

GRIFFON CORP
Form 10-Q
May 06, 2010
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2010

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**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)

712 Fifth Ave, 18th Floor, New York, New York
(Address of principal executive offices)

11-1893410
(I.R.S. Employer
Identification No.)

10019
(Zip Code)

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(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

Accelerated filer

Non-accelerated filer
(Do not check if a smaller reporting company)

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. 59,627,781 shares of Common Stock as of April 30, 2010.

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Griffon Corporation and Subsidiaries

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

	(Unaudited) At March 31, 2010	At September 30, 2009
CURRENT ASSETS		
Cash and equivalents	\$ 348,442	\$ 320,833
Accounts receivable, net of allowances of \$4,720 and \$4,457	188,340	164,619
Contract costs and recognized income not yet billed, net of progress payments of \$23,186 and \$14,592	74,798	75,536
Inventories, net	135,711	139,170
Prepaid and other current assets	34,433	39,261
Assets of discontinued operations	1,551	1,576
Total Current Assets	783,275	740,995
PROPERTY, PLANT AND EQUIPMENT, net	232,016	236,019
GOODWILL	94,214	97,657
INTANGIBLE ASSETS, net	31,085	34,211
OTHER ASSETS	21,266	29,132
ASSETS OF DISCONTINUED OPERATIONS	5,215	5,877
Total Assets	\$ 1,167,071	\$ 1,143,891
CURRENT LIABILITIES		
Notes payable and current portion of long-term debt net of debt discount of \$733 and \$2,820	\$ 51,261	\$ 78,590
Accounts payable	127,243	125,027
Accrued and other current liabilities	54,357	61,120
Liabilities of discontinued operations	4,647	4,932
Total Current Liabilities	237,508	269,669
LONG-TERM DEBT, net of debt discount of \$23,847 and \$0	150,360	98,394
OTHER LIABILITIES	73,069	78,837
LIABILITIES OF DISCONTINUED OPERATIONS	7,853	8,784
Total Liabilities	468,790	455,684
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS EQUITY		
Total Shareholders Equity	698,281	688,207
Total Liabilities and Shareholders Equity	\$ 1,167,071	\$ 1,143,891

GRIFFON CORPORATION
CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS EQUITY

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(Unaudited)

(in thousands)	COMMON STOCK		CAPITAL	RETAINED	TREASURY SHARES	ACCUMULATED		Total	
	SHARES	PAR VALUE	IN EXCESS OF PAR VALUE	EARNINGS	SHARES	COST	OTHER COMPREHENSIVE INCOME (LOSS)		DEFERRED ESOP COMPENSATION
Balance at 9/30/2009	72,040	\$ 18,010	\$ 438,843	\$ 421,992	12,466	\$ (213,560)	\$ 28,170	\$ (5,248)	688,207
Net income				6,324					6,324
Common stock issued for options exercised	45	12	274						286
Tax benefit from the exercise of stock options			99						99
Amortization of deferred compensation								313	313
Restricted stock vesting	9	2	(2)						
ESOP distribution of common stock			93						93
Stock-based compensation			2,922					13	2,935
Translation of foreign financial statements							(14,437)		(14,437)
Issuance of convertible debt, net			13,685						13,685
Pension OCI amortization, net of tax							776		776
Balance at 3/31/2010	72,094	\$ 18,024	\$ 455,914	\$ 428,316	12,466	\$ (213,560)	\$ 14,509	\$ (4,922)	698,281

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

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

	Three Months Ended March 31,		Six Months Ended March 31,	
	2010	2009	2010	2009
Revenue	\$ 313,977	\$ 276,087	\$ 619,134	\$ 578,421
Cost of goods and services	244,907	222,112	479,783	465,489
Gross profit	69,070	53,975	139,351	112,932
Selling, general and administrative expenses	64,055	55,545	126,016	112,073
Restructuring and other related charges	1,220		2,231	
Total operating expenses	65,275	55,545	128,247	112,073
Income (loss) from operations	3,795	(1,570)	11,104	859
Other income (expense)				
Interest expense	(3,729)	(3,814)	(6,699)	(7,563)
Interest income	192	231	254	667
Gain (loss) from debt extinguishment, net	12		(6)	4,304
Other, net	589	(200)	1,216	(557)
Total other income (expense)	(2,936)	(3,783)	(5,235)	(3,149)
Income (loss) before taxes and discontinued operations	859	(5,353)	5,869	(2,290)
Income tax benefit	(1,175)	(3,277)	(345)	(2,280)
Income (loss) from continuing operations	2,034	(2,076)	6,214	(10)
Discontinued operations:				
Income (loss) from operations of the discontinued Installation Services business	(1)	1,046	169	1,051
Income tax provision		397	59	399
Income (loss) from discontinued operations	(1)	649	110	652
Net income (loss)	\$ 2,033	\$ (1,427)	\$ 6,324	\$ 642
Basic earnings per common share:				
Income (loss) from continuing operations	\$ 0.03	\$ (0.04)	\$ 0.11	\$ 0.00
Income from discontinued operations	0.00	0.01	0.00	0.01
Net income (loss)	0.03	(0.02)	0.11	0.01
Weighted-average shares outstanding	58,977	58,467	58,906	58,660
Diluted earnings per common share:				
Income (loss) from continuing operations	\$ 0.03	\$ (0.04)	\$ 0.10	\$ 0.00
Income from discontinued operations	0.00	0.01	0.00	0.01
Net income (loss)	0.03	(0.02)	0.11	0.01
Weighted-average shares outstanding	59,939	58,467	59,769	58,745

