

GRIFFON CORP
Form 10-K
November 24, 2009

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 10-K

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

For the year ended September 30, 2009

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**

Commission File No. 1-06620

GRIFFON CORPORATION

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

11-1893410
(I.R.S. Employer
Identification No.)

712 Fifth Avenue, 18th Floor, New York, New York
(Address of Principal Executive Offices)

10019
(Zip Code)

(212) 957-5000

Registrant's telephone number, including area code:
Securities registered pursuant to Section 12(b) of the Act:

Title of each class Common Stock, \$0.25 par value	Name of each exchange on which registered New York Stock Exchange Securities registered pursuant to Section 12(g) of the Act: None
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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No ý

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No ý

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 (or for such shorter period that the registrant was required to file such reports), and (2) has been

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subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such period that the registrant was required to submit and post such files). Yes 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.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

The aggregate market value of the voting and non-voting common stock held by non-affiliates of the registrant as of the close of business March 31, 2009, the registrant's most recently completed second quarter, was approximately \$254,000,000. The registrant's closing price as reported by the New York Stock Exchange-Composite Transactions for March 31, 2009 was \$7.50

The number of the registrant's outstanding shares was 59,573,983 as of October 30, 2009.

DOCUMENTS INCORPORATED BY REFERENCE:

Part III (Items 10, 11, 12, 13 and 14). Registrant's definitive proxy statement to be filed pursuant to Regulation 14A of the Securities Exchange Act of 1934.

Special Notes Regarding Forward-Looking Statements

This Annual Report on Form 10-K, especially "Management's Discussion and Analysis", contains certain "forward-looking statements" within the meaning of the Securities Act of 1933, as amended, the Securities Exchange Act of 1934, as amended, and the Private Securities Litigation Reform Act of 1995. Such statements relate to, among other things, income, earnings, cash flows, revenue, changes in operations, operating improvements, industries in which Griffon Corporation (the "Company" or "Griffon") operates and the United States and global economies. Statements in this Form 10-K that are not historical are hereby identified as "forward-looking statements" and may be indicated by words or phrases such as "anticipates," "supports," "plans," "projects," "expects," "believes," "should," "would," "could," "hope," "forecast," "management is of the opinion," "may," "will," "estimates," "intends," "explores," "opportunities," the negative of these expressions, use of the future tense and similar words or phrases. Such forward-looking statements are subject to inherent risks and uncertainties that could cause actual results to differ materially from those expressed in any forward-looking statements. These risks and uncertainties include, among others: current economic conditions and uncertainties in the housing, credit and capital markets; the Company's ability to achieve expected savings from cost control, integration and disposal initiatives; the ability to identify and successfully consummate and integrate value-adding acquisition opportunities; increasing competition and pricing pressures in the markets served by Griffon's operating companies; the ability of Griffon's operating companies to expand into new geographic and product markets and to anticipate and meet customer demands for new products and product enhancements and innovations; the government reduces military spending on projects supplied by Griffon's Telephonics Corporation; increases in cost of raw materials such as resin and steel; changes in customer demand; political events that could impact the worldwide economy; a downgrade in the Company's credit ratings; international economic conditions including interest rate and currency exchange fluctuations; the relative mix of products and services which impacts margins and operating efficiencies; short-term capacity constraints or prolonged excess capacity; unforeseen developments in contingencies such as litigation; unfavorable results of government agency contract audits of Griffon's subsidiary, Telephonics Corporation; protection and validity of patent and other intellectual property rights; the cyclical nature of the business of certain Griffon operating companies; and possible terrorist threats and actions, and their impact on the global economy. Readers are cautioned not to place undue reliance on these forward-looking statements. These forward-looking statements speak only as of the date made. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

PART I

Item 1. Business

The Company

Griffon Corporation (the "Company" or "Griffon"), is a diversified management and holding company that conducts business through wholly-owned subsidiaries. The Company oversees the operations of its subsidiaries, allocates resources among them and manages their capital structures. The Company provides direction and assistance to its subsidiaries in connection with acquisition and growth opportunities as well as in connection with divestitures. Griffon also seeks out, evaluates and, when appropriate, will acquire additional businesses that offer potentially attractive returns on capital to further diversify itself.

Headquartered in New York, N.Y., the Company was incorporated in New York in 1959, and was reincorporated in Delaware in 1970. It changed its name to Griffon Corporation in 1995.

Griffon currently conducts its operations through Telephonics Corporation, Clopay Building Products Company and Clopay Plastic Products Company.

Telephonics Corporation ("Telephonics") high-technology engineering and manufacturing capabilities provide integrated information, communication and sensor system solutions to military and commercial markets worldwide. Telephonics' revenue was 32% of the Company's consolidated revenue in 2009, 29% in 2008 and 34% in 2007.

Clopay Building Products Company ("Building Products") is a leading manufacturer and marketer of residential, commercial and industrial garage doors to professional installing dealers and major home center retail chains. Building Products' revenue was 33% of the Company's consolidated revenue in 2009, 34% in 2008 and 36% in 2007.

Clopay Plastic Products Company ("Plastics") is an international leader in the development and production of embossed, laminated and printed specialty plastic films used in a variety of hygienic, health-care and industrial applications. Plastics' revenue was 35% of the Company's consolidated revenue in 2009, 37% in 2008 and 30% in 2007.

(Unless otherwise indicated, all references to years or year-end refer to the Company's fiscal period ending September 30)

In 2008, the Company substantially strengthened its balance sheet by refinancing its senior debt and raising \$248.6 million in gross proceeds through a common stock rights offering, along with an investment by GS Direct, L.L.C. ("GS Direct"), an affiliate of Goldman Sachs. The Company intends to use such proceeds for general corporate purposes and to fund growth both through investment in current segments and acquisitions of other businesses outside the current portfolio.

