

Results of Operations

PART II - OTHER INFORMATION

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INSTRUMENT SYSTEMS CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

	December 31, 1994 (Unaudited) -----	September 30, 1994 (Note 1) -----
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 14,861,000	\$ 28,659,000
Marketable securities	4,142,000	29,727,000
Accounts receivable, less allowance for doubtful accounts	57,159,000	59,191,000
Contract costs and recognized income not yet billed	27,680,000	29,194,000
Inventories (Note 2)	75,526,000	68,918,000
Prepaid expenses and other current assets	7,767,000	6,987,000
Total current assets	187,135,000	222,676,000
PROPERTY, PLANT AND EQUIPMENT at cost, less accumulated depreciation and amortization of \$46,682,000 at December 31, 1994 and \$44,843,000 at September 30, 1994	49,787,000	49,890,000
OTHER ASSETS	24,156,000	20,649,000
	----- \$261,078,000 =====	----- \$293,215,000 =====

<FN>

See notes to condensed consolidated financial statements.

INSTRUMENT SYSTEMS CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

	December 31, 1994 (Unaudited) -----	September 30, 1994 (Note 1) -----
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LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES (Note 4):

Accounts and notes payable	\$ 37,328,000	\$ 33,704,000
Other current liabilities	52,028,000	67,924,000
	-----	-----
Total current liabilities	89,356,000	101,628,000
	-----	-----
LONG-TERM DEBT	15,971,000	15,538,000
	-----	-----

SHAREHOLDERS' EQUITY (Note 5):

Preferred stock, par value \$.25 per share, authorized 3,000,000 shares -- Second Preferred Stock, Series I, authorized 1,950,000 shares, issued 1,673,903 shares at December 31, 1994 and 1,677,129 shares at September 30, 1994 (liquidation value \$16,739,000 and \$16,771,000, respectively)	418,000	419,000
Common Stock, par value \$.25 per share, authorized 85,000,000 shares, issued 30,890,095 shares at December 31, 1994 and 33,887,739 shares at September 30, 1994, and 151,700 shares and 34,500 shares in treasury at December 31, 1994 and September 30, 1994, respectively	7,722,000	8,472,000
Other shareholders' equity	147,611,000	167,158,000
	-----	-----
Total shareholders' equity	155,751,000	176,049,000
	-----	-----
	\$261,078,000	\$293,215,000
	=====	=====

<FN>

See notes to condensed consolidated financial statements.

INSTRUMENT SYSTEMS CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	THREE MONTHS ENDED DECEMBER 31,	
	1994	1993
	-----	-----
Net sales	\$133,562,000	\$116,155,000
Cost of sales	95,216,000	81,788,000
	-----	-----
Gross profit	38,346,000	34,367,000
Selling, general and administrative expenses	25,611,000	22,917,000
	-----	-----
Income from operations	12,735,000	11,450,000
	-----	-----
Other income (expense):		
Interest expense	(515,000)	(461,000)
Interest income	619,000	452,000
Other, net	31,000	92,000
	-----	-----
	135,000	83,000
	-----	-----
Income before income taxes	12,870,000	11,533,000
	-----	-----
Provision for income taxes:		
Federal	4,250,000	3,892,000
State and other	898,000	836,000
	-----	-----
	5,148,000	4,728,000

Net income	\$ 7,722,000	\$ 6,805,000
Net income per share of common stock (Note 3)	\$.22	\$.18

<FN>

See notes to condensed consolidated financial statements.

