SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended September 30, 1995
or
[ ] TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission File No. 1-6620

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.)
100 JERICHO QUADRANGLE, JERICHO, NEW YORK	11753
(Address of Principal Executive Offices)	(Zip Code)

Registrant's telephone number, including area code: (516) 938-5544

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

TITLE OF CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED
COMMON STOCK, $.25 PAR VALUE	NEW YORK STOCK EXCHANGE
SECOND PREFERRED STOCK, SERIES I $.25 PAR VALUE	NEW YORK STOCK EXCHANGE

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

NONE

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 X No
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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].

State the aggregate market value of the voting stock held by non-affiliates of the registrant. (The aggregate market value shall be computed by reference to the price at which the stock was sold, or the average bid and asked prices of such stock, as of a specified date within 60 days prior to the date of filing.) As of November 15, 1995 -- approximately $247,000,000.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date (applicable only to corporate registrants). As of November 15, 1995 -- 30,918,723.

Documents incorporated by reference: Part III - Registrant's definitive proxy statement to be filed pursuant to Regulation 14A of the Securities Exchange Act of 1934.

PART I

ITEM ONE - BUSINESS

General

Griffon Corporation ("the Company") is a diversified manufacturer with operations in three business segments: Home and Commercial Products, Specialty Plastic Films and Electronic Information and Communication Systems. The Company's shareholders approved changing the name from Instrument Systems Corporation, effective March 1995.

Home and Commercial Products

Management believes that its wholly-owned subsidiary, Clopay, is among the largest manufacturers of residential garage doors in the United States. Clopay sells a broad line of steel and wood garage doors for residential and commercial use which are manufactured in stock sizes and styles as well as special order to customer specifications.

Clopay's strategy is to produce a broad line of high quality garage doors for distribution throughout North America to retail, professional installer and wholesale channels. Clopay has focused on increasing its market share by introducing new products, expanding its distribution, sales and marketing programs and through strategic acquisitions. In October 1995 Clopay acquired the Atlas Roll-Lite Door Corporation, a manufacturer of heavy duty rolling steel doors, grilles and counter shutters for industrial and commercial markets; sectional garage doors for residential applications; and doors and components for the self-storage market. Atlas Roll-Lite has annual sales of approximately $60,000,000.

Clopay sells residential garage doors to a large number of retailers throughout North America, including home centers and building material cooperative buying groups. Significant customers include The Home Depot Inc., Menards, Inc., Lowe's Companies, Inc., Payless Cashways, Inc., Builders Square, Inc., Hechinger Company, Home Base, Wickes Lumber Company, Wolohan Lumber Co., 84 Lumber and Grossman's Inc. Residential and commercial garage doors and related products for professional installation are sold directly to a national network of installation specialists.

Clopay distributes garage doors directly from its manufacturing facilities and through its network of 37 company-owned distribution centers throughout the United States and in Canada. Under Clopay's "installed sales" program, consumers purchase garage doors through local retailers and Clopay distribution centers manage the installation through authorized installing dealers.

Clopay continues to make substantial capital investments in its manufacturing facilities and believes that its automated continuous production plants enable it to produce garage doors cost effectively. Wood garage doors are produced from kiln dried lumber and are constructed for ease of operation and durability. Steel garage doors, including insulated doors, are fabricated from pre-painted, galvanized steel, specially selected for rust resistance and low maintenance. The lumber and steel used in the manufacturing operations are generally available from a variety of sources. All products are designed for safe operation, building code compliance and easy specification by architects and contractors.

The garage door market is characterized by several large national manufacturers including Clopay and many smaller regional and local manufacturers. In addition to price, Clopay believes that it competes favorably on the basis of diversity of product line, quality, service and merchandising capability.

Clopay also operates a service company that installs and services garage doors and openers, manufactured fireplaces and a range of related products. This part of Clopay's business grew substantially in 1995 with the acquisition of businesses which added in excess of $30,000,000 in revenues and expanded the

scope of the operations into new markets. Management believes that the service business is now one of the country's leading fireplace dealers.

The Company also manufactures and sells a broad line of specialty hardware primarily for the food service industry under the name "Standard-Keil" and components for beverage dispensing equipment under the name "Tap-Rite." Specialty hardware products include commercial refrigeration fittings, locks, hinges and lighting components for coolers, walk-in refrigeration equipment, environmental control units and filters used to contain grease. The beverage dispensing equipment includes carbon dioxide regulators, beer faucets, picnic pumps and tavern taps.

The Company also manufactures and sells synthetic batting. Batting is material used in layers or sheeting for lining, as a furniture filling, for packaging and as filters.

Specialty Plastic Films

Clopay is a leading manufacturer of customized plastic film and laminates made from plastic resin and non-woven fabrics for use in consumer and health-care products. Clopay's strategy is to offer technologically advanced products for use in niche markets to major consumer and health-care product companies. Clopay believes that its research and development activities and capital investment in related equipment enable it to efficiently manufacture products in large volume and meet changing consumer needs. These factors, together with its technical expertise, allow Clopay to compete favorably in its markets. Clopay sells its products primarily throughout the United States with sales also in Canada, Latin America and the Pacific Rim.

Clopay manufactures thin gauge embossed barrier films and coated laminates of plastic film and non-woven fabrics to customer specifications for sale to consumer product and other companies. These products are used primarily as the backsheet barrier in disposable diapers as well as the moisture barrier in adult incontinent products and sanitary napkins. These products are differentiated by strength, barrier and other properties. A substantial portion of the specialty plastic film sales over the last five years have been to The Procter & Gamble Company. The loss of this customer would have a material adverse effect on the Company's business.

Clopay also manufactures plastic films and laminates for a wide variety of disposable health-care products including surgical drapes, patient care underpads and medical garments. These plastic products are also sold for use in garments worn by workers in hazardous industrial environments.

Clopay manufactures these products on high speed equipment to meet stringent tolerances. The manufacturing process consists of melting a mixture of plastic resins (primarily polyolefins) and additives, and forcing this mixture through a computer controlled die and rollers to produce embossed films.

In addition, the process can involve extruding the melted plastic film directly onto a non-woven fabric to form a laminate. Certain products involve further processes such as a secondary lamination of the film to a non-woven material. Through statistical process control methods, Clopay personnel monitor and control the entire production process. The plastic resins used in Clopay's products are commodities generally available from several sources.

Clopay is engaged in several joint efforts with the research and development departments of its major specialty plastic film customers. Clopay employs chemists, scientists and engineers at a technical center to study polymers and manufacturing processes that will assist in the development of its specialty plastic film products. Clopay's research and development efforts have resulted in inventions covering embossing patterns, improved processing methods and other proprietary technology. Clopay's research and development costs for this business amounted to approximately $1,600,000, $1,700,000 and $1,800,000 in 1993, 1994 and 1995, respectively.

Electronic Information and Communication Systems

The Company's wholly-owned subsidiary, Telephonics, founded in 1933 and acquired by the Company in 1962, is an electronics systems company specializing in advanced information and communications systems for government, aerospace, civil, industrial and commercial markets. In recent years, Telephonics has expanded its customer base with increasing emphasis in non-military markets. These efforts have resulted in a series of new contract awards in the transit industry as well as international air traffic control projects.

Telephonics designs, manufactures and logistically supports advanced military communications systems, avionics for commercial airlines, transit communication systems, wireless products, command and control systems, strategic communications systems, VLSI/LSI circuits, microwave components, test instrumentation, microwave landing systems, maritime surveillance radars and air traffic control systems. A substantial portion of Telephonics' sales (approximately 54% for 1995) were to agencies of the U.S. Government or to prime contractors or subcontractors on government, military or aerospace programs. Telephonics' funded backlog at September 30, 1995 was approximately $91 million as compared to $125 million at September 30, 1994. Approximately 65% of the September 30, 1995 backlog is expected to be shipped within twelve months.

Telephonics participates in approximately 40 government, aerospace and commercial programs. Approximately 70% of Telephonics' sales for 1995 were attributable to upgrades, enhancements and follow-on options to existing long-term products and programs.

Some of the major programs under which Telephonics participates include the following:

Description of Program	Customer	Product	Purpose
C-17 (Air Force Cargo Transport)	McDonnell Douglas	Integrated Radio Management System	Centralized digitally controlled audio distribution system
		Wireless Intercomm System	Wireless communication system
		Transponder Test Unit	On-board test equipment
LAMPS MARK III (Antisubmarine Warfare Helicopter)	Loral	Multi-Mode Radar (MMR) Intercommunication and Radio Management System Identification Friend or Foe (IFF)	Upgraded avionics for the LAMPS MARK III Helicopter with maritime surveillance radar with identification friend/or foe capability and intercommunication and radio management systems
Joint-STARS (Airborne Surveillance System)	Northrop-Grumman Corporation	Distributed Digital Intercommunications and Radio Control System	Manages all intercommunication and radio transmissions
AATC (Amphibious Assault Ships)	U.S. Navy	Amphibious Air Traffic Control	Processing and display equipment used for air traffic control
SEPTA	ABB Traction	Communications, Wayside Video Surveillance Systems	Car-borne communications for rail cars
Zhuhai	Guangdong Machinex Corporation	Air Traffic Control System	Manage air traffic at Zhuhai, China Airport
Long Island Rail Road	Kawasaki	Communications, Vehicle Health Monitoring	Car-borne communications for rail cars
AWACS	Boeing	IFF System	Upgrade IFF equipment for AWACS aircraft

Telephonics also designs and produces custom large-scale integrated circuits, which replace conventional circuits and components with a single microchip. Telephonics provides microchips to manufacturers of complex control circuitry for military airborne interior communication systems, telecommunications signal processing equipment, security systems, home appliances, automated hand tools, and fast down windows, fuel monitoring and air bag sensors for automobiles. Telephonics also provides specialized design services which supplement customers' in-house capabilities. Telephonics also produces a wide variety of microwave components and test instruments.

Headsets, microphones, earphones and cables manufactured by Telephonics are used in military and commercial aircraft and ground vehicles, especially in high noise environments.

Telephonics' commercial products include contracts with Kawasaki, ABB Traction, Long Island Rail Road and other rail suppliers under which Telephonics produces communication equipment which provides passenger and crew interior communications among train cars, radio communications between the train and the central control facility, automated voice announcement, passenger information signage and vehicle performance monitoring systems. Telephonics also supplies and logistically supports multiplex in-flight passenger entertainment and service systems for wide-bodied aircraft which permit various audio channels to be transmitted simultaneously over a single line and distributed as separate channels to each passenger. Telephonics is under contract with McDonnell Douglas to produce passenger and cabin address intercom systems for the MD-80 and MD-95 aircraft.

Government programs in which Telephonics is involved frequently provide for purchases under a series of independently priced contracts, each calling for delivery of a lot, consisting of a portion of the units in the overall program. Each contract is treated separately and there is no requirement that upon delivery of the lot which is the subject of one contract, the government must contract to purchase, or the supplier must contract to sell, additional lots.

Telephonics accounts for its long-term contracts using the percentage-of-completion method. Under this method, the Company recognizes revenues and gross profit based upon the costs incurred as a percentage of the total estimated cost.

Most of Telephonics' production contracts are fixed price, which means that Telephonics generally bears the risk of cost overruns. In a fixed price contract, progress payments are received during performance as stages are reached for which fixed payments are established in the contract.

In accordance with Department of Defense and NASA procedures, all contracts involving government programs permit the government to terminate the contract at any time, at its convenience, without cause. In the event of such termination, Telephonics is entitled to reimbursement for its costs and to receive a proportionate share of its profits, if any, on the work performed prior to termination.

Telephonics' staff of approximately 215 engineers and marketing personnel, many of whom have technical backgrounds, advise government and commercial planning and design personnel in an attempt to include Telephonics' products in their programs.

Telephonics competes on the basis of technology, design, price and performance. The products sold by Telephonics utilize technologies which are constantly changing. Telephonics' expertise in these technologies enables it to compete with several major manufacturers of electronic information and communications systems which have greater financial resources than Telephonics. Telephonics also competes with several smaller manufacturers of similar products.

A major part of Telephonics' product development is performed under government contracts under which such costs are generally recoverable. Research and development costs not recoverable under contractual arrangements are charged

to expense as incurred. These costs were approximately $1,600,000, $1,400,000 and $1,600,000 for 1993, 1994 and 1995, respectively.

Employees

The Company has approximately 3,600 employees located throughout the United States and in Canada at its various plants, warehouses and offices. Approximately 400 of its employees are covered by collective bargaining agreements, primarily with affiliates of the AFL-CIO. The Company believes its relationships with employees are satisfactory.

Officers of the Registrant

Name	Age	Served as Officer Since	Positions and Offices
Harvey R. Blau	60	1983	Chairman of the Board
Robert Balemian	56	1976	President
Patrick L. Alesia	47	1979	Vice President and Treasurer
Susan E. Rowland	37	1983	Secretary

ITEM TWO - PROPERTIES

The Company occupies approximately 2,400,000 square feet of general office, factory and warehouse space and showrooms throughout the United States and in Canada. The following table sets forth certain information as to each of the Company's major facilities:

Location	Business Segment	Primary Use	Approximate Square Footage	Owned or Leased
Jericho, NY	Corporate Headquarters	Office	10,000	Leased
Farmingdale, NY	Electronic Information and Communication Systems	Manufacturing	167,000	Owned
Huntington, NY	Electronic Information and Communication Systems	Manufacturing	89,000	Owned
Huntington, NY	Electronic Information and Communication Systems	Manufacturing	41,000	Leased
Carson, CA	Home and Commercial Products	Manufacturing	125,000	Owned
Allenwood, NJ	Home and Commercial Products	Manufacturing	144,000	Owned
Cincinnati, OH	Home and Commercial Products Specialty Plastic Films	Office	36,000	Leased
Cincinnati, OH	Specialty Plastic Films	Research and Development	38,000	Leased
Russia, OH	Home and Commercial Products	Manufacturing	274,000	Leased
Baldwin, WI	Home and Commercial Products	Manufacturing	216,000	Leased
Norcross, GA	Home and Commercial Products	Distribution	102,000	Leased
Augusta, KY	Specialty Plastic Films	Manufacturing	143,000	Owned
Nashville, TN	Specialty Plastic Films	Manufacturing	86,000	Leased

Fresno, CA	Specialty Plastic Films	Manufacturing	37,000	Leased
Orlando, FL	Home and Commercial Products	Manufacturing	160,000	Leased
Chandler, AZ	Home and Commercial Products	Manufacturing	79,000	Leased
Nesbitt, MS	Home and Commercial Products	Manufacturing	40,000	Owned

The Company has aggregate minimum annual rental commitments under real estate leases of approximately $6,700,000. The majority of the leases have escalation clauses related to increases in real property taxes on the leased property and some for cost of living adjustments. Certain of the leases have renewal options. The Company also leases space for the home and commercial products segment's distribution centers in numerous facilities throughout the United States which aggregate approximately 535,000 square feet. All plants and equipment of the Company are believed to be in adequate condition and contain sufficient space for current needs.

ITEM THREE - LEGAL PROCEEDINGS

A. Warwick Administrative Group, et al. v. Avon Products, et al. By way of background, in February 1989, Lightron Corporation ("Lightron"), a wholly-owned subsidiary of the Company, initially received notification from the EPA that it was being named as one of several potentially responsible parties who could be liable for cleanup and natural resource damages relating to a landfill located in the Town of Warwick, Orange County, New York (the "Site"). Subsequently, the EPA conducted a remedial investigation and feasibility study at the Site to determine the extent of the contamination and the various alternative measures which are appropriate for remediation. On June 27, 1991, a Record of Decision was signed setting forth the selected course of remediation for the Site. Thereafter, pursuant to an Administrative Order issued by the EPA which directed them to do so, the potentially responsible parties named in the Order (the "Warwick Group") agreed to undertake to perform a second operable unit Remediation Investigation and Feasibility Study.

In January 1993, the Warwick Group instituted the within action in the United States District Court for the Southern District of New York against Lightron and several other potentially responsible parties. According to their complaint, the plaintiffs are seeking, inter alia, a declaratory judgment decreeing that Lightron and the other defendants are jointly and severally responsible under CERCLA to contribute their share of the actual response costs already incurred and the future response costs to be incurred by the plaintiffs in connection with the remediation of the Site.

Consistent with its contention that it did not dump or have delivered or carted to the Site for disposal any hazardous or toxic wastes, Lightron has served and filed an answer to the amended pleadings in which it generally denies the plaintiffs' allegations and asserted several affirmative defenses to liability, as well as counterclaims against the plaintiffs. Lightron also has entered into a Stipulation with the other defendants regarding the implicit assertion of mutual cross-claims among the several defendants.

B. Department of Environmental Conservation with Lightron Corporation (Peekskill). Lightron once conducted operations at a location in Peekskill in the Town of Cortlandt, New York owned by ISC Properties, Inc., a wholly-owned subsidiary of the Company (the "Peekskill Site"). ISC Properties, Inc. sold the Peekskill Site in November 1982.

Subsequently, the Company was advised by the New York State Department of Environmental Conservation ("DEC") that random sampling at the Peekskill Site and in a creek near the Peekskill Site indicated concentrations of solvents and other chemicals common to Lightron's prior plating operations. Based upon these findings, ISC Properties, Inc. is involved in the negotiation of a consent order which the DEC will provide for the performance of a field investigation and feasibility study at the Peekskill Site.

C. Linke Enterprises of Oregon, Inc. v. Champion Laboratories, Inc. and Instrument Systems Corporation. In September 1990, a private cost recovery

action under federal and state environmental statutes was commenced in the United States District Court of the District of Oregon. Plaintiff sought to recover from the Company response costs in an amount exceeding $250,000 which the plaintiff allegedly had expended to investigate and remediate an existing environmental problem at the Site. The Site was previously leased by one of the Company's former subsidiaries, Sun Battery, Inc., for the period from 1966 to 1971. According to the terms of the settlement agreement which resolved the action, the Company was obligated to contribute to the plaintiff's remediation costs the sum of $97,992.87. Champion Laboratories, Inc. also was required to make a contribution to the plaintiff's remediation costs in the amount of $49,011.13. In consideration of these contributions, both the Company and Champion Laboratories, Inc. have been indemnified by the plaintiff against any further liability with regard to the environmental matter, except to the extent that either the EPA or the comparable state environmental agency initiates enforcement proceedings or prosecutes a claim for environmental damages.

