recession. Higher selling prices, initial order backlogs and improved exports helped. The economic decline spread later to other parts of Europe, but the impact was offset by aggressive marketing.

Operating income rose substantially from 1979, far exceeding the year's growth in sales. Foreign income was up for the third consecutive year and provided most of the overall earnings gain. In 1979, earnings were adversely affected by new equipment start-up costs in England, France and Germany. In addition, certain facilities in England were relocated which added non-recurring costs. The benefit of these moves helped 1980 results. Income gains were especially good in Germany. Another record earnings year in 1980 was posted at the Canadian subsidiary, where a further plant expansion is scheduled for 1981.

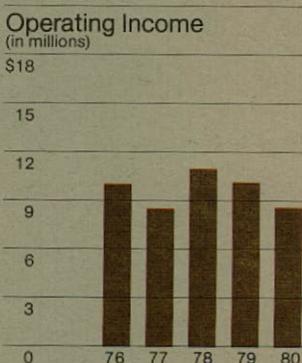
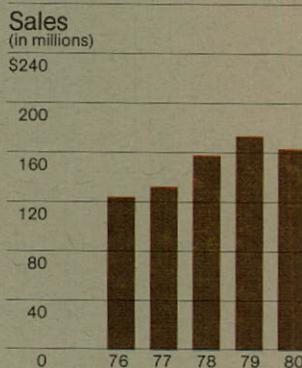
Domestic income progress was made despite highly competitive market conditions. The 1980 increase came mainly from storage system earnings, strict cost control at our three domestic pallet rack plants and liquidation of LIFO inventories.



Packaging Packaging sales world-wide in 1980 were 7% lower than in 1979. This broke a four-year pattern of annual increases. Packaging products serve just about every segment of industry and are particularly sensitive to any downturn in economic activity. The recession, therefore, led to a 13% drop in domestic sales from 1979. The two foreign subsidiaries had mixed results. Canada continued its record-breaking performance with an 11% increase. But sales in England dropped 8%, reflecting a general slowing of the English economy and disruptions caused by a steel workers' strike there.

The major packaging product, metallic steel strapping, reflected the general sales decrease with declines of 16% domestically, 2% in Canada and 18% in England. Non-metallic strapping has a less cyclical demand pattern. But the recession limited demand for this product, too, and sales were down 2% after showing gains of 13% in 1979 and 30% in 1978. New facilities for producing non-metallic strapping were begun in 1980 in both the U.S. and England to supply current and near-term sales requirements.

Operating income for the packaging business peaked at the beginning of the three-year period, but it exceeded 1977 levels each year. The year-to-year decline shown for 1979 was due essentially to foreign currency translation differences. These added \$1.0 million to income in 1978 but reduced 1979 income by \$.6 million. The 1980 decline was primarily volume related and was limited to domestic and British operations. Canadian operations established another income record in 1980, mainly through cost improvements. Canadian production facilities are being expanded further in 1981.



Interlake, Inc. Statement of Consolidated Income and Retained Earnings

For the Years Ended December 28, 1980, December 30, 1979 and December 31, 1978

	1980 (52 weeks)	1979 (52 weeks)	1978 (53 weeks)
	(In thousands except per share statistics)		
Sales and Revenues:			
Net sales	\$1,055,883	\$1,104,588	\$ 921,127
Other revenues	7,880	7,847	8,718
	<u>1,063,763</u>	<u>1,112,435</u>	<u>929,845</u>
Costs and Expenses:			
Cost of products sold (excluding depreciation and taxes) (Note 1)	815,586	888,773	744,306
Depreciation, depletion and amortization	26,869	25,015	23,012
Selling and administrative expenses	116,523	106,871	92,601
Taxes other than income taxes	31,485	31,645	26,700
Interest expense (Note 1)	15,747	14,954	11,600
	<u>1,006,210</u>	<u>1,067,258</u>	<u>898,219</u>
Income Before Nonrecurring Item, Taxes on Income and Minority Interest	57,553	45,177	31,626
Shutdown/Disposal Provision (Note 6)	37,000	—	15,682
Income Before Taxes on Income and Minority Interest	20,553	45,177	15,944
Provision for Income Taxes (Notes 1 and 8)	5,998	3,129	3,100
	<u>14,555</u>	<u>42,048</u>	<u>12,844</u>
Minority Interest in Net Income of Subsidiary	737	2,313	2,356
Net Income for the Year	\$ 13,818	\$ 39,735	\$ 10,488
Net Income Per Share of Common Stock			
(based on average shares of 6,038,764 in 1980, 5,967,415 in 1979, and 5,941,966 in 1978)	<u>\$2.29</u>	<u>\$6.66</u>	<u>\$1.77</u>
Retained Earnings at Beginning of Year	\$ 239,075	\$ 212,467	\$ 215,056
Net Income for the Year	13,818	39,735	10,488
	<u>252,893</u>	<u>252,202</u>	<u>225,544</u>
Deduct—Cash Dividends Paid (\$2.20 per share)	(13,287)	(13,127)	(13,077)
Retained Earnings at End of Year	\$ 239,606	\$ 239,075	\$ 212,467

(See notes to consolidated financial statements)

Interlake, Inc. Consolidated Balance Sheet
December 28, 1980 and December 30, 1979

Assets	1980	1979
	(In thousands)	
Current Assets:		
Cash	\$ 5,470	\$ 7,716
Certificates of deposit	15,282	3,092
Receivables, less allowances of \$3,677,000 in 1980 and \$3,550,000 in 1979	169,162	180,690
Inventories (Note 1)	163,706	181,365
Other current assets	15,912	10,614
Total current assets	<u>369,532</u>	<u>383,477</u>
Investments and Other Assets:		
Investments in and advances to associated companies (Notes 1, 9 and 11)	43,793	45,164
Other assets (Note 1)	35,438	24,097
	<u>79,231</u>	<u>69,261</u>
Property, Plant and Equipment, at cost (Notes 1 and 9):		
Land and mineral properties, less depletion	11,593	12,499
Buildings	101,437	105,171
Equipment	436,308	466,945
	549,338	584,615
Less—Depreciation and amortization	(294,483)	(303,794)
	<u>254,855</u>	<u>280,821</u>
Total Assets	<u>\$703,618</u>	<u>\$733,559</u>
Liabilities and Shareholders' Equity		
Current Liabilities:		
Accounts payable (Note 1)	\$ 59,269	\$ 91,181
Accrued liabilities	56,706	43,559
Accrued employment costs	27,838	28,485
Income taxes payable (Note 8)	15,874	7,430
Taxes other than income taxes	9,277	9,334
Debt due within one year (Note 2)	19,423	41,218
Total current liabilities	<u>188,387</u>	<u>221,207</u>
Long-Term Debt (Note 2)	<u>133,020</u>	<u>135,503</u>
Other Long-Term Liabilities:		
Noncurrent shutdown costs	12,145	2,560
Other	13,078	12,260
	<u>25,223</u>	<u>14,820</u>
Future Income Taxes (Note 1)	<u>13,331</u>	<u>20,840</u>
Minority Interest in Subsidiary	<u>6,950</u>	<u>7,208</u>
Commitments and Contingencies (Note 9)	—	—
Shareholders' Equity (Note 3):		
Common stock, par value \$1 a share, authorized 20,000,000 shares, issued 6,932,643 shares in 1980 and 6,856,053 shares in 1979	112,860	110,869
Retained earnings (Note 5)	239,606	239,075
Less—Cost of common stock held in treasury (843,493 shares in 1980 and 853,193 shares in 1979) (Note 4)	352,466	349,944
	15,759	15,963
	<u>336,707</u>	<u>333,981</u>
Total Liabilities and Shareholders' Equity	<u>\$703,618</u>	<u>\$733,559</u>

