
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended December 31, 2007

- 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)

100 JERICHO QUADRANGLE, JERICHO, NEW YORK

(Address of principal executive offices)

11-1893410

(I.R.S. Employer Identification No.)

11753

(Zip Code)

(516) 938-5544

(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. Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. 29,888,806 shares of Common Stock as of January 31, 2008.

FORM 10-Q

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GRIFFON CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	<u>December 31,</u> <u>2007</u>	<u>September 30,</u> <u>2007</u> (Note 1)
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 69,752,000	\$ 44,747,000
Accounts receivable, less allowance for doubtful accounts of \$9,973,000 at December 31, 2007 and \$9,284,000 at September 30, 2007	171,121,000	210,340,000
Contract costs and recognized income not yet billed	71,133,000	77,184,000
Inventories (Note 2)	165,569,000	161,775,000
Prepaid expenses and other current assets	51,151,000	50,889,000
Total current assets	<u>528,726,000</u>	<u>544,935,000</u>
PROPERTY, PLANT AND EQUIPMENT, at cost, net of depreciation and amortization of \$269,206,000 at December 31, 2007 and \$257,886,000 at September 30, 2007	<u>230,173,000</u>	<u>233,449,000</u>
OTHER ASSETS:		
Costs in excess of fair value of net assets of businesses acquired, net	116,917,000	114,756,000
Intangible assets and other	75,028,000	66,718,000
	<u>191,945,000</u>	<u>181,474,000</u>
	<u>\$ 950,844,000</u>	<u>\$ 959,858,000</u>

See notes to condensed consolidated financial statements.

GRIFFON CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	<u>December 31,</u> <u>2007</u>	<u>September 30,</u> <u>2007</u> <u>(Note 1)</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Notes payable and current portion of long-term debt (Note 3)	\$ 66,834,000	\$ 3,392,000
Accounts payable	100,388,000	105,324,000
Accrued liabilities	81,743,000	79,001,000
Income taxes	696,000	14,153,000
	<u>249,661,000</u>	<u>201,870,000</u>
Total current liabilities	249,661,000	201,870,000
LONG-TERM DEBT (Note 3)	153,027,000	229,438,000
OTHER LIABILITIES AND DEFERRED CREDITS	<u>80,836,000</u>	<u>61,611,000</u>
Total liabilities and deferred credits	<u>483,524,000</u>	<u>492,919,000</u>
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY:		
Preferred stock, par value \$.25 per share, authorized 3,000,000 shares, no shares issued	—	—
Common stock, par value \$.25 per share, authorized 85,000,000 shares, issued 42,328,821 shares at December 31, 2007 and September 30, 2007	10,582,000	10,582,000
Capital in excess of par	180,625,000	180,022,000
Retained earnings	455,141,000	461,163,000
Treasury shares, at cost, 12,440,015 common shares at December 31, 2007 and 12,399,115 common shares at September 30, 2007	(213,310,000)	(212,731,000)
Accumulated other comprehensive income	35,767,000	29,522,000
Deferred compensation	<u>(1,485,000)</u>	<u>(1,619,000)</u>
Total shareholders' equity	<u>467,320,000</u>	<u>466,939,000</u>
	<u>\$ 950,844,000</u>	<u>\$ 959,858,000</u>

See notes to condensed consolidated financial statements.

GRIFFON CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	<u>THREE MONTHS ENDED DECEMBER 31,</u>	
	<u>2007</u>	<u>2006</u>
Net sales	\$ 341,398,000	\$ 434,315,000
Cost of sales	<u>264,205,000</u>	<u>341,111,000</u>
Gross profit	77,193,000	93,204,000
Selling, general and administrative expenses	<u>78,400,000</u>	<u>77,140,000</u>
Income (loss) from operations	<u>(1,207,000)</u>	<u>16,064,000</u>
Other income (expense):		
Interest expense	(2,915,000)	(2,944,000)
Interest income	885,000	620,000
Other, net (Note 8)	844,000	618,000
	<u>(1,186,000)</u>	<u>(1,706,000)</u>
Income (loss) before income taxes	(2,393,000)	14,358,000
Provision (benefit) for income taxes (Note 9)	<u>(1,038,000)</u>	<u>5,893,000</u>
Net income (loss)	<u>\$ (1,355,000)</u>	<u>\$ 8,465,000</u>
Basic earnings (loss) per share (Note 4)	<u>\$ (.05)</u>	<u>\$.28</u>
Diluted earnings (loss) per share (Note 4)	<u>\$ (.05)</u>	<u>\$.27</u>
Weighted-average shares outstanding — basic (Note 4)	<u>30,051,000</u>	<u>29,952,000</u>
Weighted-average shares outstanding — diluted (Note 4)	<u>30,051,000</u>	<u>31,067,000</u>

See notes to condensed consolidated financial statements.

GRIFFON CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	<u>THREE MONTHS ENDED DECEMBER 31,</u>	
	<u>2007</u>	<u>2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ (1,355,000)	\$ 8,465,000
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	11,046,000	9,301,000
Stock-based compensation	624,000	590,000
Provision for losses on accounts receivable	876,000	382,000
Deferred income taxes	412,000	441,000
Change in assets and liabilities:		
Decrease in accounts receivable and contract costs and recognized income not yet billed	45,302,000	48,547,000
Increase in inventories	(3,183,000)	(4,020,000)
Increase in prepaid expenses and other assets	(5,448,000)	(1,899,000)
Decrease in accounts payable, accrued liabilities and income taxes payable	(5,540,000)	(27,678,000)
Other changes, net	(1,578,000)	(90,000)
	<u>42,511,000</u>	<u>25,574,000</u>
Net cash provided by operating activities	<u>41,156,000</u>	<u>34,039,000</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of property, plant and equipment	(6,540,000)	(10,092,000)
Acquisition of business	(1,750,000)	—
Decrease in equipment lease deposits	4,332,000	500,000
Funds restricted for capital projects	—	(4,347,000)
Other, net	1,000,000	—
	<u>(2,958,000)</u>	<u>(13,939,000)</u>
Net cash used in investing activities	<u>(2,958,000)</u>	<u>(13,939,000)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Purchase of shares for treasury	(579,000)	(1,127,000)
Proceeds from issuance of long-term debt	—	20,891,000
Payments of long-term debt	(13,818,000)	(283,000)
Increase (decrease) in short-term borrowings	787,000	(6,044,000)
Exercise of stock options	—	387,000
Tax benefit from exercise of stock options	—	156,000
Other, net	177,000	(1,041,000)
	<u>(13,433,000)</u>	<u>12,939,000</u>
Net cash provided by (used in) financing activities	<u>(13,433,000)</u>	<u>12,939,000</u>
Effect of exchange rate changes on cash and cash equivalents	<u>240,000</u>	<u>198,000</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	25,005,000	33,237,000
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	44,747,000	22,389,000
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 69,752,000	\$ 55,626,000

See notes to condensed consolidated financial statements.

GRIFFON CORPORATION
CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
FOR THE THREE MONTHS ENDED DECEMBER 31, 2007

(Unaudited)

	COMMON STOCK		CAPITAL IN	RETAINED	TREASURY SHARES		ACCUMULATED	DEFERRED	Total	COMPREHENSIVE INCOME
	SHARES	PAR VALUE	EXCESS OF PAR VALUE	EARNINGS	SHARES	COST	OTHER COMPREHENSIVE INCOME	COMPENSATION		
Balances, October 1, 2007	42,328,821	\$ 10,582,000	\$ 180,022,000	\$ 461,163,000	12,399,115	\$ (212,731,000)	\$ 29,522,000	\$ (1,619,000)	\$ 466,939,000	
Foreign currency translation adjustment	—	—	—	—	—	—	6,245,000	—	6,245,000	\$ 6,245,000
Net income (loss)	—	—	—	(1,355,000)	—	—	—	—	(1,355,000)	(1,355,000)
Comprehensive income (Note 6)	—	—	—	—	—	—	—	—	—	\$ 4,890,000
Amortization of deferred compensation	—	—	—	—	—	—	—	105,000	105,000	105,000
Purchase of treasury shares	—	—	—	—	40,900	(579,000)	—	—	(579,000)	(579,000)
Stock-based compensation	—	—	595,000	—	—	—	—	29,000	624,000	624,000
Impact of the adoption of FIN 48	—	—	—	(4,667,000)	—	—	—	—	(4,667,000)	(4,667,000)
Other	—	—	8,000	—	—	—	—	—	8,000	8,000
Balances, December 31, 2007	42,328,821	\$ 10,582,000	\$ 180,625,000	\$ 455,141,000	12,440,015	\$ (213,310,000)	\$ 35,767,000	\$ (1,485,000)	\$ 467,320,000	

See notes to condensed consolidated financial statements.

GRIFFON CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

(1) Basis of presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair statement have been included. Operating results for the three-month period ended December 31, 2007 are not necessarily indicative of the results that may be expected for the year ending September 30, 2008. The Condensed Consolidated Balance Sheet at September 30, 2007 has been derived from the audited financial statements at that date. For further information, refer to the consolidated financial statements and notes thereto included in the company's Annual Report on Form 10-K for the year ended September 30, 2007.

