

GRIFFON CORP
Form DEF 14A
December 18, 2009

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

SCHEDULE 14A
(Rule 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT
SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934 (Amendment No.)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

GRIFFON CORPORATION

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
 - (1) Title of each class of securities to which transaction applies:
 - (2) Aggregate number of securities to which transaction applies:
 - (3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

o Fee paid previously with preliminary materials.

o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

GRIFFON CORPORATION

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
February 4, 2010

To our stockholders:

An annual meeting of stockholders will be held at the offices of Dechert LLP, 1095 Avenue of the Americas, New York, New York 10036, on Thursday, February 4, 2010 beginning at 10:00 a.m. At the meeting, you will be asked to vote on the following matters:

1. Election of four directors for a term of three years;
2. Ratification of the selection by our Audit Committee of Grant Thornton LLP to serve as our independent registered public accounting firm for fiscal 2010; and
3. Any other matters that properly come before the meeting.

The above matters are set forth in the proxy statement attached to this notice to which your attention is directed.

If you are a stockholder of record at the close of business on December 15, 2009, you are entitled to vote at the meeting or at any adjournment or postponement of the meeting.

This year, we are pleased to be using the Securities and Exchange Commission rule that allows companies to furnish their proxy materials primarily over the Internet. As a result, a "Notice of Internet Availability of Proxy Materials" is first being mailed to most of our stockholders on or about December 21, 2009. The Notice of Internet Availability of Proxy Materials contains instructions on how to access our proxy materials and vote via the Internet. For those stockholders to whom we are required to deliver a paper copy of our proxy materials, this notice and proxy statement are first being mailed on or about December 21, 2009.

By Order of the Board of
Directors,

PATRICK L. ALESIA
Secretary

Dated: December 18, 2009
New York, New York

WHETHER OR NOT YOU PLAN TO ATTEND THE ANNUAL MEETING, YOU ARE URGED TO SUBMIT YOUR PROXY AND VOTING INSTRUCTIONS VIA THE INTERNET OR BY TELEPHONE, OR, IF YOU RECEIVE A PAPER PROXY CARD AND VOTING INSTRUCTIONS BY MAIL, YOU MAY VOTE YOUR SHARES BY COMPLETING, SIGNING AND DATING THE PROXY CARD AND RETURNING IT IN THE ACCOMPANYING PRE-ADDRESSED POSTAGE-PAID ENVELOPE AS DESCRIBED ON THE ENCLOSED PROXY CARD. PLEASE REFER TO THE SECTION ENTITLED "HOW DO I VOTE" ON PAGE 2 OF THE PROXY STATEMENT FOR A DESCRIPTION OF THESE VOTING METHODS. YOU MAY REVOKE A PREVIOUSLY DELIVERED PROXY AT ANY TIME PRIOR TO THE ANNUAL MEETING. IF YOU DECIDE TO ATTEND THE ANNUAL MEETING AND WISH TO CHANGE YOUR PROXY VOTE, YOU MAY DO SO AUTOMATICALLY BY VOTING IN PERSON AT THE ANNUAL MEETING.

GRIFFON CORPORATION
712 Fifth Avenue
New York, New York 10019

PROXY STATEMENT

ANNUAL MEETING OF STOCKHOLDERS
Thursday, February 4, 2010

Our annual meeting of stockholders will be held on Thursday, February 4, 2010 at the offices of Dechert LLP, 1095 Avenue of the Americas, New York, New York 10036, at 10:00 a.m (the "Annual Meeting"). Our Board of Directors is soliciting your proxy to vote your shares of common stock at the Annual Meeting. This proxy statement, which was prepared by our management for the Board of Directors, contains information about the matters to be considered at the meeting or any adjournments or postponements of the meeting and is first being made available to stockholders on or about December 21, 2009.

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE ANNUAL MEETING OF STOCKHOLDERS TO BE HELD FEBRUARY 4, 2010

This proxy statement and our 2009 Annual Report for the fiscal year ended September 30, 2009 are available on the Internet at <http://www.amstock.com/ProxyServices/ViewMaterial.asp?CoNumber=03170>.

ABOUT THE MEETING

What is the Notice of Internet Availability of Proxy Materials that I received in the mail this year instead of a full set of proxy materials?

This year, we are pleased to be using the Securities and Exchange Commission rule that allows companies to furnish their proxy materials over the Internet, instead of mailing printed copies of those materials to all stockholders. Consequently, most stockholders will not receive paper copies of our proxy materials. These stockholders will instead receive a "Notice of Internet Availability of Proxy Materials" with instructions for accessing our proxy materials, including our proxy statement and 2009 Annual Report, and voting via the Internet. The Notice of Internet Availability of Proxy Materials also contains instructions on how stockholders can obtain a paper copy of our proxy materials if they so choose. We believe this process will expedite stockholders' receipt of proxy materials, lower the costs of our Annual Meeting and conserve natural resources. If you previously elected to receive our proxy materials electronically, these materials will continue to be sent via email unless you change your election.

What is being considered at the meeting?

You will be voting for:

1. the election of four directors for a term of three years; and
2. the ratification of the selection by our Audit Committee of Grant Thornton LLP to serve as our independent registered public accounting firm for fiscal 2010.

We do not expect you to vote on any other matters at the meeting.

In addition, our management will report on our performance during fiscal 2009 and respond to questions.

Who is entitled to vote at the meeting?

You may vote if you owned stock as of the close of business on December 15, 2009. Each share of stock is entitled to one vote.

How do I vote?

For stockholders whose shares are registered in their own names, as an alternative to voting in person at the Annual Meeting, you may vote via the Internet, by telephone or, for those stockholders who receive a paper proxy card in the mail, by mailing a completed proxy card. For those stockholders who receive a Notice of Internet Availability of Proxy Materials, the Notice of Internet Availability of Proxy Materials provides information on how to access your proxy card, which contains instructions on how to vote via the Internet or by telephone. For those stockholders who receive a paper proxy card, instructions for voting via the Internet or by telephone are set forth on the proxy card. Those stockholders who receive a paper proxy card and voting instructions by mail, and who elect to vote by mail, should sign and return the mailed proxy card in the prepaid and addressed envelope that was enclosed with the proxy materials, and your shares will be voted at the Annual Meeting in the manner you direct.