At September 30, 2009, the Company had \$79.4 million outstanding of its 4% convertible subordinated notes due 2023 (the "Notes"). If the common stock price remains below the conversion price of \$22.41 per share, as adjusted for the September 2008 rights offering, the Company anticipates that the noteholders will require the Company to repurchase their outstanding notes in July 2010. As such, these notes are included in Notes payable and current portion of long-term debt in the September 30, 2009 Consolidated Balance Sheet. The Company believes its available cash and liquidity available under credit agreements will be adequate to effect the repurchase of the Notes in July 2010.

As a result of the downturn in the residential housing market, in 2008, the Company exited substantially all of the operating activities of its Installation Services segment; this segment sold, installed and serviced garage doors, garage door openers, fireplaces, floor coverings, cabinetry and a range of related building products primarily for the new residential housing market. Operating results of substantially all of the Installation Services segment have been reported as discontinued operations in the consolidated statements of operations for all periods presented herein, and the Installation

Services segment is excluded from segment reporting (see the Discontinued Operations footnote in the Notes to Consolidated Financial Statements).

The Company makes available, free of charge through its website at www.griffoncorp.com, its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) of the Securities Exchange Act of 1934 as soon as reasonably practicable after such material is filed with or furnished to the Securities and Exchange Commission.

For information regarding revenue, profit and total assets of each segment, see the Business Segments footnote in the Notes to Consolidated Financial Statements.

Reportable Segments:

Telephonics

Telephonics specializes in advanced electronic information and communication systems for defense, aerospace, civil, industrial, and commercial applications for the United States and international markets. Telephonics designs, manufactures, sells, and provides logistical support for aircraft communication systems, radar, air traffic management, information and command and control systems, identification friend or foe ("IFF") equipment, Integrated Homeland Security Systems and custom, mixed-signal, application specific integrated circuits. Telephonics is a leading supplier of airborne maritime surveillance radar and aircraft intercommunication management systems, the segment's two largest product lines. In addition to its traditional defense products used predominantly by the United States Government and its agencies, Telephonics has adapted its core technologies to products used in international markets in an effort to further increase its presence in both non-defense government and commercial markets. In 2009, approximately 71% of the segment's sales were to the United States ("U.S.") Government and agencies thereof, as either a prime or subcontractor, 21% to international customers and 8% to U.S. commercial customers.

Telephonics employs approximately 1,300 employees.

The Company believes that Telephonics' advanced systems and sub-systems are well positioned to address the needs of an electronic battlefield with emphasis on the retrieval and dissemination of timely data for use by highly mobile ground, air and naval forces. Telephonics anticipates that the need for such systems will increase in connection with the increasingly active role that the military is playing in the war on terrorism, both at home and abroad. In recent years, Telephonics has increasingly focused its technologies and core competencies in the Homeland Security and Air Traffic Management markets.

Programs and Products

Telephonics is generally a first-tier supplier to prime contractors in the defense industry such as Lockheed Martin, Boeing, Northrop Grumman, General Dynamics, BAE Systems, MacDonald Dettwiler, Sikorsky Aircraft, the U.S. Department of Defense and the U.S. Department of Homeland Security. The significant contraction and consolidation in the U.S. and international defense industry provides opportunities for established, first-tier suppliers to capitalize on existing relationships with major prime contractors and play a larger role in defense systems development and procurement, for the foreseeable future.

Telephonics, under a primary contract with Syracuse Research Corporation ("SRC"), had been manufacturing counter-IED devices to support the Warlock Duke program. The program entailed the achievement of high production rates, on an accelerated timetable, of equipment designed to defeat roadside bomb threats to U.S. armed forces. The SRC program resulted in revenue of \$18 million in 2008 and \$191 million in 2007 with no revenue in 2009. As a result of its performance on the SRC contract, in 2009, Telephonics received a subcontract award from Sierra Nevada Corporation for both production and support of counter-IED devices which resulted in \$11 million of revenue in 2009.

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Telephonics has directed resources towards Homeland Security Systems and was selected by Boeing Company in 2007 to participate in the Secure Border Initiative net (SBInet) program. Additionally, Telephonics has been fulfilling a contract from the U.S. Customs and Border Protection for mobile surveillance systems as part of the Homeland Security department's initiative to protect the U.S. borders. These two programs represent strategic advances for the Company by allowing it to expand its core technical expertise into the Homeland Security market. Significant future growth is expected in this Market.

Backlog

The funded backlog for Telephonics was approximately \$393 million at September 30, 2009, compared to \$335 million at September 30, 2008. The increase in backlog is primarily attributable to additional funding received for the MH-60R program, a unique, fully integrated multi-mode radar and identification friend or foe interrogator system. Approximately 75% of the current backlog is expected to be filled during 2010.

Sales and Marketing

Telephonics has technical business development personnel who act as the focal point for its marketing activities and sales representatives who introduce its products and systems to customers worldwide.

The U.S. Government through its agencies, Lockheed Martin Corporation and the Boeing Company are significant customers of Telephonics. The loss of these customers would have a material adverse effect on the business; notwithstanding the significance of Lockheed Martin Corporation and Boeing Company, Telephonics sells to a diverse group of other defense industry contractors, and others who use Telephonics products for commercial use.

Telephonics participates in a range of long-term defense and non-military government programs, both in the U.S. and internationally. Telephonics has developed a base of installed products that generate significant recurring revenue from retrofitting, spare parts and customer support. Due to the inherent complexity of defense electronics, Telephonics believes that its incumbent status on major platforms provides a competitive advantage in the selection process for upgrades and enhancements. Furthermore, Telephonics believes that its ability to leverage and apply its advanced technology into new platforms provides a competitive advantage when bidding for new business.

In recent years, the segment has significantly expanded its customer base in international markets. Telephonics' international projects include a contract with MacDonalD Dettwiler as part of Canada's CP-140 Aurora Aircraft Modernization program with General Dynamics for the Canadian Maritime Helicopter Program, and a number of contracts with the Civil Aviation Authority of China for air traffic management systems for Mainland China.

