GRIFFON CORP
Form 10-Q
May 06, 2010
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2010

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

For the transition period from to

Commission File Number: 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 Ave, 18th Floor, New York, New York (Address of principal executive offices)	**10019** (Zip Code)

(212) 957-5000

(Registrant s telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, 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 shorter period that the registrant was required to submit and post such files). o Yes o No

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date. 59,627,781 shares of Common Stock as of April 30, 2010.

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Griffon Corporation and Subsidiaries

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Part I Financial Information

Item 1 Financial Statements

GRIFFON CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands)

	(Unaudited) At March 31, 2010		At September 30, 2009	
CURRENT ASSETS				
Cash and equivalents	$	348,442	$	320,833
Accounts receivable, net of allowances of $4,720 and $4,457		188,340		164,619
Contract costs and recognized income not yet billed, net of progress payments of $23,186 and $14,592		74,798		75,536
Inventories, net		135,711		139,170
Prepaid and other current assets		34,433		39,261
Assets of discontinued operations		1,551		1,576
Total Current Assets		783,275		740,995
PROPERTY, PLANT AND EQUIPMENT, net		232,016		236,019
GOODWILL		94,214		97,657
INTANGIBLE ASSETS, net		31,085		34,211
OTHER ASSETS		21,266		29,132
ASSETS OF DISCONTINUED OPERATIONS		5,215		5,877
Total Assets	$	1,167,071	$	1,143,891
CURRENT LIABILITIES				
Notes payable and current portion of long-term debt net of debt discount of $733 and $2,820	$	51,261	$	78,590
Accounts payable		127,243		125,027
Accrued and other current liabilities		54,357		61,120
Liabilities of discontinued operations		4,647		4,932
Total Current Liabilities		237,508		269,669
LONG-TERM DEBT, net of debt discount of $23,847 and $0		150,360		98,394
OTHER LIABILITIES		73,069		78,837
LIABILITIES OF DISCONTINUED OPERATIONS		7,853		8,784
Total Liabilities		468,790		455,684
COMMITMENTS AND CONTINGENCIES				
SHAREHOLDERS EQUITY				
Total Shareholders Equity		698,281		688,207
Total Liabilities and Shareholders Equity	$	1,167,071	$	1,143,891

GRIFFON CORPORATION

CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS EQUITY

(Unaudited)

(in thousands)	COMMON STOCK SHARES	COMMON STOCK PAR VALUE	CAPITAL IN EXCESS OF PAR VALUE	RETAINED EARNINGS	TREASURY SHARES SHARES	TREASURY SHARES COST	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	DEFERRED ESOP COMPENSATION	Total
Balance at 9/30/2009	72,040	$ 18,010	$ 438,843	$ 421,992	12,466	$ (213,560)	$ 28,170	$ (5,248)	$ 688,207
Net income				6,324					6,324
Common stock issued for options exercised	45	12	274						286
Tax benefit from the exercise of stock options			99						99
Amortization of deferred compensation								313	313
Restricted stock vesting	9	2	(2)						
ESOP distribution of common stock			93						93
Stock-based compensation			2,922					13	2,935
Translation of foreign financial statements							(14,437)		(14,437)
Issuance of convertible debt, net			13,685						13,685
Pension OCI amortization, net of tax							776		776
Balance at 3/31/2010	72,094	$ 18,024	$ 455,914	$ 428,316	12,466	$ (213,560)	$ 14,509	$ (4,922)	$ 698,281

The accompanying notes to condensed consolidated financial statements are an integral part of these statements.

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GRIFFON CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)

(Unaudited)

	Three Months Ended March 31, 2010	Three Months Ended March 31, 2009	Six Months Ended March 31, 2010	Six Months Ended March 31, 2009
Revenue	$ 313,977	$ 276,087	$ 619,134	$ 578,421
Cost of goods and services	244,907	222,112	479,783	465,489
Gross profit	69,070	53,975	139,351	112,932
Selling, general and administrative expenses	64,055	55,545	126,016	112,073
Restructuring and other related charges	1,220		2,231	
Total operating expenses	65,275	55,545	128,247	112,073
Income (loss) from operations	3,795	(1,570)	11,104	859
Other income (expense)				
Interest expense	(3,729)	(3,814)	(6,699)	(7,563)
Interest income	192	231	254	667
Gain (loss) from debt extinguishment, net	12		(6)	4,304
Other, net	589	(200)	1,216	(557)
Total other income (expense)	(2,936)	(3,783)	(5,235)	(3,149)
Income (loss) before taxes and discontinued operations	859	(5,353)	5,869	(2,290)
Income tax benefit	(1,175)	(3,277)	(345)	(2,280)
Income (loss) from continuing operations	2,034	(2,076)	6,214	(10)
Discontinued operations:				
Income (loss) from operations of the discontinued Installation Services business	(1)	1,046	169	1,051
Income tax provision		397	59	399
Income (loss) from discontinued operations	(1)	649	110	652
Net income (loss)	$ 2,033	$ (1,427)	$ 6,324	$ 642
Basic earnings per common share:				
Income (loss) from continuing operations	$ 0.03	$ (0.04)	$ 0.11	$ 0.00
Income from discontinued operations	0.00	0.01	0.00	0.01
Net income (loss)	0.03	(0.02)	0.11	0.01
Weighted-average shares outstanding	58,977	58,467	58,906	58,660
Diluted earnings per common share:				
Income (loss) from continuing operations	$ 0.03	$ (0.04)	$ 0.10	$ 0.00
Income from discontinued operations	0.00	0.01	0.00	0.01
Net income (loss)	0.03	(0.02)	0.11	0.01
Weighted-average shares outstanding	59,939	58,467	59,769	58,745

Note: Due to rounding, the sum of earnings per share of Continuing operations and Discontinued operations may not equal earnings per share of Net income.

The accompanying notes to condensed consolidated financial statements are an integral part of these statements.

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GRIFFON CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(Unaudited)

	Six Months Ended March 31, 2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 6,324	$ 642
Adjustments to reconcile net income to net cash provided by operating activities:		
Income from discontinued operations	(110)	(652)
Depreciation and amortization	20,208	20,910
Long-term debt discount	2,102	1,924
Stock-based compensation	2,935	1,841
Provisions for losses on account receivable	1,138	379
Amortization/write-off of deferred financing costs	609	691
Loss (gain) from debt extinguishment, net	6	(4,304)
Deferred income taxes	(4,384)	(3,537)
Change in assets and liabilities:		
(Increase) decrease in accounts receivable and contract costs and recognized income not yet billed	(26,170)	14,680
Decrease in inventories	1,998	9,582
Decrease in prepaid and other assets	4,170	1,277
Decrease in accounts payable, accrued liabilities and income taxes payable	(3,724)	(36,914)
Other changes, net	409	(1,618)
Net cash provided by operating activities	5,511	4,901
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of property, plant and equipment	(17,689)	(12,088)
(Increase) decrease in equipment lease deposits	28	(345)
Net cash used in investing activities	(17,661)	(12,433)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of shares from rights offering		5,274
Proceeds from issuance of long-term debt	100,000	10,431
Payments of long-term debt	(53,897)	(40,854)
Increase in short-term borrowings		904
Financing costs	(4,145)	(227)
Purchase of ESOP shares		(4,370)
Exercise of stock options	285	
Tax benefit from exercise of options/vesting of restricted stock	99	
Other, net	37	629
Net cash provided by (used in) financing activities	42,379	(28,213)
CASH FLOWS FROM DISCONTINUED OPERATIONS:		
Net cash used in operating activities of discontinued operations	(269)	(759)
Net cash used in discontinued operations	(269)	(759)

Effect of exchange rate changes on cash and equivalents		(2,351)		(1,102)
NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS		27,609		(37,606)
CASH AND EQUIVALENTS AT BEGINNING OF PERIOD		320,833		311,921
CASH AND EQUIVALENTS AT END OF PERIOD	$	348,442	$	274,315

The accompanying notes to condensed consolidated financial statements are an integral part of these statements.

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GRIFFON CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except share and per share data)

(Unaudited)

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

NOTE 1 DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

About Griffon Corporation

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.

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

- Telephonics high-technology engineering and manufacturing capabilities provide integrated information, communication and sensor system solutions to military and commercial markets worldwide.

- 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.