(See notes to consolidated financial statements)

Interlake, Inc. Statement of Changes in Consolidated Financial Position

For the Years Ended December 28, 1980, December 30, 1979 and December 31, 1978

	1980 (52 weeks)	1979 (52 weeks) (In thousands)	1978 (53 weeks)
Financial Resources Were Provided By:			
Net income	\$ 13,818	\$ 39,735	\$ 10,488
Depreciation, depletion and amortization	26,869	25,015	23,012
Equity in earnings of affiliates and joint ventures, less dividends received	1,248	(923)	1,490
Increase(decrease) in noncurrent portion of shutdown/disposal provision	25,615	(1,960)	13,739
Future income taxes	(7,509)	3,941	3,478
Other long-term liabilities	2,146	1,680	355
Minority interest in net income of subsidiary, less dividend paid	(258)	715	758
Working capital provided from operations	61,929	68,203	53,320
Long-term borrowings	1,233	2,864	54,350
Disposals of property, plant and equipment	1,341	2,133	5,503
Decrease(increase) in construction funds held by trustees	1,305	8,016	(9,164)
Dividend reinvestment plan	1,896	903	-
Other	(550)	3,126	1,122
	<u>67,154</u>	<u>85,245</u>	<u>105,131</u>
Financial Resources Were Used For:			
Capital expenditures	31,276	69,556	65,974
Reduction of long-term debt	3,716	3,640	3,414
Cash dividends	13,287	13,127	13,077
	<u>48,279</u>	<u>86,323</u>	<u>82,465</u>
Increase(decrease) in working capital	<u>\$ 18,875</u>	<u>\$ (1,078)</u>	<u>\$ 22,666</u>
Increase(Decrease) in Working Capital Comprises:			
Cash and short-term investments	\$ 9,944	\$ (9,897)	\$ 6,509
Receivables	(11,528)	33,537	40,402
Inventories	(17,659)	21,694	12,367
Other current assets	5,298	(2,639)	4,132
Accounts payable and other accrued liabilities	19,469	(27,325)	(36,514)
Income taxes payable	(8,444)	8,421	(128)
Debt due within one year	21,795	(24,839)	(4,102)
	<u>18,875</u>	<u>(1,078)</u>	<u>22,666</u>
Working capital at beginning of year	162,270	163,348	140,682
Working capital at end of year	<u>\$181,145</u>	<u>\$162,270</u>	<u>\$163,348</u>

(See notes to consolidated financial statements)

Interlake, Inc. Notes to Consolidated Financial Statements

For the Years Ended December 28, 1980, December 30, 1979 and December 31, 1978

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation—The consolidated financial statements include the accounts of all majority-owned domestic and foreign subsidiaries. Investments in corporate joint ventures and companies owned 20% to 50% are accounted for by the equity method. Such investments are carried at cost plus equity in undistributed earnings.

Inventories—Inventories are stated at the lower of cost or market value. Cost of domestic inventories is determined principally by the last-in first-out method, which is less than current costs by \$111,028,000, and \$113,398,000 at December 28, 1980 and December 30, 1979, respectively. Cost of inventories of foreign subsidiaries is determined principally by the first-in first-out method.

During 1980, inventory quantities were reduced, resulting in a liquidation of LIFO inventory quantities carried at lower costs prevailing in prior years as compared with the cost of 1980 production. As a result, income before taxes was increased by \$23,200,000, equivalent to \$2.08 per share after applicable income taxes, of which \$15,400,000, equivalent to \$1.38 per share after applicable income taxes, was reflected in cost of products sold and the balance was included as a reduction of the shutdown/disposal provision (see Note 6).

The inventory amounts used in the computation of cost of products sold for the years ended December 28, 1980, December 30, 1979 and December 31, 1978 are comprised of:

	At Year End			
	1980	1979	1978	1977
Raw materials	\$ 56,644,000	\$ 51,179,000	\$ 45,267,000	\$ 49,319,000
Semi-finished and finished products	82,478,000	104,378,000	93,572,000	78,111,000
Supplies	24,584,000	25,808,000	20,832,000	19,874,000
	<u>\$163,706,000</u>	<u>\$181,365,000</u>	<u>\$159,671,000</u>	<u>\$147,304,000</u>

In 1980, 1979 and 1978 the Company made raw material purchases of \$57,631,000, \$51,025,000 and \$44,484,000, respectively, from affiliated iron ore and coal mining interests. Included in accounts payable are amounts due affiliated companies for raw material purchases of \$10,755,000, \$13,169,000 and \$13,985,000 at December 28, 1980, December 30, 1979 and December 31, 1978, respectively.

Property, Plant and Equipment and Depreciation—For financial reporting purposes, plant and equipment are depreciated principally on a straight-line method over the estimated useful lives of the assets. Depreciation claimed for income tax purposes is computed by use of accelerated methods. Income taxes applicable to differences between depreciation claimed for tax purposes and that reported in the financial statements are charged or credited to future income taxes, as appropriate. Provisions for depletion of mineral properties are based on tonnage rates which are expected to amortize the cost of such properties over the estimated amount of mineral deposits to be removed.

Upon sale or disposal of property, plant and equipment, it is the Company's policy to relieve the respective asset accounts of cost and, in the case of normal sales or disposals, to charge such original cost to accumulated depreciation and amortization, thereby not recognizing any gain or loss. Any proceeds from these sales or disposals are credited to accumulated depreciation and amortization. On an abnormal sale or disposal of property, plant and equipment, the original cost and the amount of depreciation actually credited to accumulated depreciation and amortization are removed from the accounts and any gain or loss on the disposal is credited or charged to income.

Expenditures for maintenance and repairs and minor renewals and betterments are charged to expense as incurred. Furnace relines and expenditures for renewals and betterments of a character calculated to extend the originally estimated useful life of any asset or materially increase its productivity are capitalized.

