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**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, 2008

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

For the transition period from      to

Commission File Number: 1-06620

**GRIFFON CORPORATION**

(Exact name of registrant as specified in its charter)

**DELAWARE**

(State or other jurisdiction of  
incorporation or organization)

**11-1893410**

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

**100 JERICHO QUADRANGLE, JERICHO, NEW YORK**

(Address of principal executive offices)

**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, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

**APPLICABLE ONLY TO CORPORATE ISSUERS**

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. 59,275,870 shares of Common Stock as of February 3, 2009.

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**Griffon Corporation and Subsidiaries**

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**Part I – Financial Information**  
**Item 1 – Financial Statements**

**GRIFFON CORPORATION AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(in thousands, except share data)

	December 31, 2008	September 30, 2008
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 276,024	\$ 311,921
Accounts receivable, less allowance for doubtful accounts of \$5,293 at December 31, 2008 and \$5,609 at September 30, 2008	146,595	163,586
Contract costs and recognized income not yet billed	64,194	69,001
Inventories	169,379	167,158
Prepaid expenses and other current assets	54,943	52,430
Assets of discontinued operations	4,793	9,495
Total current assets	715,928	773,591
PROPERTY, PLANT AND EQUIPMENT, at cost, net of depreciation and amortization	228,400	239,003
COSTS IN EXCESS OF FAIR VALUE OF NET ASSETS OF BUSINESSES ACQUIRED	88,300	93,782
INTANGIBLE ASSETS, net	33,484	34,777
OTHER ASSETS	23,007	22,067
ASSETS OF DISCONTINUED OPERATIONS	8,816	8,346
	<u>\$ 1,097,935</u>	<u>\$ 1,171,566</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Notes payable and current portion of long-term debt	\$ 4,594	\$ 2,258
Accounts payable	107,088	129,823
Accrued liabilities	59,816	64,450
Liabilities of discontinued operations	11,849	14,917
Total current liabilities	183,347	211,448
LONG-TERM DEBT	194,902	230,930
OTHER LIABILITIES	61,960	59,460
LIABILITIES OF DISCONTINUED OPERATIONS	9,689	10,048
Total Liabilities	449,898	511,886
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>SHAREHOLDERS' EQUITY:</b>		
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 71,715,885 shares at December 31, 2008 and 71,095,399 shares at September 30, 2008	17,929	17,774
Capital in excess of par value	416,061	415,505
Retained earnings	420,265	415,991
Treasury shares, at cost, 12,440,015 common shares at December 31, 2008 and September 30, 2008	(213,310)	(213,310)
Accumulated other comprehensive income	12,975	25,469
Deferred compensation	(5,883)	(1,749)
Total shareholders' equity	648,037	659,680
	<u>\$ 1,097,935</u>	<u>\$ 1,171,566</u>

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

**GRIFFON CORPORATION AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
(in thousands, except per share data)

(Unaudited)

	<b>Three Months Ended December 31,</b>	
	<b>2008</b>	<b>2007</b>
Net sales	\$ 302,334	\$ 294,802
Cost of sales	<u>243,377</u>	<u>230,044</u>
Gross profit	58,957	64,758
Selling, general and administrative expenses	56,528	58,987
Restructuring and other related charges	—	1,691
Total operating expenses	<u>56,528</u>	<u>60,678</u>
Income from operations	<u>2,429</u>	<u>4,080</u>
Other income (expense):		
Interest expense	(2,796)	(3,136)
Interest income	518	881
Gain from debt extinguishment, net	6,714	—
Other, net	(357)	797
	<u>4,079</u>	<u>(1,458)</u>
Income from continuing operations before income taxes	6,508	2,622
Provision for income taxes	2,237	1,083
Income from continuing operations before discontinued operations	<u>4,271</u>	<u>1,539</u>
Discontinued operations:		
Income (loss) from operations of the discontinued Installation Services business	5	(5,015)
Provision (benefit) for income taxes	2	(2,121)
Income (loss) from discontinued operations	<u>3</u>	<u>(2,894)</u>
Net income (loss)	<u>\$ 4,274</u>	<u>\$ (1,355)</u>
Basic earnings (loss) per share:		
Continuing operations	\$ .07	\$ .05
Discontinued operations	—	(.09)
	<u>\$ .07</u>	<u>\$ (.04)</u>
Diluted earnings (loss) per share:		
Continuing operations	\$ .07	\$ .05
Discontinued operations	—	(.09)
	<u>\$ .07</u>	<u>\$ (.04)</u>
Weighted-average shares outstanding – basic	58,853	32,478
Weighted-average shares outstanding – diluted	<u>58,918</u>	<u>32,741</u>

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

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

	<b>Three Months Ended December 31,</b>	
	<b>2008</b>	<b>2007</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES — CONTINUING OPERATIONS:</b>		
Net income (loss)	\$ 4,274	\$ (1,355)
Loss (income) from discontinued operations	(3)	2,894
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities of continuing operations:		
Depreciation and amortization	10,553	10,370
Stock-based compensation	814	624
Recovery of losses on accounts receivable	(346)	(17)
Amortization of deferred financing costs	726	222
Gain from debt extinguishment, net	(6,714)	—
Deferred income taxes	(376)	412
Change in assets and liabilities:		
Decrease in accounts receivable and contract costs and recognized income not yet billed	20,190	36,799
Increase in inventories	(2,934)	(4,208)
Increase in prepaid expenses and other assets	(1,341)	(5,047)
Increase (decrease) in accounts payable, accrued liabilities and income taxes payable	(27,402)	1,492
Other changes, net	(2,267)	(1,211)
	<u>(9,100)</u>	<u>42,330</u>
Net cash (used in) provided by operating activities — continuing operations	<u>(4,826)</u>	<u>40,975</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES — CONTINUING OPERATIONS:</b>		
Acquisition of property, plant and equipment	(4,831)	(6,445)
Acquired businesses	—	(1,750)
Proceeds from sale of investment	—	1,000
Decrease (increase) in equipment lease deposits	(231)	4,332
Net cash used in investing activities — continuing operations	<u>(5,062)</u>	<u>(2,863)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES — CONTINUING OPERATIONS:</b>		
Proceeds from issuance of shares from rights offering	5,274	—
Purchase of shares for treasury	—	(579)
Proceeds from issuance of long-term debt	4,908	—
Payments of long-term debt	(33,761)	(13,818)
Increase in short-term borrowings	2,021	787
Financing costs	(93)	—
Purchase of ESOP shares	(4,370)	—
Other, net	419	177
Net cash used in financing activities — continuing operations	<u>(25,602)</u>	<u>(13,433)</u>
<b>CASH FLOWS FROM DISCONTINUED OPERATIONS:</b>		
Net cash provided by (used in) operating activities	(323)	181
Net cash used in investing activities	—	(95)
Net cash provided by (used in) discontinued operations	<u>(323)</u>	<u>86</u>
Effect of exchange rate changes on cash and cash equivalents	(84)	240
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(35,897)	25,005
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	311,921	44,747
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>\$ 276,024</u>	<u>\$ 69,752</u>