INSTRUMENT SYSTEMS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	THREE MONTHS ENDED DECEMBER 31,	
	1994	1993
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 7,722,000	\$ 6,805,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,068,000	2,359,000
Provision for losses on accounts receivable	302,000	191,000
Change in assets and liabilities:		
Decrease in accounts receivable and contract costs and recognized income not yet billed	6,741,000	13,901,000
Increase in inventories	(3,134,000)	(3,112,000)
Increase in prepaid expenses and other assets	(779,000)	(541,000)
Decrease in accounts payable and accrued liabilities	(15,425,000)	(11,043,000)
Other changes, net	684,000	(8,000)
Total adjustments	(9,543,000)	1,747,000
Net cash provided by (used in) operating activities	(1,821,000)	8,552,000
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net (increase) decrease in marketable securities	25,585,000	(13,075,000)
Acquisition of property, plant and equipment	(1,498,000)	(804,000)
Proceeds from sale of stock of affiliate	---	11,615,000
Acquired businesses	(7,758,000)	---
(Increase) decrease in equipment lease deposits and other	(17,000)	1,219,000
Net cash provided by (used in) investing activities	16,312,000	(1,045,000)

INSTRUMENT SYSTEMS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
(Unaudited)

	THREE MONTHS ENDED DECEMBER 31,	
	1994	1993
CASH FLOWS FROM FINANCING ACTIVITIES:		
Purchase of common shares	(28,166,000)	(3,338,000)
Payment of long-term debt	(9,127,000)	(3,249,000)
Short-term borrowings	9,000,000	---
Other, net	4,000	164,000
Net cash used in financing activities	(28,289,000)	(6,423,000)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(13,798,000)	1,084,000
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	28,659,000	26,466,000

CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 14,861,000	\$ 27,550,000
	=====	=====

<FN>

See notes to condensed consolidated financial statements.

INSTRUMENT SYSTEMS CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

(1) Basis of Presentation -

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. The balance sheet at September 30, 1994 has been derived from the audited financial statements at that date. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the three-month period ended December 31, 1994 are not necessarily indicative of the results that may be expected for the year ended September 30, 1995. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's annual report to shareholders for the year ended September 30, 1994. The Company adopted Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities," for the year beginning October 1, 1994. Adoption of this standard did not have a material effect on the Company's financial position or results of operations.

At the February 8, 1995 Annual Meeting of Stockholders, the stockholders approved changing the Company's name to "Griffon Corporation." The name change will become effective in March 1995.

(2) Inventories -

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

	December 31, 1994	September 30, 1994
	-----	-----
Finished goods	\$20,321,000	\$16,664,000
Work in process	26,933,000	26,674,000
Raw materials and supplies	28,272,000	25,580,000
	-----	-----
	\$75,526,000	\$68,918,000
	=====	=====

(3) Net Income Per Share -

Net income per share is calculated using the weighted average number of shares of common stock, and where dilutive, common stock equivalents outstanding during each period. Shares used in computing per share results were 35,294,000 and 37,928,000 for the three months ended December 31, 1994 and 1993, respectively.

(4) Notes Payable -

In December 1994, \$9,000,000 which was outstanding under a long-term debt agreement was refinanced under a short-term line of credit. Interest on this obligation is at approximately the prime rate.

(5) Self-Tender Offer -

In December 1994, the Company completed a self-tender offer for 3,002,840 shares of the Company's Common Stock, which were then retired, at a price of \$8.75 per share. During the quarter, approximately \$28,200,000 was expended to purchase a total of 3,120,040 shares of Common Stock.

(6) Acquisitions -

During the quarter ended December 31, 1994, the Company acquired two companies for the building products business for an aggregate price of \$7,758,000. The acquisitions have been accounted for as purchases.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS

Results of Operations

Net sales were \$133.6 million in the three-month period ended December 31, 1994, an increase of \$17.4 million or 15.0% over last year.

Net sales of the building products business were \$79.9 million, an increase of \$18.8 million or 30.8% over last year. Acquired businesses accounted for \$7.3 million of the higher sales; the remainder of the increase was principally due to increased unit sales of garage doors (\$8.5 million), improved product mix and increased prices.

Net sales of the specialty plastic films business were \$26.6 million compared to \$26.9 million last year. As previously reported, a major customer of the specialty plastic films business has made a design change which will phase out the specialty plastic's thin laminate program through the first half of 1995. During the quarter, increased unit sales (\$2.9 million) of health care and film products other than thin laminate to this and other customers and the effect of higher selling prices (\$1.2 million) were offset by decreased thin laminate sales.