If your shares are registered in the name of a bank or brokerage firm (your record holder), you may also submit your voting instructions over the Internet or by telephone by following the instructions provided by your record holder in the Notice of Internet Availability of Proxy Materials. If you received printed copies of the proxy materials, you can submit voting instructions by telephone or mail by following the instructions provided by your record holder on the enclosed voting instructions card. Those who elect to vote by mail should complete and return the voting instructions card in the prepaid and addressed envelope provided. Stockholders who have elected to receive the proxy materials electronically will be receiving an email on or about December 21, 2009 with information on how to access stockholder information and instructions for voting.

If your shares are registered in your own name, you have the right to vote in person at the Annual Meeting by using the ballot provided at the Annual Meeting, or if you requested and received printed copies of the proxy materials by mail, you can complete, sign and date the proxy card enclosed with the proxy materials you received and submit it at the Annual Meeting. If you hold shares through a bank

or brokerage firm and wish to be able to vote in person at the Annual Meeting, you must obtain a "legal proxy" from your brokerage firm, bank or other holder of record and present it to the inspector of elections with your ballot at the Annual Meeting. Even if you plan to attend the Annual Meeting, we recommend that you submit your proxy or voting instructions in advance of the meeting as described above so that your vote will be counted if you later decide not to attend the Annual Meeting. Submitting your proxy or voting instructions in advance of the meeting will not affect your right to vote in person should you decide to attend the Annual Meeting.

Can I change my mind after I return my proxy?

Yes, you may change your mind at any time before the vote is taken at the meeting. You may revoke or change a previously delivered proxy at any time before the Annual Meeting by delivering another proxy with a later date, by voting again via the Internet or by telephone, or by delivering written notice of revocation of your proxy to Griffon's Secretary at our principal executive offices before the beginning of the Annual Meeting. You may also revoke your proxy by attending the Annual Meeting and voting in person, although attendance at the Annual Meeting will not, in and of itself, revoke a valid proxy that was previously delivered. If you hold shares through a bank or brokerage firm, you must contact that bank or brokerage firm to revoke any prior voting instructions. You also may revoke any prior voting instructions by voting in person at the Annual Meeting if you obtain a legal proxy as described above.

What if I return my proxy card but do not include voting instructions?

Proxies that are signed and returned but do not include voting instructions will be voted **FOR** the election of the nominee directors, **FOR** the ratification of Grant Thornton LLP to serve as our independent registered public accounting firm and in the discretion of the proxy holders as to any other matters that may properly come before the Annual Meeting or any postponement or adjournment of the Annual Meeting.

What does it mean if I receive more than one notice or proxy card?

It means that you have multiple accounts with brokers and/or our transfer agent. Please vote all of these shares. We recommend that you contact your broker and/or our transfer agent to consolidate as many accounts as possible under the same name and address. Our transfer agent is American Stock Transfer & Trust Company and their telephone number is (212) 936-5100.

Will my shares be voted if I do not provide my proxy?

If you hold your shares directly in your own name, they will not be voted if you do not provide a proxy.

Your shares may be voted under certain circumstances if they are held in the name of a brokerage firm. Brokerage firms generally have the authority to vote customers' unvoted shares on certain "routine" matters, including the ratification of accountants. At our meeting, these shares will be counted as voted by the brokerage firm in the ratification of accountants.

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Brokers are prohibited from exercising discretionary authority on non-routine matters, such as the election of directors, for beneficial owners who haven't returned proxies to the brokers (so-called "broker non-votes"). In the case of broker non-votes, and in cases where you abstain from voting on a matter when present at the meeting and entitled to vote, those shares will be counted for purposes of determining if a quorum is present.

How are shares in the Griffon Corporation Employee Stock Ownership Plan Voted?

If you are a participant in the Griffon Corporation Employee Stock Ownership Plan (ESOP), you may vote the shares you own through the ESOP via the Internet, by telephone or, if you receive a paper proxy card in the mail, by mailing a completed proxy card. Shares owned by participants through the ESOP may NOT be voted in person at the Annual Meeting.

American Stock Transfer & Trust Company will tabulate the votes of participants for the ESOP. The results of the vote received from the ESOP participants will serve as voting instructions to Wachovia Bank, National Association, the trustee of the ESOP. The trustee will vote the shares as instructed by the ESOP participants. If a participant does not provide voting instructions, the trustee will vote the shares allocated to the participant's ESOP account in the same manner and proportions as those votes cast by other participants submitting timely voting instructions. American Stock Transfer & Trust Company will keep how you vote your shares confidential.

How many votes must be present to hold the meeting?

Your shares are counted as present at the meeting if you attend the meeting and vote in person, if you properly submit your proxy or if your shares are registered in the name of a bank or brokerage firm and you do not provide voting instructions and such bank or broker casts a broker non-vote on the ratification of accountants. In order for us to conduct our meeting, a majority of our outstanding shares of common stock as of December 15, 2009 must be present at the meeting. This is referred to as a quorum. On December 15, 2009, there were 61,459,122 shares of common stock outstanding and entitled to vote.

What vote is required to elect directors?

Directors are elected by a plurality of the votes cast. Shares not voted will have no effect on the vote for election of directors.

What vote is required to ratify the selection by our Audit Committee of Grant Thornton LLP as our independent registered public accounting firm?

The affirmative vote of the holders of a majority of the shares present in person or by proxy and entitled to vote on the item will be required for approval. An abstention will be counted as a vote against this proposal and broker non-votes will have no effect on the vote.

PROPOSAL 1 ELECTION OF DIRECTORS

Our certificate of incorporation provides for a Board of Directors consisting of not less than twelve nor more than fourteen directors, classified into three classes as nearly equal in number as possible, with no class containing less than four directors, whose terms of office expire in successive years. Our Board of Directors now consists of fourteen directors as set forth below.

Class III (To Serve Until the Annual Meeting of Stockholders in 2010)	Class I (To Serve Until the Annual Meeting of Stockholders in 2011)	Class II (To Serve Until the Annual Meeting of Stockholders in 2012)
Henry A. Alpert(1)(2)(4)	Bertrand M. Bell(2)	Harvey R. Blau(5)
Blaine V. Fogg(3)(5)	Rear Admiral Robert G.	Gerald J. Cardinale(5)
Rear Admiral Clarence A. Hill, Jr.* (USN Ret.)(2)(3)	Harrison (USN Ret.)(2)(4)	Bradley J. Gross(5)
William H. Waldorf(1)(4)	Ronald J. Kramer(5)	General Donald J. Kutyna (USAF Ret.)
Joseph J. Whalen(1)(3)	Martin S. Sussman(1)(3)(4)	James A. Mitarotonda

* Rear Admiral Clarence A Hill, Jr. will be retiring from the Board of Directors effective as of the conclusion of the election of directors at our 2010 Annual Meeting and accordingly is not being nominated for re-election.