(2) Inventories

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

	<u>December 31,</u> <u>2007</u>	<u>September 30,</u> <u>2007</u>
Finished goods	\$ 65,545,000	\$ 66,165,000
Work in process	62,114,000	52,404,000
Raw materials and supplies	<u>37,910,000</u>	<u>43,206,000</u>
	<u>\$ 165,569,000</u>	<u>\$ 161,775,000</u>

(3) Long-term debt

In December 2007, the company and a subsidiary modified their existing senior secured multicurrency revolving credit facility, executed in December 2005 (as further amended in December 2006)(the "Credit Agreement"), to revise certain financial covenants, namely the Consolidated Leverage Ratio and the Consolidated Fixed Charges Coverage Ratio, in effect for the first quarter of fiscal 2008 ended December 31, 2007. The financial covenants reset to previously existing levels commencing with the quarter ended March 31, 2008. The company anticipates that it may not be in compliance with one or both of these quarterly covenants in the future. As a result of such possible non-compliance and in accordance with the Emerging Issues Task Force Issue No. 86-30 "Classification of Obligations When a Violation is Waived by the Creditor", the company has reclassified \$62.5 million of long-term debt as current debt in the Condensed Consolidated Balance Sheet at December 31, 2007. The company has commenced discussions with its lenders to further amend and/or refinance its Credit Agreement by March 31, 2008.

(4) Earnings (loss) per share (EPS)

Basic EPS is calculated by dividing income (loss) by the weighted-average number of shares of common stock outstanding during the period. Diluted EPS is calculated by dividing income (loss) by the weighted-average number of shares of common stock outstanding plus additional common shares that could be issued in connection with potentially dilutive securities. Holders of the company's 4% convertible subordinated notes are entitled to convert their notes into the company's common stock upon the occurrence of certain events described in Note 2 of Notes to Consolidated Financial Statements in the company's Annual Report on Form 10-K for the year ended September 30, 2007. Basic and diluted EPS for the three-month periods ended December 31, 2007 and 2006 were determined using the following information:

	<u>Three Months Ended December 31,</u>	
	<u>2007</u>	<u>2006</u>
Income (loss) available to common stockholders	<u>\$ (1,355,000)</u>	<u>\$ 8,465,000</u>
Weighted-average shares outstanding — basic	30,051,000	29,952,000
Incremental shares from stock-based compensation	—	1,110,000
Incremental shares from 4% convertible notes	—	5,000
Weighted-average shares outstanding — diluted	<u>30,051,000</u>	<u>31,067,000</u>

At December 31, 2007 and 2006 and during the three-month periods ended December 31, 2007 and 2006, there were outstanding stock options whose exercise prices were higher than the average market values of the underlying common stock for the period. At December 31, 2007 and during the three-month period ended December 31, 2007, there were outstanding stock options whose exercise prices were lower than the average market values of the underlying common stock for the period but are considered antidilutive because of the net loss in the period. These options are antidilutive and are excluded from the computation of income (loss) per share. The antidilutive stock options outstanding were as follows:

	<u>Three Months Ended December 31,</u>	
	<u>2007</u>	<u>2006</u>
Antidilutive stock options	<u>2,482,000</u>	<u>148,000</u>

(5) Business segments

The company's reportable business segments are as follows: Garage Doors (manufacture and sale of residential and commercial/industrial garage doors, and related products); Installation Services (sale and installation of building products primarily for new construction, such as garage doors, garage door openers, manufactured fireplaces and surrounds, flooring and cabinets); Specialty Plastic Films (manufacture and sale of plastic films and film laminates for baby diapers, adult incontinence care products, disposable surgical and patient care products and plastic packaging); and Electronic Information and Communication Systems (communication and information systems for government and commercial markets).

Information on the company's business segments is as follows:

	<u>Totals</u>	<u>Garage Doors</u>	<u>Installation Services</u>	<u>Specialty Plastic Films</u>	<u>Electronic Information and Communication Systems</u>
Revenues from external customers —					
Three months ended					
December 31, 2007	\$ 341,398,000	\$ 106,936,000	\$ 52,204,000	\$ 106,398,000	\$ 75,860,000
December 31, 2006	434,315,000	123,889,000	76,921,000	103,655,000	129,850,000
Intersegment revenues —					
Three months ended					
December 31, 2007	\$ 4,127,000	\$ 4,110,000	\$ 17,000	\$ —	\$ —
December 31, 2006	4,765,000	4,751,000	14,000	—	—
Segment profit (loss) —					
Three months ended					
December 31, 2007	\$ 4,462,000	\$ (1,291,000)	\$ (5,727,000)	\$ 5,997,000	\$ 5,483,000
December 31, 2006	20,379,000	4,013,000	(893,000)	4,338,000	12,921,000

Following is a reconciliation of segment profit to amounts reported in the consolidated financial statements:

	<u>Three Months Ended December 31,</u>	
	<u>2007</u>	<u>2006</u>
Profit for all segments	\$ 4,462,000	\$ 20,379,000
Unallocated amounts	(4,825,000)	(3,697,000)
Interest and other, net	(2,030,000)	(2,324,000)
Income (loss) before income taxes	\$ (2,393,000)	\$ 14,358,000

Unallocated amounts include general corporate expenses not attributable to any reportable segment. Goodwill at December 31, 2007 includes \$12.9 million attributable to the Garage Doors segment, \$18.6 million attributable to the Electronic Information and Communication Systems segment, \$6.3 million attributable to the Installation Services segment and \$79.1 million attributable to the Specialty Plastic Films segment. The change in goodwill from September 30, 2007 was primarily due to Specialty Plastic Films' foreign currency translation adjustments. In December 2007, the Electronic Information and Communication Systems segment acquired certain assets and assumed certain liabilities of a video surveillance systems integration business. The purchase price was approximately \$1.75 million in cash plus performance-based cash payments over a three-year period of up to \$1.75 million. The purchase price has been allocated to intangible assets.

(6) Comprehensive income and defined benefit pension expense

Comprehensive income, which consists of net income (loss) and foreign currency translation adjustments, was \$4.9 million and \$15.4 million for the three-month periods ended December 31, 2007 and 2006, respectively.

Defined benefit pension expense was recognized as follows:

	Three Months Ended December 31,	
	2007	2006
Service cost	\$ 244,000	\$ 312,000
Interest cost	1,001,000	932,000
Expected return on plan assets	(520,000)	(449,000)
Amortization of net actuarial loss	239,000	628,000
Amortization of prior service cost	84,000	80,000
	<u>\$ 1,048,000</u>	<u>\$ 1,503,000</u>

(7) Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standards (“SFAS”) No. 157, “Fair Value Measurements” (“SFAS 157”). SFAS 157 provides a new single authoritative definition of fair value and provides enhanced guidance for measuring the fair value of assets and liabilities and requires additional disclosures related to the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value, and the effect of fair value measurements on earnings. SFAS 157 is effective for the company as of October 1, 2008. The Company is currently evaluating the impact that the adoption of SFAS 157 will have on its results of operations and financial position.

In February 2007, the FASB issued SFAS No. 159, “The Fair Value Option for Financial Assets and Liabilities, Including an amendment of FASB Statement No. 115”, (“SFAS 159”). This Statement permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. SFAS 159 is effective for the company as of October 1, 2008. The Company is currently evaluating the impact that the adoption of SFAS 159 will have on its results of operations and financial position.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), “Business Combinations” (“SFAS 141R”). The purpose of issuing the statement is to replace current guidance in SFAS 141 to better represent the economic value of a business combination transaction. The changes to be effected with SFAS 141R from the current guidance include, but are not limited to: (1) acquisition costs will be recognized separately from the acquisition; (2) known contractual contingencies at the time of the acquisition will be considered part of the liabilities acquired measured at their fair value; all other contingencies will be part of the liabilities acquired measured at their fair value only if it is more likely than not that they meet the definition of a liability; (3) contingent consideration based on the outcome of future events will be recognized and measured at the time of the acquisition; (4) business combinations achieved in stages (step acquisitions) will need to recognize the identifiable assets and liabilities, as well as noncontrolling interests, in the acquiree, at the full amounts of their fair values; and (5) a bargain purchase (defined as a business combination in which the total acquisition-date fair value of the identifiable net assets acquired exceeds the fair value of the consideration transferred plus any noncontrolling interest in the acquiree) will require that excess to be recognized as a gain attributable to the acquirer. The company does anticipate that the adoption of SFAS 141R will have an impact on the way in which business combinations will be accounted for compared to current practice. SFAS 141R will be effective for any business combinations that occur after October 1, 2009.

In December 2007, the FASB issued SFAS No. 160, “Noncontrolling Interests in Consolidated Financial Statements — an amendment of ARB No. 51” (“SFAS 160”). SFAS 160

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, SFAS 160 eliminates the diversity that currently exists in accounting for transactions between an entity and noncontrolling interests by requiring they be treated as equity transactions. SFAS 160 will be effective for the company as of October 1, 2009. The company is currently evaluating the impact that SFAS 160 will have on its financial statements and disclosures.

(8) Other income

Other income included approximately \$179,000 and \$389,000 of foreign exchange gains in connection with the translation of receivables and payables denominated in currencies other than the functional currencies of the company and its subsidiaries for the quarters ended December 31, 2007 and 2006, respectively.

(9) Income taxes

The company's effective tax rate for the three months ended December 31, 2007 was approximately 43%. This rate was greater than the 35% U.S. income tax rate primarily due to state taxes.

On October 1, 2007, the company adopted FASB Interpretation ("FIN") No. 48, "Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement No. 109" ("FIN 48"). FIN 48 prescribes a recognition criteria and a related measurement model for tax positions taken by companies. FIN 48 prescribes a recognition threshold that a tax position is required to meet before being recognized in the financial statements and provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition rules. The total amount of unrecognized tax benefits as of the date of adoption was \$24.6 million. The adoption of FIN 48 resulted in an adjustment to beginning retained earnings of \$4.7 million and did not have any impact on the company's results of operations. Included in the balance of unrecognized tax benefits at October 1, 2007 are \$20.8 million of tax benefits that, if recognized, would impact the effective tax rate. With regard to the unrecognized tax benefits as of December 31, 2007, the company believes it is reasonably possible that approximately \$1.4 million of such unrecognized tax benefits could be recognized in the next twelve months, which would impact the effective tax rate if recognized.