Net sales of the electronic information and communication systems business were \$17.5 million, decreasing \$1.7 million or 8.7% compared to last year. The lower sales were principally due to decreased revenues on certain military programs that are nearing completion, partially offset by increased commercial business and increased funding of continuing programs.

Income from operations for the three-month period ended December 31, 1994 was \$12.7 million, an increase of \$1.3 million or 11.2% over last year. Operating income of the building products business increased \$2.8 million over last year primarily due to the increased sales. Operating income of the specialty plastic films business decreased by \$1.2 million compared to last year primarily due to the phase-out of the thin laminate program and raw material price increases for polyethylene resin used in its business in excess of selling price increases. It is expected that prices for this material will increase further in fiscal 1995. The Company has been able to pass on such increases to its customers in the past, although there is no assurance as to the timing or extent that it will be able to do so during fiscal 1995. Operating income of the electronic information and communication systems business decreased by \$.4 million principally due to the sales decrease partially offset by slightly lower G&A expenses.

Liquidity and Capital Resources

Cash flow used by operations was \$1.8 million, reflecting a reduction of current liabilities of approximately \$15.4 million.

In December 1994, the Company completed a self-tender offer for 3,002,840 shares of its Common Stock at a price of \$8.75 per share. During the quarter, a total of \$28.2 million was used to acquire 3,120,040 shares of Common Stock. These purchases were funded by existing cash and marketable securities, which decreased due to the stock purchases and \$7.8 million used for two acquisitions for the building products business.

Anticipated cash flows from operations, together with existing cash and lease line availability, should be adequate to finance presently anticipated working capital and capital expenditure requirements.

INSTRUMENT SYSTEMS CORPORATION AND SUBSIDIARIES

PART II - OTHER INFORMATION

There are no material changes in the information previously reported under this item.

Item 2 Changes in Securities

Amendment to Rights Agreement dated as of November 8, 1994 between Registrant and American Stock Transfer Company (Exhibit 4.1 of Current Report on Form 8-K dated November 8, 1994).

Item 3 Defaults upon Senior Securities

None

Item 4 Submission of Matters to a Vote of Security Holders

- (a) The Registrant held its Annual Meeting of Stockholders on February 8, 1995.
- (b) Not applicable.
- (c) (i) A proposal to amend the Certificate of Incorporation to change the name of the Company to "Griffon Corporation" was approved at the Annual Meeting. Votes cast at this meeting were 24,457,471 shares for, 532,622 shares against and 253,621 shares abstaining.
- (ii) A proposal to adopt a 1995 Stock Option Plan was approved at the Annual Meeting. Votes cast at this meeting were 23,585,433 shares for, 1,344,880 shares against and 313,401 shares abstaining.
- (iii) Four directors were elected at the Annual Meeting of Stockholders to serve until the Annual Meeting of Stockholders in 1998 or until their successors are chosen and qualified. The names of these Directors and votes cast in favor of their election and shares withheld are as follows:

NAME ----	VOTES FOR -----	VOTES WITHHELD -----
Abraham M. Buchman	24,911,830	331,884
Rear Admiral Clarence A. Hill, Jr. (Ret.)	24,913,080	330,634
William H. Waldorf	24,914,623	329,091
Henry A. Alpert	24,912,968	330,746

Item 5 Other Information

None

Item 6 Exhibits and Reports on Form 8-K

27 -- Financial Data Schedule (for electronic submission only)

Report on Form 8-K dated November 8, 1994 covering Item 5 -- Other Events and Item 7 -- Financial Statements and Exhibits.

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.

INSTRUMENT SYSTEMS CORPORATION

By Robert Balemian

Robert Balemian
President
(Principal Financial Officer)

Date February 8, 1995

<ARTICLE> 5

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The schedule contains summary financial information extracted from the condensed consolidated financial statements for the quarter ended December 31, 1994 and is qualified in its entirety by reference to such statements.

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