

GRIFFON CORP  
Form 10-K  
November 16, 2012

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

**FORM 10-K**

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

**For the year ended September 30, 2012**

**OR**

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

**Commission File No. 1-06620**

**GRIFFON CORPORATION**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of incorporation or organization)

**712 Fifth Avenue, 18<sup>th</sup> Floor, New York, New York**

(Address of Principal Executive Offices)

**11-1893410**

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

**10019**

(Zip Code)

Registrant's telephone number, including area code: **(212) 957-5000**

Securities registered pursuant to Section 12(b) of the Act:

<b>Title of each class</b>	<b>Name of each exchange on which registered</b>
Common Stock, \$0.25 par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

**None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such period that the registrant was required to submit and post such files). Yes x No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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

Large accelerated filer o Accelerated filer x  
Non-accelerated filer o Smaller reporting company o  
(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 Act). Yes o No x

The aggregate market value of the voting and non-voting common stock held by non-affiliates of the registrant as of the close of business March 31, 2012, the registrant's most recently completed second quarter, was approximately \$494,000,000. The registrant's closing price as reported by the New York Stock Exchange-Composite Transactions for March 31, 2012 was \$10.70. The number of the registrant's outstanding shares was 60,793,342 as of October 31, 2012.

**DOCUMENTS INCORPORATED BY REFERENCE:**

Part III (Items 10, 11, 12, 13 and 14). Registrant's definitive proxy statement to be filed pursuant to Regulation 14A of the Securities Exchange Act of 1934.

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**Special Notes Regarding Forward-Looking Statements**

This Annual Report on Form 10-K, especially Management's Discussion and Analysis, contains certain forward-looking statements within the meaning of the Securities Act of 1933, as amended, the Securities Exchange Act of 1934, as amended, and the Private Securities Litigation Reform Act of 1995. Such statements relate to, among other things, income, earnings, cash flows, revenue, changes in operations, operating improvements, industries in which Griffon Corporation (the Company or Griffon) operates and the United States and global economies. Statements in this Form 10-K that are not historical are hereby identified as forward-looking statements and may be indicated by words or phrases such as anticipates, supports, plans, projects, expects, believes, should, would, could, hope, forecast, management will, estimates, intends, explores, opportunities, the negative of these expressions, use of the future tense and similar words or phrases. Forward-looking statements are subject to inherent risks and uncertainties that could cause actual results to differ materially from those expressed in any forward-looking statements. These risks and uncertainties include, among others: current economic conditions and uncertainties in the housing, credit and capital markets; Griffon's ability to achieve expected savings from cost control, integration and disposal initiatives; the ability to identify and successfully consummate and integrate value-adding acquisition opportunities; increasing competition and pricing pressures in the markets served by Griffon's operating companies; the ability of Griffon's operating companies to expand into new geographic and product markets and to anticipate and meet customer demands for new products and product enhancements and innovations; reduced military spending by the government on projects for which Griffon's Telephonics Corporation supplies products, including as a result of sequestration which is currently scheduled to take effect in January 2013; increases in the cost of raw materials such as resin and steel; changes in customer demand or loss of a material customer at one of the operating companies; the potential impact of seasonal variations and uncertain weather patterns on certain of Griffon's businesses; political events that could impact the worldwide economy; a downgrade in Griffon's credit ratings; changes in international economic conditions including interest rate and currency exchange fluctuations; the reliance by certain of Griffon's businesses on particular third party suppliers and manufacturers to meet customer demands; the relative mix of products and services offered by Griffon's businesses, which impacts margins and operating efficiencies; short-term capacity constraints or prolonged excess capacity; unforeseen developments in contingencies, such as litigation; unfavorable results of government agency contract audits of Telephonics Corporation; Griffon's ability to adequately protect and maintain the validity of patent and other intellectual property rights; the cyclical nature of the businesses of certain of Griffon's operating companies; and possible terrorist threats and actions and their impact on the global economy. Readers are cautioned not to place undue reliance on these forward-looking statements. These forward-looking statements speak only as of the date made. Griffon undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

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*(Unless otherwise indicated, any reference to years or year-end refers to the fiscal year ending September 30 and US dollars and non US currencies are in thousands, except per share data)*

### **PART I**

#### **Item 1. Business**

##### **The Company**

Griffon Corporation (the Company or Griffon), is a diversified management and holding company that conducts business through wholly-owned subsidiaries. Griffon oversees the operations of its subsidiaries, allocates resources among them and manages their capital structures. Griffon provides direction and assistance to its subsidiaries in connection with acquisition and growth opportunities as well as in connection with divestitures. Griffon, to further diversify, also seeks out, evaluates and, when appropriate, will acquire additional businesses that offer potentially attractive returns on capital.

Headquartered in New York, N.Y., the Company was founded in 1959 and is incorporated in Delaware. Griffon is listed on the New York Stock Exchange and trades under the symbol GFF.

Griffon currently conducts its operations through three businesses: Telephonics Corporation ( Telephonics ), Home & Building Products ( HBP ) and Clopay Plastic Products Company ( Plastics ).

HBP, which consists of two companies, Ames True Temper, Inc ( ATT ) and Clopay Building Products ( CBP ), accounted for 46% of Griffon's consolidated revenue in 2012, 46% in 2011, and on a pro forma basis giving effect to the acquisition of ATT as if it had occurred on October 1, 2009, 48% of Griffon's consolidated revenue in 2010:

- ATT, acquired on September 30, 2010, is a global provider of non-powered landscaping products that make work easier for homeowners and professionals. Due to the timing of the acquisition, none of ATT's 2010 and prior results of operations were included in Griffon's results. ATT's revenue was 23% of Griffon's consolidated revenue in 2012 and 24% in 2011. 2010 pro forma revenue was \$443,634, or 26% of Griffon's pro forma 2010 revenue of \$1,737,630 (unaudited), giving effect to the acquisition of ATT as if it had occurred on October 1, 2009.
- CBP is a leading manufacturer and marketer of residential, commercial and industrial garage doors to professional installing dealers and major home center retail chains. CBP's revenue was 23% of Griffon's consolidated revenue in 2012, 22% in 2011 and 30% in 2010.

Telephonics designs, develops and manufactures high-technology integrated information, communication and sensor system solutions for military and commercial markets worldwide. Telephonics' revenue was 24% of Griffon's consolidated revenue in 2012, 25% in 2011 and 34% in 2010.

Plastics is an international leader in the development and production of embossed, laminated and printed specialty plastic films used in a variety of hygienic, health-care and industrial applications. Plastics' revenue was 30% of Griffon's consolidated revenue in 2012, 29% in 2011 and 36% in 2010.

On October 17, 2011, Griffon acquired the pots and planters business of Southern Sales & Marketing Group, Inc. ( Southern Patio ) for approximately \$23,000. The acquired business, which markets its products under the Southern Patio™ brand name, is a leading designer, manufacturer and marketer of landscape accessories. Southern Patio, which has been integrated with ATT, had revenue exceeding \$40,000 in 2011.

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On March 17, 2011, in an unregistered offering through a private placement under Rule 144A, Griffon issued, at par, \$550,000 of 7.125% Senior Notes due in 2018 ( Senior Notes ); interest on the Senior Notes is payable semi-annually. Proceeds were used to pay down the outstanding borrowings under a senior secured term loan facility and two senior secured revolving credit facilities of certain Company subsidiaries. The Senior Notes are senior unsecured obligations of Griffon guaranteed by certain domestic subsidiaries, and are subject to certain covenants, limitations and restrictions. On August 9, 2011, Griffon exchanged all of the Senior Notes for substantially identical Senior Notes registered under the Securities Act of 1933, via an exchange offer.

On March 18, 2011, Griffon entered into a five-year \$200,000 Revolving Credit Facility ( Credit Agreement ), which includes a letter of credit sub-facility with a limit of \$50,000, a multi-currency sub-facility of \$50,000 and a swing line sub-facility with a limit of \$30,000. Interest is payable on borrowings at either a LIBOR or base rate benchmark rate plus an applicable margin, which adjusts based on financial performance. The current margins are 1.5% for base rate loans and 2.5% for LIBOR loans, in each case without a floor. Borrowings under the Credit Agreement are guaranteed by certain domestic subsidiaries and are secured, on a first priority basis, by substantially all assets of the Company and the guarantors. At September 30, 2012, there were \$21,693 of standby letters of credit outstanding under the Credit Agreement; \$178,307 was available for borrowing at that date.