The company recognizes potential accrued interest and penalties related to unrecognized tax benefits in income tax expense. At October 1, 2007, the combined amount of accrued interest and penalties related to tax positions taken or to be taken on our tax returns and recorded as part of the reserves for uncertain tax positions was \$3.0 million. There was no significant change to this amount during the first quarter of fiscal 2008.

As a result of the company's global operations, Griffon or its subsidiaries file income tax returns in various jurisdictions including U.S. federal, U.S. state and foreign jurisdictions. The company is routinely subject to examination by taxing authorities throughout the world, including such jurisdictions as Germany, Canada, Brazil, Sweden and the U.S. The company's U.S. federal income tax returns are no longer subject to income tax examination for years before 2004 and the company's major U.S. state and foreign jurisdictions are no longer subject to income tax examinations for years before 2000. Various U.S. state and foreign tax audits are currently underway.

(10)— Warranty Liability

The company offers to its customers warranties against product defects for periods primarily 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 the product revenue is recognized, the company records a liability for estimated costs under its warranties, which costs are estimated based on historical experience. The company periodically assesses the adequacy of its recorded warranty liability and adjusts the amounts as necessary. While the company believes that its estimated liability for product warranties is adequate, the estimated liability for the product warranties could differ materially from future actual warranty costs.

Changes in the company's warranty liability, included in accrued liabilities, were as follows:

	Three Months Ended December 31,	
	2007	2006
Balance, beginning of period	\$ 7,868,000	\$ 5,908,000
Warranties issued and changes in estimated pre-existing warranties	(79,000)	3,045,000
Actual warranty costs incurred	(1,028,000)	(752,000)
Balance, end of period	\$ 6,761,000	\$ 8,201,000

OVERVIEW

Net sales for the quarter ended December 31, 2007 were \$341,398,000, down from \$434,315,000 for the first quarter of fiscal 2007. Income (loss) before income taxes was \$(2,393,000) compared to \$14,358,000 last year. Net income (loss) was \$(1,355,000) compared to \$8,465,000 last year.

Operating results for the first quarter of fiscal 2008 decreased compared to the first quarter of 2007. The decreases in sales and operating income were attributable to the Installation Services, Garage Doors and the Electronic Information and Communication Systems segments.

The company's Garage Doors segment finished the quarter with disappointing results that were consistent with the sustained downturn in the housing market. Although we anticipated that weaker residential construction markets would have a continuing effect on Garage Doors' operating results, we did not anticipate the duration and severity of the impact that weaker housing markets, particularly with respect to resale of existing houses, would have on this segment's repair and renovate business. We continue to see mixed signals with respect to predicting the bottom of the housing market decline. The segment has been and will continue to focus on significant cost reduction programs including, but not limited to, reductions in force, reducing or eliminating certain sales and marketing programs and consolidating facilities where possible.

A decline in Installation Services' operating results was anticipated, although not to the extent actually experienced, due to the continuing effect of the weakness in new home construction in the segment's Las Vegas, Phoenix and Atlanta markets, as well as the loss of a major customer in Las Vegas. During the second quarter of fiscal 2008, the segment's management has initiated a restructuring program in its efforts to reduce future operating losses by, among other things, undertaking a reduction in force, consolidating facilities and optimizing its exit from certain markets. The company expects the restructuring program to result in charges that range between \$12 million and \$15 million in fiscal 2008.

The decline in sales and operating income in the Electronic Information and Communication Systems segment is attributable to the wind down in late fiscal 2007 of substantial contracts with Syracuse Research Corporation ("SRC"). Excluding the impact of the SRC contracts in the respective first quarter periods, the Electronic Information and Communication Systems segment's core business sales grew by approximately \$9.2 million, or 15%. The segment had received approximately \$340 million of funding from SRC for turnkey production of a Counter Improvised Explosive Device over the prior two fiscal years.

Specialty Plastic Films achieved improved results compared to last year's first quarter. Higher sales and operating income were favorably affected by improved operational efficiencies and product mix. To a lesser degree, results were favorably impacted by the translation of foreign exchange rates. On average, resin costs in the first quarter increased approximately 30% and 6% in North America and Brazil, respectively, but remained fairly constant in Europe. It is estimated that the effect of resin cost volatility had a negative impact on the segment's operating results, when compared to the prior-year quarter, of approximately \$3-4 million. The segment's operating results were also unfavorably impacted by lower unit volumes primarily in Europe, resulting from a decline in sales to a certain customer.

Specialty Plastic Films' elastic laminates for the hygiene products market are qualified with the segment's major customer and business development with other key target customers is in process. We anticipate that volume will ramp up for this product

as the year progresses.

RESULTS OF OPERATIONS
THREE MONTHS ENDED DECEMBER 31, 2007

Operating results (in thousands) by business segment were as follows for the three-month periods ended December 31:

	Net Sales		Segment Operating Profit (loss)	
	2007	2006	2007	2006
Garage Doors	\$ 111,046	\$ 128,640	\$ (1,291)	\$ 4,013
Installation Services	52,221	76,935	(5,727)	(893)
Specialty Plastic Films	106,398	103,655	5,997	4,338
Electronic Information and Communication Systems	75,860	129,850	5,483	12,921
Intersegment revenues	(4,127)	(4,765)	—	—
	<u>\$ 341,398</u>	<u>\$ 434,315</u>	<u>\$ 4,462</u>	<u>\$ 20,379</u>

Garage Doors

Net sales of the Garage Doors segment decreased by \$17.6 million, or 13.7%, compared to last year primarily due to the effects of the weak housing market. The sales decline was principally due to reduced unit volume (\$17.2 million) and an increase in customer returns and deductions (\$.4 million). The segment reported declines in both its retail channel and dealer channel of approximately 10% and 15%, respectively.

Operating profit of the Garage Doors segment decreased by \$5.3 million compared to last year, resulting in an operating loss for the first quarter of 2008. Gross margin percentage decreased to 27.3% for the quarter compared to 27.7% last year primarily due to the reduced unit sales and resultant underabsorbed overhead. Selling, general and administrative ("SG&A") expenses were approximately \$.3 million higher than last year and, as a percentage of sales, increased to 28.7% from 24.5% last year due to the sales decrease.

Installation Services

Net sales of the Installation Services segment decreased by \$24.7 million, or 32.1%, compared to last year. The sales decrease was primarily due to lower housing starts in the new home construction market, particularly in this segment's major markets in the South and West for which housing starts have reportedly declined approximately 26% and 33%, respectively. Sales in the South decreased approximately 35%, primarily in the Atlanta market. These sales were further affected by the loss of market share due to competitive pressures. Sales decreased approximately 40% in the West, primarily in Las Vegas and Phoenix markets. These sales were further affected by the loss of a major customer and increased competitive pressures.

Operating loss for the Installation Services segment increased by \$4.8 million compared to last year. Gross margin percentage increased to 27.0% from 25.1% last year principally due to a favorable product mix of higher-margin flooring and cabinet sales, as well as certain operational improvements. SG&A expenses decreased approximately \$.3 million from last year, and as a percentage of sales, increased to 38.1% compared to 26.3% last year. Such decreases were due primarily to decreases in distribution and selling expenses related to sales decreases and reductions in personnel and related costs, partially offset by the inclusion of SG&A expenses of Cabinet West, acquired in the second fiscal quarter of last year, and increases in receivable reserves.

Specialty Plastic Films

Net sales of the Specialty Plastic Films segment increased \$2.7 million, or 2.6%, compared to last year. The increase was principally due to the impact of exchange rates on translated foreign sales (\$7.0 million), a favorable product mix (\$1.7 million) and the impact of increased selling prices (\$1.1 million), largely offset by lower volumes in Europe (\$7.1 million).

Operating profit of the Specialty Plastic Films segment increased \$1.7 million, or 38.2%, compared to last year. Gross margin percentage was 15.5% compared to 15.7% last year. The effect of higher resin costs not fully recovered in increased selling prices negatively affected margins by 3.9%. Unit volume decreases also reduced gross margin by 1.1%. These gross margin percentage decreases were partially offset by improved operational efficiencies and a favorable product mix. SG&A expenses decreased approximately \$1.6 million from last year and, as a percentage of sales, decreased to 10.4% from 12.2% last year due to the sales increase. Such decreases were primarily due to reductions in personnel and related costs.

Electronic Information and Communication Systems

Net sales of the Electronic Information and Communication Systems segment decreased \$54.0 million, or 41.6%, compared to last year. The sales decrease was attributable to the conclusion of the primary SRC contracts in fiscal 2007. Partially offsetting this decrease was revenue growth related to new and expanded programs.

Operating profit of the Electronic Information and Communication Systems segment decreased \$7.4 million, or 57.6%, principally due to the substantial revenue decline attributable to the SRC contracts noted above. Gross margin percentage increased to 21.2% from 16.7% last year, principally due to a favorable program mix. SG&A expenses increased \$1.8 million compared to last year and increased, as a percentage of sales, to 14.2% compared to 6.9% last year. The increase in SG&A is primarily due to expenditures associated with product engineering and enhancement, as well as increases in expenses related to certain sales and marketing related efforts.

Provision for income taxes

The company's effective tax rate increased in the first quarter of fiscal 2008 to approximately 43% primarily due to state taxes.

LIQUIDITY AND CAPITAL RESOURCES

Cash flow generated by operations for the three-months ended December 31, 2007 was \$41.2 million compared to \$34.0 million last year and working capital was \$279.1 million at December 31, 2007. Operating cash flows were principally the result of decreased accounts receivable and income taxes payable.

