ABOUT THE COMPANY

NI Industries, Inc. designs, manufactures and markets products for the industrial, building, and remodeling and defense markets, using refined metalworking processes and technology. The Company succeeded to the business of Norris Industries, Inc. through a series of transactions commonly referred to as a leverage buyout, effective December 8, 1981. On October 27, 1983, the Company sold 3,500,000 new shares of its common stock as part of a public offering that included an additional 2,500,000 shares owned by institutions which had provided part of the leverage buyout financing in December, 1981.

A substantial percentage of NI's products are produced to customer design or performance specifications. These are industrial products for the automotive industry and defense products for the United States government which are sold directly to the customer. Many of the Company's building and remodeling products have well established brand names, such as Thermador, Waste King and Artistic Brass, and are sold nationally to distributors.

At December 31, 1983, the Company had 9,000 employees and 32 domestic and foreign operating facilities.

At its Technical Training Center NI provides an active training program for qualified individuals to learn high skill trades for entering the industrial job market. Trainees Earl Rhinehart, left, and Jim Goodburlet, produced the machined NI logo that appears on the front cover of this report.

FINANCIAL HIGHLIGHTS

(Dollars in thousands except per share data)

Operations	1983	1982
Net Sales	$ 724,675	$ 623,459
Income (Loss) before Income Taxes	56,182	(13,339)
Percent of Net Sales	7.8%	(2.1%)
Net Income (Loss)	38,611	(6,702)
Net Income (Loss) Per Share	2.12	(.39)
Balance Sheet		
Working Capital	$ 84,021	$ 108,959
Property (Net)	229,821	278,157
Long-Term Debt	139,239	316,566
Stockholders' Equity	149,685	39,648
Stockholders' Equity Per Common Share	6.85	2.30
Other		
Ratio of Current Assets to Current Liabilities	1.8:1	2.6:1
Long-Term Debt To Equity Ratio	0.9:1	8.0:1
Common Shares Outstanding	21,857,192	17,274,160
Employees	9,000	8,800

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This is our first report to stockholders since NI Industries became a public corporation on October 27, 1983. We of management are pleased to be part of the Company and welcome you as stockholders. We will do our utmost to merit your support in meeting the challenges and opportunities of the future.

1983 was a quick paced and productive year. The Company's capital structure was revamped, debt was substantially reduced, and we achieved sales and earnings well above any since the formation of NI Industries in December 1981. Inventory turns were improved, accounts receivable as a percentage of sales were down, efficiency was up, and many new marketing opportunities were pursued. We ended the year feeling very optimistic about achieving even greater growth and profits in coming years.

Net sales for the year ended December 31, 1983 increased 16% to $724,675,000 compared to $623,459,000 in the previous year. Both 1982 and 1983 were impacted by high interest and depreciation charges typical of a highly leveraged company; however, net income was $38,611,000 or $2.12 per share on average outstanding shares of 18.2 million in 1983, compared to a net loss of $6,702,000 or $.39 calculated on 17.2 million shares in 1982.

During the fourth quarter, net sales rose 19% to $178,866,000 compared to $150,412,000 in the like period a year ago. Fourth quarter net income was $9,993,000 or $.46 per share, compared to a net loss of $697,000 or $.04 per share, in the like period a year ago.

As you may be aware, NI Industries succeeded to the business of Norris Industries, Inc. through a leverage buyout in December 1981. Kenneth T. Norris, founder of the business, had died in 1972, and the Norris family and foundation, controlling approximately one-fourth of the Company's common stock, wanted to dispose of their holdings and diversify their investments. It appeared that a price reflecting the true value of the Company would most likely be achieved by selling the entire Company and not just the "Norris" stock.

The sale was accomplished through a leverage buyout, organized by Kohlberg, Kravis, Roberts & Co., New York merchant bankers.

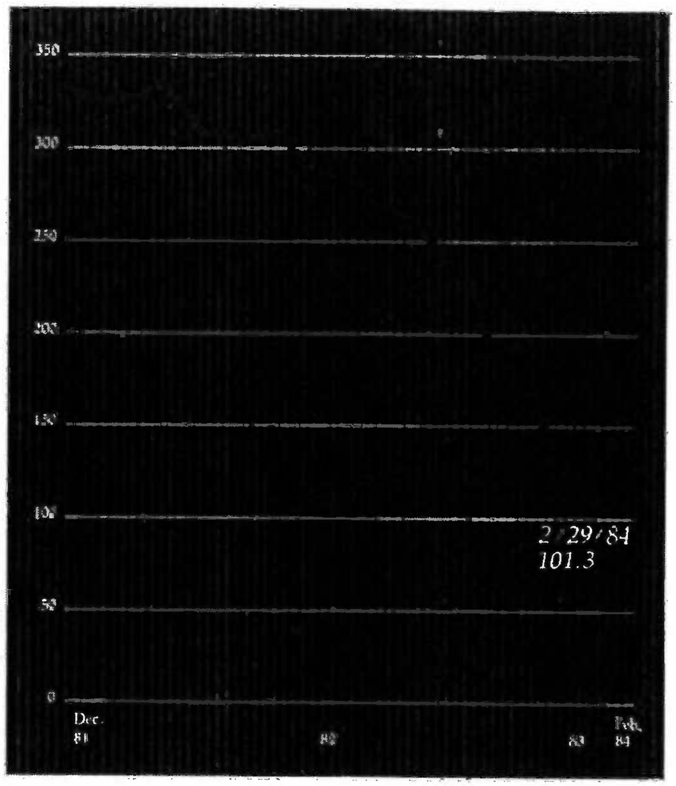
NI was formed to acquire Norris, and to finance the transaction the new Company borrowed $328 million, unsecured, from a number of institutions which also purchased a major share of the Company's common stock.

To reduce this debt, we concentrated on maximizing cash flow over the past two years. This was achieved by reducing working capital requirements, by consolidating some operations, by efficient use of plants and equipment and by stressing profit improvement even though much of the period included the 1980-82 recession which severely impacted our markets. Debt reduction was further aided by the divestiture of the Price Pfister Division in June 1983.

Further aids to good cash flow were the Company's modern plants and equipment which had been revamped, replaced, and expanded during the preceding eight years and high depreciation charges which resulted from the write-up of assets in accordance with accounting and tax rules at the time of the leverage buyout.

Prior to going public, the Company successfully reduced debt by $120 million, $87 million of it in 1983, at a considerable savings in interest expense. A further savings arose from a general decline in interest rates during the year.

On October 27, 1983 the Company sold 3,500,000 new shares of its common stock, as part of a successful public offering that included an additional



Revolving and term loans — monthly weighted average
(In Millions of $)

2,500,000 shares owned by institutions which had provided part of the leverage buyout financing in December 1981.

The infusion of new equity from the public offering permitted another $67 million reduction in corporate debt.

The public offering provided NI's institutional investors with a means to sell a portion of their stock in exchange for permitting the Company to make immediate repayment of that portion of its debt which, due to the initial leverage of the buyout, carried extremely high interest rates. The interest savings from this step alone will produce an increase in pretax earnings of $7.8 million.

No further offerings of new equity are anticipated although large institutional stockholders may sell portions of their holdings through secondary offerings from time to time.

With the economic resurgence in 1983, the Company was well positioned to participate, increasing its sales and the market share of its automotive, and building and remodeling products.

Rapid expansion of production was made possible by the previously mentioned capital expenditure program initiated in 1973 and completed in 1981, in which a third of a billion dollars was invested in building new plants and updating existing facilities. Of today's 32 plants 12 were built new from the ground up.

Owing to this plant expansion and modernization program, NI still has additional capacity for many of its product lines. Consequently, we do not anticipate borrowing above current levels for this purpose. In fact, for 1984 we budget further significant debt reduction. We also plan for 1984's performance to further benefit from continuing good cost controls and asset management.

In addition to our internal growth plans we have an ongoing search for major acquisitions in businesses which would make good sense for NI. A major criterion for such an acquisition is projected additional earnings per share.

Each of our three principal business segments serves a different market, but all are dedicated to designing, manufacturing and marketing high quality metal products. To produce the most out of each of these markets, we are organized into operating divisions, enabling each one to target its objectives sharply. In the day-to-day operations we emphasize decentralized management of each of our 12 divisions; therefore, the management and employees of each one have added incentive for good performance.

To increase efficient use of the Company's resources, the overall goals, strategies and policies are developed and controlled in concert with the corporate officers and staff.

Equipment, technology and people are transferred from one location to another as opportunities are developed. This pooling of resources is especially valuable as a reserve of talent from which we can fill key positions with people who have years of experience in the different areas of the Company, enabling them to understand the details of each business segment. As an example, six current division Presidents were promoted from other NI locations.

Being in cyclical businesses, we need to find ways to sustain earnings during the downturns while continuing to gain new ground in the up portion of the cycle. One strategy is to reduce our exposure to economic swings by placing greater emphasis on more stable parts of our markets.

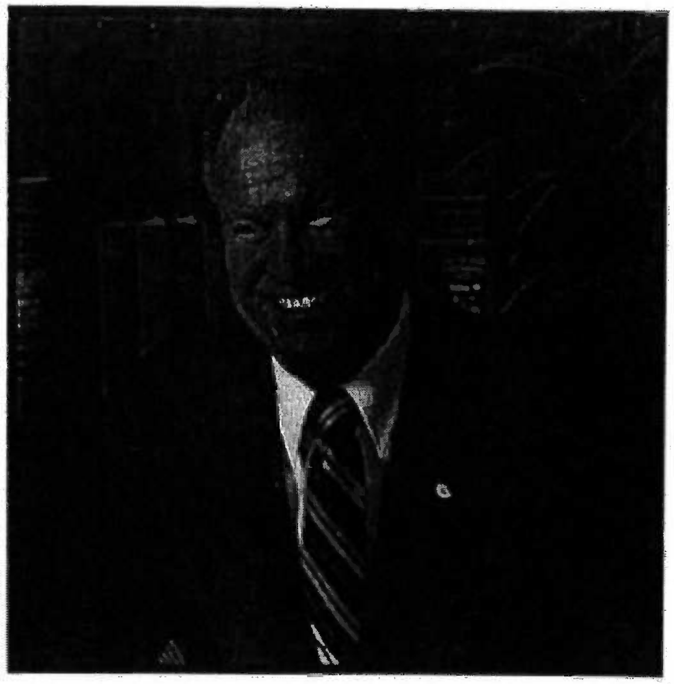
The outlook is excellent in each of our business segments. Fundamental to our growth is a continued emphasis on seeking and holding a strong position in each market we are in or elect to enter. Before investing in new products or markets, we shall continue to look for the best overall longer term return to our stockholders.

Once more, I wish to welcome you our new stockholders, and extend appreciation to our employees, suppliers and customers for their continuing support. We in management will do our utmost to justify that support.

HJ Meany

H.J. Meany,
Chairman of the Board
and President

March 3, 1984



H.J. Meany

One of the things that sets NI Industries apart from most other companies in the metalworking industry is the high degree of vertical integration not usually found elsewhere. Another is its level of technological expertise, which is not widely known or utilized in plants outside of NI.

The industrial products divisions produce automotive components such as wheel covers and trim, wheels, springs, and numerous heavy stamped metal and welded assemblies, as well as gas cylinders for the welding industry. We are the No. 1 producer of spoked wheel covers, a major item in this segment of our business.

Building and remodeling products include: door locks, electrical outlet and switch boxes, cooktops, ovens, ventilating equipment, dishwashers, waste disposers, carpet padding, toilets, bathtubs, faucets and other bathroom accessories.

The building and remodeling segment of NI is known by such well established names as Thermador, Waste King and Artistic Brass.

Many NI products hold leading or near leading positions in their markets. We believe the Weiser Lock Division, for instance, is No. 2 in residential locks in the United States, and No. 1 in the Canadian market.

Our household cooking products are specialties rather than conventional appliances. They hold a leading position in that portion of the market to which innovative features and genuine high quality appeal. Another example is Artistic Brass's top-of-the-line, decorative bath fixtures which we believe to be No. 1 in market share by a wide margin.

The third major segment of our business is defense products sold to the United States Government.

All of our operating divisions strive to excel in a particular role or niche which they have defined and developed over a period of time — this is a key element of our business planning program and overall corporate strategy.

The year of 1983 was an outstanding period for our building and remodeling and automotive products and they are expected to continue performing well in 1984 and beyond.

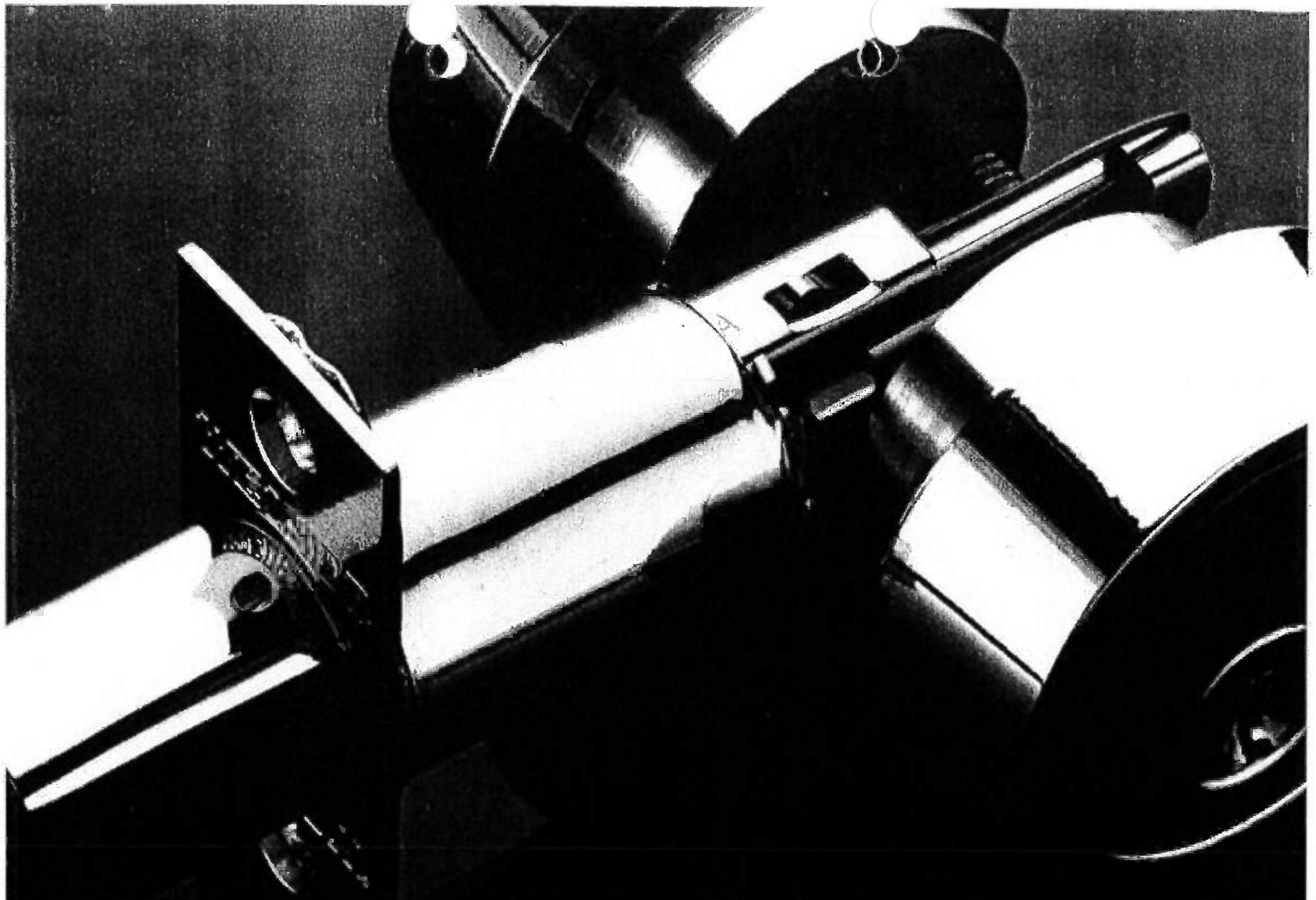
The Defense Products segment has recently become more stable due to our participation in several longer range government programs which are not normally linked to general economic conditions. In some cases these programs involve multi-year contracts which improve the government's costs by reducing troublesome start-ups and shutdowns of our production lines. Wherever possible, we endeavor to participate in these programs in the early stages of development so as to make contributions which gain us recognition as a team member, while at the same time providing us an opportunity for longer term visibility and better internal planning.

Following is a review of NI's areas of operation.

P.D. Pryne,
Senior Vice President and President, Weiser Lock Division

H.R. Beisch,
Senior Vice President and President, Automotive Wheel Division

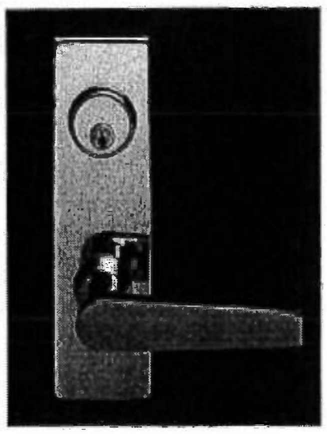
D.B. Maag, Jr.,
Senior Vice President



Above: In 1983 NI introduced a major new product — the "WeiserBolt" — a single unit comprising an entrance knob, latch and high security dead bolt. Right: The Company maintains numerous modern efficient manufacturing plants.