Manufacturing Facilities

Telephonics' facilities are principally located in the United States, primarily in New York, with one facility in Sweden.

Research and Development

In an effort to ensure customer satisfaction and loyalty, Telephonics seeks to anticipate the needs of core markets by investing in research and development to provide solutions well in advance of its competitors. As a result, Telephonics continually updates its core technologies through internally funded research and development while coordinating with its customers at the earliest stages of new program development. The selection of these R&D projects is based on available opportunities in the marketplace, as well as input from Telephonics' customers. Telephonics is a technological leader in its

core markets and intends to pursue new growth opportunities by leveraging its systems design and engineering capabilities and incumbent position on key platforms.

In addition to products for defense programs, Telephonics has also applied its technology to commercial applications such as airborne weather, search and rescue radar, and air traffic management systems. Telephonics' reputation for innovative product design and engineering capabilities, especially in the areas of voice and data communications, radio frequency design, digital signal processing, networking systems, inverse synthetic aperture radar and analog, digital and mixed-signal integrated circuits, will continue to enhance its ability to secure, retain and expand its participation in defense programs and commercial opportunities.

Telephonics often designs its products to exceed customers' minimum specifications, providing its customers with greater performance and flexibility. Telephonics believes that early participation and communication with its customers in the requirements definition stages of new program development, increases the likelihood that its products will be selected and integrated as part of a total system solution.

Competition

As one of the top companies in the industry, Telephonics competes with major manufacturers of electronic information and communication systems, as well as several smaller manufacturers of similar products. Telephonics endeavors to design products with greater performance and flexibility than its competitors while competing on the basis of technology, design, quality and price.

Building Products

Building Products is the largest manufacturer and marketer of residential garage doors and among the largest manufacturers of commercial sectional doors in the United States. Products are sold under Clopay®, Ideal Door® and Holmes® brand names through an extensive distribution network throughout the United States and in Canada. The majority of Building Products' sales are from its garage doors sold for home remodeling, with the balance from new residential housing and commercial building markets. Sales into the home remodeling market are being driven by the continued aging of the housing stock and the trend of improving home appearance, as well as improved energy efficiency, leading to increased demand for insulated doors.

Building Products employs approximately 1,400 employees.

According to industry sources, the residential and commercial sectional garage door market for 2008 was estimated to be \$1.5 billion, declining approximately \$300 million from the prior year.

The garage door industry has been negatively impacted by the recessionary affect on the residential housing market. Key statistics regarding housing sales, construction permits and starts in 2009 and 2008 were substantially lower than the prior decade; however, the housing market appears to be stabilizing. According to the National Association of Home Builders, current data compared to the prior year shows new home starts down 28% with new home sales down 8% and the inventory of new homes stands at a 7.5 month supply. Current year existing home sales are up 9% over the prior year and the inventory of existing homes now stands at a 7.8-month supply.

Products and Service

Building Products manufactures a broad line of residential sectional garage doors with a variety of options at varying prices. Building Products offers garage doors made primarily from several materials, including steel, plastic composite and wood, and also sells related products, such as garage door openers manufactured by third parties.

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Building Products also markets commercial sectional doors; which are similar to residential garage doors, but are designed to meet the more demanding performance specifications of a commercial application.

Sales and Marketing

Building Products distributes its products through a wide range of distribution channels, including installing dealers, retailers and wholesalers. Building Products owns and operates a national network of 49 distribution centers. Additionally, products are sold to approximately 2,000 independent professional installing dealers and to major home center retail chains, including The Home Depot, Inc. ("Home Depot") and Menards, Inc. ("Menards"). Building Products maintains strong relationships with its installing dealers and believes it is the largest supplier of residential garage doors to the retail and professional installing channels.

Over the past decade, a significant number of garage doors have been sold through home center retail chains such as Home Depot and Menards. These home centers sell garage doors to the do-it-yourself consumer, the small residential and commercial contractor, as well as installed residential doors and operators for the do-it-for-me consumer segment. Distribution through the retail channel requires different capabilities and skills than those traditionally utilized by garage door manufacturers. Factors such as immediately available inventory, national distribution, national installation services, point-of-sale merchandising and special packaging are all important to the retailer.

Building Products is the principal supplier of residential garage doors throughout North America to Home Depot and Menards. The loss of either of these customers would have a material adverse effect on the Company's business. Building Products distributes its garage doors directly to customers from its manufacturing facilities and through its distribution centers located throughout the United States and Canada. These distribution centers allow Building Products to maintain an inventory of garage doors near installing dealers and provide quick-ship service to retail and professional dealer customers.

Manufacturing and Raw Materials

As part of its cost structure review, in June 2009, the Company announced plans to consolidate facilities in its Building Products segment. These actions are scheduled to be completed in early calendar 2011, consistent with the plan. The consolidation is expected to produce annual cost savings of approximately \$10 million. The Company estimates that it will incur pre-tax exit and restructuring costs of approximately \$12 million, substantially all of which will be cash charges. These charges include \$2 million for one-time termination benefits and other personnel costs, \$1 million for excess facilities and related costs, and \$9 million in other exit costs primarily in connection with production realignment. In addition, the Company expects to invest approximately \$11 million in capital expenditures in order to effectuate the restructuring plan. These charges and expenditures will occur primarily in 2010 and 2011; Building Products spent \$1.2 million and \$2.0 million in 2009 in connection with the restructuring plan and related capital expenditures, respectively.

The facility consolidation is part of Building Products' continuing efforts to improve and streamline its manufacturing processes. Building Products' engineering and technological expertise, combined with its capital investment programs, generally has enabled it to efficiently manufacture products in large volume and meet changing customer needs in a timely manner. Building Products uses proprietary manufacturing processes to produce the majority of its products. Certain machinery and equipment are internally modified to achieve manufacturing objectives. These manufacturing facilities produce a broad line of high quality garage doors for distribution to professional installer, retail and wholesale channels.