- 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.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, these financial statements do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. As such, they should be read with reference to the Company s Annual Report on Form 10-K for the year ended September 30, 2009, which provides a more complete explanation of the Company s accounting policies, financial position, operating results, business properties and other matters, and with the Company s Current Report on Form 8-K filed on February 4, 2010, updating the Form 10-K for the retroactive application of new accounting guidance for convertible debt (see below). In the opinion of management, these financial statements reflect all adjustments considered necessary for a fair statement of interim results. The results of operations of any interim period are not necessarily indicative of the results for the full year.

The unaudited condensed consolidated balance sheet information at September 30, 2009 was derived from the audited financial statements included in the Company s Current Report on Form 8-K filed on February 4, 2010, updating the Company s Annual Report on Form 10-K for the year ended September 30, 2009.

In preparing its consolidated financial statements, the Company is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. On an ongoing basis, the Company evaluates estimates, including those related to bad debts, inventory reserves, goodwill and intangible assets. The Company bases its estimates on historical data and experience, when available, and on various

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other assumptions that the Company believes are reasonable, the combined results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from those estimates.

Certain prior period amounts have been reclassified to conform to the current period presentation.

In May 2008, the Financial Accounting Standards Board (FASB) issued new guidance to clarify that the liability and equity components of convertible debt instruments that may be settled in cash upon conversion (including partial cash settlement) must be separately accounted for in a manner that will reflect the entity s nonconvertible debt borrowing rate when interest cost is recognized. This guidance, which is applicable to the Company s 4% convertible subordinated notes due 2023 issued in 2003 (the 2023 Notes) and 4% convertible subordinated notes due 2017 issued in December 2009 (the 2017 Notes), became effective for the Company as of October 1, 2009 and is implemented retrospectively, as required, for the 2023 Notes. For more information, see the Long-Term Debt footnote.

At March 31, 2010, the 2023 Notes had an outstanding balance of $49,998, an unamortized discount of $733, a net carrying value of $49,265 and a capital in excess of par value component balance, net of tax, of $17,061. At September 30, 2009, the 2023 Notes had an outstanding balance of $79,380, an unamortized discount balance of $2,820, a net carrying value of $76,560 and a capital in excess of par value component balance, net of tax, of $18,094. The stock price was below the conversion price for all periods presented. The Company used 8.5% as the nonconvertible debt borrowing rate to discount the 2023 Notes and will amortize the debt discount through July 2010. For more information, see the Long-Term Debt footnote.

For the 2023 Notes, the effective interest rate and interest expense was as follows:

	Three Months Ended March 31,				Six Months Ended March 31,			
(dollar amounts in thousands)	**2010**		**2009**		**2010**		**2009**	
Effective interest rate		9.0%		8.8%		9.0%		9.0%
Interest expense related to the coupon	$	534	$	945	$	1,328	$	2,008
Amortization of the discount		565		923		1,386		1,931
Amortization of deferred issuance costs		59		93		137		198
Total interest expense on the 2023 Notes	$	1,158	$	1,961	$	2,851	$	4,137

The cumulative effect of the adjustments prior to September 30, 2009 was recorded in the September 30, 2009 balance sheet as follows:

Balance Sheet

(in thousands)

	As of September 30, 2009		
	As Reported	**Change**	**As Adjusted**

Other Assets	$	30,648	$	(1,516)	$	29,132
All other assets		1,114,759				1,114,759
Total Assets	$	1,145,407	$	(1,516)	$	1,143,891
Notes payable & current portion of LT debt	$	81,410	$	(2,820)	$	78,590
All other liabilities		377,094				377,094
Total liabilities		458,504		(2,820)		455,684
Capital in excess of par value		420,749		18,094		438,843
Retained earnings		438,782		(16,790)		421,992
All other shareholders equity		(172,628)				(172,628)
Total Shareholders Equity		686,903		1,304		688,207
Total Liabilities and shareholders equity	$	1,145,407	$	(1,516)	$	1,143,891

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The prior year three and six month periods have been adjusted as follows:

Statement of Operations

(in thousands, except per share data)

	Three Months Ending March 31, 2009			Six Months Ending March 31, 2009		
	As Reported	**Change**	**As Adjusted**	**As Reported**	**Change**	**As Adjusted**
Income (loss) from operations	$ (1,570)	$	$ (1,570)	$ 859	$	$ 859
Other income (expense)						
Interest expense	(2,919)	(895)	(3,814)	(5,633)	(1,930)	(7,563)
Interest income	231		231	667		667
Gain from debt extinguishment, net				6,714	(2,410)	4,304
Other, net	(200)		(200)	(557)		(557)
Total other income (expense)	(2,888)	(895)	(3,783)	1,191	(4,340)	(3,149)
Income (loss) before taxes and discontinued operations	(4,458)	(895)	(5,353)	2,050	(4,340)	(2,290)
Provision (benefit) for income taxes	(2,955)	(322)	(3,277)	(718)	(1,562)	(2,280)
Income (loss) from continuing operations	(1,503)	(573)	(2,076)	2,768	(2,778)	(10)
Income from discontinued operations	649		649	652		652
Net income (loss)	$ (854)	$ (573)	$ (1,427)	$ 3,420	$ (2,778)	$ 642
Basic earnings per share						
Income from continuing operations	$ (0.03)		$ (0.04)	$ 0.05		$ (0.00)
Discontinued operations	0.01		0.01	0.01		0.01
Net income	$ (0.01)		$ (0.02)	$ 0.06		$ 0.01
Diluted earnings per share						
Income from continuing operations	$ (0.03)		$ (0.04)	$ 0.05		$ (0.00)
Discontinued operations	0.01		0.01	0.01		0.01
Net income	$ (0.01)		$ (0.02)	$ 0.06		$ 0.01

On December 21, 2009, the Company issued $100,000 aggregate principal amount of the 2017 Notes. The Company used 8.75% as the nonconvertible debt-borrowing rate to discount the 2017 Notes and will amortize the debt discount through January 2017. On the date of issuance, the debt component of the 2017 Notes was $75,437 and the debt discount was $24,563. At March 31, 2010, the 2017 Notes had an outstanding balance of $100,000, an unamortized discount balance of $23,847, a net carrying value of $76,153 and a capital in excess of par component balance, net of tax, of $15,720.

For the 2017 Notes, the effective interest rate and interest expense was as follows:

(dollar amounts in thousands)	Three Months Ended March 31, 2010	Six Months Ended March 31, 2010
Effective interest rate	9.2%	9.2%
Interest expense related to the coupon	$ 1,000	$ 1,100
Amortization of the discount	650	715
Amortization of deferred issuance costs	108	108
Total interest expense on the 2017 Notes	$ 1,758	$ 1,923

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NOTE 2 FAIR VALUE MEASUREMENTS

Items Measured at Fair Value on a Recurring Basis

Each quarter, cash and equivalents and the deferred non-qualified retirement plan assets are measured and recorded at fair value based upon quoted prices in active markets for identical assets and liabilities. Life insurance contracts were $4,766 at March 31, 2010 and $4,803 at September 30, 2009. Additionally, accounts receivable and accounts payable approximate fair value due to their short-term nature. Refer to the Long-Term Debt footnote for discussion on the fair value of long-term debt.

NOTE 3 INVENTORIES

Inventories, stated at the lower of cost (first-in, first-out or average) or market, were comprised of the following:

(in thousands)	**At March 31, 2010**	**At September 30, 2009**
Raw materials and supplies	$ 35,014	$ 38,943
Work in process	56,712	66,741
Finished goods	43,985	33,486
Total	$ 135,711	$ 139,170

NOTE 4 PROPERTY PLANT AND EQUIPMENT

Property, plant and equipment were comprised of the following:

(in thousands)	**At March 31, 2010**	**At September 30, 2009**
Land, building and building improvements	$ 107,509	$ 110,617
Machinery and equipment	429,223	423,742
Leasehold improvements	26,649	23,390
	563,381	557,749
Accumulated depreciation and amortization	(331,365)	(321,730)
Total	$ 232,016	$ 236,019

No event or indicator of impairment occurred during the three and six months ended March 31, 2010, which would require additional impairment testing of property, plant and equipment.

NOTE 5 GOODWILL AND OTHER INTANGIBLES

The following table provides the changes in carrying value of goodwill by segment during the six months ended March 31, 2010.

(in thousands)		At September 30, 2009		Other adjustments including currency translations		At March 31, 2010
Telephonics	$	18,545	$		$	18,545
Building Products						
Plastics		79,112		(3,443)		75,669
Total	$	97,657	$	(3,443)	$	94,214

No event or indicator of impairment occurred during the three and six months ended March 31, 2010, which would require impairment testing of goodwill.