The Weiser Lock Division maintains manufacturing plants in the United States, Canada, Australia, the United Kingdom and Belgium. Our primary strength is in residential locks. However, we have a growing presence in the commercial market with our Falcon brand of door lock hardware.

An area of recent emphasis has been in sales to retail customers through the growing number of home center outlets. Almost half of the division's present residential volume now goes to the remodeling and replacement market through various channels including these retail stores.



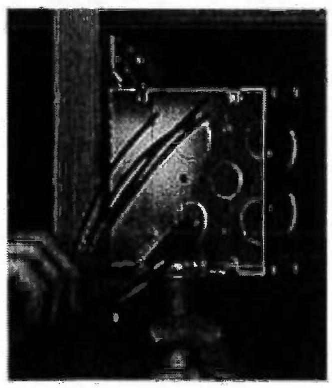
Falcon brand commercial door lock hardware.

In 1983 the Company introduced a major new product which had been under development and testing for some time. Named the "WeiserBolt", it is a single unit comprising an entrance knob, latch and high security dead bolt and is priced to compete with a combination of products having similar features. Initial market reception of WeiserBolt has been excellent. The division is now field testing its Gibraltar Electronic Lock System, which is designed for hotels and high security residential buildings. The potential for this product is that it could provide a substantial increase in our commercial lock business.

Weiser's market outlook for the coming year with a balance of commercial, residential, and retail products is excellent and will be further aided by its new products. Its large new Huntington Beach, California assembly plant is starting to show planned returns in both capacity and efficiency.

The Bowers Division's product line consists of electrical outlet and switch boxes, rings, covers and other accessories manufactured in both steel and plastic.

Bowers is No. 2 in market position nationally in comparable steel products; it is the leading western producer; and has a strong foothold in some export markets. Bowers recently entered the plastic box residential market with products that have innovative design features appealing to electrical contractors. Sales of the new products have been brisker than expected, despite intense competition. Capacity is being expanded annually to support additional catalog items and new geographical markets which are being opened.



Bowers' electrical outlet and switch boxes.

A record year in sales and profits was achieved by the Thermador/Waste King Division. Major products, designed for the higher priced markets, include electric and gas built-in cooktops, combination microwave and conventional self-cleaning ovens, dishwashers, food waste disposers, trash compactors, ventilating hoods, electric heaters and gas-fired Char-Glo barbecues.

Combination electric and gas Thermador cooktop.

P.F. Friedrich,
President, Thermador/ Waste King Division

R.W. Forst,
President, Bowers Division

Above: Major Thermador/ Waste King products include dishwashers, food waste disposers, trash compactors, ventilating hoods and combination microwave and conventional self-cleaning ovens. Right: The Company's new 740,000 square foot Weiser plant in Huntington Beach, California produces residential and commercial door locks.

Home remodeling and replacement are the major end uses of these products, sales of which tend to mitigate the impact of down cycles in new housing construction.

New products introduced in 1982, such as dual fuel gas and electric combination cooktops to take the advantage of what each fuel does best, were well received and posted significant sales gains in 1983.

In January 1984, Thermador introduced a European-style cooktop and a matching ensemble look for other major built-in appliances, and a self-cleaning oven which has dual vent capabilities. We expect 1984 to be an excellent year in Thermador/Waste King sales and profits, as new products increase market share. Strong emphasis will be maintained on further new product development to assure continued momentum in future years.

Waste King food disposer.

The Sponge-Cushion Division manufactures and markets high quality foam rubber carpet padding. This portion of the carpet padding market is confined to those customers desiring superior cushioning and the safety of a fire retardant material.

NI's plumbing products are developed and manufactured by its Artistic Brass Division and its Plumbing Fixtures Division.

Artistic Brass, which markets products under the names Artistic Brass, Premier, and American Bath Collection, is believed to be the largest domestic producer of top-of-the-line, highly decorative bathroom fixtures. Recently, the division expanded into the intermediate-priced retail market offering, under the American Bath Collection name, a line of do-it-yourself decorative faucets sold through major home centers. This is another example of our previously mentioned actions to provide stability to our cyclical building products. Plans are to introduce more new products and innovations in 1984 than ever before.

Historically, the products of the Plumbing Fixtures Division have been inexpensive items for low cost residential construction; but in 1983 the division unveiled a new line, and with an aggressive marketing program is oriented to the fast-growing do-it-yourself market of the major home center chains. A network of distributors was set up to market this new line to the plumbing trade and to help penetrate the higher quality remodeling and repair market.

Artistic Brass's Barcelona series of bathroom fixtures.

Several new products for the commercial market, aimed especially at expanding hotel/motel construction, were also introduced. Presentations to architects, mechanical engineers and design consultants resulted for the first time in several major projects specifying NI plumbingware. This move into a part of the commercial market will also add stability as we become less

Plumbing Fixtures Division's new line of spa tubs.

F.J. Raus,
President, Sponge-Cushion Division

A. Singerman,
President, Artistic Brass Division

M.C. Vaupel,
President, Plumbing Fixtures Division

Above: Artistic Brass is believed to be the largest domestic producer of top-of-the-line, highly decorative bathroom fixtures. Right: Large presses at NI facility stamping tubs for the Plumbing Fixtures Division.

dependent on the highly cyclical low cost housing portion of the market.

We believe 1984 and the several years beyond will show continued improvement in the residential construction market and by the time the inevitable downturn of the new housing cycle begins, we will have good momentum developing in these other markets.

The Company has four divisions which produce a variety of items for the automotive industry. The 1983 industry turnaround, and the further growth expected in 1984 and beyond, augur well for this segment of the Company's business.

The Automotive Trim Division designs, manufactures and markets decorative wheel trim, including spoked wheel covers, wheel trim rings and other components for use in assembly plants and parts replacement centers of North American manufacturers of automobiles and light trucks. The division is the leading producer of wheel covers in the United States.

Riviera wheel cover for Buick Division of General Motors.

The division has considerably greater vertical integration than its competitors, and its position is further strengthened by the innovative design techniques developed at its research and development facility in Novi (Detroit), Michigan. At this facility, prototypes of new or modified designs are developed in response to customer needs. This enables the customer to test ideas quickly with finished products and to obtain engineering data and accurate cost estimates at an early stage of design.

Among recent developments have been the division's selection by General Motors and Ford for plastic/stainless steel composite and all-plastic wheel trim for installation on 1985 and 1986 vehicles. A new retention system was also developed for these new products.

A new aerodynamic flex-edge wheel cover has been developed and the first commercial application will be the all-plastic Chevrolet Camaro Berlinetta wheel cover being introduced during 1984.

A new center-retention family of spoked wheel covers went into production, and sales began in November 1983. This new concept reduces the weight of spoked wheel trim by about 50%.

A new spoked wheel cover theft deterrent system was designed, and production began in late 1983 at Pineola, North Carolina. The new system utilizes a combination of puzzle-lock wrenches, bolts and lock brackets.

The division has a plating-on-plastics system, which completely meets the demanding specifications of the auto industry. It produces rear view mirror housings for General Motors and Chrysler, Ford headlamp bezels, and chrome plated grille assemblies for General Motors' cars.

Leaf spring for large OEM truck manufacturers.

A new computer-based production, planning and control system will help increase inventory turns. An aggressive program of tooling redesign, machinery improvement and preventative maintenance has increased up-time and productivity.

The Automobile Wheel Division manufactures automobile and light truck wheels, which are sold directly to the General Motors assembly plants located in the west and midwest.

The division also manufactures wheels for trailer and mobile-home equipment suppliers, and steel rims which are sold to styled and sports wheel manufacturers.

The division's Brea, California plant is the only major steel wheel plant on the west coast. It is well automated and has an advanced epoxy paint system which enables us to provide protective finishes in keeping

C. J. Nolan,
President, Automotive Trim Division

R.J. Klemick,
President, Winamac Division

Above: NI's Automotive Trim Division is the leading producer of wheel covers in the United States. Right: The Company has considerably greater vertical integration than its competitors, and its position is further strengthened by innovations in design and manufacturing techniques.

with the automobile manufacturers' program for higher quality finishes.

The McIntosh Division designs and manufactures a variety of stamped steel parts and welded assemblies which are cold formed to precise dimensions with no subsequent machining requirements. Major products include alternator rotor segments, heavy and light truck suspension parts, and clutch, brake and power steering components. Our emphasis is on heavy, difficult to make parts which require excellent engineering and tooling capabilities combined with high tonnage manufacturing equipment.

Automobile and light truck wheel.

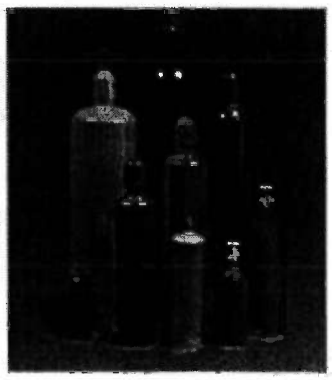
At its Novi, Michigan product and tool development facility, using presses in the 800 to 1,000 ton range, the division produces prototype parts for vehicle testing during the customer design phase. This heavy equipment facility, solely for product development, is believed to be the only one of its type and size in the automotive subcontracting industry.

The McIntosh Division has a reputation for its expertise in manufacturing with new difficult-to-form materials required by the car manufacturers to reduce vehicle weight. This enables us to meet customer production requirements at good cost savings to them, which helps assure our continued success and growth in this market.

The Winamac Division designs and manufactures leaf springs for heavy trucks, highway trailers, railroad locomotives, and recreational and utility trailers. Other products include agricultural ground-engaging implements, such as cultivator teeth and chisel plow shanks. The division's products are developed, tested and manufactured for original equipment manufacturers, replacement parts manufacturers and distributors.

During the recent recession, manufacturing costs were reduced through improved efficiency and the installation of statistical process controls to reduce scrap and improve quality.

Sufficient manufacturing capacity exists to double sales volume with minimal equipment additions. While improvements in Winamac's markets lagged the general economic upturn of 1983, it is now experiencing strong improvement. In the longer term, improved sales should be sustained by some important new processes which have been developed in cooperation with a European manufacturer specializing in the design of high performance vehicle suspension components. These will enable us to supply lighter weight, higher performing springs to a growing customer list.



Industrial gas cylinders.

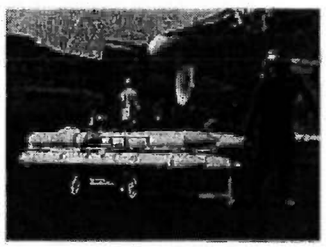
McIntosh Division produces a variety of stamped steel parts and welded assemblies.

R.H. Worpell,
President, McIntosh Division

E. McSweeney,
President, Compressed Gas Cylinders Division

Above: The Automobile Wheel Division manufactures new lightweight wheels which are sold to General Motors assembly plants. The division's highly automated Brea, California plant is the only major wheel facility on the west coast.

The Compressed Gas Cylinders Division, one of the largest North American manufacturers of large, high-pressure cylinders, currently has ample plant capacity to support a significant increase in business. No sales improvement is expected until activity increases in the oil drilling, transportation, refining, and handling industries or in the general capital goods industries. Because of the low level of activity in these markets, we have lost money in the Cylinders Division for the past three years. The plant operating break-even level has been reduced and we further believe a market turnaround will occur. We have a strong commitment to this business over the long term and our modern facilities and manufacturing expertise put us in a good position to benefit from a market resurgence.



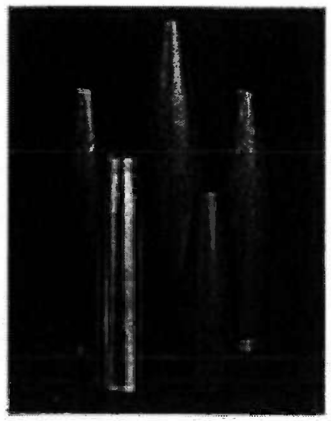
Air to air missile being loaded on U.S. Navy aircraft.

The Vernon Division produces difficult to make one-piece ordnance components consisting of metal parts for rockets, shells and cartridge cases for sale to the United States Government. The division is the only producer of large one-piece cartridge cases and one of the two largest manufacturers of projectiles as well as the leading producer of missile motor cases. We do not engage in the loading of ordnance products or the manufacture of explosives.

We are continuously refining production techniques and have received considerable government funding for modernization and expansion of equipment and facilities to support further growth.

In 1983 the Vernon Division revenues were 16% higher than in 1982. However, profit increase was impacted by start-up problems on two major programs, the 8″ 509 Projectile and Multiple Launch Rocket System (MLRS) Motor Case and Warhead Skin.

Vernon was awarded a $146 million multi-year MLRS contract and option in September 1983. An $8 million facility to produce the new product is scheduled for completion in the first half of 1984. These new generations of defense hardware are expected to sustain strong production levels for the balance of the decade.



Variety of ordnance components manufactured by NI.

The outlook for 1984 is good with sales and profits expected to increase significantly, as the benefits are felt from these major new programs. This outlook does not anticipate any significant increase in the government's national defense spending and we further believe good defense products sales over the next few years are not dependent on a general defense build-up. The defense backlog was $299,424,000 and $138,459,000 at December 31, 1983 and 1982 respectively.

MLRS projectile being test fired.

R.E. Winstanley,
President, Vernon Division

Above: The Vernon Division produces difficult to make one-piece ordnance components requiring exacting quality control and testing procedures to meet all U.S. Military specifications. Right: Highly automated manufacturing techniques are utilized on the company's 8″-509 projectile.

INFORMATION ABOUT THE COMPANY'S OPERATIONS IN DIFFERENT INDUSTRIES ($ in Thousands) Years Ended December 31,

1983	Net Sales	Operating Profit (Loss)	Depreciation, Amortization	Capital Expenditures	Identifiable Assets
Industrial:					
Automotive Products	$267,909	$53,545	$ 8,044	$4,321	$136,679
Cylinder Products	15,444	(2,519)	1,340	117	28,750
Total	283,353	51,026	9,384	4,438	165,429
Building and Remodeling:					
Hardware Products	138,204	18,780	7,692	1,753	109,015
Household Products	92,655	7,336	3,181	682	50,812
Plumbing Products	59,261	3,706	2,309	432	22,797
Total	290,120	29,822	13,182	2,867	182,624
Defense	151,202	13,987	10,991	2,086	73,443
General Corporate		(38,653)	230	78	42,941
Consolidated Total	$724,675	$56,182	$33,787	$9,469	$464,437

1982	Net Sales	Operating Profit (Loss)	Depreciation, Amortization	Capital Expenditures	Identifiable Assets
Industrial:					
Automotive Products	$204,252	$ 27,090	$ 7,298	$ 3,364	$120,722
Cylinder Products	21,946	(4,338)	1,439	6,715	29,008
Total	226,198	22,752	8,737	10,079	149,730
Building and Remodeling:					
Hardware Products	115,372	6,461	6,793	3,208	106,429
Household Products	78,969	2,129	3,077	910	49,895
Plumbing Products	72,814	(1,719)	3,463	1,191	62,021
Total	267,155	6,871	13,333	5,309	218,345
Defense	130,106	12,608	10,493	1,485	81,807
General Corporate		(55,570)	265	298	41,809
Consolidated Total	$623,459	$(13,339)	$32,828	$17,171	$491,691

Information relating to net sales, operating profit (loss) and identifiable assets included above for the Price Pfister division, which was sold during 1983, is contained in Note 7 to the financial statements.

Operating profit (loss), excludes interest expense, general corporate expense and income taxes. Assets are those identifiable to a particular segment by their direct use. General corporate assets are principally receivables from long-term sales contracts arising from sales of cylinder products plus headquarters and non-operating properties.

In 1983 and 1982, approximately 21% of net sales were derived from the United States Government (substantially all Defense Segment sales), and sales to various divisions of General Motors Corporation were approximately 23% and 20% of total net sales.

The Company manufactures and sells principally hardware products in foreign countries. Net sales and identifiable assets of the Company's foreign operations during both 1983 and 1982 were approximately 4% and 6%, respectively.

CONSOLIDATED STATEMENTS OF OPERATIONS Years Ended December 31,

	1983	1982
Net Sales	$724,675,000	$623,459,000
Costs and Expenses:		
Cost of Sales	562,575,000	512,101,000
Selling and Advertising Expense	32,622,000	34,212,000
General and Administrative Expense	34,391,000	35,543,000
Interest Expense	37,030,000	61,728,000
Other — Net	1,875,000	(6,786,000)
Total Costs and Expenses	668,493,000	636,798,000
Income (Loss) Before Income Taxes	56,182,000	(13,339,000)
Income Taxes (Credit)	17,571,000	(6,637,000)
Net Income (Loss)	$ 38,611,000	$ (6,702,000)
Net Income (Loss) Per Common Share	$ 2.12	$ (.39)
Weighted Average Number of Shares Outstanding	18,231,000	17,239,000

See accompanying notes to financial statements.

