GRIFFON CORP
Form 10-Q
February 02, 2012

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

FORM 10-Q

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

For the quarterly period ended December 31, 2011

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

For the transition period from to

Commission File Number: 1-06620

GRIFFON CORPORATION
(Exact name of registrant as specified in its charter)

DELAWARE	**11-1893410**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
712 Fifth Ave, 18th Floor, New York, New York	**10019**
(Address of principal executive offices)	(Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. x Yes o No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
x Yes o No

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

Large accelerated filer	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 Exchange Act).
o Yes x No

APPLICABLE ONLY TO CORPORATE ISSUERS

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date. 61,721,963 shares of Common Stock as of January 31, 2012.

Griffon Corporation and Subsidiaries

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Part I Financial Information
Item 1 Financial Statements

GRIFFON CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands)

	(Unaudited) At December 31, 2011	At September 30, 2011
CURRENT ASSETS		
Cash and equivalents	$ 177,358	$ 243,029
Accounts receivable, net of allowances of $6,699 and $6,072	270,067	267,471
Contract costs and recognized income not yet billed, net of progress payments of $1,221 and $9,697	62,217	74,737
Inventories, net	296,996	263,809
Prepaid and other current assets	46,350	48,828
Assets of discontinued operations	1,307	1,381
Total Current Assets	854,295	899,255
PROPERTY, PLANT AND EQUIPMENT, net	352,729	350,050
GOODWILL	360,915	357,888
INTANGIBLE ASSETS, net	234,872	223,189
OTHER ASSETS	30,304	31,197
ASSETS OF DISCONTINUED OPERATIONS	3,006	3,675
Total Assets	$ 1,836,121	$ 1,865,254
CURRENT LIABILITIES		
Notes payable and current portion of long-term debt	$ 21,302	$ 25,164
Accounts payable	190,280	186,290
Accrued liabilities	80,472	99,631
Liabilities of discontinued operations	3,611	3,794
Total Current Liabilities	295,665	314,879
LONG-TERM DEBT, net of debt discount of $18,949 and $19,693	685,270	688,247
OTHER LIABILITIES	201,008	204,434
LIABILITIES OF DISCONTINUED OPERATIONS	4,979	5,786
Total Liabilities	1,186,922	1,213,346
COMMITMENTS AND CONTINGENCIES - See Note		
SHAREHOLDERS EQUITY		
Total Shareholders Equity	649,199	651,908
Total Liabilities and Shareholders Equity	$ 1,836,121	$ 1,865,254

GRIFFON CORPORATION
CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS EQUITY
(Unaudited)

COMMON STOCK	CAPITAL IN EXCESS	RETAINED EARNINGS	TREASURY SHARES	ACCUMULATED OTHER COMPREHENSIVE	DEFERRED ESOP & OTHER

(in thousands)	SHARES	PAR VALUE	OF PAR VALUE		SHARES	COST	INCOME (LOSS)	COMPENSATION	Total
Balance at 9/30/2011	76,184	$ 19,046	$ 471,928	$ 424,153	14,434	$ (231,699)	$ (7,724)	$ (23,796)	$ 651,908
Net income				2,487					2,487
Dividend				(1,184)					(1,184)
Tax effect from exercise/vesting of equity awards, net			(219)						(219)
Amortization of deferred compensation								371	371
Common stock acquired					283	(2,351)			(2,351)
Restricted stock awards granted, net	255	64	(64)						
ESOP allocation of common stock			(22)						(22)
Stock-based compensation			2,257						2,257
Translation of foreign financial statements							(4,566)		(4,566)
Pension OCI, net of tax							518		518
Balance at 12/31/2011	76,439	$ 19,110	$ 473,880	$ 425,456	14,717	$ (234,050)	$ (11,772)	$ (23,425)	$ 649,199

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

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

	Three Months Ended December 31,	
	2011	**2010**
Revenue	$ 451,031	$ 414,402
Cost of goods and services	348,323	326,543
Gross profit	102,708	87,859
Selling, general and administrative expenses	83,066	80,445
Restructuring and other related charges	1,795	1,393
Total operating expenses	84,861	81,838
Income from operations	17,847	6,021
Other income (expense)		
Interest expense	(13,063)	(11,223)
Interest income	63	69
Other, net	47	2,085
Total other income (expense)	(12,953)	(9,069)
Income (loss) before taxes	4,894	(3,048)
Provision (benefit) for income taxes	2,407	(1,368)
Net income (loss)	$ 2,487	$ (1,680)
Basic earnings (loss) per common share	$ 0.04	$ (0.03)
Weighted-average shares outstanding	56,025	59,274
Diluted earnings (loss) per common share	$ 0.04	$ (0.03)
Weighted-average shares outstanding	57,082	59,274