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

**GRIFFON CORPORATION AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY**  
**FOR THE THREE MONTHS ENDED DECEMBER 31, 2008**  
(in thousands, except share data)  
(Unaudited)

	COMMON STOCK		CAPITAL IN	RETAINED	TREASURY SHARES		ACCUMULATED	DEFERRED	Total	COMPREHENSIVE
	SHARES	PAR VALUE	EXCESS OF PAR VALUE	EARNINGS	SHARES	COST	OTHER COMPREHENSIVE INCOME	COMPENSATION		
Balances, October 1, 2008	71,095,399	\$ 17,774	\$ 415,505	\$ 415,991	12,440,015	\$(213,310)	\$ 25,469	\$ (1,749)	\$ 659,680	
Foreign currency translation adjustment	—	—	—	—	—	—	(12,494)	—	(12,494)	(12,494)
Net income	—	—	—	4,274	—	—	—	—	4,274	4,274
Comprehensive income										\$ (8,220)
Amortization of deferred compensation	—	—	—	—	—	—	—	216	216	
ESOP purchase of common stock								(4,370)	(4,370)	
Stock-based compensation	—	—	794	—	—	—	—	20	814	
Issuance of common stock pursuant to rights offering, net of financing costs	620,486	155	(192)	—	—	—	—	—	(37)	
Other	—	—	(46)	—	—	—	—	—	(46)	
Balances, December 31, 2008	<u>71,715,885</u>	<u>\$ 17,929</u>	<u>\$ 416,061</u>	<u>\$ 420,265</u>	<u>12,440,015</u>	<u>\$(213,310)</u>	<u>\$ 12,975</u>	<u>\$ (5,883)</u>	<u>\$ 648,037</u>	

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

**GRIFFON CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
(in thousands, except share and per share data)  
(Unaudited)

**NOTE 1 – BASIS OF PRESENTATION**

The accompanying unaudited condensed consolidated financial statements of Griffon Corporation and Subsidiaries (the “Company”) have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. 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, 2008 are not necessarily indicative of the results that may be expected for the fiscal year ending September 30, 2009. The unaudited condensed consolidated balance sheet information as of September 30, 2008 was derived from the audited financial statements included in the Company’s Annual Report on Form 10-K for the year ended September 30, 2008. The interim condensed consolidated financial statements contained herein should be read in conjunction with that Report.

In preparing its unaudited condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, the Company is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an ongoing basis, the Company evaluates estimates, including those related to bad debts, inventory reserves, goodwill and intangible assets. The Company bases its estimates on historical data and experience, when available, and on various other assumptions that are believed to be reasonable under the circumstances, the combined results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from those estimates.

Certain amounts in the condensed consolidated financial statements at December 31, 2007 have been reclassified to conform to the current period’s presentation.

**NOTE 2 – FAIR VALUE MEASUREMENTS**

In September 2006, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standards (“SFAS”) No. 157, Fair Value Measurements (“SFAS 157”), which defines fair value, establishes a framework for measuring fair value in accordance with GAAP, and expands disclosures about fair value measurements. The statement clarifies that the exchange price is the price in an orderly transaction between market participants to sell an asset or transfer a liability at the measurement date. The statement emphasizes that fair value is a market-based measurement and not an entity-specific measurement. It also establishes a fair value hierarchy used in fair value measurements and expands the required disclosures of assets and liabilities measured at fair value. For financial assets and liabilities, this statement is effective for fiscal periods beginning after November 15, 2007 and does not require any new fair value measurements. In February 2008, the FASB Staff Position No. 157-2 (“FSP 157-2”) was issued which delayed the effective date of SFAS 157 to fiscal years beginning after November 15, 2008 for non-financial assets and liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually).

The Company adopted the provisions of SFAS 157, as amended by FSP 157-2, on October 1, 2008. Pursuant to the provisions of FSP 157-2, the Company will not apply the provisions of SFAS 157 until October 1, 2009 for non-financial assets and liabilities (principally goodwill and intangible assets).

In February 2007, the FASB issued SFAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities” (“SFAS 159”), to provide companies the option to report selected financial assets and liabilities at fair value. Upon adoption of the provisions of SFAS 159 on October 1, 2008, the Company did not elect the fair value

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option to report its financial assets and liabilities at fair value. Accordingly, the adoption of SFAS 159 did not have an impact on the Company's financial position or results of operations.

*Fair Value Hierarchy*

SFAS 157 specifies a hierarchy of valuation techniques based upon whether the inputs to those valuation techniques reflect assumptions other market participants would use based upon market data obtained from independent sources (observable inputs), or reflect the Company's own assumptions of market participant valuation (unobservable inputs). In accordance with SFAS 157, these two types of inputs have created the following fair value hierarchy:

- Level 1 – Quoted prices in active markets that are unadjusted and accessible at the measurement date for identical, unrestricted assets or liabilities.
- Level 2 – Quoted prices for identical assets and liabilities in markets that are not active, quoted prices for similar assets and liabilities in active markets or financial instruments for which significant inputs are observable, either directly or indirectly.
- Level 3 – Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

SFAS 157 requires the use of observable market data if such data is available without undue cost and effort.

*Measurement of Fair Value*

The Company measures fair value as an exit price using the procedures described below for all assets and liabilities measured at fair value. When available, the Company uses unadjusted quoted market prices to measure fair value and classifies such items within Level 1. If quoted market prices are not available, fair value is based upon internally developed models that use, where possible, current market-based or independently-sourced market parameters such as interest rates and currency rates. Items valued using internally generated models are classified according to the lowest level input or value driver that is significant to the valuation. Thus, an item may be classified in Level 3 even though there may be inputs that are readily observable. If quoted market prices are not available, the valuation model used generally depends on the specific asset or liability being valued. The determination of fair value considers various factors including interest rate yield curves and time value underlying the financial instruments.