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The following table provides the gross carrying value and accumulated amortization for each major class of intangible asset:

	At March 31, 2010		Average	At September 30, 2009	
(dollar amounts in thousands)	Gross Carrying Amount	Accumulated Amortization	Life (Years)	Gross Carrying Amount	Accumulated Amortization
Customer relationships	$ 28,345	$ 5,833	25	$ 30,650	$ 5,628
Unpatented technology	8,729	746	12	2,990	349
Total amortizable intangible assets	37,074	6,579	22	33,640	5,977
Trademark	590			590	
Unpatented technology				5,958	
Total intangible assets	$ 37,664	$ 6,579		$ 40,188	$ 5,977

An unpatented intangible asset with a gross carrying amount of $5,958 at October 1, 2009 was reclassified from indefinite lived to amortizable, as information became available that allowed a useful life to be determined; the intangible asset is being amortized over 10 years, its estimated useful life, with effect from October 1, 2009.

No event or indicator of impairment occurred during the three and six months ended March 31, 2009, which would require additional impairment testing of long-lived intangible assets excluding goodwill.

NOTE 6 INCOME TAXES

The Company s effective tax rate for continuing operations for the quarter ended March 31, 2010 was a benefit of 137% of income before taxes, compared to a benefit of 61.2% of the 2009 quarter s loss before income taxes. The 2010 quarter benefited from resolution of certain non-domestic tax audits resulting in the release of $1,541 of tax and accrued interest from previously established reserves for uncertain tax positions. The prior year quarter benefited from tax planning, primarily with respect to foreign tax credits.

The Company s effective tax rate for continuing operations for the six months ended March 31, 2010 was a benefit of 5.9% of income before taxes, compared to 99% of the prior year period loss before income taxes. The 2010 period benefited from resolution of certain non-domestic tax audits resulting in the release of $1,541 of tax and accrued interest from previously established reserves for uncertain tax positions. The prior year period benefited from tax planning, primarily with respect to foreign tax credits.

Excluding the above discrete period items, the effective tax rate on continuing operations for the quarter and six month period ended March 31, 2010 would have been an expense of 26.6% and 25.5%, respectively, of income before taxes. The effective tax rate for the 2009 quarter and six month period ended March 31, 2009, excluding the tax planning items, would have been a benefit on the loss before income taxes of 30% and 35.1%, respectively.

NOTE 7 LONG-TERM DEBT

In June 2008, Building Products and Plastics entered into a credit agreement for their domestic operations with JPMorgan Chase Bank, N.A., as administrative agent, and the lenders party thereto, pursuant to which the lenders agreed to provide a five-year, senior secured revolving credit facility of $100,000 (the Clopay Credit Agreement). Borrowings under the Clopay Credit Agreement bear interest (2.9% average during the six months ended March 31, 2010) at rates based upon LIBOR or the prime rate and are collateralized by the U.S. stock and assets of Building Products and Plastics. At March 31, 2010 and September 30, 2009, $20,708 and $35,925, respectively, were outstanding under the Clopay Credit Agreement; approximately $41,197 was available for borrowing at March 31, 2010. The Company has been in compliance with all financial covenants under the Clopay Credit Agreement since its inception. The balance of the debt approximates its fair value as the interest rates are indexed to current market rates.

In March 2008, Telephonics entered into a credit agreement with JPMorgan Chase Bank, N.A., as administrative agent, and the lenders party thereto, pursuant to which the lenders agreed to provide a five-year, revolving credit

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facility of $100,000 (the Telephonics Credit Agreement). Borrowings under the Telephonics Credit Agreement bear interest (1.8% average during the six months ended March 31, 2010) at rates based upon LIBOR or the prime rate and are collateralized by the stock and assets of Telephonics. At March 31, 2010 and September 30, 2009, $30,000 and $38,000, respectively, was outstanding under the Telephonics Credit Agreement; approximately $64,400 was available for borrowing at March 31, 2010. The Company has been in compliance with all financial covenants under the Telephonics Credit Agreement since its inception. The balance of the debt approximates its fair value as the interest rates are indexed to current market rates.

The Telephonics Credit Agreement and the Clopay Credit Agreement include various sublimits for standby letters of credit. At March 31, 2010, approximately $15,795 of aggregate standby letters of credit were outstanding under these credit facilities. Additionally, these agreements limit dividends and advances these subsidiaries may pay to the parent.

On December 21, 2009, the Company issued $100,000 of 2017 Notes. Holders may convert the 2017 Notes at a conversion price of $14.91 per share, which is equal to a conversion rate of 67.0799 shares per $1 principal amount of 2017 Notes. In lieu of delivering shares of its common stock, the Company may settle any conversion of the 2017 Notes through the delivery of cash or a combination of cash and shares of common stock. On March 31, 2010, the Company had outstanding $100,000 of the 2017 Notes, which had a fair value of approximately $108,000, based upon quoted market prices (level 1 inputs).

The Company had outstanding $49,998 of 2023 Notes at March 31, 2010. Holders may convert the 2023 Notes at a conversion price of $22.41 per share, as adjusted pursuant to the Company s 2008 common stock rights offering and subject to possible further adjustment, as defined therein, which is equal to a conversion rate of approximately 44.6229 shares per $1 principal amount of 2023 Notes. The Company has irrevocably elected to pay noteholders at least $1 in cash for each $1 principal amount of 2023 Notes presented for conversion. The excess of the value of the Company s common stock that would have been issuable upon conversion over the cash delivered will be paid to noteholders in shares of the Company s common stock. The fair value is approximately $50,000, based upon quoted market price (level 1 inputs). If the stock price remains below the conversion price, it is likely that the 2023 Notes will be put to the Company in July of 2010; as such, they have been classified as a component of Notes payable and current portion of long-term debt at March 31, 2010, and the debt discount on the 2023 Notes is being amortized through July 2010.

In January 2010, the Company purchased $10,145 face value of the 2023 Notes for $10,246. The Company recorded a pre-tax gain from debt extinguishment of $32, offset by $20 for a proportionate reduction in the related deferred financing costs for a net pre-tax gain of $12 in the second quarter of 2010. Capital in excess of par was reduced by $332 related to the equity portion of the extinguished 2023 Notes and the debt discount was reduced by $219.

In December 2009, the Company purchased $19,237 face value of the 2023 Notes for $19,429. The Company recorded a $26 pre-tax gain from debt extinguishment, offset by $44 for a proportionate reduction in the related deferred financing costs for a net pre-tax loss of $18 in the first quarter of 2010. Capital in excess of par value was reduced by $700 related to the equity portion of the extinguished 2023 Notes and the debt discount was reduced by $482.

In April 2009, the Company purchased $15,120 face value of the 2023 Notes for $14,341. The Company recorded a pre-tax gain from debt extinguishment of $252, offset by $75 for a proportionate reduction in the related deferred financing costs for a net pre-tax gain of $177 in the third quarter of 2009. Capital in excess of par value was reduced by $263 related to the equity portion of the extinguished 2023 Notes and the debt discount was reduced by $789.

In October 2008, the Company purchased $35,500 face value of the 2023 Notes for $28,400. The Company recorded a pre-tax gain from debt extinguishment of $4,549, offset by $245 for a proportionate reduction in the related deferred financing costs for a net pre-tax gain of $4,304 in the first quarter of 2009. No portion of the extinguishment was attributed to capital in excess in par and the debt discount was reduced by $2,544.

The Company had $79,380 and $130,000 of 2023 Notes outstanding at September 30, 2009 and 2008, respectively.

The Company s Employee Stock Ownership Plan has a loan agreement, guaranteed by the Company, which requires payment of principal and interest through the expiration date of September 2012 at which time the balance of the loan,

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and any outstanding interest, will be payable. The primary purpose of this loan and its predecessor loans, which were refinanced by this loan in October 2008, was to purchase 547,605 shares of the Company s stock in October 2008. The loan bears interest at rates based upon the prime rate or LIBOR. The balance of the loan was $5,313 at March 31, 2010, and the outstanding balance approximates fair value as the interest rates are indexed to current market rates.

NOTE 8 SHAREHOLDERS EQUITY

In accordance with the terms of an employment agreement, in October 2008, the Company s Chief Executive Officer received a restricted stock grant of 75,000 shares of common stock, which vests in April 2011. The fair value of the restricted stock on the date of grant was $675. In addition, the Company s Chief Executive Officer received a ten-year option to purchase 350,000 shares of common stock at an exercise price of $20 per share. The closing stock price on date of grant was $9.00 per share and the grant vests in three equal annual installments beginning April 2009. The fair value of the options on the date of grant was $721 or $2.06 per share.