On September 30, 2010, Griffon purchased all of the outstanding stock of CHATT Holdings, Inc. ( ATT Holdings ), the parent of ATT, on a cash and debt-free basis, for \$542,000 in cash, subject to certain adjustments. As the purchase of ATT occurred on September 30, 2010, ATT s operating results are not included in Griffon s consolidated statements of operations or cash flows, or footnotes relating thereto for any year presented prior to October 1, 2010, except where explicitly stated as pro-forma results. All pro forma results are unaudited and, unless otherwise stated, give effect to the acquisition of ATT as if it had occurred on October 1, 2009. The Griffon consolidated balance sheet at September 30, 2010, and related notes thereto, include ATT s balances at that date.

In July 2010, Griffon retired substantially all of its outstanding 4% Convertible Subordinated Notes due 2023 when these notes were put to Griffon at par.

In December 2009, Griffon issued \$100,000 principal amount of 4% Convertible Subordinated Notes due 2017 (the 2017 Notes ) at an initial conversion ratio of 67.0799 shares of Griffon common stock per \$1,000 principal amount of the 2017 Notes, corresponding to an initial conversion price of approximately \$14.91 per share.

In 2008, as a result of the downturn in the residential housing market, Griffon exited substantially all operating activities of its Installation Services segment which sold, installed and serviced garage doors and openers, fireplaces, floor coverings, cabinetry and a range of related building products, primarily for the new residential housing market. Griffon sold eleven units, closed one unit and merged two units into CBP. Operating results of substantially all this segment has been reported as discontinued operations in the Consolidated Statements of Operations for all periods presented; the Installation Services segment is excluded from segment reporting.

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Griffon makes available, free of charge through its website at [www.griffoncorp.com](http://www.griffoncorp.com), its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) of the Securities Exchange Act of 1934, as soon as reasonably practicable after such materials are filed with or furnished to the Securities and Exchange Commission (the "SEC").

For information regarding revenue, profit and total assets of each segment, see the Business Segments footnote in the Notes to Consolidated Financial Statements.

### Reportable Segments:

#### Home & Building Products

Home & Building Products consists of two companies, Ames True Temper, Inc and Clopay Building Products, which are described below.

#### **Ames True Temper**

ATT is the leading U.S. and a global provider of non-powered landscaping products that make work easier for homeowners and professionals. ATT employs approximately 1,400 employees.

#### *Brands*

ATT brands are among the most recognized across primary product categories in the North American, non-powered landscaping product markets. ATT's brand portfolio includes Ames®, True Temper®, Ames True Temper®, Garant®, Hound Dog®, Westmix®, Dynamic Design® and Southern Patio®, as well as contractor-oriented brands including UnionTools®, Razor-Back® Professional Tools and Jackson® Professional Tools. This strong portfolio of brands enables ATT to build and maintain long-standing relationships with leading retailers and distributors. In addition, given the breadth of ATT's brand portfolio and product category depth, ATT is able to offer specific, differentiated branding strategies for key retail customers. In addition to the brands listed, ATT also sells private label branded products further enabling channel management and customer differentiation.

#### *Products*

ATT manufactures and markets one of the broadest product portfolios in the non-powered landscaping product industry. This portfolio is anchored by three core product categories: long handle tools, wheelbarrows, and snow tools. As a result of ATT's brand portfolio recognition, high product quality, industry leading service and strong customer relationships, ATT has earned market-leading positions in the long handle tool, wheelbarrow, and snow tool product categories. The following is a brief description of ATT's primary product lines:

*Long Handle Tools:* An extensive line of engineered tools including shovels, spades, scoops, rakes, hoes, cultivators, weeders, post hole diggers, scrapers, edgers and forks, marketed under leading brand names including Ames®, True Temper®, Jackson® Professional Tools, UnionTools®, Razor-Back® Professional Tools, and Garant®.

*Wheelbarrows:* ATT designs, develops and manufactures a full line of wheelbarrows and lawn carts, primarily under the Ames®, True Temper®, Jackson® Professional Tools, Razor-Back® Professional Tools, UnionTools®, Garant® and Westmix® brand names. The products range in size (2 cubic feet to 10 cubic feet), material (poly and steel), tray form, tire type, handle length and color based on the needs of homeowners, landscapers and contractors.

*Snow Tools:* A complete line of snow tools is marketed under the Ames True Temper®, True Temper® and Garant® brand names. The snow tool line includes shovels, pushers, roof rakes, sled sleigh shovels, scoops and ice scrapers.

*Planters and Lawn Accessories:* ATT is a designer, manufacturer and distributor of indoor and outdoor planters and accessories, sold under the Dynamic Design® and Southern Patio® brand names, as well as various private label brands. The range of planter sizes (from 6 to 32 inches) are available in various designs, colors and materials. On October 17, 2011, Griffon acquired the pots and planters business which markets its products under the Southern Patio® brand name. Southern Patio is a leading designer, manufacturer and marketer of decorative landscape products. Southern Patio® and Dynamic Design® have been integrated to leverage Southern Patio's capabilities, enhances ATT's product offering in the pots and planters category and enables ATT to improve its innovation and speed to market in the category.

*Striking Tools:* Axes, picks, mattocks, mauls, wood splitters, sledgehammers and repair handles make up the striking tools product line. These products are marketed under the True Temper®, Jackson® Professional Tools, UnionTools®, Garant® and Razor-Back® Professional Tools brand names.

*Pruning:* The pruning line is made up of pruners, loppers, shears and other tools sold primarily under the True Temper® brand name.

*Garden Hose and Storage:* ATT offers a wide range of both manufactured and sourced garden hoses and hose reels under the Ames®, NeverLeak® and Jackson® Professional Tools brand names.

#### *Customers*

ATT sells products throughout North America, Australia, and Europe through (1) retail centers, including home centers and mass merchandisers, such as The Home Depot ( Home Depot ), Lowe's Companies ( Lowe's ), Walmart, Canadian Tire, Costco, Rona, Bunnings, and Woodies (2) wholesale chains, including hardware stores and garden centers, such as Ace, Do-It-Best and True Value and (3) industrial distributors, such as Grainger and ORS Nasco.

Home Depot and Lowe's are significant customers of ATT. The loss of either of these customers would have a material effect on ATT's and Griffon's business.

#### *Product Development*

ATT product development efforts focus on both new products and product line extensions. Products are developed through in-house industrial design and engineering staffs, and through relationships with a number of outside product engineering and design firms, to introduce new products timely and cost effectively. Examples of recent new product initiatives include the SnoForce® combo snow shovel, NeverLeak® hose reel with patent pending aluminum water system, Total Control® Wheelbarrow with patented handle system, and new Stonecraft® fiber clay planters providing a heavier, more durable ceramic-like pot.

#### *Sales and Marketing*

ATT's sales organization is structured by distribution channel in the U.S. and by country internationally. In the U.S., a dedicated team of sales professionals is provided for each of the large retail customers. Offices are maintained adjacent to each of the three largest customers headquarters, as well as dedicated in-house sales analysts at the corporate office. In addition, sales professionals are assigned to domestic, wholesale and industrial distribution channels. Sales teams located in Canada, Australia, Mexico and Ireland handle sales in each of their respective locations.

*Raw Materials and Suppliers*

ATT's primary raw material inputs include resin (primarily polypropylene and high density polyethylene), wood (mainly ash, hickory and poplar logs) and steel (hot rolled and cold rolled). In addition, some key materials and components are purchased, such as metal fork components, wheelbarrow tires, shovel heads and fiberglass handles; most final assembly is completed internally in order to ensure consistent quality. All raw materials used by ATT are generally available from a number of sources.

*Competition*

The non-powered landscaping product industry is highly competitive and fragmented. Most competitors consist of small, privately-held companies focusing on a single product category. Some competitors such as Fiskars Corporation and Truper Herramientas S.A. de C.U. compete in various tool categories, Suncast Corporation in hose reels and accessories, and Colorite Waterworks and Swan, both Techniplex companies, in garden hoses. In addition, there is competition from imported or sourced products from China, India and other low-cost producing countries, particularly in long handled tools, wheelbarrows, planters, striking tools and pruning tools.

The principal factors by which ATT differentiates itself and provides the best value to customers are innovation, service, quality, performance and reliability with strong brand heritage. ATT's size, depth and breadth of product offering, category knowledge, research and development ( R&D ) investment and service are competitive advantages. Offshore manufacturers lack sufficient product innovation, capacity, lead time and distribution capabilities to service large retailers to compete in highly seasonal, weather related product categories.