- (1) Member of Audit Committee.
- (2) Member of Compensation Committee.
- (3) Member of Nominating and Corporate Governance Committee.
- (4) Member of Succession Committee.
- (5) Member of Finance Committee.

Henry A. Alpert, Blaine V. Fogg, William H. Waldorf and Joseph J. Whalen, directors in Class III, are nominated for election at this Annual Meeting of stockholders to hold office until the annual meeting of stockholders in 2013, or until their successors are chosen and qualified. Rear Admiral Clarence A. Hill, Jr. will be retiring from the Board of Directors effective as of the conclusion of the election of directors at our 2010 Annual Meeting and accordingly is not being nominated for re-election. Joseph J. Whalen has been moved from Class I to Class III in order to maintain a number of directors in each class as nearly equal as possible and has been nominated for election at the Annual Meeting. Accordingly, following the election, our Board of Directors will consist of thirteen directors.

Unless you indicate otherwise, shares represented by executed proxies in the form enclosed will be voted for the election as directors of the aforesaid nominees (each of whom is now a director) unless any such nominee shall be unavailable, in which case such shares will be voted for a substitute nominee designated by the Board of Directors. We have no reason to believe that any of the nominees will be unavailable or, if elected, will decline to serve.

Nominee Biographies

Mr. Henry A. Alpert (age 62) has been a director since 1995. Mr. Alpert has been President of Spartan Petroleum Corp., a real estate investment firm and a distributor of petroleum products, for more than the past five years. Mr. Alpert is also a director of Boyar Value Fund, a mutual fund.

Mr. Blaine V. Fogg (age 69) has been a director since May 2005. Mr. Fogg is a corporate and securities lawyer concentrating in mergers and acquisitions and other business transactions. From 1972 to 2004, Mr. Fogg was a partner at the law firm of Skadden, Arps, Slate, Meagher & Flom LLP. Since 2004, Mr. Fogg is Of Counsel to the law firm. Since July 1, 2009, Mr. Fogg has been President of The Legal Aid Society of New York.

Mr. William H. Waldorf (age 71) has been a director since 1963. He has been President of Landmark Capital, LLC, an investment firm, for more than the past five years.

Mr. Joseph J. Whalen (age 78) has been a director since 1999. Mr. Whalen graduated from St. Peter's College, is a CPA and was a partner at Arthur Andersen LLP for more than five years prior to his retirement in 1994.

Standing Director Biographies

Mr. Harvey R. Blau (age 74) has been Chairman of the Board since 1983 and was our Chief Executive Officer from 1983 through March 2008. Mr. Blau was Chairman of the Board and Chief Executive Officer of Aeroflex Incorporated, a diversified manufacturer of electronic components and test equipment, for more than five years through August 2007 when such company was sold.

Dr. Bertrand M. Bell (age 80) has been a director since 1976. Dr. Bell has been Professor of Medicine at Yeshiva University Albert Einstein College of Medicine for more than the past five years and was appointed Distinguished Professor in September 1992.

Mr. Gerald J. Cardinale (age 42) has been a director since September 2008. Since 2002, Mr. Cardinale has been a Managing Director of the Principal Investment Area of Goldman, Sachs & Co., a leading global investment banking, securities and investment management firm. Mr. Cardinale also serves on the board of directors of Cequel Communications, LLC, a dominant provider of cable television services in certain U.S. territories, CW Media Holdings, Inc., an operator of specialty broadcast television channels in Canada, and Sensus Metering Systems, Inc., a provider of advanced metering technologies.

Mr. Bradley J. Gross (age 36) has been a director since September 2008. Mr. Gross is a Managing Director in the Principal Investment Area of Goldman, Sachs & Co., a position he has held since 2007. From 2003 to 2007, he was a vice president at Goldman, Sachs & Co. Mr. Gross also serves on the board of directors of Aeroflex, Inc., a leading worldwide provider of highly specialized test and measurement equipment and microelectronic solutions, Capmark Financial Group Inc., a diversified holding company that provides financial services to investors in commercial real estate-related assets, Cequel Communications LLC, a dominant provider of cable television services in certain U.S. territories, and various other private companies in which Goldman, Sachs & Co. is an investor.

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Rear Admiral Robert G. Harrison (*USN Ret.*) (age 73) has been a director since February 2004. He was an officer in the United States Navy for more than thirty-five years prior to his retirement in 1994. Since retirement, Rear Admiral Harrison has been a consultant for various defense systems companies in the areas of acquisition, support and program management. Rear Admiral Harrison is also a director for Indra Systems, a company engaged in the manufacture and support of training and simulation systems and automatic test equipment.

Mr. Ronald J. Kramer (age 51) has been our President since February 2009, Chief Executive Officer since April 2008, a director since 1993 and Vice Chairman of the Board since November 2003. From 2002 through March 2008, Mr. Kramer served as President and as a director of Wynn Resorts, Ltd., a developer, owner and operator of hotel and casino resorts. From 1999 to 2001, he was a Managing Director at Dresdner Kleinwort Wasserstein, an investment banking firm, and at its predecessor Wasserstein Perella & Co. Mr. Kramer is also a member of the Board of Directors of Leap Wireless International, Inc., a wireless communications company, Sapphire Industrials Corp., a blank check company, and Monster Worldwide, Inc., a global provider of career solutions. Mr. Kramer is the son-in-law of Mr. Harvey R. Blau, our Chairman of the Board.

General Donald J. Kutyna (*USAF Ret.*) (age 76) has been a director since August 2005. He was an officer in the United States Air Force for over thirty-five years prior to his retirement in 1992. General Kutyna had been commander in chief of the North American Aerospace Defense Command, commander in chief of the U.S. Space Command and commander of the U.S. Air Force Space Command. During his tenure in the U.S. Air Force, General Kutyna served as Chairperson of the Accident Analysis Panel of the Presidential Commission on the Space Shuttle Challenger Accident. General Kutyna was Vice President, Space Technology, of Loral Space & Communications Ltd., a leading satellite communications company, from 1993 to 1996, and again from 1999 to 2004. He also served as Vice President, Advanced Space Systems, for Lockheed Martin Corporation, a company principally engaged in the research, design, development, manufacture and integration of advanced technology systems, products and services, from 1996 to 1999. From September 2004 through 2008, General Kutyna has served as a part-time consultant to Loral Space & Communications Ltd.