In June 1992, the Company was notified pursuant to the settlement agreement that the State of Oregon had renewed its investigation of the Site and that such investigation could lead to a final determination that further cleanup actions will be necessary.

D. Atlantic Richfield Company (ARCO) v. Current Controls, et al. By way of background, the Atlantic Richfield Company ("ARCO") initially notified the company in 1991 that based upon ARCO's investigation of the groundwater at the Sinclair Refinery Superfund Site in Wellsville, New York, a portion of which ("Operable Unit II") allegedly is owned currently by an indirect, wholly-owned subsidiary of the Company, ISC Development Corp., the shallow aquifer underlying the Site was found to be contaminated with various hazardous substances. It is ARCO's contention that manufacturing operations conducted at ISC Development Corp.'s premises (which were leased to a third party) may have contributed to this contamination, and that as an owner and/or operator, the Company would be jointly and severally liable as a responsible party for the costs of remediation under Section 107 of CERCLA.

On or about January 26, 1994, ARCO served the Company with a summons and complaint in this action pending in the United States District Court for the Western District of New York. The Company has been named as one of several defendants whom the plaintiff claims should be held jointly and severally liable for the costs incurred and to be incurred by ARCO in the remediation and cleanup of portions of the Sinclair Refinery Superfund Site.

E. The Town of New Windsor v. Tesa Tuck, et al. In or about March 1993, the Town of New Windsor instituted an action in the United States District Court for the Southern District of New York against Lightron Corporation and other defendants in which it is seeking, inter alia, a declaratory judgment decreeing that Lightron and the other defendants are jointly and severally responsible to contribute to the response costs incurred and to be incurred by the plaintiff in connection with the remediation of a landfill located in the Town of New Windsor, New York (the "Site"). The plaintiff's claim against Lightron is premised upon its contention that Lightron of Cornwall, Inc., a former division of Lightron Corporation, allegedly disposed of full and empty drums of lacquer paints and thinners at the Site. The plaintiff has alleged in its complaint that total response costs for the Site are estimated to be approximately $8,000,000. Lightron has served and filed an answer denying the material allegations of the complaint and asserting several affirmative defenses to liability, as well as cross-claims against the other defendants and counterclaims against the plaintiff. Also, the original defendants recently

have impleaded as third party defendants several other parties whom the defendants are claiming have contributed to the contamination found to exist at the Site.

Management believes, based on facts presently known to it, that the outcome of the litigation proceedings described above will not have a material adverse effect on the Company's consolidated financial position or results of operations.

ITEM FOUR - SUBMISSION OF MATTERS TO

A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the fourth quarter of the fiscal year.

PART II

ITEM FIVE - MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Company's Common Stock and Second Preferred Stock, Series I, are listed for trading on the New York Stock Exchange. As of November 1, 1995 there were approximately 18,000 record holders of the Company's Common Stock. The following table shows for the periods indicated the quarterly range in the high and low sales prices for these securities.

	COMMON STOCK		SECOND PREFERRED STOCK, SERIES I	
FISCAL QUARTER ENDED	HIGH	LOW	HIGH	LOW
December 31, 1993	$9 1/8	$8	$9	$8 1/4
March 31, 1994	9 3/4	7 3/4	9 3/4	8 3/4
June 30, 1994	9	6 5/8	9 1/8	7 1/8
September 30, 1994	8 1/8	6 7/8	8 1/8	7 1/4
December 31, 1994	8 5/8	7 3/8	8 5/8	7 7/8
March 31, 1995	9 1/2	8 1/8	9 1/2	8 1/4
June 30, 1995	8 3/4	7 5/8	9 1/4	8 1/8
September 30, 1995	8 7/8	7 1/2	9 1/8	7 5/8

ITEM SIX - SELECTED FINANCIAL DATA

	YEARS ENDED SEPTEMBER 30,				
	1995	1994	1993	1992	1991
Net sales	$546,359,000	$488,957,000	$436,949,000	$398,761,000	$343,343,000
Income from continuing operations	$ 23,807,000	$ 29,705,000	$ 26,560,000	$ 21,594,000	$ 13,443,000
Per share	$ .71	$ .80	$ .70	$ .59	$ .45
Total assets	$285,616,000	$293,215,000	$270,270,000	$246,750,000	$303,592,000
Long-term obligations	$ 16,074,000	$ 15,538,000	$ 26,147,000	$ 28,406,000	$ 79,738,000

<FN>
No dividends on Common Stock were declared or paid during the five years ended September 30, 1995.
</FN>

ITEM SEVEN - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

Fiscal 1995 Compared to Fiscal 1994

Net sales for all business segments were $546.4 million, an increase of $57.4 million or 11.7% over 1994. Net sales of the home and commercial products

segment increased by $59.0 million or 21.0% compared to last year. Acquired companies accounted for $35.6 million of the increase with the remainder of the increase primarily attributable to increased unit sales of garage doors ($12.1 million) and price increases ($9.3 million). Higher market share and expanded distribution were the principal reasons for the unit sales increase. Net sales of the specialty plastic films segment were $111.2 million compared to $114.6 million last year. As previously reported, a major customer of the specialty plastic films segment made a design change which substantially phased out the segment's thin laminate program during 1995. The decreased sales of this laminate ($21.9 million) were partially offset by the effects of higher selling prices ($8.6 million) and increased sales of other film products ($9.9 million). Net sales of the electronic information and communication systems segment were $95.8 million compared to $94.0 million last year.

Operating income for all business segments was $44.3 million compared to $55.4 million in 1994. Operating income of the home and commercial products segment in 1995 increased $1.1 million over 1994. Increased profitability in the beginning of the year was partly offset by lower than anticipated garage door sales in the latter half due to weakness in the construction and related retail markets. Operating results of this segment were also negatively impacted ($2.4 million) by an unprofitable product line (passage doors) that was discontinued, and by increased raw material and operating costs. Operating income of the specialty plastic films segment was $9.0 million in 1995 compared to $20.8 million in 1994. The decrease was primarily due to the phaseout of the thin laminate program, delays in receipt of anticipated orders and substantial raw material (polyethylene resin) cost increases. The Company has generally been able to pass on such increases to customers in the past. However, the specialty plastic films industry experienced a period of soft demand and excess production capacity. As a result, although the Company implemented selling price increases, due to the magnitude of the cost increases and the economic conditions, such selling price adjustments did not fully compensate for the cost increases. Raw material costs declined toward the end of the year. Although further cost decreases are anticipated, the Company cannot predict the extent of any such decreases or the amount that will be retained by the business. Toward the end of the year the specialty plastic films segment was successful in introducing new products in its diaper and health-care markets, including a new program with its major customer, which are anticipated to positively impact operating results in subsequent periods. Operating income of the electronic information and communication systems segment was $9.1 million in 1995 compared to $9.6 million last year.

Fiscal 1994 Compared to Fiscal 1993

Net sales for all business segments were $489.0 million, an increase of $52.0 million over 1993. Net sales of the home and commercial products segment increased by $49.5 million or 21.5% in 1994 compared to 1993. The increase is principally attributable to higher unit sales of garage doors ($40.8 million) due to expanded distribution and increased market share. Net sales of the specialty plastic films segment increased by $1.3 million or 1.2% in 1994 compared to 1993 primarily due to increased unit sales. Net sales of the electronic information and communication systems segment increased by $1.2 million or 1.3% in 1994 compared to 1993 due to new contract awards.

Operating income for all business segments was $55.4 million, an increase of $5.6 million or 11.3% over 1993. Operating income of the home and commercial products segment increased by $3.5 million or 16.4% in 1994 compared to 1993 principally due to the increased garage door sales partly offset by increased distribution costs and start-up expenses for a new garage door product line. Operating income of the specialty plastic films segment increased by $2.0 million or 10.8% compared to 1993 primarily due to the increased sales and production efficiencies. Operating income of the electronic information and communication systems segment increased slightly compared to 1993 due to the effect of the higher net sales offset by increased bid and proposal expenditures.

LIQUIDITY AND CAPITAL RESOURCES

Cash flow provided by operations was $12.0 million. The reduction in

operating cash flows compared to last year reflects the lower net income and higher working capital levels. In December 1994, the Company completed a self-tender offer for 3,002,840 shares of its Common Stock at a price of $8.75 per share. During the year a total of $28.2 million was used to acquire 3.1 million shares of Common Stock. These purchases were funded by existing cash and marketable securities, which decreased due to the stock purchases and $7.8 million used for two acquisitions for the building products business.

In June 1995, the Company entered into a $60 million eight-year loan agreement with two banks that provides revolving credit for three years after which outstanding borrowings may be converted into a five-year term loan. Borrowings bear interest at rates based upon the London Interbank Offered Rate or at the prime rate and may be used for general corporate purposes, including business acquisitions. Subsequent to the end of the year, the Company acquired for its home and commercial products segment a manufacturer of heavy rolling doors, sectional garage doors, grilles and other door products for commercial, industrial and residential applications with annual sales of approximately $60 million. The business was acquired for approximately $19 million and the purchase was financed under the above-mentioned loan agreement.

The Company rents various real property and equipment through noncancellable operating leases. Related future minimum lease payments due in 1996 aggregate $14.7 million and are expected to be funded through operating cash flows. There are no material commitments for future capital expenditures though it is likely that cash outflows for business acquisitions, capital expenditures and leases will continue.

Anticipated cash flows from operations, together with existing cash and marketable securities and lease line availability, should be adequate to finance presently anticipated working capital and capital expenditure requirements and to repay long-term debt as it matures.

Statement of Financial Accounting Standards No. 121, "Accounting for Long-Lived Assets and Long-Lived Assets to Be Disposed Of," establishes financial accounting and reporting standards for long-lived assets and is effective for the fiscal year beginning October 1, 1996. Adoption of this standard will not have a material effect on the Company's financial position or results of operations.

ITEM EIGHT - FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements of the Company and its subsidiaries and the report thereon of Arthur Andersen LLP, dated November 6, 1995 are included herein:

- Report of Independent Public Accountants.
- Consolidated Balance Sheets at September 30, 1995 and 1994.
- Consolidated Statements of Income, Cash Flows and Shareholders' Equity for the years ended September 30, 1995, 1994, 1993.
- Notes to Consolidated Financial Statements.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Griffon Corporation:

We have audited the accompanying consolidated balance sheets of Griffon Corporation (a Delaware corporation, formerly Instrument Systems Corporation) and subsidiaries as of September 30, 1995 and 1994 and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended September 30, 1995. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material

misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Griffon Corporation and subsidiaries as of September 30, 1995 and 1994 and the results of their operations and their cash flows for each of the three years in the period ended September 30, 1995 in conformity with generally accepted accounting principles.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule listed in the index to consolidated financial statements and schedules is presented for purposes of complying with the Securities and Exchange Commission's rules and is not part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

Roseland, New Jersey
November 6, 1995

Arthur Andersen LLP

GRIFFON CORPORATION
CONSOLIDATED BALANCE SHEETS

	SEPTEMBER 30, 1995	SEPTEMBER 30, 1994
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 9,656,000	$ 28,659,000
Marketable securities (Note 1)	12,197,000	29,727,000
Accounts receivable, less allowance for doubtful accounts of $3,727,000 in 1995 and $3,659,000 in 1994 (Note 1)	71,461,000	59,191,000
Contract costs and recognized income not yet billed (Note 1)	31,490,000	29,194,000
Inventories (Note 1)	78,823,000	68,918,000
Prepaid expenses and other current assets	8,419,000	6,987,000
Total current assets	212,046,000	222,676,000
Property, Plant and Equipment, at cost, net of depreciation and amortization (Note 1)	48,401,000	49,890,000
Other Assets:		
Costs in excess of fair value of net assets of businesses acquired, net (Note 1)	21,267,000	18,240,000
Other	3,902,000	2,409,000
	25,169,000	20,649,000
	$285,616,000	$293,215,000

GRIFFON CORPORATION
CONSOLIDATED BALANCE SHEETS (CONTINUED)

	SEPTEMBER 30, 1995	1994
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Notes payable and current portion of long-term debt (Note 2)	$ 7,073,000	$ 9,542,000
Accounts payable	40,032,000	33,704,000
Accrued liabilities (Note 1)	45,911,000	48,058,000
Federal income taxes	4,790,000	10,324,000
Total current liabilities	97,806,000	101,628,000
Long-Term Debt (Note 2)	16,074,000	15,538,000
Commitments and Contingencies (Note 4)		
Shareholders' Equity (Note 3):		
Preferred stock, par value $.25 per share, authorized 3,000,000 shares -- Second Preferred Stock, Series I, authorized 1,950,000 shares, issued 1,669,537 shares in 1995 and 1,677,129 shares in 1994 (liquidation value $16,695,000 and $16,771,000, respectively)	417,000	419,000
Common stock, par value $.25 per share, authorized 85,000,000 shares, issued 31,081,499 shares in 1995 and 33,887,739 shares in 1994	7,770,000	8,472,000
Capital in excess of par value	52,149,000	78,614,000
Retained earnings	113,101,000	89,711,000
	173,437,000	177,216,000
Less --		
Deferred compensation	(424,000)	(900,000)
Treasury shares, at cost, 162,796 common shares in 1995 and 34,500 common shares in 1994	(1,277,000)	(267,000)
Total shareholders' equity	171,736,000	176,049,000
	$285,616,000	$293,215,000

<FN>
The accompanying notes to consolidated financial statements are an integral part of these statements.
</FN>

GRIFFON CORPORATION
CONSOLIDATED STATEMENTS OF INCOME

	YEARS ENDED SEPTEMBER 30, 1995	1994	1993
Net sales	$546,359,000	$488,957,000	$436,949,000
Cost of sales	402,658,000	344,485,000	308,711,000
	143,701,000	144,472,000	128,238,000

Selling, general and administrative expenses	104,058,000	94,529,000	83,979,000
	39,643,000	49,943,000	44,259,000
Other income (expense):			
Interest expense	(2,192,000)	(1,803,000)	(1,942,000)
Interest income	1,312,000	1,885,000	929,000
Other, net	265,000	322,000	1,020,000
	(615,000)	404,000	7,000
Income from continuing operations before income taxes	39,028,000	50,347,000	44,266,000
Provision for income taxes (Note 1):			
State and foreign	2,483,000	3,558,000	3,330,000
Federal	12,738,000	17,084,000	14,376,000
	15,221,000	20,642,000	17,706,000
Income from continuing operations	23,807,000	29,705,000	26,560,000
Discontinued operations, net of income tax effect (Note 5):			
Operating loss	---	---	(537,000)
Provision for loss on disposal	---	---	(7,938,000)
	---	---	(8,475,000)
Net income	$ 23,807,000	$ 29,705,000	$ 18,085,000
Income per share of common stock (Note 1):			
Continuing operations	$ .71	$ .80	$ .70
Discontinued operations	--	--	(.22)
Net income	$ .71	$ .80	$ .48

<FN>
The accompanying notes to consolidated financial statements are an integral part of these statements.
</FN>

GRIFFON CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

	YEARS ENDED SEPTEMBER 30, 1995	1994	1993
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 23,807,000	$ 29,705,000	$ 18,085,000
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	8,670,000	9,754,000	9,458,000
Provision for losses on accounts receivable	990,000	805,000	627,000
Deferred income taxes	1,396,000	(133,000)	(1,593,000)
Loss from discontinued operations	---	---	10,681,000
Change in assets and liabilities:			
Increase in accounts receivable and contract costs and recognized income not yet billed	(12,059,000)	(1,477,000)	(16,922,000)
Increase in inventories	(6,431,000)	(12,385,000)	(8,702,000)
(Increase) decrease in prepaid expenses and other assets	(111,000)	(429,000)	513,000
Increase (decrease) in accounts			

payable, accrued liabilities and Federal income taxes	(3,205,000)	10,185,000	7,274,000
Other changes, net	(1,103,000)	(26,000)	195,000
Total adjustments	(11,853,000)	6,294,000	1,531,000
Net cash provided by operating activities	11,954,000	35,999,000	19,616,000
CASH FLOWS FROM INVESTING ACTIVITIES:			
Net (increase) decrease in marketable securities	17,530,000	(18,632,000)	(4,676,000)
Acquisition of property, plant and equipment	(8,080,000)	(9,241,000)	(8,438,000)
Net proceeds from sale of stock of affiliate	---	11,615,000	---
Acquired businesses	(7,758,000)	(1,946,000)	---
(Increase) decrease in equipment lease deposits and other	(801,000)	1,294,000	2,639,000
Net cash provided by (used in) investing activities	891,000	(16,910,000)	(10,475,000)

GRIFFON CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

	YEARS ENDED SEPTEMBER 30, 1995	1994	1993
CASH FLOWS FROM FINANCING ACTIVITIES:			
Purchase of treasury shares	(28,233,000)	(15,415,000)	(1,562,000)
Proceeds from issuance of long-term debt	---	7,100,000	4,500,000
Payment of long-term debt	(9,528,000)	(8,464,000)	(3,580,000)
Increase in short-term borrowings	6,500,000	---	---
Other, net	(587,000)	(117,000)	(40,000)
Net cash used in financing activities	(31,848,000)	(16,896,000)	(682,000)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(19,003,000)	2,193,000	8,459,000
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	28,659,000	26,466,000	18,007,000
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 9,656,000	$ 28,659,000	$ 26,466,000

<FN>
The accompanying notes to consolidated financial statements are an integral part of these statements.
</FN>

GRIFFON CORPORATION
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(DOLLARS IN THOUSANDS)

For the Years Ended September 30, 1995, 1994 and 1993

	SECOND PREFERRED STOCK, SERIES I SHARES	SECOND PREFERRED STOCK, SERIES I PAR VALUE	COMMON STOCK SHARES	COMMON STOCK PAR VALUE	CAPITAL IN EXCESS OF PAR VALUE	RETAINED EARNINGS	DEFERRED COMPENSATION	TREASURY SHARES SHARES	TREASURY SHARES COST
Balances, September 30, 1992	1,680,561	$420	39,109,878	$9,777	$99,637	$ 42,761	$1,875	3,457,884	$6,359
Amortization of deferred compensation	---	---	---	---	---	---	(577)	---	---
Cash dividend on Second Preferred Stock, Series I (Note 3)	---	---	---	---	---	(420)	---	---	---
Purchase of treasury shares (Note 3)	---	---	---	---	---	---	---	249,400	1,562
Exercise of stock options (Note 3)	---	---	186,500	47	302	---	---	---	---
Retirement of treasury shares	---	---	(3,504,384)	(876)	(5,700)	---	---	(3,504,384)	(6,576)
Other	(70)	---	11,350	3	(80)	---	---	---	---
Net income	---	---	---	---	---	18,085	---	---	---
Balances, September 30, 1993	1,680,491	420	35,803,344	8,951	94,159	60,426	1,298	202,900	1,345
Amortization of deferred compensation	---	---	---	---	---	---	(563)	---	---
Cash dividend on Second									

Preferred Stock, Series I (Note 3)	---	---	---	---	---	(420)	---	---	---
Purchase of treasury shares (Note 3)	---	---	---	---	---	---	---	1,930,600	15,415
Exercise of stock options (Note 3)	---	---	114,500	29	152	---	---	---	---
Retirement of treasury shares	---	---	(2,099,000)	(525)	(15,968)	---	---	(2,099,000)	(16,493)
Other	(3,362)	(1)	68,895	17	271	---	165	---	---
Net income	---	---	---	---	---	29,705	---	---	---
Balances, September 30, 1994	1,677,129	419	33,887,739	8,472	78,614	89,711	900	34,500	267
Amortization of deferred compensation	---	---	---	---	---	---	(570)	---	---
Cash dividend on Second Preferred Stock, Series I (Note 3)	---	---	---	---	---	(417)	---	---	---
Purchase of treasury shares (Note 3)	---	---	---	---	---	---	---	3,131,136	28,233
Exercise of stock options (Note 3)	---	---	236,000	59	427	---	---	---	---
Retirement of treasury shares	---	---	(3,002,840)	(751)	(26,472)	---	---	(3,002,840)	(27,223)
Other	(7,592)	(2)	(39,400)	(10)	(420)	---	94	---	---
Net income	---	---	---	---	---	23,807	---	---	---
Balances, September 30, 1995	1,669,537	$417	31,081,499	$7,770	$52,149	$113,101	$ 424	162,796	$ 1,277

<FN>
The accompanying notes to consolidated financial statements are an integral part of these statements.
</FN>

GRIFFON CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Consolidation

The consolidated financial statements include the accounts of Griffon Corporation (formerly Instrument Systems Corporation) and all subsidiaries. All significant intercompany items have been eliminated in consolidation.