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

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

	Three Months Ended December 31,	
	2011	**2010**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ 2,487	$ (1,680)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	15,515	13,825
Fair value write-up of acquired inventory sold		11,364
Stock-based compensation	2,257	2,023
Provision for losses on accounts receivable	569	266
Amortization/write-off of deferred financing costs and debt discounts	1,505	1,845
Deferred income taxes	(141)	(2,582)
Gain on sale/disposal of assets	(44)	
Change in assets and liabilities, net of assets and liabilities acquired:		
Decrease in accounts receivable and contract costs and recognized income not yet billed	8,067	29,952
Increase in inventories	(30,318)	(24,316)
(Increase) decrease in prepaid and other assets	4	(3,850)
Decrease in accounts payable, accrued liabilities and income taxes payable	(14,582)	(50,724)
Other changes, net	838	62
Net cash used in operating activities	(13,843)	(23,815)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of property, plant and equipment	(19,892)	(17,930)
Acquired business, net of cash acquired	(22,432)	(855)
Change in funds restricted for capital projects		1,283
Change in equipment lease deposits		(1,141)
Proceeds from sale of assets	61	
Net cash used in investing activities	(42,263)	(18,643)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Dividend	(1,184)	
Purchase of shares for treasury	(2,351)	
Proceeds from issuance of long-term debt		47,974
Payments of long-term debt	(6,826)	(35,234)
Financing costs	(4)	(1,708)
Exercise of stock options		20
Tax effect from exercise/vesting of equity awards, net	834	7
Other, net	(14)	(12)
Net cash provided by (used in) financing activities	(9,545)	11,047
CASH FLOWS FROM DISCONTINUED OPERATIONS:		
Net cash used in operating activities	(277)	(367)
Net cash used in discontinued operations	(277)	(367)
Effect of exchange rate changes on cash and equivalents	257	383
NET DECREASE IN CASH AND EQUIVALENTS	(65,671)	(31,395)
CASH AND EQUIVALENTS AT BEGINNING OF PERIOD	243,029	169,802

CASH AND EQUIVALENTS AT END OF PERIOD	$ 177,358	$ 138,407

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

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

(Unless otherwise indicated, references to years or year-end refer to Griffon s fiscal period ending September 30)

NOTE 1 DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

About Griffon Corporation

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. In order to further diversify, Griffon also seeks out, evaluates and, when appropriate, will acquire additional businesses that offer potentially attractive returns on capital.

Griffon currently conducts its operations through three segments:

Home & Building Products (HBP) consists of two companies, Ames True Temper, Inc (ATT) and Clopay Building Products (CBP):

- ATT is a global provider of non-powered landscaping products that make work easier for homeowners and professionals.
- CBP is a leading manufacturer and marketer of residential, commercial and industrial garage doors to professional installing dealers and major home center retail chains.

Telephonics Corporation (Telephonics) designs, develops and manufactures high-technology integrated information, communication and sensor system solutions to military and commercial markets worldwide.

Clopay Plastic Products Company (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.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, these financial statements do not include all the information and footnotes required by U.S. GAAP for complete financial statements. As such, they should be read with reference to Griffon s Annual Report on Form 10-K for the year ended September 30, 2011, which provides a more complete explanation of Griffon s accounting policies, financial position, operating results, business properties and other matters. In the opinion of management, these financial statements reflect all adjustments considered necessary for a fair statement of interim results. Griffon s HBP operations are seasonal and the results of any interim period are not necessarily indicative of the results for the full year.

The condensed consolidated balance sheet information at September 30, 2011 was derived from the audited financial statements included in Griffon s Annual Report on Form 10-K for the year ended September 30, 2011.