In March 2009, the Company s Chief Executive Officer received a restricted stock grant of 675,000 shares of common stock, which vests in March 2013. The fair value of the restricted stock on the date of grant was $5,063 or $7.50 per share.

In addition to the above grants, during 2009, the Company granted 446,500 shares of restricted stock, each with four year cliff vesting, with a total fair value of $4,282, or a weighted average fair value of $9.59 per share.

The fair value of the 2009 option grant was estimated as of the grant dates using the Black-Scholes option-pricing model with the following weighted average assumptions: risk-free interest rate of 3.04%; dividend yield of 0.0%; expected life of seven years; volatility of 38.98%; an option exercise price of $20.00 per share; and a fair value of option granted of $2.06 per share.

During the first and second quarters of 2010, the Company granted 299,700 shares of restricted stock, with two to four-year cliff vesting, and a total fair value of $2,914, or a weighted average fair value of $9.72 per share.

The fair value of restricted stock and option grants is amortized over the respective vesting periods.

For the three months ended March 31, 2010 and 2009, stock based compensation expense totaled $1,505 and $1,027, respectively. For the six months ended March 31, 2010 and 2009, stock based compensation expense totaled $2,935 and $1,841, respectively.

NOTE 9 EARNINGS PER SHARE (EPS)

Basic EPS was calculated by dividing income available to common shareholders by the weighted average number of shares of common stock outstanding during the period. Diluted EPS was calculated by dividing income available to common shareholders by the weighted average number of shares of common stock outstanding plus additional common shares that could be issued in connection with potentially dilutive shares. The 2023 Notes and the 2017 Notes were anti-dilutive due to the conversion price being greater than the weighted-average stock price during the periods presented.

The following table is a reconciliation of the share amounts (in thousands) used in computing earnings per share:

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	Three Months Ended March 31, 2010	2009	Six Months Ended March 31, 2010	2009
Weighted average shares outstanding - basic	58,977	58,467	58,906	58,660
Incremental shares from 4% convertible notes				
Incremental shares from stock based compensation	962		863	85
Weighted average shares outstanding - diluted	59,939	58,467	59,769	58,745
Anti-dilutive options excluded from diluted EPS computation	991	1,326	1,039	1,326

NOTE 10 BUSINESS SEGMENTS

The Company s reportable business segments are as follows:

- Telephonics high-technology engineering and manufacturing capabilities provide integrated information, communication and sensor system solutions to military and commercial markets worldwide.

- 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.

- 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.

The Company evaluates performance and allocates resources based on operating results before interest income or expense, income taxes and certain nonrecurring items of income or expense.

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Business segment information is as follows:

GRIFFON CORPORATION

REVENUE, INCOME & OTHER DATA BY SEGMENT

(in thousands)	For the Three Months Ended March 31, 2010	2009	For the Six Months Ended March 31, 2010	2009
REVENUE				
Telephonics	$ 116,190	$ 96,567	$ 219,809	$ 177,394
Building Products	82,204	79,251	181,726	188,069
Plastics	115,583	100,269	217,599	212,958
Total consolidated net sales	$ 313,977	$ 276,087	$ 619,134	$ 578,421
INCOME BEFORE TAXES AND DISCONTINUED OPERATIONS				
Segment operating profit (loss):				
Telephonics	$ 10,622	$ 8,252	$ 17,617	$ 13,630
Building Products	(3,714)	(11,841)	3,147	(16,234)
Plastics	5,086	6,578	5,447	12,114
Total segment operating profit	11,994	2,989	26,211	9,510
Unallocated amounts*	(7,610)	(4,759)	(13,891)	(9,208)
Gain (loss) from debt extinguishment, net	12		(6)	4,304
Net interest expense	(3,537)	(3,583)	(6,445)	(6,896)
Income (loss) before taxes and discontinued operations	$ 859	$ (5,353)	$ 5,869	$ (2,290)

***Unallocated amounts typically include general corporate expenses not attributable to reportable segment.**

DEPRECIATION and AMORTIZATION				
Segment:				
Telephonics	$ 1,787	$ 1,543	$ 3,413	$ 3,030
Building Products	2,586	3,254	5,183	6,486
Plastics	5,833	5,247	11,446	11,010
Total segment	10,206	10,044	20,042	20,526
Corporate	84	315	166	384
Total consolidated depreciation and amortization	$ 10,290	$ 10,359	$ 20,208	$ 20,910
CAPITAL EXPENDITURES				
Segment:				
Telephonics	$ 4,291	$ 2,126	$ 6,367	$ 2,837
Building Products	3,119	1,243	6,458	3,694
Plastics	96	3,866	4,299	5,528
Total segment	7,506	7,235	17,124	12,059
Corporate	173	22	565	29

Total consolidated capital expenditures	$	7,679	$	7,257	$	17,689	$	12,088

		At March 31, 2010		At September 30, 2009
ASSETS				
Segment assets:				
Telephonics	$	282,681	$	271,809
Building Products		161,535		169,251
Plastics		364,013		364,626
Total segment assets		808,229		805,686
Corporate (principally cash and equivalents)		352,076		330,752
Total continuing assets		1,160,305		1,136,438
Assets from discontinued operations		6,766		7,453
Consolidated total	$	1,167,071	$	1,143,891

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NOTE 11 COMPREHENSIVE INCOME (LOSS)

Comprehensive income (loss) was as follows:

(in thousands)	Three Months Ended March 31, 2010	Three Months Ended March 31, 2009	Six Months Ended March 31, 2010	Six Months Ended March 31, 2009
Net income (loss)	$ 2,033	$ (1,427)	$ 6,324	$ 642
Foreign currency translation adjustment	(11,566)	(8,244)	(14,437)	(20,736)
Pension OCI amortization, net of tax	389	204	776	409
Comprehensive loss	$ (9,144)	$ (9,467)	$ (7,337)	$ (19,685)

NOTE 12 DEFINED BENEFIT PENSION EXPENSE

Defined benefit pension expense was recognized as follows:

(in thousands)	Three Months Ended March 31, 2010	Three Months Ended March 31, 2009	Six Months Ended March 31, 2010	Six Months Ended March 31, 2009
Service cost	$ 139	$ 112	$ 278	$ 224
Interest cost	907	1,056	1,814	2,112
Expected return on plan assets	(343)	(431)	(686)	(861)
Amortization:				
Prior service cost	84	84	168	168
Recognized actuarial loss	512	230	1,024	461
Net periodic expense	$ 1,299	$ 1,051	$ 2,598	$ 2,104

NOTE 13 RECENT ACCOUNTING PRONOUNCEMENTS

Newly issued but not yet effective accounting pronouncements

In October 2009, the FASB issued new guidance on accounting for multiple-deliverable arrangements to enable vendors to account for products and services separately rather than as a combined unit. The guidance addresses how to separate deliverables and how to measure and allocate arrangement consideration to one or more units of accounting. The new guidance will be effective as of the beginning of the annual reporting period commencing after June 15, 2010, and will be adopted by the Company as of October 1, 2010. Early adoption is permitted. The Company is evaluating the potential impact, if any, of the adoption of the new guidance on its consolidated financial statements.

Recently issued effective accounting pronouncements

In December 2007, the FASB issued new accounting guidance related to the accounting for business combinations. The purpose of the new guidance is to better represent the economic value of a business combination transaction. The new guidance retains the fundamental requirement of existing guidance where the acquisition method of accounting is to be used for all business combinations and for an acquirer to be identified for each business combination. In general the new guidance: 1) broadens the existing guidance by extending its applicability to all events where one entity obtains control over one or more businesses; 2) broadens the use of the fair value measurements used to recognize the assets acquired and liabilities assumed; 3) changes the accounting for acquisition related fees and restructuring costs incurred in connection with an acquisition; and 4) increases required disclosures. The Company anticipates that adoption of the new guidance, effective for Griffon for any business combinations that occur after October 1, 2009, will have an impact on the way in which business combinations are accounted for; however, the impact can only be assessed as each acquisition is consummated.

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In December 2007, the FASB issued new accounting guidance related to the accounting for noncontrolling interests in consolidated financial statements. The new guidance was issued to improve the relevance, comparability, and transparency of financial information provided to investors by requiring all entities to report noncontrolling (minority) interests in subsidiaries in the same way, that is, as equity in the consolidated financial statements. Moreover, the new guidance eliminates the diversity then existing in accounting for transactions between an entity and noncontrolling interests by requiring they be treated as equity transactions. This new guidance was effective for the Company as of October 1, 2009 and the adoption had no material effect on the Company s consolidated financial statements.