Goodwill—Other assets includes goodwill of \$8,095,000 and \$8,497,000 at December 28, 1980 and December 30, 1979, respectively. Goodwill represents the excess of the purchase price over the fair value of the net assets of acquired companies and is being amortized on a straight-line method over a period of approximately thirty years. In 1979, Goodwill was reduced \$1,585,000 as a result of United Kingdom stock relief tax credits for periods prior to acquisition.

Investment Tax Credits—The full amount of investment tax credits claimed for tax purposes is reflected in income in the year in which the credits first become available.

Pension Plans—The Company has various pension plans which cover substantially all employees. The provision for pension costs includes current costs plus interest on and amortization of unfunded prior service costs over periods not exceeding twenty-five years. The Company's policy is to fund pension costs accrued.

Interest Costs—In 1980, the Company adopted Statement of Financial Accounting Standards No. 34, "Capitalization of Interest Cost," which requires capitalization of interest costs as part of the historical cost of acquiring certain assets. Total interest costs incurred in 1980 were \$15,972,000, of which \$225,000 was capitalized.

NOTE 2—LONG-TERM DEBT AND CREDIT ARRANGEMENTS

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

	December 28, 1980	December 30, 1979
	(In thousands)	
8.8% Debentures, due annually \$2,500,000 1981 to 1995, and \$5,000,000 in 1996	\$ 39,928	\$ 42,408
8-1/2% Senior Notes, due annually \$3,000,000 1984 through 1998	45,000	45,000
Obligations under long-term lease agreements	16,650	16,650
11-1/4% Notes payable, due annually in varying installments from 1981 to 1998	9,909	10,000
Pollution control and industrial development loan agreements	18,350	17,350
Other	4,275	5,366
	<u>134,112</u>	<u>136,774</u>
Less—Current maturities	1,092	1,271
	<u>\$133,020</u>	<u>\$135,503</u>

At December 28, 1980, 8.8% debentures with a face value of \$2,572,000 were held in the treasury by the Company. \$2,500,000 of these may be used in meeting the 1981 sinking fund requirement and have been applied as a reduction of debt due within one year.

The long-term lease obligations relate principally to capitalized pollution control facilities. The interest rates on these obligations vary from 6.00% to 7.88%. Principal payments begin in 1981 (\$500,000) and continue in varying annual amounts through 2002.

The Company borrowed funds under several loan agreements with state and county pollution control and industrial development authorities to finance certain environmental control and facility expansion and improvement projects. Interest rates on these obligations vary from 6% to 7 1/8% with the exception of a \$1,000,000 loan at 65% of the prime rate. Principal payments of \$1,000,000, \$1,700,000 and \$3,500,000 are to be made in 1983, 1988 and 1993, respectively, then continue in varying amounts from 1998 to 2009.

The combined aggregate maturities and sinking fund requirements for all long-term debt for the five years following 1980, after giving effect to debentures held by the Company and available for sinking fund requirements, are as follows:

1981	\$1,092,000
1982	3,675,000
1983	4,693,000
1984	6,557,000
1985	6,457,000

The Company maintains formal and informal domestic and foreign short-term bank credit lines of \$118,000,000, against which \$18,331,000 was borrowed at December 28, 1980. Domestic borrowings bear interest at the prime rate. Foreign borrowings bear interest at varying rates which are generally the overseas equivalent of the prime rate. In connection with the domestic lines of credit, the Company has entered into informal arrangements to maintain average compensating balances of 5% for the total lines available and 10% for any borrowings.

NOTE 3—CAPITAL STOCK

The Company's authorized capital stock includes 2,000,000 shares of serial preferred stock at \$1 par value per share, none of which has been issued. In 1979, the Company initiated a dividend reinvestment and voluntary stock purchase plan. The plan allows shareholders to purchase shares of the Company's common stock at 95% of market for dividend reinvestments and at market for voluntary cash payments, subject to certain limitations. Shares issued in connection with the plan totaled 76,590 shares or \$1,896,000 in 1980 and 36,543 shares or \$903,000 in 1979.

NOTE 4—STOCK INCENTIVE PLANS

The Company's 1975 stock option plan provides for the granting of options for the purchase of common stock to officers and other key employees at prices equal to the fair market value at the dates of grant. A maximum of 375,000 shares may be granted under the plan until December 31, 1984. Options become exercisable one-third annually, on a cumulative basis, starting one year from the date of grant and may be exercised until ten years have elapsed from the date of grant.

The Company's 1977 Stock Incentive Program consists of a Stock Appreciation Rights Plan under which a maximum of 300,000 shares of common stock may be issued, a Stock Awards Plan and a Restricted Stock Purchase Plan. Total shares issued for the latter two plans may not exceed 100,000. Stock appreciation rights (S.A.R.'s) are issued concurrently with specific stock option grants and entitle the holders to receive the difference between option price and market price at the time of exercise of the S.A.R.'s in cash, shares of common stock, or a combination of the two at the Company's discretion. An equivalent number of shares under option are surrendered upon exercise of S.A.R.'s. Under the Stock Awards Plan, shares of common stock are issued at the date of the award and delivered to recipients 20% immediately and 20% on each of the four succeeding anniversary dates, subject to certain restrictions. The Board of Directors has not adopted a Restricted Stock Purchase Plan. Changes in common shares under option and related S.A.R.'s for the three years are summarized as follows:

	1980		1979		1978	
	Option Shares	Average Option Price	Option Shares	Average Option Price	Option Shares	Average Option Price
Stock Options:						
Outstanding—beginning of year	247,198	\$29.99	200,249	\$30.77	211,900	\$28.45
Granted	78,500	25.94	70,000	26.29	57,900	25.63
Exercised	(4,723)	23.75	(5,400)	18.43	(7,375)	17.61
Surrendered for exercised S.A.R.'s	(9,874)	24.19	(5,150)	22.35	(55,275)	18.15
Canceled or expired	(47,287)	31.03	(12,501)	29.86	(6,901)	31.67
Outstanding—end of year	<u>263,814</u>	<u>28.93</u>	<u>247,198</u>	<u>29.99</u>	<u>200,249</u>	<u>30.77</u>
Exercisable—end of year	<u>140,093</u>	<u>31.51</u>	<u>128,730</u>	<u>33.03</u>	<u>91,524</u>	<u>31.64</u>
Available for grant	<u>71,339</u>		<u>102,552</u>		<u>161,176</u>	
Stock Appreciation Rights:						
Outstanding—beginning of year	136,932		109,250		26,275	
Granted	38,250	25.94	35,650	26.21	140,050	26.94
Exercised	(9,874)		(5,150)		(55,275)	
Canceled or expired	(25,367)		(2,818)		(1,800)	
Outstanding—end of year	<u>139,941</u>		<u>136,932</u>		<u>109,250</u>	

Treasury shares issued for exercised stock appreciation rights totaled 794 in 1980, 405 in 1979, 8,418 in 1978 and 14,994 since inception of the plan.