Cash flows, investments and credit risk

Marketable securities consist primarily of U.S. government obligations and are carried at amortized cost which approximates market. Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities," establishes financial accounting and reporting standards for investments and was effective for the fiscal year beginning October 1, 1994. Adoption of this standard did not have a material effect on the Company's financial position or results of operations. The Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. Cash payments for interest expense were $2,162,000, $1,824,000 and $1,875,000 in 1995, 1994 and 1993, respectively.

A substantial portion of the Company's trade receivables are from customers of the home and commercial products segment whose financial condition is dependent on the construction and related retail sectors of the economy.

Accounting for long-term contracts

The Company records sales and gross profits on its long-term contracts on a percentage-of-completion basis. The Company determines sales and gross profits by (1) relating costs incurred to current estimates of total manufacturing costs of such contracts or (2) based upon a unit of shipment basis. General and administrative expenses are expensed as incurred. Revisions in estimated profits are made in the period in which the circumstances requiring the revision become known. Provisions are made currently for anticipated losses on uncompleted contracts.

"Contract costs and recognized income not yet billed" consists of recoverable costs and accrued profit on long-term contracts for which billings had not been presented to the customers because the amounts were not billable at the balance sheet date.

Inventories

Inventories, stated at the lower of cost (first-in, first-out or average) or market, include material, labor and manufacturing overhead costs, and are comprised of the following:

	SEPTEMBER 30, 1995	1994
Finished goods	$22,824,000	$16,664,000
Work in process	31,048,000	26,674,000
Raw materials and supplies	24,951,000	25,580,000
	$78,823,000	$68,918,000

Property, plant and equipment

Depreciation of property, plant and equipment is provided primarily on a straight-line basis over the estimated useful lives of the assets.

Leasehold improvements are amortized over the life of the lease or life of the improvement, whichever is shorter.

Property, plant and equipment consists of the following:

	SEPTEMBER 30, 1995	1994
Land, buildings and building improvements	$25,113,000	$27,304,000
Machinery and equipment	63,370,000	59,454,000
Leasehold improvements	8,251,000	7,975,000
	96,734,000	94,733,000
Less--Accumulated depreciation and amortization	48,333,000	44,843,000
	$48,401,000	$49,890,000

Maintenance and repair expense was $8,938,000, $8,208,000 and $8,096,000 in 1995, 1994 and 1993, respectively.

Acquisitions and costs in excess of fair value of net assets of businesses acquired ("Goodwill").

Goodwill is being amortized on a straight-line basis over a period of forty years. At September 30, 1995 and 1994, accumulated amortization of goodwill was $4,245,000 and $3,618,000, respectively.

In 1995 the Company acquired two companies involved in the installation of building products for an aggregate purchase price of $7,758,000. These acquisitions have been accounted for as purchases and resulted in an increase in goodwill of $3,650,000.

Subsequent to the end of fiscal 1995, the Company acquired a manufacturer of heavy rolling doors, sectional garage doors, grilles and other door products for commercial, industrial and residential applications. The business was acquired for approximately $19,000,000 and has annual sales of approximately $60,000,000.

Statement of Financial Accounting Standards No. 121, "Accounting for Long-Lived Assets and Long-Lived Assets to Be Disposed Of," establishes financial accounting and reporting standards for long-lived assets and is effective for the fiscal year beginning October 1, 1996. Adoption of this standard will not have a material effect on the Company's financial position or results of operations.

Income taxes

The components of income tax expense included in continuing operations were as follows:

	1995	1994	1993
Current	$13,825,000	$20,775,000	$17,093,000
Deferred	1,396,000	(133,000)	613,000
	$15,221,000	$20,642,000	$17,706,000

The primary components of deferred taxes result from differences in the reporting of depreciation, the allowance for doubtful accounts, and other non-deductible accruals.

Cash payments for income taxes were $19,882,000, $16,809,000 and $15,151,000 in 1995, 1994 and 1993, respectively.

The following table indicates the significant elements contributing to the difference between the U.S. Federal statutory tax rate and the effective tax rate:

	1995	1994	1993
U.S. Federal statutory tax rate	35.0%	35.0%	34.8%
State and foreign income taxes	4.1	4.6	4.9
Other	(.1)	1.4	.3
Effective tax rate	39.0%	41.0%	40.0%

Research and development costs

Research and development costs not recoverable under contractual arrangements are charged to expense as incurred. Approximately $4,400,000, $4,000,000 and $3,600,000 for 1995, 1994 and 1993, respectively, was incurred on such research and development.

Accrued liabilities

At September 30, 1995 and 1994, accrued liabilities included $12,931,000 and $13,856,000, respectively, for payroll and other employee benefits.

Income per share of Common Stock

Income per share is calculated using the weighted average number of shares of Common Stock outstanding during each period, adjusted to reflect the dilutive effect of shares issuable for common stock equivalents. Shares used in computing income per share were 33,629,000 in 1995, 37,102,000 in 1994 and 37,989,000 in 1993.

2. NOTES PAYABLE AND LONG-TERM DEBT:

At September 30, 1995 the Company had outstanding notes payable to banks of $6,500,000 under short-term lines of credit. Borrowings under the lines bear interest at rates (7.5% as of September 30, 1995) based on the London Interbank Offered Rate ("LIBOR"), or the prime rate.

The Company's long-term debt outstanding at September 30, 1995 relates primarily to real estate mortgages, with interest rates ranging from 8.0% to 8.7% and maturities through 2004.

The following are the maturities of long-term debt outstanding at September 30, 1995 for each of the succeeding five years:

1996	$ 573,000
1997	8,927,000
1998	279,000
1999	265,000
2000	265,000

During 1995 the Company entered into an eight-year loan agreement with two banks. The agreement provides for up to $60,000,000 of revolving credit for three years after which outstanding borrowings may be converted into a five-year term loan. Borrowings bear interest at rates based upon LIBOR or at the prime rate and are secured by the capital stock of one of the company's wholly-owned subsidiaries and the capital stock of newly acquired subsidiaries financed by borrowings under the loan agreement. In October 1995, $19,000,000 was drawn down under this credit agreement in connection with an acquisition (see Note 1).

3. SHAREHOLDERS' EQUITY:

In connection with its stock repurchase program covering up to 7,000,000 shares of common and preferred stock, the Company acquired 249,400 shares of Common Stock in 1993 for $1,562,000, 1,930,600 shares of Common Stock in 1994 for $15,415,000 and 3,131,136 shares of Common Stock in 1995 for $28,233,000. The 1995 purchases include approximately 3,000,000 shares of Common Stock acquired under a self-tender offer at a price of $8.75 per share.

The Company's Second Preferred Stock, Series I --

a) is convertible into Common Stock on the basis of one share of Common Stock for each share of Second Preferred Stock, Series I, subject to certain adjustments;

b) is redeemable at $10.00 per share at the option of the Company;

c) has a liquidation value of $10.00 per share; and

d) has the same voting rights and privileges as Common Stock.

The holders of Second Preferred Stock, Series I are entitled to receive for each share of Second Preferred Stock, an annual dividend of --

a) $.25 in cash; or

b) shares of Common Stock of the Company having a market value of $.25, but in no event more than one-quarter of a share of Common Stock per share of Second Preferred Stock.

The Board of Directors, at the time of the dividend declaration, shall determine (in its discretion) whether the dividend shall be in cash or Common Stock.

The Company has an Employee Stock Ownership Plan ("ESOP") which covers most of the Company's nonunion employees. The ESOP has a loan agreement, which is guaranteed by the Company, the proceeds of which were used to purchase equity securities of the Company. The outstanding balance of the loan has been reflected as a liability in the accompanying consolidated balance sheets with a like amount of deferred compensation recorded as a reduction of shareholders' equity.

The Company has three stock option plans under which options for an aggregate of 3,000,000 shares of Common Stock may be granted. The plans provide for the granting of options at an exercise price of not less than 100% of the fair market value per share at date of grant. Options generally expire five or

ten years after date of grant and become exercisable in installments as determined by the Board of Directors. Transactions under the plans are as follows:

	NUMBER OF SHARES	OPTION PRICE
Outstanding at September 30, 1993	1,051,000	$1.00 to $7.00
Granted	907,000	$7.125 to $9.125
Exercised	(114,500)	$1.00 to $7.00
Terminated	(1,500)	$7.00
Outstanding at September 30, 1994	1,842,000	$1.50 to $9.125
Granted	713,000	$7.50 to $8.625
Exercised	(236,000)	$1.625 to $7.00
Terminated	(22,250)	$7.00 to $8.625
Outstanding at September 30, 1995	2,296,750	$1.50 to $9.125

The outstanding options expire at various dates through 2005. Options for 844,500 shares are exercisable at September 30, 1995 at $1.50 to $9.125 per share. Outstanding options include grants in 1994 covering 680,000 shares of stock that do not become exercisable unless the market price of the Common Stock has attained an average price of $10 per share for 10 consecutive trading days, or 60 days before the options expire, whether or not the price target has been met. As of September 30, 1995, options for 638,750 shares were available for future grants.

The Company has an Outside Director Stock Award Plan (the "Outside Director Plan"), which was approved by the shareholders in 1994, under which 300,000 shares may be issued to non-employee directors. Annually, each eligible director is awarded shares of the Company's Common Stock having a value of $10,000 which vests over a three-year period. For shares issued under the Outside Director Plan, the fair market value of the shares at the date of issuance will be amortized to compensation expense over the vesting period. The related deferred compensation has been reflected as a reduction of shareholders' equity. In 1995 and 1994, 11,630 and 10,770 shares, respectively, were issued under the Outside Director Plan.

In April 1986, the Board of Directors declared a dividend distribution of one Common Stock purchase Right for each outstanding share of Common Stock. The Rights were amended in November 1994. These Rights will expire in 1996 unless redeemed earlier and, initially, will trade with the Common Stock. They are not presently exercisable and have no voting power. In the event a person acquires 15% or more, or makes a tender offer which if consummated would result in such person owning 15% or more of the Common Stock, the Rights detach from the Common Stock and become exercisable and entitle a holder to buy one-half of one share of Common Stock for $6.00 (adjustable to prevent dilution). If a person or group acquires beneficial ownership of 15% or more of the Company's outstanding Common Stock, each Right will entitle its holder (other than such person or group) to purchase, at the then-current exercise price of the Right, a number of shares of the Company's Common Stock having a market value of twice the then-current exercise price of the Right. In addition, if the Company is acquired in a merger or other business combination, each Right will entitle its holder to purchase, at the then-current exercise price, a number of the acquiring company's common shares having a market value of twice the then-current exercise price of the Right. Prior to the acquisition by a person or group of beneficial ownership of 15% or more of the Company's outstanding Common Stock, the Rights are redeemable for $.01 per Right at the option of the Board of Directors.

As of September 30, 1995, shares of the Company's authorized but unissued

Common Stock were reserved in connection with the following:

	SHARES
Conversion of outstanding Second Preferred Stock, Series I	1,669,537
Stock option and award plans	3,213,100
Exercise of Common Stock purchase warrants	226,414
Exercise of Common Stock purchase Rights	18,013,877
	23,122,928

4. COMMITMENTS AND CONTINGENCIES:

The Company and its subsidiaries rent real property and equipment under operating leases expiring at various dates. Most of the real property leases have escalation clauses related to increases in real property taxes.

Future minimum payments under noncancellable operating leases consisted of the following at September 30, 1995:

1996	$14,700,000
1997	12,800,000
1998	9,200,000
1999	7,400,000
2000	4,200,000
Later years	3,300,000

Rent expense for all operating leases, net of subleases, totalled approximately $18,900,000, $18,600,000 and $16,900,000 in 1995, 1994 and 1993, respectively.

The Company is subject to various laws and regulations concerning the environment, and is currently participating in administrative or court proceedings involving several sites under these laws, usually as one of a group of potentially responsible parties. These proceedings are at a preliminary stage, and it is impossible to estimate with any certainty the amount of the liability, if any, of the Company alone or in relation to that of any other responsible parties, or the total cost of remediation and the timing and extent of remedial actions which may ultimately be required by governmental authorities.

In view of the inherent difficulty in predicting the outcome of litigation and governmental proceedings, management cannot state what the eventual outcome of such litigation and proceedings will be. However, management believes, based on facts presently known to it, that the outcome of such litigation and proceedings will not have a material adverse effect on the Company's consolidated financial position or results of operations.

Two officers of the Company have employment agreements, as amended, for a term ending in 2000. The agreements provide for salary and, under certain conditions, incentive bonuses. The agreements also provide that in the event there is a change in the control of the Company, as defined therein, the officers have the option to terminate the agreements and receive a lump sum payment based upon the compensation payable over the balance of the agreements. As of September 30, 1995, the amount payable in the event of such termination would be approximately $32,000,000.

5. DISCONTINUED OPERATIONS:

During 1993, the Company decided to withdraw from the apparel business and sell its 25% interest in Oneita Industries, Inc.. The sale of the investment

was completed in October 1993 for approximately $11,600,000 and the financial statements reflect a related charge in 1993 of $7,938,000 (net of income tax effect of $1,930,000).

6. QUARTERLY FINANCIAL INFORMATION (UNAUDITED):

Quarterly results of operations for the years ended September 30, 1995 and 1994 are as follows:

	QUARTERS ENDED			
	SEPTEMBER 30, 1995	JUNE 30, 1995	MARCH 31, 1995	DECEMBER 31, 1994
Net sales	$157,410,000	$135,238,000	$120,149,000	$133,562,000
Gross profit	39,783,000	34,257,000	31,315,000	38,346,000
Net income	7,782,000	5,052,000	3,251,000	7,722,000
Income per share of common stock	$ .24	$ .15	$ .10	$ .22

	QUARTERS ENDED			
	SEPTEMBER 30, 1994	JUNE 30, 1994	MARCH 31, 1994	DECEMBER 31, 1993
Net sales	$141,658,000	$125,287,000	$105,857,000	$116,155,000
Gross profit	42,185,000	36,621,000	31,299,000	34,367,000
Net income	10,603,000	7,371,000	4,926,000	6,805,000
Income per share of common stock	$ .29	$ .20	$ .13	$ .18

7. BUSINESS SEGMENTS:

The Company's principal business segments are as follows -- Home and Commercial Products (manufacture and sale of garage doors and other building products, hardware primarily for the food service industry, and synthetic batting); Electronic Information and Communication Systems (communication and information systems for government and commercial markets); and Specialty Plastic Films (manufacture and sale of plastic films for baby diapers, adult incontinence care products and disposable surgical and patient care products).