CONSOLIDATED BALANCE SHEETS December 31,

	1983	1982
ASSETS		
Current Assets:		
Cash (Bank Overdraft)	$ 3,144,000	$ (2,218,000)
Accounts Receivable (less allowance for doubtful receivables: 1983, $787,000; 1982, $1,140,000)	84,327,000	70,759,000
Inventories	101,406,000	105,848,000
Other	4,580,000	2,963,000
Total Current Assets	193,457,000	177,352,000
Property — Net	229,821,000	278,157,000
Other Assets	41,159,000	36,182,000
TOTAL ASSETS	$464,437,000	$491,691,000

	1983	1982
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Current Portion of Long-Term Debt	$ 1,622,000	$ 1,597,000
Accounts Payable	48,271,000	30,439,000
Accrued Liabilities	57,122,000	36,357,000
Federal and State Income Taxes	2,421,000	
Total Current Liabilities	109,436,000	68,393,000
Long-Term Debt	139,239,000	316,566,000
Income Taxes	45,383,000	46,103,000
Deferred Incentive Compensation	20,694,000	20,981,000
Stockholders' Equity:		
Common Stock, $.50 par		
Authorized — 50,000,000 shares		
Issued and Outstanding — 20,602,660 and 13,424,768 shares	10,302,000	6,712,000
Class B Common Stock, $.50 par		
Authorized — 6,710,492 shares		
Issued and Outstanding — 1,254,532 and 3,849,392 shares	627,000	1,925,000
Additional Paid-in Capital	108,403,000	38,867,000
Retained Earnings (Deficit)	31,080,000	(7,531,000)
Foreign Currency Translation Adjustment	(727,000)	(325,000)
Total Stockholders' Equity	149,685,000	39,648,000
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$464,437,000	$491,691,000

See accompanying notes to financial statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY Years Ended December 31,

	Common Stock		Class B Common Stock				
	Number of Shares	Amount	Number of Shares	Amount	Additional Paid-In Capital	Retained Earnings (Deficit)	Foreign Currency Translation
Balance, December 31, 1981	13,365,168	$ 6,682,000	3,849,392	$1,925,000	$ 38,733,000	$ (829,000)	
Net Loss						(6,702,000)	
Sales at $2.75 per share	59,600	30,000			134,000		
Translation Adjustment							$(325,000)
Balance, December 31, 1982	13,424,768	6,712,000	3,849,392	1,925,000	38,867,000	(7,531,000)	(325,000)
Net Income						38,611,000	
Sales — $20.00 per share, before offering expenses and discounts	3,505,400	1,753,000			63,516,000		
Exercise of Warrants and Options — $2.75 per share	667,032	334,000	500,000	250,000	2,626,000		
Repurchase — $2.75 per share	(89,400)	(45,000)			(201,000)		
Conversion of Class B Common to Common	3,094,860	1,548,000	(3,094,860)	(1,548,000)			
Tax Benefit from Lapse of Restrictions					3,595,000		
Translation Adjustment							(402,000)
Balance, December 31, 1983	20,602,660	$10,302,000	1,254,532	$ 627,000	$108,403,000	$31,080,000	$(727,000)

See accompanying notes to financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION Years Ended December 31,

	1983	1982
Resources Provided by Operations:		
Net Income (Loss)	$ 38,611,000	$ (6,702,000)
Deferred and Federal Income Tax (Credit)	11,623,000	(7,864,000)
Depreciation and Amortization	33,787,000	32,828,000
Total Provided by Operations	84,021,000	18,262,000
Cash Provided By (Used For) Working Capital:		
Accounts Receivable	(19,908,000)	(9,612,000)
Inventories	(8,566,000)	49,603,000
Other Current Assets	(1,722,000)	63,000
Note Payable to Banks		(1,000,000)
Current Portion of Long-Term Debt	25,000	(218,000)
Accounts Payable	19,879,000	(21,302,000)
Accrued Liabilities	20,979,000	(5,308,000)
Federal and State Income Taxes	2,421,000	
Working Capital of Division Sold	17,192,000	
Net Cash Provided by Operations	114,321,000	30,488,000
Cash Provided By (Used For) Investment Activities:		
Sale of Property	2,845,000	3,120,000
Leases and Contracts Receivable	1,173,000	(6,739,000)
Purchase of Property	(9,469,000)	(17,171,000)
Property of Division Sold	23,183,000	
Notes Receivable	(5,922,000)	
Other (including reclassification of income tax liability)	(14,983,000)	1,991,000
Net Cash Used For Investment Activities	(3,173,000)	(18,799,000)
Cash Available for Financing Activities	111,148,000	11,689,000
Cash Provided By (Used For) Financing Activities:		
Reduction of Long-Term Debt	(177,327,000)	(43,795,000)
Sale of Common Stock and Increase in Additional Paid-In Capital	71,828,000	164,000
Decrease in Deferred Incentive Compensation	(287,000)	(540,000)
Increase in Long-Term Debt		11,211,000
Net Cash Used for Financing Activities	(105,786,000)	(32,960,000)
Increase (Decrease) in Cash for the Year	5,362,000	(21,271,000)
Balance at Beginning of Year	(2,218,000)	19,053,000
Balance at End of Year	$ 3,144,000	$ (2,218,000)

See accompanying notes to financial statements.

Note 1. Summary of Significant Accounting Policies

Practices in Consolidation — The consolidated financial statements include the accounts of the Company and all of its subsidiaries. All significant intercompany items have been eliminated in consolidation.

Inventories — Inventories are stated at the lower of last-in, first-out cost or market. The excess of current cost over the amount determined under the last-in, first-out method was $2,701,000 at December 31, 1983 and was not significant at December 31, 1982. It is impractical to segregate the inventory into its components.

Property and Depreciation — Depreciation is generally computed on a straight-line basis using estimated useful lives ranging from 2 to 33 years.

Foreign Currency Translation — Assets and liabilities of the Company's foreign subsidiaries are translated into United States dollars at the rates of exchange prevailing at the balance sheet dates. Income and expenses are translated at the average rates of exchange in effect during the year. The resulting gain or loss is a component of stockholders' equity.

Net Income (Loss) Per Common Share — Net income (loss) per share is based upon the weighted average number of shares of Common Stock and Class B common stock (collectively "common stock") and common stock equivalents (dilutive stock options and warrants) outstanding. The weighted average number of shares of common stock and common stock equivalents, if applicable, includes shares issuable upon the exercise of stock options and warrants less the number of shares assumed purchased with the proceeds available from such exercise.

Net income (loss) per share computed on a fully diluted basis does not differ from the primary net income (loss) per share amount.

Note 2. Details of Items in Financial Statements

	December 31,	
Property — At Cost	1983	1982
Land	$ 18,219,000	$ 20,607,000
Buildings and Improvements	77,804,000	83,386,000
Machinery and Equipment	175,945,000	185,206,000
Special Tooling	22,383,000	23,184,000
Total	294,351,000	312,383,000
Less Accumulated Depreciation and Amortization	64,530,000	34,226,000
Property — Net	$229,821,000	$278,157,000

Other Assets	1983	1982
Leases and Contracts Receivable	$ 22,166,000	$ 23,339,000
Property Held for Disposition	6,195,000	8,205,000
Notes Receivable	6,857,000	935,000
Receivable from Officers and Other Employees	3,730,000	
Other	2,211,000	3,703,000
Total Other Assets	$ 41,159,000	$ 36,182,000

Accrued Liabilities	1983	1982
Salaries and Wages	$ 5,960,000	$ 3,963,000
Vacation Pay	6,238,000	5,822,000
Workers' Compensation	6,770,000	5,209,000
Employee Indemnification	9,953,000	
Taxes (other than Income Taxes)	3,605,000	2,986,000
Insurance	3,468,000	6,058,000
Interest	3,921,000	1,233,000
Customer Deposit	5,543,000	
Current Portion of Deferred Incentive Compensation	3,044,000	2,640,000
Other	8,620,000	8,446,000
Total Accrued Liabilities	$ 57,122,000	$ 36,357,000

Note 3. Long-Term Debt

Long-term debt (excluding current maturities) consists of the following:

	December 31,	
	1983	1982
Banks:		
Revolving Notes	$ 58,500,000	$231,500,000
Term Loans	50,000,000	—
18% Senior Bank Notes due 1990	—	12,800,000
Other	3,904,000	5,211,000
19½% Subordinated Notes	—	39,900,000
Industrial Revenue Bonds	26,835,000	27,155,000
Total Long-Term Debt	$139,239,000	$316,566,000

Amounts due in each of the five years ending December 31, 1988 are as follows: 1984, $1,622,000; 1985, $2,062,000; 1986, $5,733,000; 1987, $16,720,000; 1988, $15,070,000.

The Company's bank financing agreement, as amended in 1983, consists of a $300,000,000 credit facility, subject to reduction upon the sale of certain assets. The financing agreements, prior to being amended, included senior bank notes and subordinated notes which were repaid during 1983. The revolving notes are unsecured loans and bear interest payable quarterly at the agent bank's prime rate (11% at December 31, 1983). Should the total amount of the revolving notes exceed $150,000,000, the interest payable on the entire amount borrowed may increase by ¼% to ¾% per annum depending upon specified debt to equity ratios. Revolving notes outstanding on September 14, 1986 will be converted to a term loan payable in sixteen equal quarterly installments, with interest at ½% over the rate then imposed on the revolving notes.

The term loans are unsecured and bear interest payable quarterly at the agent bank's prime rate plus ½%. The scheduled maturities are in 1991 for these loans.

The financing agreement contains, among other things, covenants which require maintenance of a minimum current ratio and minimum levels of working capital and tangible net worth and imposes restrictions on additional borrowings, leases and common stock repurchases and payment of cash dividends. At December 31, 1983, $7,722,000 of retained earnings were unrestricted. The agreement also requires the maintenance of compensating balances or payment of fees.

Other bank debt is payable in equal quarterly installments through 1987. The note bears interest of 10% per annum through October 1984, 11% through October 1986 and 12% thereafter. Property acquired with the proceeds of the borrowings is collateral for the loan.

The industrial revenue bonds are due in varying amounts through 1994 with interest rates from 6.75% to 10%. The Company has provided to various bond trustees irrevocable bank letters of credit securing the payment of principal and interest of the industrial revenue bonds.

Revolving notes, senior bank notes and subordinated notes aggregating $100,000,000 at December 31, 1982, were held by four lenders, each of whom also owned (or whose parent corporation owned) 10% or more of the Company's outstanding Common Stock or Class B common stock.

Note 4. Incentive Compensation and Pension Plans

The Company has Incentive Compensation Plans under which incentive compensation grants are payable in cash or deferred at the option of the Company. Deferred grants bear interest at varying rates not exceeding one percent above the prime interest rate. Deferred grants are payable following employee retirement or other qualifying termination in one or more equal annual payments, not to exceed twenty payments as determined by the Compensation Committee. The provision and accrued interest on deferred grants for the years ended December 31, 1983 and 1982 was $5,780,000 and $5,461,000, respectively.

Substantially all employees are covered under Company pension plans or under union-sponsored plans to which the Company contributes. According to the most recent actuarial valuations for Company-sponsored plans, the pension fund assets exceed the vested benefits in the aggregate for all plans. The Company's funding of pension costs is in accordance with the Employment Retirement Income Security Act of 1974 (ERISA). A summary of the plan benefits and net assets determined as of January 1, 1983 (the most recent valuation date) is as follows:

Actuarial Present Value of Accumulated Plan Benefits	
Vested	$29,266,000
Nonvested	2,248,000
Total	$31,514,000
Net assets available for benefits	$63,150,000

The weighted average rate of return used in determining accumulated plan benefits was 8½%.

On December 31, 1983, the Company terminated its defined benefit plan for salaried employees and on January 1, 1984 instituted two defined contribution plans. The Company expects to receive approximately $20,000,000 representing the excess of the pension plan's assets over the cost of annuities purchased to fund participant's vested and nonvested accumulated benefits at December 31, 1983. Such amount, when received, will be deferred and amortized to income over ten years.

The provision for pension cost related to company-sponsored plans represents normal cost less accumulated actuarial gains amortized over ten years. The provision for 1982 was $815,000. No provision was recorded for 1983 due to termination of the salaried plan and the amortization of actuarial gains exceeded the normal costs of other plans.

In addition, the Company has a non-qualified, non-contributory supplemental retirement plan for key employees. The Company has purchased specifically designed life insurance policies on participants in the supplemental retirement plan to cover its anticipated costs of benefits.

Note 5. Stockholders' Equity

Common Stock — The Company's Common Stock and Class B common stock entitle the holders thereof to the same rights and privileges except that holders of Class B common stock are entitled to vote only upon certain matters. Each share of the Class B common stock is convertible into one share of Common Stock. The Company has reserved 7,864,860 shares of unissued Common Stock as of December 31, 1983 for conversion of Class B common stock and for issuances in conjunction with the Company's stock option plan or other issuances of stock to employees. The Company has also reserved 361,100 shares of Class B common stock as of December 31, 1983 for issuance upon the exercise of warrants.

Preferred Stock — The Company has 5,000,000 shares of preferred stock authorized, none of which has been issued.

Warrants — Warrants to purchase 361,100 shares of the Company's Class B common stock are outstanding and are exercisable until November 30, 1993 at $2.75 per share. At the request of the warrant holders, the Company is obligated, on each April 30 beginning in 1984, to repurchase a maximum of 300,000 warrants, or a lesser amount under specified circumstances, at a price which is equal to the excess of the lesser of the book value per share of common stock or the average closing price per share over the exercise price of the warrant.

Stock Options — The Company's Stock Option Plan for Key Employees provides for the granting to key employees, including officers of the Company, incentive stock options and non-qualified options under which a maximum of 1,821,400 shares of Common Stock may be issued. The options expire ten years after the date granted. Under the terms of the plan, options are granted at not less than 100% of the fair market value of the Common Stock established by the Board of Directors on the date of the grant.

Information with respect to stock options is as follows:

	December 31, 1983	1982
Outstanding at Beginning of Year	1,106,448	764,134
Granted ($2.75 and $2.79 per share)	766,152	342,314
Exercised ($2.75 per share)	(667,032)	
Canceled	(140,800)	
Outstanding at End of Year	1,064,768	1,106,448

At December 31, 1983, 456,768 outstanding options are exercisable and 608,000 options granted in 1983 become exercisable in equal amounts over a five-year period beginning three years from the date of the grant.

Common Stock owned by management was purchased subject to various restrictions which lapsed during 1983 upon the public sale of the Company's shares. The lapsing of such restrictions resulted, for tax purposes, in ordinary income in an amount equal to the difference between the employee's purchase price and the initial public market price and a tax deduction for the Company in an equal amount. Because such tax treatment to the Company and the employees was not contemplated at the time of the purchase, the Company has agreed to indemnify these employees against their adverse tax consequences. The indemnity consists of interest-free loans to employees in an amount equal to the capital gains tax which such employees would have paid had their shares been sold on the lapse date and cash payments in an amount sufficient to hold such employees harmless, on an after-tax basis, against the balance of the taxes required to be paid by them. The total loans and cash payments are approximately $3,960,000 and $9,953,000, respectively. The employees must repay their loans in October 1993 or earlier upon certain dispositions of the Common Stock. The Company's tax savings of approximately $8,513,000 and the net after-tax cost of the cash payments to employees of approximately $4,918,000 resulted in a net increase in additional paid-in capital of approximately $3,595,000.

Note 6. Income Taxes

The components of income (loss) before income taxes are as follows:

	December 31, 1983	1982
Domestic	$51,678,000	$(15,185,000)
Foreign	4,504,000	1,846,000
Total	$56,182,000	$(13,339,000)

The provision (credit) for income taxes consists of the following:

	December 31, 1983	1982
Current Payable (Credit):		
Federal	$ (266,000)	$ (7,864,000)
State	4,406,000	500,000
Foreign	1,808,000	727,000
Deferred	11,623,000	
Total	$17,571,000	$ (6,637,000)

The provision for deferred taxes results primarily from timing differences in the recognition of income and expenses for income tax reporting purposes as follows: depreciation expense, $13,419,000; incentive compensation expense, $(1,616,000); state income tax deductions, $(1,639,000); and income on installment sales, $2,291,000.

The "expected" tax provision is reconciled to the "recorded" tax provision (credit) as follows:

	December 31, 1983	1982
Federal Statutory Rate	46%	46%
Federal Income Tax at Statutory Rate	$25,844,000	$(6,136,000)
State Income Taxes	2,365,000	270,000
Income Tax Benefit due to Tax Basis of Assets in Excess of Book Basis	(8,288,000)	
Investment Tax Credit	(630,000)	(870,000)
Other	(1,720,000)	99,000
Total	$17,571,000	$(6,637,000)
Effective Income Tax Rate	31%	50%

In January 1982, a substantial portion of the assets and liabilities of the Company's predecessor were transferred and assigned to the Company under a Plan of Partial Liquidation. The liquidation resulted in a tax liability, among other consequences, arising from the "recapture of depreciation" the amount of which generally becomes payable over a period of years as the related property from which it arose is depreciated, or earlier upon disposition of such property. Such amount is included, with deferred taxes, in the accompanying balance sheets under the caption "Income Taxes."

The Company has not provided Federal Income taxes on approximately $16,207,000 of accumulated unremitted earnings of foreign subsidiaries and $8,032,000 of accumulated unremitted earnings of Domestic International Sales Corporations as of December 31, 1983 since it is the present intention to reinvest substantially all such earnings. Investment tax credits are recognized as a reduction of Federal Income taxes in the year the assets are placed into service.

Note 7. Other Matters

Long-term lease obligations relating to certain production facilities and other equipment provide for current annual rentals of approximately $2 million per year and for decreasing amounts for various periods up to 1998.

The Company is engaged in various legal proceedings from which it believes no material liability will result.

The segment information for the years 1983 and 1982 on page 18 is an integral part of these financial statements. Unaudited supplemental information on inflation is presented on pages 27-28.