In March 2008, the FASB issued new guidance, which enhances required disclosures regarding derivatives and hedging activities, including enhanced disclosures regarding how: 1) an entity uses derivative instruments; 2) derivative instruments and related hedged items are accounted for; and 3) derivative instruments and related hedged items affect an entity s financial position, financial performance and cash flows. This new guidance was effective for the Company as of October 1, 2009 and the adoption had no material effect on the Company s consolidated financial statements.

In April 2008, the FASB issued new guidance, which amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset, and requires enhanced related disclosures. The new guidance must be applied prospectively to all intangible assets acquired as of and subsequent to years beginning after December 15, 2008, which for the Company was the fiscal year beginning October 1, 2009. The Company anticipates that adoption of the new guidance will impact the way in which newly acquired intangible assets are accounted for; however, such impact can only be assessed upon the acquisition of intangible assets.

NOTE 14 DISCONTINUED OPERATIONS

The following amounts related to the Installation Services segment, discontinued in 2008, have been segregated from the Company s continuing operations and are reported as assets and liabilities of discontinued operations in the condensed consolidated balance sheets:

	At March 31, 2010		At September 30, 2009	
(in thousands)	**Current**	**Long-term**	**Current**	**Long-term**
Assets of discontinued operations:				
Prepaid and other current assets	$ 1,551	$	$ 1,576	$
Other long-term assets		5,215		5,877
Total assets of discontinued operations	$ 1,551	$ 5,215	$ 1,576	$ 5,877
Liabilities of discontinued operations:				
Accounts payable	$ 11	$	$ 13	$
Accrued liabilities	4,636		4,919	
Other long-term liabilities		7,853		8,784
Total liabilities of discontinued operations	$ 4,647	$ 7,853	$ 4,932	$ 8,784

There was no Installation Services operating unit revenue for the three and six months ended March 31, 2010 and 2009.

NOTE 15 RESTRUCTURING AND OTHER RELATED CHARGES

In June 2009, the Company announced plans to consolidate facilities in its Building Products segment, scheduled to be completed in early 2011. The Company estimates it will incur pre-tax exit and restructuring costs approximating $12,000, substantially all of which will be cash charges, including $2,000 for one-time termination benefits and other personnel costs, $1,000 for excess facilities and related costs, and $9,000 in other exit costs primarily in connection with production realignment. These charges will occur primarily in 2010 and 2011. To date the Company has incurred $3,500 in related charges.

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A summary of the restructuring and other related charges included in the line item Restructuring and other related charges in the Condensed Consolidated Statements of Operations recognized for the three and six months ended March 31, 2010 and for each quarter in 2009 were as follows:

(in thousands)	Workforce Reduction		Facilities & Exit Costs		Other related Costs		Total	
Amounts incurred in:								
Quarter ended December 31, 2008	$		$		$		$	
Quarter ended March 31, 2009								
Quarter ended June 30, 2009		37				1		38
Quarter ended September 30, 2009		170		672		360		1,202
Year ended September 30, 2009	$	207	$	672	$	361	$	1,240
Quarter ended December 31, 2009	$	279	$	694	$	38	$	1,011
Quarter ended March 31, 2010		124		775		321		1,220
Six months ended March 31, 2010	$	403	$	1,469	$	359	$	2,231

At March 31, 2010, the accrued liability associated with the restructuring and other related charges consisted of the following:

(in thousands)	Workforce Reduction		Facilities & Exit Costs		Other related Costs		Total	
Accrued liability at September 30, 2009	$	207	$		$		$	207
Charges		403		1,469		359		2,231
Payments		(212)		(1,469)		(359)		(2,040)
Accrued liability at March 31, 2010	$	398	$		$		$	398

NOTE 16 OTHER INCOME

Other income included losses of $241 and $306 for the three-month periods and losses of $166 and $874 for the six month periods ended March 31, 2010 and 2009, respectively, of foreign exchange losses in connection with the translation of receivables and payables denominated in currencies other than the functional currencies of the Company and its subsidiaries.

NOTE 17 WARRANTY LIABILITY

The Company offers its customers warranties against product defects for periods ranging from six months to three years, with certain products having a limited lifetime warranty, depending on the specific product and terms of the customer purchase agreement. The Company s typical warranties require it to repair or replace the defective products during the warranty period at no cost to the customer. At the time product revenue is recognized, the Company records an estimated liability for warranty costs, based on historical experience. The Company periodically assesses the adequacy of its warranty liability, and adjusts the liability as necessary. While the Company believes that its liability for product warranties is adequate, actual warranty costs could differ materially from those estimated.

Changes in the warranty liability included in accrued liabilities were as follows:

	Three Months Ended March 31,		Six Months Ended March 31,	
(in thousands)	**2010**	**2009**	**2010**	**2009**
Balance, beginning of year	$ 4,796	$ 5,081	$ 5,707	$ 5,328
Warranties issued and charges in estimated pre-existing warranties	1,236	2,022	1,319	3,359
Actual warranty costs incurred	(1,272)	(1,579)	(2,266)	(3,163)
Balance, end of period	$ 4,760	$ 5,524	$ 4,760	$ 5,524

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NOTE 18 COMMITMENTS AND CONTINGENCIES

Legal and environmental

Department of Environmental Conservation of New York State (DEC), with ISC Properties, Inc. Lightron Corporation (Lightron), a wholly-owned subsidiary of the Company, once conducted operations at a location in Peekskill in the Town of Cortlandt, New York (the Peekskill Site) owned by ISC Properties, Inc. (ISC), a wholly-owned subsidiary of the Company. ISC sold the Peekskill Site in November 1982.

Subsequently, the Company was advised by the DEC that random sampling at the Peekskill Site and in a creek near the Peekskill Site indicated concentrations of solvents and other chemicals common to Lightron s prior plating operations. ISC then entered into a consent order with the DEC in 1996 (the Consent Order) to perform a remedial investigation and prepare a feasibility study. After completing the initial remedial investigation pursuant to the Consent Order, ISC was required by the DEC, and conducted over the next several years, supplemental remedial investigations, including soil vapor investigations, under the Consent Order.

In April 2009, the DEC advised ISC s representatives that both the DEC and the New York State Department of Health had reviewed and accepted an August 2007 Remedial Investigation Report and an Additional Data Collection Summary Report dated January 30, 2009. With the acceptance of these reports, ISC completed the Remedial Investigation required under the Consent Order and was authorized, accordingly, by the DEC to conduct the Feasibility Study required by the Consent Order. Pursuant to the requirements of the Consent Order and its obligations thereunder, ISC, without acknowledging any responsibility to perform any remediation at the Site, submitted to the DEC in August 2009 a draft Feasibility Study which recommended for the soil, groundwater and sediment medias, remediation alternatives having a current net capital cost value, in the aggregate, of approximately $5,000. In late December 2009, ISC submitted a revised draft to respond to comments received from the DEC on October 20, 2009.

U.S. Government investigations and claims

Defense contracts and subcontracts, including the Company s contracts and subcontracts, are subject to audit and review by various agencies and instrumentalities of the United States government, including among others, the Defense Contract Audit Agency, the Defense Contract Investigative Service and the Department of Justice which has responsibility for asserting claims on behalf of the U.S. government. In addition to ongoing audits, pursuant to an administrative subpoena, the Company is currently providing information to the U.S. Department of Defense Office of the Inspector General. No claim has been asserted against the Company, and the Company is unaware of any material financial exposure in connection with the Inspector General s inquiry.

In general, departments and agencies of the U.S. government have the authority to investigate various transactions and operations of the Company, and the results of such investigations may lead to administrative, civil or criminal proceedings, the ultimate outcome of which could be fines, penalties, repayments or compensatory or treble damages. U.S. government regulations provide that certain findings against a contractor may lead to suspension or debarment from future U.S. government contracts or the loss of export privileges for a company or an operating division or subdivision. Suspension or debarment could have a material adverse effect on Telephonics because of its reliance on government contracts.

General legal

The Company is subject to various laws and regulations relating to the protection of the environment and is a party to legal proceedings arising in the ordinary course of business. Management believes, based on facts presently known to it, that the resolution of the matters above and such other matters will not have a material adverse effect on the Company s consolidated financial position, results of operations or cash flows.

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Item 2 - Management s Discussion and Analysis of Financial Condition and Results of Operations

BUSINESS OVERVIEW

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. The Company changed its name to Griffon Corporation in 1995.

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

- Telephonics high-technology engineering and manufacturing capabilities provide integrated information, communication and sensor system solutions to military and commercial markets worldwide.