Information on the Company's business segments is as follows:

	SEPTEMBER 30,		
	1995	1994	1993
Net sales --			
Home and commercial products	$339,333,000	$280,342,000	$230,809,000
Electronic information and communication systems	95,816,000	94,001,000	92,835,000
Specialty plastic films	111,210,000	114,614,000	113,305,000
	$546,359,000	$488,957,000	$436,949,000
Operating income --			
Home and commercial products	$ 26,177,000	$ 25,103,000	$ 21,569,000
Electronic information and communication systems	9,145,000	9,577,000	9,514,000
Specialty plastic films	9,006,000	20,752,000	18,737,000
Total operating income	44,328,000	55,432,000	49,820,000
General corporate expenses	(4,420,000)	(5,167,000)	(4,541,000)
Interest income (expense), net	(880,000)	82,000	(1,013,000)

Income from continuing operations before income taxes	$ 39,028,000	$ 50,347,000	$ 44,266,000
Identifiable assets --			
Home and commercial products	$127,087,000	$112,799,000	$ 96,198,000
Electronic information and communication systems	99,138,000	86,962,000	89,264,000
Specialty plastic films	40,003,000	43,205,000	41,592,000
Corporate	19,388,000	50,249,000	43,216,000
	$285,616,000	$293,215,000	$270,270,000
Capital expenditures --			
Home and commercial products	$ 4,719,000	$ 6,446,000	$ 2,831,000
Electronic information and communication systems	2,320,000	1,941,000	2,231,000
Specialty plastic films	929,000	793,000	3,374,000
Corporate	112,000	61,000	2,000
	$ 8,080,000	$ 9,241,000	$ 8,438,000
Depreciation and amortization --			
Home and commercial products	$ 3,668,000	$ 3,284,000	$ 2,799,000
Electronic information and communication systems	2,533,000	3,150,000	3,277,000
Specialty plastic films	2,273,000	3,169,000	3,194,000
Corporate	196,000	151,000	188,000
	$ 8,670,000	$ 9,754,000	$ 9,458,000

Sales to the United States Government and its agencies, either as a prime contractor or subcontractor, aggregated approximately $52,000,000 for 1995, $62,000,000 for 1994 and $60,000,000 for 1993, all of which are included in the electronic information and communication systems segment. Sales between business segments are not material. In computing operating income, none of the following have been added or deducted -- general corporate expenses, net interest income or expense and income taxes. Assets by business segment are those identifiable assets that are used in the Company's operations in each segment. Corporate assets are principally cash and marketable securities. Included in capital expenditures in 1994 of the home and commercial products segment was $4,200,000 for the purchase of a building that was previously leased.

ITEM NINE - DISAGREEMENTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

The information required by Part III is incorporated by reference to the Company's definitive proxy statement in connection with its Annual Meeting of Stockholders scheduled to be held in February, 1996, to be filed with the Securities and Exchange Commission within 120 days following the end of the Company's fiscal year ended September 30, 1995. Information relating to the officers of the Registrant appears under Item I of this report.

PART IV

ITEM FOURTEEN - EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

The following consolidated financial statements of Griffon Corporation and subsidiaries are included in Item 8:

(a) 1. Financial Statements

(a) 2. Schedule

(1) Schedules other than those listed are omitted because they are not applicable or because the information required is included in the consolidated financial statements.

(b) Reports on Form 8-K:

None.

(c) Exhibits:

Exhibit No.

3.1 Restated Certificate of Incorporation

3.2 By-laws as amended (Exhibit 3 of Current Report on Form 8-K dated November 8, 1994)

4.1 Amendment to Rights Agreement dated as of November 8, 1994 between Registrant and American Stock Transfer Company (Exhibit 4.1 of Current Report on Form 8-K dated November 8, 1994)

4.2 Loan Agreement dated June 8, 1995 between the Registrant and lending institutions

10.1 Employment Agreement dated March 1, 1983 between the Registrant and Robert Balemian, as amended (Exhibit 10 of Current Report on Form 8-K dated March 1, 1983, Exhibit 10 of Current Report on Form 8-K dated March 2, 1983, Exhibit 10(a) of Current Report on Form 8-K dated March 15, 1984, Exhibit 10 of Current Report on Form 8-K dated May 4, 1987, Exhibit 10(a) of Current Report on Form 8-K dated February 13, 1989, Exhibit 10 of Current Report on Form 8-K dated February 28, 1990, Exhibit 10 of Current Report on Form 8-K dated February 25, 1991 and Exhibit 10 of Current Report on Form 8-K dated May 28, 1991)

10.2 Employment Agreement dated March 1, 1983 between the Registrant and Harvey R. Blau, as amended (Exhibit 10 of Current Report on Form 8-K dated March 1, 1983, Exhibit 10 of Current Report on Form 8-K dated March 2, 1983, Exhibit 10(b) of Current Report on

Form 8-K dated March 15, 1984, Exhibit 10 of Current Report on Form 8-K dated May 4, 1987, Exhibit 10(a) of Current Report on Form 8-K dated February 13, 1989, and Exhibit 10 of Current Report on Form 8-K dated February 28, 1990, Exhibit 10 of Current Report on Form 8-K dated February 25, 1991 and Exhibit 10 of Current Report on Form 8-K dated May 28, 1991)

10.3 Form of Trust Agreement between the Registrant and U.S. Trust Company of California, N.A., as Trustee, relating to the Company's Employee Stock Ownership Plan (Exhibit 10.3 of Annual Report on Form 10-K for the year ended September 30, 1994)

10.4 Warrant Agreement to Officer (Exhibit 28 of Current Report on Form 8-K dated March 2, 1983)

10.5 1992 Non-Qualified Stock Option Plan (Exhibit 10.10 of Annual Report on Form 10-K for the year ended September 30, 1993)

10.6 Non-Qualified Stock Option Plan (Exhibit 10.12 of Annual Report on Form 10-K for the year ended September 30, 1988)

10.7 Form of Indemnification Agreement between the Registrant and its officers and directors (Exhibit 28 to Current Report on Form 8-K dated May 3, 1990)

10.8 Outside Director Stock Award Plan (Exhibit 4 of Form S-8 Registration Statement No. 33-52319)

10.9 1995 Stock Option Plan (Exhibit 4 of Form S-8 Registration Statement No. 33-57683)

21 The following lists the Company's significant subsidiaries all of which are wholly-owned by the Company. The names of certain subsidiaries which do not, when considered in the aggregate constitute a significant subsidiary, have been omitted.

Name of Subsidiary	State of Incorporation
Clopay Corporation	Delaware
Telephonics Corporation	Delaware
Standard-Keil Industries, Inc.	Delaware
Lightron Corporation	Delaware

23 Consent of Arthur Andersen LLP

27 Financial Data Schedule (for electronic submission only)

99 Additional Exhibit

The following undertakings are incorporated into the Company's Registration Statements on Form S-8 (Registration Nos. 2-82183, 2-99536, 33-14259, 33-39090, 33-62966, 33-52319 and 33-57683).

(a) The undersigned registrant hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:

(i) To include any prospectus required by Section 10(a)(3) of the Securities Act of 1933;

(ii) To reflect in the prospectus any fact or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement;

(iii) To include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement;

Provided, however, that paragraphs (a)(1)(i) and (a)(1)(ii) do not apply if the registration statement is on Form S-3 or Form S-8, and the information required to be included in a post-effective amendment by those paragraphs is contained in periodic reports filed by the registrant pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934 that are incorporated by reference in the registration statement.

(2) That, for the purpose of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

(b) The undersigned registrant hereby undertakes that, for purposes of determining any liability under the Securities Act of 1933, each filing of the registrant's annual report pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (and, where applicable, each filing of an employee benefit plan's annual report pursuant to Section 15(d) of the Securities Exchange Act of 1934) that is incorporated by reference in the registration statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(i) Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on the 17th day of November, 1995.

GRIFFON CORPORATION

By: Harvey R. Blau

Harvey R. Blau
Chairman of the Board

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below on November 17, 1995 by the following persons in the capacities indicated:

Harvey R. Blau - --- Harvey R. Blau	Chairman of the Board (Principal Executive Officer)
Robert Balemian - ---	President and Director (Principal Operating and Financial Officer)

Robert Balemian

Patrick L. Alesia - ---------- Patrick L. Alesia	Vice President and Treasurer (Chief Accounting Officer)
Henry A. Alpert - ---------- Henry A. Alpert	Director
Bertrand M. Bell - ---------- Bertrand M. Bell	Director
Robert Bradley - ---------- Robert Bradley	Director
Abraham M. Buchman - ---------- Abraham M. Buchman	Director
Clarence A. Hill, Jr. - ---------- Clarence A. Hill, Jr.	Director
Ronald J. Kramer - ---------- Ronald J. Kramer	Director
James W. Stansberry - ---------- James W. Stansberry	Director
Martin S. Sussman - ---------- Martin S. Sussman	Director
William H. Waldorf - ---------- William H. Waldorf	Director
Lester L. Wolff - ---------- Lester L. Wolff	Director

SCHEDULE II

GRIFFON CORPORATION AND SUBSIDIARIES

SCHEDULE II -- VALUATION AND QUALIFYING ACCOUNTS

FOR THE YEARS ENDED SEPTEMBER 30, 1995, 1994 AND 1993

Description	Balance at Beginning of Period	Additions: Charged to Profit and Loss	Additions: Charged to Other Accounts	Deductions: Accounts Written Off	Balance at End of Period
FOR THE YEAR ENDED SEPTEMBER 30, 1995:					
Allowance for doubtful accounts	$3,659,000	$990,000	$179,000 (1)	$1,101,000	$3,727,000

FOR THE YEAR ENDED SEPTEMBER 30, 1994:					
Allowance for doubtful accounts	$3,860,000	$805,000	$ 95,000 (2)	$1,101,000	$3,659,000
FOR THE YEAR ENDED SEPTEMBER 30, 1993:					
Allowance for doubtful accounts	$3,913,000	$627,000	$ 38,000 (2)	$ 718,000	$3,860,000

<FN>

(1) Principally related to an acquired company.

(2) Recoveries of amounts previously written off.

</FN>

RESTATED CERTIFICATE OF INCORPORATION

OF

INSTRUMENT SYSTEMS CORPORATION

* * * * *

INSTRUMENT SYSTEMS CORPORATION, a corporation organized and existing under the laws of the State of Delaware, hereby certifies as follows:

1. The name of the corporation is INSTRUMENT SYSTEMS CORPORATION. The name under which the corporation was originally incorporated in Delaware is INSTRUMENT SYSTEMS CORPORATION. The date of filing the corporation's original Certificate of Incorporation with the Secretary of State of the State of Delaware was December 29, 1970.

2. The text of the Certificate of Incorporation of the corporation as amended or supplemented herewith is hereby restated to read as herein set forth in full:

"FIRST: The name of the corporation is

INSTRUMENT SYSTEMS CORPORATION.

SECOND: The registered office of the corporation in the State of Delaware is located at 1209 Orange Street, in the City of Wilmington, County of New Castle. The name and address of its registered agent is The Corporation Trust Company, Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware 19801.

THIRD: The purpose of the corporation is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of the State of Delaware.

FOURTH: The total number of shares of all classes of stock which the corporation shall have the authority to issue is eighty-eight million (88,000,000) shares. Of these (i) eighty-five million (85,000,000) shares shall be shares of Common Stock of the par value of Twenty-Five Cents ($.25) per share; (ii) three million (3,000,000) shares shall be Serial Preferred Stock of the par value of Twenty-Five Cents ($.25) per share, of which thirty-seven thousand (37,000) shares shall consist of Series A Preferred Stock, Twenty-Five Cents ($.25) par value, and one million nine hundred fifty thousand (1,950,000) shares shall consist of Second Preferred Stock, Twenty-Five Cents ($.25) par value. One million nine hundred fifty thousand (1,950,000) shares of such Second Preferred Stock shall be Second Preferred Stock - Series I.

The relative rights, powers, preferences and privileges of the Series A Preferred Stock, Twenty-Five Cents ($.25) par value, Second Preferred Stock, Twenty-Five Cents ($.25) par value, and Second Preferred Stock - Series I, Twenty-Five Cents ($.25) par value, shall be as follows:

PROVISIONS RELATING TO THE SERIES A PREFERRED STOCK

A. The number of shares which shall constitute the authorized shares of Series A Preferred Stock shall be thirty-seven thousand (37,000) and such number shall not be increased.

B. The Series A Preferred Stock shall be entitled to

receive dividends of $.01 per share per annum.

C. The corporation may, at its option, at any time and from time to time, redeem the whole or any part of the Series A Preferred Stock at a price of One Hundred and 00/100 Dollars ($100.00) per share in cash. The corporation shall, on or prior to any date of redemption of Series A Preferred Stock, deliver to the Series A Preferred Stock Agent designated in paragraph G hereof (the "Series A Preferred Stock Agent") to be held by such Agent in trust for the account of the holders of the shares of Series A Preferred Stock so to be redeemed, all funds necessary for such redemption; and, thereupon, all shares of Series A Preferred Stock with respect to which such delivery shall have been made shall no longer be deemed to be outstanding and all rights with respect to such shares of Series A Preferred Stock shall forthwith upon such delivery cease and terminate, except only the right of the holders thereof to receive from the Series A Preferred Stock Agent, at any time on or after the redemption date, the cash which constitutes the consideration for the redemption of such shares so to be redeemed, upon surrender of the certificate therefor by the Series A Preferred Stock Agent. Payment by the corporation in any redemption of Series A Preferred Stock shall be effected by the payment to the Series A Preferred Stock Agent of such sum by certified or bank cashier's check payable to the order of the Series A Preferred Stock Agent in New York Clearing House funds. Unless all the holders of the shares of Series A Preferred Stock outstanding otherwise agree in writing, shares of Series A Preferred Stock shall be redeemed pro rata.

D. In the event of any liquidation, dissolution or winding up of the corporation, whether voluntary of involuntary, before any distribution or payment shall be made to the holders of any other class of capital stock, the holders of the shares of Series A Preferred Stock shall be entitled to be paid out of the assets of the corporation available for distribution to its shareholders, the sum on One Hundred and 00/100 Dollars ($100.00) per share in cash and thereafter, the holders of the shares of Series A Preferred Stock shall be entitled to no further payment or distribution. The holders of the shares of Series A Preferred Stock shall rank pari passu with the holders of shares of Preferred Stock of the corporation having the most senior preference in any liquidation, dissolution or winding up of the corporation. The sale or lease of the properties and assets of the corporation substantially as an entirety shall not be deemed to be a liquidation, dissolution or winding up of the corporation.

E. The corporation may consolidate or merge into any other corporation or convey or transfer its properties and assets substantially as an entirety to any person without the consent of the holders of shares of Series A Preferred Stock only if such holders shall be entitled at their option, exercisable in the manner set forth below, to exchange the Series A Preferred Stock in

any such consolidation, merger, conveyance or transfer for either (i) shares of a Preferred Stock of any such successor corporation containing substantially the same rights, powers, preferences, privileges, qualifications, limitations and restrictions as the Series A Preferred Stock, or (ii) the stock securities or other property which such holders would have been entitled to receive upon such consolidation, merger, conveyance or transfer if such holders had held immediately prior to such consolidation, merger, conveyance or transfer, a number of shares of Common Stock of the corporation having an aggregate Market Value equal to the aggregate redemption value of the shares of Series A Preferred Stock then outstanding. Promptly after the execution of any agreement providing for the consolidation or merger of the corporation or the conveyance or transfer of its properties or assets substantially as an entirety, the corporation shall deliver to the Series A

Preferred Stock Agent an executed counterpart thereof. The option shall be exercised within thirty days after the receipt of said Agreement by the Series A Preferred Stock Agent. For the purpose of this paragraph E, Market Value of the shares of Common Stock of the corporation shall mean the average of the closing prices of such shares on the New York or American Stock Exchange during the twenty-day period preceding the date of any such consolidation, merger, conveyance or transfer or, if such shares are not traded on either such Exchange, the average of the bid prices for such shares during such twenty-day period as reported by the National Stock Quotation Bureau.

At least ten (10) days prior to the effective or closing date of any consolidation, merger, conveyance or transfer, notice shall be given by the corporation to the Series A Preferred Stock Agent by registered mail. The exchange shall be effected by the surrender to the corporation by the Series A Preferred Stock Agent of the certificate or certificates representing the shares of Series A Preferred Stock to be exchanged, accompanied by a written request for the exchange of such shares into the securities for which they are being exchanged and a written instrument of transfer in form reasonably satisfactory to the corporation, duly executed by the Series A Preferred Stock Agent. As promptly as practicable after such surrender, the corporation shall deliver to or upon the written order of the Series A Preferred Stock Agent certificates, debentures, bonds or such other instruments representing the securities for which such shares of Series A Preferred Stock are being exchanged. Such exchange shall be deemed to have been made at the close of business on the date that such Series A Preferred Stock shall have been surrendered for exchange, so that the rights of the holder of such Series A Preferred Stock as a Preferred stockholder shall cease at such time and the person or persons entitled to receive the securities to be issued or delivered upon exchange of such Series A Preferred Stock shall be treated for all purposes as having become the record holder or holders of such securities on such date.

No fractional shares or scrip representing fractional shares or denominations of debentures less than One Thousand Dollar ($1,000.00) shall be issued upon the exchange of any Series A Preferred Stock. If the exchange on any such Series A Preferred Stock results in a fractional share or in a fraction of a One Thousand Dollar ($1,000.00) debenture, an amount equal to such fraction multiplied by the Market Value of such share or One

Thousand Dollar ($1,000.00) debenture shall be paid to the Series A Preferred Stock Agent for the benefit of the holder in cash by the Corporation. The issuance or delivery of securities in exchange for Series A Preferred Stock shall be made without charge to the exchanging shareholder for any tax in respect of the issuance or delivery of such securities, and such securities shall be issued in the respective names of, or in such names as may be directed by, the Series A Preferred Stock Agent.

F. Each share of Series A Preferred Stock shall have the right and power to vote on any question or in any proceeding and to be represented at and to receive notice of any meeting of shareholders of the Corporation. On any matters on which the holders of the Series A Preferred Stock shall be entitled to vote, they shall be entitled to one (1) vote for each share held. The holders of the Series A Preferred Stock and the Common Stock of the Corporation shall vote together and not as separate classes except as otherwise herein specifically provided and except that the holders of Series A Preferred Stock shall be entitled to vote as a class for the approval or rejection of those matters which under the provisions of the laws of the State of Delaware governing business corporations require approval of a designated portion of the shares of such class or series.

So long as any of the shares of Series A Preferred Stock are outstanding, the corporation shall not, without the consent of the holders of seventy-five percent (75%) of the total number of outstanding shares of Series A Preferred Stock, by affirmative vote of such holders voting as one (1) class in person or by proxy at a meeting duly called for that purpose, (i) authorize the issuance of any class of capital stock having a par value greater than Twenty-five Cents ($.25) per share provided, however, that such restriction shall not be deemed to apply to the authorized and outstanding series of capital stock issued by a successor corporation which through consolidation, merger, conveyance or transfer has acquired all of the outstanding capital stock of, or the properties and assets substantially as an entirety of the corporation, if such successor corporation shall have assumed all of the obligations of the corporation hereunder and has succeeded to and has been substituted for the corporation with the same effect as if it had been named herein in lieu of the corporation, and provided further, that such successor corporation shall not prior to any such consolidation, merger, conveyance or transfer directly or indirectly control or be controlled by or be under direct or indirect common control with the corporation, or (ii) amend, alter or repeal any of the provisions hereof, or take any such other actions which adversely affect the rights, powers, privileges or preferences of the shares of Series A Preferred Stock or the holders thereof.