*Items Measured at Fair Value on a Recurring Basis*

The following table presents the Company's assets and liabilities that are measured and recorded at fair value on a recurring basis at December 31, 2008 consistent with the fair value hierarchy provisions of SFAS 157:

	Carrying Value	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets and Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents:				
Cash and US Government money market funds	\$ 276,024	\$ 276,024	\$ —	\$ —
Other assets:				
Deferred non-qualified retirement plan assets	3,253	3,253	—	—
Total assets measured at fair value	<u>\$ 279,277</u>	<u>\$ 279,277</u>	<u>\$ —</u>	<u>\$ —</u>

**NOTE 3 – INVENTORIES**

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

	December 31, 2008	September 30, 2008
Finished goods	\$ 46,727	\$ 50,859
Work in process	81,448	70,716
Raw materials and supplies	41,204	45,583
	<u>\$ 169,379</u>	<u>\$ 167,158</u>

**NOTE 4 – LONG-TERM DEBT**

In June 2008, Clopay Building Products Company, Inc. (“BPC”) and Clopay Plastic Products Company, Inc. (“PPC”), each a wholly-owned subsidiary of the Company, entered into a credit agreement for their domestic operations with JPMorgan Chase Bank, N.A., as administrative agent, and the lenders party thereto, pursuant to which the lenders agreed to provide a five-year, senior secured revolving credit facility of \$100,000 (the “Clopay Credit Agreement”). At December 31, 2008 and September 30, 2008, \$33,402 and \$33,900, respectively, were outstanding under the Clopay Credit Agreement and approximately \$32,691 was available for borrowing at December 31, 2008. BPC and PPC were in compliance with all of their financial covenants under the Clopay Credit Agreement at December 31, 2008.

In March 2008, Telephonics Corporation (“Telephonics”), a wholly-owned subsidiary of the Company, entered into a credit agreement with JPMorgan Chase Bank, N.A., as administrative agent, and the lenders party thereto, pursuant to which the lenders agreed to provide a five-year, revolving credit facility of \$100,000 (the “Telephonics Credit Agreement”). At December 31, 2008 and September 30, 2008, \$41,000 and \$44,500, respectively, were outstanding under the Telephonics Credit Agreement and approximately \$54,203 was available for borrowing at December 31, 2008. Telephonics was in compliance with all of its financial covenants under the Telephonics Credit Agreement at December 31, 2008.

The Company had outstanding \$130,000 of 4% convertible subordinated notes due 2023 (the “Notes”) at September 30, 2008. Holders may convert the Notes at a conversion price of \$22.41 per share, as adjusted pursuant to the recent rights offering of the Company and subject to possible further adjustment, as defined, which is equal to a conversion rate of approximately 44.6229 shares per \$1 principal amount of Notes.

In October 2008, the Company purchased \$35,500 face value of the Notes from certain Noteholders for \$28,400. The Company recorded a pre-tax gain from debt extinguishment of approximately \$7,100, offset by a \$386 proportionate reduction in the related deferred financing costs for a net gain of \$6,714 in the first quarter of fiscal 2009. The amount of Notes outstanding at December 31, 2008 was \$94,500.

**NOTE 5 – SHAREHOLDERS’ EQUITY**

In August 2008, the Company’s Board of Directors authorized a 20,000,000 share Common Stock rights offering to its shareholders in order to raise equity capital for general corporate purposes and to fund future growth. The rights had an exercise price of \$8.50 per share. In conjunction with the rights offering, GS Direct, L.L.C., an affiliate of Goldman, Sachs & Co. (“GS Direct”), agreed to back stop the rights offering by purchasing, on the same terms, any and all shares not subscribed through the exercise of rights. GS Direct also agreed to purchase additional shares of common stock at the rights offering price if it did not acquire a minimum of 10,000,000 shares of Common Stock as a result of its back stop commitment. In September 2008, the Company received \$241,344 of gross proceeds from the first closing of its rights offering and the closing of the related investments by GS Direct and by the Company’s Chief Executive Officer, and issued 28,393,323 shares of its Common Stock. An additional \$5,274 of rights offering proceeds, which were reflected as a component of prepaid expenses and other current assets in the condensed consolidated balance sheet at September 30, 2008, were received in October 2008 and the Company issued 620,486 shares of Common Stock in connection with the second closing of the rights offering, after which the rights offering was terminated.

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During the first quarter of fiscal 2009, the Company's Employee Stock Ownership Plan ("ESOP") purchased an aggregate of 547,605 shares of the Company's Common Stock for approximately \$4,370 utilizing proceeds from the ESOP line of credit.

In accordance with the terms of an employment agreement, in October 2008, the Company's Chief Executive Officer received a restricted stock grant of 75,000 shares of Common Stock, such grant vesting in April 2011. Aggregate compensation expense related to the restricted stock grant of \$675 will be amortized over the vesting period. In addition, the Company's Chief Executive Officer received a ten-year option to purchase 350,000 shares of Common Stock at an exercise price of \$20 per share, vesting in three equal annual installments beginning April 2009. Aggregate compensation expense related to the option of \$721 will be amortized over the respective vesting periods.

**NOTE 6 – EARNINGS PER SHARE (EPS)**

Basic EPS is calculated by dividing income available to common shareholders by the weighted average number of shares of Common Stock outstanding during the period. Diluted EPS is calculated by dividing income available to common shareholders by the weighted average number of shares of Common Stock outstanding plus additional common shares that could be issued in connection with potentially dilutive securities. Management determined that the rights offering contained a bonus element to existing shareholders that required the Company to adjust the shares used in the computation of basic and fully-diluted weighted-average shares outstanding for the three months ended December 31, 2007. Basic and diluted EPS from continuing operations for the three-month periods ended December 31, 2008 and 2007 were determined using the following information:

	Three Months Ended December 31,	
	2008	2007
Income from continuing operations available to common stockholders	\$ 4,271	\$ 1,539
Weighted-average shares outstanding - basic	58,853	32,478
Incremental shares from stock-based compensation	65	263
Weighted-average shares outstanding – diluted	58,918	32,741

At December 31, 2008 and 2007 and during the three-month periods ended December 31, 2008 and 2007, there were outstanding stock options whose exercise prices were higher than the average market values of the underlying common stock for the period. These options are antidilutive and are excluded from the computation of EPS. The weighted average antidilutive options outstanding for the three-month periods ended December 31, 2008 and 2007 were 1,660 and 930, respectively.