During the three-months ended December 31, 2007, the company had capital expenditures of approximately \$6.5 million, principally in connection with the Garage Doors, Specialty Plastic Films and the Electronic Information and Communication Systems segments.

During the three-months ended December 31, 2007, the company used cash from financing activities of \$13.4 million, primarily from payments made on long-term debt of \$13.8 million, partially offset by a net increase in short-term borrowings of \$787,000. Financing cash flows also included treasury stock purchases of \$579,000 to acquire approximately 41,000 shares of the company's common stock. Approximately 1.4 million shares of common stock are available for purchase pursuant to the company's stock buyback program, and additional purchases under the plan or a 10b5-1 plan may be made, depending upon market conditions and other factors, at prices deemed appropriate by management.

In December 2007, the company and a subsidiary modified their existing senior secured multicurrency revolving credit facility, executed in December 2005 (as further amended in December 2006)(the "Credit Agreement"), to revise certain financial covenants, namely the Consolidated Leverage Ratio and the Consolidated Fixed Charges Coverage Ratio, in effect for the first quarter of fiscal 2008 ended December 31, 2007. The financial covenants reset to previously existing levels commencing with the quarter ended March 31, 2008. The company anticipates that it may not be in compliance with one or both of these quarterly covenants in the future. As a result of such possible non-compliance and in accordance with the Emerging Issues Task Force Issue No. 86-30 "Classification of Obligations When a Violation is Waived by the Creditor", the company has reclassified \$62.5 million of long-term debt as current debt in the Condensed Consolidated Balance Sheet at December 31, 2007. The company has commenced discussions with its lenders to further amend and/or refinance its Credit Agreement by March 31, 2008.

The company has outstanding \$130 million of 4% convertible subordinated notes due 2023 (the "Notes"). Holders of the Notes may require the company to repurchase all or a portion of their Notes on July 18, 2010, 2013 and 2018, and upon a change in control.

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

CRITICAL ACCOUNTING POLICIES AND RECENT ACCOUNTING PRONOUNCEMENTS

The company's significant accounting policies are set forth in Note 1 of Notes to Consolidated Financial Statements in the company's Annual Report on Form 10-K for the year ended September 30, 2007. A discussion of those policies that require management judgment and estimates and are most important in determining the company's operating results and financial condition are discussed in Management's Discussion and Analysis of Financial Condition and Results of Operations contained in the 2007 Annual Report. The Financial Accounting Standards Board issues, from time to time, new financial accounting standards, staff positions and emerging issues task force consensus. See Note 7 of Notes to Condensed Consolidated Financial Statements for a discussion of these matters.

FORWARD-LOOKING STATEMENTS

All statements other than statements of historical fact included in this report, 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. When used in this report, words such as "anticipate", "believe", "estimate", "expect", "intend" and similar expressions, as they relate to the company or its management, identify forward-looking statements. Such forward-looking statements are based on the beliefs of the company's management, as well as assumptions made by and information currently available to the company's management. Actual results could differ materially from those contemplated by the forward-looking statements as a result of certain factors, including, but not limited to, business and economic conditions, including, but not limited to, the housing market, results of integrating acquired businesses into existing operations, competitive factors and pricing pressures for resin and steel, and capacity and supply constraints. Such statements reflect the views of the company with respect to future events and are subject to these and other risks, uncertainties and assumptions relating to the operations, results of operations, growth strategy and liquidity of the company as previously disclosed in the company's Annual Report on Form 10-K for the year ended September 30, 2007 in response to Item 1A to Part I of Form 10-K. Readers are cautioned not to place undue reliance on these 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 our 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.

PART II - OTHER INFORMATION

Item 1 Legal Proceedings
None

Item 1A Risk Factors
There have been no material changes from the risk factors disclosed in Item 1A to Part I in the company's Annual Report on Form 10-K for the year ended September 30, 2007.

Item 2 Unregistered Sales of Equity Securities and Use of Proceeds
(c) Purchases of Equity Securities by the Issuer and Affiliated Purchasers

Period	Total Number of Shares Purchased(1)	Average Price Paid per Share	Total Number of Shares Purchased as part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs at Month End
October 1 – 31	20,900	\$ 14.28	20,900	1,386,295
November 1 – 30	20,000	14.01	20,000	1,366,295
December 1 – 31	—	—	—	1,366,295
Total	40,900		40,900	

(1) The company's stock buyback program has been in effect since 1993, under which approximately 17.2 million shares have been purchased for \$234 million. The unused authorization is 1.4 million shares. There is no time limit on the repurchases to be made under the plan.

Item 3 Defaults upon Senior Securities
None

Item 4 Submission of Matters to a Vote of Security Holders
None

Item 5 Other Information
The Board of Directors of the company previously approved, subject to stockholder approval, an amendment to the company's 2006 Equity Incentive Plan (the "Incentive Plan") to increase the shares available for issuance under the Incentive Plan by 300,000 shares (150,000 shares if issued solely as restricted stock or awards other than stock options). The amendment was approved by the stockholders at the company's 2008 Annual Meeting of Stockholders held on February 6, 2008.

The foregoing description of the amendment is qualified in its entirety by reference to the 2006 Equity Incentive Plan, as amended, attached hereto as Exhibit 10.1 and incorporated herein by reference.

Item 6

Exhibits

Exhibit 10.1 — 2006 Equity Incentive Plan, as amended (attached hereto).

Exhibit 10.2 — Severance Agreement, dated November 2, 2007, between the Registrant and Franklin H. Smith, Jr. (Incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K dated November 2, 2007).

Exhibit 10.3 — Amendment No. 1, dated December 31, 2007, to the Amended and Restated Credit Agreement, dated December 20, 2006, among Griffon Corporation, the Lenders party thereto and JPMorgan Chase Bank, N.A., as administrative agent (Incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K dated December 31, 2007).

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

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

SIGNATURE

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

By: /s/ Patrick L. Alesia

Patrick L. Alesia

Vice President, Chief Financial Officer,

Treasurer and Secretary

(Principal Financial Officer)

Date: February 11, 2008

EXHIBIT INDEX

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GRIFFON CORPORATION
2006 EQUITY INCENTIVE PLAN
AS AMENDED

1. *Purpose.* The purpose of the Griffon Corporation 2006 Equity Incentive Plan (the “Plan”) is to attract and retain employees, consultants and non-employee directors for Griffon Corporation and its subsidiaries and to provide such persons with incentives and rewards for superior performance.

2. *Definitions.* As used in this Plan, the following terms shall be defined as set forth below:

2.1. “*Award*” means any Performance Shares, Performance Units, Options, Stock Appreciation Rights, Restricted Shares or Deferred Shares granted under the Plan.

2.2. “*Award Agreement*” means an agreement, certificate, resolution or other form of writing or other evidence approved by the Committee that sets forth the terms and conditions of an Award. An Award Agreement may be in an electronic medium, or may be limited to a notation on the Company’s books or records, but shall be signed by a representative of the Company and the Participant unless otherwise approved by the Committee.

2.3. “*Base Price*” means the price used as the basis for determining the Spread upon the exercise of Stock Appreciation Right.

2.4. “*Board*” means the Board of Directors of the Company.

2.5. “*Cause*” means, (a) if the applicable Participant is party to an effective employment, consulting, severance or similar agreement with the Company or any of its Subsidiaries, “Cause” shall have the same meaning as such term is defined therein; (b) if the applicable Participant is not a party to an effective employment, consulting, severance or similar agreement or if no definition of “Cause” is set forth in the applicable employment, consulting, severance or similar agreement, “Cause” shall have the same meaning as such term is defined in the applicable Award Agreement; and (c) if the applicable Participant is not a party to any effective employment, consulting, severance or similar agreement or no definition of “Cause” is set forth in the applicable employment, consulting, severance or similar agreement, and no definition of “Cause” is set forth in the applicable Award Agreement, the existence of “Cause” shall be determined in good faith by the Committee from time to time as circumstances dictate; provided that the Committee shall provide notice to the Participant of such determination and an opportunity for the Participant to cure such event (if the Committee determines such event is reasonably curable).

2.6. “*Change in Control*” means, after the effective date of the Plan:

(i) the acquisition, directly or indirectly, by a “person” (within the meaning of Section 13(d)(3) of the Exchange Act) (a “Person”) of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of more than 20% of the combined voting power of the voting securities of the Company entitled to vote generally in the election of directors (the “Voting Securities”); provided, however, that the following acquisitions shall not constitute a Change in Control: (a) any acquisition by or from the Company or any Subsidiary, or

by any employee benefit plan (or related trust) sponsored or maintained by the Company or any Subsidiary, (b) any acquisition by an individual who as of the effective date of the Plan is a member of the Board, (c) any acquisition by any underwriter in any firm commitment underwriting of securities to be issued by the Company, or (d) any acquisition by any corporation (or other entity) if, immediately following such acquisition, 65% or more of the then outstanding shares of common stock (or other equity unit) of such corporation (or other entity) and the combined voting power of the then outstanding voting securities of such corporation (or other entity), are beneficially owned, directly or indirectly, by all or substantially all of the individuals or entities who, immediately prior to such acquisition, were the beneficial owners of the then outstanding Shares and the Voting Securities in substantially the same proportions, respectively, as their ownership immediately prior to the acquisition of the Stock and Voting Securities; or

(ii) the consummation of the sale or other disposition of all or substantially all of the assets of the Company, other than to a wholly-owned Subsidiary or to a holding company of which the Company is a direct or indirect wholly owned subsidiary prior to such transaction; or

(iii) the approval by stockholders of the Company of a reorganization, merger or consolidation of the Company, other than a reorganization, merger or consolidation, which would result in the Voting Securities outstanding immediately prior to the transaction continuing to represent (whether by remaining outstanding or by being converted to voting securities of the surviving entity) 65% or more of the Voting Securities or the voting power of the voting securities of such surviving entity outstanding immediately after such transaction; or