G. The holders of the Series A Preferred Stock hereby initially appoint Seymour I. Gussack as Series A Preferred Stock Agent, hereby granting to said Agent and his successors full power and authority to: (i) give any and all requests, directions, orders and demands as may be required or as in his sole discretion seems appropriate under any of the provisions herein, and (ii) make all such other determinations as the Series A Preferred Stock Agent shall deem necessary or desirable to carry out the provisions herein; and the corporation shall be required to look only to any

such requests, directions, orders, demands and determinations; provided, however, that the corporation may rely, shall be protected in, and shall incur no liability to the holders of the Series A Preferred Stock for acting or refraining from acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, consent, order or other paper or document delivered by it to be genuine and to have been signed or presented by the Series A Preferred Agent. Any request, direction, order, demand or determination of the Series A Preferred Stock Agent mentioned herein shall be sufficiently evidenced by an instrument in writing signed by the Series A Preferred Stock Agent.

The holders of the Series A Preferred Stock who own more than seventy-five percent (75%) of the Series A Preferred Stock outstanding may at any time remove the Series A Preferred Stock Agent and, in the event of the removal, death, disability or resignation of such Agent, the holders who own more than 75% of the Series A Preferred Stock outstanding shall within thirty days thereafter appoint, either by designation in writing or by vote of the holders of the Series A Preferred Stock at a meeting called for such purpose on ten (10) days' notice to the holders of the Series A Preferred Stock at their respective addresses as the same shall appear on the Series A Preferred Stock Registry Book, a new Series A Preferred Stock Agent by serving a copy of such designation or of the results of the vote at such meeting on the Corporation, and such designation shall be binding upon the corporation and the holders of the Series A Preferred Stock outstanding, and the Series A Preferred Stock Agent so designated shall have and may exercise all of the rights and powers of the initial Series A Preferred Stock Agent designated herein and the corporation may rely on, shall be fully protected, and incur no liability in respect of any

request, direction, order, demand and determination of any such successor Series A Preferred Stock Agent as aforesaid.

PROVISIONS RELATING TO THE SECOND PREFERRED STOCK

A. The Second Preferred Stock may be issued from time to time in one or more series, each of such series to have such terms as are stated and expressed herein and in the resolution or resolutions providing for the issue of such series adopted by the Board of Directors as hereinafter provided.

B. The Board of Directors, subject to the provisions hereof, may classify or reclassify into a series any unissued shares of the Second Preferred Stock by fixing or altering in any one or more respects, from time to time before issuance of such unissued shares:

(i) The distinctive designation of such series and the number of shares to constitute such series, provided that, unless otherwise stated in any such resolution or resolutions, such number of shares may be decreased by the Board of Directors in connection with any classification or reclassification of unissued shares of the Second Preferred Stock and such number of shares may be increased by the Board of Directors in connection with any classification or reclassification of unissued shares of the Second Preferred Stock;

(ii) Whether or not the shares of such series shall pay dividends;

(iii) Whether or not the dividends on the shares of such series shall accumulate;

(iv) The annual dividend rate (if any) on the shares of such series and the date or dates from which dividends shall (if at all) accumulate thereon;

(v) The times and prices of redemption (if any) of the shares of such series which the holders of shares of such series shall be entitled to receive upon the redemption thereof, which prices may vary at different redemption dates and may also be different with respect to shares redeemed through the operation of any retirement or sinking fund than with respect to shares otherwise redeemed;

(vi) The amount which the holders of shares of such series shall be entitled to receive upon the liquidation, dissolution or winding up of the corporation;

(vii) Whether or not the shares of such series shall be subject to the operation of a retirement or sinking fund, and, if so, the extent to and the manner in which the fund shall be applied to the purchase or redemption of the shares of such series for retirement or to other corporate purposes and the terms and provisions relative to the operation thereof;

(viii) The limitations and restrictions, if any, to be effective while any shares of such series are outstanding, upon the payment of dividends or making of other distributions on, and upon the purchase, redemption or other acquisition by the corporation, or any subsidiary, of the Common Stock or any other class of stock of the corporation ranking junior to the shares of such series;

(ix) Such other preferences and relative, participating, optional or other special rights, and qualifications, limitations or restrictions thereof as shall not be inconsistent herewith.

C. All shares of any one series of the Second Preferred Stock shall be identical with each other in all respects, except that shares of any one series issued at different times may differ as to the date from which dividends thereon shall be cumulative; and all series shall rank equally and be identical in all respects, except as permitted by the foregoing provisions of paragraph B hereof.

D. In addition to the voting powers provided in paragraph N hereof, the holders of the Second Preferred Stock shall be entitled to cast one (1) vote for each share of the Second Preferred Stock held by them on all matters upon which stockholders have the right to vote, such vote to be counted together with those for any other shares of the capital stock having general voting powers and not separately as a class or group.

E. (i) Subject to any requirements for the listing of the Common Stock issuable on conversion with the American Stock Exchange (or any securities exchange with which the Common Stock of the corporation is then listed, hereinafter the "Exchange"), if such listing is required, the shares of the Second Preferred Stock may be converted at any time, or from time to time into the corporation's fully paid and nonassessable Common Stock, as hereinafter set forth: At the election of the holders thereof, each share of the Second Preferred Stock may be converted into the corporation's fully paid and nonassessable Common Stock, at a conversion rate equivalent to one (1) share of the Second Preferred Stock for ten (10) shares of Common Stock.

(ii) The conversion rate shall be subject to adjustment from time to time as follows, which adjustment shall be made to the nearest one hundredth (1/100th) of a share of Common Stock:

(a) If the Corporation shall pay to the holders of the Common stock a dividend in shares of Common Stock, the conversion rate in effect immediately prior to such dividend shall be proportionately adjusted, effective at the opening of business on the next following full business day after payment of such dividend.

(b) If the shares of Common Stock shall be subdivided into a greater or combined into a lesser number of shares of Common Stock (whether with or without par value), the conversion rate in effect immediately prior to such subdivision or combination shall be proportionately adjusted, effective at the opening of business on the next following full business day after the effective date of such subdivision or combination.

The surrender of shares of the Second Preferred Stock for conversion shall be made by the holder thereof to the corporation at its principal office, and such holder shall give written notice to the corporation at such office that he elects to convert said shares in accordance with the provisions hereof. Such notice shall also state the name or names (with addresses) in which the certificate or certificates for Common Stock which shall be issuable on such conversion shall be issued. As soon as practicable after receipt of such notice and shares of the Second Preferred Stock, the corporation shall issue and shall deliver at said office to the person for whose account such shares were so surrendered, or on his written order, a certificate or certificates for the number of full shares of Common Stock issuable

upon the conversion of such shares. In the event that the number of shares of Common Stock into which each share of the Second Preferred Stock shall be converted by any one holder at any one time shall include a fraction of a share of Common Stock, unless the Board of Directors shall otherwise determine, no certificates for fractional shares of Common Stock shall be issued, but in lieu thereof, the corporation may either round up such

fractional shares to the next whole share or pay in cash at a price proportional to the then Market Value of one (1) share of the corporation's Common Stock. The calculation of any fractional share interest shall be made to the nearest one hundredth (1/100th) of one (1) share of Common Stock for the aggregate number of shares of the Second Preferred Stock surrendered for conversion by any one holder thereof at any one time. For the purpose of this subparagraph (ii), the term "Market Value" shall mean the last reported sales price for shares of Common Stock of the corporation on the American Stock Exchange on such date. In the event there was no reported sale of the corporation's Common Stock on such date, "Market Value" shall mean the mean between the bid and ask quotations for the corporation's common stock at the close of trading on the American Stock Exchange on such date. Any such conversion shall be deemed to have been effected on the date on which the corporation shall have received such notice and such shares, and the person or persons in whose name or names any certificate or certificates for Common Stock shall be issuable upon such conversion shall be deemed to have become on said date the holder or holders of record of the shares represented thereby; provided, however, that any such surrender on any date when the stock transfer books of the corporation shall be closed shall not be deemed to constitute the person or persons in whose name or names the certificates for such Common Stock are to be issued as the record holder or holders thereof for any purpose until the close of business on the next succeeding day on which such stock transfer books shall be opened. If shares of the Second Preferred Stock shall be called for redemption, the right to convert said shares shall terminate and expire on the close of business on the date fixed for its redemption, unless the corporation shall default in the payment of the redemption price of such shares.

(c) Whenever at any time and from time to time there shall occur any event calling for an adjustment of the conversion rate, as provided in this subparagraph (ii), the corporation shall promptly file with the Transfer Agent for the shares of the Second Preferred Stock a certificate signed by its President or a Vice-President and its Treasurer or an Assistant Treasurer setting forth in detail the computation of such adjustment and the new adjusted conversion rate.

(d) In no event upon any conversion of the shares of the Second Preferred Stock into Common Stock shall any allowance or adjustment be made for dividends on the shares of the Second Preferred Stock, whether accrued, accumulated or unpaid. Also, no adjustment shall be made in respect of dividends (whenever declared or paid), except stock dividends as hereinabove provided in paragraph E (ii)(a) hereof, on the shares of Common Stock issuable upon conversion.

(iii) (a) In case of any capital reorganization or any reclassification of the shares of Common Stock of

the corporation or in case of a consolidation or merger of the corporation into another corporation, or in case of any sale, lease or conveyance to another corporation of all or substantially all of the assets of the corporation as an entirety, then as part of such reorganization, reclassification then as part of such reorganization, reclassification, consolidation, merger, sale, lease or conveyance, as the case may be, lawful provision shall be made so that the holders of the shares of the Second Preferred Stock shall have the right to convert each share thereof into the kind and amount of shares of stock or other securities or property to which a holder of a share of Common Stock of the corporation (into which such share of the Second Preferred Stock is convertible might have been converted, if such share of the Second Preferred Stock had been surrendered for conversion immediately prior to such reorganization, reclassification, consolidation, merger, sale, lease or conveyance) is entitled upon such reorganization, reclassification, consolidation, merger, sale, lease or conveyance. The above provision of this clause (a) of this paragraph E (iii) shall similarly apply to successive capital reorganizations, or reclassifications of the corporation and to successive reorganizations or reclassifications, consolidations, mergers, sales, leases or conveyances of or by any such successor or purchasing corporation or corporations. Any such capital reorganizations, reclassification, consolidation, merger, sale, lease or conveyance shall not be deemed a liquidation, dissolution, or winding up of the corporation within the meaning of clause (c) of this paragraph E (iii).

(b) In the event of any payment of dividends or making of any distribution on the Common Stock of the corporation, the corporation shall give at least 20 days' prior notice thereof to each holder of record of shares of the Second Preferred Stock. Such notice shall state the date on which such dividends or distribution is proposed to be effected.

(c) In the case of any liquidation, dissolution or winding up of the corporation, whether voluntary or involuntary, all conversion rights of any holders of shares of the Second Preferred Stock shall terminate on a date to be fixed by the Board of Directors, such date so fixed to be not less than 10 days nor more than 30 days prior to the date such liquidation, dissolution or winding up is to become effective.

(d) In the case of the liquidation, dissolution or winding up of the corporation, notice thereof shall be given at least 30 days prior to the date fixed by the Board of Directors for the termination of the conversion rights of the shares of the Second Preferred Stock as above provided. Such notice shall state the date on which all conversion rights of the

holders of the shares of the Second Preferred Stock shall terminate prior to liquidation, dissolution or winding up of the corporation, as hereinabove, provided, and the date on which such liquidation, dissolution or winding up shall take place.

(iv) The Corporation will pay any and all issue and other taxes which may be payable in respect of any issue or delivery of shares of the Common Stock on conversion of the Second Preferred Stock pursuant hereto. The Corporation shall not,

however, be required to pay any tax which may be payable in respect of any transfer involved in the issue and delivery of the Common Stock in the name other than that in which the Second Preferred Stock was converted or registered, and no such issue or delivery shall be made unless and until the person requesting such issue has paid to the Corporation the amount of any such tax or has established to the satisfaction of the corporation that such tax has been paid.

F. Before any dividends on any series of the Second Preferred Stock which does not have an annual dividend fixed in the Board of Directors' resolution or resolutions providing for the issue of such series or on any class of stock of the corporation ranking junior to the Second Preferred Stock as to dividends, shall be declared or paid or set apart for payment, the holders of shares of the Second Preferred Stock of each series having an annual dividend fixed in the Board of Directors' resolution or resolutions providing for the issue of such series, shall be entitled to receive dividends, but only when and as declared by the Board of Directors out of funds legally available therefor, at the annual rate, and no more, fixed in the Board of Directors' resolution or resolutions providing for the issue of such series payable annually in each year on such dates as may be fixed in the Board of Directors' resolution or resolutions providing for the issue of such series to holders of record on the respective dates not exceeding 40 days preceding such dividend payment dates as may be determined by the Board of Directors in advance of the payment of each particular dividend. With respect to each series of the Second Preferred Stock having an annual dividend fixed in the Board of Directors' resolution or resolutions providing for the issue of such series, such dividends shall be cumulative from the date or dates fixed in the Board of Directors' resolution or resolutions providing for the issue of such series. No dividends shall be declared on any series of the Second Preferred Stock having an annual dividend fixed in the Board of Directors' resolution or resolutions providing for the issue of such series in respect of any annual dividend period unless there shall likewise be or have been declared on all shares of the Second Preferred Stock of each other series having an annual dividend fixed in the Board of Directors' resolution or resolutions providing for the issue of such series at the time outstanding dividends for all annual dividend periods coinciding with or ending before such annual dividend period, ratably in proportion to the respective annual dividend rates per annum fixed therefor as hereinbefore provided. Accruals of dividends shall not bear interest.

G. In the event of any liquidation, dissolution or winding up of the Corporation, before any payment or distribution of the assets of the Corporation (whether capital or surplus) shall be made to or set apart for the holders of any class of stock of the Corporation ranking junior to the Second Preferred Stock upon liquidation, the holders of the shares of the Second Preferred Stock shall be entitled to receive the amount payable on liquidation for such series as fixed by the resolutions establishing such series, plus an amount equal to all dividends (whether or not earned or declared) accrued and unpaid thereon (if any) to the date of final distribution to such holders; but they shall be entitled to no further payment. If, upon any liquidation, dissolution or winding up of the corporation, the assets of the corporation, or proceeds thereof, distributable among the holders of the shares of the Second Preferred Stock shall be insufficient to pay in full the preferential amount aforesaid, then such assets, or the proceeds thereof, shall be distributed among such holders ratably in accordance with the respective amounts which would be payable on such shares if all amounts payable thereon were paid in full. For the purposes of this paragraph G, the voluntary sale, lease, exchange or transfer (for cash, shares of stock, securities, or other consideration) of all or

substantially all of its property or assets to, or a consolidation or merger of the corporation with, one or more corporations, shall not be deemed to be a liquidation, dissolution or winding up, voluntary or involuntary.

H. The corporation at the option of the Board of Directors may, at any time permitted by the resolution or resolutions adopted by the Board of Directors providing for the issue of any series of the Second Preferred Stock and at the redemption price or prices (if any) stated in said resolution or resolutions, redeem the whole or any part of the shares of series at the time outstanding (the total sum so payable on any such redemption being herein referred to as the "redemption price"). Notice of every such redemption shall be mailed to the holders of record of the shares of the Second Preferred Stock so to be redeemed at their respective addresses as the same shall appear on the books of the corporation. Such notice shall be mailed at least thirty (30) days in advance of the date designated for such redemption to the holders of records of shares so to be redeemed. In case of the redemption of a part only of any series of the Second Preferred Stock at the time outstanding, the shares of such series so to be redeemed shall be selected by lot or in such other manner as the Board of Directors may determine.

I. If, on the redemption date specified in such notice, the funds necessary for such redemption shall have been set aside by the corporation, separate and apart from its other funds, in trust for the pro rata benefit of the holders of the shares so called for redemption, then, notwithstanding that any certificates for shares of the Second Preferred Stock so called for redemption shall not have been surrendered for cancellation, the shares represented thereby shall no longer be deemed outstanding, the right to receive dividends thereon shall cease to accrue from and after the date of redemption so designated and all rights of holders of the shares of the Second Preferred Stock so called for redemption shall forthwith, after such redemption date, cease and terminate, excepting only the right of the holders thereof to

receive the redemption price therefor but without interest. Any moneys so set aside by the Corporation and unclaimed at the end of six (6) years from the date designated for such redemption shall revert to the general funds of the Corporation, after which reversion the holders of such shares so called for redemption shall look only to the corporation for payment of the redemption price, and such shares shall still not be deemed to be outstanding.

J. If, after the giving of such notice but before the redemption date specified therein, the Corporation shall deposit with a bank or trust company, in the Borough of Manhattan, City of New York, having a capital and surplus of at least Five Million Dollars ($5,000,000), in trust to be applied to the redemption of the shares of the Second Preferred Stock so called for redemption the funds necessary for such redemption, then from and after the date of such deposit all the rights of the holders of the shares of the Second Preferred Stock so called for redemption shall cease and terminate, excepting only the right to receive the redemption price therefor, but without interest, and the right to exercise on or before the date designated for redemption privileges or conversion or exchange, if any, not theretofore expired, and such shares shall not be deem to be outstanding. Any funds so deposited which shall not be required for such redemption because of the exercise of any such right of conversion or exchange subsequent to the date of such deposit shall be returned to the corporation. In case the holders of shares of the Second Preferred Stock which shall have been called for redemption shall not, within six (6) years after the date fixed for redemption, claim the amount deposited with respect to the redemption thereof, any such bank or trust company shall, upon demand, pay over to the corporation such unclaimed amounts and

thereupon such bank or trust company shall be relieved of all responsibility in respect thereof to such holder and such holder shall look only to the corporation for the payment of the redemption price. Any interest accrued on funds so deposited shall be paid to the corporation from time to time.