**NOTE 7 – BUSINESS SEGMENTS**

The Company's reportable business segments are as follows – Electronic Information and Communication Systems (communication and information systems for government and commercial markets); Garage Doors (manufacture and sale of residential and commercial/industrial garage doors, and related products); and 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). The Company's reportable segments are distinguished from each other by types of products and services offered, classes of customers, production and distribution methods, and separate management. The Company's Installation Services segment (sale and installation of building products primarily for new construction, such as garage doors, garage door openers, manufactured fireplaces and surrounds, appliances, flooring and cabinets) has been reflected as discontinued operations in the condensed consolidated financial statements for all periods presented and, accordingly, is excluded from segment disclosures (see Note 10).

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

	Electronic Information and Communication Systems	Garage Doors	Specialty Plastic Films	Totals
<i>Revenues from external customers -</i>				
Three months ended				
December 31, 2008	\$ 80,827	\$ 108,818	\$ 112,689	\$ 302,334
December 31, 2007	75,860	112,544	106,398	294,802
<i>Sales to discontinued segments -</i>				
Three months ended				
December 31, 2008	\$ —	\$ —	\$ —	\$ —
December 31, 2007	—	4,127	—	4,127
<i>Segment profit (loss) -</i>				
Three months ended				
December 31, 2008	\$ 5,378	\$ (4,393)	\$ 5,536	\$ 6,521
December 31, 2007	5,483	(1,375)	5,998	10,106
<i>Segment assets -</i>				
Three months ended				
December 31, 2008	\$ 254,682	\$ 174,423	\$ 349,093	\$ 778,198
December 31, 2007	245,764	206,532	340,836	793,132
<i>Segment capital expenditures -</i>				
Three months ended				
December 31, 2008	\$ 711	\$ 2,451	\$ 1,662	\$ 4,824
December 31, 2007	1,326	3,776	1,337	6,439
<i>Depreciation and amortization expense -</i>				
Three months ended				
December 31, 2008	\$ 1,487	\$ 3,232	\$ 5,763	\$ 10,482
December 31, 2007	1,453	3,259	5,584	10,296

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

	Three Months Ended December 31,	
	2008	2007
Profit for all segments	\$ 6,521	\$ 10,106
Unallocated amounts	2,265	(5,229)
Interest expense, net	(2,278)	(2,255)
Income from continuing operations before income taxes	\$ 6,508	\$ 2,622

Unallocated amounts typically include general corporate expenses not attributable to any reportable segment. For the three months ended December 31, 2008, unallocated amounts included a net gain from the extinguishment of debt of \$6,714. Goodwill at December 31, 2008 includes \$18.6 million attributable to the Electronic Information and Communication Systems segment and \$69.7 million attributable to the Specialty Plastic Films segment. The change in goodwill from September 30, 2008 was primarily due to Specialty Plastic Films' foreign currency translation adjustments.

**NOTE 8 – COMPREHENSIVE INCOME (LOSS) AND DEFINED BENEFIT PENSION EXPENSE**

Comprehensive income (loss), which consists of net income (loss) and foreign currency translation adjustments, was \$(8.2) million and \$4.9 million for the three-month periods ended December 31, 2008 and 2007, respectively.

Defined benefit pension expense was recognized as follows:

	Three Months Ended December 31,	
	2008	2007
Service cost	\$ 112	\$ 244
Interest cost	1,056	1,001
Expected return on plan assets	(431)	(520)
Amortization of net actuarial loss	230	239
Amortization of prior service cost	84	84
	<u>\$ 1,051</u>	<u>\$ 1,048</u>

**NOTE 9 – RECENT ACCOUNTING PRONOUNCEMENTS**

**Effect of newly issued but not yet effective accounting pronouncements**

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 anticipates 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 is effective for the Company as of October 1, 2009. The Company does not believe that the adoption of SFAS 160 will have a material effect on its consolidated financial position, results of operations or cash flows.

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In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities - an Amendment of FASB Statement 133" which enhances required disclosures regarding derivatives and hedging activities, including enhanced disclosures regarding how: (a) an entity uses derivative instruments; (b) derivative instruments and related hedged items are accounted for under FASB Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities"; and (c) derivative instruments and related hedged items affect an entity's financial position, financial performance and cash flows. Although early adoption is encouraged, SFAS 161 is effective for the Company as of October 1, 2009. The Company does not believe that the adoption of SFAS 161 will have a material effect on its consolidated financial position, results of operations or cash flows.

In April 2008, the FASB issued FASB Staff Position No. 142-3, "Determination of the Useful Life of Intangible Assets" ("FSP 142-3"). FSP 142-3 amends the factors that should be considered in developing renewal or extension assumptions that are used to determine the useful life of a recognized intangible asset under SFAS No. 142, "Goodwill and Other Intangible Assets", and requires enhanced related disclosures. FSP 142-3 must be applied prospectively to all intangible assets acquired as of and subsequent to fiscal years beginning after December 15, 2008, the Company's fiscal year 2010. The Company is currently in the process of determining the effect, if any, that the adoption of FSP 142-3 may have on its consolidated financial position, results of operations or cash flows.

In May 2008, the FASB issued Staff Position APB 14-1, "Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)" ("APB 14-1") to clarify that convertible debt instruments that may be settled in cash upon conversion (including partial cash settlement) are not addressed by paragraph 12 of APB Opinion No. 14, "Accounting for Convertible Debt and Debt Issued with Stock Purchase Warrants". Additionally, APB 14-1 specifies that issuers of such instruments should separately account for the liability and equity components in a manner that will reflect the entity's nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. APB 14-1 is effective for the Company as of October 1, 2009. The Company is currently evaluating the impact that the adoption of APB 14-1 may have on its consolidated financial position, results of operations or cash flows.

**NOTE 10 – DISCONTINUED OPERATIONS**

As a result of the downturn in the residential housing market and the impact on the Installation Services segment, the Company's management initiated a plan during the second quarter of fiscal 2008 to exit certain markets within the Installation Services segment through the sale or disposition of business units. As part of the decision to exit certain markets, the Company closed three units of the Installation Services segment in the second quarter of fiscal 2008.