The consolidated financial statements include the accounts of Griffon Corporation and all subsidiaries. Intercompany accounts and transactions are eliminated on consolidation.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting periods. These estimates may be adjusted due to changes in economic, industry or customer financial conditions, as well as changes in technology or demand. Significant estimates include allowances for doubtful accounts receivable and returns, net realizable value of inventories, restructuring reserves, valuation of goodwill and intangible assets, percentage of completion method of accounting, pension assumptions, useful lives associated with depreciation and amortization of intangible and fixed assets, warranty reserves, sales incentive accruals, stock based compensation assumptions, income taxes and tax valuation reserves, environmental reserves, legal reserves, insurance reserves and the valuation of discontinued assets and liabilities, and the accompanying disclosures. These estimates are based on management s best knowledge of current events and actions Griffon may undertake in the future. Actual results may ultimately differ from these estimates.

Certain amounts in the prior year have been reclassified to conform to current year presentation.

NOTE 2 FAIR VALUE MEASUREMENTS

The carrying values of cash and equivalents, accounts receivable, accounts and notes payable and revolving credit debt approximate fair value due to either the short-term nature of such instruments or the fact that the interest rate of the revolving credit debt is based upon current market rates.

The fair values of Griffon s 2018 senior notes, 2017 and 2023 4% convertible notes approximated $543,000, $93,000 and $532, respectively, on December 31, 2011. Fair values were based upon quoted market prices (level 1 inputs).

Insurance contracts with a value of $4,290 and trading securities with a value of $697 at December 31, 2011, are measured and recorded at fair value based upon quoted prices in active markets for identical assets (level 1 inputs).

Items Measured at Fair Value on a Recurring Basis

At December 31, 2011, Griffon had $1,000 of Australian dollar contracts at a weighted average rate of $0.94. The contracts, which protect Australia operations from currency fluctuations for U.S. dollar based purchases, do not qualify for hedge accounting and a fair value gain of $44 was recorded in other assets and to other income for the outstanding contracts based on similar contract values (level 2 inputs) for the quarter ended December 31, 2011. All contracts expire in 30 to 90 days.

NOTE 3 ACQUISITION

On October 17, 2011, Griffon acquired the pots and planters business of Southern Sales & Marketing Group, Inc. (SSMG) for $22,432. The acquired business, which markets its products under the Southern Patio brand name (Southern Patio), is a leading designer, manufacturer and marketer of landscape accessories. Southern Patio, which was integrated with ATT, had revenue exceeding $40,000 in 2011.

The accounts of the acquired company, after adjustments to reflect fair market values assigned to assets purchased from SSMG, have been included in the consolidated financial statements from date of acquisition; acquired inventory was not significant. Griffon is in the process of finalizing the adjustment to the purchase price, if any, primarily related to working capital; accordingly, management has used their best estimate in the initial purchase price allocation as of the date of these financial statements.

The following table summarizes the fair values of the assets acquired as of the date of the acquisition and the amounts assigned to goodwill and intangible asset classifications:

Inventory	$ 3,673
PP&E	416
Goodwill	4,655
Intangibles	13,688
Total assets acquired	$ 22,432

The amounts assigned to goodwill and major intangible asset classifications, all of which are tax deductible, for the Southern Patio acquisition are as follows:

		Amortization Period (Years)
Goodwill	$ 4,655	N/A
Tradenames	2,611	Indefinite
Customer relationships	11,077	25
	$ 18,343	

NOTE 4 INVENTORIES

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

	At December 31, 2011	At September 30, 2011
Raw materials and supplies	$ 84,317	$ 76,563
Work in process	71,033	66,585
Finished goods	141,646	120,661
Total	$ 296,996	$ 263,809

NOTE 5 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment were comprised of the following:

	At December 31, 2011	At September 30, 2011
Land, building and building improvements	$ 125,341	$ 126,340
Machinery and equipment	584,540	571,414
Leasehold improvements	32,533	32,867
	742,414	730,621
Accumulated depreciation and amortization	(389,685)	(380,571)

Total	$ 352,729	$ 350,050

Depreciation and amortization expense for property, plant and equipment was $13,489 and $11,815 for the quarters ended December 31, 2011 and 2010, respectively.

No event or indicator of impairment occurred during the quarter ended December 31, 2011, which would require additional impairment testing of property, plant and equipment.

NOTE 6 GOODWILL AND OTHER INTANGIBLES

The following table provides the changes in carrying value of goodwill by segment during the quarter ended December 31, 2011.