The Company's Price Pfister Division was sold during 1983 at a loss of approximately $938,000. Net sales, operating profit (loss) and identifiable assets included as of and for the years ended December 31, 1983 and 1982 in the accompanying financial statements and segment information (Plumbing Products), attributable to this division are as follows:

	December 31, 1983	December 31, 1982
Net Sales	$31,464,000	$53,266,000
Operating Profit (Loss)	2,594,000	(1,255,000)
Identifiable Assets		42,857,000

Earnings per Common Share for 1983 would have been $2.02 per share had the common shares issued during the year been sold at the beginning of the year, and the proceeds used to retire long-term debt at that time.

Note 8. Quarterly Financial Data (Unaudited)

	Net Sales	Gross Profit	Interest Expense	Income (Loss) Before Income Taxes	Net Income (Loss)	Net Income (Loss) Per Share
1983						
First Quarter	$181,039,000	$40,217,000	$11,412,000	$12,032,000	$ 8,014,000	$ .46
Second Quarter	192,584,000	46,861,000	10,379,000	15,035,000	10,014,000	.58
Third Quarter	172,186,000	39,036,000	8,965,000	15,722,000	10,590,000	.62
Fourth Quarter	178,866,000	35,986,000	6,274,000	13,393,000	9,993,000	.46
1982						
First Quarter	155,312,000	26,878,000	16,443,000	(4,816,000)	(2,605,000)	(.15)
Second Quarter	159,903,000	28,548,000	16,982,000	(3,514,000)	(1,689,000)	(.10)
Third Quarter	157,832,000	28,038,000	15,242,000	(3,558,000)	(1,711,000)	(.10)
Fourth Quarter	150,412,000	27,894,000	13,061,000	(1,451,000)	(697,000)	(.04)

The range of common stock prices on the New York Stock Exchange from October 27, 1983 (date of initial public offering) to December 31, 1983 was $18-$23¼.

OPINION OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Deloitte Haskins+Sells

Crocker Center
333 South Grand Avenue
Los Angeles, California 90071

NI Industries, Inc.:

We have examined the consolidated balance sheets of NI Industries, Inc. and subsidiaries as of December 31, 1983 and 1982 and the related consolidated statements of operations, stockholders' equity and changes in financial position for the years then ended. Our examinations 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.

In our opinion, such consolidated financial statements present fairly the financial position of the companies at December 31, 1983 and 1982 and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Deloitte Haskins & Sells

March 5, 1984

SUMMARY OF SELECTED FINANCIAL DATA

($ in Thousands, except per share data) Years Ended December 31,

Operations	The Company 1983	The Company 1982	The Predecessor Company 1981	The Predecessor Company 1980	The Predecessor Company 1979
Net Sales	$724,675	$623,459	$ 632,410	$599,179	$659,008
Income from Operations	95,087	41,603	40,710	46,300	66,338
Interest Expense	37,030	61,728	1,486	1,652	2,818
Net Income (Loss)	$ 38,611	$ (6,702)	$ 18,776	$ 23,871	$ 35,394
Net Income (Loss) per Common Share	$ 2.12	$ (.39)			

Financial Condition	The Company 1983	The Company 1982	The Company 1981	The Predecessor Company 1980	The Predecessor Company 1979
Total Current Assets	$193,457	$177,352	$238,677	$208,999	$199,533
Total Current Liabilities	109,436	68,393	96,221	70,684	63,843
Working Capital	84,021	108,959	142,456	138,315	135,690
Property — Net	229,821	278,157	295,089	131,229	121,819
Other Non-Current Assets	41,159	36,182	32,637	24,421	27,738
Total	$355,001	$423,298	$470,182	$293,965	$285,247
Represented By:					
Long-Term Liabilities	$205,316	$383,650	$423,671	$ 34,391	$ 33,931
Stockholders' Equity	149,685	39,648	46,511	259,574	251,316
Total	$355,001	$423,298	$470,182	$293,965	$285,247
Book Value per Share of Common Stock	$ 6.85	$ 2.30	$ 2.69		

FINANCIAL DATA ADJUSTED FOR THE EFFECTS OF CHANGING PRICES

($ in Thousands, except per share data) Years Ended December 31,

	1983	1982	1981	1980	1979
Net Sales	$724,675	$642,163	$691,351	$720,525	$899,453
Net Income (loss)	35,189	(8,720)	8,326	16,671	38,892
Net Income (loss) per Common Share	1.93	(.50)			
Net Assets at Year-End	169,046	46,667	49,204	420,272	450,926
Cash Dividends per Common Share	—	—			
Market Price per Share at Year-End	23.00	—	—		
Average Consumer Price Index	297.8	289.1	272.4	246.8	217.4
Purchasing Power Gain (Loss)	$ 9,931	$ 15,629	$ 2,035	$ (4,210)	$ (2,397)

Share data for the Predecessor Company in the above tables are omitted since the capitalization was different from that of the Company.

SUPPLEMENTARY FINANCIAL DATA ADJUSTED FOR CHANGING PRICES

($ in Thousands, except per share data) Year Ended December 31, 1983

	As Reported Historical	Adjusted For General Inflation
Net Sales	$724,675	$724,675
Cost of Goods Sold (exclusive of depreciation)	531,153	531,728
Operating Expenses (exclusive of depreciation)	66,523	66,523
Depreciation	33,787	36,634
Interest	37,030	37,030
Income Taxes	17,571	17,571
Total	686,064	689,486
Net Income	$ 38,611	$ 35,189
Net Income per Share	$ 2.12	$ 1.93
Stockholders' Equity in Average 1983 Dollars		$169,046
Gain from Decline in Purchasing Power of the Amounts Owed		$ 9,931

Notes to Supplementary Financial Data Adjusted for Changing Prices

The above unaudited information discloses the effect on the Company's financial data of general inflation on inventory and property, plant and equipment in accordance with Statement No. 33 of the Financial Accounting Standards Board. The index used to prepare the general inflation information is the Consumer Price Index for All Urban Consumers, published by the Bureau of Labor Statistics of the U.S. Department of Labor.

Information for specific prices (current costs) for 1983 has been omitted because the impact on net income does not vary significantly from the impact of general inflation.

Adjustments for general inflation to depreciation expense and cost of sales are not significant as the Company's assets were adjusted to their current cost on December 8, 1981, the inception date of the Company.

Income taxes have not been adjusted because taxing authorities do not recognize the impact of inflation; i.e., increased cost of sales and depreciation expense are not deductible for income tax purposes.

Management is responsible for the preparation of the Company's consolidated financial statements and related information appearing in this annual report. Management believes that the consolidated financial statements fairly reflect the form and substance of transactions and reasonably present the Company's financial position and results of operations in conformity with generally accepted accounting principles. Management has also included in the Company's financial statements amounts that are based on estimates and judgements which it believes are reasonable under the circumstances.

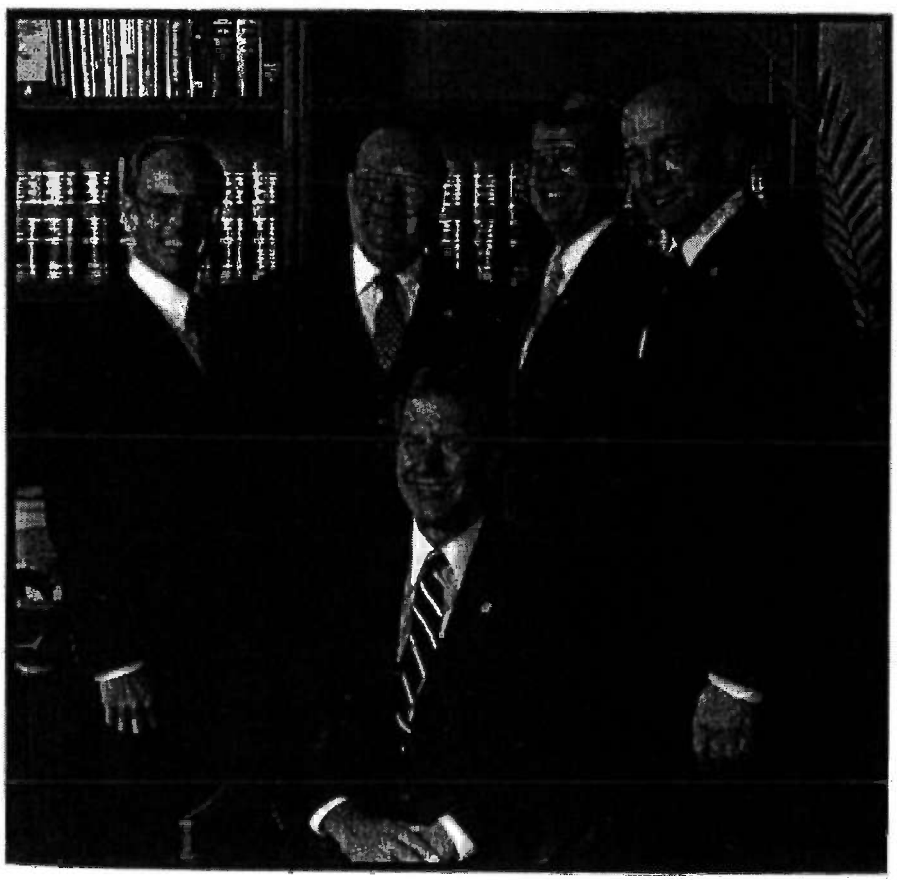
The Company's systems are designed to provide effective internal accounting controls to obtain reasonable assurance on a cost-benefit basis that assets are safeguarded from material loss or unauthorized use and that transactions are executed in accordance with management's authorization and are properly recorded. To that end, management maintains internal controls which include an organizational structure which permits delegation of authority and responsibility, the establishment and dissemination of detailed policies and procedures throughout the organization and an extensive internal audit program.

Deloitte Haskins & Sells, independent accountants, examine the Company's consolidated financial statements in accordance with generally accepted auditing standards and provide an objective, independent review of the fairness of reported operating results and financial position. The independent accountants' report is set forth on page 26.

The Board of Directors of the Company has an Audit Committee composed of two non-management Directors. The Committee meets periodically with financial management and the independent accountants to review accounting, auditing and financial reporting matters.

John J. Kimes
Vice President of Administration and Controller

A. R. Owens, Jr.
Vice President and Treasurer



Seated: R.J. Shaffer, Vice President and General Counsel and Secretary. Standing (L to R) A.R. Owens, Jr., Vice President and Treasurer; N.M. Kellett, Vice President, Industrial Relations; J.J. Kimes, Vice President of Administration and Controller; and D.L. Hirsch, III, Vice President and Senior Counsel.

Results of Operations:

The following table sets forth selected items in the statement of operations as percentage of net sales for the three years ended December 31, 1983 and the percentage change in net sales from period to period:

	1983	1982	1981
Net Sales	100.0%	100.0%	100.0%
Cost of Sales	77.6	82.1	82.2
Selling, General and Administrative Expense	9.2	11.2	11.3
Interest Expense	5.1	9.9	.2
Income (Loss) Before Income Taxes	7.7	(2.1)	5.7
Net Income (Loss)	5.3	(1.1)	3.0
	1983 over 1982	1982 over 1981	1981 over 1980
Net Sales	16.2%	(1.4)%	5.6%

Net sales for 1983 include sales from the Price Pfister division which was sold in June 1983 of $31.5 million compared to sales from the division of $53.3 million and $54.1 million for 1982 and 1981.

1983 Compared to 1982

The sales mix and profitability for the years 1983 and 1982 are disclosed under the caption Information About The Company's Operations In Different Industries.

Sales and earnings in 1983 reflect substantial improvement over 1982, primarily as a result of the more favorable economic trends. Net sales of $724,765,000 in 1983 represent a $101,216,000 increase over the 1982 level. Net sales, excluding the plumbing products division sold, were higher in all lines of businesses except Cylinders. Cylinder products sales remain weak due to the economic slump of machine tool and oil drilling businesses. Defense sales, while over 1982 levels, are not impacted by general economic trends.

Gross profit, as a percentage of sales, increased to 22.4% from 17.9% for 1983 over 1982. This increase was primarily the result of improved sales volume while maintaining control over manufacturing costs.

Selling, general and administrative expense decreased by $2,742,000 from 1982 as a result of the sale of a division. The decrease from 11.2 to 9.2 as a percentage of sales is attributable to the division sold and increased volume.

Interest expense decreased by $24,698,000 or 40% as a result of reduced long-term debt outstanding and lower interest rates. Debt was reduced by $177 million during the year: $72 million from operations, $67 million from a public offering, $28 million from the sale of a division and $10 million from the sale of property and other items. Lower effective interest rates were achieved in part from a reduction in interest rates and fees negotiated with the principal banks and the elimination of 18% Senior notes and 19½% Subordinated notes as a part of the public offering.

Income taxes in 1983 and the next few years will be below the normal marginal rate as a result of the tax basis in depreciable assets being considerably higher than the book basis.

1982 Compared to 1981

The following management's discussion and analysis provides information with respect to the results of operations for the two years ended December 31, 1982. The results of the Predecessor Company for the year ended December 31, 1981 and the results of operations of NI Industries, Inc. for the year ended December 31, 1982 are not comparable in some areas, the most significant of which are:

(1) The capital structure of two entities was not the same; therefore, interest expense was much higher for NI Industries, Inc. and

(2) The increased cost assigned to NI fixed assets due to purchase accounting results in substantially more depreciation expense than the Predecessor Company.

The Company's net sales decreased to $623,459,000 in 1982 from $632,410,000 in 1981 due to the general economic recession during the 1981-1982 period. The impact was mitigated to some extent, particularly in the hardware and household segments, by aggressively pursuing the retail and do-it-yourself markets. Automotive products were targeted toward particular models that held their sales volume better than the industry average. Cylinder products were hard hit in 1982 by the decline in the machine and tool and oil drilling businesses.

Depreciation and amortization increased by $12,000,000 in 1982 over 1981 as a result of much higher depreciable asset valuation. Without the additional depreciation expense, 1982 cost of sales would have shown a significant decline as a percentage of net sales due principally to improved manufacturing efficiency. During the recession period of 1981-1982, the Company was not able to pass cost increases through to its customers in most of its businesses. Gross profit margins were generally maintained through improved manufacturing and inventory controls.

Selling, general and administrative expense was generally higher in both years, as a percentage of sales, than had been experienced previously. This is attributable in part to the decline in sales during the recession while the majority of costs were fixed. Selling expenses remained higher than might normally have occurred as the Company's building and remodeling divisions were increasing their market penetration and/or entering new markets.

As a result of the substantial borrowings incurred with respect to the acquisition of the Predecessor Company, the Company's 1982 interest expense was over $61,000,000 as compared to less than $2,000,000 in 1981. Net income in 1982 would have been higher in both absolute dollars and percentage of sales than 1981 if not for the higher interest expense.

Liquidity and Capital Resources

The Company has generally financed its working capital and investment requirements through internally generated cash flow and believes its near term requirements and further debt reductions can be financed internally. The Company expects depreciation expense will equal or exceed its capital addition requirements for the near term as most facilities and equipment have additional capacity available or require comparatively little capital to meet foreseeable expansion requirements.

FACILITIES

The following table sets forth the location, square footage and principal products manufactured at the Company's operating facilities which contain more than 100,000 square feet. In addition, NI utilizes eleven other domestic and foreign facilities. The Company also owns six idle manufacturing plants some of which are currently for sale.