*Manufacturing & Distribution*

ATT has nine operational distribution centers. In the U.S., the largest of these is a 1.2 million square foot facility in Carlisle, Pennsylvania and a 400,000 square foot facility in Reno, Nevada. Finished goods from manufacturing sites are transported to these facilities by an internal fleet, over the road trucking and rail. Additionally, light assembly is performed at the Carlisle, Pennsylvania and Reno, Nevada locations. Distribution centers are maintained in Canada and Ireland, and ATT utilizes a third party distribution center in Mexico City, Mexico. ATT has five distribution centers in Australia. ATT has a combination of internal and external, domestic and foreign manufacturing sources from which it produces products for sale in North American, Australian and European markets.

**Clopay Building Products**

CBP is the largest manufacturer and marketer of residential garage doors, among the largest manufacturers of commercial sectional doors in the United States and manufactures a complete line of entry door systems uniquely designed to complement its popular residential garage door styles. The majority of CBP's sales are for home remodeling and renovation, with the balance for the new residential housing and commercial building markets. Sales into the home remodeling market are being driven by the continued aging of the housing stock, existing home sales activity, the trend of improving home appearance, as well as improved energy efficiency. CBP employs approximately 1,300 employees.



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According to the US census, calendar year 2012 new construction single-family homes starts will increase by 43%. The repair and remodel market increased 4% from calendar year 2011 spending levels. The commercial segment saw spending drop 6% for the year (according to estimates from McGraw Hill Construction Dodge). According to industry sources, the residential and commercial sectional garage door market for calendar year 2011 was estimated to be \$1,600,000, which increased \$100,000 over the prior year.

### *Brands*

CBP brings nearly 50 years of experience and innovation to the garage door industry. Our strong family of brands includes Clopay®, America's Favorite Garage Doors®; Holmes Garage Door Company® and IDEAL Door®. Clopay is the only residential garage door brand to hold the Good Housekeeping Seal of Approval.

### *Products and Service*

CBP manufactures a broad line of residential sectional garage doors with a variety of options, at varying prices. CBP offers garage doors made primarily from steel, plastic composite and wood, and also sells related products, such as garage door openers, manufactured by third parties.

CBP also markets commercial sectional doors, which are similar to residential garage doors, but are designed to meet the more demanding performance specifications of a commercial application.

CBP has a complete line of entry door systems uniquely designed to complement its popular residential garage door styles.

### *Customers*

CBP is the principal supplier of residential garage doors throughout North America to Home Depot and Menards. The loss of either of these customers would have a material adverse effect on CBP's and Griffon's business. CBP distributes its garage doors directly to customers from its manufacturing facilities and through its distribution centers located throughout the United States and Canada. These distribution centers allow CBP to maintain an inventory of garage doors near installing dealers and provide quick-ship service to retail and professional dealer customers.

### *Product Development*

CBP product development efforts focus on both new products and improvements to existing products. Products are developed through in-house design and engineering staffs.

CBP operates a technical development center where its research engineers design, develop and implement new products and technologies and perform durability and performance testing of new and existing products, materials and finishes. CBP continually improves their garage door offerings through these development efforts, focusing on characteristics such as strength, design and energy efficiency. Also at this facility, the process engineering team works to develop new manufacturing processes and production techniques aimed at improving manufacturing efficiencies and ensuring quality-made products.

### *Sales and Marketing*

The CBP sales and marketing organization supports our customers, consults on new product development and aggressively markets garage door solutions, with a primary focus on the North American market.

*Raw Materials and Suppliers*

The principal raw material used in CBP's manufacturing is galvanized steel. CBP also utilizes certain hardware components, as well as wood and insulated foam. All of these raw materials are generally available from a number of sources.

*Competition*

The garage door industry is characterized by several large national manufacturers and many smaller regional and local manufacturers. CBP competes on the basis of service, quality, price, brand awareness and product design.

CBP's brand names are widely recognized in the building products industry. CBP believes that it has earned a reputation among installing dealers, retailers and wholesalers for producing a broad range of innovative, high-quality doors. CBP's market position and brand recognition are key marketing tools for expanding its customer base, leveraging its distribution network and increasing its market share.

*Distribution*

CBP distributes its products through a wide range of distribution channels, including installing dealers, retailers and wholesalers. CBP owns and operates a national network of 49 distribution centers. Additionally, products are sold to approximately 2,000 independent professional installing dealers and to major home center retail chains. CBP maintains strong relationships with its installing dealers and believes it is the largest supplier of residential garage doors to the retail and professional installing channels in North America.

*Manufacturing*

CBP currently has manufacturing facilities, in Troy, Ohio, Russia, Ohio, and Auburn, Washington.

During the first quarter of 2013, CBP announced the closing of the Auburn, Washington facility and the consolidation of that facility into its Russia, Ohio facility. The consolidation of these facilities is expected to be completed in the second quarter of 2013.

In June 2009, CBP undertook to consolidate its manufacturing facilities. These actions were completed in 2011. CBP incurred total pre-tax exit and restructuring costs approximating \$9,031, substantially all of which was cash charges; charges include \$1,160 for one-time termination benefits and other personnel costs, \$210 for excess facilities and related costs, and \$7,661 for other exit costs, primarily in connection with production realignment, and had \$10,365 of capital expenditures.

The facility consolidation was part of CBP's continuing efforts to improve and streamline its manufacturing processes. CBP's engineering and technological expertise, combined with its capital investment programs, has enabled it to efficiently manufacture products in large volume and meet changing customer needs in a timely manner. CBP uses proprietary manufacturing processes to produce the majority of its products. Certain machinery and equipment are internally modified to achieve manufacturing objectives. These manufacturing facilities produce a broad line of high quality garage doors for distribution to professional installer, retail and wholesale channels.

**Telephonics Corporation**

Telephonics specializes in advanced electronic information and communication systems for defense, aerospace, civil, industrial, and commercial applications for the United States ( U.S. ) and international markets. Telephonics designs, develops, manufactures, sells, and provides logistical support for aircraft intercommunication systems, radar, air traffic management, identification friend or foe equipment, Integrated Homeland Security Systems and custom, mixed-signal, application-specific, integrated circuits. Telephonics is also a provider of advanced systems engineering services supporting air and missile defense programs, as well as other threat and situational analysis requirements. Telephonics is a leading supplier of airborne maritime surveillance radar and aircraft intercommunication management systems, the segment's two largest product lines. In addition to its traditional defense products used predominantly by the U.S. Government and its agencies, Telephonics has adapted its core technologies to products used in international markets in an effort to further increase its presence in both non-defense government and commercial markets. In 2012, approximately 79% of the segment's sales were to the U.S. Government and agencies thereof, as a prime or subcontractor, 11% to international customers and 10% to U.S. commercial customers. Telephonics employs approximately 1,100 employees.

Griffon believes that Telephonics' advanced systems and sub-systems are well-positioned to address the needs of an electronic battlefield with emphasis on providing situational awareness to the warfighters through the retrieval and dissemination of timely data for use by highly mobile ground, air and sea-going forces. Telephonics anticipates that the need for such systems will increase in connection with the increasingly active role that the military is playing in the war on terrorism, both at home and abroad. In recent years, Telephonics has increasingly focused its technologies and core competencies in the growing Homeland Security, Air Traffic Management, and Unmanned Aerial Vehicle ( UAV ) markets.

On August 1, 2012, Telephonics signed a definitive agreement to form a Joint Venture ( JV ) with Mahindra & Mahindra Ltd., one of India's leading business houses, to provide the Indian Ministry of Defense and the Indian Civil sector with radar and surveillance systems, Identification Friend or Foe ( IFF ) devices and communication systems. In addition, the JV intends to provide systems for Air Traffic Management Services, Homeland Security and other emerging surveillance requirements.

*Programs and Products*

Based on long-established relationships supported by existing contractual arrangements, Telephonics is a first-tier supplier to prime contractors in the defense industry such as Lockheed Martin, Boeing, Northrop Grumman, General Dynamics, MacDonald Dettwiler, Sierra Nevada Corporation and Sikorsky Aircraft, and is at times a prime contractor to the U.S. Department of Defense and the U.S. Department of Homeland Security ( Homeland Security ). The significance of each of these customers to Telephonics' revenue fluctuates on an annual basis, based on the timing and funding of the Original Equipment Manufacturers ( OEM ) contract award, and the technological scope of the work required to be performed. The significant contraction and consolidation in the U.S. and international defense industry provides opportunities for established first-tier suppliers to capitalize on existing relationships with major prime contractors and play a larger role in defense systems development and procurement, for the foreseeable future.