- 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.

- 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.

QUARTERLY OVERVIEW

Revenue for the Company s second quarter ended March 31, 2010 was $314.0 million, compared to $276.1 million last year, with revenue increases achieved in all segments. Income from continuing operations was $2.0 million, or $0.03 per diluted share, for the 2010 quarter compared to a loss of $2.1 million, or $0.04 per diluted share, in the prior year quarter. The current quarter results included approximately $0.01 per diluted share of restructuring charges associated with the consolidation of facilities at Building Products. Income from discontinued operations for the 2010 quarter was essentially nil or $0.00 per diluted share, compared to $0.6 million, or $0.01 per diluted share, last year. Net income for the second quarter of 2010 was $2.0 million, or $0.03 per diluted share, compared to a loss of $1.4 million, or $0.02 per diluted share, in the prior year.

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RESULTS OF OPERATIONS

Three and six months ended March 31, 2010 and 2009

The Company reviews its Segments excluding depreciation, amortization and restructuring charges to gain a better understanding of the operations and believes this information is useful to investors. The results of each Segment are accompanied by a reconciliation of Segment operating income to Segment income (loss) before depreciation, amortization and restructuring charges, as applicable.

Telephonics

(dollar amounts in thousands)	Three Months Ended March 31, 2010		Three Months Ended March 31, 2009		Six Months Ended March 31, 2010		Six Months Ended March 31, 2009	
Revenue	$ 116,190		$ 96,567		$ 219,809		$ 177,394	
Segment operating income	10,622	9.1%	8,252	8.5%	17,617	8.0%	13,630	7.7%
Depreciation and amortization	1,787		1,543		3,413		3,030	
Segment Adjusted EBITDA	$ 12,409	10.7%	$ 9,795	10.1%	$ 21,030	9.6%	$ 16,660	9.4%

For the quarter ended March 31, 2010, Telephonics revenue increased $19.6 million, or 20%, compared to the prior year quarter. The revenue increase was primarily the result of higher sales in the Electronic Systems, Radar and Communications divisions, with the largest contribution from the CREW 3.1 Sierra Nevada Corporation contract.

For the quarter ended March 31, 2010, Segment operating profit increased $2.4 million, or 29%, from the prior year quarter, driven by revenue growth. Segment operating profit margin for the quarter increased 60 basis points primarily due to lower material and program management costs in the Communications Systems division and lower material costs, due to volume purchase discounts in the Radar Systems division.

For the six months ended March 31, 2010, revenue increased $42.4 million, or 24%, compared to the prior year. The revenue increase was primarily the result of revenue growth in Radar Systems, attributed to weather and search/rescue radar applications, and in the Electronic Systems division, with the largest contribution from the CREW 3.1 Sierra Nevada Corporation contract.

For the six months ended March 31, 2010, Segment operating profit increased $4.0 million, or 29%, from the prior year driven by revenue growth. Segment operating profit margin for the period increased 30 basis points principally due to favorable program mix, partially offset by higher SG&A expenses. The increase in SG&A expenses was primarily due to higher research expenditures and additional expense necessary to support sales growth.

During the quarter, Telephonics was awarded several new contracts and received incremental funding on current contracts totaling $174 million. Contract backlog was $433 million at March 31, 2010 with 71% expected to be realized in the next 12 months. Backlog was $393 million at September 30, 2009 and $428 million at March 31, 2009.

Following the close of the quarter, Telephonics received official notification that it had been selected as the provider of the maritime surveillance radar system on the Fire Scout, the U.S. Navy s Vertical Take-off and Landing Unmanned Aerial Vehicle. This is expected to be a significant, long-term program and more details will be provided when available.

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Building Products

(dollar amounts in thousands)	Three Months Ended March 31, 2010		2009		Six Months Ended March 31, 2010		2009	
Revenue	$ 82,204		$ 79,251		$ 181,726		$ 188,069	
Segment operating income (loss)	(3,714)	*NM*	(11,841)	*NM*	3,147	1.7%	(16,234)	*NM*
Depreciation and amortization	2,586		3,254		5,183		6,486	
Restructuring charges	1,220				2,231			
Segment Adjusted EBITDA	$ 92	0.1%	$ (8,587)	*NM*	$ 10,561	5.8%	$ (9,748)	*NM*

For the quarter ended March 31, 2010, Building Products revenue increased $3.0 million, or 4%, compared to the prior year quarter. The increase was primarily due to higher volume attributable to stabilization in the housing market, amid the continued effects of the weak commercial construction market, and the favorable translation benefit from a weaker U.S. dollar for Canadian based sales.

For the quarter ended March 31, 2010, Segment operating loss decreased $8.1 million, or 69%, compared to the prior year quarter. The improved operating performance was driven by higher volume and associated plant absorption, lower product costs and lower selling, general and administrative expenses driven by the various restructuring activities undertaken in the past several quarters.

For the six months ended March 31, 2010, Building Products revenue decreased $6.3 million, or 3%, compared to the prior year. The decrease was primarily due to the continued effects of the weak commercial construction market, amid stabilization in the housing market; partially offset by the favorable translation benefit from a weaker U.S. dollar for Canadian based sales.

For the six months ended March 31, 2010, Segment operating income (loss) increased $19.4 million compared to the prior year. The improved operating performance, not withstanding the decline in revenue, was primarily due to the same factors noted in the discussion of second quarter results.

The segment s facilities consolidation project remains on schedule with expected completion in early calendar 2011.

Plastics

(dollar amounts in thousands)	Three Months Ended March 31, 2010	2009	Six Months Ended March 31, 2010	2009

Revenue	$	115,583		$	100,269		$	217,599		$	212,958	
Segment operating income		5,086	4.4%		6,578	6.6%		5,447	2.5%		12,114	5.7%
Depreciation and amortization		5,833			5,247			11,446			11,010	
Segment Adjusted EBITDA	$	10,919	9.4%	$	11,825	11.8%	$	16,893	7.8%	$	23,124	10.9%

For the quarter ended March 31, 2010, Plastics revenue increased $15.3 million, or 15%, compared to the prior year quarter. The increase was primarily due to higher volume across all businesses and the benefit of favorable foreign exchange translation, partially offset by unfavorable product mix and lower customer selling prices driven by lower resin costs compared to the prior year quarter.

For the quarter ended March 31, 2010, Segment operating profit decreased by $1.5 million, or 23%, compared to the prior year quarter. The cost of resin has rebounded from early calendar 2009 lows, increasing cost of sales; such increased costs have not yet been reflected in higher customer selling prices, impacting margin. Plastics adjusts customer selling prices based on underlying resin costs, on a delayed basis. The Company expects that, based on current resin price trends, operating profit will slowly rebound from resin cost increases in the third fiscal quarter.

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For the six months ended March 31, 2010, Segment revenue increased $4.6 million, or 2%, compared to prior year. The increase was primarily due to the same factors noted in the discussion of second quarter results.

For the six months ended March 31, 2010, Segment operating profit decreased by $6.7 million, or 55%, compared to the prior year due to the same factors noted in the discussion of second quarter results.

Unallocated Expenses

For the quarter ended March 31, 2010, unallocated expenses include approximately $1.5 million of costs incurred in connection with evaluating various acquisition opportunities; there was no comparable expense in the prior year quarter.

Other income (expense)

In the first quarter of 2009, the Company recorded a non-cash, pre-tax gain from debt extinguishment of $4.3 million, net of a proportionate write-off of deferred financing costs, which resulted from its October 2008 purchase of $35.5 million of its outstanding convertible notes at a discount.

In the three and six month periods ended March 31, 2010, interest expense decreased $0.1 million and $0.9 million, respectively, from the prior year, primarily as a result of lower average borrowings outstanding.

In the three and six month periods ended March 31, 2010, interest income decreased $40 thousand and $0.4 million, respectively, from the prior year primarily as a result of lower interest rates.

Other, net in other income included losses of $0.2 million and $0.3 million for the three month periods and losses of $0.2 million and $0.9 million for the six month periods ended March 31, 2010 and 2009, respectively, from foreign losses in connection with the translation of receivables and payables denominated in currencies other than the functional currencies of the Company and its subsidiaries.

Provision for income taxes

The Company s effective tax rate for continuing operations for the quarter ended March 31, 2010 was a benefit of 137% of income before taxes, compared to a benefit of 61.2% of the 2009 quarter s loss before income taxes. The 2010 quarter benefited from resolution of certain non-domestic tax audits resulting in the release of $1.5 million of tax and accrued interest from previously established reserves for uncertain tax positions. The prior year quarter benefited from tax planning, primarily with respect to foreign tax credits.