The Stock Awards Plan, activated in 1978, resulted in the awarding of 4,350 shares in 1980, 1,650 shares in 1979 and 16,600 shares in 1978 with total market value at dates awarded of \$113,000, \$44,000 and \$428,000, respectively. Shares awarded since inception of the plan, net of subsequent cancellations, totaled 22,300.

NOTE 5—RETAINED EARNINGS

Under the most restrictive terms of the Company's various loan agreements, the Company could not as of December 28, 1980 pay cash dividends or repurchase the Company's capital stock in amounts aggregating more than \$60,450,000.

NOTE 6—SHUTDOWN/DISPOSAL PROVISION

In the third quarter of 1980, a provision was recorded for the closing of the Newport and Wilder, Kentucky, steel-making and related facilities which are to be sold or otherwise disposed of. The provision of \$37,000,000 is equivalent to \$4.10 per common share after applicable income taxes and covers estimated losses on the disposition of property, plant and equipment and inventories, and employee severance and other costs. Net sales of products from these facilities included in consolidated sales totaled \$69,497,000 in 1980, \$102,564,000 in 1979 and \$78,774,000 in 1978.

A decision was made in the third quarter of 1978 to consolidate the Company's iron production in Chicago. In December, 1978, the Toledo blast furnace operation was shut down and the ancillary coke oven batteries were sold. The consolidation also resulted in the shutdown of the sintering facility at the Chicago plant. Surplus equipment and real property related to the blast furnace and sintering operations are being held for sale. The shutdown/disposal provision of \$15,682,000 is equivalent to \$1.32 per common share after applicable income taxes and covers estimated losses on the disposition of property, plant and equipment and inventories, and employee severance and other costs.

NOTE 7—RETIREMENT BENEFITS

Pension costs totaled \$24,582,000, \$25,396,000 and \$25,555,000 in 1980, 1979 and 1978, respectively. The decrease in 1980 was primarily attributable to the shutdown of the Newport and Wilder plants. In addition to the above 1980 and 1978 pension costs, the provisions for the shutdown of the Newport and Wilder plants and the Toledo plant (see Note 6) included pension costs related to terminated employees. A comparison of accumulated plan benefits and plan net assets for the Company's domestic defined benefit plans follows:

	December 28, 1980	December 30, 1979
	(In thousands)	
Actuarial present value of accumulated plan benefits:		
Vested	\$ 95,300	\$125,900
Non-vested	2,400	2,900
	<u>\$ 97,700</u>	<u>\$128,800</u>
Net assets available for plan benefits	<u>\$183,500</u>	<u>\$161,300</u>

The assumed rates of return used in determining the actuarial present value of accumulated plan benefits were 12.4% at December 28, 1980 and 10.5% at December 30, 1979.

NOTE 8—INCOME TAXES

The provisions for taxes on income consist of:

	Currently Payable	Deferred	Total
(In thousands)			
1980			
U.S. Federal	\$ 7,521	\$(13,019)	\$(5,498)
Foreign	8,153	714	8,867
State and other	2,629	—	2,629
	<u>\$18,303</u>	<u>\$(12,305)</u>	<u>\$ 5,998</u>
1979			
U.S. Federal	\$(5,969)	\$ 7,094	\$ 1,125
Foreign	(1,199)	570	(629)
State and other	2,633	—	2,633
	<u>\$(4,535)</u>	<u>\$ 7,664</u>	<u>\$ 3,129</u>
1978			
U.S. Federal	\$ 1,418	\$ (8,805)	\$(7,387)
Foreign	6,792	1,827	8,619
State and other	1,868	—	1,868
	<u>\$10,078</u>	<u>\$ (6,978)</u>	<u>\$ 3,100</u>

U.S. Federal income taxes were reduced by investment tax credits, net of recapture, of \$1,142,000 in 1980, \$6,383,000 in 1979 and \$3,699,000 in 1978.

The deferred tax provisions result from timing differences in the recognition of income and expenses for tax and financial reporting purposes. Significant items and the tax effects thereof are as follows:

	1980	1979	1978
(In thousands)			
Benefit on plant closings	\$ (7,560)	\$ 3,960	\$ (7,415)
Retirement benefit costs	(1,915)	2,467	(4,256)
Equity in earnings of affiliated companies	(952)	144	874
Foreign translation and hedge contracts	(874)	93	1,153
Excess of tax over book depreciation	(68)	2,581	3,611
DISC operations	(30)	(414)	440
All other net	(906)	(1,167)	(1,385)
	<u>\$(12,305)</u>	<u>\$ 7,664</u>	<u>\$ (6,978)</u>

The lower effective tax rates in 1980, 1979 and 1978 are reconciled to the Federal statutory tax rates in the following table:

	1980	1979	1978
Statutory federal income tax rate	46.0%	46.0%	48.0%
Increase (reduction) in taxes resulting from:			
Tax effect of U.K. stock relief	(17.9)	(22.3)	—
Investment credit	(5.5)	(14.1)	(23.2)
Excess percentage over cost depletion	(4.4)	(3.9)	(9.7)
Earnings attributable to affiliated companies	(3.6)	(3.5)	(10.1)
State taxes	6.9	3.1	6.1
Taxes on foreign income before stock relief	4.8	2.8	3.5
Non-deductible acquisition costs	1.8	.7	8.2
All other	1.1	(1.9)	(3.4)
	<u>29.2%</u>	<u>6.9%</u>	<u>19.4%</u>

The amounts included in consolidated income before taxes on income which represent income of foreign operations were \$27,764,000, \$17,458,000 and \$15,176,000 for 1980, 1979 and 1978, respectively.

As of December 28, 1980, U.S. Federal income tax returns for the years 1965 through 1975 have been examined. The Company believes that adequate provision has been made for possible assessments of additional taxes. Provision for U.S. taxes has not been made on the unremitted earnings of foreign subsidiaries, of which approximately \$52,000,000 is considered to be permanently reinvested at December 28, 1980. It is anticipated that U.S. income taxes on dividend distributions of earnings not permanently reinvested will be offset by foreign tax credits.

NOTE 9—COMMITMENTS AND CONTINGENCIES

With respect to the Company's interest in two mining joint ventures, the Company is required to take its ownership proportion of production for which it is committed to pay its proportionate share of the operating costs of these projects, either directly or as a part of the product price. Such costs include, as a minimum and regardless of the quantity of ore received, annual interest and sinking fund requirements of the funded debt of these projects of approximately \$3,000,000 through 1983, and lesser amounts thereafter through 1991.

The Company is involved, on a continuing basis, as a party to enforcement and other proceedings with governmental agencies relating to the application of environmental laws and regulations to certain of the Company's plants. In some of such proceedings, and in other ways pursuant to laws and regulations, government agencies have threatened or indicated imposition of penalties which, if such agencies prevailed, could involve sums material to the Company; these matters are routinely negotiated and, in the opinion of the Company, are not likely to result in the assessment of penalties material in amount. Several of such proceedings have been settled on the basis of Company commitments to meet certain emission standards and to install control facilities at substantial cost. The Company anticipates that capital expenditures for installation of environmentally-related facilities (including those agreed to in settlement of proceedings) will aggregate approximately \$10,000,000 over the next three years.