The principal raw material used in Building Products' manufacturing is galvanized steel. Building Products also utilizes certain hardware components, as well as wood and insulated foam. All of these raw materials are generally available from a number of sources.

Research and Development

Building Products operates a technical development center where its research engineers work to design, develop and implement new products and technologies and perform durability and performance testing of new and existing products, materials and finishes. Also at this facility, the process engineering team works to develop new manufacturing processes and production techniques aimed at improving manufacturing efficiencies.

Competition and market conditions

The garage door industry is characterized by several large national manufacturers and many smaller regional and local manufacturers. Building Products competes on the basis of service, quality, price, brand awareness and product design.

Building Products' brand names are widely recognized in the building products industry. Building Products believes that it has earned a reputation among installing dealers, retailers and wholesalers for producing a broad range of innovative, high-quality doors. Building Products' market position and brand recognition are key marketing tools for expanding its customer base, leveraging its distribution network and increasing its market share.

Plastics

Plastics develops and produces specialty plastic films and laminates for a variety of hygienic, health care and industrial uses in the United States and certain international markets. Products include thin gauge embossed and printed films, elastomeric films and laminates of film and non-woven fabrics. These products are used primarily as moisture barriers in disposable infant diapers, adult incontinence products and feminine hygiene products, as protective barriers in single-use surgical and industrial gowns, drapes and equipment covers, as packaging for hygienic products, house wrap and other products. Plastics' products are sold through a direct sales force primarily to multinational consumer and medical products companies.

Plastics employs approximately 1,200 employees.

Plastics has a long and successful relationship with its major customer, Procter & Gamble, Co. ("P&G"). Plastics supplies P&G with a variety of products used primarily for infant diapers, both in the U.S. and internationally.

The markets in which Plastics participates have been affected by several key trends over the past five years. These trends include the increased use of disposable products in developing countries and favorable demographics, including increasing immigration in major global economies. Other trends representing significant opportunities for manufacturers include the continued demand for new advanced products such as cloth-like, breathable, laminated and printed products, and large consumer products companies' need for global supply partners. Notwithstanding the positive trends affecting the industry, design changes by the customer can change the products manufactured by Plastics and the associated demand.

Plastics believes that its business development activities targeting major multinational and regional producers of hygiene, healthcare and related products and its investments in its technology development capability and capacity increases will lead to additional sales of new and related products, minimizing the impact of this reduction.

Products

Plastics' specialty plastic film is a thin-gauge film (typically 0.0005" to 0.003") engineered to provide certain performance characteristics and manufactured from polymer resins. A laminate is the combination of a plastic film and a woven or non-woven fabric. These products are produced using both cast and blown extrusion and laminating processes. High speed, multi-color custom printing of

films and customized embossing patterns further differentiate the products. Plastics' specialty plastic film products typically provide a unique combination of performance characteristics, such as breathability, barrier properties, elastic properties, processability and aesthetic appeal, that meet specific, proprietary customer needs.

Sales and Marketing

Plastics sells its products primarily in North America, Europe, and South and Central America with additional sales in Asia Pacific. Plastics utilizes an internal direct sales force, organized by customer accounts, with Plastics' senior management actively participating in developing and maintaining close contacts with customers.

Plastics' largest customer is P&G, which has accounted for more than 50% of its revenue over the last five years. The loss of this customer would have a material adverse effect on the business; notwithstanding the significance of P&G, Plastics sells to a diverse group of other leading consumer, health care and industrial companies.

Plastics seeks to expand its market presence by capitalizing on technological and manufacturing expertise and on its relationships with major international consumer products companies. Specifically, Plastics believes that it can continue to increase its North American sales and expand internationally through ongoing product development and enhancement, and by marketing its technologically-advanced films, laminates and printed films for use in all of its markets; operations in Germany and Brazil provide a strong platform for additional sales growth in international markets, particularly in Europe and the Middle East.

Research and Development

Plastics is an industry leader in the research, design and development of specialty plastic film and laminate products. Plastics operates a technical center where polymer chemists, scientists and engineers work independently and in strategic partnerships with customers to develop new technologies, products, processes and product applications.

Plastics' research and development efforts have resulted in many inventions covering embossing patterns, improved processing methods, product formulations, product applications and other proprietary technology. Products developed include microporous breathable films and cost-effective printed films and laminates. Microporous breathability provides for moisture vapor transmission and airflow while maintaining barrier properties resulting in improved comfort and skin care. Elastic laminates provide the user with improved comfort and fit. Printed films and laminates provide consumers preferred aesthetics, such as softness and visual appeal. Plastics holds a number of patents for its current specialty film and laminate products and related manufacturing processes; while patents play a significant role, Plastics believes that its proprietary know-how and the knowledge, ability and experience of its employees are more significant to its long-term success.

International Operations

Plastics has two operations in Germany from which it sells plastic films throughout Europe. Additionally, Plastics has operations in Sao Paulo, Brazil which manufactures plastic hygienic and specialty films. Plastics' international operations provide a platform to broaden participation in Europe, the Middle East and South America and strengthen Plastics' position as a global supplier.

Manufacturing and Raw Materials

Specialty plastic film and laminate products are manufactured using high-speed equipment designed to meet stringent tolerances. The manufacturing process consists of melting a mixture of polymer resins (primarily polyethylene) and additives, and forcing this mixture through a computer-controlled die and rollers to produce embossed films. In addition, the lamination process involves

extruding the melted plastic films directly onto a non-woven fabric and bonding these materials to form a laminate. Plastics also manufactures multi-color printed films and laminates.

Plastic resins, such as polyethylene and polypropylene, and non-woven fabrics are the basic raw materials used in the manufacture of substantially all Plastics' products, the price of which has fluctuated dramatically over the past five years. Resins are purchased in pellet form from several suppliers, under supply agreements that do not specify fixed pricing terms. Sources for raw materials are believed to be adequate for current and anticipated needs.