	Square Feet	Products Manufactured
Industrial Products Segment		
Automotive Products:		
Brea, California	345,000	Wheels
Fayetteville, Arkansas	159,000	Springs
Duffield, Virginia	151,000	Auto Trim
Newberry, South Carolina	122,000	Auto Trim
Spencer, West Virginia	116,000	Auto Trim
Winamac, Indiana	116,000	Springs & Farm Implements
Nicholasville, Kentucky	106,000	Auto Trim & Tubing
Cylinder Products:		
Longview, Texas	142,000	High Pressure Cylinders
Building and Remodeling Products Segment		
Huntington Beach, California	741,000	Residential/Commercial Door Locks
City of Industry, California	471,000	Plumbing Fixtures
Vernon, California	293,000	Waste Disposers, Dishwashers
Burnaby, British Columbia, Canada	285,000	Residential/Commercial Door Locks
Vernon, California	272,000	Rangetops, Conventional & Microwave Ovens
South Gate, California	210,000	Electrical Outlet & Switch Boxes
South Gate, California	157,000	Decorative Plumbing Faucets & Hardware
South Gate, California	146,000	Residential/Commercial Door Locks
Morris, Illinois	144,000	Commercial/Residential Carpet Padding
Brockton, Massachusetts	100,000	Ventilators, Range Hoods & Fans
Defense Products Segment		
Vernon, California	1,086,000	Metal Ordnance Products
Riverbank, California	800,000	Metal Ordnance Products
Pico Rivera, California	108,000	Metal Ordnance Products

BOARD OF DIRECTORS

H. J. Meany[1]	Chairman of the Board and President
D. J. Herdrich[1][2]	Associate—Kohlberg, Kravis, Roberts & Co., merchant bankers
T. P. Kemp[2][3]	Senior Vice President and Chief Operating Officer / Beverage Group—Beatrice Foods
J. Kohlberg, Jr.	Partner—Kohlberg, Kravis, Roberts & Co., merchant bankers
H. R. Kravis[1][2]	Partner—Kohlberg, Kravis, Roberts & Co., merchant bankers
R. S. Meier[3]	President of Amco, Inc., a private investment enterprise
G. R. Roberts	Partner—Kohlberg, Kravis, Roberts & Co., merchant bankers

(1)Executive Committee (2)Compensation Committee (3)Audit Committee

OFFICERS

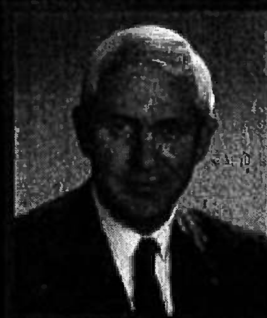
H. J. Meany	Chairman of the Board and President
H. R. Beisch	Senior Vice President
D. B. Maag, Jr.	Senior Vice President
P. D. Pryne	Senior Vice President
D. L. Hirsch, III	Vice President and Senior Counsel
N. M. Kellett	Vice President — Industrial Relations
J. J. Kimes	Vice President of Administration and Controller
A. R. Owens, Jr.	Vice President and Treasurer
R. J. Shaffer	Vice President and General Counsel and Secretary
R. R. Robbins, Jr.	Assistant Treasurer and Tax Manager
R. L. Skinner	Assistant Controller

DIVISION PRESIDENTS

H. R. Beisch	President, Automotive Wheel Division
R. W. Forst	President, Bowers Division
P. F. Friedrich	President, Thermador/Waste King Division
R. J. Klemick	President, Winamac Division
E. McSweeney	President, Compressed Gas Cylinders Division
C. J. Nolan	President, Automotive Trim Division
P. D. Pryne	President, Weiser Lock Division
F. J. Raus	President, Sponge-Cushion Division
A. Singerman	President, Artistic Brass Division
M. C. Vaupel	President, Plumbing Fixtures Division
R. E. Winstanley	President, Vernon Division
R. H. Worpell	President, McIntosh Division

H. J. Meany
Chairman of the Board and President

D. J. Herdrich
Associate—Kohlberg, Kravis, Roberts & Co., merchant bankers



T. P. Kemp
Senior Vice President and Chief Operating Officer—Beverage Group—Beatrice Foods

J. Kohlberg, Jr.
Partner—Kohlberg, Kravis, Roberts & Co., merchant bankers

H. R. Kravis
Partner—Kohlberg, Kravis, Roberts & Co., merchant bankers

R. S. Meier
President of Amco, Inc., a private investment enterprise

G. R. Roberts
Partner—Kohlberg, Kravis, Roberts & Co., merchant bankers

STOCKHOLDER DATA

Form 10-K
The financial statements and related notes which appear in this report are included in Form 10-K which is filed with the Securities and Exchange Commission. A copy of Form 10-K, excluding exhibits, will be made available free of charge to beneficial owners of stock upon written request to the Company, attention of Mr. R. J. Shaffer, Vice President and General Counsel and Secretary.

Transfer Agent
Security Pacific National Bank
Corporate Services Division
701 S. Western Avenue
Glendale, California 91203

Independent Accountants
Deloitte Haskins & Sells
Los Angeles, California

Stock Listings
New York Stock Exchange
Pacific Stock Exchange
Symbol — NIN

EXHIBIT M

ASSUMPTION AGREEMENT

For good and valuable consideration, the receipt of which is hereby acknowledged, Masco Building Products Corp. ("MBPC"), a Delaware corporation and wholly owned subsidiary of Masco Corporation ("Masco"), a Delaware corporation, pursuant to an Agreement (the "Intercompany Agreement") dated as of March 7, 1985 by and between Masco and Masco Industries, Inc., a Delaware corporation, does hereby assume the payment, discharge and satisfaction of those liabilities and obligations of NI West, Inc., a California corporation ("NI West"), to be assumed by MBPC as described in Sections 5.01 and 5.04 of the Intercompany Agreement.

MBPC hereby agrees to reimburse NI West for all reasonable attorneys' fees and costs incurred by NI West in enforcing the obligations of MBPC hereunder.

IN WITNESS WHEREOF, Masco Building Products Corp. has executed this Assumption Agreement this 11th day of March, 1985.

MASCO BUILDING PRODUCTS CORP.

By Wayne B. Lyon

Wayne B. Lyon, President

EXHIBIT N

572887

D465871

FILED
In the office of the Secretary of State
of the State of California

FEB 03 1994

March Fong Eu
MARCH FONG EU, Secretary of State

A

CERTIFICATE OF DISSOLUTION OF

NORRIS-THERMADOR CORPORATION

Richard G. Mosteller and Gerald Bright certify:

1. That they constitute a majority of the directors in office of Norris-Thermador Corporation, a California corporation.

2. That said corporation has been completely wound up.

3. That adequate provision for the payment of unpaid debts and liabilities has been made in that Masco Building Products Corp., a corporation organized under the laws of the State of Delaware, whose address is 3030 Old Ranch Parkway, Suite 400, Seal Beach, California 90740, has assumed payment of all known debts and liabilities of Norris-Thermador Corporation.

4. That said corporation's known assets have been distributed to the persons entitled thereto.

5. That said corporation is dissolved.

6. The election to dissolve was made by the vote of all the outstanding shares.

Each of the undersigned declares under penalty of perjury that the statements contained in the foregoing certificate are true of their own knowledge. Executed at Taylor, Michigan on January 27, 1994.

Richard G. Mosteller, Director

Gerald Bright, Director

EXHIBIT O

STOCK EXCHANGE AND PURCHASE AGREEMENT

Stock Exchange and Purchase Agreement dated as of November 5, 1986 between Masco Industries, Inc., a Delaware corporation (the "Company") and Masco Corporation, a Delaware corporation ("Masco").

WHEREAS, the Company has filed with the Securities and Exchange Commission (the "Commission") a registration statement on Form S-1 (Registration No. 33-6977) (as amended from time to time, the "Registration Statement") for the registration pursuant to the Securities Act of 1933, as amended (the "Act"), of 575,000 shares of its Convertible Exchangeable Preferred Stock, par value $1.00 per share (the "Preferred Stock") and 5,750,000 Depositary Convertible Exchangeable Preferred Shares (the "Depositary Shares");

WHEREAS, the Company is exercising, pursuant to this Agreement, an option (the "Option") previously granted by Masco to acquire Masco's 50 percent ownership interest in Nimas Corporation, a Delaware corporation ("Nimas") jointly owned by Masco and the Company, pursuant to the Agreement, dated as of March 7, 1985, between Masco and the Company as amended by a Letter Agreement dated October 9, 1985 and by this Agreement (the "Option Agreement"); and

WHEREAS, the Company and Masco each desires that the Company issue to Masco, without registration under the Act, 300,000 shares of its Preferred Stock, that certain of such shares of Preferred Stock be issued in exchange for Masco's 50 percent ownership interest in Nimas and that the balance of such shares be issued to Masco for cash;

NOW, THEREFORE, subject to the terms and conditions set forth below, and for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Company and Masco hereby agree as follows:

1. <u>Exercise of Option and the Exchange Shares</u>.

(a) <u>Exercise of Option</u>. Upon the basis of the representations and warranties set forth herein, the Company hereby exercises the Option. The Company and Masco agree that the exchange of shares provided for herein satisfies the Option terms as provided in Article VI of the Option Agreement.

(b) <u>Exchange Shares</u>. The Company will acquire Masco's 50 percent ownership interest in Nimas by issuing Preferred Stock to Masco. The number of shares of Preferred Stock which will be issued hereunder in exchange for Masco's 50 percent ownership interest in Nimas (the "Exchange Shares") shall be based upon Masco's carrying value in Nimas as of the Exchange and Purchase Closing (as hereinafter defined), prior to the recording of any taxes on equity earnings and shall be equal to the result obtained (rounded upwards to the nearest whole share) by dividing the amount which is ten times the Price to Public, as hereinafter defined, into the sum (the "Exchange Value") of (i) Masco's carrying value in Nimas, prior to the recording of any taxes on equity earnings, as of September 30, 1986 (which is $66,720,000), (ii) 50 percent of Nimas' net income for October, 1986, (iii) the product obtained by multiplying (x) 50 percent of Nimas' net sales during the period commencing November 1 through the day immediately preceding the date of the Exchange and Purchase Closing, and (y) the percentage derived by dividing Nimas' net income during the period January 1, 1986 through September 30, 1986 by Nimas' net sales during the same period, and (iv) such other adjustments as may be necessary to make the determination as to net income of Nimas from October 1, 1986 through the day immediately preceding the date of the Exchange and Purchase Closing comply with generally accepted accounting principles. The "Price to Public" as used herein is defined as the Price to Public per Depositary Share set forth on the cover of the prospectus included in the Registration Statement at the time the Registration Statement becomes effective under the Act. The Exchange Value, determined as aforesaid prior to the Exchange and Purchase Closing and in accordance with generally accepted accounting principles, shall be final and not subject to any further adjustment.

(c) Obligations of the Company. Pursuant to Section 6.02 of the Option Agreement, the Company hereby elects to keep in effect the Masco guarantee of the indebtedness of Nimas under Nimas' Credit and Guaranty Agreement, dated as of October 31, 1985, as amended (the "Credit Agreement"), subject to the Company's right from time to time hereafter to reduce such indebtedness, and accordingly agrees that it will pay to Masco a guarantee fee equal to .5 percent per annum on the aggregate indebtedness (excluding interest and commitment and other bank agreement fees) of Nimas so guaranteed by Masco which is from time to time outstanding under the Credit Agreement (in no case however to exceed $100,000,000). Such guarantee fee shall accrue commencing with the Exchange and Purchase Closing and shall be payable in arrears at the end of each calendar quarter, commencing on December 31, 1986, during which such guarantee is in effect. The Company and Masco agree that such guarantee will continue until the earlier of (A) September 30, 1990, (B) the date on which the Company no longer owns at least 50 percent of the outstanding capital stock of Nimas, or (C) such time as the Company elects to discontinue the effectiveness of such guarantee. The Company further agrees (i) to indemnify, protect and hold Masco harmless from any and all loss, liability, damage or expense

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incurred by Masco on account of any guarantee of any indebtedness of Nimas or any of its subsidiaries, other than the above-described indebtedness guaranteed by Masco under the Credit Agreement and (ii) to cause Nimas and its subsidiaries to reimburse Masco for all payments made by Masco as a result of Masco's guarantee of the above-described indebtedness outstanding under the Credit Agreement, provided, however, that the foregoing clause (ii) shall not require the Company to advance, loan or otherwise utilize any of its assets in connection with any payments made relating to indebtedness under the Credit Agreement or to take any action to the extent the assets of Nimas are inadequate or may not be legally used to effect such payments. The Company further confirms that at Masco's request it will cause Nimas to enter into appropriate subrogation agreements with respect to payments by Masco of indebtedness guaranteed under the Credit Agreement. The Company acknowledges the continuance of the Company's existing agreement that it will not permit Nimas to increase the principal amount of its indebtedness at any time guaranteed by Masco from whatever level to which it has theretofore been reduced, and, when no indebtedness of Nimas guaranteed by Masco is outstanding, the Company will cause Nimas to terminate any right it may then have to incur indebtedness which, upon its incurrence, would be guaranteed by Masco.

2. Sale of Shares. Upon the basis of the representations, warranties and agreements and subject to all the terms and conditions set forth herein, the Company agrees to issue and sell to Masco, and Masco agrees to purchase from the Company, at a price per share ten times the Price to Public, the number of shares (the "Masco Purchased Shares") of Preferred Stock equal to the difference between (i) 300,000 and (ii) the number of Exchange Shares.

3. Closing Matters.

(a) Closing. The closing with respect to the Exchange Shares and the Masco Purchased Shares (the "Exchange and Purchase Closing") shall occur as promptly as practicable after the Closing Date, as defined in the Underwriting Agreement of even date herewith among the Company and Smith Barney, Harris & Upham Co. and Salomon Brothers Inc as representatives of the several underwriters (the "Underwriting Agreement"), which is expected to be within two weeks after the Closing Date, at the offices of Masco and the Company in Taylor, Michigan. If the Closing Date does not occur by December 31, 1986, the obligations to consummate the transactions, and the other terms and conditions set forth in this Agreement, will thereupon terminate in all respects, and the Option Agreement will continue in full force and effect without any modification or amendment by the provisions hereof, in accordance with its terms, and the Option will be fully restored.

(b) Closing Procedures. At the Exchange and Purchase Closing, the Company will deliver to Masco (i) a certificate representing the number of Exchange Shares, determined in accordance with Section 1(b) above and Masco shall deliver to the Company its certificate for all of the shares of Nimas which it owns (which shall equal a 50 percent ownership interest in Nimas), endorsed in blank for transfer with a stock power attached, and (ii) a certificate representing the number of Masco Purchased Shares, determined in accordance with Section 2 above, and Masco shall deliver full payment in immediately available funds for the Masco Purchased Shares as provided herein.

(c) The parties hereto agree that the Exchange Shares and the Masco Purchased Shares, as well as any securities issued in exchange or substitution therefor or on registration of transfer thereof, shall (unless the Company shall otherwise agree on the basis of an opinion of the nature set forth in Section 6(b) below) bear the following legend:

> THIS SECURITY HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933 AND ACCORDINGLY MAY NOT BE OFFERED OR RESOLD UNLESS SUCH OFFER OR SALE IS EITHER REGISTERED PURSUANT TO OR IS EXEMPT FROM REGISTRATION UNDER SAID ACT. THE TRANSFER OR EXCHANGE OF THIS SECURITY IS SUBJECT TO CERTAIN RESTRICTIONS SET FORTH IN AN AGREEMENT BETWEEN THE HOLDER AND THE ISSUER INCLUDING THE RIGHT OF THE ISSUER TO REQUIRE AN OPINION OF COUNSEL SATISFACTORY TO THE ISSUER PRIOR TO ANY TRANSFER OR EXCHANGE OF THIS SECURITY.

4. Representations and Warranties of the Company. The Company represents and warrants to Masco as follows:

(a) The Company is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware, is authorized by its certificate of incorporation to transact the business in which it is engaged and is duly registered and qualified to conduct the business in which it is engaged and is in good standing in each jurisdiction in which its failure so to register or qualify would materially adversely affect the results of operations or financial condition of the Company and its subsidiaries, taken as a whole.

(b) The Exchange Shares and the Masco Purchased Shares have been duly authorized and, when issued and delivered to Masco in exchange for Nimas shares or for cash, as the case may be, pursuant to this Agreement, will have been validly issued and will be fully paid and nonassessable and free of any preemptive or other similar rights.

(c) This Agreement has been duly authorized, executed and delivered by the Company and is a valid and binding agreement of the Company.

(d) Assuming the truth and accuracy of Masco's representations and warranties set forth in Sections 5(f) and (g) below and Masco's compliance with the covenant set forth in Section 6(a) below, no authorization, consent or approval of, or registration or filing with, any governmental or public body or regulatory authority is required on the part of the Company for the issuance and exchange of the Exchange Shares or the issuance and sale of the Masco Purchased Shares pursuant to this Agreement, except for the filing of the Certificate of Designation with the Secretary of State of the State of Delaware.

(e) The execution, delivery and performance of this Agreement and the issuance and exchange of the Exchange Shares and the issuance and sale of the Masco Purchased Shares pursuant to this Agreement do not result in any violation by the Company of any of the terms or provisions of any law or regulation (assuming the truth and accuracy of Masco's representations and warranties set forth in Sections 5(f) and (g) below and Masco's compliance with the covenant set forth in Section 6(a) below), or of the certificate of incorporation or by-laws of the Company, or of any indenture, mortgage or other agreement or instrument by which the Company or any of its subsidiaries is bound.

5. Representations and Warranties of Masco. Masco represents and warrants to the Company as follows:

(a) Masco is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware and is authorized by its certificate of incorporation to transact the business in which it is engaged.

(b) This Agreement has been duly authorized, executed and delivered by Masco and is a valid and binding agreement of Masco.

(c) Masco has unencumbered marketable title to its shares of Nimas (which shall equal a 50 percent ownership interest in Nimas), free and clear of all liens, encumbrances and claims (other than this Option) and there is no restriction upon the vesting in the Company of title to such Nimas shares, free and clear of liens, encumbrances or claims of any kind whatsoever.

(d) The execution, delivery and performance of this Agreement, including the exchange of Masco's 50 percent ownership interest in Nimas for the Exchange Shares and the purchase of the Masco Purchased Shares for cash, do not result in

11. Payment of Expenses. Each party has paid or will pay all of its own expenses incurred in connection with this Agreement.

12. Assignment. This Agreement shall be binding on the parties hereto and their respective successors but may not be assigned by either party hereto.

13. Choice of Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Michigan.

14. Further Assurances. The Company and Masco each agree to cooperate fully with the other and to execute such further instruments, documents and agreements and to give such further written assurances as may be reasonably requested by the other to better evidence or reflect the transactions described herein and to effect the intents and purposes of this Agreement.

15.. Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, with the same effect as if the signatures thereto and hereto were on the same instrument.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first above written.

MASCO INDUSTRIES, INC.

By ____________________
Name: James J. Sigouin
Title: Vice President - Finance

MASCO CORPORATION

By ____________________
Name: Richard G. Mosteller
Title: Senior Vice President-Finance

EXHIBIT P

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED DECEMBER 31, 1997 COMMISSION FILE NUMBER 1-5794

MASCO CORPORATION

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE (State of Incorporation)	38-1794485 (I.R.S. Employer Identification No.)
21001 VAN BORN ROAD, TAYLOR, MICHIGAN (Address of Principal Executive Offices)	48180 (Zip Code)

Registrant's telephone number, including area code: 313-274-7400

Securities Registered Pursuant to Section 12(b) of the Act:

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED
Common Stock, $1.00 Par Value	New York Stock Exchange, Inc.
Series A Participating Cumulative Preferred Stock Purchase Rights	New York Stock Exchange, Inc.