Mr. James A. Mitarotonda (age 55) has been a director since November 2007. He is the Chairman of the Board, Chief Executive Officer and President of Barington Capital Group, L.P., an investment firm that he co-founded in November 1991. Mr. Mitarotonda is also the Chairman of the Board, President and Chief Executive Officer of Barington Companies Investors, LLC, the general partner of Barington Companies Equity Partners, L.P., a small and mid-capitalization value fund. In addition, he is the Chairman of the Board, President and Chief Executive Officer of Barington Offshore Advisors II, LLC, the investment advisor of Barington Companies Offshore Fund, Ltd., a small and mid-capitalization value fund. Mr. Mitarotonda served as the President and Chief Executive Officer of Dynabazaar, Inc. from May 2006 until April 2007 and January 2004 until December 2004. Mr. Mitarotonda also served as Co-Chief Executive Officer and Co-Chairman of L Q Corporation, Inc. from April 2003 until May 2004 and as its sole Chief Executive Officer from May 2004 until October 2004. Mr. Mitarotonda serves on the board of directors of A. Schulman, Inc., a company engaged in the sale of plastic resins, The Pep Boys Manny, Moe and Jack, an automotive retail and service chain, and Sielox, Inc., an integrated video surveillance and access control solutions company.

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Mr. Martin S. Sussman (age 72) has been a director since 1989. He has been a practicing attorney in the State of New York since 1961, and has been a member of the law firm of Seltzer, Sussman, Habermann & Heitner for more than the past five years.

CORPORATE GOVERNANCE

Director Independence

The Board of Directors has determined that each of Messrs. Alpert, Bell, Cardinale, Gross, Fogg, Harrison, Hill, Kutyna, Mitarotonda, Sussman, Waldorf and Whalen are independent under New York Stock Exchange Rule 303A. The Board of Directors affirmatively determined that no director (other than Ronald J. Kramer and Harvey R. Blau) has a material relationship with the company, either directly or as a partner, shareholder or officer of an organization that has a relationship with the company.

We currently have the following standing committees: the Audit Committee, the Compensation Committee, the Finance Committee, the Nominating and Corporate Governance Committee and the Succession Committee. Other than the Finance Committee, all of the standing committees of the Board of Directors are composed entirely of independent directors.

Committee Membership, Meetings and Attendance

During the fiscal year ended September 30, 2009, there were:

six meetings of the Board of Directors;

five meetings of the Audit Committee;

nine meetings of the Compensation Committee;

one meeting of the Finance Committee;

one meeting of the Nominating and Corporate Governance Committee; and

no meetings of the Succession Committee.

Each director who was a director in fiscal 2009 attended or participated in at least 75% of the meetings of the Board of Directors and his respective committees held during our fiscal year ended September 30, 2009.

We encourage all of our directors to attend our annual meetings of stockholders. All of our current directors, who were directors at such time, attended last year's annual meeting of stockholders.

Board Committees

We have a separately designated standing Audit Committee established in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934 (the "Exchange Act"). Our Audit Committee is involved in discussions with management and our independent registered public accounting firm with respect to financial reporting and our internal accounting controls. The Audit

Committee has the sole authority and responsibility to select, evaluate and replace our independent registered public accounting firm. The Audit Committee must pre-approve all audit engagement fees and terms and all non-audit engagements with the independent auditors. The Audit Committee consults with management but does not delegate these responsibilities. We do not have a written policy for review and approval of related party transactions required to be disclosed pursuant to Item 404(a) of Regulation S-K. However, our practice is that any such transaction be reviewed and approved by the Audit Committee, which consists entirely of independent directors. There were no related party transactions in fiscal 2009. A copy of the Audit Committee charter can be found on our website at www.griffoncorp.com.

The Board has determined that Joseph J. Whalen, a member of the Audit Committee since 1999, qualifies as an "Audit Committee Financial Expert", as defined by Securities and Exchange Commission Rules, based on his education, experience and background.

Our Compensation Committee awards restricted stock and other equity-based awards to officers and employees. The Committee has overall responsibility for determining and approving the compensation of our Chief Executive Officer and reviewing and approving the annual base salaries and annual incentive opportunities of our executive officers, as well as the Presidents of each of our business segments. The Committee may form and delegate authority to subcommittees as it deems appropriate. The Compensation Committee considers recommendations from our executive officers with respect to executive compensation matters. From time to time, the Company utilizes the services of independent consultants to perform analyses and to make recommendations relative to executive compensation matters. These analyses and recommendations are conveyed to the Compensation Committee, and the Committee takes such information into consideration in making its compensation decisions. A copy of the Compensation Committee charter can be found on our website at www.griffoncorp.com.

The Finance Committee is responsible for the review of certain proposed acquisition and capital markets transactions, following which it shall make a non-binding recommendation to the full Board of Directors. Since its formation there has been only one potential transaction that has advanced to sufficient state of advancement to warrant review by the Finance Committee. A copy of the Finance Committee Charter can be found on our website at www.griffoncorp.com.

The Nominating and Corporate Governance Committee is responsible for (1) monitoring compliance with our Code of Business Ethics and Standards of Conduct; (2) reviewing suggestions of candidates for director made by directors and others; (3) identifying individuals qualified to become Board members, and recommending to the Board the director nominees for the next annual meeting of stockholders; (4) recommending to the Board director nominees for each committee of the Board; (5) recommending to the Board the corporate governance principles applicable to the company; and (6) overseeing the annual evaluation of the Board and management. There is no difference in the manner in which a nominee is evaluated based on whether the nominee is recommended by a stockholder or otherwise. The Nominating and Corporate Governance Committee has nominated the directors to be elected at this meeting. A copy of the Nominating and Corporate Governance Committee charter can be found on our website at www.griffoncorp.com.

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The Succession Committee is responsible for developing and implementing a succession plan for our executive officers.