Telephonics continues to direct resources towards Homeland Security programs. Previously, Telephonics has completed a contract from the U.S. Customs and Border Protection for mobile surveillance systems as part of Homeland Security's initiative to protect the U.S. borders, and in 2011 was awarded another contract to provide additional mobile surveillance systems. These programs represent strategic advances for Telephonics by enabling it to expand its core technical expertise into the nascent and growing Homeland Security market. As with many Department of Homeland Security programs, the system specifications, and operational and test requirements are challenging, exacerbated by demanding delivery schedules.

In 2010, Telephonics was selected by Northrop Grumman as the radar supplier for the U.S. Navy's Firescout MQ-8 program, which is a vertical take-off and landing UAV platform. This positions Telephonics, with both its radar and communications products, as a strong competitor in this growing market segment. Telephonics expects to start recognizing revenue for this project in 2013 and begin shipping in 2014.

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As a result of its performance on a prior manufacturing contract with Syracuse Research Corporation, Telephonics received a subcontract award from Sierra Nevada Corporation for both production and support of counter-IED devices which resulted in \$24,000, \$44,000 and \$46,000 in 2012, 2011 and 2010, respectively.

### *Backlog*

The funded backlog for Telephonics approximated \$451,000 at September 30, 2012, compared to \$417,000 at September 30, 2011. The increase in backlog is primarily attributable to additional funding received for the MH-60R program, a unique, fully integrated multi-mode radar and identification friend or foe interrogator system. Approximately 70% of the current backlog is expected to be filled during 2013.

### *Customers*

The U.S. Government, through its agencies, Lockheed Martin Corporation and the Boeing Company are significant customers of Telephonics. The loss of any one of these customers would have a material adverse effect on Telephonics' business. Notwithstanding the significance of Lockheed Martin Corporation and the Boeing Company, Telephonics sells to a diverse group of other domestic and international defense industry contractors, as well as others who use Telephonics products for commercial use.

Telephonics participates in a range of long-term defense and non-military government programs, both in the U.S. and internationally. Telephonics has developed a base of installed products that generate significant recurring revenue from product enhancements and retrofits as well as providing spare parts and customer support. Due to the inherent complexity of these electronic systems, Telephonics believes that its incumbent status on major platforms provides a competitive advantage in the selection process for platform upgrades and enhancements. Furthermore, Telephonics believes that its ability to leverage and apply its advanced technology to new platforms provides a competitive advantage when bidding for new business.

### *Research and Development*

In an effort to maintain customer satisfaction and loyalty, Telephonics works closely with prime customers to ensure that there is a future market for its products by investing R&D funds in desired enhancements. Telephonics continually updates its core technologies through internally funded R&D while coordinating with its customers at the earliest stages of new program development in an effort to provide solutions well in advance of its competitors. Telephonics is a technological leader in its core markets and pursues new growth opportunities by leveraging its systems design and engineering capabilities and incumbent position on key platforms.

In addition to products for defense programs, Telephonics technology is also used in commercial applications such as airborne weather, search and rescue radar, and air traffic management systems. Telephonics' reputation for innovative product design and engineering capabilities, especially in the areas of voice and data communications, radio frequency design, digital signal processing, networking systems, inverse synthetic aperture radar and analog, digital and mixed-signal integrated circuits, will continue to enhance its ability to secure, retain and expand its participation in defense programs and commercial opportunities.

Telephonics often designs its products to exceed customers' minimum specifications, providing its customers with greater performance, flexibility, and value. Telephonics believes that early participation and communication with its customers in the requirements definition stages of new program development increases the likelihood that its products will be selected and integrated as part of a total system solution.

*Sales and Marketing*

Telephonics has technical business development personnel who act as the focal point for its marketing activities and sales representatives who introduce its products and systems to customers worldwide.

*Competition*

Telephonics competes with major manufacturers of electronic information and communication systems, as well as several smaller manufacturers of similar products. Telephonics endeavors to design products with greater performance and flexibility than its competitors while competing on the basis of technology, design, quality and price.

*Manufacturing Facilities*

Telephonics facilities are principally located in the United States, primarily in New York, with one facility in Sweden. Telephonics also maintains a Technical Support Services Center in Elizabeth City, North Carolina which supports aircraft integration and upgrade activities, in addition to providing support services to customers.

**Clopay Plastic Products**

Plastics produces and develops specialty plastic films and laminates for a variety of hygienic, health care and industrial uses in the United States and certain international markets. Products include thin gauge embossed and printed films, elastomeric films, laminates of film and non-woven fabrics, and perforated films and non-wovens. These products are used as moisture barriers in disposable infant diapers, adult incontinence products and feminine hygiene products, protective barriers in single-use surgical and industrial gowns, drapes and equipment covers, fluid transfer/distribution layers in absorbent products, components to enhance comfort and fit in infant diaper and adult incontinence products, packaging for hygienic products, house wrap and other products. Plastics products are sold through a direct sales force, primarily to multinational consumer and medical products companies. Plastics employs approximately 1,500 employees.

The markets in which Plastics participates have been affected by several key trends over the past five years. These trends include the increased use of disposable products in developing countries and favorable demographics, including increasing immigration in major global economies. Other trends representing significant opportunities include the continued demand for innovative products such as cloth-like, breathable, laminated and printed products, and large consumer products companies need for global supply partners. Notwithstanding the positive trends affecting the industry, product design changes by the customer can change the products manufactured by Plastics and the associated demand.

Plastics believes that its business development activities targeting major multinational and regional producers of hygiene, healthcare and related products and its investments in its technology development capability and capacity increases will lead to additional sales of new and related products.

*Products*

Plastics specialty plastic film is a thin-gauge film engineered to provide certain performance characteristics and manufactured from polymer resins. A laminate

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is the combination of a plastic film and a woven or non-woven fabric. These products are produced using both cast and blown extrusion and various laminating processes. High speed, multi-color custom printing of films, customized embossing patterns, and proprietary perforation technology further differentiate the products. Specialty plastic film products typically provide a unique combination of performance characteristics, such as breathability, barrier properties, fluid flow management, elastic properties, process ability and aesthetic appeal, that meet specific, proprietary customer needs.

### *Customers*

Plastics' largest customer is Procter & Gamble, Co. ( P&G ), which has accounted for approximately half of its revenue over the last five years. The loss of this customer would have a material adverse effect on the Plastics business and Griffon. Notwithstanding the significance of P&G, Plastics sells to a diverse group of other leading consumer, health care and industrial companies.

### *Product Development*

Plastics is an industry leader in the research, design and development of specialty plastic film and laminate products. Plastics operates a technical center where polymer chemists, scientists and engineers work independently and in partnerships with customers to develop new technologies, products, processes and product applications.

Plastics' R&D efforts have resulted in many inventions covering embossing patterns, improved processing methods, product formulations, product applications and other proprietary technology. Products developed include microporous breathable films and cost-effective printed films and laminates. Microporous breathability provides for moisture vapor transmission and airflow while maintaining barrier properties resulting in improved comfort and skin care. Elastic laminates provide the user with improved comfort and fit. Printed films and laminates provide consumers preferred aesthetics, such as softness and visual appeal. Perforated films and non-wovens provide engineered fluid transfer with unique softness and aesthetics. Plastics holds a number of patents for its specialty film and laminate products and related manufacturing processes. While patents play a significant role, Plastics believes that its proprietary know-how and the knowledge, ability and experience of its employees are more significant to its long-term success.

### *Sales and Marketing*

Plastics sells its products primarily in North America, Europe, and South and Central America with additional sales in Asia Pacific. Plastics utilizes an internal direct sales force, with senior management actively participating in developing and maintaining close contacts with customers.

Plastics seeks to expand its market presence by providing innovative products and services to major international consumer products companies. Specifically, Plastics believes that it can continue to increase its North American sales and expand internationally through ongoing product development and enhancement, and by marketing its technologically-advanced films, laminates and printed films for use in all of its markets. Operations in Germany, Brazil and most recently China and Turkey, provide a strong platform for additional sales growth in international markets.

### *Raw Materials and Suppliers*

Plastic resins, such as polyethylene and polypropylene, and non-woven fabrics are the basic raw materials used in the manufacture of substantially all Plastics' products. The price of resin has fluctuated dramatically over the past five years primarily due to volatility in oil prices and producer capacity. Resins are purchased in pellet form from several suppliers. Sources for raw materials are believed to be adequate for current and anticipated needs.

### *Competition*

Plastics has a number of competitors, some of which are larger, in the specialty plastic films and laminates market. Plastics competes on quality, service and price using its technical expertise, product development capabilities and broad international footprint to enhance its market position, build and maintain long-term customer relationships and meet changing customer needs.