NOTE 10—BUSINESS SEGMENT INFORMATION

The Company operates in six lines of business; four in metals and two in material handling products. Metals include iron and steel products, metal powders, investment castings and die castings, and silicon metal and ferroalloys. Material handling consists of material handling and storage products and packaging products. The accompanying tables present financial information by line of business for the years 1980, 1979 and 1978.

Sales between lines of business are primarily priced at market value for metal products and at distributor prices for material handling products. Operating profit consists of total sales and other revenues of a product line less all related operating expenses. Income and expenses which are not related to nor appropriately allocable to lines of business, primarily interest expense, are included in general Corporate expense.

The liquidation of domestic LIFO inventory quantities in 1980 increased income before taxes by segment as follows:

	Iron/ Steel	Metal Powders	Investment/ Die Castings	Silicon Metal/ Ferroalloys	Matl. Hdg./ Storage	Packaging
	(In millions)					
1980 benefit of LIFO liquidations	\$16.3*	\$.6	\$.2	\$.1	\$ 4.0	\$ 2.0

* of which \$7.8 million was included in the shutdown/disposal provision

The operating results of the iron and steel segment were impacted by the Newport and Wilder, Kentucky plant shutdowns in 1980 (\$37.0 million) and the Toledo, Ohio plant shutdown in 1978 (\$15.7 million); see Note 6. Also, the Packaging segment was adversely affected in 1980 by a \$2.5 million provision for a plant relocation. Total assets by line of business consist of those assets used directly in the operations of the product line. Corporate assets consist principally of cash, securities and investments in real property.

Information About the Company's Lines of Business

	Net Sales		Operating Profit (Loss)	Assets At Year-End ^(B)	Depreciation, Depletion & Amortization	Capital Expenditures
	Customers ^(A)	Affiliates				
1980 (52 weeks)	(In millions)					
Iron/Steel						
Operations	\$ 274.4	\$ 50.8	\$(41.8)	\$198.4	\$ 12.2	\$ 7.6
Equity in unconsolidated affiliates	—	—	7.3	43.1	—	—
	<u>274.4</u>	<u>50.8</u>	<u>(34.5)</u>	<u>241.5</u>	<u>12.2</u>	<u>7.6</u>
Metal Powders	70.9	—	8.9	77.5	2.9	3.5
Investment/Die Castings	114.3	—	22.0	50.0	1.3	5.3
Silicon Metal/Ferroalloys	83.4	1.1	6.2	45.0	2.1	1.1
Material Handling/Storage Products	350.5	—	22.6	181.7	5.6	7.3
Packaging	162.4	1.7	8.9	71.8	2.4	6.5
Corporate Items/Eliminations	—	(53.6)	(13.5)	36.1	.4	—
Consolidated	<u>\$1,055.9</u>	<u>\$ —</u>	<u>\$ 20.6</u>	<u>\$703.6</u>	<u>\$ 26.9</u>	<u>\$ 31.3</u>
1979 (52 weeks)						
Iron/Steel						
Operations	\$ 362.2	\$ 60.0	\$(16.6)	\$229.1	\$ 12.2	\$ 32.9
Equity in unconsolidated affiliates	—	—	6.0	44.4	—	—
	<u>362.2</u>	<u>60.0</u>	<u>(10.6)</u>	<u>273.5</u>	<u>12.2</u>	<u>32.9</u>
Metal Powders	83.5	—	17.3	79.6	2.1	20.4
Investment/Die Castings	102.4	—	20.5	43.7	1.0	3.6
Silicon Metal/Ferroalloys	87.5	1.2	8.5	48.6	2.1	.9
Material Handling/Storage Products	294.3	.3	11.3	191.8	4.4	9.4
Packaging	174.7	2.5	10.5	74.4	2.8	2.4
Corporate Items/Eliminations	—	(64.0)	(12.3)	22.0	.4	—
Consolidated	<u>\$1,104.6</u>	<u>\$ —</u>	<u>\$ 45.2</u>	<u>\$733.6</u>	<u>\$ 25.0</u>	<u>\$ 69.6</u>
1978 (53 weeks)						
Iron/Steel						
Operations	\$ 341.1	\$ 59.9	\$(34.6)	\$220.7	\$ 11.4	\$ 37.1
Equity in unconsolidated affiliates	—	—	3.0	43.4	—	—
	<u>341.1</u>	<u>59.9</u>	<u>(31.6)</u>	<u>264.1</u>	<u>11.4</u>	<u>37.1</u>
Metal Powders	74.6	—	20.9	58.2	1.3	10.8
Investment/Die Castings	67.4	—	9.8	34.1	.8	3.9
Silicon Metal/Ferroalloys	52.7	1.2	3.8	46.9	2.1	.4
Material Handling/Storage Products	227.0	.3	11.0	151.6	4.2	11.3
Packaging	158.3	2.1	11.1	67.2	2.8	2.5
Corporate Items/Eliminations	—	(63.5)	(9.1)	36.3	.4	—
Consolidated	<u>\$ 921.1</u>	<u>\$ —</u>	<u>\$ 15.9</u>	<u>\$658.4</u>	<u>\$ 23.0</u>	<u>\$ 66.0</u>

	1980	1979	1978
(A) Includes sales in Iron/Steel operations of: Iron Products	\$ 61.0	\$ 86.1	\$ 96.1
Steel Products	213.4	276.1	245.0

(B) Includes investment in unconsolidated affiliates in: Material Handling/Storage Products	\$.5	\$.6	\$.6
Packaging . . . . .	.3	.2	.2