Competition

Plastics has a number of competitors, some of which are larger, in the specialty plastic films and laminates market. Plastics competes on quality, service and price using its technical expertise, product development capabilities and broad international footprint to enhance its market position, build and maintain long-term customer relationships and meet changing customer needs.

Employees

Griffon and its subsidiaries employ approximately 3,900 people located throughout the United States, Canada, Europe and Brazil. Approximately 140 of these employees are covered by a collective bargaining agreement, primarily with an affiliate of the AFL-CIO. The Company believes its relationships with its employees are satisfactory.

Executive Officers of the Registrant

Name	Age	Positions Held and Prior Business Experience
Ronald J. Kramer	51	Chief Executive Officer since April 2008, and director since 1993 and Vice Chairman of the Board since November 2003. From 2002 through March 2008, President and a director of Wynn Resorts, Ltd., a developer, owner and operator of hotel and casino resorts. From 1999 to 2001, Managing Director at Dresdner Kleinwort Wasserstein, an investment banking firm, and its predecessor Wasserstein Perella & Co. Member of the Board of Directors of Leap Wireless International, Inc., a wireless communications company; Sapphire Industrials Corp., a blank check company; and Monster Worldwide, Inc., a global provider of career solutions. Mr. Kramer is the son-in-law of Harvey R. Blau, Griffon's Chairman of the Board.
Douglas J. Wetmore	52	Executive Vice President and Chief Financial Officer since September 2009. From April 1998 to July 2008, Senior Vice President and Chief Financial Officer of International Flavors & Fragrances Inc. ("IFF"), a creator of flavors and fragrances used in a variety of consumer products. From October 2007 to July 2008, Treasurer of IFF. From 1991 to 1998, Corporate Controller of IFF. Prior to IFF, Price Waterhouse for 12 years. Member of the Board of Directors and the Chair of the Audit Committee of Arch Chemicals, Inc., a global biocides company.
Patrick L. Alesia	61	Chief Administrative Officer, since September 2009, Vice President since 1990, Treasurer since 1979, Secretary and Ethics Officer since 2005. Served as Chief Financial Officer from November 2007 to September 2009.

Regulation

The Company's operations are subject to various environmental, health, and employee safety laws. The Company continues to invest to ensure compliance with applicable environmental, health and worker safety laws and government regulations, and believes that it generally complies. Historically, compliance with environmental laws has not materially affected, and is not expected in the future to materially affect, the Company's capital expenditures, earnings or competitive position. Nevertheless, the Company cannot guarantee that, in the future, it will not incur additional costs for compliance or that such costs will not be material.

Telephonics, which sells directly and indirectly to the U.S. government, is subject to certain regulations, laws and standards set by the U.S. government. Additionally, Telephonics is subject to routine audits and investigations by U.S. Government Agencies such as the Defense Contract Audit Agency and other Inspectors General. These agencies review a contractor's performance under its contracts, cost structure and compliance with applicable laws, regulations and standards. These agencies also review the adequacy of, and a contractor's compliance with, its internal control systems and policies, including the contractor's management, purchasing, property, estimating, compensation, and accounting and information systems.

Seasonality

Historically, the Company's revenue and earnings are lowest in its second quarter and highest in its fourth quarter.

Financial Information About Geographic Areas

For geographic financial information, see the Business Segment footnote in the Notes to Consolidated Financial Statements.

Griffon's non-U.S. businesses are primarily in Germany, Canada, Brazil and Sweden.

Research and Development

Griffon's companies are encouraged to improve existing products as well as develop new products to satisfy customer needs; expand revenue opportunities; maintain or extend competitive advantages; increase market share and reduce production costs. Research and development costs, not recoverable under contractual arrangements, are charged to expense as incurred. Research and development costs for Griffon were \$17.8 million in 2009, \$17.5 million in 2008 and \$16.4 million in 2007.

Item 1A. Risk Factors

Griffon's business, financial condition, operating results and cash flows can be impacted by a number of factors which could cause the Company's actual results to vary materially from recent or anticipated future results. The risk factors discussed in this section should be carefully considered with all of the information in this Annual Report on Form 10-K. These risk factors should not be considered the only risk factors facing the Company. Additional risks and uncertainties not presently known or that are currently deemed immaterial may also materially impact Griffon's business, financial condition, operating results and cash flows.

In general, Griffon is subject to the same general risks and uncertainties that impact other diverse manufacturing companies including, but not limited to, general economic, industry and/or market conditions and growth rates; impact of natural disasters and their effect on global markets; continued events in the Middle East and possible future terrorist threats and their effect on the worldwide economy; and changes in laws or accounting rules. The Company has identified the following specific risks and uncertainties that it considers to have the potential to materially effect its business and financial condition.

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Current worldwide economic uncertainty and market volatility could adversely affect Griffon's businesses.

The current worldwide economic uncertainty, market volatility and credit crisis will continue to have an adverse effect on Griffon during 2010, particularly in Building Products, which is substantially linked to the U.S. housing market. Additionally, the current condition of the credit markets could impact the Company's ability to refinance expiring debt, obtain additional credit for investments in current businesses or for acquisitions, with favorable terms, or there may be no financing available. The Company is also exposed to basic economic risks including a decrease in the demand for the products and services offered or a higher risk of default on its receivables.

Adverse trends in the housing sector and in general economic conditions will directly impact Griffon's business.

Building Products' business is influenced by market conditions for new home construction and renovation of existing homes. For the year ended September 30, 2009, approximately 33% of Griffon's consolidated revenue was derived from the Building Products segment which is heavily dependent on new home construction and renovation of existing homes. The strength of the U.S. economy, the age of existing home stock, job growth, interest rates, consumer confidence and the availability of consumer credit, as well as demographic factors such as the migration into the United States and migration of the population within the United States also have an effect on Building Products. In that respect, the significant downturn in the housing market has had an adverse effect on the operating results of Building Products and this effect is likely to continue in 2010.

Griffon operates in highly competitive industries and may be unable to compete effectively.