Subsequently, during the third quarter of fiscal 2008, the Company's Board of Directors approved a plan to exit all other operating activities of the Installation Services segment in 2008, with the exception of two units which were merged into the Garage Doors segment. As part of this plan, the Company closed one additional unit during the third quarter of fiscal 2008, sold nine units to one buyer in the third quarter of fiscal 2008 and sold its two remaining units in Phoenix and Las Vegas in the fourth quarter of fiscal 2008. The plan met the criteria for discontinued operations classification in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." Operating results of substantially all of the Installation Services segment have been reported as discontinued operations in the condensed consolidated statements of operations for all periods presented and the Installation Services segment is excluded from segment reporting.

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

	December 31, 2008		September 30, 2008	
	Current	Long-term	Current	Long-term
<b>Assets of discontinued operations:</b>				
Accounts receivable	\$ —	\$ —	\$ 3,414	\$ —
Prepaid expenses and other current assets	4,793	—	6,081	—
Intangible and other assets	—	8,816	—	8,346
<b>Total assets of discontinued operations</b>	<b>\$ 4,793</b>	<b>\$ 8,816</b>	<b>\$ 9,495</b>	<b>\$ 8,346</b>
<b>Liabilities of discontinued operations:</b>				
Accounts payable	\$ 47	\$ —	\$ 340	\$ —
Accrued liabilities	11,802	—	14,577	—
Other liabilities	—	9,689	—	10,048
<b>Total liabilities of discontinued operations</b>	<b>\$ 11,849</b>	<b>\$ 9,689</b>	<b>\$ 14,917</b>	<b>\$ 10,048</b>

Net sales of the Installation Services' operating units were \$46.6 million for the three months ended December 31, 2007.

**NOTE 11 – RESTRUCTURING AND OTHER RELATED CHARGES**

As a result of the downturn in the residential housing market and the impact on the Garage Doors segment, the Company initiated plans to restructure its operations. This restructuring program includes workforce reductions, closure or consolidation of excess facilities and other charges. The Company began its restructuring initiative in the latter part of fiscal 2007 with the closure of its Tempe, AZ manufacturing facility.

The restructuring activities resulted in costs incurred primarily for (1) workforce reduction of approximately 370 employees across certain business functions and operating locations and (2) abandoned or excess facilities relating to lease terminations and non-cancelable lease costs. To determine the lease loss, which is the Company's loss after its cost recovery efforts from subleasing such facilities, certain estimates were made related to the (1) time period over which the relevant building would remain vacant, (2) sublease terms, and (3) sublease rates, including common area charges.

A summary of the quarterly restructuring and other related charges recognized for the three months ended December 31, 2007 and 2008 are as follows:

	Workforce Reduction	Excess Facilities	Other Exit Costs	Total
<b>Amounts incurred in:</b>				
Quarter ended December 31, 2007	\$ 393	\$ —	\$ 1,298	\$ 1,691
Quarter ended December 31, 2008	—	—	—	—

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At December 31, 2008, the accrued liability associated with the restructuring and other related charges consisted of the following:

	<u>Workforce Reduction</u>	<u>Excess Facilities</u>	<u>Other Exit Costs</u>	<u>Total</u>
Accrued liability at October 1, 2008	\$ —	\$ 231	\$ —	\$ 231
Charges	—	—	—	—
Payments	—	(191)	—	(191)
Accrued liability at December 31, 2008	<u>\$ —</u>	<u>\$ 40</u>	<u>\$ —</u>	<u>\$ 40</u>

The remaining accrual as of December 31, 2008 is expected to be paid during fiscal 2009. The restructuring and other related charges are included in the line item “Restructuring and other related charges” in the condensed consolidated statements of operations.

**NOTE 12 – OTHER INCOME**

Other income included approximately \$(568) and \$179 for the three-month periods ended December 31, 2008 and 2007, respectively, of foreign exchange gains (losses) in connection with the translation of receivables and payables denominated in currencies other than the functional currencies of the Company and its subsidiaries.

**NOTE 13 – INCOME TAXES**

The Company’s overall effective tax rate when combining results from continuing and discontinued operations for the three months ended December 31, 2008 was approximately 34.4%. This rate was different from the 35% U.S. federal income tax rate primarily due to foreign income and, to a lesser extent, foreign dividends and 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 \$21,646. The adoption of FIN 48 resulted in an adjustment to beginning retained earnings of \$4,669 and did not have any impact on the Company’s results of operations.

Included in the balance of unrecognized tax benefits at September 30, 2008 are \$11,634 of tax benefits that, if recognized, would impact the effective tax rate. As a result of concluding a tax examination with a foreign tax jurisdiction during the first fiscal quarter of 2009, the Company reversed previously-established FIN 48 reserves of \$1,979 related to uncertain tax positions. With regard to the unrecognized tax benefits as of December 31, 2008, the Company believes it is reasonably possible that approximately \$1,000 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 September 30, 2008, 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 \$1,982. As a result of concluding a tax examination with a foreign tax jurisdiction during the first fiscal quarter of 2009, the Company reversed previously-established FIN 48 reserves for accrued interest and penalties of \$715 related to uncertain tax positions. There were no other significant changes to this amount during the first quarter of fiscal 2009.

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

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for years before fiscal 2005, the Company's German income tax returns are no longer subject to income tax examination for years before fiscal 2006 and the Company's major U.S. state and other foreign jurisdictions are no longer subject to income tax examinations for years before fiscal 2000. Various U.S. state and foreign tax audits are currently underway.

**NOTE 14 – 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,	
	2008	2007
Balance, beginning of period	\$ 5,328	\$ 7,868
Warranties issued and changes in estimated pre-existing warranties	1,338	(79)
Actual warranty costs incurred	(1,585)	(1,028)
Balance, end of period	<u>\$ 5,081</u>	<u>\$ 6,761</u>

**NOTE 15 – COMMITMENTS AND CONTINGENCIES**

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

Subsequently, the Company was advised by the DEC that random sampling at the Peekskill Site and in a creek near the Peekskill Site indicated concentrations of solvents and other chemicals common to Lightron's prior plating operations. ISC Properties, Inc. then entered into a consent order with the DEC in 1996 (the "Consent Order") to perform a remedial investigation and prepare a feasibility study. After completing the initial remedial investigation pursuant to the Consent Order, ISC Properties, Inc. was required by the DEC to conduct a supplemental remedial investigation under the Consent Order. In or about August 2004, a report was submitted to the DEC of the findings under the supplemental remedial investigation. Subsequently, an addendum to the supplemental remediation investigation was negotiated and conducted and a further report submitted to the DEC. A soil vapor investigation report that contained the findings of a soil vapor investigation conducted at the Site under the Consent Order was submitted in July 2007 to, and accepted in September 2007 by, the DEC. Thereafter, ISC Properties, Inc. submitted to the DEC for its approval, a final draft of all of the Remedial Investigation work performed in connection with, and as required by, the Consent Order. In accordance with the soil vapor investigation work that ISC Properties, Inc. had performed at the Peekskill Site under the Consent Order, ISC Properties, Inc., per the request of the DEC, proposed to, and did undertake to perform one additional one day sampling event in March 2008 in accordance with an approved soil vapor work plan, and a soil vapor investigation report was submitted to DEC in May 2008.