The Company s effective tax rate for continuing operations for the six months ended March 31, 2010 was a benefit of 5.9% of income before taxes, compared to 99% of the prior year loss before income taxes. The 2010 period benefited from resolution of certain non-domestic tax audits resulting in the release of $1.5 million of tax and accrued interest from previously established reserves for uncertain tax positions. The prior year period benefited from tax planning, primarily with respect to foreign tax credits.

Excluding the above discrete period items, the effective tax rate on continuing operations for the quarter and six month periods ended March 31, 2010 would have been an expense of 26.6% and 25.5%, respectively, of income before taxes. The effective tax rate for the 2009 quarter and six month periods ended March 31, 2009, excluding the tax planning items, would have been a benefit on the loss before income taxes of 30% and 35.1%, respectively.

Stock based compensation

For the three months ending March 31, 2010 and 2009, stock based compensation expense totaled $1.5 million and

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$1.0 million, respectively. For the six months ending March 31, 2010 and 2009, stock based compensation expense totaled $2.9 million and $1.8 million, respectively.

Discontinued operations   Installation Services

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, which 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 the Installation Services segment have been reported as discontinued operations for all periods presented herein, and the Installation Services segment is excluded from segment reporting.

The Company substantially concluded its remaining disposal activities in the second quarter of 2009. There was no revenue in the three and six month periods ended March 31, 2010 and 2009, as a result of the Company s exit from the segment in 2008.

Net income from discontinued operations of the Installation Services business was nil and $0.6 million for the three months ended and $0.1 million and $0.7 million for the six months ended March 31, 2010 and 2009, respectively.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows from Continuing Operations (in thousands)	**Six Months Ended March 31, 2010**	**2009**
Net Cash Flows Provided by (Used In):		
Operating activities	$ 5,511	$ 4,901
Investing activities	(17,661)	(12,433)
Financing activities	42,379	(28,213)

Cash flows provided by continuing operations for the six months ended March 31, 2010 were $5.5 million compared to $4.9 million in the prior year period. Working capital increased to $545.8 million at March 31, 2010 compared to $471.3 million at September 30, 2009, primarily as a result of long-term borrowing of $100 million in December 2009, partially offset by debt reductions of $54 million. Operating cash flows from continuing operations were affected by a large increase in receivables as well as a decrease in accounts payable, partially offset by the effect of a decrease in inventories and prepaid and other assets. The increase in receivables is primarily attributable to higher sales volume in the Telephonics and Plastics segments.

Payments related to revenue derived from the Telephonics segment are received in accordance with the terms of development and production subcontracts to which the Company is a party; certain of these receipts are progress payments. Plastics customers are generally substantial industrial companies whose payments have been steady, reliable and made in accordance with the terms governing such sales. Plastics sales satisfy orders that are received in advance of production, and where payment terms are established in advance. With respect to Building Products, there have been no material adverse impacts on payment for sales.

A small number of customers account for a substantial portion of historical net revenue, and the Company expects that this will continue for the foreseeable future. Approximately 18% and 21% of total net sales from continuing operations for the quarters ended March 31, 2010 and 2009, respectively, and 50% and 58% of Plastics sales for the quarters ended March 31, 2010 and 2009, respectively, were to Procter & Gamble, which is the largest customer in the Plastics segment. Approximately 18% and 21% of total net sales from continuing operations for the six months ended March 31, 2010 and 2009, respectively, and 51% and 57% of Plastics sales for the six months ended March 31, 2010 and 2009, respectively, were to Procter & Gamble. The Home Depot, Inc. and Menards, Inc. are significant customers of Building Products and Lockheed Martin Corporation and the Boeing Company are significant customers of Telephonics. Future operating results will continue to substantially depend on the success of the largest customers and the Company s relationships with them. Orders from these customers are subject to fluctuation and may be reduced

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materially. The loss of all or a portion of the sales volume from any one of these customers would have an adverse affect on the Company s liquidity and operations.

During the six months ended March 31, 2010, the Company used cash for investing activities of continuing operations of $17.7 million compared to $12.4 million in the prior year period, primarily for capital expenditures. The Company expects capital spending to be in the range of $40 million to $45 million for 2010.

During the six months ended March 31, 2010, cash provided by financing activities totaled $42.4 million compared to cash used by financing activities of $28.2 million in the prior year period, the increase being primarily a result of the issuance of the $100 million principal of 4% convertible subordinated notes on December 21, 2009, due 2017 (the 2107 Notes).

Cash and Equivalents, and Debt (in thousands)		**At March 31, 2010**		**At September 30, 2009**
Cash and equivalents	$	348,442	$	320,833
Notes payables and current portion of long-term debt		51,261		78,590
Long-term debt, net of current maturities		150,360		98,394
Debt discount		24,580		2,820
Total debt, excluding debt discount		226,201		179,804
Cash and equivalents, net of debt, excluding debt discount	**$**	**122,241**	**$**	**141,029**

At March 31, 2010, $20.7 million was outstanding under the Clopay Credit Agreement, a five-year, $100 million senior secured revolving credit facility; approximately $41.2 million was available to borrow under the facility.

At March 31, 2010, $30 million was outstanding under the Telephonics Credit Agreement, a five-year, $100 million senior secured revolving credit facility; approximately $64.4 million was available to borrow under the facility.

The Clopay Credit Agreement and the Telephonics Credit Agreement include various sublimits for standby letters of credit. At March 31, 2010, there were approximately $15.8 million of aggregate standby letters of credit outstanding under these facilities. These credit agreements limit dividends and advances that these subsidiaries may pay to the Company. The agreements permit the payment of income taxes, overhead and expenses, with dividends or advances in excess of these amounts limited based on (a) with respect to the Clopay Credit Agreement, maintaining certain minimum availability under the loan agreement or (b) with respect to the Telephonics Credit Agreement, compliance with certain conditions and limited to an annual maximum.

At March 31, 2010, the Company complied with the covenants under its respective credit facilities, and expects to remain in compliance for the reasonably foreseeable future. The Clopay Credit Agreement provides for credit availability primarily based on working capital assets and imposes only one ratio compliance requirement, which becomes operative only in the event that utilization of that facility were to reach a defined level significantly beyond the March 31, 2010 level. The Telephonics Credit Agreement is a cash flow based facility and compliance with required ratios at March 31, 2010 was well within the parameters set forth in that agreement. Further, the covenants within such credit facilities do not materially affect the Company s ability to undertake additional debt or equity financing for Griffon, the parent company, as such credit facilities are at the subsidiary level and are not guaranteed by Griffon. The debt balances under these credit facilities approximate fair values, as the interest rates are indexed to current market rates.

On December 21, 2009, the Company issued the 2017 Notes - $100 million principal of 4% convertible subordinated notes due 2017. The initial conversion rate of the 2017 Notes was 67.0799 shares of Griffon s common stock per $1,000 principal amount of notes, corresponding to an initial conversion price of approximately $14.91 per share. This represents a 23% conversion premium over the $12.12 per share closing price on December 15, 2009. The outstanding balance of these notes on March 31, 2010 was $100 million and the fair value was approximately $108 million, based

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on quoted market price (level 1 inputs).

The Company had $50 million outstanding of 4% convertible subordinated notes due 2023 (the 2023 Notes) at March 31, 2010. Holders of the 2023 Notes may require the Company to repurchase all or a portion of their 2023 Notes on July 18, 2010, 2013 and 2018, if the Company s common stock price is below the conversion price of the 2023 Notes, as well as upon a change in control. The Company anticipates that noteholders will require the Company to repurchase their outstanding 2023 Notes on the earliest of these dates. As such, these notes have been included in notes payable and current portion of long-term debt at March 31, 2010. The fair value approximates $50 million, based on quoted market price (level 1 inputs).

In January 2010, the Company purchased $10.1 million face value of the 2023 Notes for $10.2 million. The Company recorded a pre-tax gain from debt extinguishment of $32 thousand, offset by $20 thousand for a proportionate reduction in the related deferred financing costs for a net pre-tax gain of $12 thousand. Capital in excess of par was reduced by $0.3 million related to the equity portion of the extinguished 2023 Notes and the debt discount was reduced by $0.2 million.

In December 2009, the Company purchased $19.2 million face value of the 2023 Notes for $19.4 million. Including a proportionate reduction in the related deferred financing costs, the Company recorded an immaterial net pre-tax loss on the extinguishment in the first quarter of 2010. Capital in excess of par value was reduced by $0.7 million related to the equity portion of the extinguished 2023 Notes and the debt discount was reduced by $0.5 million.