Griffon's operating companies face intense competition in each of the markets served. There are a number of competitors, some of which are larger and have greater resources than Griffon's operating companies. Griffon competes primarily on the basis of competitive prices, technical expertise, product differentiation, and quality of products and services. There can be no assurance that Griffon will not encounter increased competition in the future, which could have a material adverse effect on the Company's financial results.

The loss of large customers can harm financial results.

A small number of customers account for, and are expected to continue to account for, a substantial portion of consolidated revenue. Approximately 19% of consolidated revenue and 54% of the Plastics segment revenue for the year ended September 30, 2009 was generated from P&G, the largest customer in the Plastics segment. Home Depot and Menards are significant customers of Building Products, and the U.S. Government and its agencies, Lockheed Martin Corporation and the Boeing Company are significant customers of Telephonics. Future operating results will continue to substantially depend on the success of Griffon's largest customers, as well as Griffon's relationship with them. Orders from these customers are subject to fluctuation and may be reduced materially due to changes in these customers' needs. Any reduction or delay in sales of products to one or more of these customers could significantly reduce Griffon's revenue. The Company's operating results will also depend on successfully developing relationships with additional key customers. Griffon cannot assure that the Company's largest customers will be retained or that additional key customers will be recruited.

Increases in raw material costs could adversely impact Griffon's financial condition and operating results.

The Company purchases raw materials from various suppliers. While most key raw materials are generally available from numerous sources, raw materials are subject to fluctuations in price. Because raw materials in the aggregate constitute a significant component of the cost of goods sold, price fluctuations could have a material adverse effect on Griffon's results of operations. In recent years, there have been price increases in steel and plastic resins, which are the basic raw materials used in the

manufacture of Building Products and Plastics' products, respectively. The Company's ability to pass raw material price increases to customers is limited due to supply arrangements and competitive pricing pressure, and there is generally a time lag between increased costs and implementation of related price increases. In particular, sharp increases in raw material prices are more difficult to pass through to customers and may negatively affect short-term financial performance.

Trends in the baby diaper market will directly impact Griffon's business.

Recent trends have been for baby diaper manufacturers to specify thinner plastic films for use in their products which reduces the amount of product sold and Plastics' revenue; this trend has generally resulted in Plastics incurring costs to redesign and reengineer products to accommodate the specification change. Such decreases, or the inability to meet changing customer specifications, could result in a decline in revenue and profit.

Telephonics' business depends heavily upon government contracts.

Telephonics sells products to the U.S. government and its agencies both directly, and indirectly, as a first-tier supplier to prime contractors in the defense industry, such as Boeing, Lockheed Martin and Northrop Grumman. In the year ended September 30, 2009, U.S. government contracts and subcontracts accounted for approximately 23% of Griffon's consolidated revenue. Contracts involving the U.S. government may include various risks, including:

termination by the government;

reduction or modification in the event of changes in the government's requirements or budgetary constraints;

increased, or unexpected costs, causing losses or reduced profits under contracts where Telephonics' prices are fixed, or costs are not allowable under the government contract;

the failure or inability of the prime contractor to perform its contract in circumstances where Telephonics is a subcontractor;

failure to observe and comply with government business practice and procurement regulations such that Telephonics could be suspended or barred from bidding on or receiving awards of new government contracts;

the failure of the government to exercise options for additional work provided for in contracts; and

the government's right, in certain circumstances, to freely use technology developed under these contracts.

The programs in which Telephonics participates may extend for several years, but are normally funded on an incremental basis. The U.S. government may not continue to fund programs to which development projects apply. Even if funding is continued, Telephonics may fail to compete successfully to obtain funding pursuant to such programs.

Telephonics' business could be adversely affected by a negative audit by the U.S. Government

As a government contractor, and a subcontractor to government contractors, Telephonics is subject to audits and investigations by U.S. Government Agencies such as the Defense Contract Audit Agency, other Inspectors General and the Department of Justice. These agencies review a contractor's performance under its contracts, cost structure and compliance with applicable laws, regulations and standards. These agencies also review the adequacy of, and a contractor's compliance with, its internal control systems and policies, including the contractor's management, purchasing, property, estimating, compensation, and accounting and information systems. Any costs found to be misclassified or improperly allocated to a specific contract will not be reimbursed or must be refunded if already billed

and collected. The Company could incur significant expenses in complying with audits and subpoenas issued by the government in aid of inquiries and investigations. If an audit or an investigation uncovers improper or illegal activities, Telephonics may be subject to civil and criminal penalties and/or administrative sanctions, which could include contract termination, forfeiture of profit, suspension of payments, fines and suspension or prohibition from doing business with the U.S. Government. In addition, if allegations of impropriety are made, Telephonics and Griffon could suffer serious reputational harm.

Griffon's companies must continually improve existing products, design and sell new products and invest in research and development in order to compete effectively.

The markets for Plastics and Telephonics are characterized by rapid technological change, evolving industry standards and continuous improvements in products. Due to constant changes in these markets, future success depends on their ability to develop new technologies, products, processes and product applications.

Product and technological developments are accomplished both through internally-funded research and development projects, as well as through strategic partnerships with customers. Because it is not generally possible to predict the amount of time required and costs involved in achieving certain research and development objectives, actual development costs may exceed budgeted amounts and estimated product development schedules may be extended. Griffon's financial condition and results of operations may be materially and adversely affected if:

product improvements are not completed on a timely basis;

new products are not introduced on a timely basis or do not achieve sufficient market penetration;

there are budget overruns or delays in research and development efforts; or

new products experience reliability or quality problems.

Griffon may be unable to implement its acquisition growth strategy, which may result in added expenses without a commensurate increase in revenue and income and divert management's attention.