(iv) the approval by stockholders of the Company of a plan of complete liquidation or substantial dissolution of the Company; or

(v) the following individuals cease for any reason to constitute a majority of the Board: individuals who, as of the effective date of the Plan, constitute the Board and any new director (other than a director whose initial assumption of office is in connection with an actual or threatened election contest, including, but not limited to, a consent solicitation relating to the election of directors of the Company) whose appointment or election by the Board or nomination for election by the Company's stockholders was approved and recommended by a vote of at least two-thirds of the directors then still in office who either were directors on the effective date of the Plan or whose appointment, election or nomination for election was previously so approved or recommended; or

(vi) the sale, transfer, assignment, distribution or other disposition by the Company and/or one of its Subsidiaries, in one transaction, or in a series of related transactions within any period of 18 consecutive calendar months (including, without limitation, by means of the sale, transfer, assignment, distribution or other disposition of the capital stock of any Subsidiary or Subsidiaries), of assets which account for an aggregate of 50% or more of the consolidated revenues of the Company and its Subsidiaries, as determined in accordance with U.S. generally accepted accounting principles, for the fiscal year most recently ended prior to the date of such transaction (or, in the case of a series of transactions as described above, the first such transaction); provided, however, that no such transaction shall be taken into account if

substantially all the proceeds thereof (whether in cash or in kind) are used after such transaction in the ongoing conduct by the Company and/or its Subsidiaries of the business conducted by the Company and/or its Subsidiaries prior to such transaction; or

(vii) notwithstanding Sections 2.6(i) through 2.6(vi) above, in the case of a distribution under the Plan of an amount which is subject to section 409A of the Code, an event which constitutes a “change in control event” as defined under Section 409A of the Code.

2.7. “*Code*” means the Internal Revenue Code of 1986, as amended from time to time and the regulations and other guidance issued thereunder.

2.8. “*Committee*” means the Compensation Committee of the Board. The Committee shall have at least two members, each of whom shall be a “non-employee director” as defined in Rule 16b-3 under the Exchange Act and an “outside director” as defined in Section 162(m) of the Code and the regulations thereunder, and, if applicable meet the independence requirements of the applicable stock exchange, quotation system or other self-regulatory organization on which the Shares are traded.

2.9. “*Company*” means Griffon Corporation., a Delaware corporation, or any successor corporation.

2.10. “*Consultant*” means an individual (other than an Employee or a Non-employee Director) who renders services to the Company or a Subsidiary, including an independent contractor or an advisor.

2.11. “*Deferral Period*” means the period of time during which Deferred Shares are subject to deferral limitations under Section 9.

2.12. “*Deferred Shares*” means an Award pursuant to Section 9 of the right to receive Shares at the end of a specified Deferral Period.

2.13. “*Employee*” means any person, including an officer, employed by the Company or a Subsidiary.

2.14. “*Exchange Act*” means the Securities Exchange Act of 1934, as amended from time to time, including rules thereunder and successor provisions and rules thereto.

2.15. “*Fair Market Value*” means, on any given date, unless otherwise determined by the Committee, the closing sale prices reported as having occurred on the New York Stock Exchange (or other principal exchange or market on which the Shares are traded or listed) on such date, or, if no sale was made on such date on such principal exchange or market, on the last preceding day on which the Shares were traded or listed.

2.16. “*Grant Date*” means the date specified by the Committee on which a grant of an Award shall become effective, which shall not be earlier than the date on which the Committee takes action with respect thereto.

2.17. “*Incentive Stock Option*” means any Option which meets the requirements of Section 422 of the Code and which is designated as an Incentive Stock Option by the Committee.

2.18. “*Nonemployee Director*” means a member of the Board who is not an Employee.

2.19. “*Nonqualified Stock Option*” means an Option that is not intended to qualify as an Incentive Stock Option, and designated as a Nonqualified Stock Option by the Committee.

2.20. “*Option*” means any option to purchase Shares granted under Section 6.

2.21. “*Optionee*” means the person so designated in an agreement evidencing an outstanding Option.

2.22. “*Option Price*” means the purchase price payable upon the exercise of an Option.

2.23. “*Participant*” means an Employee, Nonemployee Director or Consultant who is selected by the Committee to receive Awards, provided that only Employees may receive grants of Incentive Stock Options.

2.24. “*Performance Objectives*” means the performance objectives established in the sole discretion of the Committee for Participants who are eligible to receive Awards under the Plan. Performance Objectives may be described in terms of Company-wide objectives or objectives that are related to the performance of the individual Participant or the Subsidiary, division, department or function within the Company or Subsidiary in which the Participant is employed. Performance Objectives may be measured on an absolute or relative basis. Relative performance may be measured by a group of peer companies or by a financial market index. Any Performance Objectives applicable to a Qualified Performance-Based Award shall be limited to: specified levels of or increases in the Company’s, a division’s or a Subsidiary’s return on capital, equity or assets; earnings measures/ratios (on a gross, net, pre-tax or post-tax basis), including basic earnings per share, diluted earnings per share, total earnings, operating earnings, earnings growth, earnings before interest and taxes and earnings before interest, taxes, depreciation and amortization; net economic profit (which is operating earnings minus a charge to capital); net income; operating income; sales; sales growth; gross margin; direct margin; Share price (including but not limited to growth measures and total stockholder return); operating profit; per period or cumulative cash flow (including but not limited to operating cash flow and free cash flow) or cash flow return on investment (which equals net cash flow divided by total capital); inventory turns; financial return ratios; market share; balance sheet measurements such as receivable turnover; improvement in or attainment of expense levels; improvement in or attainment of working capital levels; debt reduction; strategic innovation; customer or employee satisfaction; individual objectives; and any combination of the foregoing. If the Committee determines that a change in the business, operations, corporate structure or capital structure of the Company, or the manner in which it conducts its business, or other events or circumstances render the Performance Objectives unsuitable, the Committee may modify such Performance Objectives or the related minimum acceptable level of achievement, in whole or in part, as the Committee deems appropriate and equitable.

2.25. “*Performance Period*” means a period of time established under Section 5 within which the Performance Objectives relating to Awards are to be achieved.

2.26. “*Performance Share*” means a bookkeeping entry that records the equivalent of one Share awarded pursuant to Section 5.

2.27. “*Performance Unit*” means a bookkeeping entry that records a unit equivalent to \$1.00 awarded pursuant to Section 5.

2.28. “*Qualified Performance-Based Award*” means an Award or portion of an Award that is intended to satisfy the requirements for “qualified performance-based compensation” under Code Section 162(m). The Committee shall designate any Qualified Performance-Based Award as such at the time of grant.

2.29. “*Restricted Shares*” mean Shares granted under Section 8 subject to a substantial risk of forfeiture.

2.30. “*Shares*” means shares of the Common Stock of the Company, \$.25 par value, or any security into which Shares may be converted by reason of any transaction or event of the type referred to in Section 14.

2.31. “*Spread*” means, in the case of a Stock Appreciation Right, the amount by which the Fair Market Value on the date when any such right is exercised exceeds the Base Price specified in such right.

2.32. “*Stock Appreciation Right*” means a right granted under Section 7.

2.33. “*Subsidiary*” means a corporation or other entity in which the Company owns or controls directly or indirectly at least 50 percent of the total combined voting power represented by all classes of stock issued by such corporation, or in the case of a noncorporate entity, at least 50% of the profits or capital interest in such entity, at the time of such grant.

3. *Shares Available Under the Plan.*

3.1. *Reserved Shares.* Subject to adjustment as provided in Section 14, the maximum number of Shares that may be (a) issued upon the exercise of Options or Stock Appreciation Rights, (b) issued as Restricted Shares and released from substantial risk of forfeiture, or (c) issued in payment of Deferred Shares or Performance Shares, shall not in the aggregate exceed **2,000,000** Shares. Such Shares may be Shares of original issuance, Shares held in Treasury, or Shares that have been reacquired by the Company. In addition:

(i) To the extent any Shares covered by an Award are not issued to a Participant (or, if applicable, his heir, legatee or permitted transferee) because the Award is forfeited or canceled, such Shares shall not be deemed to have been issued for purposes of determining the maximum number of Shares available for issuance under the Plan.

(ii) Shares issued under the Plan in settlement, assumption or substitution of outstanding awards (or obligations to grant future awards) under the plans or arrangements of another entity shall not reduce the maximum number of Shares available for issuance under the Plan, to the extent that such settlement, assumption or substitution is a result of the Company acquiring another entity (or an interest in another entity).

3.2. *Reduction Ratio.* For purposes of Section 3.1, each Share issued pursuant to an Award other than an Option shall reduce the number of Shares available for issuance under the Plan by two

Shares. For example, if all Awards under the Plan are in the form of Restricted Shares, **1,000,000** Shares are available for issuance, subject to adjustment as provided in Section 14.

3.3. *ISO Maximum.* In no event shall the number of Shares issued upon the exercise of Incentive Stock Options exceed 600,000 Shares, subject to adjustment as provided in Section 14.

3.4. *Maximum Annual Award.* No Participant may receive Awards (including performance-based Awards) representing more than 500,000 Shares underlying Option grants (or 250,000 Shares underlying any Award, except for Options) in any one fiscal year, subject to adjustment as provided in Section 14. The maximum Qualified Performance-Based Award that may be granted to a Participant in any one Performance Period is 250,000 Shares (subject to adjustment as provided in Section 14).