Interested Party Communications

Mail from stockholders and other interested parties can be addressed to Directors in care of the Office of the Secretary, Griffon Corporation, 712 Fifth Avenue, New York, New York 10019. At the direction of the Board of Directors, all mail received will be opened and screened for security purposes. The mail will then be logged in. All mail, other than trivial or obscene items, will be forwarded. Mail addressed to a particular Director will be forwarded or delivered to that Director. Mail addressed to "Outside Directors," "Independent Directors," "Non-Employee Directors" or "Non-Management Directors" will be forwarded or delivered to each such director. Mail addressed to the "Board of Directors" will be forwarded or delivered to the Chairman of the Board.

Guidelines for Business Conduct and Governance Guidelines

Our Board of Directors has adopted a Code of Ethics for the chairman and chief executive officer and senior financial officers of Griffon Corporation. Our Board of Directors has also adopted a Code of Business Ethics applicable to all employees in performing their duties. The Code of Business Ethics sets forth information and procedures for employees to report ethical or accounting concerns, misconduct or violations of the Code in a confidential manner. The Code of Ethics and Code of Business Ethics may be found on our website at www.griffoncorp.com.

Our Board of Directors has also adopted Corporate Governance guidelines as required by the New York Stock Exchange rules to assist the Board in exercising its responsibilities to Griffon and its stockholders. The Corporate Governance Guidelines may be found on our website at www.griffoncorp.com.

Executive Sessions

Our independent directors meet periodically at regularly scheduled executive sessions. Mr. Martin S. Sussman has been selected as the lead independent director with respect to the executive sessions of the independent directors through February 2010. Our independent directors met in executive session one time during fiscal 2009.

Board Self-Evaluation

The Board is required to conduct an annual self-evaluation that is overseen by our Nominating and Corporate Governance Committee to determine whether the Board and its committees are functioning effectively. In addition, each of the Compensation and Nominating and Corporate Governance committees is required to conduct an annual self-evaluation and all committees of the Board are required to review and reassess the adequacy of their charters. The Audit Committee is subject to an annual performance evaluation by the Board of Directors.

Directors' Nominations

Any stockholder who wants to nominate a candidate for election to the Board must deliver timely notice to our Secretary at our principal executive offices. In order to be timely, the notice must be delivered

in the case of an annual meeting, not less than 90 days nor more than 120 days prior to the anniversary date of the immediately preceding annual meeting of stockholders, although if the annual meeting is called for a date that is not within 25 days of the anniversary date of the prior year's annual meeting, the notice must be received not later than the close of business on the 10th day following the first to occur of the day on which notice of the date of the annual meeting was mailed or such public disclosure of the date of the annual meeting was made; and

in the case of a special meeting of stockholders called for the purpose of electing directors, not later than the close of business on the 10th day following the first to occur of the day on which notice of the date of the special meeting was mailed or public disclosure of the date of the special meeting was made.

The stockholder's notice to the Secretary must set forth (1) as to each person whom the stockholder proposes to nominate for election as a director (a) his name, age, business address and residence address, (b) his principal occupation and employment, (c) the class and series and number of shares of each class and series of capital stock of Griffon which are owned beneficially or of record by him and (d) any other information relating to the nominee that would be required to be disclosed in a proxy statement or other filings required to be made in connection with solicitations of proxies for election of directors pursuant to Section 14 of the Exchange Act, and the rules and regulations promulgated thereunder; and (2) as to the stockholder giving the notice (a) his name and record address, (b) the class and series and number of shares of each class and series of capital stock of the company which are owned beneficially or of record by him, (c) a description of all arrangements or understandings between the stockholder and each proposed nominee and any other person or persons (including their names) pursuant to which the nomination(s) are to be made by the stockholder, (d) a representation by him that he is a holder of record of stock of the company entitled to vote at such meeting and that he intends to appear in person or by proxy at the meeting to nominate the person or persons named in his notice and (e) any other information relating to the stockholder that would be required to be disclosed in a proxy statement or other filings required to be made in connection with solicitations of proxies for election of directors pursuant to Section 14 of the Exchange Act and the rules and regulations promulgated thereunder. The notice delivered by a stockholder must be accompanied by a written consent of each proposed nominee to being named as a nominee and to serve as a director if elected. The stockholder must be a stockholder of record on the date on which he gives the notice described above and on the record date for the determination of stockholders entitled to vote at the meeting.

Compensation Committee Interlocks and Insider Participation

The members of our Compensation Committee are Henry A. Alpert, Dr. Bertrand M. Bell, Rear Admiral Robert G. Harrison (USN Ret.) and Rear Admiral Clarence A. Hill, Jr. (USN Ret.). None of

these persons were our officers or employees during fiscal 2009 nor had any relationship requiring disclosure in this Proxy Statement.

STOCK OWNERSHIP

The following information, including stock ownership, is submitted with respect to our directors, each executive officer named in the "Summary Compensation Table," for all executive officers and directors as a group, and, based solely on Schedule 13D and 13G filings with the Securities and Exchange Commission, for each holder of more than five percent of our common stock as of December 1, 2009.

Name of Beneficial Owner	Common Stock Beneficially Owned(1)	Percent of Class
The Goldman Sachs Group, Inc. and affiliates(2)(3)	10,002,122	16.3%
Mario J. Gabelli and affiliates(4)	5,936,830	9.7%
NWQ Investment Management Company, LLC(5)	4,876,404	7.9%
Dimensional Fund Advisors(6)	3,516,379	5.7%
Barclays Global Investors, NA and affiliates(7)	3,520,905	5.7%
Patrick L. Alesia(8)	233,404	*
Henry A. Alpert(9)(10)	61,650	*
Bertrand M. Bell(9) (11)	20,781	*
Harvey R. Blau(8)(12)	2,489,140	4.0%
Gerald J. Cardinale(3)	10,002,122	16.3%
Blaine V. Fogg(9)	8,531	*
Bradley J. Gross(3)	10,002,122	16.3%
Rear Admiral Robert G. Harrison (Ret.)(9)	4,538	*
Rear Admiral Clarence A. Hill, Jr. (Ret.)(9)	32,664	*
Ronald J. Kramer(8)(9)(13)	2,237,691	3.6%
General Donald J. Kutyna (Ret.)(9)	2,803	*
James A. Mitarotonda(14)	849,892	1.4%
Martin S. Sussman(9)	30,666	*
William H. Waldorf(9)	20,952	*
Douglas J. Wetmore(8)	215,000	*
Joseph J. Whalen(9)	20,807	*
Directors and executive officers as a group (16 persons)(15)	16,230,641	26.1%

*
Less than 1%.

(1)
Unless otherwise indicated, ownership represents sole voting and investment power.