K. Shares of any series of the Second Preferred Stock which have been issued and reacquired in any manner by the corporation (excluding, until the corporation elects to retire them, shares which are held as treasury shares but including shares redeemed, shares purchased and retied [whether through the operation of a retirement or sinking fund or otherwise] and shares which, if convertible or exchangeable, have been converted into or exchanged for shares of stock of any other class or corporation) shall have the status of authorized and unissued shares of the Second Preferred Stock and may be reissued as a part of the series of which they were originally a part or may be reclassified and reissued as part of a new series of the Second Preferred Stock to be created by resolution or resolutions of the Board of Directors or as part of any other series of the Second Preferred Stock, all subject to the conditions or restrictions on issuance set forth in any resolution or resolutions adopted by the Board of Directors providing for the issue of any series of the Second Preferred Stock.

L. So long as any of the Second Preferred Stock is outstanding, the corporation will not:

(i) declare, or pay, or set apart for payment, any dividends or make any distribution, on any other class or classes of stock of the corporation ranking junior to the Second Preferred Stock either as to dividends or upon liquidation and will not redeem, purchase or otherwise acquire, or permit any subsidiary to purchase or otherwise acquire, any shares of any such junior class if at the time of making such declaration, payment, distribution, redemption, purchase or acquisition the corporation shall be in default with respect to any dividend payable on, or any obligation to retire, shares of the Second Preferred Stock, provided that, notwithstanding the foregoing, the corporation may at any time redeem, purchase or otherwise acquire shares of stock of any such junior class in exchange for, or out of the net cash proceeds from the sale of, other shares of stock of any junior class;

(ii) without the affirmative vote or consent of the holders of at least sixty-six and two-thirds percent (66 2/3%) of the Second Preferred Stock at the time outstanding,regardless of series, given in person or by proxy, either in writing or by resolution adopted at a special meeting called for the purpose, (a) create any other class or classes of stock ranking prior to the Second Preferred Stock, either as to dividends or upon liquidation, or increase the authorized number of shares of any such other class of stock, or (b) amend, alter or repeal any of the provisions hereof so as materially adversely to affect the preferences, rights, or powers of the Second Preferred Stock;

(iii) without the affirmative vote or consent of the holders of at least sixty-six and two-thirds percent (66 2/3%) of any series of the Second Preferred Stock at the time outstanding, given in person or by proxy, either in writing or by resolution adopted at a special meeting called for the purpose, the holders of such series of the Second Preferred Stock consenting or voting (as the case may be) separately as a class, amend, alter or repeal any of the provisions hereof specifically applicable to such series or in the resolution or resolutions hereafter adopted by the Board of Directors providing for the issue of such series so as materially adversely to affect the preferences, rights or powers of such series of the Second Preferred Stock;

(iv) without the affirmative vote or consent of the holders of at least a majority of the Second Preferred Stock at the time outstanding, regardless of series, given in person or by proxy, either in writing or by resolution adopted at a meeting called for the purpose, (a) increase the authorized amount of the Second Preferred Stock, or (b) create any other class or classes of stock ranking on a parity with the Second Preferred Stock either as to dividends or upon liquidation.

M. Whenever dividends payable on the Second Preferred Stock shall be in default for two (2) consecutive years, the number of directors constituting the Board of Directors of the Corporation shall be increased by two, and the holders of the Second Preferred Stock shall have, in addition to any other voting rights, the exclusive and special right, voting separately as a group and without regard to series, to elect two directors of the corporation to fill such newly created directorships. Whenever such right of the holders of the Second Preferred Stock shall have vested, such

right may be exercised initially either at a special meeting of such holders of the Second Preferred Stock called as provided in paragraph N, or at any annual meeting of stockholders, and thereafter at annual meetings of stockholders. The right of the holders of the Second Preferred Stock voting separately as a group and without regard to series to elect members of the Board of Directors of the corporation as aforesaid shall continue until such time as all dividends accumulated on the Second Preferred Stock to the dividend payment date next preceding the date of any such determination shall have been paid in full, at which time the special right of the holders of the Second Preferred Stock so to vote separately as a group for the election of directors shall terminate, subject to revesting in the event of each and every subsequent default in the payment of cash dividends lasting two (2) years.

N. At any time when such special voting power shall have vested in the holders of the Second Preferred Stock as provided in paragraph M, a proper officer of the corporation shall, upon the written request of the holders of record of at least twenty percent (20%) of the Second Preferred Stock then outstanding, regardless of series, addressed to the Secretary of the corporation, call a special meeting of the holders of the Second Preferred Stock for the purpose of electing directors pursuant to paragraph M. Such meeting shall be held at the earliest practicable date at the office of the corporation, Wilmington, Delaware. If such meeting shall not be called by the proper officers of the corporation within twenty (20) days after personal service of said written request upon the Secretary of the Corporation, or within sixty (60) days after mailing the same within the United States of America, by registered or certified mail addressed to the Secretary of the corporation at its principal office, then the holders of record of at least twenty percent (20%) of the Second Preferred Stock then outstanding, regardless of series, may designate in writing one of their number to call such meeting at the expense of the corporation, and such meeting may be called by such person so designated upon the notice required for annual meetings of stockholders and shall be held at the office of the corporation, Wilmington, Delaware. Any holder of the Second Preferred Stock so designated shall have access to the stock books of the corporation for the purpose of causing meetings of stockholders to be called pursuant to these provisions. Notwithstanding the provisions of this paragraph N, no such special meeting shall be called during the period within ninety (90) days immediately preceding the date fixed for the next annual meeting of stockholders.

O. At any meeting held for the purpose of electing

directors, at which the holders of the Second Preferred Stock shall have the special right, voting separately as a group and without regard to series, to elect directors as provided in Section M, the presence, in person or by proxy, of the holders of fifty percent (50%) of the Second Preferred Stock shall be required to constitute a quorum of such group for the election of any director by the holders of the Second Preferred Stock as a group. At any such meeting or adjournment thereof, (a) the absence of a quorum of the Second Preferred Stock shall not prevent the election of directors other than those to be elected by the Second Preferred Stock voting as a group, and the absence of a quorum for the election of such

other directors shall not prevent the election of the directors to be elected by the Second Preferred Stock voting as a group, and (b) in the absence of either or both such quorums, a majority of the holders present in person or by proxy of the stock or stocks which lack a quorum shall have power to adjourn the meeting for the election of directors which they are entitled to elect from time to time without notice other than announcement at the meeting until a quorum shall be present.

P. During any period the holders of the Second Preferred Stock have the right to vote as a group for directors as provided in paragraph M, the directors so elected by the holders of the Second Preferred Stock shall continue in office until the next succeeding annual meeting or until their successors, if any, are elected by such holders and qualify or, unless required by applicable law to continue in office for a longer period, until termination of the right of the holders of the Second Preferred Stock to vote as a group for directors. If and to the extent permitted by applicable law, immediately upon any termination of the right of the holders of the Second Preferred Stock to vote as a group for directors as provided in paragraph M, the term of office of the directors then in office so elected by the holders of the Second Preferred Stock shall terminate. Whenever the term of office of the directors elected by the holders of the Second Preferred Stock shall end and the special voting power vested in the holders of the Second Preferred Stock as provided in paragraph M shall have expired, the number of directors shall revert to that number which would have otherwise been applicable had not the increase in directors been made pursuant to the provisions of paragraph M.

Q. If in any case the amounts payable with respect to any obligations to retire shares of the Second Preferred Stock are not paid in full in the case of all series with respect to which such obligations exist, the number of shares of the various series to be retired shall be in proportion to the respective amounts which would be payable on account of such obligations if all amounts payable were discharged in full.

R. For the purposes hereof and of any subsequent resolution or resolutions of the Board of Directors providing for the classification or reclassification of any shares of the Second Preferred Stock or of any certificate filed with the Secretary of State of the State of Delaware (unless otherwise provided in any such subsequent resolution or certificate):

(i) The term "outstanding" when used in reference to shares of stock shall mean issued shares, excluding shares held by the corporation or a subsidiary and shares called for redemption, funds for the redemption of which shall have been deposited in trust;

(ii) The amount of dividends "accrued" on any share of the Second Preferred Stock of any series as at any dividend date shall be deemed to be the amount of any unpaid dividends accumulated thereon to and including such dividend date,

whether or not earned or declared, and the amount of dividends "accrued" on any share of the Second Preferred Stock of any series as at any date other than a dividend date shall be calculated as

the amount of any unpaid dividends accumulated thereon to and including the last preceding dividend date, whether or not earned or declared, plus an amount equivalent to the pro rata portion of such dividend at the dividend rate fixed for the shares of such series for the period after such last preceding dividend date to and including the date as of which the calculation is made. No dividends shall accrue on any series of the Second Preferred Stock which is noncumulative unless and until the Board of Directors has declared a dividend thereon;

(iii) Any class or classes of stock of the corporation shall be deemed to rank:

(a) prior to the Second Preferred Stock either as to dividends or upon liquidation, if the holders of such class or classes shall be entitled to receipt of dividends or of amounts distributable upon liquidation, dissolution or winding up, as the case may be, in preference or priority to the holders of the Second Preferred Stock;

(b) on a parity with the Second Preferred Stock either as to dividends or upon liquidation, whether or not the dividend rates, dividend payment dates, or redemption or liquidation prices per share thereof be different from those of the Second Preferred Stock, if the holders of such class or classes of stock shall be entitled to the receipt of dividends or of amounts distributable upon liquidation, dissolution, winding up, as the case may be, in proportion to their respective dividend rates or liquidation prices, without preference or priority one over the other as between the holders of such class or classes of stock and the Second Preferred Stock; and

(c) junior to the Second Preferred Stock either as to dividends or upon liquidation if the rights of the holders of such class or classes shall be subject or subordinate to the rights of the holders of the Second Preferred Stock in respect of the receipt of dividends or of amounts distributable upon liquidation, dissolution or winding up, as the case may be;

(iv) Shares of Common Stock, and any other shares of Preferred Stock of the corporation hereafter authorized which are junior to the Second Preferred Stock, shall rank junior to the Second Preferred Stock as to cash dividends and upon liquidation;

(v) Any series of the Second Preferred Stock which does not have an annual dividend fixed in the Board of Directors' resolution or resolutions authorizing the issuance of such series shall not rank prior to or on parity with the Common Stock as to the payment of dividends unless otherwise provided in such resolution or resolutions or other resolutions of the Board of Directors.

S. No holders of the Second Preferred Stock shall be entitled as a matter of right to subscribe for or purchase any part of any new or additional issue of shares, or securities convertible into shares of any kind whatsoever, whether now or hereafter authorized and whether issued for cash, property, services, by way of dividends or otherwise.

T. The corporation shall at all times reserve and keep available out of its authorized but unissued Common Stock, the full number of shares deliverable upon conversion of all the then outstanding Second Preferred Stock and shall take such action to obtain all such permits or orders as may be necessary to enable the corporation lawfully to issue such Common Stock upon the conversion of the Second Preferred Stock.

PROVISIONS RELATING TO THE
SECOND PREFERRED STOCK - SERIES I

A. (i) The holders of shares of the Second Preferred Stock - Series I, shall be entitled to receive, as and when declared by the Board of Directors, either:

(a) cash dividends at the rate of Twenty-Five Cents ($.25) per share per annum, and no more in each year; or

(b) out of available authorized Common Stock of the Corporation, an annual dividend of shares of Common Stock of the corporation having a Market Value (as determined pursuant to subparagraph (iv) of this paragraph A) of Twenty-Five Cents ($.25) for each share of Second Preferred Stock - Series I, but in no event more than one-fourth (1/4) of a share of Common Stock per share of Second Preferred Stock - Series I.

(ii) Such dividend shall be payable on June 30th of each year commencing June 30, 1975 to the holders of record on such dates not exceeding forty (40) days preceding such dividend payment date as determined by the Board of Directors in advance of the payment of each particular dividend.

(iii) The dividends referred to in clauses (a) or (b) of subparagraph (i) of this paragraph A shall be cumulative from July 1, 1974 so that if such dividends shall not have been paid or declared and set apart for the Second Preferred Stock - Series I, the deficiency shall be fully made up before any other cash dividend or stock dividend payable in Common Stock shall be declared or set apart for payment on the Common Stock of the corporation or on any other series of Preferred Stock of the corporation which is junior to the Second Preferred Stock - Series I.

(iv) Market Value for the purposes of clause (b) of subparagraph (i) of this paragraph A shall mean the closing price of one (1) share of the corporation's Common Stock on the American Stock Exchange or any national securities exchange with which the Common Stock of the Corporation is then listed, or, if such stock is not then listed on any such exchange, then the average of the lowest bid and highest asked price on any over-the-

counter market on which it is then traded, of such Common Stock on the last trading day preceding the date of the declaration of the stock dividends referred to in clause (b) of subparagraph (i) of this paragraph A.

(v) No certificates for fractions of a share of Common Stock shall be issued under a stock dividend. As soon as practicable after the issuance of such fractional interest becomes necessary, the corporation or its representatives will either sell for cash the shares of Common Stock of the corporation applicable to any fractional interest for the account of any shareholder or purchase the fractional interest required to entitle such shareholder to one (1) full share of Common Stock of the corporation. Shareholders electing to purchase the additional fractional interest required to entitle them to one (1) full share

of Common Stock will be required to pay the corporation the purchase price of such fractional interest upon being billed therefor. The corporation, acting as agent for such shareholders who either have indicated their desire to sell for cash the fractional interests in the shares or have not indicated whether they desire fractional interests purchased or sold for their account, will sell at the current market prices, the full shares representing the fractional interests then outstanding. Buying and selling orders may be offset, but they will be executed at prices determined by market transactions. Thereafter, the corporation will pay in cash the prorated portion of the proceeds of sales to those shareholders who are entitled to the fractional interest sold. Notwithstanding the foregoing provisions of this subparagraph (v), the Board of Directors may, in its discretion, elect to pay in cash for fractional shares at a price proportional to the Market Value (as defined in subparagraph (iv) of this paragraph A) of one full share of Common Stock.

B. The shares of the Second Preferred Stock - Series I shall be redeemable at the option of the corporation on and after March 1, 1981, on thirty (30) days' prior notice and the redemption price shall be Ten Dollars ($10.00) per share plus any accrued and unpaid dividends thereon.

C. Subject to the provisions of the Certificate of Incorporation, in the event of any liquidation, dissolution or winding up of the corporation, before any payment or distribution of the assets of the corporation (whether capital or surplus) shall be made or set apart to the holders of any class or classes of stock of the corporation ranking junior to the Second Preferred Stock - Series I upon liquidation, the holders of the Second Preferred Stock - Series I shall be entitled to receive payment at the rate of Ten Dollars ($10.00) per share plus an amount equal to all dividends accrued and unpaid thereon to the date of final distribution to such holders, but they shall be entitled to no further payment.

* * *

The Board of Directors is hereby authorized to issue additional Series of the Serial Preferred Stock with such voting powers, full or limited, or no voting powers, and such designations, preferences and relative, participating, option or other special rights and qualifications, limitations or

restrictions thereof as shall be stated and expressed in the resolution or resolutions providing for the issue of Serial Preferred Stock adopted by the Board of Directors.

FIFTH: The number of directors of the corporation shall be not less than twelve (12) nor more than fourteen (14) and the number to be chosen within such limits shall be determined in the manner prescribed by the by-laws of this corporation. No director need be a stockholder of the corporation. Any director may be removed from office with cause at any time by the affirmative vote of stockholders of record holding a majority of the outstanding shares of stock of the corporation entitled to vote, given at a meeting of the stockholders called for that purpose.

The Board of Directors shall be divided into three (3) classes as nearly equal in number as possible, and no class shall include less than four (4) directors. The terms of office of the directors initially classified shall be as follows: that of Class I shall expire at the next annual meeting of shareholders in 1972, Class II at the second succeeding annual meeting of shareholders in 1973 and Class III at the third succeeding annual meeting of shareholders in 1974. The foregoing notwithstanding, each director

shall serve until his successor shall have been duly elected and qualified, unless he shall resign, become disqualified, disabled or shall otherwise be removed. Whenever a vacancy occurs on the Board of Directors, a majority of the remaining directors have the power to fill the vacancy by electing a successor director to fill that portion of the unexpired term resulting from the vacancy.

At each annual meeting of shareholders after such initial classification, directors chosen to succeed those whose terms then expire at such annual meeting shall be elected for a term of office expiring at the third succeeding annual meeting of shareholders after their election. When the number of directors is increased by the Board of Directors and any newly created directorships are filled by the Board of Directors, there shall be no classification of the additional directors until the next annual meeting of shareholders. Directors elected, whether by the Board of Directors or by the shareholders, to fill a vacancy, subject to the foregoing, shall hold office for a term expiring at the annual meeting at which the term of the Class to which they shall have been elected expires. Any newly created directorships or any decrease in directorships shall be so apportioned among the classes as to make all classes as nearly equal in number as possible.

SIXTH: The corporation is to have perpetual existence.

SEVENTH: In furtherance and not in limitation of the powers conferred by statute, the Board of Directors is expressly authorized:

To make, alter, or repeal the by-laws of the corporation.

To authorize and cause to be executed mortgages and liens upon the real and personal property of the corporation.

To set apart out of any of the funds of the corporation available for dividends a reserve or reserves for any proper purpose and to abolish any such reserve in the manner in which it was created.

By a majority of the whole Board to designate one or more committees, each committee to consist of one or more of the Directors of the corporation. The Board may designate one or more Directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee. The by-laws may provide that in the absence or disqualification of a member of a committee, the member or members thereof present at any meeting and not disqualified from voting, whether or not he or they constitute a quorum, may unanimously appoint another member of the Board of Directors to act at the meeting in the place of any such absent or disqualified member. Any such committee, to the extent provided in the resolution of the Board of Directors, or in the by-laws of the corporation, shall have and may exercise all the powers and authority of the Board of Directors in the management of the business and affairs of the corporation, and may authorize the seal of the corporation to be affixed to all papers which may require it; but no such committee shall have the power or authority in reference to amending the Certificate of Incorporation, adopting an agreement of merger or consolidation, recommending to the stockholders the sale, lease or exchange of all or substantially all of the corporation's property and assets, recommending to the stockholders a dissolution of the corporation or a revocation of a dissolution, or amending the by-laws of the corporation; and, unless the resolution or by-laws expressly so provide, no such committee shall have the power or authority to declare a dividend or to authorize the

issuance of stock.