### *Manufacturing*

Specialty plastic film and laminate products are manufactured using high-speed equipment designed to meet stringent tolerances. The manufacturing process consists of melting a mixture of polymer resins and additives, and forcing this mixture through a die and rollers to produce thin films. Laminates of films and non-wovens are manufactured by a variety of techniques to meet customer needs. In addition, films and laminates can be printed.

Plastics U.S. manufacturing facilities are in Augusta, Kentucky and Nashville, Tennessee from which it sells plastic films throughout the United States and various parts of the world.

Plastics has two manufacturing facilities in Germany from which it sells plastic films throughout Europe and the Middle East. Plastics also has operations in Brazil, China and Turkey, which manufacture plastic hygienic and specialty films. Plastics international operations provide a platform to broaden participation in Europe, the Middle East, South America and Asia and strengthen Plastics position as a global supplier.

### **Griffon Corporation**

#### **Employees**

Griffon and its subsidiaries employ approximately 5,400 people located primarily throughout the U.S., Canada, Europe, Brazil, Australia, China and Mexico. Approximately 440 of these employees are covered by collective bargaining agreements in the U.S., primarily with an affiliate of the American Federation of Labor and Congress of Industrial Organizations ( AFL-CIO ), United Brotherhood of Carpenters and Joiners of America ( UBCJA ), International Brotherhood of Teamsters ( IBT ) and the United Steel, Paper and Forestry, Rubber, Manufacturing, Energy Allied Industrial and Service Workers International Union. Additionally, approximately 169 employees in Canada are represented by the Trade Union Advisory Committee. Griffon believes its relationships with its employees are satisfactory.

#### **Regulation**

Griffon s operations are subject to various environmental, health, and employee safety laws and regulations. Griffon believes that it is in material compliance with these laws and regulations. Historically, compliance with environmental laws has not materially affected, and is not expected to materially affect, Griffon s capital expenditures, earnings or competitive position in the future. Nevertheless, Griffon cannot guarantee that, in the future, it will not incur additional costs for compliance or that such costs will not be material.

Telephonics, which sells directly and indirectly to the U.S. government, is subject to certain regulations, laws and standards set by the U.S. government. Additionally, Telephonics is subject to routine audits and investigations by U.S. Government Agencies such as the Defense Contract Audit Agency and other Inspectors General. These agencies review a contractor s performance under its contracts, cost structure and compliance with applicable laws, regulations and standards. These agencies also review the adequacy of, and a contractor s compliance with, its internal control systems and policies, including the contractor s management, purchasing, property, estimating, compensation, and accounting and information systems.

## Customers

A small number of customers account for, and are expected to continue to account for, a substantial portion of Griffon's consolidated revenue. For 2012:

- a. The U.S. Government and its agencies, through either prime or subcontractor relationships, represented 19% of Griffon's consolidated revenue and 79% of Telephonics revenue.
- b. P&G represented 13% of Griffon's consolidated revenue and 43% of Plastics revenue.
- c. Home Depot represented 12% of Griffon's consolidated revenue and 25% of HBP revenue.

No other customers exceeded 9% of consolidated revenue. Future operating results will continue to substantially depend on the success of Griffon's largest customers and Griffon's relationships with them. Orders from these customers are subject to fluctuation and may be reduced materially. The loss of all or a portion of volume from any one of these customers could have a material adverse impact on Griffon's liquidity and operations.

## Seasonality

Generally, Griffon's revenue and income are lowest in our first and fourth quarters ending December 31 and September 30, respectively, and highest in our second and third quarters ending March 31 and June 30, respectively, primarily due to the seasonality of ATT's business. ATT's lawn and garden products are used primarily in the spring and summer; in 2012, 61% of ATT's sales occurred during the second and third quarters. CBP's business is driven by residential renovation and construction during warm weather, which is generally at reduced levels during the winter months.

Demand for lawn and garden products is influenced by weather, particularly weekend weather during the peak gardening season. ATT's sales volumes could be adversely affected by certain weather patterns such as unseasonably cool or warm temperatures, hurricanes, water shortages or floods. In addition, lack of snow or lower than average snowfall during the winter season may also result in reduced sales of certain ATT products, such as snow shovels and other snow tools. As a result, ATT's results of operations, financial results and cash flows could be adversely impacted.

## Financial Information About Geographic Areas

Segment and operating results are included in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations.

For geographic financial information, see the Business Segment footnote in the Notes to Consolidated Financial Statements in Item 8, Financial Statements and Supplementary Data.

Griffon's non-U.S. businesses are primarily in Germany, Canada, Brazil, Turkey, China, Australia, Sweden and Mexico.

## Research and Development

Griffon's companies are encouraged to improve existing products as well as develop new products to satisfy customer needs; expand revenue opportunities; maintain or extend competitive advantages; increase market share and reduce production costs. R&D costs, not recoverable under contractual arrangements, are charged to expense as incurred. R&D costs for Griffon were \$23,600 in 2012, \$23,900 in 2011 and \$21,400 in 2010.



## Intellectual Property

Griffon follows a practice of actively protecting and enforcing its proprietary rights in the U.S. and throughout the world where Griffon's products are sold.

Trademarks are of significant importance to Griffon's HBP business. Principal global and regional trademarks include Clopay®, Ideal Door®, Holmes®, Ames®, True Temper®, Ames True Temper®, Garant®, Hound Dog®, Westmix and Dynamic Design, UnionTools®, Razor-Back® Professional Tools and Jackson® Professional Tools. Plastics uses the Clopay® trademark in addition to its 7 other trademarks. The HBP business has 482 trademarks and approximately 75 pending trademark applications. Griffon's rights in these trademarks endure for as long as they are used and registered.

Patents are significant to Plastics. Technology evolves rapidly in the plastics business, and Plastics' customers are constantly striving to offer products with innovative features at a competitive price to the end consumer. As a result, Plastics is constantly seeking to offer new and innovative products to its customers. Plastics has 26 patents in the U.S., and 164 corresponding foreign patents, primarily covering breathable and elastic polymer films and laminates and various methods and machinery for producing these materials. Patents are also important to our HBP segment. ATT protects its designs and product innovation through the use of patents, and currently has 228 issued patents and 41 pending patent applications in the United States, as well as 81 and 49 corresponding foreign patents and patent applications, respectively. CBP has 25 patents in the United States, and 32 corresponding foreign patents, primarily related to garage door system components. Design patents are generally valid for fourteen years, and utility patents are generally valid for twenty years. Our various patents are in different stages of their useful life.

In the government and defense business, formal intellectual property rights are of limited value. Therefore, our Telephonics business tends to hold most of its important intellectual property as trade secrets, which it protects through the use of contract terms and carefully restricting access to its technology.

**Executive Officers of the Registrant**

The following is a current list of Griffon s executive officers:

<b>Name</b>	<b>Age</b>	<b>Positions Held and Prior Business Experience</b>
Ronald J. Kramer	54	President since February 2009, Chief Executive Officer since April 2008, Director since 1993 and Vice Chairman of the Board since November 2003. From 2002 through March 2008, President and a Director of Wynn Resorts, Ltd., a developer, owner and operator of hotel and casino resorts. From 1999 to 2001, Managing Director at Dresdner Kleinwort Wasserstein, an investment banking firm, and its predecessor Wasserstein Perella & Co. Member of the Board of Directors of Leap Wireless International, Inc. (NASDAQ: LEAP), a wireless communications company. Formerly on the boards of directors of Monster Worldwide, Inc. (NYSE: MWW) and Sapphire Industrials Corporation (AMEX: FYR). Mr. Kramer is the son-in-law of Harvey R. Blau, Griffon s Chairman of the Board.
Douglas J. Wetmore	55	Executive Vice President and Chief Financial Officer since September 2009. From April 1998 to July 2008, Senior Vice President and Chief Financial Officer of International Flavors & Fragrances Inc. ( IFF ), a creator of flavors and fragrances used in a variety of consumer products (NYSE: IFF). From October 2007 to July 2008, Treasurer of IFF. From 1991 to 1998, Corporate Controller of IFF. Prior to IFF, Price Waterhouse for 12 years.
Patrick L. Alesia	64	Chief Administrative Officer since September 2009, appointed Senior Vice President in May 2010, Vice President since 1990, Treasurer from 1979 to 2010, Ethics Officer since 2005, Secretary from 2005 to 2010. Served as Chief Financial Officer from November 2007 to September 2009.
Seth L. Kaplan	43	Senior Vice President, General Counsel and Secretary since May 2010. From July 2008 to May 2010, Assistant General Counsel and Assistant Secretary at Hexcel Corporation, a manufacturer of advanced composite materials for space and defense, commercial aerospace and wind energy applications. From 2000 to July 2008, Senior Corporate Counsel and Assistant Secretary at Hexcel. From 1994 to 2000, associate at the law firm Winthrop, Stimson, Putnam & Roberts (now Pillsbury Winthrop Shaw Pittman LLP).