Making strategic acquisitions is a significant part of Griffon's growth plans; such growth will depend on identifying and acquiring, on acceptable terms, companies that either complement or enhance currently held businesses or expand Griffon into new profitable businesses. Additionally, Griffon must properly integrate acquired businesses in order to maximize profitability. The competition for acquisition candidates is intense and Griffon cannot assure that it will successfully identify acquisition candidates and complete acquisitions at reasonable purchase prices, in a timely manner or at all. Further, there is a risk that acquisitions will not be properly integrated into Griffon's existing structure. In implementing an acquisition growth strategy, the following may be encountered:

costs associated with incomplete or poorly implemented acquisitions;

expenses, delays and difficulties of integrating acquired companies into Griffon's existing organization;

dilution of the interest of existing stockholders; or

diversion of management's attention.

An unsuccessful implementation of Griffon's acquisition growth strategy could have an adverse impact on the results of operations, cash flows and financial condition.

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There may be unforeseen expenses in connection with the exit from substantially all operating activities of the Installation Services segment.

As a result of the downturn in the residential housing market and the impact on the Installation Services segment, the Board of Directors of Griffon approved a plan to exit substantially all operating activities of the Installation Services segment in May 2008. The Company has substantially completed its disposal activities in the first half of 2009 and does not expect to incur significant expenses in the future. However, there are remaining obligations, primarily related to the guarantee of assigned leases that could affect future results of operations and net cash outflows.

The loss of certain key officers or employees could adversely affect Griffon's business.

The success of Griffon is materially dependent upon the continued services of certain key officers and employees. The loss of such key personnel could have a material adverse effect on Griffon's operating results or financial condition.

Griffon's businesses are subject to seasonal variations.

Griffon's revenue and income are typically lowest in the second quarter ending March 31 and highest in the fourth quarter ending September 30 primarily due to the seasonality of Building Products' business. Building Products' revenue is driven by residential renovation and construction which is generally at reduced levels during the winter months. Because a high percentage of manufacturing overhead and operating expenses are relatively fixed throughout the year, operating margins have historically been lower in quarters with lower revenue.

The Company is exposed to a variety of risks relating to non-U.S. sales and operations, including non-U.S. economic and political conditions and fluctuations in exchange rates.

Griffon and its companies own properties and conduct operations in Europe, Canada and South America. Sales of products through non-U.S. subsidiaries accounted for approximately 31% of consolidated revenue for the year ended September 30, 2009. These sales could be adversely affected by changes in political and economic conditions, trade protection measures, differing intellectual property rights laws and changes in regulatory requirements that restrict the sales of products or increase costs. Currency fluctuations between the U.S. dollar and the currencies in the non-U.S. regions in which the Company does business may also have an impact on future reported financial results.

The Company may not be able to protect its proprietary rights.

The Company relies on a combination of patent, copyright and trademark laws, trade secrets, confidentiality and non-disclosure agreements and other contractual provisions to protect proprietary rights. Such measures do not provide absolute protection and Griffon cannot give assurance that measures for protecting these proprietary rights are and will be adequate, or that competitors will not independently develop similar technologies.

The Company may inadvertently infringe on, or may be accused of infringing on, proprietary rights held by another party.

The Company is regularly improving its technology and employing existing technologies in new ways. Though the Company takes reasonable precautions to ensure it does not infringe on the rights of others, it is possible that the Company may inadvertently infringe on, or may be accused of infringing on, proprietary rights held by others. If the Company is found to have infringed on the propriety rights held by others, any related settlement for such infringement may have a material effect on the Company's financial statements and financial condition.

The Company is exposed to product liability claims.

The Company may be the subject of product liability claims relating to the performance of its products or the performance of a product in which its products were a component part. There can be no assurance that future product liability claims will not be brought against the Company, either by an injured customer of an end product manufacturer who used one of the products as a component or by a direct purchaser. Moreover, no assurance can be given that indemnification from customers or coverage under insurance policies will be adequate to cover future product liability claims against the Company. In addition, product liability insurance can be expensive, difficult to maintain and may be unobtainable in the future on acceptable terms. The amount and scope of any insurance coverage may be inadequate if a product liability claim is successfully asserted. Furthermore, if any significant claims are made, the business and the related financial condition of the Company may be adversely affected by negative publicity.

The Company has been, and may in the future be, subject to claims and liabilities under environmental laws and regulations.

The Company's operations and assets are subject to environmental laws and regulations pertaining to the discharge of materials into the environment, the handling and disposal of wastes, including solid and hazardous wastes, or otherwise relating to health, safety and protection of the environment in various jurisdictions in which it operates. The Company does not expect to make any expenditure with respect to ongoing compliance with or remediation under these environmental laws and regulations that would have a material adverse effect on its business, operating results or financial condition. However, the applicable requirements under the law may change at any time.

The Company can incur environmental costs related to sites that are no longer owned or operated, as well as third-party sites to which hazardous materials are sent. It cannot be assured that material expenditures or liabilities will not be incurred in connection with such claims. See the Commitment and Contingencies footnote in the Notes to Consolidated Financial Statements for further information on environmental contingencies. Based on facts presently known, the outcome of current environmental matters are not expected to have a material adverse effect on the Company's results of operations and financial condition. However, presently unknown environmental conditions, changes in environmental laws and regulations or other unanticipated events may give rise to claims that may involve material expenditures or liabilities.

Changes in income tax laws and regulations or exposure to additional income tax liabilities could adversely affect profitability.

The Company is subject to federal, state and local income taxes in the United States and in various taxing jurisdictions outside the United States. Tax provisions and liabilities are subject to the allocation of income among various U.S. and international tax jurisdictions. The Company's effective tax rate could be adversely affected by changes in the mix of earnings in countries with differing statutory tax rates, changes in any valuation allowance for deferred tax assets or the amendment or enactment of tax laws. The amount of income taxes paid is subject to audits by U.S. Federal, state and local tax authorities, as well as tax authorities in the taxing jurisdictions outside the United States. If such audits result in assessments different from recorded income tax liabilities, the Company's future financial results may include unfavorable adjustments to its income tax provision.