4. *Plan Administration.*

4.1. *Committee Administration.* This Plan shall be administered by the Committee. The interpretation and construction by the Committee of any provision of this Plan or of any Award Agreement and any determination by the Committee pursuant to any provision of this Plan or any such agreement, notification or document, shall be final and conclusive. No member of the Committee shall be liable to any person for any such action taken or determination, other than one made in bad faith.

4.2. *Committee Powers.* The Committee shall have full authority to interpret the Plan; to establish and amend rules and regulations relating to the Plan; to select the Participants and determine the type of Awards to be made to Participants, the number of shares subject to Awards and the terms, conditions, restrictions and limitations of Awards; and to make all other determinations as are necessary or advisable for the administration of the Plan.

4.3. *Committee Delegation.* The Committee may delegate to one or more officers of the Company the authority to grant Awards to Participants who are not subject to the requirements of Section 16 of the Exchange Act or Section 162(m) of the Code and the rules and regulations thereunder, provided that the Committee shall have fixed the total number of Shares subject to such grants. Any such delegation shall be subject to the limitations of Section 157(c) of the Delaware General Corporation Law. The Committee may revoke any such allocation or delegation at any time for any reason with or without prior notice.

5. *Performance Shares and Performance Units.* The Committee may authorize grants of Performance Shares and Performance Units, which shall vest and become payable to the Participant upon the achievement of specified Performance Objectives during a specified Performance Period, upon such terms and conditions as the Committee may determine in accordance with the following provisions:

5.1. *Terms and Conditions of Performance Share/Performance Unit Awards.* Each grant shall specify the number of Performance Shares or Performance Units to which it pertains. The Performance Period with respect to each Performance Share or Performance Unit shall commence on the Grant Date and may be subject to earlier termination in the event of a Change in Control or other similar transaction or event. Each grant shall specify the Performance Objectives that are to be achieved by the Participant. Each grant may specify in respect of the specified Performance Objectives a minimum acceptable level of achievement below which no payment will be made and may set forth a

formula for determining the amount of any payment to be made if performance is at or above such minimum acceptable level but falls short of the maximum achievement of the specified Performance Objectives.

5.2. *Payment of Performance Shares and Units.* Each grant shall specify the time and manner of payment of Performance Shares or Performance Units that shall have been earned, and shall be paid by the Company in Shares.

5.3. *Maximum Payment.* Subject to Section 3.4 of the Plan, any grant of Performance Shares may specify that the Shares payable with respect thereto may not exceed a maximum specified by the Committee on the Grant Date. Any grant of Performance Units may specify the number of Shares issued, with respect thereto may not exceed maximums specified by the Committee on the Grant Date.

5.4. *Adjustment of Performance Objectives.* The Committee may adjust Performance Objectives and the related minimum acceptable level of achievement if, in the sole judgment of the Committee, events or transactions have occurred after the Grant Date that are unrelated to the performance of the Participant and result in distortion of the Performance Objectives or the related minimum acceptable level of achievement.

5.5. *Qualified Performance-Based Awards.* In the case of a Qualified Performance-Based Award the following provisions shall apply in addition to, and where necessary, in lieu of other provisions of the Plan, including the provisions of Sections 5.1 through 5.4:

(i) Only Employees who are "Covered Employees" within the meaning of Section 162(m) of the Code shall be eligible to receive Qualified Performance-Based Awards. The Committee shall designate in its sole discretion which Covered Employees will be Participants for a Performance Period within the earlier of the (a) first 90 days of a Performance Period and (b) the lapse of 25% of the Performance Period.

(ii) The Committee shall establish in writing within the earlier of the (a) first 90 days of a Performance Period and (b) the lapse of 25% of the Performance Period, and in any event, while the outcome is substantially uncertain, (x) Performance Objectives for the Performance Period, and (y) in respect of such Performance Objectives, a minimum acceptable level of achievement below which no Award will be made, and an objective formula or other method for determining the Award to be made if performance is at or above such minimum acceptable level but falls short of the maximum achievement of the specified Performance Objectives.

(iii) Following the completion of a Performance Period, the Committee shall review and certify in writing whether, and to what extent, the Performance Objectives for the Performance Period have been achieved and, if so, to also calculate and certify in writing the amount of the Qualified Performance-Based Awards earned for the period based upon the Performance Objectives and the related formulas or methods as determined pursuant to Section 5.5(ii). The Committee shall then determine the actual number of Shares issuable under each Participant's Award for the Performance Period, and, in doing so, may reduce or eliminate, unless otherwise and/or to the extent provided in the Award Agreement, the amount of the Award. In no event shall the Committee have the authority to increase Award amounts to any Covered Employee.

(iv) Subject to Section 20.2, Awards granted for a Performance Period shall be made to Participants within a reasonable time after completion of the certification described in Section 5.5(iii).

5.6. *Other Awards.* Any grant of an Award under Sections 6, 7, 8 or 9, and/or the vesting or exercise thereof, may be further conditioned upon the attainment of Performance Objectives established by the Committee in accordance with the applicable provisions of this Section 5 regarding Performance Shares and Performance Units.

6. *Options.* The Committee may from time to time authorize grants of Options to Participants upon such terms and conditions as the Committee may determine in accordance with the following provisions:

6.1. *Number of Shares.* Each grant shall specify the number of Shares to which it pertains.

6.2. *Option Price.* Each grant shall specify an Option Price per Share, which shall be equal to or greater than the Fair Market Value per Share on the Grant Date; provided that in the case of any Incentive Stock Option granted to a person who on any given date owns, either directly or indirectly (taking into account the attribution rules contained in Section 424(d) of the Code), stock possessing more than 10 percent of the total combined voting power of all classes of stock of the Company or any Subsidiary, the Option Price shall not be less than 110% of the Fair Market Value of a Share on the date of grant.

6.3. *Consideration.* Each grant shall specify the form of consideration to be paid in satisfaction of the Option Price and the manner of payment of such consideration, which may include (i) cash in the form of currency or check or other cash equivalent, in each such case as is acceptable to the Company, (ii) subject to approval by the Committee, nonforfeitable, unrestricted Shares owned by the Optionee, (iii) any other legal consideration that the Committee may deem appropriate, including without limitation any form of consideration authorized under Section 6.4, on such basis as the Committee may determine in accordance with this Plan, or (iv) any combination of the foregoing.

6.4. *Payment of Option Price in Restricted Shares.* On or after the Grant Date of any Option other than an Incentive Stock Option, the Committee may determine that payment of the Option Price may also be made in whole or in part in the form of Restricted Shares or other Shares that are subject to risk of forfeiture or restrictions on transfer. Unless otherwise determined by the Committee, whenever any Option Price is paid in whole or in part by means of any of the forms of consideration specified in this Section 6.4, the Shares received by the Optionee upon the exercise of the Options shall be subject to the same risks of forfeiture or restrictions on transfer as those that applied to the consideration surrendered by the Optionee, provided that such risks of forfeiture and restrictions on transfer shall apply only to the same number of Shares received by the Optionee as applied to the forfeitable or restricted Shares surrendered by the Optionee.

6.5. *Broker Assisted Exercise.* To the extent such program is permitted by the Company and permitted by applicable law, rule or regulations, the Option Price may be satisfied from the proceeds of a sale through a bank or broker on the date of exercise of some or all of the Shares to which the exercise relates pursuant to a broker assisted exercise program provided by such bank or broker.

6.6. *Exercise Period.* No Option granted may be exercised more than ten years after the Grant Date; provided that in the case of any Incentive Stock Option granted to a person who on any given date owns, either directly or indirectly (taking into account the attribution rules contained in Section 424(d) of the Code), stock possessing more than 10 percent of the total combined voting power of all classes of stock of the Company or any Subsidiary, such Option shall be exercised within five years after the Grant Date.

6.7. *Disqualifying Dispositions of ISOs.* Each Participant awarded an Incentive Stock Option under the Plan shall notify the Company in writing immediately after the date he or she makes a disqualifying disposition (as defined in Section 421(b) of the Code) of any Shares acquired pursuant to the exercise of such Incentive Stock Option. The Company may, if determined by the Committee and in accordance with procedures established by it, retain possession of any Shares acquired pursuant to the exercise of an Incentive Stock Option as agent for the applicable Participant until the end of the period described in the preceding sentence, subject to complying with any instructions from such Participant as to the sale of such Shares.

7. *Stock Appreciation Rights.* The Committee may also authorize grants to Participants of Stock Appreciation Rights. A Stock Appreciation Right is the right of the Participant to receive from the Company an amount, which, shall be determined by the Committee and shall be expressed as a percentage (not exceeding 100 percent) of the Spread at the time of the exercise of such right. Any grant of Stock Appreciation Rights shall be upon such terms and conditions as the Committee may determine in accordance with the following provisions:

7.1. *Payment in Shares.* Any amount payable upon the exercise of a Stock Appreciation Right shall be paid by the Company in Shares. Any grant may specify that the Shares payable upon the exercise of a Stock Appreciation Right shall not exceed a maximum specified by the Committee on the Grant Date.

7.2. *Exercise Period.* Any grant may specify (a) a waiting period or periods before Stock Appreciation Rights shall become exercisable and (b) permissible dates or periods on or during which Stock Appreciation Rights shall be exercisable; provided that no Stock Appreciation Right granted may be exercised more than ten years after the Grant Date. A grant may specify that a Stock Appreciation Right may be exercised only in the event of a Change in Control or other similar transaction or event.

7.3. *Base Price.* Each grant shall specify in respect of each Stock Appreciation Right a Base Price per Share, which shall be equal to or greater than the Fair Market Value on the Grant Date.

7.4. *Deemed Exercise.* The Committee may provide that a Stock Appreciation Right shall be deemed to be exercised at the close of business on the scheduled expiration date of such Stock Appreciation Right if at such time the Stock Appreciation Right by its terms remains exercisable and, if so exercised, would result in a payment of Shares to the holder of such Stock Appreciation Right.