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In March 2008, DEC requested additional, supplemental sampling at the Site, and a Supplemental Investigation Work Plan was submitted to the DEC in April 2008. Based on comments received from the DEC in July 2008, a revised Supplemental Investigation Work Plan was submitted on July 30, 2008 to, and was approved subsequently by, the DEC. The work that was required to be performed in accordance with the Supplemental Investigation Work Plan was performed in October 2008 and a report was prepared for submission to the DEC. No feasibility study has yet been performed pursuant to the Consent Order.

## Item 2 – Management’s Discussion and Analysis of Financial Condition and Results of Operations

### QUARTERLY OVERVIEW

Net sales from continuing operations for the three months ended December 31, 2008 were \$302.3 million, compared to \$294.8 million last year. Income from continuing operations, which was significantly impacted by a non-cash, net pre-tax gain on the purchase of outstanding notes at a discount of approximately \$6.7 million, was \$4.3 million, or \$.07 per diluted share, for the first quarter of fiscal 2009 compared to \$1.5 million, or \$.05 per diluted share, last year. Results from discontinued operations for the first quarter of fiscal 2009 were break-even, or nil per diluted share, compared to a loss of \$2.9 million, or \$.09 per diluted share, last year. Net income for the first quarter of fiscal 2009 was \$4.3 million, or \$.07 per diluted share, compared to a net loss of \$1.4 million, or \$.04 per diluted share, last year.

In September 2008, the Company substantially strengthened its balance sheet by raising \$241.3 million in gross proceeds from the sale of its common stock. The transaction was effected through a common stock rights offering, along with an investment by GS Direct, L.L.C. (“GS Direct”), an affiliate of Goldman Sachs. An additional \$5.3 million of rights offering proceeds were received in October 2008 in connection with the second closing of the rights offering, after which the rights offering was terminated. The Company intends to use the proceeds for general corporate purposes and to fund its growth.

The Electronic Information and Communications Systems segment continues to perform well as core business sales grew by approximately \$9.4 million, or 13%. The Electronic Information and Communications Systems segment last year was awarded contracts in excess of \$400 million for the MH-60 program that are expected to be incrementally funded over the next several years. Based on these contract awards, this program is anticipated to generate revenues at a run rate of approximately \$100 million per year for the next several years.

The Company’s Garage Doors segment results continued to be impacted by the sustained downturn in the residential housing and credit markets, with sales and operating profits decreasing from the prior-year period. The segment continues to be challenged by the trends in market conditions and the outlook for the remainder of 2009. The segment remains committed to retaining its customer base and, where possible, growing market share to offset the shrinking market. Steel costs, a key component of garage doors, rose considerably in the prior fiscal year, which adversely impacted those results. Selling prices were increased starting in the latter part of the prior fiscal year, partially offsetting those rising costs. Through the first quarter of fiscal 2009, steel costs appear to have stabilized in comparison to the fourth quarter of fiscal 2008.

The Specialty Plastic Films segment had increases in sales of 5.9% in the first quarter of fiscal 2009. The segment’s operating results were favorably impacted by growth in its elastics program, resulting in an improved product mix, and the impact of increased selling prices to pass through increased resin costs. Over the past several years, the segment has been successful in diversifying its customer portfolio. The segment remains optimistic that their progress on cost reduction programs and product mix should result in further improved performance, but expects to be challenged with new product roll-outs.

### Discontinued operations – Installation Services

As a result of the downturn in the residential housing market, in fiscal 2008, the Company exited substantially all of the operating activities of its Installation Services segment. The Installation Services segment sold, installed and serviced garage doors, garage door openers, fireplaces, floor coverings, cabinetry and a range of related building products primarily for the new residential housing market. Operating results of substantially all of the Installation Services segment have been reported as discontinued operations in the Condensed Consolidated Statements of Operations for all periods presented herein, and the Installation Services segment is excluded from segment reporting.

**RESULTS OF OPERATIONS****Three months ended December 31, 2008 and 2007**

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

	Net sales		Segment operating profit	
	2008	2007	2008	2007
Electronic Information and Communication Systems	\$ 80,827	\$ 75,860	\$ 5,378	\$ 5,483
Garage Doors	108,818	112,544	(4,393)	(1,375)
Specialty Plastic Films	112,689	106,398	5,536	5,998
	<u>\$ 302,334</u>	<u>\$ 294,802</u>	<u>\$ 6,521</u>	<u>\$ 10,106</u>

**Electronic Information and Communication Systems**

Net sales of the Electronic Information and Communication Systems segment increased \$5.0 million, or 6.5%, compared to last year. The sales increase was primarily attributable to growth in the Radar Systems Division driven by increases in the Lamps MMR and ARPDD programs. Last year's first quarter sales were favorably impacted by contracts with the Syracuse Research Corporation (SRC) that were winding down in the latter part of fiscal 2007. Excluding the prior-period sales related to the SRC contracts, core business sales grew by approximately \$9.4 million, or 13%.

Gross profit of the Electronic Information and Communication Systems segment decreased by \$.5 million compared to last year. Gross margin percentage decreased to 19.3% from 21.2% last year, principally due to program mix, as certain non-recurring cost savings benefited the margins on certain projects completed in the prior-year. Selling, general and administrative ("SG&A") expenses decreased \$.7 million compared to last year and decreased, as a percentage of sales, to 12.5% compared to 14.2% last year. The decrease in SG&A expenses is primarily due to lower expenditures relating to research and development. Operating profit of the Electronic Information and Communication Systems segment decreased \$.1 million.