	At September 30, 2011	Goodwill from 2011 acquisitions	Other adjustments including currency translations	At December 31, 2011
Home & Building Products	$ 265,147	$ 4,655	$	$ 269,802
Telephonics	18,545			18,545
Plastics	74,196		(1,628)	72,568
Total	$ 357,888	$ 4,655	$ (1,628)	$ 360,915

The following table provides the gross carrying value and accumulated amortization for each major class of intangible assets:

	At December 31, 2011			At September 30, 2011	
	Gross Carrying Amount	Accumulated Amortization	Average Life (Years)	Gross Carrying Amount	Accumulated Amortization
Customer relationships	$ 166,348	$ 15,576	25	$ 155,602	$ 13,862
Unpatented technology	6,525	1,895	11	6,534	1,749
Total amortizable intangible assets	172,873	17,471		162,136	15,611
Trademarks	79,470			76,664	
Total intangible assets	$ 252,343	$ 17,471		$ 238,800	$ 15,611

Amortization expense for intangible assets subject to amortization was $2,026 and $2,010 for the quarters ended December 31, 2011 and 2010, respectively. The amortizable intangibles acquired in the Southern Patio acquisition will increase amortization in 2011 and forward by approximately $440 per year.

No event or indicator of impairment occurred during the quarter ended December 31, 2011, which would require impairment testing of long-lived intangible assets including goodwill. Subsequent to the end of the quarter, there were changes in management at both Plastics and Telephonics. Management performed a qualitative assessment as to whether these changes affected these reporting units carrying value and concluded that it was more likely than not that that the fair value of the units are greater than the respective carrying values.

NOTE 7 INCOME TAXES

The tax rate for the 2011 quarter was a provision of 49.2%, compared to a benefit of 44.9% in the 2010 quarter; the 2010 benefit arose on the pretax loss for the quarter. The 2011 rate reflects the impact of permanent differences, tax reserves and a change in earnings mix; the 2010 rate benefited $320 from the retroactively extended research tax credit signed into law on December 22, 2010. There were no discrete period items in the current quarter.

NOTE 8 LONG-TERM DEBT

		At December 31, 2011					At September 30, 2011				
		Outstanding Balance	Original Issuer Discount	Balance Sheet	Capitalized Fees & Expenses	Coupon Interest Rate	Outstanding Balance	Original Issuer Discount	Balance Sheet	Capitalized Fees & Expenses	Coupon Interest Rate
Senior notes due 2018	(a)	$ 550,000	$	$ 550,000	$ 10,249	7.125%	$ 550,000	$	$ 550,000	$ 11,337	7.125%
Revolver due 2016	(a)				2,574	n/a				2,937	n/a
Convert. debt due 2017	(b)	100,000	(18,949)	81,051	2,253	4.000%	100,000	(19,693)	80,307	2,474	4.000%
Real estate mortgages	(c)	14,671		14,671	336	n/a	18,233		18,233	379	n/a
ESOP Loans	(d)	23,942		23,942	21	n/a	24,348		24,348	17	n/a
Capital lease - real estate	(e)	11,123		11,123	251	5.000%	11,341		11,341	257	5.000%
Convert. debt due 2023	(f)	532		532		4.000%	532		532		4.000%
Term loan due 2013	(g)	20,736		20,736	173	n/a	24,096		24,096	201	n/a
Revolver due 2012	(g)					n/a				33	n/a
Foreign line of credit	(g)	3,759		3,759		n/a	3,780		3,780		n/a
Other long term debt	(j)	758		758			774		774		
Totals		725,521	(18,949)	706,572	$ 15,857		733,104	(19,693)	713,411	$ 17,635	
less: Current portion		(21,302)		(21,302)			(25,164)		(25,164)		
Long-term debt		$ 704,219	$ (18,949)	$ 685,270			$ 707,940	$ (19,693)	$ 688,247		

	Three Months Ended December 31, 2011					Three Months Ended December 31, 2010				
	Effective Interest Rate	Cash Interest	Amort. Debt Discount	Amort. Deferred Cost & Other Fees	Total Interest Expense	Effective Interest Rate	Cash Interest	Amort. Debt Discount	Amort. Deferred Cost & Other Fees	Total Interest Expense