Compliance with restrictions and covenants in the Company's debt agreements may limit its ability to take corporate actions and harm its business.

The credit agreements entered into by certain of Griffon's subsidiaries contain covenants that restrict their ability to incur additional debt and to pay dividends. Under the respective credit agreements, these subsidiaries are also required to comply with specific financial ratios and tests. These subsidiaries may not be able to comply in the future with these covenants or restrictions as a result of

events beyond their control, such as prevailing economic, financial and industry conditions or a change in control of the Company. If a subsidiary defaults in maintaining compliance with the covenants and restrictions in its credit agreement, its lenders could declare all of the principal and interest amounts outstanding due and payable and terminate their commitments to extend credit to the subsidiary in the future. If the subsidiary or the Company is unable to secure credit in the future, business could be harmed.

The Company's inability to repurchase outstanding convertible notes as required under the indenture may cause an event of default under other agreements.

On July 18, 2010, 2013, 2018, as well as upon a change in control, as defined in the indenture, noteholders will have the right to require repurchase of their notes. If the Company's common stock price is below the debenture's conversion price (\$22.41 per share) on the earliest of these dates, it is anticipated that noteholders will require the repurchase of their notes. If sufficient funds are not available to pay the repurchase price for all of the notes tendered, an event of default under the indenture governing the notes would occur as a result of such failure, which could have a material adverse effect on the Company. At September 30, 2009, \$79.4 million of convertible notes were outstanding.

Reported earnings per share may be more volatile because of the conversion contingency provision of the notes.

The outstanding convertible notes are convertible when a "market price" condition is satisfied and also upon the occurrence of other circumstances as more fully described in the Notes Payable, Capitalized Leases and Long-Term Debt footnote in the Notes to Consolidated Financial Statements. Upon conversion, noteholders will receive \$1,000 in cash for each \$1,000 principal amount of notes presented for conversion. The excess of the value of Griffon's common stock that would have been issuable upon conversion over the cash delivered will be settled in shares of common stock. These shares are considered in the calculation of diluted earnings per share and volatility in Griffon's stock price could cause these notes to be dilutive in one quarter and not in a subsequent quarter, increasing the volatility of fully diluted earnings per share.

Griffon may be unable to raise additional financing if needed

Griffon may need to raise additional financing in the future in order to implement its business plan, refinance debt, or to acquire new businesses or products. Any required additional financing may be unavailable at favorable terms, or at all, due to uncertainties in the credit market. If Griffon raises additional funds by issuing equity securities, current holders of its common stock may experience significant ownership interest dilution and these securities may have rights senior to the rights associated with current outstanding common stock.

The Company's indebtedness and interest expense could limit cash flow and adversely affect operations and the Company's ability to make full payment on outstanding debt.

The Company's indebtedness poses potential risks such as:

a substantial portion of cash flows from operations could be used to pay principal and interest on debt, thereby reducing the funds available for working capital, capital expenditures, acquisitions, product development and other general corporate purposes;

insufficient cash flows from operations may force the Company to sell assets, or seek additional capital, which the Company may not be able to accomplish on favorable terms, if at all; and

the level of indebtedness may make the Company more vulnerable to economic or industry downturns.

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The Company has the ability to issue additional equity securities, which would lead to dilution of issued and outstanding common stock.

The issuance of additional equity securities or securities convertible into equity securities would result in dilution to existing stockholders' equity interests. The Company is authorized to issue, without stockholder vote or approval, 3,000,000 shares of preferred stock in one or more series, and has the ability to fix the rights, preferences, privileges and restrictions of any such series. Any such series of preferred stock could contain dividend rights, conversion rights, voting rights, terms of redemption, redemption prices, liquidation preferences or other rights superior to the rights of holders of Griffon's common stock. There is no present intention of issuing any such preferred stock, but the Company reserves the right to do so in the future. In addition, the Company is authorized to issue, without stockholder approval, up to 85,000,000 shares of common stock, of which approximately 59,573,983 shares, net of treasury shares, were outstanding as of September 30, 2009. Additionally, the Company is authorized to issue, without stockholder approval, securities convertible into either shares of common stock or preferred stock.

Item 1B. Unresolved Staff Comments

None.

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Item 2. Properties

The Company occupies approximately 4,800,000 square feet of general office, factory and warehouse space throughout the United States, Germany, Sweden and Brazil. For a description of the encumbrances on certain of these properties, see the Notes Payable, Capitalized Leases and Long-Term Debt footnote in the Notes to Consolidated Financial Statements. The following table sets forth certain information related to the Company's major facilities:

Location	Business Segment	Primary Use	Approx. Square Footage	Owned/Leased	Lease End Year
New York, NY	Corporate	Headquarters	6,600	Leased	2016
Jericho, NY	Corporate	Office	6,900	Leased	2014
Farmingdale, NY	Telephonics	Manufacturing/R&D	193,000	Owned	
Huntington, NY	Telephonics	Manufacturing	94,000	Owned	
Huntington, NY	Telephonics	Manufacturing	55,000	Leased	2015
Huntington, NY	Telephonics	Manufacturing	98,000	Leased	2016
Melville, NY	Telephonics	Manufacturing	23,000	Leased	2014
Columbia, MD	Telephonics	Manufacturing	25,000	Leased	2013
Gardena, CA	Telephonics	Repairs	10,000	Leased	2014
Stockholm, Sweden	Telephonics	Manufacturing/Engineering	22,000	Leased	2012
Elizabeth City, NC	Telephonics	Repair and Service	22,000	Leased	2049
Mason, OH	Clopay Building Products/Clopay Plastic Products	Office/R&D	131,000	Owned	
Aschersleben, Germany	Clopay Plastic Products	Manufacturing	289,000	Owned	
Dombuhl, Germany	Clopay Plastic Products	Manufacturing	124,000	Owned	
Augusta, KY	Clopay Plastic Products	Manufacturing	275,000	Owned	
Nashville, TN	Clopay Plastic Products	Manufacturing			