**Item 1A. Risk Factors**

Griffon's business, financial condition, operating results and cash flows can be impacted by a number of factors which could cause Griffon's actual results to vary materially from recent or anticipated future results. The risk factors discussed in this section should be carefully considered with all of the information in this Annual Report on Form 10-K. These risk factors should not be considered the only risk factors facing Griffon. Additional risks and uncertainties not presently known or that are currently deemed immaterial may also materially impact Griffon's business, financial condition, operating results and cash flows in the future.

In general, Griffon is subject to the same general risks and uncertainties that impact other diverse manufacturing companies including, but not limited to, general economic, industry and/or market conditions and growth rates; impact of natural disasters and their effect on global markets; continued events in the Middle East and possible future terrorist threats and their effect on the worldwide economy; and changes in laws or accounting rules. Griffon has identified the following specific risks and uncertainties that it believes have the potential to materially affect its business and financial condition.

*Current worldwide economic uncertainty and market volatility could adversely affect Griffon's businesses.*

The current worldwide economic uncertainty, market volatility and credit crisis will continue to have an adverse effect on Griffon during 2013, particularly in HBP, which is substantially linked to the U.S. housing market and the U.S. economy, in general. Also, purchases of ATT products are discretionary for consumers and consumers are generally more willing to purchase products during periods in which favorable macroeconomic conditions prevail. Additionally, the current condition of the credit markets could impact Griffon's ability to refinance expiring debt, obtain additional credit for investments in current businesses or for acquisitions, with favorable terms, or there may be no financing available. Griffon is also exposed to basic economic risks including a decrease in the demand for the products and services offered or a higher risk of default on its receivables.

*Adverse trends in the housing sector and in general economic conditions will directly impact Griffon's business.*

HBP's business is influenced by market conditions for new home construction and renovation of existing homes. For the year ended September 30, 2012, approximately 46% of Griffon's consolidated revenue was derived from the HBP segment, which is heavily dependent on new home construction and renovation of existing homes. The strength of the U.S. economy, the age of existing home stock, job growth, interest rates, consumer confidence and the availability of consumer credit, as well as demographic factors such as the migration into the United States and migration of the population within the United States also have an effect on HBP. In that respect, the significant downturn in the housing market has had an adverse effect on the operating results of HBP and this effect is likely to continue in 2013, particularly to its CBP business.

*Griffon operates in highly competitive industries and may be unable to compete effectively.*

Griffon's operating companies face intense competition in each of the markets served. There are a number of competitors, some of which are larger and have greater resources than Griffon's operating companies. Griffon competes primarily on the basis of competitive prices, technical expertise, product differentiation, and quality of products and services. There can be no assurance that Griffon will not encounter increased competition in the future, which could have a material adverse effect on Griffon's financial results.

*The loss of large customers can harm financial results.*

A small number of customers account for, and are expected to continue to account for, a substantial portion of consolidated revenue. Approximately 13% of consolidated revenue and 43% of the Plastics segment revenue for the year ended September 30, 2012 was generated from P&G, the largest customer in the Plastics segment. Home Depot, Lowe's and Menards are significant customers of HBP with Home Depot accounting for approximately 12% of consolidated revenue and 25% of the HBP segment revenue for the year ended September 30, 2012. The U.S. Government and its agencies, Lockheed Martin Corporation and the Boeing Company, are significant customers of Telephonics. Future operating results will continue to substantially depend on the success of Griffon's largest customers, as well as Griffon's relationship with them. Orders from these customers are subject to fluctuation and may be reduced materially due to changes in these customers' needs. Any reduction or delay in sales of products to one or more of these customers could significantly reduce Griffon's revenue. Griffon's operating results will also depend on successfully developing relationships with additional key customers. Griffon cannot assure that Griffon's largest customers will be retained or that additional key customers will be recruited. Also, HBP extends credit to its customers, which exposes it to credit risk. Their largest customer accounted for approximately 22% and 9% of HBP's and Griffon's net accounts receivable as of September 30, 2012, respectively. If this customer were to become insolvent or otherwise unable to pay its debts, the financial condition, results of operations and cash flows of the HBP segment would be adversely affected.

*Reliance on third party suppliers and manufacturers may impair ability to meet ATT's customer demands.*

ATT relies on a limited number of domestic and foreign companies to supply components and manufacture certain of its products. The percentage of ATT's products sourced, based on revenue, approximated 34% in 2012. Reliance on third party suppliers and manufacturers may reduce control over the timing of deliveries and quality of ATT's products. Reduced product quality or failure to deliver products quickly may jeopardize relationships with certain of ATT's key customers. In addition, reliance on third party suppliers or manufacturers may result in failure to meet ATT's customer demands. Continued turbulence in the worldwide economy may affect the liquidity and financial condition of ATT's suppliers. Should any of these parties fail to manufacture sufficient supply, go out of business or discontinue a particular component, alternative suppliers may not be found in a timely manner, if at all. Such events could impact ATT's ability to fill orders, which would have a material adverse effect on customer relationships.

*If Griffon is unable to obtain raw materials for products at favorable prices it could adversely impact operating performance.*

HBP's and Plastics' suppliers primarily provide resin, wood and steel. Assurance cannot be provided that these segments may not experience shortages of raw materials or components for products or be forced to seek alternative sources of supply. If temporary shortages due to disruptions in supply caused by weather, transportation, production delays or other factors require raw materials to be secured from sources other than current suppliers, the terms may not be as favorable as current terms or material may not be available at all. In recent years, HBP and Plastics have experienced price increases in steel and plastic resins.

While most key raw materials used in Griffon's businesses are generally available from numerous sources, raw materials are subject to price fluctuations. Because raw materials in the aggregate constitute a significant component of the cost of goods sold, price fluctuations could have a material adverse effect on Griffon's results of operations. Griffon's ability to pass raw material price increases to customers is limited due to supply arrangements and competitive pricing pressure, and there is generally a time lag between increased raw material costs and implementation of corresponding price increases for Griffon's products. In particular, sharp increases in raw material prices are more difficult to pass through to customers and may negatively affect short-term financial performance.

*ATT is subject to risks associated with sourcing from Asia.*

A substantial amount of ATT's finished goods sourcing is done through supply agreements with China based vendors. China does not have a well-developed, consolidated body of laws governing agreements with international customers. Enforcement of existing laws or contracts based on existing law may be uncertain and sporadic, and it may be difficult to obtain swift and equitable enforcement or to obtain enforcement of a judgment by a court of another jurisdiction. The relative inexperience of China's judiciary in many cases creates additional uncertainty as to the outcome of any litigation. In addition, interpretation of statutes and regulations may be subject to government policies reflecting domestic political changes. Products entering from China may be subject to import quotas, import duties and other restrictions. Any inability to import these products into the U.S. and any tariffs that may be levied with respect to these products may have a material adverse result on ATT's business and results of operations, financial position and cash flows.

*Griffon's businesses are subject to seasonal variations and the impact of uncertain weather patterns.*

Generally, Griffon's revenue and income are lowest in our first and fourth quarters ending December 31 and September 30, respectively, and highest in our second and third quarters ending March 31 and June 30, respectively, primarily due to the seasonality of ATT's business. ATT's lawn and garden products are used primarily in the spring and summer; in 2012 61% of ATT's sales occurred during the second and third quarters. CBP's business is driven by residential renovation and construction during warm weather, which is generally at reduced levels during the winter months.

Demand for lawn and garden products is influenced by weather, particularly weekend weather during the peak gardening season. ATT's sales volumes could be adversely affected by certain weather patterns such as unseasonably cool or warm temperatures, hurricanes, water shortages or floods. In addition, lack of snow or lower than average snowfall during the winter season may also result in reduced sales of certain ATT products, such as snow shovels and other snow tools. As a result, ATT's results of operations, financial results and cash flows could be adversely impacted.

*Further consolidation in the retail industry may adversely affect profitability.*

Home centers and mass merchandisers have consolidated and increased in scale. If this trend continues, customers will likely seek more favorable terms for their purchases of products, which will limit Griffon's ability to pass through raw material or other cost increases, or to raise prices for any reason. Sales on terms less favorable than current terms could have a material adverse effect on profitability.