**Garage Doors**

Net sales of the Garage Doors segment decreased by \$3.7 million, or 3.3%, compared to last year primarily due to the continuing effects of the weak housing and credit markets. The sales decline was principally due to reduced unit volume, offset partially by higher selling prices to pass through increased material costs and product mix.

Gross profit of the Garage Doors segment decreased by \$5.5 million compared to last year. Gross margin percentage decreased to 24.4% from 28.4% last year, primarily due to reduced sales volume and associated plant efficiency loss, as well as an increased mix of certain higher-priced, but lower-margin, commercial products. SG&A expenses were approximately \$1.5 million lower than last year and, as a percentage of sales, decreased to 27.9% from 28.3% last year. The operating loss of the Garage Doors segment increased by \$3.0 million compared to last year. The operating loss in the prior-year period was impacted by restructuring and other related charges associated with the closure of the Tempe, AZ manufacturing facility.

**Specialty Plastic Films**

Net sales of the Specialty Plastic Films segment increased \$6.3 million, or 5.9%, compared to last year. The increase was principally due to a favorable product mix in North America and the impact of increased selling prices to pass through increased resin costs, partially offset by the unfavorable impact of exchange rates on translated foreign sales.

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Gross profit of the Specialty Plastic Films segment increased by \$.1 million compared to last year. Gross margin percentage decreased to 14.7% from 15.5% last year. The favorable contribution to gross margin from the pass through of resin costs was more than offset by an unfavorable product mix and foreign exchange translation. SG&A expenses increased \$.4 million from last year but, as a percentage of sales, decreased to 10.2% from 10.4% last year due to the sales increase. Operating profit of the Specialty Plastic Films segment decreased \$.5 million compared to last year.

### **Gain from debt extinguishment**

In first quarter of fiscal 2009, the Company reported a non-cash, pre-tax gain from debt extinguishment of approximately \$6.7 million, net of a proportionate write-off of deferred financing costs, that resulted from its October 2008 purchase of \$35.5 million of its outstanding notes at a discount.

### **Provision for income taxes**

The Company's overall effective tax rate when combining results from continuing and discontinued operations for the first quarter of fiscal 2009 was approximately 34.4% compared to 43.4% last year. The rate change was principally due to differences in the mix of foreign income and state taxes.

### **Discontinued operations – Installation Services**

Net sales of the Installation Services' operating units were nil and \$46.6 million for the three months ended December 31, 2008 and 2007, respectively, as a result of the Company's exit from the segment in fiscal 2008. Operating income (loss) of the Installation Services' operating units was \$3 thousand and \$(2.9) million for the three months ended December 31, 2008 and 2007, respectively.

## **LIQUIDITY AND CAPITAL RESOURCES**

Cash flows used in continuing operations during the three-month period ended December 31, 2008 were \$4.8 million compared to cash provided by continuing operations of \$41.0 million last year. Working capital decreased to \$532.6 million at December 31, 2008 compared to \$562.1 million at September 30, 2008, primarily as a result of the purchase of \$35.5 million face value of Notes for \$28.4 million. Operating cash flows from continuing operations were unfavorably impacted by increased prepaid expenses and other current assets and decreased accounts payable, partially offset by decreased accounts receivable. Prior-period cash generated from continuing operations benefitted from an unusually large decrease in accounts receivable that resulted from the conclusion of a major contract.

During the three-month period ended December 31, 2008, the Company used cash from investing activities of continuing operations of \$5.1 million compared to \$2.9 million last year, primarily for capital expenditures.

During the three-month period ended December 31, 2008, the Company used cash from financing activities of continuing operations of \$25.6 million compared to \$13.4 million last year, primarily as a result of the purchase of \$35.5 million face value of Notes for \$28.4 million, partially offset by the receipt of \$5.3 million of rights offering proceeds (see below). Approximately 1.4 million shares of common stock are available for purchase pursuant to the Company's stock buyback program and additional purchases, including pursuant to a 10b5-1 plan, may be made, depending upon market conditions and other factors, at prices deemed appropriate by management.

In August 2008, the Company's Board of Directors authorized a 20 million share common stock rights offering to its shareholders in order to raise equity capital for general corporate purposes and to fund future growth. The rights had an exercise price of \$8.50 per share. In conjunction with the rights offering, GS Direct agreed to back stop the rights offering by purchasing, on the same terms, any and all shares not subscribed through the exercise of rights. GS Direct also agreed to purchase additional shares of common stock at the rights offering price if it did not acquire a minimum of 10 million shares of common stock as a result of its back stop commitment. In September 2008, the Company received \$241.3 million of gross proceeds from the first closing of its rights offering and the closing of the related investments by GS Direct and by the Company's Chief Executive Officer. An additional \$5.3 million of

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rights offering proceeds were received in October 2008 in connection with the second closing of the rights offering, after which the rights offering was terminated.

In June 2008, Clopay Building Products Company, Inc. (“BPC”) and Clopay Plastic Products Company, Inc. (“PPC”), each a wholly-owned subsidiary of the Company, entered into a credit agreement for their domestic operations with JPMorgan Chase Bank, N.A., as administrative agent, and the lenders party thereto, pursuant to which the lenders agreed to provide a five-year, senior secured revolving credit facility of \$100 million (the “Clopay Credit Agreement”). At December 31, 2008, \$33.4 million was outstanding under the Clopay Credit Agreement and approximately \$32.7 million was available for borrowing. BPC and PPC were in compliance with all of their financial covenants under the Clopay Credit Agreement at December 31, 2008.

In March 2008, Telephonics Corporation (“Telephonics”), a wholly-owned subsidiary of the Company, entered into a credit agreement with JPMorgan Chase Bank, N.A., as administrative agent, and the lenders party thereto, pursuant to which the lenders agreed to provide a five-year, revolving credit facility of \$100 million (the “Telephonics Credit Agreement”). At December 31, 2008, \$41.0 million was outstanding under the Telephonics Credit Agreement and approximately \$54.2 million was available for borrowing. Telephonics was in compliance with all of its financial covenants under the Telephonics Credit Agreement at December 31, 2008.

The Telephonics Credit Agreement and the Clopay Credit Agreement include various sublimits for standby letters of credit. At December 31, 2008, there were approximately \$18.4 million of aggregate standby letters of credit outstanding under these credit facilities. These credit agreements limit dividends and advances that these subsidiaries may pay to the parent company. The agreements permit the payment of income taxes, overhead and expenses, with dividends or advances in excess of these amounts being limited based on (a) with respect to the Clopay Credit Agreement, maintaining certain minimum availability under the loan agreement or (b) with respect to the Telephonics Credit Agreement, compliance with certain conditions and limited to an annual maximum.