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Note: Due to rounding, the sum of earnings per share of Continuing operations and Discontinued operations may not equal earnings per share of Net income.

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

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

	Six Months Ended March 31,	
	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 6,324	\$ 642
Adjustments to reconcile net income to net cash provided by operating activities:		
Income from discontinued operations	(110)	(652)
Depreciation and amortization	20,208	20,910
Long-term debt discount	2,102	1,924
Stock-based compensation	2,935	1,841
Provisions for losses on account receivable	1,138	379
Amortization/write-off of deferred financing costs	609	691
Loss (gain) from debt extinguishment, net	6	(4,304)
Deferred income taxes	(4,384)	(3,537)
Change in assets and liabilities:		
(Increase) decrease in accounts receivable and contract costs and recognized income not yet billed	(26,170)	14,680
Decrease in inventories	1,998	9,582
Decrease in prepaid and other assets	4,170	1,277
Decrease in accounts payable, accrued liabilities and income taxes payable	(3,724)	(36,914)
Other changes, net	409	(1,618)
Net cash provided by operating activities	5,511	4,901
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of property, plant and equipment	(17,689)	(12,088)
(Increase) decrease in equipment lease deposits	28	(345)
Net cash used in investing activities	(17,661)	(12,433)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of shares from rights offering		5,274
Proceeds from issuance of long-term debt	100,000	10,431
Payments of long-term debt	(53,897)	(40,854)
Increase in short-term borrowings		904
Financing costs	(4,145)	(227)
Purchase of ESOP shares		(4,370)
Exercise of stock options	285	
Tax benefit from exercise of options/vesting of restricted stock	99	
Other, net	37	629
Net cash provided by (used in) financing activities	42,379	(28,213)
CASH FLOWS FROM DISCONTINUED OPERATIONS:		
Net cash used in operating activities of discontinued operations	(269)	(759)
Net cash used in discontinued operations	(269)	(759)

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Effect of exchange rate changes on cash and equivalents	(2,351)	(1,102)
NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS	27,609	(37,606)
CASH AND EQUIVALENTS AT BEGINNING OF PERIOD	320,833	311,921
CASH AND EQUIVALENTS AT END OF PERIOD	\$ 348,442	\$ 274,315

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

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GRIFFON CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except share and per share data)

(Unaudited)

(Unless otherwise indicated, all references to years or year-end refer to the 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. The Company oversees the operations of its subsidiaries, allocates resources among them and manages their capital structures. The Company provides direction and assistance to its subsidiaries in connection with acquisition and growth opportunities as well as in connection with divestitures. Griffon also seeks out, evaluates and, when appropriate, will acquire additional businesses that offer potentially attractive returns on capital to further diversify itself.

Griffon currently conducts its operations through Telephonics Corporation (Telephonics), Clopay Building Products Company (Building Products) and Clopay Plastic Products Company (Plastics).

- Telephonics high-technology engineering and manufacturing capabilities provide integrated information, communication and sensor system solutions to military and commercial markets worldwide.
- Building Products is a leading manufacturer and marketer of residential, commercial and industrial garage doors to professional installing dealers and major home center retail chains.
- 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 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 of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. As such, they should be read with reference to the Company's Annual Report on Form 10-K for the year ended September 30, 2009, which provides a more complete explanation of the Company's accounting policies, financial position, operating results, business properties and other matters, and with the Company's Current Report on Form 8-K filed on February 4, 2010, updating the Form 10-K for the retroactive application of new accounting guidance for convertible debt (see below). In the opinion of management, these financial statements reflect all adjustments considered necessary for a fair statement of interim results. The results of operations of any interim period are not necessarily indicative of the results for the full year.