Information About the Company's Operations By Geographic Areas

	Net Sales		Operating Profit (Loss)	Assets At Year-End
	Customers	Inter-geographic		
(In millions)				
1980 (52 weeks)				
United States	\$ 752.1	\$ 4.9	\$ 2.0	\$441.4
Equity in unconsolidated affiliates	—	—	5.4	30.1
	<u>752.1</u>	<u>4.9</u>	<u>7.4</u>	<u>471.5</u>
Western Europe	231.2	.7	15.7	144.8
Equity in unconsolidated affiliates	—	—	—	.4
	<u>231.2</u>	<u>.7</u>	<u>15.7</u>	<u>145.2</u>
All Other Foreign	72.6	.1	10.0	37.5
Equity in unconsolidated affiliates	—	—	1.9	13.3
	<u>72.6</u>	<u>.1</u>	<u>11.9</u>	<u>50.8</u>
Corporate Items/Eliminations	—	(5.7)	(14.4)	36.1
Consolidated	<u>\$1,055.9</u>	<u>\$ —</u>	<u>\$ 20.6</u>	<u>\$703.6</u>
1979 (52 weeks)				
United States	\$ 842.9	\$ 3.9	\$ 34.8	\$488.7
Equity in unconsolidated affiliates	—	—	2.4	33.3
	<u>842.9</u>	<u>3.9</u>	<u>37.2</u>	<u>522.0</u>
Western Europe	200.1	.8	9.4	142.5
Equity in unconsolidated affiliates	—	—	—	.6
	<u>200.1</u>	<u>.8</u>	<u>9.4</u>	<u>143.1</u>
All Other Foreign	61.6	.1	7.3	35.2
Equity in unconsolidated affiliates	—	—	3.6	11.3
	<u>61.6</u>	<u>.1</u>	<u>10.9</u>	<u>46.5</u>
Corporate Items/Eliminations	—	(4.8)	(12.3)	22.0
Consolidated	<u>\$1,104.6</u>	<u>\$ —</u>	<u>\$ 45.2</u>	<u>\$733.6</u>
1978 (53 weeks)				
United States	\$ 710.3	\$ 4.0	\$ 6.0	\$433.5
Equity in unconsolidated affiliates	—	—	1.6	30.8
	<u>710.3</u>	<u>4.0</u>	<u>7.6</u>	<u>464.3</u>
Western Europe	158.4	1.0	9.9	113.9
Equity in unconsolidated affiliates	—	—	—	.6
	<u>158.4</u>	<u>1.0</u>	<u>9.9</u>	<u>114.5</u>
All Other Foreign	52.4	—	6.3	30.5
Equity in unconsolidated affiliates	—	—	1.4	12.8
	<u>52.4</u>	<u>—</u>	<u>7.7</u>	<u>43.3</u>
Corporate Items/Eliminations	—	(5.0)	(9.3)	36.3
Consolidated	<u>\$ 921.1</u>	<u>\$ —</u>	<u>\$ 15.9</u>	<u>\$658.4</u>

The Company's interest in iron ore mining joint ventures in Minnesota and Labrador, Canada and coal mining joint ventures in West Virginia and Kentucky, are accounted for by the equity method and are vertically integrated with the iron and steel business. Investments in material handling companies in Mexico, Greece and Japan are also accounted for on an equity basis.

Sales to the largest individual customers are not material in relation to consolidated sales, nor are sales to domestic or foreign government agencies. Transfers between geographic areas, which are virtually all in the material handling lines of business, are made at prices which approximate the prices of similar items sold to distributors. Operating profit by geographic area is the difference between total sales and other revenues attributable to the areas and related operating expenses. Income and expenses which are not related to nor appropriately allocable to geographic areas, primarily interest expense, are included in general Corporate expense. Export sales to unaffiliated customers included in the United States' sales are not material.

'Other' foreign includes operations in Canada, Mexico, Australia, Japan and Greece.

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

NOTE 11—INVESTMENTS IN IRON ORE INTERESTS

The Company holds investments in iron ore mining ventures, the principal investments being a 10% interest in Erie Mining Company and a 17.6% interest in Wabush Iron Company Limited. Erie Mining Company was operated as a "cost company" in prior years whereby ore sales were made to participants at cost. In May, 1979, Erie Mining Company was restructured as a partnership whereby ore sales are made at market. Combined financial data of these companies is summarized below:

	1980	1979	1978
	(In thousands)		
Net working capital	\$ 70,298	\$ 64,521	\$ 56,209
Capital assets, net of depreciation and depletion	208,660	223,813	243,763
Other assets	14,120	14,850	15,066
Long-term liabilities	103,865	113,821	126,811
Stockholders' equity	189,212	189,363	188,287
Revenues	339,114	394,989	260,963
Net income	59,886	75,784	8,340
Interlake's equity in net income, after consolidating eliminations	4,000	3,138	2,015

See Note 9 regarding the Company's obligations with respect to the long-term debt of these ventures.

NOTE 12—QUARTERLY RESULTS (UNAUDITED)

Quarterly results of operations for 1980, 1979 and 1978 were as follows:

	1st Quarter	2nd Quarter	3rd* Quarter	4th Quarter
1980	(In millions except per share date)			
Net sales	\$294.8	\$277.7	\$229.4	\$254.0
Other revenues	2.7	1.8	1.4	2.0
Costs and expenses	278.9	273.0	263.9	227.4
Income(loss) before taxes on income and minority interest	18.6	6.5	(33.1)	28.6
Net income(loss)—Amount	11.3	5.6	(22.5)	19.4
—Per share	1.88	.94	(3.74)	3.21
1979				
Net sales	\$264.5	\$281.1	\$271.6	\$287.4
Other revenues	1.9	2.1	1.7	2.1
Costs and expenses	264.2	268.4	262.7	271.9
Income before taxes on income and minority interest	2.2	14.8	10.6	17.6
Net income—Amount . . . . .	.8	9.7	15.6	13.6
—Per share . . . . .	.14	1.62	2.62	2.28
1978				
Net sales	\$204.2	\$231.0	\$233.3	\$252.6
Other revenues . . . . .	.7	2.5	4.0	1.5
Costs and expenses	205.6	220.5	248.5	239.3
Income(loss) before taxes on income and minority interest	(.7)	13.0	(11.2)	14.8
Net income(loss)—Amount	(1.1)	8.1	(4.9)	8.4
—Per share	(.19)	1.36	(.83)	1.43

* 3rd quarter of 1978 included fourteen weeks, all other quarters included thirteen weeks.

The 1980 first quarter earnings reflected profitable operations in the iron and steel segment including the sale of certain facilities which increased net income by \$.8 million. The low earnings in the first quarter of 1979 were primarily due to the iron and steel operations which were plagued by severe winter weather and by Chicago plant operating problems associated with a major facility rehabilitation program. The loss in the first quarter of 1978 was a direct result of the prolonged coal miners' strike and severe winter weather.

The second quarter of 1980 was severely affected by deteriorating economic conditions in the U.S. which affected most business segments.

The third quarters of 1980 and 1978 were charged with shutdown/disposal provisions (see Note 6) which reduced net income by \$24.7 million, or \$4.10 per share and \$7.8 million, or \$1.32 per share, respectively. Also, in the third quarter of 1980 a provision for relocation of a packaging plant reduced net income by \$1.3 million, or \$.22 per share.

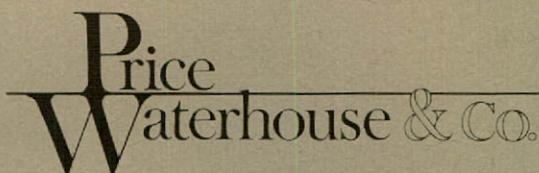
The third quarter of 1979 benefited from the application of Financial Accounting Standards Board Statement No. 31 regarding stock relief tax legislation in the United Kingdom which generated a tax credit of \$7.4 million, or \$1.24 per share, for the years 1973 through 1978. The fourth quarter of 1980 contained a stock relief tax credit of \$3.0 million, or \$.50 per share, compared to \$1.5 million, or \$.25 per share, in the fourth quarter of 1979. In the fourth quarter of 1979 Iron and Steel operations reported profitable results after experiencing losses or marginal profits in the preceding seven quarters.