Securities Registered Pursuant to Section 12(g) of the Act:

None

Indicate by check mark whether the Registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

The aggregate market value of the Registrant's Common Stock held by non-affiliates of the Registrant on March 13, 1998 (based on the closing sale price of $58 7/8 of the Registrant's Common Stock, as reported on the New York Stock Exchange Composite Tape on such date) was approximately $9,669,730,000.

Number of shares outstanding of the Registrant's Common Stock at March 13, 1998:

169,634,252 shares of Common Stock, par value $1.00 per share

Portions of the Registrant's definitive Proxy Statement to be filed for its 1998 Annual Meeting of Stockholders are incorporated by reference into Part III of this Report.

TABLE OF CONTENTS

PART I

ITEM 1. BUSINESS.

Masco Corporation is engaged principally in the manufacture, sale and installation of home improvement and building products. Masco believes that it is the largest domestic manufacturer of faucets, kitchen and bath cabinets and plumbing supplies and that it is a leading domestic producer of a number of other home improvement and building products. Masco was incorporated under the laws of Michigan in 1929 and in 1968 was reincorporated under the laws of Delaware. Except as the context otherwise indicates, the terms "Masco" and the "Company" refer to Masco Corporation and its consolidated subsidiaries.

The Company is among the country's largest manufacturers of brand name consumer products designed for the home improvement and home building industries. In addition to faucets, kitchen and bath cabinets and plumbing supplies, the Company manufactures and sells kitchen appliances, bath and shower enclosure units, spas and hot tubs, other shower, bath and plumbing specialties and accessories, door locks and other builders' hardware, air treatment products, venting and ventilating equipment and water pumps. These products are sold through mass merchandisers, home centers, hardware stores, distributors, wholesalers and other outlets to consumers and contractors. The Company also supplies and installs insulation and other building products direct to builders and consumers. The Company's operations are categorized into two industry segments: Kitchen and Bath Products and Other Specialty Products.

INDUSTRY SEGMENTS

The following table sets forth for the three years ended December 31, 1997, the contribution of the Company's industry segments to net sales and operating profit:

	NET SALES(1)		
	1997	1996	1995
Kitchen and Bath Products	$2,940,000	$2,519,000	$2,283,000
Other Specialty Products	820,000	718,000	644,000
Total	$3,760,000	$3,237,000	$2,927,000

	OPERATING PROFIT(1)(2)		
	1997	1996	1995
Kitchen and Bath Products	$ 539,000	$ 462,000	$ 411,000
Other Specialty Products	130,000	104,000	82,000
Total	$ 669,000	$ 566,000	$ 493,000

(1) Results exclude the home furnishings products segment, which was classified as discontinued operations in 1995 and sold in 1996. See the Note to the Company's Consolidated Financial Statements captioned "Discontinued Operations," included in Item 8 of this Report.

(2) Amounts are before general corporate expense.

Additional financial information concerning the Company's operations by industry segments as of and for the three years ended December 31, 1997 is set forth in the Note to the Company's Consolidated Financial Statements captioned "Segment Information," included in Item 8 of this Report.

KITCHEN AND BATH PRODUCTS

The Company manufactures a variety of single and double handle faucets. DELTA(R) and PEERLESS(R) single and double handle faucets are used on kitchen, lavatory and other sinks and in bath and shower installations. DELTA faucets are sold through manufacturers' representatives to major

Company's 1997 sales volume. Builders, distributors, wholesalers and other retailers represent other channels of distribution for the Company's products.

OTHER SPECIALTY PRODUCTS

The Company's Other Specialty Products include premium BALDWIN(R) quality brass trim and mortise lock sets, knobs and trim and other builders' hardware which are manufactured and sold for the home improvement and new home construction markets. WEISER(R) lock sets and related hardware are sold through contractor supply outlets, hardware distributors and home centers. SAFLOK(TM) electronic lock sets and WINFIELD(TM) mechanical lock sets are sold primarily to the hospitality market. During 1997, the Company acquired LaGard Inc., whose electronic lock sets are used primarily by the banking industry on safes, ATMs, vaults and cabinetry, and Liberty Hardware Manufacturing Corporation, a producer of quality cabinet and builders' hardware. Key domestic competitors to Baldwin and Weiser in the lock set business are Black & Decker Corporation and Schlage Lock Company. Imported products are also becoming a major factor in this market.

The Company has recently begun to incorporate on many of its decorative brass faucets and other products a durable coating that offers anti-tarnish protection, under the trademarks BRILLIANCE(R) and THE LIFETIME FINISH FROM BALDWIN(R). This innovative finish is currently available on certain of the Company's kitchen and bath products and door hardware.

The Company manufactures ventilation products under the trademark AMP(R), including grilles, registers, diffusers and humidifiers which are sold through wholesale distribution and home centers. GEBHARDT(TM) commercial ventilating products and JUNG(TM) water pumps are manufactured and distributed by the Company in Europe. Through local offices of Gale Industries, Inc. in various parts of the United States, the Company also supplies and installs insulation and other building products primarily for the residential home building industry.

COMPETITIVE FACTORS

The major domestic and foreign markets for the Company's products are highly competitive. Competition in all of the Company's product lines is based primarily on performance, quality, style, delivery, customer service and price, with the relative importance of such factors varying among products. A number of companies of varying size compete with one or more of the Company's product lines.

GENERAL INFORMATION

No material portion of the Company's business is seasonal or has special working capital requirements, although the Company maintains a higher investment in inventories for certain of its businesses than the average manufacturing company. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Cash Flows from Operating Activities," included in Item 7 of this Report. The Company does not consider backlog orders to be material and no material portion of its business is subject to renegotiation of profits or termination of contracts at the election of the federal government. Compliance with federal, state and local regulations relating to the discharge of materials into the environment, or otherwise relating to the protection of the environment, is not expected to result in material capital expenditures by the Company or to have a material effect on the Company's earnings or competitive position. In general, raw materials required by the Company are obtainable from various sources and in the quantities desired.

INTERNATIONAL OPERATIONS

Through its subsidiaries, the Company also has home improvement and building products manufacturing plants in Austria, Belgium, Canada, Denmark, England, France, Germany, Italy, Mexico, Poland, Spain, Taiwan and Turkey. Home improvement and building products manufactured by the Company outside of the United States include faucets and accessory products, bath and shower enclosures, bath accessories, kitchen and bath cabinets, decorative accessories, door lock sets and related hardware, floor registers, humidifiers, ventilating equipment, submersible water pumps and special insulation materials. The Company's European operations were expanded through the recent acquisition of three manufacturers. In 1997, the Company acquired The SKS Group, a leading German manufacturer and distributor of roller shutters and aluminum balcony railings, and The Alvic Group, a leading Spanish manufacturer and distributor of kitchen and bath cabinetry and components. In early 1998, the Company acquired Vasco Corporation, a leading European manufacturer of residential decorative hydronic radiators and heat convectors, based in Belgium.

The Company's foreign operations are subject to political, monetary, economic and other risks attendant generally to international businesses. These risks generally vary from country to country. Financial information concerning the Company's export sales and foreign and domestic operations, including the net sales, operating profit and assets which are attributable to the Company's operations in North America and in other geographic areas, as of and for the three years ended December 31, 1997, is set forth in Item 8 of this Report in the Note to the Company's Consolidated Financial Statements captioned "Segment Information."

PATENTS AND TRADEMARKS

The Company holds a number of United States and foreign patents covering various design features and valve constructions used in certain of its faucets, and also holds a number of other patents and patent applications, licenses, trademarks and tradenames. As a manufacturer of brand name consumer products, the Company views its trademarks and other proprietary rights as important, but does not believe that there is any reasonable likelihood of a loss of such rights that would have a material adverse effect on the Company's present business as a whole.

EMPLOYEES

At December 31, 1997, the Company employed approximately 28,100 people. Satisfactory relations have generally prevailed between the Company and its employees.

EQUITY INVESTMENTS

Information about the Company's equity investments is also set forth in the Note to the Company's Consolidated Financial Statements captioned "Equity Investments in Affiliates" included in Item 8 of this Report.

MascoTech, Inc.

In 1984, the Company transferred its industrial businesses to a newly formed subsidiary, MascoTech, Inc. (formerly Masco Industries, Inc.), which became a separate public company in July, 1984 when the Company distributed to its stockholders certain shares of MascoTech common stock as a special dividend. In October 1996, the Company reduced its common equity interest in MascoTech from 45 percent to 21 percent through the sale to MascoTech of MascoTech common stock and warrants to purchase shares of MascoTech common stock for total consideration of approximately $266 million. Payment of $115 million of the purchase price was made in cash at closing and the balance of approximately $151 million was paid by MascoTech on September 30, 1997, in accordance with its agreement, in the form of 9.9 million shares (approximately 42%) of the outstanding common stock of Emco Limited and $45.6 million in cash. As part of that transaction, the Company granted MascoTech a right of first refusal, which expires September 30, 2000, to purchase the remaining shares of MascoTech common stock held by the Company. See "Management's Discussion and Analysis of Financial Condition and Results of Operations," included in Item 7 of this Report, regarding the effect of this transaction on the Company. Emco is a Canadian manufacturer and distributor of home improvement and building products. See the discussion of "Emco Limited" below. MascoTech's conversion of its retail accounts and to distributors who sell the faucets to plumbers, building contractors, remodelers, smaller retailers and others. PEERLESS faucets are sold primarily through manufacturers' representatives directly to retail outlets such as mass merchandisers, home centers and hardware stores and are also sold under private label. The Company's ARTISTIC BRASS(R) faucets and accessories are produced for the decorator markets and are sold through wholesalers, distributor showrooms and other outlets. ALSONS(R) hand showers and shower heads and MIXET(R) valves and accessories are distributed through manufacturers' representatives to the wholesale market and to retailers.

Sales of faucets worldwide approximated $815 million in 1997, $757 million in 1996 and $698 million in 1995. The percentage of operating profit on faucets is somewhat higher than that on other products offered by the Company. The Company believes that the simplicity, quality and reliability of its faucet mechanisms, manufacturing efficiencies and capabilities, its marketing and merchandising activities, and the development of a broad line of products have accounted for the continued strength of its faucet sales. Management believes that Masco's faucet operations hold a leadership position in the United States market. The faucet market in the United States is very competitive, with Moen, Price Pfister, Sterling and American Standard as major brand competitors. Competition from import products is also a factor in the Company's markets.

The Company manufactures economy, stock, semi-custom and custom kitchen and bath cabinetry in a variety of styles and in various price ranges. The Company sells cabinets under a number of trademarks, including MERILLAT(R), KRAFTMAID(R), QUALITY CABINETS(R), STARMARK(R) and FIELDSTONE(R), with sales to distributors, home centers, dealers and direct to builders for both the home improvement and new construction markets. In addition to its domestic manufacturing, the Company manufactures cabinetry in Germany, where sales are made primarily through Company-owned showrooms to consumers, and in England, with sales primarily to builders for the new construction market. Sales of kitchen and bath cabinets were approximately $1,083 million in 1997, $832 million in 1996 and $758 million in 1995. During 1997, the Company acquired Texwood Industries, Inc., a domestic manufacturer of kitchen and bath cabinetry. Management believes that the Company is the largest manufacturer of kitchen and bath cabinetry in the United States. Significant competitors are American Woodmark Corporation, Aristokraft, Inc., WCI Group and Triangle Pacific Corporation.

The Company's brass and copper plumbing system components and other plumbing specialties are sold to plumbing, heating and hardware wholesalers and to home centers, hardware stores, building supply outlets and other mass merchandisers. These products are marketed for the wholesale trade under the BRASSCRAFT(R) trademark and for the "do-it-yourself" market under the PLUMB SHOP(R), HOME PLUMBER(R) and MELARD(TM) trademarks and are also sold under private label.

Other Kitchen and Bath Products sold by the Company include THERMADOR(R) cooktops, ovens, ranges and related cooking equipment and refrigerators, which are marketed through appliance distributors and dealers. The Company's AQUA GLASS(R) acrylic and gelcoat bath and shower units and whirlpools are sold primarily to wholesale plumbing distributors for use in the home improvement and new home construction markets. Other bath and shower enclosure units, shower trays and laundry tubs are sold to the home improvement market through hardware stores and home centers under the brand names AMERICAN SHOWER & BATH(TM) and TRAYCO(TM). HUPPE(R) luxury bath and shower enclosures are manufactured and sold by the Company through wholesale channels primarily in Germany. The Company manufactures bath and shower accessories, vanity mirrors and bath storage products and sells these products under the brand name ZENITH PRODUCTS(R) and other trademarks to home centers, hardware stores and mass merchandisers for the "do-it-yourself" market. The Company's spas and hot tubs are sold under the brand name HOT SPRING SPA(R) and other trademarks directly to retailers for sale to residential customers. In early 1997, the Company acquired Franklin Brass Manufacturing Company, a leading manufacturer of bath accessories and bath safety products.

Direct sales to home center retailers in all of the Company's product lines have been increasing in recent years, and in 1997 sales to The Home Depot were $392 million, approximately 10 percent of the outstanding preferred stock into MascoTech common stock in mid-1997 further reduced the Company's ownership in MascoTech to approximately 17 percent.

MascoTech is a leading supplier of metalworked components primarily for vehicle engine and drivetrain applications and automotive aftermarket products for the transportation industry. MascoTech's net sales for 1997 were approximately $922 million. Approximately 72 percent of MascoTech's transportation-related products sales in 1997 were original equipment automotive products and services.

In January 1998, MascoTech acquired the remaining 63 percent of TriMas Corporation that it did not previously own, including approximately 1.6 million shares (4%) owned by the Company, for approximately $920 million. TriMas is a diversified proprietary products company with leadership positions in commercial, industrial and consumer niche markets. TriMas had sales of approximately $668 million and net income of approximately $66 million for the twelve months ended December 31, 1997.

TriMas' products include specialty fasteners, towing systems, specialty container products and other industrial products.

Emco Limited

The Company owns approximately 42 percent of the outstanding common stock of Emco Limited, as a result of the transactions described above under "Equity Investments -- MascoTech, Inc." Emco is a leading Canadian distributor and manufacturer of building products for the residential, commercial and industrial construction markets, including roofing materials, wood fiber products and sinks, and a distributor of plumbing and related products. Emco had sales of CDN $1.26 billion for the twelve months ended December 31, 1997.

Hans Grohe

The Company has a 27 percent partnership interest in Hans Grohe GmbH & Co. KG, a German manufacturer of faucets, handheld showers, shower heads, shower cabins and other shower accessories.

ITEM 2. PROPERTIES.

The following list sets forth the location of the Company's principal manufacturing facilities and identifies the industry segments utilizing such facilities.

Arizona................	Tucson (2)
California............	Carlsbad (1), Corona (1), Costa Mesa (2), Los Angeles (1), Pico Rivera (1), Rancho Dominguez (1), Torrance (2) and Vista (1)
Colorado..............	Longmont (1)
Delaware..............	New Castle (1)
Illinois..............	Chicago (2)
Indiana...............	Cumberland (1), Greensburg (1) and Kendallville (2)
Iowa..................	Northwood (1)
Kentucky..............	Henderson (1), Morgantown (1) and Mt. Sterling (1)
Michigan..............	Adrian (1), Hillsdale (1), Lapeer (1), and Troy (2)
Minnesota.............	Lakeville (1)
Mississippi...........	Olive Branch (2)
Nevada................	Las Vegas (1)
New Jersey............	Moorestown (1), Passaic (1) and West Berlin (2)
North Carolina........	Thomasville (1)
Ohio..................	Jackson (1), Loudonville (1), Middlefield (1) and Orwell (1)
Oklahoma..............	Chickasha (1)
Oregon................	Klamath Falls (1)
Pennsylvania..........	Reading (1 and 2)
South Dakota..........	Rapid City (1) and Sioux Falls (1)
Tennessee.............	Adamsville (1), Jackson (1), LaFollette (2) and McEwen (1)
Texas.................	Lancaster (1), Cedar Hill (1) and Duncanville (1)
Virginia..............	Atkins (1), Culpeper (1), Lynchburg (1) and Mt. Jackson (1)
Austria...............	Furstenfeld (2)
Belgium...............	Brussels (2), Dilsen (2) and St. Niklaas (2)
Canada................	Cambridge (1), London (1) and St. Thomas (1), Ontario
Denmark...............	Odense (1)
England...............	Brownhills (1), Corby (1), Warminster (1) and Wetherby (1)
France................	Sevres (1)
Germany...............	Ahaus (1), Bad Zwischenahn (1), Bielefeld (2), Duisburg (2), Dortmund (2), Iserlohn (1), Kulmbach (2), Netzschkau (2), Neuwied (1), Steinhagen (2), Stuttgart (2) and Waldenburg (2)
Italy.................	Lacchiarella (1) and Zingonia (1)
Mexico................	Mexicali (2)
Poland................	Krakow (2)
Spain.................	Alcaudete (1), Barcelona (1) and Vic (1)
Taiwan................	Tai Chung (1)
Turkey................	Czerkezkoy (1)

Industry segments identified in the preceding table are: (1) Kitchen and Bath Products and (2) Other Specialty Products. Multiple footnotes within the same parentheses indicate that significant activities relating to both segments are conducted at that location.