When and as authorized by the stockholders in accordance with statute, to sell, lease, or exchange all or substantially all of the property and assets of the corporation, including its good will and its corporate franchises, upon such terms and conditions and for such consideration, which may consist in whole or in part of money or property including shares of stock in, and/or other securities of, any other corporation or corporations, as its Board of Directors shall deem expedient and for the best interest of the corporation.

EIGHTH: Meetings of stockholders may be held within or without the State of Delaware as the by-laws may provide. The books of the corporation may be kept (subject to any provision contained in the statutes) outside the State of Delaware at such place or places as may be designated from time to time by the Board of Directors or in the by-laws of the corporation. Elections of directors need not be by written ballot unless the by-laws of the corporation shall so provide.

NINTH: Subject to the provisions contained in Article THIRTEENTH hereof, the corporation reserves the right to amend, alter, change or repeal any provision contained in this Certificate of Incorporation, in the manner now or hereafter prescribed by statute, and all rights conferred upon stockholders herein are granted subject to this reservation.

TENTH: No action required to be taken or which may be taken at any annual or special meeting of stockholders of the corporation may be taken without a meeting, and the power of stockholders to consent in writing to the taking of any action is specifically denied.

ELEVENTH: Special meetings of stockholders may be called by the Chairman of the Board, President, or Board of Directors or at the written request of stockholders owning at least sixty-six and two-thirds percent (66 2/3%) of the entire voting power of the corporation's capital stock.

TWELFTH: In the event that it is proposed that the corporation enter into a merger or consolidation with any other corporation and such other corporation or its affiliates singly or in the aggregate own or control directly or indirectly five percent (5%) or more of the outstanding voting power of the capital stock of this corporation, or that the corporation sell substantially all of its assets or business to such other corporation, the affirmative vote of the holders of not less than sixty-six and two-thirds percent (66 2/3%) of the total voting power of all outstanding shares of capital stock of this corporation shall be required for the approval of any such proposal; provided, however, that the foregoing shall not apply to any such merger, consolidation or sale of assets or business which was approved by resolutions of the Board of Directors of this corporation prior to the acquisition of the ownership or control of five percent (5%) of the outstanding shares of this corporation by such other corporation or its affiliates, nor shall it apply to any such merger, consolidation or sale of assets or business between this corporation and another corporation, fifty percent (50%) or more of the total voting power of which is owned by this corporation. For the purposes hereof, an "affiliate" is any person (including a corporation, partnership, trust, estate or individual) who directly or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, the person specified; and "control" means the possession, directly or indirectly, of the power to direct or cause the direction of management and policies of a person, whether through the ownership of voting securities, by contract, or otherwise.

THIRTEENTH: The provisions set forth in Articles FIFTH, TENTH, ELEVENTH and TWELFTH above may not be altered, amended or repealed in any respect unless such alteration, amendment or repeal is approved by the affirmative vote of the holders of not less than sixty-six and two-thirds percent (66 2/3%) of the total voting power of all outstanding shares of capital stock of the corporation.

3. This Restated Certificate of Incorporation shall become effective upon filing with the Secretary of State.

4. The capital of the corporation will not be reduced under or by reason of the amendments adopted by the adoption of this Restated Certificate of Incorporation.

5. This Restated Certificate of Incorporation was duly adopted by the Board of Directors without vote of the stockholders of the corporation in accordance with the provisions of Section 245 of the General Corporation Law of the State of Delaware and only restates and integrates and does not further amend the provisions of the corporation's Certificate of Incorporation as theretofore amended or supplemented, and there is no discrepancy between those provisions and the provisions of this Restated Certificate of Incorporation.

IN WITNESS WHEREOF, said INSTRUMENT SYSTEMS CORPORATION has caused its corporate seal to be hereto affixed and this Restated Certificate of Incorporation to be signed by Robert Balemian, its President, and attested by Susan Reilly, its Secretary, this 1st day of October, 1986.

INSTRUMENT SYSTEMS CORPORATION

By: Robert Balemian

Robert Balemian
President

(Corporate Seal)

ATTEST:

Susan Reilly
- ---
Susan Reilly, Secretary

CERTIFICATE OF THE DESIGNATIONS, PREFERENCES AND RELATIVE, PARTICIPATING, OPTIONAL OR OTHER SPECIAL RIGHTS OF THE $12.50 CUMULATIVE REDEEMABLE EXCHANGEABLE PREFERRED STOCK, PAR VALUE $.25 PER SHARE, OF INSTRUMENT SYSTEMS CORPORATION, AND THE QUALIFICATIONS, LIMITATIONS OR RESTRICTIONS THEREOF, WHICH HAVE NOT BEEN SET FORTH IN THE CERTIFICATE OF INCORPORATION.

Pursuant to Section 151 of the General Corporation Law of the State of Delaware

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We, the undersigned, Harvey R. Blau and Robert Balemian, the Chairman of the Board and President, respectively, of Instrument

Systems Corporation, a corporation organized and existing under the General Corporation Law of the State of Delaware (hereinafter called the "Corporation"), in accordance with the provisions of Section 151 thereof, DO HEREBY CERTIFY that the Board of Directors of the Corporation duly adopted the following resolution on November 13, 1986:

RESOLVED, that pursuant to the authority expressly granted to and vested in the Board of Directors of the Corporation by the provisions of the Certificate of Incorporation of the Corporation this Board of Directors hereby creates a series of the Preferred Stock, par value $.25 per share, of the Corporation, to consist of 575,000 shares of such Preferred Stock, and this Board of Directors hereby fixes the designations, preferences and relative, participating, optional or other special rights of the shares of such series, and the qualifications, limitations, or restrictions thereof (in addition to the designations, preferences and relative, participating, optional or other special rights, and the qualifications, limitations or restrictions thereof, set forth in the Certificate of Incorporation of the Corporation which are applicable to Preferred Stock of all series) as follows:

I. DESIGNATION

The designation of the series of Preferred Stock created by this resolution shall be "$12.50 Cumulative Redeemable Exchangeable Preferred Stock" (hereinafter called the "Preferred Stock").

II. CASH DIVIDENDS ON PREFERRED STOCK

(a) The holders of shares of the Preferred Stock will be entitled to receive, when, as and if declared by the Corporation's Board of Directors out of funds of the Corporation legally available therefor, cumulative cash dividends at the rate of $12.50 per annum per share through and including November 15, 1988, $13.00 per annum per share thereafter through and including November 15, 1990, and $13.50 per annum per share thereafter, payable in cash in equal quarterly payments on February 15, May 15, August 15 and November 15 in each year, commencing February 15, 1987. Such dividends shall be cumulative from the date of original issue of such shares. Each such dividend shall be paid to the holders of record of shares of the Preferred Stock as they appear on the stock register of the Corporation on such record date, which shall be not more than 30 days nor less than 10 days preceding the dividend payment date thereof, as shall be fixed by the Board of Directors of the Corporation or a duly authorized committee thereof. Dividends in arrears on the Preferred stock shall accrue dividends at the dividend rate payable on the Preferred Stock.

(b) If dividends are not paid in full or declared in full and sums set apart for the payment thereof upon the Preferred Stock and any other preferred stock of the Corporation ranking on a parity as to dividends with the Preferred Stock, all dividends declared upon shares of Preferred Stock and any other preferred stock of the Corporation ranking on a parity as to dividends shall be declared pro rata so that in all cases the respective amounts of dividends declared per share on the Preferred Stock and such other preferred stock of the Corporation shall bear to each other the same ratio that accumulated dividends per share, including dividends accrued on amounts in arrears, if any, on the shares of Preferred Stock and such other preferred stock of the Corporation bear to each other. Except as provided in the preceding sentence, unless full cumulative dividends on the Preferred Stock have been paid or declared in full and sums set aside for the payment thereof, no dividends shall be declared or paid or set aside for payment or other distribution made upon the common stock, par value $.25 per share, of the Corporation (the "Common Stock"), or any other

capital stock of the Corporation ranking junior to or on a parity with the Preferred Stock as to dividends or liquidation rights, nor shall any Common Stock, or any other capital stock of the Corporation ranking junior to or on a parity with the Preferred Stock as to dividends or upon liquidation be redeemed, purchased or otherwise acquired for any consideration (or any payment made to or available for a sinking fund for the redemption of any shares of such stock) by the Corporation or any subsidiary of the Corporation (Except by conversion into or exchange for stock of the Corporation ranking junior to the Preferred Stock as to dividend and liquidation rights).

The term "dividends accrued or in arrears" whenever used herein with reference to the Preferred Stock shall be deemed to mean an amount which shall be equal to dividends thereon at the annual dividend rates per share for the respective series from the date or dates on which such dividends commence to accrue to the end of the then current quarterly dividend period for such Preferred Stock (or, in the case of redemption, to the date of redemption), less the amount of all dividends paid, or declared in full and sums set aside for the payment thereof, upon such Preferred Stock.

(c) Dividends payable on the Preferred stock for any period less than a full quarterly dividend period shall be computed on the basis of a 360-day year of twelve 30-day months and the actual number of days elapsed in the period for which payable.

(d) The Corporation will not claim any deduction from gross income for dividends paid on the Preferred Stock or any other shares of preferred stock in any Federal income tax return, claim for refund, or other statement, report or submission made to the Internal Revenue Service (except to the extent that there may be no reasonable basis in law to do otherwise); and the Corporation will make any election (or take any similar action) which may become necessary to comply with this sentence. At the reasonable request

of any holder of shares of Preferred Stock (and at the expense of such holder), the Corporation will join in the submission to the Internal Revenue Service of a request for a ruling that the dividends paid on the Preferred Stock will be eligible for the dividends received deduction under Section 243(a)(1) of the Internal Revenue Code (or any successor provision). In addition, the Corporation will cooperate with any holder of Preferred Stock (at the expense of such holder) in any litigation, appeal, or other proceeding relating to the eligibility for the dividends received deduction under Section 243(a)(1) of the Internal Revenue Code (or any successor provision) of any dividends (within the meaning of Section 316(a) of the Internal Revenue Code or any successor provision) paid on the Preferred Stock. To the extent possible, the principles of this paragraph shall also apply with respect to State and local taxes.

(e) The Corporation will use its best efforts to ensure that distributions made with respect to the Preferred Stock are treated as dividends within the meaning of Section 316(a) of the Internal Revenue Code (or any successor provision). Such best efforts shall include (but not be limited to) the following: (1) the Corporation will make or cause to be made a timely and valid protective carryover election under Treas. Reg. Sec. 1.338-4T(f)(6) (or any successor provision) with respect to any qualified stock purchase of the Corporation; and (2) the Corporation will not merge into (or transfer all or substantially all of its assets to) any other corporation, unless such other corporation succeeds under Section 381(c)(2) of the Internal Revenue Code (or any successor provision) to the accumulated earnings and profits of the Corporation.

III. REDEMPTION OF PREFERRED STOCK

(a) The Preferred Stock will be redeemable at the option of the Corporation by resolution of its Board of Directors, at any time in whole or from time to time in part, after November 15, 1988, subject to the limitations set forth below, at the following redemption prices per share plus, in each case, all dividends accrued and unpaid on the Preferred Stock up to the date fixed for redemption, upon giving notice as provided hereinbelow, if redeemed during the twelve-month period beginning November 15 of the years indicated below:

	Price
1988	$106.25
1989	104.69
1990	103.13
1991	101.56
1992	100.00

(b) If less than all of the outstanding shares of Preferred Stock are to be redeemed, the shares to be redeemed shall be determined pro rata or by lot.

(c) The Corporation will redeem on November 15, 1993 all of the then outstanding shares of Preferred Stock at a redemption price of one hundred dollars ($100.00) per share plus all dividends accrued and unpaid on the Preferred Stock to the date of redemption.

(d) At least 15 days but not more than 60 days prior to the date fixed for the redemption of shares of the Preferred Stock, a written notice shall be mailed to each holder of record of shares of Preferred Stock to be redeemed in a postage prepaid envelope addressed to such holder at his post office address as shown on the records of the Corporation, notifying such holder of the election of the Corporation to redeem such shares, stating the date fixed for redemption thereof (hereinafter referred to as the "Redemption Date"), and calling upon such holder to surrender to the Corporation on the Redemption Date at the place designated in such notice his certificate or certificates representing the number of shares specified therein. On or after the Redemption Date, each holder of shares of Preferred Stock to be redeemed shall present and surrender his certificate or certificates for such shares to the Corporation at the place designated in such notice and thereupon the redemption price of such shares shall be paid to or on the order of the person whose name appears on such certificate or certificates as the owner thereof and each surrendered certificate shall be cancelled. In case less than all the shares represented by any such certificate are redeemed, a new certificate shall be issued representing the unredeemed shares. From and after the Redemption Date (unless the Corporation defaults in payment of the redemption price) all dividends on the shares of Preferred Stock designated for redemption in such notice shall cease to accrue, and all rights of the holders thereof as stockholders of the Corporation, except the right to receive the redemption price thereof (including all accrued and unpaid dividends up to the Redemption Date) upon the surrender of certificates representing the same, shall cease and terminate and such shares shall not thereafter be transferred (except with the consent of the Corporation) on the books of the Corporation, and such shares shall not be deemed to be outstanding for any purpose whatsoever. At its election, the Corporation, prior to the Redemption Date, may deposit the redemption price (including all accrued and unpaid dividends up to the Redemption Date) of the shares of Preferred Stock so called for redemption in trust for the holders thereof with a bank or trust company (having a capital, surplus and

undivided profits aggregating not less than $50,000,000) in the Borough of Manhattan, City and State of New York, or in any other city in which the Corporation at the time shall maintain a transfer agency with respect to such stock, in which case such notice to holders of the Preferred Stock to be redeemed shall (i) state the date of such deposit, (ii) specify the office of such bank or trust company as the place of payment of the redemption price, and (iii) call upon such holders to surrender the certificates representing such shares at such price on or after the date fixed in such redemption notice (which shall not be later than the Redemption Date) against payment of the redemption price (including al accrued and unpaid dividends up to the Redemption Date). From and after the making of such deposit, the shares of Preferred Stock so designated for redemption shall not be deemed to be outstanding for any purpose whatsoever, and the rights of the holders of such shares shall be limited to the right to receive the redemption

price of such shares (including all accrued and unpaid dividends up to the redemption date), without interest, upon surrender of the certificates representing the same to the Corporation at said office of such bank or trust company. Any interest accrued on such funds shall be paid to the Corporation from time to time. Any moneys so deposited which shall remain unclaimed by the holders of such Preferred Stock at the end of two years after the Redemption Date shall be returned by such bank or trust company to the Corporation, after which the holders of the Preferred Stock shall have no further interest in such moneys.

(e) Shares of the Preferred Stock retired pursuant to the provisions of this Article III shall not be reissued.

IV. VOTING RIGHTS

(a) The holders of the Preferred Stock shall not, except as otherwise required by law or as set forth herein, have any right or power to vote on any question or in any proceeding or to be represented at, or to receive notice of, any meeting of the Corporation's stockholders. On any matters on which the holders of the Preferred Stock shall be entitled to vote, they shall be entitled to one vote for each share held.

(b) In case at any time the equivalent of six or more full quarterly dividends (whether consecutive or not) on the Preferred Stock shall be in arrears, then during the period (hereinafter in this paragraph (b) called the "Voting Period") commencing with such time and ending with the time when all arrears in dividends on the Preferred Stock shall have been paid and the full dividend on the Preferred Stock for the then current quarterly dividend period shall have been paid or declared and set apart for payment, at any meeting of the stockholders of the Corporation held for the election of directors during the Voting Period, the holders of a majority of the outstanding shares of Preferred Stock represented in person or by proxy at said meeting shall be entitled, as a class, to the exclusion of the holders of all other classes or series of stock of the Corporation, to elect two directors of the Corporation.

Any director who shall have been elected by holders of Preferred Stock may be removed at any time during a Voting Period, either for or without cause, by, and only by, the affirmative votes of the holders of record of a majority of the outstanding shares of Preferred Stock given at a special meeting of such stockholders called for the purpose, and any vacancy thereby created may be filled during such Voting Period by the holders of Preferred Stock, present in person or represented by proxy at such meeting. Any director elected by holders of Preferred Stock who dies, resigns, or otherwise ceases to be a director shall be replaced by the affirmative vote of the holders of record of a majority of the

outstanding shares of Preferred Stock at a special meeting of stockholders called for that purpose. At the end of the Voting Period, the holders of Preferred Stock shall be automatically divested of all voting power vested in them under this paragraph (b) but subject always to the subsequent vesting hereunder of voting power in the holders of Preferred Stock in the event of any similar cumulated arrearage in payment of quarterly dividends

occurring thereafter. The term of all directors elected pursuant to the provisions of this paragraph (b) shall in all events expire at the end of the Voting Period.

V. PRIORITY OF PREFERRED STOCK IN EVENT OF DISSOLUTION

In the event of any liquidation, dissolution, or winding up of the affairs of the Corporation, whether voluntary or otherwise, after payment or provision for payment of the debts and other liabilities of the Corporation, the holders of the Preferred Stock shall be entitled to receive, out of the remaining net assets of the Corporation, the amount of one hundred dollars ($100.00) in cash for each share of Preferred Stock, plus an amount equal to all dividends accrued and unpaid on each such share up to the date fixed for distribution, before any distribution shall be made to the holders of Common Stock or any other capital stock of the Corporation ranking (as to any such distribution) junior to the Preferred Stock. If upon any liquidation, dissolution or winding up of the Corporation, the assets distributable among the holders of any series of preferred stock of the Corporation ranking (as to any such distribution) on a parity with the Preferred Stock shall be insufficient to permit the payment in full to the holders of all such series of preferred stock of the Corporation (including the Preferred Stock) of all preferential amounts payable to all such holders, then the entire assets of the Corporation thus distributable shall be distributed ratably among the holders of all series of the preferred stock of the Corporation ranking (as to any such distribution) on a parity with the Preferred Stock (including the Preferred Stock) in proportion to the respective amounts that would be payable per share if such assets were sufficient to permit payment in full.