*Unionized employees could strike or participate in a work stoppage.*

Griffon employs approximately 5,400 people on a full-time basis, approximately 8% of whom are covered by collective bargaining or similar labor agreements (all in the Telephonics and ATT businesses). If unionized employees engage in a strike or other work stoppage, or if Griffon is unable to negotiate acceptable extensions of agreements with labor unions, a significant disruption of operations and increased operating costs could occur. In addition, any renegotiation or renewal of labor agreements could result in higher wages or benefits paid to unionized employees, which could increase operating costs and could have a material adverse effect on profitability.

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*Griffon may be required to record impairment charges for goodwill and indefinite-lived intangible assets.*

Griffon is required to assess goodwill and indefinite-lived intangible assets annually for impairment or on an interim basis if changes in circumstances or the occurrence of events suggest impairment exists. If impairment testing indicates that the carrying value of reporting units or indefinite-lived intangible assets exceeds the respective fair value, an impairment charge would be recognized. If goodwill or indefinite-lived intangible assets were to become impaired, the results of operations could be materially and adversely affected.

*Trends in the baby diaper market will directly impact Griffon's business.*

Recent trends have been for baby diaper manufacturers to specify thinner plastic films for use in their products which reduces the amount of product sold and Plastics revenue; this trend has generally resulted in Plastics incurring costs to redesign and reengineer products to accommodate required specification changes. Such decreases, or the inability to meet changing customer specifications, could result in a material decline in Plastics revenue and profits.

*Telephonics' business depends heavily upon government contracts and, therefore, the defense budget.*

Telephonics sells products to the U.S. government and its agencies both directly and indirectly as a first-tier supplier to prime contractors in the defense industry such as Boeing, Lockheed Martin, Sikorsky and Northrop Grumman. In the year ended September 30, 2012, U.S. government contracts and subcontracts accounted for approximately 19% of Griffon's consolidated revenue. Contracts involving the U.S. government may include various risks, including:

- Termination for convenience by the government;
- Reduction or modification in the event of changes in the government's requirements or budgetary constraints;
- Increased or unexpected costs, causing losses or reduced profits under contracts where Telephonics' prices are fixed, or determinations that certain costs are not allowable under particular government contracts;
- The failure or inability of the prime contractor to perform its contract in circumstances where Telephonics is a subcontractor;
- Failure to observe and comply with government business practice and procurement regulations such that Telephonics could be suspended or barred from bidding on or receiving awards of new government contracts;
- The failure of the government to exercise options for additional work provided for in contracts; and
- The government's right, in certain circumstances, to freely use technology developed under these contracts.

All of Telephonics' U.S. Government end-user contracts contain a termination for convenience clause, regardless if Telephonics is the prime contractor or the subcontractor. This clause generally entitles Telephonics, upon a termination for convenience, to receive the purchase price for delivered items, reimbursement of allowable work-in-process costs, and an allowance for profit. Allowable costs would include the costs to terminate existing agreements with suppliers.

The programs in which Telephonics participates may extend for several years, but are normally funded on an incremental basis. Decreases in the U.S. defense budget, in particular with respect to programs to which Telephonics supplies materials, could have a material adverse impact on Telephonics' financial conditions, results of operations and cash flows. The U.S. government may not continue to fund programs to which Telephonics' development projects apply. Even if funding is continued, Telephonics may fail to compete successfully to obtain funding pursuant to such programs. Reductions to funding on existing programs or delays in the funding of new opportunities could affect the timing of revenue recognition, and impact the results of operation.

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For 2013, the Budget Control Act calls for additional substantial, mandatory defense spending reductions, known as sequestration, if Congress is unable to agree on a budget that conforms with the Budget Control Act requirements. There continues to be much uncertainty regarding how sequestration would be implemented, if it were to go into effect. There are many variables in how the law could be applied that make it difficult to determine the specific impacts; however, we expect that sequestration, as currently provided for under the Budget Control Act, would result in lower revenues, profits and cash flows for Telephonics.

While members of Congress are discussing various options to prevent or defer sequestration's automatic spending cuts, we cannot predict whether these efforts will succeed. Budget decisions made in this environment could have long-term consequences for Telephonics and the entire defense industry.

*Telephonics' business could be adversely affected by a negative audit by the U.S. Government*

As a government contractor, and a subcontractor to government contractors, Telephonics is subject to audits and investigations by U.S. Government Agencies such as the Defense Contract Audit Agency, other Inspectors General and the Department of Justice. These agencies review a contractor's performance under its contracts, cost structure and compliance with applicable laws, regulations and standards. These agencies also review the adequacy of, and a contractor's compliance with, its internal control systems and policies, including the contractor's management, purchasing, property, estimating, compensation, and accounting and information systems. Any costs found to be misclassified or improperly allocated to a specific contract will not be reimbursed or must be refunded if already billed and collected. Griffon could incur significant expenses in complying with audits and subpoenas issued by the government in aid of inquiries and investigations. If an audit or an investigation uncovers improper or illegal activities, Telephonics may be subject to civil and criminal penalties and/or administrative sanctions, which could include contract termination, forfeiture of profit, suspension of payments, fines and suspension or prohibition from doing business with the U.S. Government. In addition, if allegations of impropriety are made, Telephonics and Griffon could suffer serious reputational harm.

*Many of our contracts contain performance obligations that require innovative design capabilities, are technologically complex, or are dependent upon factors not wholly within our control. Failure to meet these obligations could adversely affect customer relations, future business opportunities, and our overall profitability.*

Our Telephonics segment designs, develops and manufactures advanced and innovative surveillance and communication products for a broad range of applications for use in varying environments. As with many of our programs, system specifications, operational requirements and test requirements are challenging, exacerbated by the need for quick delivery schedules. Technical problems encountered and delays in the development or delivery of such products could prevent us from meeting contractual obligations, which could subject us to termination for default. Under a termination for default, the company is entitled to negotiate payment for undelivered work if the Government requests the transfer of title and delivery of partially completed supplies and materials. Conversely, if the Government does not make this request, there is no obligation to reimburse the company for its costs incurred. We may also be subject to the repayment of advance and progress payments, if any. Additionally, the company may be liable to the Government for any of its excess costs incurred in acquiring supplies and services similar to those terminated for default, and for other damages. Should any of the foregoing events occur, it could result in a material adverse effect on our financial position.

*Griffon's companies must continually improve existing products, design and sell new products and invest in research and development in order to compete effectively.*

The markets for Plastics and Telephonics are characterized by rapid technological change, evolving industry standards and continuous improvements in products. Due to constant changes in these markets, future success depends on their ability to develop new technologies, products, processes and product applications.

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Product and technological developments are accomplished both through internally-funded R&D projects, as well as through strategic partnerships with customers. Because it is not generally possible to predict the amount of time required and costs involved in achieving certain R&D objectives, actual development costs may exceed budgeted amounts and estimated product development schedules may be extended. Griffon's financial condition and results of operations may be materially and adversely affected if:

- Product improvements are not completed on a timely basis;
- New products are not introduced on a timely basis or do not achieve sufficient market penetration;
- There are budget overruns or delays in research and development efforts; or
- New products experience reliability or quality problems.

*Griffon may be unable to implement its acquisition growth strategy, which may result in added expenses without a commensurate increase in revenue and income and divert management's attention.*

Making strategic acquisitions is a significant part of Griffon's growth plans. The ability to successfully complete acquisitions depends on identifying and acquiring, on acceptable terms, companies that either complement or enhance currently held businesses or expand Griffon into new profitable businesses. Additionally, Griffon must properly integrate acquired businesses in order to maximize profitability. The competition for acquisition candidates is intense and Griffon cannot assure that it will successfully identify acquisition candidates and complete acquisitions at reasonable purchase prices, in a timely manner or at all. Further, there is a risk that acquisitions will not be properly integrated into Griffon's existing structure. In implementing an acquisition growth strategy, the following may be encountered:

- Costs associated with incomplete or poorly implemented acquisitions;
- Expenses, delays and difficulties of integrating acquired companies into Griffon's existing organization;
- Dilution of the interest of existing stockholders; or
- Diversion of management's attention.

An unsuccessful implementation of Griffon's acquisition growth strategy could have an adverse impact on Griffon's results of operations, cash flows and financial condition.

*The loss of certain key officers or employees could adversely affect Griffon's business.*

The success of Griffon is materially dependent upon the continued services of certain key officers and employees. The loss of such key personnel could have a material adverse effect on Griffon's operating results or financial condition.