The three principal faucet manufacturing plants are located in Greensburg, Indiana, Chickasha, Oklahoma and Jackson, Tennessee. The faucet manufacturing plants and the majority of the Company's other manufacturing facilities range in size from approximately 10,000 square feet to 900,000 square feet. The Company owns most of its manufacturing facilities and none of the Company-owned properties is subject to significant encumbrances. In addition to its manufacturing facilities, the Company operates approximately 90 facilities (the majority of which are leased) which supply and install insulation and other building products. The Company's corporate headquarters are located in Taylor, Michigan and are owned by the Company. An additional building near its corporate headquarters is used by the Company's corporate research and development department.

The Company's buildings, machinery and equipment have been generally well maintained, are in good operating condition, and are adequate for current production requirements.

The following list sets forth the location of MascoTech's principal manufacturing facilities, and reflects its early 1998 acquisition of TriMas.

California......................	Commerce
Florida.........................	Deerfield Beach and Ocala
Illinois........................	Wood Dale
Indiana.........................	Auburn, Elkhart, Frankfort, Fort Wayne, Goshen and North Vernon
Kentucky........................	Nicholasville
Louisiana.......................	Baton Rouge
Massachusetts...................	Plymouth
Michigan........................	Burton, Canton, China Township, Detroit, Farmington Hills, Fraser, Green Oak
Township,	
	Hamburg, Holland, Livonia, Royal Oak, Troy, Warren and Ypsilanti
New Jersey......................	Edison and Netcong
Ohio............................	Bucyrus, Canal Fulton, Lakewood, Lima, Minerva and Port Clinton
Oklahoma........................	Tulsa
Pennsylvania....................	Ridgway
Texas...........................	Houston and Longview
Wisconsin.......................	Mosinee
Australia.......................	Hampton Park, Victoria and Wakerley, Queensland
Canada..........................	Fort Erie and Oakville Ontario
Czech Republic..................	Brno
England.........................	Leicester and Wolverhampton
Germany.........................	Neunkirchen, Nurnberg and Zell am
Harmersbach	
Italy...........................	Poggio Rusco
Mexico..........................	Mexico City

MascoTech's principal manufacturing facilities range in size from approximately 10,000 square feet to 420,000 square feet, substantially all of which are owned by MascoTech and are not subject to significant encumbrances. The MascoTech executive offices are located in Taylor, Michigan, and are provided by the Company to MascoTech under a corporate services agreement.

MascoTech's buildings, machinery and equipment have been generally well maintained, are in good operating condition, and are adequate for current requirements.

ITEM 3. LEGAL PROCEEDINGS.

The Company is subject to claims and litigation in the ordinary course of business, but does not believe that any such claim or litigation will have a material adverse effect on its consolidated financial position.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

Not applicable.

SUPPLEMENTARY ITEM. EXECUTIVE OFFICERS OF REGISTRANT (PURSUANT TO INSTRUCTION 3 TO ITEM 401(B) OF REGULATION S-K).

NAME	POSITION	AGE	OFFICER SINCE
Richard A. Manoogian	Chairman of the Board and Chief Executive Officer	61	1962
Raymond F. Kennedy	President and Chief Operating Officer	55	1989
Dr. Lillian Bauder	Vice President -- Corporate Affairs	58	1996
David A. Doran	Vice President -- Taxes	56	1984
Daniel R. Foley	Vice President -- Human Resources	56	1996
Eugene A. Gargaro, Jr.	Vice President and Secretary	55	1993
John R. Leekley	Senior Vice President and General Counsel	54	1979
Richard G. Mosteller	Senior Vice President -- Finance	65	1962
Robert B. Rosowski	Vice President -- Controller and Treasurer	57	1973
Samuel Valenti, III	Vice President -- Investments	52	1971

Executive officers, who are elected by the Board of Directors, serve for a term of one year or less. Each elected executive officer has been employed in a managerial capacity with the Company for over five years except for Messrs. Foley and Gargaro and Dr. Bauder. Mr. Foley was employed by MascoTech, Inc. as its Vice President -- Human Resources from 1994 to 1996 and was President of Executive Business Partners, Inc., a training and consulting firm, from 1993 to 1994. Mr. Gargaro joined the Company as its Vice President and Secretary in October, 1993. Prior to joining the Company, Mr. Gargaro was a partner at the Detroit law firm of Dykema Gossett PLLC. Mr. Gargaro has served as a director and Secretary of MascoTech, Inc. since 1984. From 1984 to 1996, Dr. Bauder served as President and Chief Executive Officer of Cranbrook Educational Community.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

The New York Stock Exchange is the principal market on which the Company's Common Stock is traded. The following table indicates the high and low sales prices of the Company's Common Stock as reported on the New York Stock Exchange Composite Tape and the cash dividends declared per share for the periods indicated:

QUARTER	MARKET PRICE HIGH	MARKET PRICE LOW	DIVIDENDS DECLARED
1997			
Fourth	$53 13/16	$41 7/16	$.21
Third	48 1/4	40 9/16	.21
Second	43 3/8	35	.20
First	37 5/8	33 3/4	.20
Total			$.82
1996			
Fourth	$36 7/8	$28 7/8	$.20
Third	31 1/4	26 5/8	.20
Second	32 1/8	26 5/8	.19
First	31 3/8	27 7/8	.19
Total			$.78

On March 13, 1998, there were approximately 6,400 holders of record of the Company's Common Stock.

The Company expects that its practice of paying quarterly dividends on its Common Stock will continue, although future dividends will continue to depend upon the Company's earnings, capital requirements, financial condition and other factors.

ITEM 6. SELECTED FINANCIAL DATA.

The following table sets forth summary consolidated financial information for the Company's continuing operations, for the years and dates indicated:

(IN THOUSANDS EXCEPT PER SHARE AMOUNTS)	1997	1996	1995	1994	1993
Net sales	$3,760,000	$3,237,000	$2,927,000	$2,583,000	$2,243,000
Income from continuing operations(1)	$ 382,400	$ 295,200	$ 200,050	$ 172,710	$ 215,210
Per share of common stock:					
Income from continuing operations: (1) (2)					
Basic	$2.39	$1.87	$1.28	$1.10	$1.43
Diluted	$2.30	$1.82	$1.25	$1.08	$1.40
Dividends declared	$ .82	$ .78	$ .74	$ .70	$ .66
Dividends paid	$ .81	$ .77	$ .73	$ .69	$ .65
At December 31:					
Total assets	$4,333,760	$3,701,650	$3,778,630	$4,177,100	$3,864,850
Long-term debt	$1,321,470	$1,236,320	$1,577,100	$1,587,160	$1,413,480

(1) The year 1994 includes a $79 million after-tax ($.49 per diluted share) non-cash equity investment charge.

(2) Income from continuing operations per share prior to 1997 have been restated to conform to the 1997 presentation.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The financial and business analysis below provides information which the Company believes is relevant to an assessment and understanding of the Company's consolidated financial position and results of operations. This financial and business analysis should be read in conjunction with the consolidated financial statements and related notes.

The following discussion and other sections of this Report on Form 10-K contain statements reflecting the Company's views about its future performance and constitute "forward-looking statements" under the Private Securities Litigation Reform Act of 1995. These views involve risks and uncertainties that are difficult to predict and may cause the Company's actual results to differ materially from the results discussed in such forward-looking statements. Readers should consider that various factors including those discussed in the "Overview" and "Outlook for the Company" sections below may affect the Company's ability to attain the projected performance. The Company undertakes no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

OVERVIEW

The Company is engaged principally in the manufacture, sale and installation of home improvement and building products. These products are sold to the home improvement and home construction markets through mass merchandisers, home centers, hardware stores, distributors, wholesalers and other outlets for consumers and contractors.

Factors which affect the Company's results of operations include the levels of home improvement and residential construction activity principally in the U.S. and Europe (including repair and remodeling and new construction), cost management, fluctuations in European currencies (primarily the German Deutsche Mark and British Pound), the increasing importance of home centers as distributors of home improvement and building products and the Company's ability to maintain its leadership positions in its markets with increasing global competition. Historically, the Company has been able to largely offset cyclical declines in housing markets through new product introductions and acquisitions as well as market share gains.

Net sales and operating profit from continuing operations for 1997 were $3,760 million and $587 million, representing increases of 16 percent and 22 percent, respectively, over 1996. Net income from continuing operations for 1997 was $382 million representing an increase of 30 percent over 1996. Basic and diluted earnings per share for 1997 were $2.39 and $2.30, respectively, representing increases of 28 percent and 26 percent, respectively, over 1996 amounts. Increases in net sales typically result in operating profit improvements that exceed the net sales increases on a percentage basis due to the allocation of fixed and semi-fixed costs and expenses over a higher sales base.

CORPORATE DEVELOPMENT

Acquisitions have historically contributed significantly to Masco's long-term growth, even though generally the initial impact on earnings is minimal after deducting acquisition-related costs and expenses such as interest and added depreciation and amortization. The important earnings benefit to Masco arises from subsequent growth of acquired companies, since incremental sales are not handicapped by these expenses.

During 1997, the Company acquired Texwood Industries, Inc., a U.S. manufacturer of kitchen and bath cabinetry, and five other home improvement and building products companies, including two companies in Europe.

The results of operations for these acquisitions are included in the consolidated financial statements from the dates of acquisition. Had these companies been acquired effective January 1, 1996, pro forma unaudited consolidated net sales and net income would have approximated $3,909 million and $390 million for 1997 and $3,575 million and $309 million for 1996, respectively, and pro forma unaudited consolidated diluted earnings per share would have approximated $2.33 and $1.87 for 1997 and 1996, respectively.

The combined purchase price for these acquisitions, including assumed debt, aggregated approximately $430 million and included approximately 2.9 million shares of Company common stock valued at approximately $119 million, with the balance in cash and a short-term note. The acquisitions were accounted for as purchase transactions.

DISCONTINUED OPERATIONS

In late November 1995, the Company's Board of Directors approved a formal plan to dispose of the Company's home furnishings products segment. An aggregate provision of $650 million was recorded in the fourth quarter of 1995 for the estimated loss on the discontinued operations through the expected disposal date, the reduction of assets to their estimated net realizable value and the anticipated liabilities related to the disposal. The majority of the charge from the disposition of the home furnishings products segment resulted in a capital loss for tax purposes. The ultimate tax benefit from the disposition cannot be determined currently and is reported if and when taxable capital gains are realized.

During August 1996, the Company completed the sale of its home furnishings products segment to Furnishings International Inc. Total proceeds to the Company from the sale were $1,050 million with approximately $708 million of the purchase price in cash. The balance consisted of $285 million of 12 percent pay-in-kind junior debt securities, and equity securities totalling $57 million, consisting of 13 percent cumulative preferred stock, with a stated value of $55 million, 15 percent of the common stock of Furnishings International and convertible preferred stock.

The junior debt securities mature in 2008; the Company is recording the 12 percent pay-in-kind interest income from these securities. The Company records dividend income from the 13 percent cumulative preferred stock when such dividends are declared. The convertible preferred stock represents transferable rights for up to a 25 percent common ownership, although the Company is restricted from maintaining an ownership in excess of 20 percent of Furnishings International's common equity. As such, the Company will not acquire additional common equity, except for purposes of resale only. Of the cash proceeds received from this sale, approximately $550 million was applied to reduce bank debt.

Under a transitional services agreement, the Company provided corporate-related services for a fee to Furnishings International through April 1997. Substantially all of these services were discontinued after such date.

PROFIT MARGINS

Operating profit margin, before general corporate expense, improved to 17.8 percent in 1997 from 17.5 percent in 1996 and 16.8 percent in 1995 (general corporate expense includes those expenses not specifically attributable to the Company's business segments). The improvement in 1997 is principally due to a reduction in selling, general and administrative expenses as a percentage of sales. The Company's operating margin from faucet sales is somewhat higher than that on other products offered by the Company due to the simplicity, quality and reliability of its faucet mechanisms, manufacturing efficiencies and capabilities, extensive marketing and merchandising activities and breadth of product offering.

General corporate expense in 1997 was $82 million, as compared with $85 million in 1996 and $90 million in 1995. General corporate expense as a percentage of sales decreased to 2.2 percent in 1997 from 2.6 percent in 1996 and 3.1 percent in 1995. Operating profit margin, after general corporate expense, was 15.6 percent, 14.8 percent and 13.7 percent in 1997, 1996 and 1995, respectively.

Net income from continuing operations as a percentage of sales increased to 10.2 percent in 1997 from 9.1 percent and 6.8 percent in 1996 and 1995, respectively. After-tax profit return on shareholders' equity as measured by net income from continuing operations increased to 20.8 percent in 1997 from 17.8 percent and 9.4 percent in 1996 and 1995, respectively.

FINANCIAL CONDITION

Over the years, the Company has largely funded its growth through cash provided by a combination of operations and long-term bank and other borrowings, and by the issuance of common stock for certain acquisitions. At December 31, 1997, the Company's shelf-registration statement permits the issuance of up to a combined $759 million of debt and equity securities.

Bank credit lines are maintained to ensure availability of short-term funds on an as-needed basis. At December 31, 1997, the Company had available $750 million under its bank revolving-credit facility. Any outstanding balances under this facility are due and payable in November 2001. Certain debt agreements contain limitations on additional borrowings and requirements for maintaining a certain level of tangible net worth. At December 31, 1997, the Company was in compliance with these limitations and requirements, and the Company's tangible net worth exceeded the most restrictive of such provisions by approximately $171 million.

Maintaining high levels of liquidity and cash flow are among the Company's financial strategies. The Company's long-term debt as a percent of total capitalization ratio improved to approximately 36 percent at December 31, 1997 from approximately 39 percent at December 31, 1996. (On a pro forma basis, the Company's long-term debt as a percent of total capitalization ratio would have been approximately 32 percent, assuming conversion of the Company's $178 million of convertible debentures; this conversion was completed in February 1998.) Aggregate short-term and long-term debt at December 31, 1997 was $146 million higher than the 1996 aggregate amount due primarily to acquisition-related debt. The Company's working capital ratio was 2.6 to 1 at December 31, 1997 compared with 2.8 to 1 at December 31, 1996; excluding a $53 million short-term, acquisition-related note payable which was paid in early 1998, the Company's working capital ratio was 2.8 to 1 at December 31, 1997.

CASH FLOWS

Significant sources and uses of cash in the past three years are shown in the following table, in thousands:

CASH SOURCES (USES)	1997	1996	1995
From continuing operations	$ 405,030	$ 340,140	$ 260,910
Collection of MascoTech receivable	45,580	--	--
Sale of discontinued operations	--	707,630	--
Sale of MascoTech investments	--	115,000	--
Sale of Formica investment	--	--	74,470
Acquisition of companies, net of cash acquired	(186,920)	(173,110)	--
Capital expenditures	(167,400)	(138,540)	(165,080)
Increase (decrease) in debt, net	7,890	(368,160)	(52,180)
Cash dividends paid	(131,680)	(123,530)	(116,350)
From discontinued operations, net	--	--	34,560
Other, net	(4,900)	53,830	(12,390)
Cash increase (decrease)	$ (32,400)	$ 413,260	$ 23,940

CASH FLOWS FROM OPERATING ACTIVITIES

Continuing operations generated $64.9 million and $144.1 million more cash in 1997 than in 1996 and 1995, respectively, primarily due to increased earnings. During 1997, the Company's accounts receivable and inventories increased by $92.2 million and $103.1 million, respectively, primarily as a result of acquisitions and higher actual and anticipated sales volume. As compared with the average manufacturing company, the Company maintains a higher investment in inventories, which relates to the Company's business strategies of providing better customer service, establishing efficient production scheduling and benefiting from larger, more cost-effective purchasing.

CASH FLOWS FROM (FOR) INVESTING ACTIVITIES

Investing activities of continuing operations used cash of $313.6 million in 1997 compared with cash provided from investing activities of $564.8 million in 1996. Cash flows from investing activities for 1996 included an aggregate $822.6 million of cash proceeds from the sales of discontinued operations and certain MascoTech, Inc. investments.

During October 1996, the Company completed the sale to MascoTech of 17 million shares of MascoTech common stock and warrants to purchase 10 million shares of MascoTech common stock. Under the sale agreement, the Company received approximately $266 million, with $115 million cash paid at closing. The $151 million balance of the consideration was paid by MascoTech to the Company on September 30, 1997; as provided for in the sale agreement, MascoTech at that date delivered to the Company 9.9 million shares (approximately 42 percent) of the outstanding common stock of Emco Limited and $45.6 million in cash. MascoTech recognized a $29.3 million after-tax gain from the delivery to the Company of the Emco Limited common stock. The Company's recording of equity earnings from MascoTech for 1997 excludes the effect of such gain due to the related-party nature of the transaction. Emco Limited is a leading Canadian distributor and manufacturer of home improvement and building products. MascoTech holds an option, expiring in 2002, to require the Company to purchase up to $200 million aggregate amount of subordinated debt securities of MascoTech.

For the 1997 acquisitions of Texwood Industries and five other companies, the combined purchase price was approximately $430 million, including the assumption of debt and issuance of a short-term note aggregating $123 million,
2.9 million shares of Company common stock valued at approximately $119 million and $187 million of cash paid.

Capital expenditures totalled $167.4 million in 1997 compared with $138.5 million in 1996. These amounts primarily pertain to expenditures for additional facilities related to increased demand for existing products as well as for new Masco products. The Company also continues to invest in automating its manufacturing operations and increasing its productivity, in order to be a more efficient producer and improve customer service and response time. The Company expects capital expenditures for 1998, excluding those of potential 1998 acquisitions, to approximate the 1997 level. Depreciation and amortization expense for 1997 totalled $116.1 million, compared with $99.7 million for 1996; for 1998, depreciation and amortization expense, excluding 1998 acquisitions, is expected to be approximately $128 million.