During the third and fourth quarters of 1980 inventory quantities were reduced resulting in a liquidation of LIFO inventory quantities carried at lower costs prevailing in prior years as compared with the cost of 1980 production. As a result, income before taxes was increased by \$23.2 million, equivalent to \$2.08 per share after applicable income taxes, of which \$15.4 million, equivalent to \$1.38 per share after applicable income taxes, was reflected in cost of products sold (\$5.0 million in the third quarter and \$10.4 million in the fourth quarter) and the balance was included as a reduction of the shutdown/disposal provision (see Note 6).

Translation of foreign currency exposures and hedging costs impacted the quarterly results as follows:

	Net Income (Loss)			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
	(In millions)			
1980	\$ 2.5	\$(3.8)	\$ 1.3	\$ 1.4
1979	(.2)	(.6)	.9	(.8)
1978	1.2	(.2)	(.7)	.2

Report of Independent Accountants



To the Board of Directors and Shareholders of Interlake, Inc.

In our opinion, the accompanying consolidated balance sheet and the related statement of consolidated income and retained earnings and the statement of changes in consolidated financial position present fairly the financial position of Interlake, Inc. and its subsidiaries at December 28, 1980 and December 30, 1979, and the results of their operations and the changes in their financial position for each of the three years in the period ended December 28, 1980, in conformity with generally accepted accounting principles consistently applied. Our examinations of these statements were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Price Waterhouse & Co.

Chicago, Illinois
January 30, 1981

Market for the Company's Common Stock and Related Security Holder Matters

The principal market for the Company's common stock is the New York Stock Exchange (ticker symbol IK). The Company's common stock is also listed on the Midwest Stock Exchange and is admitted to unlisted trading on the Pacific Coast Exchange. An application by the Boston Stock Exchange to admit the Company's common stock to unlisted trading is pending before the Securities and Exchange Commission.

On December 28, 1980 the approximate number of record holders of the Company's common stock was 21,900.

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

Calendar Quarter Ended	1980			1979		
	Sales Price		Per Share Cash Dividends Paid	Sales Price		Per Share Cash Dividends Paid
	High	Low		High	Low	
March 31	\$33 ³ / ₄	\$22 ¹ / ₂	\$.55	\$26 ⁷ / ₈	\$22 ³ / ₈	\$.55
June 30	27 ³ / ₄	22 ⁵ / ₈	.55	26 ⁷ / ₈	23	.55
September 30	29 ¹ / ₂	25 ³ / ₈	.55	29 ¹ / ₂	26	.55
December 31	31 ¹ / ₄	25 ¹ / ₂	.55	28 ³ / ₄	23 ¹ / ₂	.55

The Company expects to continue its policy of paying regular cash dividends, although there is no assurance as to future dividends because they are dependent on future earnings, capital requirements, and financial condition. In addition, the payment of dividends is subject to the restrictions described in Note 5 to the accompanying Financial Statements.

Supplementary Financial Data Adjusted for Effects of Changing Prices

The Financial Accounting Standards Board (FASB) has adopted supplementary disclosure requirements based on alternative measurements of traditional financial information. In compliance with these requirements, the historical cost (as reported) data below has been adjusted to depict the effect of 1) general price level changes (constant dollar) and 2) price changes of specific assets (current cost).

For the Year:	1980	1979	1978	1977	1976
(Dollar amounts in thousands except per share statistics)					
Net sales and other revenues					
—as reported	\$1,063,763	\$1,112,435	\$ 929,845	\$ 773,058	\$ 718,643
—in constant dollars	1,063,763	1,262,836	1,174,405	1,051,157	1,040,210
Income per common share					
—as reported	2.29	6.66			
—in constant dollars	(4.86)	3.17			
—in current cost	(5.26)	2.98			
Cash dividends per common share					
—as declared	2.20	2.20	2.20	2.20	2.15
—in constant dollars	2.20	2.50	2.78	3.00	3.11
Market price per common share at year end					
—as reported	27.75	25.00	23.00	28.25	35.88
—in constant dollars	26.49	26.84	27.97	37.46	50.80
Net assets at year end					
—as reported	336,707	333,981			
—in constant dollars	595,670	637,452			
—in current cost	614,495	683,574			
Average consumer price index (1967 = 100.0)	246.8	217.4	195.4	181.5	170.5
Income as reported	\$ 13,818	\$ 39,735			
Constant dollar adjustments					
—cost of goods sold	(28,532)	(11,345)			
—depreciation and amortization expense	(14,646)	(9,475)			
Income adjusted for general inflation	(29,360)	18,915			
Adjustments to reflect the difference between constant dollar and current cost					
—cost of goods sold	2,763	5,693			
—depreciation and amortization expense	(5,170)	(6,826)			
Income adjusted for changes in specific prices	\$ (31,767)	\$ 17,782			
Gain from decline in purchasing power on net amounts owed ...	\$ 18,866	\$ 22,093			
Increase in general price level of inventories and property, plant and equipment held during the year	\$ 89,216	\$ 101,134			
Effect of increase in current cost* ..	59,456	75,322			
Excess of increase in the general price level over the increase in current cost	\$ 29,760	\$ 25,812			

* At December 28, 1980 current cost of inventory was \$275.7 million and current cost of property, plant and equipment, net of accumulated depreciation, was \$447.4 million.

Constant dollar adjustments bring historical cost data into units having the same general purchasing power by applying the average U.S. Government Consumer Price Index for All Urban Consumers.

Current cost adjustments to property, plant and equipment were determined by applying external price indexes closely related to the assets being measured to the historic acquisition costs of the assets; for land, current cost was primarily determined by reference to real estate tax assessments. Current cost of goods sold was determined by the LIFO (last-in first-out) inventory method, which is the same method used principally by the Company in its primary financial statements, adjusted for the effect of prior-year LIFO layer liquidations.

The constant dollar adjustments to reported income reflect the effect of general inflation on two principal categories of assets, resulting in:

- higher costs incurred to replace inventories sold during the year—an adjustment which is minimized because most domestic inventories are valued by the LIFO method.
- higher depreciation expense that would arise if existing property, plant and equipment were replaced at higher constant dollar costs, reflecting assets with relatively long lives. The straight-line method was used for constant dollar depreciation for certain asset groupings depreciated in the primary financial statements on a basis which already reflected, in part, the effects of general inflation.