(2)
The address for The Goldman Sachs Group, Inc. and its affiliates is 85 Broad Street, New York, NY 10004.

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- (3) Messrs. Cardinale and Gross are managing directors of Goldman, Sachs & Co. ("Goldman Sachs"). Goldman Sachs is a wholly-owned subsidiary of The Goldman Sachs Group, Inc. ("GS Group"). GS Group and Goldman Sachs may be deemed to beneficially own indirectly, in the aggregate, 10,002,122 shares of our common stock beneficially owned directly by GS Direct, L.L.C. ("GS Direct"). GS Direct is a wholly-owned subsidiary of GS Group. Goldman Sachs is the manager of GS Direct. GS Group, Goldman Sachs, GS Direct and Messrs. Cardinale and Gross each disclaim beneficial ownership of these securities except to the extent of its or his pecuniary interest therein, if any. In addition, each of Messrs. Cardinale and Gross received 1,061 shares of common stock in their capacity as directors pursuant to our Outside Director Stock Award Plan.
- (4) The address for Mario J. Gabelli and his affiliates is One Corporate Center, Rye, New York 10580-1435.
- (5) The address for NWQ Investment Management Company, LLC is 2049 Century Park East, 16th Floor, Los Angeles, CA 90067.
- (6) The address for Dimensional Fund Advisors is Palisades West, Building One, 6300 Bee Cave Road, Austin, Texas 78746.
- (7) The address for Barclays Global Investors NA and Barclays Global Fund Advisors is 400 Howard Street, San Francisco, California 94105. The address for Barclays Global Investors, Ltd. is Murray House, 1 Royal Mint Court, London, EC3N 4HH.
- (8) Includes for Messrs. Blau, Kramer and Alesia 580,000 shares of common stock, 116,667 shares of common stock and 105,000 shares of common stock, respectively, issuable with respect to options currently exercisable and options which become exercisable within 60 days under our stock option plans. Also includes (i) for Messrs. Blau, Kramer and Alesia 28,154 shares of common stock, 101 shares of common stock and 11,088 shares of common stock, respectively, allocated to their accounts under the ESOP as to which they can direct the vote, and (ii) for Messrs. Blau, Kramer, Alesia and Wetmore 20,000 shares of restricted stock, 1,200,753 shares of restricted stock, 56,000 shares of restricted stock, and 215,000 shares of restricted stock, respectively, as to which they can direct the vote.
- (9) Includes shares of common stock granted pursuant to our Outside Director Stock Award Plan.
- (10) Includes 51,400 shares of common stock owned by the Spartan Petroleum Profit Sharing Trust of which Mr. Alpert is a co-trustee and a beneficiary.
- (11) Includes 16,192 shares of common stock owned by Mr. Bell's spouse.
- (12) Includes 772,253 shares of common stock owned by Mr. Blau's wife. Mr. Blau disclaims beneficial interest of such shares of common stock.
- (13) Includes 40,298 shares of common stock owned by Mr. Ronald J. Kramer's wife and daughter as to which Mr. Kramer disclaims beneficial ownership of such shares of common stock which are in excess of his pecuniary interest.

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- (14) The address for Mr. Mitarotonda is c/o Barington Capital Group, L.P., 888 Seventh Avenue, 17th Floor, New York, NY 10019. Includes 679,582 shares of common stock beneficially owned by Barington Companies Equity Partners, L.P. and 167,721 shares by Barington Companies Offshore Fund, Ltd. Mr. Mitarotonda is the sole stockholder and director of LNA Capital Corp., which is the general partner of Barington Capital Group, L.P., which is the majority member of each of Barington Companies Investors, LLC ("Barington Investors") and Barington Offshore Advisors II, LLC ("Barington Offshore II"). Barington Investors is the general partner of Barington Companies Equity Partners, L.P. Barington Offshore II is the investment advisor to Barington Companies Offshore Fund, Ltd. Mr. Mitarotonda has disclaimed beneficial ownership of these securities, except to the extent of his pecuniary interest therein.
- (15) Includes 901,667 shares of common stock issuable with respect to options currently exercisable and options which become exercisable within 60 days granted to executive officers and directors under our stock option plans.

EXECUTIVE COMPENSATION

COMPENSATION DISCUSSION AND ANALYSIS

Compensation Philosophy and Objectives of Our Compensation Program

Our compensation programs are intended to enable us to attract, motivate, reward and retain the management talent required to achieve corporate objectives, and thereby increase stockholder value. It is our policy to provide incentives to senior management to achieve both short-term and long-term objectives and to reward exceptional performance and contributions to the development of our businesses. To attain these objectives, our executive compensation program includes four key components:

competitive base salary;

cash incentive bonuses based upon company and individual performance;

equity-based compensation; and

retirement, health and welfare benefits, and other perquisites.

The Compensation Committee has also decided that the general policy of the Company regarding tax gross-ups is that each executive should be responsible for the taxes payable with respect to such individual's compensation. Accordingly, the Company will not offer executives tax gross-ups, except in unusual circumstances where the Compensation Committee believes that accommodations have to be made to recruit a new executive to the Company. However, even in those circumstances, any such tax gross-up will be limited to payments triggered by both a change in control and termination of employment and will be subject to a three year sunset provision.

Executive Compensation Decisions The Role of the Compensation Committee, Executives and Consultants

The Compensation Committee is responsible for evaluating and approving the compensation of our executive officers and the presidents of our business segments. The Compensation Committee considers recommendations from our chief executive officer with respect to executive compensation matters, other than his own compensation. From time to time, including with respect to certain compensatory decisions made in fiscal 2009, the Compensation Committee utilizes the services of an independent consulting firm to perform analyses and to make recommendations relative to executive compensation matters. These analyses and recommendations are conveyed to the Compensation Committee, and the Compensation Committee takes such information into consideration in making its compensation decisions.

Determination of Compensation Levels

In setting compensation levels and mix of compensation for fiscal 2009, the Compensation Committee took into account several factors, including existing employment agreements with individual executives, the extent to which an individual may participate in and may have received grants under the equity-based plans maintained by us, and the Compensation Committee's subjective assessment of the

individual's experience, responsibilities, management, leadership abilities and job performance. In addition, the Compensation Committee has historically used benchmarking for comparison purposes in connection with the recruitment and retention of our executive officers and may continue to use such data as one of the factors in determining compensation of its executive officers. In fiscal 2009, the Compensation Committee did not use benchmarking in the setting of compensation levels. The Compensation Committee has recognized that the Company has adopted an approach that focuses not only on the appropriate deployment of and return of capital in our existing businesses, but also on growth and diversification. Accordingly, while the Committee recognizes the benefit of comparative information in determining compensation at the corporate level, it also recognizes the limitations of such comparisons for a company, such as our Company, that has shown dynamic development.