8. *Restricted Shares.* The Committee may also authorize grants to Participants of Restricted Shares upon such terms and conditions as the Committee may determine in accordance with the following provisions:

8.1. *Transfer of Shares.* Each grant shall constitute an immediate transfer of the ownership of Shares to the Participant in consideration of the performance of services, subject to the substantial risk of forfeiture and restrictions on transfer referred to in Section 10. Each grant may be made without additional consideration from the Participant or in consideration of a payment by the Participant that is less than the Fair Market Value on the Grant Date.

8.2. *Dividends.* Any grant may require that any or all dividends or other distributions paid on the Restricted Shares during the period of such restrictions be reinvested in additional Shares or held in cash, which additional Shares or cash, as the case may be, may be subject to the same restrictions as the underlying Award or such other restrictions as the Committee may determine.

9. *Deferred Shares.* The Committee may authorize grants of Deferred Shares to Participants upon such terms and conditions as the Committee may determine in accordance with the following provisions:

9.1. *Deferred Transfer of Shares.* Each grant shall constitute the agreement by the Company to issue or transfer Shares to the Participant in the future in consideration of the performance of services, subject to the fulfillment during the Deferral Period of such conditions as the Committee may specify.

9.2. *Consideration.* Each grant may be made without additional consideration from the Participant or in consideration of a payment by the Participant that is less than the Fair Market Value on the Grant Date.

10. *Vesting.*

10.1. *In General.* Each grant of Options and Stock Appreciation Rights shall specify the period of continuous employment by the Company or any Subsidiary, or service to the Company or any Subsidiary (and in the case of a Nonemployee Director, service on the Board), of the Participant that is necessary before such Options or Stock Appreciation Rights, or installments thereof, shall become exercisable. Each grant of Restricted Shares shall specify the period during which such Restricted Shares shall be subject to a "substantial risk of forfeiture" within the meaning of Code Section 83, and each grant of Deferred Shares shall specify the Deferral Period to which such Deferred Shares shall be subject. Each grant of such Award may provide for the earlier exercise of rights, termination of a risk of forfeiture or termination of a Deferral Period in the event of a Change in Control or similar transaction or event.

10.2. *Restrictions on Transfer of Restricted Shares.* Each grant of Restricted Shares shall provide that, during the period for which a substantial risk of forfeiture is to continue, the transferability of the Restricted Shares shall be prohibited or restricted in the manner and to the extent prescribed by the Committee on the Grant Date. Such restrictions may include, without limitation, rights of repurchase or first refusal in the Company or provisions subjecting the Restricted Shares to a continuing substantial risk of forfeiture in the hands of any transferee.

11. *Dividends and Other Ownership Rights.*

11.1. *Restricted Shares.* Unless otherwise determined by the Committee, an Award of Restricted Shares shall entitle the Participant to dividend, voting and other ownership rights during the period for which a substantial risk of forfeiture is to continue.

11.2. *Deferred Shares.* Unless otherwise determined by the Committee, during the Deferral Period, the Participant shall not have any right to transfer any rights under an Award of Deferred Shares, shall not have any rights of ownership in the Deferred Shares and shall not have any right to vote such Shares.

12. *Transferability.*

12.1. *Transfer Restrictions.* Except as provided in Section 12.2, no Award granted shall be transferable by a Participant other than by will or the laws of descent and distribution, and Options and Stock Appreciation Rights shall be exercisable during a Participant's lifetime only by the Participant or, in the event of the Participant's legal incapacity, by his or her guardian or legal representative acting in a fiduciary capacity on behalf of the Participant under state law. Any attempt to transfer an Award in violation of this Plan shall render such Award null and void.

12.2. *Limited Transfer Rights.* The Committee may expressly provide in an Award Agreement (or an amendment to an Award Agreement) that a Participant may transfer such Award (other than an Incentive Stock Option), in whole or in part, to a spouse or lineal descendant (a "Family Member"), a trust for the exclusive benefit of Family Members, a partnership or other entity in which all the beneficial owners are Family Members, or any other entity affiliated with the Participant that may be approved by the Committee. Subsequent transfers of Awards shall be prohibited except in accordance with this Section 12.2. All terms and conditions of the Award, including without limitation provisions relating to termination of the Participant's employment or service with the Company or a Subsidiary, shall continue to apply following a transfer made in accordance with this Section 12.2. In order for a transfer to be effective, a Participant must agree in writing prior to the transfer on a form provided by the Company to pay any and all payroll and withholding taxes due upon exercise of the transferred Option. In addition, prior to the exercise of a transferred Option by a transferee, arrangements must be made by the Participant with the Company for the payment of all payroll and withholding taxes. Finally, the Company shall be under no obligation to provide a transferee with any notice regarding the transferred Awards held by the transferee upon forfeiture or any other circumstance.

12.3. *Restrictions on Transfer.* Any Award granted may provide that all or any part of the Shares that are (a) to be issued or transferred by the Company upon the exercise of Options or Stock Appreciation Rights, upon termination of the Deferral Period applicable to Deferred Shares or upon payment under any grant of Performance Shares or Performance Units, or (b) no longer subject to the substantial risk of forfeiture and restrictions on transfer referred to in Section 10, shall be subject to further restrictions upon transfer, including restrictions relating to any minimum Share ownership requirements imposed by the Company with respect to a Participant.

13. *Award Agreement.* Each grant under the Plan shall be evidenced by an Award Agreement, which shall describe the subject Award, state that the Award is subject to all of the terms and conditions of this Plan and contain such other terms and provisions as the Committee may determine consistent with this Plan.

14. *Adjustments.* The Committee shall make or provide for appropriate adjustments in the (a) number of Shares covered by outstanding Options, Stock Appreciation Rights, Deferred Shares, Restricted Shares and Performance Shares granted hereunder, (b) prices per Share applicable to such Options and Stock Appreciation Rights, and (c) kind of Shares covered thereby (including Shares of another issuer), as the Committee in its sole discretion may in good faith determine to be equitably required in order to prevent dilution or enlargement of the rights of Participants that otherwise would result from (x) any stock dividend, stock split, combination or exchange of Shares, recapitalization or other change in the capital structure of the Company, (y) any merger, consolidation, spin-off, spin-out, split-off, split-up, reorganization, partial or complete liquidation or other distribution of assets (other than a normal cash dividend), issuance of rights or warrants to purchase securities, or (z) any other corporate transaction or event having an effect similar to any of the foregoing. Moreover, in the event of any such transaction or event, the Committee may provide in substitution for any or all outstanding Awards such alternative consideration as it may in good faith determine to be equitable under the circumstances and may require in connection therewith the surrender of all Awards so replaced. The Committee may also make or provide for such adjustments in each of the limitations specified in Section 3 as the Committee in its sole discretion may in good faith determine to be appropriate in order to reflect any transaction or event described in this Section 14. The Company shall give each Participant notice of an adjustment hereunder and, upon notice, such adjustment shall be conclusive and binding for all purposes.

15. *Fractional Shares.* The Company shall not be required to issue any fractional Shares pursuant to this Plan. The Committee may provide for the elimination of fractions or for the settlement thereof in cash.

16. *Withholding Taxes.* The Company shall be entitled to deduct from any payment under the Plan, regardless of the form of such payment, the amount of all applicable income and employment taxes required by law to be withheld with respect to such payment or may require the Participant to pay to it such tax prior to and as a condition of the making of such payment. In accordance with any applicable administrative guidelines it establishes, the Committee may allow a Participant to pay the amount of taxes required by law to be withheld from an Award by withholding from any payment of Shares due as a result of such Award, or by permitting the Participant to deliver to the Company Shares having a Fair Market Value, as determined by the Committee, equal to the minimum amount of such required withholding taxes.

17. *Certain Terminations of Employment, Hardship and Approved Leaves of Absence.* In the event of termination of employment by reason of death, disability, normal retirement, early retirement with the consent of the Committee, other termination of employment or a leave of absence that is approved by the Committee, or in the event of hardship or other special circumstances that are approved by the Committee, of a Participant who holds an Option or Stock Appreciation Right that is not immediately and fully exercisable, any Restricted Shares as to which the substantial risk of forfeiture or the prohibition or restriction on transfer has not lapsed, any Deferred Shares as to which the Deferral Period is not complete, any Performance Shares or Performance Units that have not been fully earned, or any Shares that are

subject to any transfer restriction pursuant to Section 12.3, the Committee may, in its sole discretion, take any action that it deems to be equitable under the circumstances or in the best interests of the Company, including without limitation waiving or modifying any limitation or requirement with respect to any Award and providing for post-termination exercise periods with respect to any Option or Stock Appreciation Right.

18. *Termination for Cause.* A Participant who is terminated for Cause shall, unless otherwise determined by the Committee, immediately forfeit, effective as of the date the Participant engages in such conduct, all unexercised, unearned, and/or unpaid Awards, including, but not by way of limitation, Awards earned but not yet paid or exercised, all unpaid dividends and all interest, if any, accrued on the foregoing.

19. *Foreign Participants.* In order to facilitate the making of any grant or combination of grants under this Plan, the Committee may provide for such special terms for Awards to Participants who are foreign nationals, or who are employed by or perform services for the Company or any Subsidiary outside of the United States of America, as the Committee may consider necessary or appropriate to accommodate differences in local law, tax policy or custom. Moreover, the Committee may approve such supplements to, or amendments, restatements or alternative versions of, this Plan as it may consider necessary or appropriate for such purposes without thereby affecting the terms of this Plan as in effect for any other purpose, provided that no such supplements, amendments, restatements or alternative versions shall include any provisions that are inconsistent with the terms of this Plan, as then in effect, unless this Plan could have been amended to eliminate such inconsistency without further approval by the stockholders of the Company.