The current cost adjustments to reported income reflect the effect of price changes of specific assets resulting in:

- higher costs of goods sold as in the constant dollar adjustment—however, current costs for replacing inventories valued on the FIFO (first-in, first-out) method were lower than the level of general inflation.
- higher depreciation expense, as in the constant dollar adjustment, with the additional amount attributed to a faster increase in specific prices for the related assets than the general rate of inflation.

In 1980, liquidation of LIFO inventory quantities required an adjustment to constant dollar and current cost amounts of cost of goods sold of \$16.1 million and \$15.4 million, respectively.

The shutdown/disposal provision in 1980 included the reduction of historical costs to expected, realizable values. As such, the adjustments for the effects of changing prices were not necessary for assets related to this provision.

Neither alternative measure for the effects of changing prices has been adjusted for the tax effects normally associated with incurring higher costs because the FASB standard does not permit such modifications and theoretical adjustments are not allowed for Federal tax purposes.

The preceding data does not include current cost information on mineral properties held by joint ventures in which the Company holds investments accounted for by the equity method. The Company's share of estimated mineral reserves of these joint ventures as of December 28, 1980 were approximately 145 million net tons of iron ore and 21 million net tons of metallurgical coal. The prevailing average market prices per ton in 1980 for this iron ore and coal were \$34.61 and \$39.66, respectively. This information in and of itself is not meaningful without due consideration of the significant and ever increasing costs of extraction, processing and shipping and associated capital expenditures.

Selected Financial Data

	1980	1979	1978	1977	1976
(In thousands of dollars except per share data)					
For the Year					
Sales and revenues:					
Net sales	\$1,055,883	\$1,104,588	\$ 921,127	\$ 766,614	\$ 708,876
Other revenues	7,880	7,847	8,718	6,444	9,767
	<u>1,063,763</u>	<u>1,112,435</u>	<u>929,845</u>	<u>773,058</u>	<u>718,643</u>
Income before nonrecurring item and taxes on income	57,553	45,177	31,626	34,284	63,558
Shutdown/disposal provision	37,000	—	15,682	—	—
Income before taxes on income ...	20,553	45,177	15,944	34,284	63,558
Provision for income taxes	5,998	3,129	3,100	14,010	24,682
	<u>14,555</u>	<u>42,048</u>	<u>12,844</u>	<u>20,274</u>	<u>38,876</u>
Minority interest in net income of subsidiaries	737	2,313	2,356	1,542	971
Net income	<u>\$ 13,818</u>	<u>\$ 39,735</u>	<u>\$ 10,488</u>	<u>\$ 18,732</u>	<u>\$ 37,905</u>
Net income per common share	\$ 2.29	\$ 6.66	\$ 1.77	\$ 3.17	\$ 6.61
Cash dividends per common share	2.20	2.20	2.20	2.20	2.15
At Year End					
Working capital					
— amount	\$ 181,145	\$ 162,270	\$ 163,348	\$ 140,682	\$ 133,150
— current ratio	2.0 to 1	1.7 to 1	1.9 to 1	2.0 to 1	2.1 to 1
Total assets	703,168	733,559	658,415	559,568	526,181
Long-term debt, less current maturities	133,020	135,503	136,169	85,233	78,828
Common shareholders' equity					
— amount	336,707	333,981	306,311	308,400	301,818
— per common share	55.30	55.64	51.41	52.05	51.15

NOTE: 1978 was a 53-week year while all other periods were 52-week years.

Directors (1)

Keith S. Benson, 62, Executive Vice President-Administration and Finance, Director, Oglebay Norton Co. (mining, sales and lake transportation of iron ore, silica sand, coal and other raw materials) (1966) (3)

Eugene P. Berg, 67, Chairman and President, Automatic Spring Coiling Company (manufacturer of precision mechanical springs) and former Chairman and Director, Bucyrus-Erie Company (manufacturer of mining and construction machinery) (1964) (2) (5)

Thomas J. Guendel, 53, President, Chief Executive Officer, Director, Portec, Inc. (manufacturer of engineered products for the railroad, construction, industrial and other capital industries) (1981)

Walter A. Hamilton, 58, Vice President-Public Affairs Research, The Conference Board (independent non-profit research organization) (1974) (5)

Robert Jacobs, 62, Executive Vice President-Finance and Planning, Interlake, Inc. (1969)

Frederick C. Langenberg, 53, President and Chief Operating Officer, Interlake, Inc. (1979) (2)

Reynold C. MacDonald, 62, Chairman and Chief Executive Officer, Interlake, Inc. (1967) (2)

Louis Putze, 64, Consultant to Rockwell International Corporation and formerly Vice President and Director of Rockwell, and President of its Utility & Industrial Operations (major, multi-industry company supplying products to the automotive, electronic, aerospace and general industries) (1962) (4)

Lee C. Shaw, 68, partner, Seyfarth, Shaw, Fairweather and Geraldson (law firm) (1949) (2) (4) (5)

Herbert A. Spring, Jr., 60, Attorney in private practice, Cleveland, Ohio (1977) (4)

Edward J. Williams, 58, Chairman, Chief Executive Officer, Director, McGraw-Edison Company (a leading manufacturer of electrical and mechanical products used for a wide variety of utility, industrial, commercial & automotive applications throughout the world) (1964) (2) (3)

Morris H. Wright, 67, advisory director, Lehman Brothers Kuhn Loeb Incorporated (investment bankers) (1963) (3)

(1) Year in parentheses is year in which he became director

(2) Member, Executive Committee

(3) Member, Audit Review Committee

(4) Member, Pension Review Committee

(5) Member, Compensation Committee

Officers

Reynold C. MacDonald, 62, Chairman of the Board and Chief Executive Officer

Frederick C. Langenberg, 53, President and Chief Operating Officer

Robert Jacobs, 62, Executive Vice President-Finance and Planning

Raymond T. Anderson, 48, Treasurer

Frank K. Armour, 63, Vice President-Engineering and Research

Ralph K. Frew, 53, Vice President-Employee Relations

H. Harry Henderson, 54, Vice President-Marketing and Public Affairs

Grant L. Johnson, 51, Vice President-Law and Administration

Ian R. MacLeod, 49, Secretary

Richard I. Polanek, 49, Controller

Operating Executives

R. Russell Fayles, 66, President, Hoeganaes Corporation, the subsidiary which produces powdered metals.

Alfred D. Gate, 60, Vice President of the division which produces silicon metal and ferroalloys.

Hal L. Harman, 46, President of the subsidiary which produces investment and die castings.

Stephen Hinchliff, C.B.E., 54, Chairman of the Board and Managing Director of the subsidiary which produces material handling and storage products in Europe.

Brian W. H. Marsden, 49, Vice President of the division which produces iron and steel.

Regis A. Vey, 47, Vice President and General Manager of both the Packaging Division and the division which produces material handling and storage products in North America and Australia.

Alfred G. Ward, 46, Vice President of the division which produces packaging products at various locations in North America and Europe.

interlake,inc.

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