From time to time, the Compensation Committee has retained GK Partners, an independent outside executive compensation consulting firm, to assist it in evaluating our company's executive compensation practices for senior management personnel. The Compensation Committee uses marketplace data points generated by GK Partners regarding other companies as part of our evaluation of the base salary and compensation levels of our named executive officers. The data points are used to allow the Compensation Committee to compare the compensation levels being set for our executives with the ranges established by others. The Compensation Committee uses these data points to better understand how other companies are compensating their own senior executives. The Compensation Committee believes that, among other things, such data could improve Griffon's ability to retain its named executive officers, and not have them recruited away (with the promise of increased compensation levels) by companies that compete directly with Griffon for customers and talent, or others that compete locally, generally or indirectly with Griffon for executive level talent and personnel.

Because a significant portion of the senior executive management team has been recruited from other companies within a relatively few years, the Compensation Committee believes that the levels of compensation established for those executives reflects the actual operation of competitive market forces.

Elements of Executive Compensation

Base Salary. We pay a base salary that the Compensation Committee determines is competitive with respect to the scope, responsibilities and skills required of the particular position in order to attract and retain qualified individuals. As discussed above, the Compensation Committee assesses compensation from other companies from time to time by analyzing the compensation paid in the marketplace. Periodic merit increases are made after annual review and we are contractually obligated to give our chief executive officer an annual cost of living adjustment.

In March 2008, we entered into an employment agreement with Ronald J. Kramer, pursuant to which he became our Chief Executive Officer, as discussed herein under "Employment Agreements." Mr. Kramer's employment agreement provided for an initial annual base salary of \$775,000, subject to cost of living and discretionary increases. In November 2008, the Compensation Committee reviewed Mr. Kramer's base salary. The Compensation Committee believed that a salary increase for Mr. Kramer was appropriate in recognition of his being instrumental in the execution of bank loan agreements, the consummation of the rights offering and in effectuating the exit strategy from the

Installation business. The Compensation Committee believed that in light of these contributions, which were essential to the company, that an increase of \$25,000 per annum was appropriate. The Compensation Committee consulted with an independent compensation consulting firm, GK Partners, to determine if such an increase was appropriate. GK Partners confirmed that Mr. Kramer's base salary, even with such increase, was well within the range of compensation paid to other chief executive officers at companies that competed directly and indirectly with the company. Accordingly, effective December 1, 2008, the Compensation Committee decided to exercise its discretion to increase Mr. Kramer's annual base salary to \$800,000.

In August 2009, we entered into an employment agreement with Douglas J. Wetmore, pursuant to which he became our Executive Vice President and Chief Financial Officer, as discussed herein under "Employment Agreements." Mr. Wetmore's employment agreement provides for an initial annual base salary of \$500,000, subject to discretionary increases. The base salary under this agreement was established by our Compensation Committee. The Compensation Committee determined that this annual base salary was necessary in order to recruit Mr. Wetmore.

During its annual review of overall compensation, the Compensation Committee evaluates the Company's compensation of its senior management in each element of compensation and on an overall basis. As part of its review the Compensation Committee considered the reorganization and restructuring of Griffon's senior management team and the changes in responsibilities that would result from management changes that were in progress or that had been completed. The Compensation Committee reviewed the base salary of Patrick L. Alesia, our Vice President, Chief Administrative Officer, Treasurer and Secretary. In conducting such review, the Compensation Committee determined that due to Mr. Alesia's participation in the company's SERP, recent equity awards and the salary increase that Mr. Alesia received for the prior fiscal year, Mr. Alesia's current total compensation package is appropriate. Accordingly, the Compensation Committee decided not to increase Mr. Alesia's annual base salary in 2009 from the \$435,000 per annum that he received in 2008.

The Compensation Committee also reviewed the base salary of Franklin H. Smith, who was at the time our Executive Vice President. In conducting such review, the Compensation Committee determined that due to Mr. Smith's recent equity awards and the salary increase that Mr. Smith received for the prior fiscal year, Mr. Smith's compensation package was appropriate. Accordingly, the Compensation Committee decided not to increase Mr. Smith's annual base salary in 2009 from the \$475,000 per annum that he received in 2008.

Cash Incentive Bonuses. Cash incentive bonuses are designed to provide a significant and variable financial opportunity to our executive officers on an annual basis based upon company and individual performance.

In December 2005, the Board of Directors of our company adopted the 2006 Performance Bonus Plan, which was approved by our stockholders at our annual meeting of stockholders held on February 3, 2006. The Performance Bonus Plan is administered by the Compensation Committee, which selects the participants and establishes the performance periods and the specific performance goals to be achieved during those periods. The Compensation Committee believes that the Performance Bonus Plan enhances the ability of our company to attract and retain employees, including executive officers,

by providing performance-based incentives, while at the same time obtaining the highest level of deductibility of compensation paid to employees.

Bonus awards, if made, are intended to qualify as "performance-based compensation" under Section 162(m) of the Internal Revenue Code; however, as permitted under the section, the Compensation Committee retains the negative discretion to reduce bonus awards otherwise earned through the attainment of the performance goals.

In December, 2008, in accordance with and pursuant to the 2006 Performance Bonus Plan, the Compensation Committee established objective, calculable and prospective goals under that plan. These goals were established by the Compensation Committee to be consistent with the operational and capital plans for fiscal 2009 received and approved by the Board at the beginning of the fiscal year. In establishing goals the Compensation Committee seeks to create incentives for the attainment of the strategic and operational objectives set by the Board. The Compensation Committee then considers the financial condition and operating results that would result if the plans were executed with varying degrees of success, and further considers the economic environment in which the management team is being expected to perform.

Consistent with the strategy discussed by the Board, the Compensation Committee determined that objectives should be established in three different areas, each of which could be achieved independently. These objectives were achieving positive operating results, as measured by EBITDA, continuing to strengthen Griffon's balance sheet, as measured by working capital improvement, and promoting non-organic growth through acquisitions. Levels of achievement were established for each objective, up to a maximum potential bonus of \$3 million for each objective and a maximum aggregate bonus of \$5 million. The Compensation Committee retained the power to reduce (but not increase) the bonus actually awarded under the 2006 Performance Bonus Plan to assure that the aggregate bonus actually paid under that Plan to any individual was, in the judgment of the Compensation Committee, reasonable and in the best interests of the Company.