*Griffon is exposed to a variety of risks relating to non-U.S. sales and operations, including non-U.S. economic and political conditions and fluctuations in exchange rates.*

Griffon and its companies own properties and conduct operations in Europe, Canada, Australia, Brazil, Mexico, China and Turkey. Sales of products through non-U.S. subsidiaries accounted for approximately 25% of consolidated revenue for the year ended September 30, 2012. These sales could be adversely affected by changes in political and economic conditions, trade protection measures, differing intellectual property rights laws and changes in regulatory requirements that restrict the sales of products or increase costs. Enforcement of existing laws in foreign jurisdictions can be uncertain, and the lack of a sophisticated body of laws can create various uncertainties, including with respect to customer and supplier contracts. Currency fluctuations between the U.S. dollar and the currencies in the non-U.S. regions in which Griffon does business may also have an impact on future reported financial results.



*Griffon may not be able to protect its proprietary rights.*

Griffon relies on a combination of patent, copyright and trademark laws, trade secrets, confidentiality and non-disclosure agreements and other contractual provisions to protect proprietary rights. Such measures do not provide absolute protection and Griffon cannot give assurance that measures for protecting these proprietary rights are and will be adequate, or that competitors will not independently develop similar technologies.

*Griffon may inadvertently infringe on, or may be accused of infringing on, proprietary rights held by another party.*

Griffon is regularly improving its technology and employing existing technologies in new ways. Though Griffon takes reasonable precautions to ensure it does not infringe on the rights of others, it is possible that Griffon may inadvertently infringe on, or may be accused of infringing on, proprietary rights held by others. If Griffon is found to have infringed on the propriety rights held by others, any related litigation or settlement relating to such infringement may have a material effect on Griffon's financial statements and financial condition.

*Griffon is exposed to product liability claims.*

Griffon may be the subject of product liability claims relating to the performance of its products or the performance of a product in which its products were a component part. There can be no assurance that future product liability claims will not be brought against Griffon, either by an injured customer of an end product manufacturer who used one of the products as a component or by a direct purchaser. Moreover, no assurance can be given that indemnification from customers or coverage under insurance policies will be adequate to cover future product liability claims against Griffon. In addition, product liability insurance can be expensive, difficult to maintain and may be unobtainable in the future on acceptable terms. The amount and scope of any insurance coverage may be inadequate if a product liability claim is successfully asserted. Furthermore, if any significant claims are made, the business and the related financial condition of Griffon may be adversely affected by negative publicity.

*Griffon has been, and may in the future be, subject to claims and liabilities under environmental laws and regulations.*

Griffon's operations and assets are subject to environmental laws and regulations pertaining to the discharge of materials into the environment, the handling and disposal of wastes, including solid and hazardous wastes, or otherwise relating to health, safety and protection of the environment, in various jurisdictions in which it operates. Griffon does not expect to make any expenditure with respect to ongoing compliance with or remediation under these environmental laws and regulations that would have a material adverse effect on its business, operating results or financial condition. However, the applicable requirements under environmental laws and regulations may change at any time.

Griffon can incur environmental costs related to sites that are no longer owned or operated, as well as third-party sites to which hazardous materials are sent. It cannot be assured that material expenditures or liabilities will not be incurred in connection with such claims. See the Commitment and Contingencies footnote in the Notes to Consolidated Financial Statements for further information on environmental contingencies. Based on facts presently known, the outcome of current environmental matters are not expected to have a material adverse effect on Griffon's results of operations and financial condition. However, presently unknown environmental conditions, changes in environmental laws and regulations or other unanticipated events may give rise to claims that may involve material expenditures or liabilities.

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*Changes in income tax laws and regulations or exposure to additional income tax liabilities could adversely affect profitability.*

Griffon is subject to Federal, state and local income taxes in the U.S. and in various taxing jurisdictions outside the U.S. Tax provisions and liabilities are subject to the allocation of income among various U.S. and international tax jurisdictions. Griffon's effective tax rate could be adversely affected by changes in the mix of earnings in countries with differing statutory tax rates, changes in any valuation allowance for deferred tax assets or the amendment or enactment of tax laws. The amount of income taxes paid is subject to audits by U.S. Federal, state and local tax authorities, as well as tax authorities in the taxing jurisdictions outside the U.S. If such audits result in assessments different from recorded income tax liabilities, Griffon's future financial results may include unfavorable adjustments to its income tax provision.

*Compliance with restrictions and covenants in Griffon's debt agreements may limit its ability to take corporate actions and harm its business.*

The senior secured credit agreement entered into by, and the terms of the senior notes issued by, Griffon each contain covenants that restrict the ability of Griffon and its subsidiaries to, among other things, incur additional debt, pay dividends, incur liens and make investments, acquisitions, dispositions, restricted payments and capital expenditures. Under the credit agreement, Griffon is also required to comply with specific financial ratios and tests. Griffon may not be able to comply in the future with these covenants or restrictions as a result of events beyond its control, such as prevailing economic, financial and industry conditions or a change in control of Griffon. If Griffon defaults in maintaining compliance with the covenants and restrictions in its credit agreement or the senior notes, its lenders could declare all of the principal and interest amounts outstanding due and payable and, in the case of the credit agreement, terminate their commitments to extend credit to Griffon in the future. If Griffon or its subsidiaries are unable to secure credit in the future, business could be harmed.

*Reported earnings per share may be more volatile because of the conversion contingency provision of the notes.*

The outstanding convertible notes are convertible when a market price condition is satisfied and also upon the occurrence of other circumstances as more fully described in the Notes Payable, Capitalized Leases and Long-Term Debt footnote in the Notes to Consolidated Financial Statements. Upon conversion, at Griffon's discretion, note holders will receive \$1,000 in cash for each \$1,000 principal amount of notes presented for conversion or value in Griffon's common stock, and Griffon common stock for the value above the principal amount of the notes. The potential shares of Griffon common stock issuable for value above the principal value of the notes are considered in the calculation of diluted earnings per share and volatility in Griffon's stock price could cause these notes to be dilutive in one quarter and not in a subsequent quarter, increasing the volatility of fully diluted earnings per share.

*Griffon may be unable to raise additional financing if needed*

Griffon may need to raise additional financing in the future in order to implement its business plan, refinance debt, or to acquire new or complimentary businesses or assets. Any required additional financing may be unavailable, or only available at unfavorable terms, due to uncertainties in the credit markets. If Griffon raises additional funds by issuing equity securities, current holders of its common stock may experience significant ownership interest dilution and the new securities may have rights senior to the rights associated with current outstanding common stock.

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*Griffon's indebtedness and interest expense could limit cash flow and adversely affect operations and Griffon's ability to make full payment on outstanding debt.*

Griffon's indebtedness poses potential risks such as:

A substantial portion of cash flows from operations could be used to pay principal and interest on debt, thereby reducing the funds available for working capital, capital expenditures, acquisitions, product development and other general corporate purposes; Insufficient cash flows from operations may force Griffon to sell assets, or seek additional capital, which Griffon may not be able to accomplish on favorable terms, if at all; and

The level of indebtedness may make Griffon more vulnerable to economic or industry downturns.

*Griffon has the ability to issue additional equity securities, which would lead to dilution of issued and outstanding common stock.*

The issuance of additional equity securities or securities convertible into equity securities would result in dilution to existing stockholders' equity interests. Griffon is authorized to issue, without stockholder vote or approval, 3,000,000 shares of preferred stock in one or more series, and has the ability to fix the rights, preferences, privileges and restrictions of any such series. Any such series of preferred stock could contain dividend rights, conversion rights, voting rights, terms of redemption, redemption prices, liquidation preferences or other rights superior to the rights of holders of Griffon's common stock. There is no present intention of issuing any such preferred stock, but Griffon reserves the right to do so in the future. In addition, Griffon is authorized to issue, without stockholder approval, up to 85,000,000 shares of common stock, of which 60,888,522 shares, net of treasury shares, were outstanding as of September 30, 2012. Additionally, Griffon is authorized to issue, without stockholder approval, securities convertible into either shares of common stock or preferred stock.

### **Item 1B. Unresolved Staff Comments**

None.

**Item 2. Properties**

Griffon occupies approximately 7,600,000 square feet of general office, factory and warehouse space throughout the U.S., Germany, Sweden, Mexico, Canada, Australia, Ireland and Brazil. For a description of the encumbrances on certain of these properties, see the Notes Payable, Capitalized Leases and Long-Term Debt footnote in the Notes to Consolidated Financial Statements. The following table sets forth certain information related to Griffon's major facilities:

<b>Location</b>	<b>Business Segment</b>	<b>Primary Use</b>	<b>Approx. Square Footage</b>	<b>Owned/Leased</b>	<b>Lease End Year</b>
New York, NY	Corporate				