Costs of environmental responsibilities and compliance with existing environmental laws and regulations have not had, nor in the opinion of the Company are they expected to have, a materially adverse effect on the Company's capital expenditures, financial position, or results of operations.

CASH FLOWS FOR FINANCING ACTIVITIES

Cash used for financing activities decreased to $123.8 million in 1997 from $491.7 million in 1996. During 1996, the Company paid the $250 million of 9 percent notes due April 15, 1996 through borrowings under its bank revolving-credit agreement and applied approximately $550 million of the proceeds from the 1996 sale of the home furnishings products segment to reduce bank debt.

During 1997, the Company increased its dividend rate 5 percent to $.21 per share quarterly. This marks the 39th consecutive year in which dividends have been increased.

The Company believes that its present cash balance and cash flows from operations are sufficient to fund its near-term working capital and other investment needs. The Company believes that its longer-term working capital and other general corporate requirements will be satisfied through cash flows from operations and, to the extent necessary, future financial market activities, from proceeds from assets sales and from bank borrowings.

CONSOLIDATED RESULTS OF OPERATIONS

Sales and Operations

Net sales for 1997 were $3,760 million, representing an increase of 16 percent over 1996. After adjusting for acquisitions, net sales for 1997 increased 7 percent over 1996. After adjusting for acquisitions, net sales of the Company's North American operations for 1997 increased 8 percent over 1996. Net sales for 1996 increased 11 percent to $3,237 million from $2,927 million in 1995; after adjusting for acquisitions and the divestiture of two small operations, net sales increased 7 percent in 1996 over 1995.

Cost of sales as a percentage of sales for 1997 remained unchanged at 63.3 percent compared with 1996 when it increased from 63.1 percent for 1995. The modest increase in the cost of sales percentage for 1997 and 1996 as compared with 1995 was primarily attributable to softness in the Company's European markets, expenses associated with manufacturing process improvement initiatives and product sales mix, which offset the benefits resulting from increased sales volume and new product introductions.

Excluding amortization of acquired goodwill ($18.7 million, $12.1 million, and $10.0 million in 1997, 1996 and 1995, respectively), selling, general and administrative expenses as a percentage of sales were 20.6 percent in 1997 compared with 21.5 percent and 22.8 percent for 1996 and 1995, respectively. The downward trend in the selling, general and administrative expenses percentage results from the Company's continuation of cost-containment initiatives, the substitution of contingent incentive-based compensation for the reduction in fixed compensation for certain executives and the leverage of fixed and semi-fixed costs over a higher sales base. The Company expects selling, general and administrative expenses as a percentage of sales to approximate 20.0 percent by the end of 1998.

Other Income (Expense), Net

Equity earnings from MascoTech, Inc. in 1997 reflect the Company's mid-1997 and late-1996 reductions in common equity ownership. Equity earnings from MascoTech were $14.6 million for 1997 as compared with equity earnings of $13.9 million and $18.2 million for 1996 and 1995, respectively. Equity earnings from MascoTech in 1996 include the Company's $11.7 million pre-tax equity share of MascoTech's loss from the sale of its metal stamping businesses.

During the second quarter of 1997, MascoTech effected conversion of all of its publicly held outstanding convertible preferred stock with the issuance of approximately 10 million shares of its common stock. This conversion reduced the Company's common equity ownership in MascoTech to 17 percent from 21 percent, and increased the Company's equity in MascoTech's net book value by approximately $29.5 million. As a result, the Company recognized a pre-tax gain of $29.5 million during the second quarter of 1997.

During 1996, the Company recognized a $67.8 million net pre-tax gain ($40.7 million after-tax) from the fourth quarter 1996 sale to MascoTech of 17 million shares of MascoTech common stock and warrants to purchase 10 million shares of MascoTech common stock. This gain was largely offset by $36.3 million of fourth quarter 1996 charges primarily related to adjustments of miscellaneous assets to their estimated fair value.

Included in other, net under other income (expense), net is income from cash and cash investments of $17.3 million, $6.9 million and $2.6 million for 1997, 1996 and 1995, respectively; the increase in 1997 resulted from a higher average cash and cash investments balance during 1997 as compared with 1996 and 1995. The Company's cash balance for 1997 included residual proceeds from transactions in the latter part of 1996, including the sale of certain MascoTech investments, the sale of the Company's home furnishings businesses and European borrowings.

Included in other, net under other income (expense), net is interest income for 1997 and 1996 of $36.8 million and $14.0 million, respectively, from the 12% pay-in-kind junior debt securities of Furnishings International Inc. Such interest income began to accrue in August 1996 upon the sale of the Company's home furnishings businesses. Also included in other, net in 1997 and 1996 is interest income of $7.5 million and $1.7 million, respectively, from the $151 million note receivable from MascoTech, which was paid on September 30, 1997.

Included in other, net under other income (expense), net in 1997 are $10.8 million of dividend income from the Company's investment in Furnishings International's 13% cumulative preferred stock, net gains aggregating approximately $28 million related to the sales of certain assets and charges aggregating approximately $30 million, principally for the adjustment of the Company's Payless Cashways investment to its estimated fair value.

Included in other, net under other income (expense), net for 1995 was a $15.9 million gain from the sale of the Company's investment in Formica Corporation; this gain was offset primarily by charges for asset disposals.

Net Income and Earnings Per Share

After-tax income from continuing operations for 1997 was $382 million compared with $295 million for 1996 and $200 million for 1995. Basic and diluted earnings per share from continuing operations for 1997 were $2.39 and $2.30, respectively, as compared with basic and diluted earnings per share from continuing operations of $1.87 and $1.82 and $1.28 and $1.25, respectively, for 1996 and 1995. The Company's effective tax rate decreased to 39.4 percent in 1997 from 41.3 percent in 1996 due to the net utilization of the Company's capital loss carryforward benefit, recognized primarily in the fourth quarter of 1997. The 1995 tax rate of 43.1 percent was higher due primarily to an increase in higher-taxed foreign income as a percentage of total income. The Company estimates that its effective tax rate will approximate 40 percent for 1998.

OUTLOOK FOR THE COMPANY

Assuming that the U.S. economy maintains its present rate of moderate growth and interest rates remain relatively stable, the Company expects further increases in both sales and earnings for 1998. The Company believes that its results will be favorably affected in the future with its efforts to: continue to invest in new manufacturing technologies and productivity improvement initiatives in order to contain costs and increase efficiency; maintain a lower level of selling, general and administrative expenses, as a percent of sales; introduce new products and marketing initiatives to increase market share and share of customer; and to actively pursue acquisition candidates that complement or support the Company's core competencies.

NET SALES BY PRODUCT GROUP AND GEOGRAPHIC AREA

The following table sets forth the Company's net sales from continuing operations by product group and geographic area, in millions.

	NET SALES			PERCENT CHANGE	
	1997	1996	1995	1997 VS. 1996	1996 VS. 1995
Kitchen and Bath Products:					
Faucets	$ 815	$ 757	$ 698	8%	8%
Cabinets	1,083	832	758	30%	10%
Other	1,042	930	827	12%	12%
	2,940	2,519	2,283	17%	10%
Other Specialty Products	820	718	644	14%	11%
Total	$3,760	$3,237	$2,927	16%	11%
North America	$3,072	$2,680	$2,441	15%	10%
Europe	688	557	486	24%	15%
Total	$3,760	$3,237	$2,927	16%	11%

BUSINESS SEGMENT RESULTS

Kitchen and Bath Products

Net sales of the Company's Kitchen and Bath Products increased 17 percent in 1997 over 1996 and 10 percent in 1996 over 1995; after adjusting for acquisitions, net sales increased 7 percent for each of the last two years, 1997 over 1996 and 1996 over 1995. These increases are largely due to higher unit sales volume of cabinets, faucets and other kitchen and bath products, and to a lesser extent, new product introductions and selling price increases.

Operating profit of the Company's Kitchen and Bath Products, before general corporate expense, was $539 million, $462 million and $411 million in 1997, 1996 and 1995, respectively. Operating margin, before general corporate expense, remained unchanged at 18.3 percent for 1997 and 1996 compared with 18.0 percent in 1995. Higher unit sales volumes in 1997 contributed to improved operating results of the Company's U.S. cabinet, other kitchen and bath and faucet businesses, including the leveraging of fixed and semi-fixed selling, general and administrative expenses over a higher sales base. These improved results were offset by the weaker results of the Company's European operations included in this segment and the modestly lower margins of companies acquired in 1997.

Operating results of this business segment showed a net improvement in 1996 over 1995 as a result of higher unit sales volume, increased efficiency and utilization of new and existing manufacturing facilities and the leverage of fixed and semi-fixed selling, general and administrative expenses over a higher sales base, which more than offset the modestly weaker results of the Company's U.S. cabinet businesses and the lower results of European operations. Operating results of the Company's U.S. cabinet businesses were modestly weaker in 1996 and 1995 due to the influence of a higher percentage of lower margin sales to total sales and the recognition of certain expenses for various initiatives undertaken to improve manufacturing processes and customer service and to shorten product delivery time.

Other Specialty Products

Net sales of the Company's Other Specialty Products increased 14 percent in 1997 over 1996 and 11 percent in 1996 over 1995. After adjusting for acquisitions, net sales increased 7 percent in 1997 over 1996 and, after adjusting for acquisitions and divestitures, increased 7 percent in 1996 over 1995. Operating profit of the Company's Other Specialty Products, before general corporate expense, was

$130 million, $104 million, and $82 million in 1997, 1996 and 1995, respectively. Operating margin, before general corporate expense, improved to 15.9 percent in 1997 from 14.5 percent in 1996 and 12.7 percent in 1995.

The upward trend in operating results for this segment principally includes the benefits of higher installation sales of fiberglass insulation and higher unit sales volume of mechanical and electronic lock sets. Operating results of this segment benefited in 1996 from the leverage of fixed and semi-fixed selling, general and administrative expenses over a higher sales base and the divestiture of two underperforming operations. Operating results were negatively affected in 1997, 1996 and 1995 by lower results of European operations.

GEOGRAPHIC AREA RESULTS

North America

Net sales of North American operations increased 15 percent in 1997 over 1996 and 10 percent in 1996 over 1995. Net sales of North American operations, after adjusting for acquisitions, increased 8 percent in 1997 over 1996 and, after adjusting for acquisitions and divestitures, increased 9 percent in 1996 over 1995. Operating profit from North American operations, before general corporate expense, was $570 million, $479 million and $407 million for 1997, 1996 and 1995, respectively. Operating margin, before general corporate expense, improved to 18.6 percent in 1997 from 17.9 percent in 1996 and 16.7 percent in 1995.

Operating results of North American operations in 1997 and 1996 benefited from higher sales volume which was partly driven by an increase in U.S. housing transactions, including higher levels of new construction and existing home sales. Operating results of North American operations in 1995 were lower, in part due to plant start-up costs related to a major new faucet facility and product sales mix. Operating results of the Company's Canadian operations improved in 1997 over 1996 after being relatively flat in 1996 over 1995.

Europe

Net sales of European operations increased 24 percent in 1997 over 1996 and 15 percent in 1996 over 1995; after adjusting for acquisitions, net sales decreased 5 percent in 1997 as compared with 1996 and decreased 1 percent in 1996 as compared with 1995. Operating profit from European operations, before general corporate expense, was $99 million, $87 million and $86 million for 1997, 1996 and 1995, respectively. Operating margin from European operations, before general corporate expense, decreased to 14.4 percent in 1997 following a decline to 15.6 percent in 1996 from 17.7 percent in 1995.

Results of European operations were lower over the past three years, in part due to softness in the Company's European markets beginning in mid-1995, competitive pricing pressures on certain products and the influence of a higher percentage of lower margin sales to total sales. In addition, a stronger U.S. dollar had a negative effect on the translation of European results in 1997 compared with 1996 and 1996 compared with 1995, lowering European net sales by approximately 12 percent and 3 percent, respectively. Excluding acquisitions, net sales of European operations increased approximately 6 percent in local currencies.

OTHER MATTERS

The Company is currently working to resolve the potential impact of the year 2000 on the processing of date-sensitive information by the Company's computerized information and other systems. The year 2000 issue is the result of computer programs being written using two digits (rather than four) to define the applicable year. Any of the Company's programs that have date-sensitive software may recognize a date using "00" as the year 1900 rather than the year 2000, which could result in miscalculations or system failures. Based on preliminary information, costs of addressing the year

2000 issue are not currently expected to have a materially adverse impact on the Company's financial position, results of operations or cash flows in future periods.

On January 22, 1998, MascoTech, Inc. announced the completion of its acquisition of TriMas Corporation. The Company will record in the first quarter of 1998, as a result of selling its common stock investment in TriMas to MascoTech in the public tender offer, an approximate $29 million pre-tax gain.

RECENTLY ISSUED STATEMENTS OF FINANCIAL ACCOUNTING STANDARDS

Statement of Financial Accounting Standards ("SFAS") No. 130, "Reporting of Comprehensive Income," SFAS No. 131, "Disclosure about Segments of an Enterprise and Related Information," and SFAS No. 132, "Employers' Disclosure about Pensions and Other Postretirement Benefits," become effective in 1998 and should not have a material effect on the Company's financial statements.

QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

The Company considered the provisions of Financial Reporting Release No. 48 "Disclosure of Accounting Policies for Derivative Financial Instruments and Derivative Commodity Instruments, and Disclosure of Quantitative and Qualitative Information about Market Risk Inherent in Derivative Financial Instruments, Other Financial Instruments and Derivative Commodity Instruments." The Company had no holdings of derivative financial or commodity-based instruments at December 31, 1997. A review of the Company's other financial instruments and risk exposures at that date revealed that the Company had exposure to interest rate and foreign currency exchange rate risks. At December 31, 1997, the Company performed sensitivity analyses to assess the potential effect of these risks and concluded that near-term changes in interest rates and foreign currency exchange rates should not materially affect the Company's financial position, results of operations or cash flows.

Other discussion regarding the Company's business risks is presented in the "Overview" caption above and in Item 1 "Business" of this Form 10-K.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors
and Shareholders of Masco Corporation:

We have audited the accompanying consolidated balance sheets of Masco Corporation and subsidiaries as of December 31, 1997 and 1996, and the related consolidated statements of operations and cash flows for each of the three years in the period ended December 31, 1997 and the financial statement schedule as listed in Item 14(a)(2) of the Form 10-K. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Masco Corporation and subsidiaries as of December 31, 1997 and 1996, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1997 in conformity with generally accepted accounting principles. In addition, in our opinion, the financial statement schedule referred to above, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information required to be included therein.

COOPERS & LYBRAND L.L.P.

Detroit, Michigan
February 13, 1998

EXHIBIT Q

Delaware

The First State

I, HARRIET SMITH WINDSOR, SECRETARY OF STATE OF THE STATE OF DELAWARE, DO HEREBY CERTIFY "TRIMAS CORPORATION" IS DULY INCORPORATED UNDER THE LAWS OF THE STATE OF DELAWARE AND IS IN GOOD STANDING AND HAS A LEGAL CORPORATE EXISTENCE SO FAR AS THE RECORDS OF THIS OFFICE SHOW, AS OF THE THIRTEENTH DAY OF JUNE, A.D. 2006.

AND I DO HEREBY FURTHER CERTIFY THAT THE SAID "TRIMAS CORPORATION" WAS INCORPORATED ON THE THIRTIETH DAY OF MAY, A.D. 1986.

AND I DO HEREBY FURTHER CERTIFY THAT THE ANNUAL REPORTS HAVE BEEN FILED TO DATE.

AND I DO HEREBY FURTHER CERTIFY THAT THE FRANCHISE TAXES HAVE BEEN PAID TO DATE.

Harriet Smith Windsor

Harriet Smith Windsor, Secretary of State

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AUTHENTICATION: 4821120

DATE: 06-13-06

EXHIBIT R

ACQUISITION AND SUBSCRIPTION AGREEMENT

THIS ACQUISITION AND SUBSCRIPTION AGREEMENT (this "Agreement") is entered into as of November 7, 1988 among Masco Corporation ("Masco"), Masco Industries, Inc. ("Industries"), TriMas Corporation ("TriMas"), all Delaware corporations, and Brian P. Campbell ("Campbell").

RECITALS

A. The Board of Directors of Industries has determined that it is in the best interests of Industries and its stockholders to restructure Industries by transferring certain businesses, related assets and cash to TriMas in exchange for an equity interest in TriMas and TriMas subordinated debentures.

B. The Boards of Directors of Masco (which, together with Campbell, owns all of the outstanding capital stock of TriMas) and TriMas have each determined that it is in the best interests of such companies and their respective stockholders for TriMas to enter into the above-described transaction.

C. The transactions contemplate that Masco will contribute cash to TriMas in exchange for additional shares of TriMas common stock. Thereafter, Masco intends to distribute a portion of its shares of TriMas common stock as a dividend to Masco stockholders.

D. As part of the above-described transactions, TriMas and its stockholders will adopt the Plan of Recapitalization referred to herein in order to enable it to fulfill its obligations contained herein.

NOW, THEREFORE, the parties agree as follows:

I

DEFINITIONS

1.00 As used in this Agreement, the following terms shall have the respective meanings set forth below:

1.01 Distribution: the distribution of the shares of TriMas Common Stock contemplated by Section 4.01 hereof.

1.02 Distribution Date: the date on which the Distribution is paid.

1.03 Effective Date: October 1, 1988