In considering the target levels for each objective, the Compensation Committee considered the substantial economic uncertainty that was prevalent globally in December 2008 when the target levels were set. In particular, the Compensation Committee considered that the Company's garage door business was likely to be seriously affected by the severe downturn in the real estate market and that the Company's plastics business could be affected by consumers shifting their purchasing choices to lower priced, more generic products, thereby reducing demand for the Company's higher margin products. The Compensation Committee noted the management changes in progress at the parent company level and the potential for those changes to result in increases in general and administrative expenses. The Compensation Committee concluded that the successful achievement of transition in management structure would contribute to the EBITDA targets that the Compensation Committee established, and that the EBITDA targets would create an incentive to control general and administrative expenses. Based on the foregoing, the Compensation Committee established an EBITDA target that ranged from \$32 million as a minimum threshold for bonus eligibility under the 2006 Performance Bonus Plan for operational results to \$55 million as the superior level of achievement, at which a maximum bonus could be awarded.

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In order to establish an incentive to maintain and enhance balance sheet strength, the Compensation Committee established targets based upon working capital levels to be attained at the end of fiscal 2009. The Compensation Committee noted that Griffon's senior subordinated convertible bonds could be put to the Company in July 2010, and, accordingly, the indebtedness evidenced by those securities would be classified as short term indebtedness rather than as long term indebtedness beginning in July, 2009. Absent other changes, this reclassification would result in a substantial reduction in the Company's working capital at the end of fiscal 2009; and the Compensation Committee believed that maintenance of a strong working capital position would be beneficial to the Company and its businesses, especially in light of the economic uncertainties that existed at the time that the targets were set. In establishing the working capital objectives under the 2006 Performance Bonus Plan, the Compensation Committee considered the projected level of working capital at year end, absent corporate action led by management. The fiscal year end working capital levels permitting the payment of bonuses ranged from \$445 million as a minimum threshold to \$630 million at which a maximum bonus could be awarded.

While not a primary objective for fiscal 2009, the Board wanted Mr. Kramer and the senior management team to grow the Company's revenues through acquisitions. In order to assure that bonus potential could only be achieved for meaningful accomplishments in this area, the Compensation Committee determined that targets should be established on the basis of the level of revenues of companies that are acquired.

After the conclusion of fiscal 2009 and the preparation of the Company's financial statements, the Compensation Committee held meetings that its consultant attended for the principal purpose of reviewing the extent to which targets established under the 2006 Performance Bonus Plan were attained and considering the extent to which bonuses under that plan would be paid. The Committee determined that Mr. Kramer was eligible for a \$3 million bonus as a result of the attainment of a superior result based upon the EBITDA generated by the Company's operations, and that he was eligible for a bonus of \$600,000 based upon the level of the Company's working capital at year end. No material acquisitions were made in fiscal 2009; and accordingly no bonus could be awarded with respect to that target. The Compensation Committee then reviewed the aggregate bonus potentially payable to Mr. Kramer and concluded that, because EBITDA substantially contributed to the attainment of the working capital target, the Compensation Committee would exercise its negative discretion and reduce Mr. Kramer's potential bonus by \$600,000, or approximately 17%. The Compensation Committee concluded that Mr. Kramer's bonus would be reasonable and in the best interests of the Company.

Pursuant to Mr. Wetmore's employment agreement, he was eligible to receive a discretionary bonus with respect to fiscal 2009. The Compensation Committee awarded Mr. Wetmore a discretionary bonus of \$50,000 in respect of the services Mr. Wetmore performed in fiscal 2009. The Compensation Committee awarded this amount to Mr. Wetmore based on a subjective analysis of the immediate effectiveness of Mr. Wetmore's leadership and finance skills, cost cutting initiatives and financial department enhancements, direction and guidance.

The bonus for Mr. Alesia is discretionary and is based primarily upon a subjective analysis by the Compensation Committee of his individual performance. The Compensation Committee determined that Mr. Alesia made many financial, accounting, human resource, tax and administrative contributions

to the Company's success during the 2009 fiscal year. Significantly, Mr. Alesia provided important assistance in connection with the transition of the company's management and in accepting new responsibilities and challenges as the company's new Chief Administrative Officer. In consideration of these important services and his promotion to Chief Administrative Officer the Compensation Committee awarded Mr. Alesia a bonus of \$217,000 in respect of fiscal 2009.

In accordance with the terms of his negotiated separation agreement, Mr. Smith received a bonus of \$85,000 in respect of fiscal 2009. See the discussion of Mr. Smith's separation agreement under "Employment Agreements" below.

The Compensation Committee is in the process of establishing the performance goals for Messrs Kramer and Wetmore under the 2006 Performance Bonus Plan.

Equity-based Compensation. Equity-based compensation is designed to provide incentives to our executive officers to build stockholder value over the long term by aligning their interests with the interest of stockholders. Historically, equity-based compensation consisted of stock options granted by the Compensation Committee under our stock option plans. In 2006, we began granting restricted stock awards as the Compensation Committee determined that this was a more effective vehicle for the motivation and retention of our executive officers. The Committee believes that equity-based compensation provides an incentive that focuses the executive's attention on managing our company from the perspective of an owner with an equity stake in the business. In determining the amount of equity-based compensation to be awarded to our named executive officers, the Compensation Committee takes into consideration, among other things, the level of the officer's responsibility, performance of the officer, other compensation elements and the amount of previous grants of stock and options. The goal of the Compensation Committee is to retain and motivate the named executive officer to perform at the level we require. In addition, with respect to recruiting an executive officer to join our company, the amount of equity consideration may be negotiated to reflect the amount necessary to hire the desired person. The largest grants are generally awarded to the most senior officers who, in the view of the Compensation Committee, have the greatest potential impact on our profitability and growth.

Pursuant to our 2006 Equity Incentive Plan, we may issue up to 3,875,000 shares of our common stock (if issued solely as restricted stock or awards other than stock options) or 7,750,000 shares of our common stock (if awarded solely as stock options). The Compensation Committee believes that the Incentive Plan allows our company to attract and retain executive management by providing them with appropriate equity-based incentives and rewards for superior performance.