

GRIFFON CORP  
Form 10-Q  
February 02, 2012

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

**FORM 10-Q**

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

For the quarterly period ended December 31, 2011

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 1-06620

**GRIFFON CORPORATION**

(Exact name of registrant as specified in its charter)

**DELAWARE**

(State or other jurisdiction of incorporation or organization)

**11-1893410**

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

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

(Address of principal executive offices)

**10019**

(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.  Yes  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).

Yes  No

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

|                         |                          |                           |                                     |
|-------------------------|--------------------------|---------------------------|-------------------------------------|
| Large accelerated filer | <input type="checkbox"/> | Accelerated filer         | <input checked="" type="checkbox"/> |
| Non-accelerated filer   | <input type="checkbox"/> | Smaller reporting company | <input type="checkbox"/>            |

(Do not check if a smaller reporting company)

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

Yes  No

**APPLICABLE ONLY TO CORPORATE ISSUERS**

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

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Griffon Corporation and Subsidiaries

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

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

|  | (Unaudited)<br>At December<br>31,<br>2011 | At September<br>30,<br>2011 |
|--|---|-----------------------------|
|  | <u>                    </u>               | <u>                    </u> |
| <b>CURRENT ASSETS</b>  |   |                             |
| 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                       |
|  | <u>                    </u>               | <u>                    </u> |
| Total Current Assets   | 854,295                                   | 899,255                     |
| <b>PROPERTY, PLANT AND EQUIPMENT, net</b>  | 352,729                                   | 350,050                     |
| <b>GOODWILL</b>  | 360,915                                   | 357,888                     |
| <b>INTANGIBLE ASSETS, net</b>  | 234,872                                   | 223,189                     |
| <b>OTHER ASSETS</b>  | 30,304                                    | 31,197                      |
| <b>ASSETS OF DISCONTINUED OPERATIONS</b>   | 3,006                                     | 3,675                       |
|  | <u>                    </u>               | <u>                    </u> |
| Total Assets   | \$ 1,836,121                              | \$ 1,865,254                |
|  | <u>                    </u>               | <u>                    </u> |
| <b>CURRENT LIABILITIES</b>   |   |                             |
| 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                       |
|  | <u>                    </u>               | <u>                    </u> |
| Total Current Liabilities  | 295,665                                   | 314,879                     |
| <b>LONG-TERM DEBT, net of debt discount of \$18,949 and \$19,693</b>                                 | 685,270                                   | 688,247                     |
| <b>OTHER LIABILITIES</b>   | 201,008                                   | 204,434                     |
| <b>LIABILITIES OF DISCONTINUED OPERATIONS</b>  | 4,979                                     | 5,786                       |
|  | <u>                    </u>               | <u>                    </u> |
| Total Liabilities  | 1,186,922                                 | 1,213,346                   |
|  | <u>                    </u>               | <u>                    </u> |
| <b>COMMITMENTS AND CONTINGENCIES - See Note</b>  |   |                             |
| <b>SHAREHOLDERS EQUITY</b>   |   |                             |
| Total Shareholders Equity  | 649,199                                   | 651,908                     |
|  | <u>                    </u>               | <u>                    </u> |
| Total Liabilities and Shareholders Equity  | \$ 1,836,121                              | \$ 1,865,254                |
|  | <u>                    </u>               | <u>                    </u> |

**GRIFFON CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS EQUITY**  
(Unaudited)

| COMMON STOCK | CAPITAL<br>IN<br>EXCESS | RETAINED<br>EARNINGS | TREASURY<br>SHARES | ACCUMULATED<br>OTHER<br>COMPREHENSIVE | DEFERRED<br>ESOP &<br>OTHER |
|--------------|-------------------------|----------------------|--------------------|---------------------------------------|-----------------------------|
|--------------|-------------------------|----------------------|--------------------|---------------------------------------|-----------------------------|

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| (in thousands)   | OF            |                  | INCOME (LOSS)     |                   | COMPENSATION  |                     | Total              |                    |                   |
|--|---------------|------------------|-------------------|-------------------|---------------|---------------------|--------------------|--------------------|-------------------|
|  | SHARES        | PAR VALUE        | SHARES            | COST              |               |                     |                    |                    |                   |
| <b>Balance at 9/30/2011</b>                            | 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               |
| <b>Balance at 12/31/2011</b>                           | <b>76,439</b> | <b>\$ 19,110</b> | <b>\$ 473,880</b> | <b>\$ 425,456</b> | <b>14,717</b> | <b>\$ (234,050)</b> | <b>\$ (11,772)</b> | <b>\$ (23,425)</b> | <b>\$ 649,199</b> |

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

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

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

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

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

|   | <b>Three Months Ended December 31,</b> |             |
|---|--|-------------|
|   | <b>2011</b>                            | <b>2010</b> |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>  |  |             |
| 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          |
|   | (13,843)                               | (23,815)    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>  |  |             |
| 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                                     |             |
|   | (42,263)                               | (18,643)    |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>  |  |             |
| Dividend  | (1,184)                                |             |
| Purchase of shares for treasury   |  |             |