In April 2009, the Company purchased $15.1 million face value of the 2023 Notes for $14.3 million. The Company recorded a pre-tax gain from debt extinguishment of $0.3 million, offset by $0.1 million for a proportionate reduction in the related deferred financing costs for a net pre-tax gain of $0.2 million in the third quarter of 2009. Capital in excess of par value was reduced by $0.3 million related to the equity portion of the extinguished 2023 Notes and the debt discount was reduced by $0.8 million.

In October 2008, the Company purchased $35.5 million face value of the 2023 Notes for $28.4 million. The Company recorded a pre-tax gain from debt extinguishment of $4.6 million, offset by $0.3 million for a proportionate reduction in the related deferred financing costs for a net pre-tax gain of $4.3 million in the first quarter of 2009. No portion of the extinguishment was attributed to capital in excess of par value and the debt discount was reduced by $2.5 million.

The Company had $79.4 million and $130 million of 2023 Notes outstanding at September 30, 2009 and 2008, respectively.

Approximately 1.4 million shares of common stock are available for purchase pursuant to the Company s stock buyback program and additional purchases, including pursuant to a 10b5-1 plan, may be made, depending upon market conditions and other factors, at prices deemed appropriate by management.

The Company s Employee Stock Ownership Plan has a loan agreement, guaranteed by the Company, which requires payments of principal and interest through the expiration date of September 2012 at which time the $3.9 million balance of the loan, and any outstanding interest, will be payable. The primary purpose of this loan and its predecessor loans, which were refinanced by this loan in October 2008, was to purchase 547,605 shares of the Company s stock in October 2008. The loan bears interest at rates based upon the prime rate or LIBOR. The balance of the loan was $5.3 million at March 31, 2010, and the outstanding balance approximates fair value, as the interest rates are indexed to current market rates.

In June 2009, the Company announced plans to consolidate facilities in its Building Products segment scheduled to be completed in early 2011. When completed, the Company expects annual cost savings of $10 million. The Company estimates that it will incur pre-tax exit and restructuring costs approximating $12 million, substantially all of which will be cash charges, including $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 make an investment in capital expenditures of $11 million in order to complete the restructuring plan. These charges and investments will occur primarily in 2010 and 2011. To date the

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Company has incurred $3.5 million in related charges and made capital investments of $7.8 million.

The Company substantially concluded its remaining disposal activities for the Installation Services business, discontinued in 2008, in the second quarter of 2009 and does not expect to incur significant expense in the future. Future net cash outflows to satisfy liabilities related to disposal activities accrued at March 31, 2010 are estimated to be $3.1 million. Certain of the Company s subsidiaries are also contingently liable for approximately $2.4 million related to certain facility leases with varying terms through 2012 that were assigned to the respective purchasers of certain of the Installation Services businesses. The Company does not believe it has a material exposure related to these contingencies.

Anticipated cash flows from operations, together with existing cash and cash equivalents, bank lines of credit and lease line availability, are expected to be adequate to finance presently anticipated working capital and capital expenditure requirements and to repay long-term debt as it matures.

CRITICAL ACCOUNTING POLICIES

The preparation of the Company s consolidated financial statements in conformity with GAAP requires the Company to make estimates and judgments that affect reported amounts of assets, liabilities, sales and expenses, and the related disclosures of contingent assets and contingent liabilities at the date of the financial statements. The Company evaluates these estimates and judgments on an ongoing basis and base the estimates on historical experience, current conditions and various other assumptions that are believed to be reasonable under the circumstances. The results of these estimates form the basis for making judgments about the carrying values of assets and liabilities, as well as identifying and assessing the accounting treatment with respect to commitments and contingencies. The Company s actual results may materially differ from these estimates. There have been no changes in the Company s critical accounting policies from September 30, 2009.

The Company s significant accounting policies and procedures are explained in the Management Discussion and Analysis section in the Annual Report on Form 10-K for the year ended September 30, 2009. In the selection of the critical accounting policies, the objective is to properly reflect the financial position and results of operations for each reporting period in a consistent manner that can be understood by the reader of the financial statements. The Company considers an estimate to be critical if it is subjective and if changes in the estimate using different assumptions would result in a material impact on the financial position or results of operations of the Company.

RECENT ACCOUNTING PRONOUNCEMENTS

The Financial Accounting Standards Board issues, from time to time, new financial accounting standards, staff positions and emerging issues task force consensus. See the Notes to Condensed Consolidated Financial Statements for a discussion of these matters.

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FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements. All statements other than statements of historical fact, including, without limitation, statements regarding the Company s financial position, business strategy and the plans and objectives of the Company s management for future operations, are forward-looking statements. Without limiting the generality of the foregoing, in some cases you can identify forward-looking statements by terminology such as may, will, should, would, could, anticipate, believe, estimate, expect, the negative of these expressions or comparable terminology. Such forward-looking statements involve important risks and uncertainties that could significantly affect anticipated results in the future and, accordingly, such results may differ materially from those expressed in any forward-looking statements. These risks and uncertainties include, among others: general domestic and international business, financial market and economic conditions; the credit market; the housing market; results of integrating acquired businesses into existing operations; the results of the Company s restructuring and disposal efforts; competitive factors; pricing pressures for resin and steel; capacity and supply constraints; the Company s ability to identify and successfully consummate and integrate value-adding acquisition opportunities; and the ability of the Company to remain in compliance with the covenants under its respective credit facilities. Additional important factors that could cause the statements made in this Quarterly Report on Form 10-Q or the actual results of operations or financial condition of the Company to differ are discussed under the caption Forward-Looking Statements in the Company s Form 10-K Annual Report for the year ended September 30, 2009. Some of the factors are also discussed elsewhere in this Quarterly Report on Form 10-Q and have been or may be discussed from time to time in the Company s filings with the U.S. Securities and Exchange Commission. Readers are cautioned not to place undue reliance on the Company s forward-looking statements. The Company does not undertake any obligation to release publicly any revisions to these forward-looking statements to reflect future events or circumstances or to reflect the occurrence of unanticipated events.

Item 3 - Quantitative and Qualitative Disclosure About Market Risk

Management does not believe that there is any material market risk exposure with respect to derivative or other financial instruments that is required to be disclosed.

Item 4 - Controls and Procedures

Under the supervision and with the participation of the Company s Chief Executive Officer (CEO) and Chief Financial Officer (CFO), the Company s disclosure controls and procedures were evaluated as of the end of the period covered by this report. Based on that evaluation, the Company s CEO and CFO concluded that the Company s disclosure controls and procedures were effective.

During the period covered by this report, there were no changes in the Company s internal control over financial reporting which materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

Limitations on the Effectiveness of Controls

The Company believes that a control system, no matter how well designed and operated, cannot provide absolute assurance that the objectives of the control system are met, and no evaluation of controls can provide absolute assurance that all controls issues and instances of fraud, if any, within a company have been detected. The Company s disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives and the Company s CEO and CFO have concluded that such controls and procedures are effective at the reasonable assurance level.

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PART II - OTHER INFORMATION

Item 1 **Legal Proceedings**
None

Item 1A **Risk Factors**
In addition to the other information set forth in this report, carefully consider the factors discussed in Item 1A to Part I in the Company s Annual Report on Form 10-K for the year ended September 30, 2009, which could materially affect the Company s business, financial condition or future results. The risks described in the Company s Annual Report on Form 10-K are not the only risks facing the Company. Additional risks and uncertainties not currently known to the Company or that the Company currently deems to be immaterial also may materially adversely affect the Company s business, financial condition and/or operating results.

Item 2 **Unregistered Sales of Equity Securities and Use of Proceeds**
None

Item 3 **Defaults upon Senior Securities**
None

Item 4 **[Removed and Reserved]**

Item 5 **Other Information**
None

Item 6 **Exhibits**
Exhibit 31.1 Certification pursuant to Rule 13a-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (attached hereto).
Exhibit 31.2 Certification pursuant to Rule 13a-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (attached hereto).
Exhibit 32 Certifications pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (attached hereto).

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

GRIFFON CORPORATION

/s/ Douglas J. Wetmore
Douglas J. Wetmore
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

/s/ Brian G. Harris
Brian G. Harris
Chief Accounting Officer
(Principal Accounting Officer)

Date: May 6, 2010

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EXHIBIT INDEX

Exhibit 31.1 Certification pursuant to Rule 13a-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

Exhibit 31.2 Certification pursuant to Rule 13a-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

Exhibit 32 Certifications pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.