The unaudited condensed consolidated balance sheet information at September 30, 2009 was derived from the audited financial statements included in the Company's Current Report on Form 8-K filed on February 4, 2010, updating the Company's Annual Report on Form 10-K for the year ended September 30, 2009.

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In preparing its consolidated financial statements, the Company is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. On an ongoing basis, the Company evaluates estimates, including those related to bad debts, inventory reserves, goodwill and intangible assets. The Company bases its estimates on historical data and experience, when available, and on various

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other assumptions that the Company believes are reasonable, the combined results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from those estimates.

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

In May 2008, the Financial Accounting Standards Board (FASB) issued new guidance to clarify that the liability and equity components of convertible debt instruments that may be settled in cash upon conversion (including partial cash settlement) must be separately accounted for in a manner that will reflect the entity's nonconvertible debt borrowing rate when interest cost is recognized. This guidance, which is applicable to the Company's 4% convertible subordinated notes due 2023 issued in 2003 (the 2023 Notes) and 4% convertible subordinated notes due 2017 issued in December 2009 (the 2017 Notes), became effective for the Company as of October 1, 2009 and is implemented retrospectively, as required, for the 2023 Notes. For more information, see the Long-Term Debt footnote.

At March 31, 2010, the 2023 Notes had an outstanding balance of \$49,998, an unamortized discount of \$733, a net carrying value of \$49,265 and a capital in excess of par value component balance, net of tax, of \$17,061. At September 30, 2009, the 2023 Notes had an outstanding balance of \$79,380, an unamortized discount balance of \$2,820, a net carrying value of \$76,560 and a capital in excess of par value component balance, net of tax, of \$18,094. The stock price was below the conversion price for all periods presented. The Company used 8.5% as the nonconvertible debt borrowing rate to discount the 2023 Notes and will amortize the debt discount through July 2010. For more information, see the Long-Term Debt footnote.

For the 2023 Notes, the effective interest rate and interest expense was as follows:

(dollar amounts in thousands)	Three Months Ended March 31,		Six Months Ended March 31,			
	2010	2009	2010	2009	2009	2009
Effective interest rate		9.0%		8.8%	9.0%	9.0%
Interest expense related to the coupon	\$	534	\$	945	\$	2,008
Amortization of the discount		565		923		1,931
Amortization of deferred issuance costs		59		93		198
Total interest expense on the 2023 Notes	\$	1,158	\$	1,961	\$	4,137

The cumulative effect of the adjustments prior to September 30, 2009 was recorded in the September 30, 2009 balance sheet as follows:

Balance Sheet

(in thousands)

As Reported	As of September 30, 2009 Change	As Adjusted
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Other Assets	\$	30,648	\$	(1,516)	\$	29,132
All other assets		1,114,759				1,114,759
Total Assets	\$	1,145,407	\$	(1,516)	\$	1,143,891
Notes payable & current portion of LT debt	\$	81,410	\$	(2,820)	\$	78,590
All other liabilities		377,094				377,094
Total liabilities		458,504		(2,820)		455,684
Capital in excess of par value		420,749		18,094		438,843
Retained earnings		438,782		(16,790)		421,992
All other shareholders equity		(172,628)				(172,628)
Total Shareholders Equity		686,903		1,304		688,207
Total Liabilities and shareholders equity	\$	1,145,407	\$	(1,516)	\$	1,143,891

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The prior year three and six month periods have been adjusted as follows:

Statement of Operations

(in thousands, except per share data)

	Three Months Ending March 31, 2009			Six Months Ending March 31, 2009		
	As Reported	Change	As Adjusted	As Reported	Change	As Adjusted
Income (loss) from operations	\$ (1,570)	\$	\$ (1,570)	\$ 859	\$	\$ 859
Other income (expense)						
Interest expense	(2,919)	(895)	(3,814)	(5,633)	(1,930)	(7,563)
Interest income	231		231	667		667
Gain from debt extinguishment, net				6,714	(2,410)	4,304
Other, net	(200)		(200)	(557)		(557)
Total other income (expense)	(2,888)	(895)	(3,783)	1,191	(4,340)	(3,149)
Income (loss) before taxes and discontinued operations	(4,458)	(895)	(5,353)	2,050	(4,340)	(2,290)
Provision (benefit) for income taxes	(2,955)	(322)	(3,277)	(718)	(1,562)	(2,280)
Income (loss) from continuing operations	(1,503)	(573)	(2,076)	2,768	(2,778)	(10)
Income from discontinued operations	649		649	652		652
Net income (loss)	\$ (854)	\$ (573)	\$ (1,427)	\$ 3,420	\$ (2,778)	\$ 642