20. *Amendments and Other Matters.*

20.1. *Plan Amendments.* This Plan may be amended from time to time by the Board, but no such amendment shall: (a) increase any of the limitations specified in Section 3, other than to reflect an adjustment made in accordance with Section 14, (b) change the class of persons eligible to receive grants of Awards or the types of Awards available under the Plan, or (c) increase the benefits to Participants under the Plan, in any such case without the further approval of the stockholders of the Company. The Board will also condition any amendment on the approval of the stockholders of the Company if such approval is necessary with respect to the applicable listing or other requirements of a national securities exchange or other applicable laws, policies or regulations, and the Board may condition any amendment on the approval of the stockholders of the Company if such approval is deemed advisable to comply with such requirements.

20.2. *Award Deferrals.* An Award Agreement may provide that payment of any Award, dividend, or any portion thereof, may be deferred by a Participant until such time as the Committee may establish. All such deferrals shall be accomplished by the delivery of a written, irrevocable election by the Participant prior to the time established by the Committee for such purpose, on a form provided by the Company. Deferred Awards may also be credited with interest, at such rates to be determined by the Committee.

20.3. *Conditional Awards.* The Committee may condition the grant of any Award or combination of Awards on the surrender or deferral by the Participant of his or her right to receive a cash bonus or other compensation otherwise payable by the Company or any Subsidiary to the Participant.

20.4. *Repricing Prohibited.* No Award may be repriced, replaced, regranted through cancellation, or modified, directly or indirectly, without the approval of the stockholders of the Company, provided that nothing herein shall prevent the Committee from taking any action provided for in Section 14.

20.5. *Amendments to Awards.* Subject to the requirements of Section 20.4, the Committee may at any time unilaterally amend any unexercised, unearned, or unpaid Award, including, but not by way of limitation, Awards earned but not yet paid, to the extent it deems appropriate (including for the purposes of compliance with local laws and regulations or to avoid costly government filings); provided, however, that except to the extent that the Committee determines that an amendment is necessary to avoid a penalty tax under Section 409A of the Code, any such amendment which, in the opinion of the Committee, is adverse to the Participant shall require the Participant's consent.

20.6. *No Employment Right.* This Plan shall not confer upon any Participant any right with respect to continuance of employment or other service with the Company or any Subsidiary and shall not interfere in any way with any right that the Company or any Subsidiary would otherwise have to terminate any Participant's employment or other service at any time.

20.7. *Compliance with Section 409A of the Code.* Notwithstanding any other provision of the Plan to the contrary, (a) to the extent that any payment of or in connection with an Award constitutes a payment under a "non-qualified deferred compensation plan," as defined in Section 409A of the Code, such payment shall be made in compliance with Section 409A of the Code and (b) any adjustment of Shares or prices per Share or substitution of Awards pursuant to Section 14 and any modification of Awards pursuant to Section 17 shall not cause the affected Award to violate the requirements of Section 409A of the Code.

21. *Change in Control.* Except as otherwise provided at the time of grant in an Award Agreement relating to a particular Award and subject to the requirements of Section 14, if a Change in Control occurs, then:

21.1. The Participant's Restricted Shares, Deferred Shares, Performance Shares, Performance Units or other Share-based Awards that were forfeitable shall, unless otherwise determined by the Committee prior to the occurrence of the Change in Control, become nonforfeitable and, to the extent applicable, shall be converted into Shares.

21.2. Any unexercised Option or Stock Appreciation Right, whether or not exercisable on the date of such Change in Control, shall thereupon be fully exercisable and may be exercised, in whole or in part.

21.3. Notwithstanding Sections 21.1 and 21.2, in the event of a Change in Control, the Committee may in its discretion cancel any outstanding Awards and (a) pay to the holders thereof, in cash or stock, or any combination thereof, the value of such Awards based upon the price per share of Stock received or to be received by other stockholders of the Company in the event or (b) arrange for fully vested substitute awards to be granted to the holders thereof, denominated in the equity of the acquirer or an affiliate thereof, provided such substitute awards substantially preserve the value of the substituted Awards.

21.4. If a Change in Control occurs during the term of one or more Performance Periods for which the Committee has granted performance-based Awards pursuant to the provisions of Section 5, the term of each such Performance Period (hereinafter a "current Performance Period") shall immediately terminate upon the occurrence of such Change in Control. Upon a Change in Control, for each current Performance Period and each completed Performance Period for which the Committee has not on or before such date made a determination as to whether and to what degree the Performance Objectives for such period have been attained (hereinafter a "completed Performance Period"), it shall be assumed that the Performance Objectives have been attained at a level of one hundred percent (100%) or the equivalent thereof. A Participant in one or more current Performance Periods shall be considered to have earned and, therefore, be entitled to receive, a prorated portion of the Award previously granted to him for each such current Performance Period. Such prorated portion shall be determined by multiplying the number of Performance Shares or Performance Units (or other performance-based Awards), as the case may be, granted to the Participant by a fraction, the numerator of which is the total number of days that have elapsed since the beginning of the current Performance Period, and the denominator of which is the total number of days in such current Performance Period. A Participant in one or more completed Performance Periods shall be considered to have earned and, therefore, be entitled to receive all the Performance Shares or Performance Units (or other performance-based Awards), as the case may be, previously granted to him during each such completed Performance Period.

21.5. Unless otherwise provided by the Committee, at any time, upon a Change in Control, any Awards deferred by a Participant under Section 20.2, but for which he or she has not received payment as of such date, shall be paid by the 90th day following the Change in Control.

22. *Effective Date.* This Plan shall become effective upon its approval by the stockholders of the Company.

23. *Termination.* This Plan shall terminate on the tenth anniversary of the date upon which it is approved by the stockholders of the Company, and no Award shall be granted after that date.

24. *Arbitration of Disputes.* Any and all disputes arising out of or relating to the Plan or any Award Agreement (or breach thereof) shall be resolved exclusively through binding arbitration in the State of New York in accordance with the rules of the American Arbitration Association then in effect.

25. *Regulatory Approvals and Listings.* Notwithstanding anything contained in this Plan to the contrary, the Company shall have no obligation to issue or deliver certificates of Shares evidencing Awards or any other Award resulting in the payment of Shares prior to (i) the obtaining of any approval from any governmental agency which the Company shall, in its sole discretion, determine to be necessary or advisable, (ii) the admission of such Shares to listing on the stock exchange or market on which the Shares may be listed, and (iii) the completion of any registration or other qualification of said Shares under any state or federal law or ruling of any governmental body which the Company shall, in its sole discretion, determine to be necessary or advisable. The Committee may, from time to time, impose additional restrictions upon an Award, including but not limited to, restrictions regarding tax withholdings and restrictions regarding the Participant's ability to exercise Awards under the Company's broker-assisted stock option exercise program.

26. *No Right, Title, or Interest in Company Assets.* No Participant shall have any rights as a stockholder of the Company as a result of participation in the Plan until the date of issuance of a stock certificate in his or her name, and, in the case of Restricted Shares, such rights are granted to the Participant under the Plan. To the extent any person acquires a right to receive payments from the Company under the Plan, such rights shall be no greater than the rights of an unsecured creditor of the Company and the Participant shall not have any rights in or against any specific assets of the Company. All of the Awards granted under the Plan shall be unfunded.

27. *No Guarantee of Tax Consequences.* Notwithstanding any other provision of the Plan, no person connected with the Plan in any capacity, including, but not limited to, the Company and its directors, officers, agents and employees, makes any representation, commitment, or guarantee that any tax treatment, including, but not limited to, federal, state and local income, estate and gift tax treatment, will be applicable with respect to the tax treatment of any Award, any amounts deferred under the Plan, or paid to or for the benefit of a Participant under the Plan, or that such tax treatment will apply to or be available to a Participant on account of participation in the Plan, or that any of the foregoing amounts will not be subject to the 20% penalty tax and interest under Section 409A of the Code.

28. *Governing Law.* The validity, construction and effect of this Plan and any Award hereunder will be determined in accordance with the laws of the State of Delaware.

CERTIFICATION

I, Harvey R. Blau, Chairman of the Board and Chief Executive Officer of Griffon Corporation, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Griffon Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 11, 2008

By: /s/ Harvey R. Blau
Harvey R. Blau
Chairman of the Board and
Chief Executive Officer
(Principal Executive Officer)

CERTIFICATION

I, Patrick L. Alesia, Vice President, Chief Financial Officer, Treasurer and Secretary of Griffon Corporation, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Griffon Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 11, 2008

By: /s/ Patrick L. Alesia
Patrick L. Alesia
Vice President, Chief Financial Officer,
Treasurer and Secretary
(Principal Financial Officer)

CERTIFICATIONS PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Harvey R. Blau, Chief Executive Officer of Griffon Corporation, hereby certify that the Form 10-Q of Griffon Corporation for the period ended December 31, 2007 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and the information contained in such report fairly presents, in all material respects, the financial condition and results of operations of Griffon Corporation.

/s/ Harvey R. Blau
Name: Harvey R. Blau
Date: February 11, 2008

I, Patrick L. Alesia, Chief Financial Officer of Griffon Corporation, hereby certify that the Form 10-Q of Griffon Corporation for the period ended December 31, 2007 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and the information contained in such report fairly presents, in all material respects, the financial condition and results of operations of Griffon Corporation.

/s/ Patrick L. Alesia
Name: Patrick L. Alesia
Date: February 11, 2008

A signed original of this written statement required by Section 906 has been provided to Griffon Corporation and will be retained by Griffon Corporation and furnished to the Securities and Exchange Commission or its staff upon request.