At September 30, 2008, the Company had \$130 million outstanding 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, as well as upon a change in control. If our common stock price is below the conversion price of the debenture on the earliest of these dates, we anticipate that Noteholders will require us to repurchase their outstanding Notes. In October 2008, the Company purchased \$35.5 million face value of the Notes from certain Noteholders for \$28.4 million. This resulted in a non-cash net pre-tax gain from debt extinguishment of approximately \$6.7 million in the first quarter of fiscal 2009. Due to the nature of these Notes for income tax purposes, the Company reclassified a deferred income tax liability to a current income tax liability of approximately \$7 million at December 31, 2008 from the resultant gain and recapture of interest expense.

The Company’s Employee Stock Ownership Plan (“ESOP”) has a loan agreement guaranteed by the Company, the proceeds of which were used to purchase equity securities of the Company. The loan bears interest at rates based upon the prime rate or LIBOR. In addition, the ESOP had a \$5 million line of credit that expired on October 31, 2008. In September 2008, \$630,000 was drawn under the ESOP line of credit to purchase equity securities associated with the rights offering and was outstanding at September 30, 2008. In October 2008, the remaining balance of the available ESOP line of credit was drawn for the purpose of purchasing additional equity securities in the Company. In accordance with the terms of the ESOP line of credit agreement, the \$5 million outstanding at October 31, 2008 was refinanced along with the balance of the then outstanding ESOP loan amount of \$1.25 million. The new ESOP loan provides for quarterly payments of principal and interest through September 2012, at which time the balance of the loan of approximately \$3.9 million will be payable.

The Company is winding down remaining disposal activities related to its Installation Services segment in the first half of fiscal 2009 and does not expect to incur significant expenses in the future. Future net cash outflows to satisfy liabilities related to disposal activities that were accrued as of December 31, 2008 are estimated to range between \$7 million and \$8 million. Substantially all of such liabilities are expected to be paid during fiscal 2009.

During the three-month period ended December 31, 2008, the Company used cash from operating activities of discontinued operations of \$.3 million.

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

**CRITICAL ACCOUNTING POLICIES 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, 2008. 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 2008 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 9 of Notes to Condensed Consolidated Financial Statements for a discussion of these matters.

**FORWARD-LOOKING STATEMENTS**

This Quarterly Report on Form 10-Q contains forward-looking statements. All statements other than statements of historical fact, including, without limitation, statements regarding the Company's financial position, business strategy and the plans and objectives of the Company's management for future operations, are forward-looking statements. Without limiting the generality of the foregoing, in some cases you can identify forward-looking statements by terminology such as "may," "will," "should," "would," "could," "anticipate," "believe," "estimate," "expect," "plan," "intend" or the negative of these expressions or comparable terminology. Such forward-looking statements involve important risks and uncertainties that could significantly affect anticipated results in the future and, accordingly, such results may differ materially from those expressed in any forward-looking statements. These risks and uncertainties include, among others: general domestic and international business, financial market and economic conditions; the credit market; the housing market; results of integrating acquired businesses into existing operations; the results of the Company's restructuring and disposal efforts; competitive factors; pricing pressures for resin and steel; and capacity and supply constraints. 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, 2008.

**Item 2 Unregistered Sales of Equity Securities and Use of Proceeds**

(a) None

(b) None

(c) Purchases of Equity Securities by the Issuer and Affiliated Purchasers

The following table represents the purchasing activity of the Company's Employee Stock Ownership Plan (ESOP) during the first quarter of fiscal 2009:

<u>Period</u>	<u>Total Number of Shares Purchased (1)</u>	<u>Average Price Paid per Share</u>	<u>Total Number of Shares Purchased as part of Publicly Announced Plans or Programs</u>	<u>Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs at Month End</u>
October 1 – 31	—	\$ —	—	—
November 1 – 30	174,200	\$ 7.32	—	—
December 1 – 31	449,442	\$ 8.36	—	—
Total	<u>623,642</u>		<u>—</u>	<u>—</u>

(1) These shares were purchased in open-market transactions. The Company's Employee Stock Ownership Plan is authorized to purchase shares of the Company's common stock as determined from time to time utilizing funds made available at the discretion of the Company. In December 2008, the ESOP purchased 76,037 shares of the Company's common stock with approximately \$686,000 in proceeds received from the sale of rights in connection with the Company's rights offering in September 2008.

**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, amendments to the Company's 2006 Equity Incentive Plan (the "Incentive Plan") (i) to increase the shares available for issuance under the Incentive Plan by 2,875,000 shares (if issued solely as restricted stock or awards other than stock options) or 5,750,000 shares (if awarded solely as stock options), and (ii) to increase the maximum number of shares that may be granted to any one participant in any one fiscal year to 750,000 shares (if issued solely as restricted stock or awards other than stock options) or 1,500,000 shares (if awarded solely as stock options). The amendments were approved by the stockholders at the Company's 2009 Annual Meeting of Stockholders held on February 4, 2009.

**Item 6 Exhibits**

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

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  
Chief Financial Officer  
(Principal Financial Officer)

Date: February 9, 2009

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 (or, with respect to Awards granted after December 31, 2008, the consummation) 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 (or, with respect to Awards granted after December 31, 2008, the consummation) 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 Nonemployee 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 7,750,000 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, 3,875,000 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 1,500,000 Shares underlying Option grants (or 750,000 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 750,000 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 90<sup>th</sup> 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, Ronald J. Kramer, 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 9, 2009

By: /s/ Ronald J. Kramer  
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Ronald J. Kramer  
Chief Executive Officer  
(Principal Executive Officer)

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## CERTIFICATION

I, Patrick L. Alesia, Chief Financial 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 9, 2009

By: /s/ Patrick L. Alesia  
Patrick L. Alesia  
Chief Financial Officer  
(Principal Financial Officer)

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**CERTIFICATIONS PURSUANT TO**

**18 U.S.C. SECTION 1350**

**AS ADOPTED PURSUANT TO**

**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Ronald J. Kramer, Chief Executive Officer of Griffon Corporation, hereby certify that the Form 10-Q of Griffon Corporation for the period ended December 31, 2008 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/ Ronald J. Kramer

Name: Ronald J. Kramer

Date: February 9, 2009

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, 2008 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 9, 2009

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.

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