For purposes of this Article V, a distribution of assets in any dissolution, winding up or liquidation shall not include (i) any consolidation or merger of the Corporation with or into any other corporation, (ii) any dissolution, liquidation, winding up, or reorganization of the Corporation immediately followed by reincorporation of another corporation or (iii) a sale or other disposition of all or substantially all of the Corporation's assets to another corporation; provided that, in each case, effective provision is made in the certificate of incorporation of the resulting and surviving corporation or otherwise for the protection of the rights of the holders of Preferred Stock.

VI. EXCHANGE

(a) The outstanding shares of Preferred Stock are exchangeable at the option of the Corporation, in whole or from time to time in part, on any dividend payment date commencing November 15, 1988, subject to certain conditions stated below, for the Corporation's 12-1/2% Subordinated Debentures due 1997 (the "Debentures") to be issued pursuant to an indenture (the "Indenture") substantially in the form of Exhibit 4(a) to the Registration Statement of the Corporation on Form S-2 (Registration No. 33-9655) as amended, declared effective by the Securities and Exchange Commission on November 18, 1986; provided that on the date of exchange, (i) the Indenture shall have been qualified under the Trust Indenture Act of 1939, as amended from time to time, (ii) there shall be no dividend arrearage on the Preferred Stock and the

dividend payable on the date of exchange shall have been paid and (iii) the conditions precedent to the exchange contained in Section 2.02 of the Indenture shall have been met to the satisfaction of the Trustee.

(b) If less than all of the outstanding shares of Preferred Stock are to be exchanged, the shares to be exchanged shall be determined pro rata or by lot in such usual manner and subject to such regulations as the Board of Directors in its sole discretion shall prescribe.

(c) The Corporation will mail to each holder of record of shares of Preferred Stock to be exchanged, in a postage prepaid envelope addressed to such holder at his post office address as shown on the records of the Corporation, written notice of its intention to exchange not less than 30 nor more than 60 days prior to the date fixed for exchange (the "Exchange Date"). Such notice shall state: (i) the Exchange Date; (ii) the number of shares of the holder that will be exchange; (iii) the place or places where certificates for such shares of Preferred Stock are to be surrendered for exchange into Debentures; and (iv) that dividends on the shares of Preferred Stock to be exchanged will cease to accrue on the Exchange Date. On or after the Exchange Date each holder of shares of Preferred Stock shall present and surrender his certificate or certificates for such shares to be exchanged to the Corporation at the place designated in such notice. Such shares shall be exchanged by the Corporation into Debentures at the rate of one hundred dollars ($100.00) principal amount of Debentures in exchange for each share of Preferred Stock to be exchanged. In the event that such exchange would result in the issuance of a Debenture in a principal amount which is not an integral multiple of $1,000, the difference between such principal amount and the highest integral multiple of $1,000 which is less than such principal amount shall be paid in cash. In case less than all the shares represented by any such certificate are exchanged, a new certificate shall be issued representing the unexchanged shares.

(d) Prior to giving notice of intention to exchange, the Corporation shall execute and deliver with a bank or trust company selected by the Corporation, an qualify under the Trust Indenture Act of 1939, as amended from time to time, the Indenture. The form of the Indenture may not be amended or supplemented before the initial Exchange Date without the affirmative vote or consent of the holders of a majority of the outstanding shares of Preferred Stock, except for those changes which would not adversely affect the legal rights of the holders. The Corporation will cause the Debentures to be authenticated on the date on which any exchange is effective, and the Corporation will pay interest on the Debentures at the rate and on the dates specified in the Indenture from the Exchange Date.

(e) If notice has been mailed as aforesaid, from and after the Exchange Date (unless default shall be made by the Corporation in issuing Debentures in exchange for the shares of Preferred Stock that are properly presented for exchange or in paying any accrued dividends on such Preferred Stock), dividends on the shares of Preferred Stock to be exchanged shall cease to accrue, and said shares shall no longer be deemed to be issued and outstanding, and

all rights of the holders thereof as stockholders of the Corporation (except the right to receive Debentures from the Corporation) shall cease and terminate.

VII. LIMITATIONS

So long as any shares of Preferred Stock are outstanding, the Corporation shall not, without the affirmative vote, or the written consent as provided by law, of the holders of at least two-thirds

(2/3) of the outstanding shares of Preferred Stock, voting as a class,

(a) create, authorize or issue any class or series of stock ranking either as to payment of dividends or distribution of assets prior to or on a parity with the Preferred Stock or reclassify any shares of stock ranking junior to the Preferred Stock into shares of stock ranking either as to payment of dividends or distribution of assets prior to or on a parity with the Preferred Stock or reclassify any shares of preferred stock ranking on a parity with the Preferred Stock into shares of stock ranking either as to payment of dividends or distribution of assets prior to the Preferred Stock; or

(b) change the preferences, rights or powers with respect to the Preferred Stock so as to affect such stock adversely;

but nothing herein contained shall require such a class vote or consent (i) in connection with any increase in the total number of authorized shares of Common Stock, or (ii) in connection with the authorization or increase of any class or series of stock ranking junior to the Preferred Stock; provided, however, that no such vote or written consent of the holders of the Preferred Stock shall be required if, at or prior to the time when the issuance of any such stock ranking prior to or on a parity with the Preferred Stock is to be made or any such change is to take effect, as the case may be, provision is made for the redemption of all shares of Preferred Stock at the time outstanding, and further provided, that the provisions of this Article VII shall not in any way limit the right and power of the Corporation to issue the presently authorized but unissued shares of its capital stock, or bonds, notes, mortgages, debentures, and other obligations, and to incur indebtedness to banks and to other lenders.

VIII. RANKING

With regard to rights to receive dividends and distributions upon dissolution of the Corporation, the Preferred Stock will rank junior to the Corporation's Section Preferred Stock, Series I. The Preferred Stock ranks prior to all other capital stock of the Corporation outstanding at the time of issuance of the Preferred Stock. Without the requisite vote of holders of the Preferred Stock as described in Article VII, no class or series of capital stock can be created ranking senior to or on a parits with the preferred stock as to dividend rights or liquidation preference.

IX. CHANGE OF CONTROL

In the event of any Change of Control (as hereinafter defined) of the Corporation will, at the option of each holder of Preferred Stock, buy all or any part of the holders' Preferred Stock, on the date (the "Repurchase Date") that is 100 calendar days after the date of such Change of Control at the redemption price set forth in Article IV plus accrued and unpaid dividends to the Repurchase Date.

On or before the twenty-eighth calendar day after the Change of Control, the Corporation will mail to all holders of record of the Preferred Stock a notice regarding the Change of Control, the date before which the repurchase right must be exercised and the procedure which the holder must follow to exercise this right. The Corporation shall cause a copy of such notice to be published in a newspaper of general circulation in the Borough of Manhattan, New York. To exercise this right, the holder of any shares of Preferred Stock must deliver on or before the ninetieth calendar day after the Change of Control written notice to the Corporation (or an agent designated by the Corporation for such purpose) of the holder's exercise of such right, together with the certificates

evidencing the Preferred Stock with respect to which the right is being executed, duly endorsed for transfer.

As used herein, (i) "Acquiring Person" means any person who is or becomes the beneficial owner, directly or indirectly, of 10% or more of the outstanding Common Stock of the Corporation; (ii) a "Change in Control" of the Corporation shall be deemed to have occurred at such time as (a) any person or group of persons acting together is or becomes the beneficial owner, directly or indirectly, of 20% or more of the outstanding Common Stock or (b) individuals who constitute the Continuing Directors cease for any reason to constitute at least a majority of the Board of Directors; provided, however, that in the case of either (a) or (b) a Change of Control shall not be deemed to have occurred if the event shall have been approved for purposes of the Preferred Stock by a majority of the Continuing Directors; and (iii) "Continuing Director" means any member of the Board of Directors who is not affiliated with an Acquiring Person and who was a member of the Board of Directors immediately prior to the time that the Acquiring Person became an Acquiring Person and any successor to a Continuing Director who is not affiliated with the Acquiring Person and is recommended to succeed a Continuing Director by a majority of Continuing Directors who are then members of the Board of Directors.

IN WITNESS WHEREOF, INSTRUMENT SYSTEMS CORPORATION has caused this certificate to be made under the seal of the Corporation, signed by its Chairman of the Board and attested by its President this 20th day of November, 1986.

INSTRUMENT SYSTEMS CORPORATION

[Corporate Seal] By: Harvey R. Blau

Harvey R. Blau
Chairman of the Board

Attest:

Robert Balemian
- ---
Robert Balemian
President

CERTIFICATE OF CORRECTION FILED TO CORRECT
A CERTAIN ERROR IN THE CERTIFICATE OF STOCK
DESIGNATION OF INSTRUMENT SYSTEMS CORPORATION
FILED IN THE OFFICE OF THE SECRETARY OF
STATE OF DELAWARE ON NOVEMBER 21, 1986

INSTRUMENT SYSTEMS CORPORATION, a corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware, DOES HEREBY CERTIFY:

1. The name of the corporation is: INSTRUMENT SYSTEMS CORPORATION.

2. That a Certificate of Stock Designation was filed by the Secretary of State of Delaware on November 21, 1986 and that said certificate requires correction as permitted by subsection (f) of Section 103 of The General Corporation Law of the State of Delaware.

3. The inaccuracy or defect of said certificate to be corrected is as follows:

The Certificate of Stock Designations incorrectly sets forth in Article IX the cross reference to Article IV, which should

be Article III. Article IX incorrectly omits the redemption price applicable to a repurchase date prior to November 15, 1988.

4. Article IX of the certificate is corrected to read as follows:

IX. CHANGE OF CONTROL

In the event of any Change of Control (as hereinafter defined), the Corporation will, at the option of each holder of Preferred Stock, buy all or any part of the holder's Preferred Stock on the date (the "Repurchase Date") that is 100 calendar days after the date of such Change of Control at the redemption price set forth in Article III plus accrued and unpaid dividends to the Repurchase Date; the November 15, 1988 redemption price shall apply for any Repurchase Date prior to such date.

On or before the twenty-eighth calendar day after the Change of Control, the Corporation will mail to all holders of record of the Preferred Stock a notice regarding the Change of Control, the date before which the repurchase right must be exercised and the procedure which the holder must follow to exercise this right. The Corporation shall cause a copy of such notice to be published in a newspaper of general circulation in the Borough of Manhattan, New York. To exercise this right, the holder of any shares of Preferred Stock must deliver on or before the ninetieth calendar day after the Change of Control written notice to the Corporation (or an agent designated by the Corporation for such purpose) of the holder's exercise of such right, together with the certificates evidencing the Preferred Stock with respect to which the right is being executed, duly endorsed for transfer.

As used herein, (i) "Acquiring Person" means any person who is or becomes the beneficial owner, directly or indirectly, of 10% or more of the outstanding Common Stock of the Corporation; (ii) a "Change of Control" of the Corporation shall be deemed to have occurred at such time as (a) any person or group of persons acting together is or becomes the beneficial owner, directly or indirectly, of 20% or more of the outstanding Common Stock or (b) individuals who constitute the Continuing Directors cease for any reason to constitute at least a majority of the Board of Directors; provided, however, that in the case of either (a) or (b) a Change of Control shall not be deemed to have occurred if the event shall have been approved for purposes of the Preferred Stock by a majority of the Continuing Directors; and (iii) "Continuing Director" means any member of the Board of Directors who is not affiliated with an Acquiring Person and who was a member of the Board of Directors immediately prior to the time that the Acquiring Person became an Acquiring Person and any successor to a Continuing Director who is not affiliated with the Acquiring Person and is recommended to succeed a Continuing Director by a majority of Continuing Directors who are then members of the Board of Directors.

IN WITNESS WHEREOF, said INSTRUMENT SYSTEMS CORPORATION has caused this Certificate to be signed by its Chairman of the Board, and attested by its Secretary this 5th day of February, 1987.

INSTRUMENT SYSTEMS CORPORATION

By: Harvey R. Blau

Harvey R. Blau
Chairman of the Board

ATTEST:

Susan Reilly
- ------------------------
Susan Reilly, Secretary

CERTIFICATE OF AMENDMENT OF
THE CERTIFICATE OF INCORPORATION OF

INSTRUMENT SYSTEMS CORPORATION

INSTRUMENT SYSTEMS CORPORATION, a corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware, DOES HEREBY CERTIFY:

FIRST: That at a meeting of the Board of Directors of INSTRUMENT SYSTEMS CORPORATION, resolutions were adopted setting forth a proposed amendment to the Certificate of Incorporation of said corporation, declaring said amendment to be advisable and calling a meeting of the stockholders of the corporation for consideration thereof.

SECOND: That thereafter, pursuant to resolution of its Board of Directors, the Annual Meeting of Stockholders of said corporation was duly called and held, upon notice in accordance with Section 222 of the General Corporation Law of the State of Delaware at which meeting the necessary number of shares as required by statute were voted in favor of the following amendment:

RESOLVED, that the Certificate of Incorporation be amended by adding ARTICLE "FOURTEENTH" so that, as amended, said ARTICLE FOURTEENTH shall be and read as follows:

"FOURTEENTH: No person who is or was at any time a director of the corporation shall be personally liable to the corporation or its stockholders for monetary damages for any breach of fiduciary duty by such person as a director; provided, however, that, unless and except to the extent otherwise permitted from time to time by applicable law, the provisions of this Article FOURTEENTH shall not eliminate or limit the liability of a director (i) for breach of the director's duty of loyalty to the corporation or its stockholders, (ii) for any act or omission by the director which is not in good faith or which involves intentional misconduct or a knowing violation of law, (iii) under Section 174 of the Delaware Law, (iv) for any transaction from which the director derived an improper personal benefit or (v) for any act or omission occurring prior to the date the Liability Amendment becomes effective. No amendment to or repeal of this Article FOURTEENTH shall apply to or have any effect on the liability or alleged liability of any director of the corporation for or with respect to any act or omission of such director occurring prior to such amendment or repeal."

THIRD: That said amendment was duly adopted in accordance with the provisions of Section 242 of the General Corporation Law of the State of Delaware.

IN WITNESS WHEREOF, said INSTRUMENT SYSTEMS CORPORATION has caused this certificate to be signed by Harvey R. Blau, its Chairman and attested by Susan Reilly, its Secretary, this 27th day of February, 1987.

INSTRUMENT SYSTEMS CORPORATION

By: Harvey R. Blau

Harvey R. Blau, Chairman

ATTEST:

Susan Reilly
- ----------------------
Susan Reilly, Secretary

CERTIFICATE OF AMENDMENT OF THE
CERTIFICATE OF INCORPORATION OF

INSTRUMENT SYSTEMS CORPORATION

* * * * * * * *

INSTRUMENT SYSTEMS CORPORATION, a corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware, DOES HEREBY CERTIFY:

FIRST: That at a meeting of the Board of Directors of INSTRUMENT SYSTEMS CORPORATION, resolutions were adopted setting forth a proposed amendment to the Certificate of Incorporation of said corporation, declaring said amendment to be advisable and calling a meeting of the stockholders of the corporation for consideration thereof.

SECOND: That thereafter, pursuant to resolution of its Board of Directors, the Annual Meeting of Stockholders of said corporation was duly called and held, upon notice in accordance with Section 222 of the General Corporation Law of the State of Delaware at which meeting the necessary number of shares as required by statute were voted in favor of the following amendment:

RESOLVED, that the Certificate of Incorporation of this Corporation be amended by changing the Article thereof number "FIRST" so that, as amended, said Article shall be and read as follows:

FIRST: The name of the corporation is:

GRIFFON CORPORATION

THIRD: That said amendment was duly adopted in accordance with the provisions of Section 242 of the General Corporation Law.

IN WITNESS WHEREOF, said INSTRUMENT SYSTEMS CORPORATION has caused this certificate to be signed by Robert Balemian, its President and attested by Susan Rowland, its Secretary, this 7th day of February, 1995.

INSTRUMENT SYSTEMS CORPORATION

By: Robert Balemian

Robert Balemian, President

ATTEST:

Susan Rowland
- ------------------------
Susan Rowland, Secretary

LOAN AGREEMENT

by and among

GRIFFON CORPORATION,

NATWEST BANK N.A., individually
and as Collateral Agent

and

CHEMICAL BANK

Dated June 8, 1995

TABLE OF CONTENTS

EXHIBITS

LOAN AGREEMENT

THIS LOAN AGREEMENT, made this 8th day of June, 1995 (this "Agreement"), is by and among:

GRIFFON CORPORATION, a Delaware corporation (the "Borrower");

NATWEST BANK N.A., a national banking association, and CHEMICAL BANK, a New York banking corporation (individually, a

"Bank" and, collectively, the "Banks"); and

NATWEST BANK N.A., in its capacity as Collateral Agent (as hereinafter defined);

W I T N E S S E T H:

WHEREAS, the Borrower wishes to obtain loans from the Banks in the aggregate principal sum of up to Sixty Million Dollars ($60,000,000), and the Banks are willing to make such loans to the Borrower in an aggregate principal amount of up to such sum on the terms and conditions hereinafter set forth;

NOW, THEREFORE, the parties hereto agree as follows:

Article 1. Definitions.

As used in this Agreement, in addition to the other terms defined herein, the following terms shall have the following meanings:

"Additional Costs" is defined in subsection 2.18(b) hereof.

"Affected Loans" is defined in Section 2.21 hereof.

"Affected Type" is defined in Section 2.21 hereof.

"Affiliate" means, as to any Person, any other Person that directly or indirectly controls, or is under common control with, or is controlled by, such Person. As used in this definition, "control" (including, with its correlative meanings, "controlled by" and "under common control with") shall mean possession, directly or indirectly, of power to direct or cause the direction of management or policies (whether through ownership of securities or partnership or other ownership interests, by contract or otherwise), provided that, in any event: (i) any Person that owns directly or indirectly 10% or more of the securities having ordinary voting power for the election of directors or other governing body of a corporation or 10% or more of the partnership or other ownership interests of any other Person (other than as a limited partner of such other Person) will be deemed to control such corporation or other Person; and (ii) each director and officer of the Borrower shall be deemed to be an Affiliate of the Borrower.

"Applicable Lending Office" means, with respect to each Bank, with respect to each type of Loan, the Lending Office as designated for such type of Loan below its name on the signature pages hereof or such other office of such Bank or of an affiliate of such Bank as such Bank may from time to time specify to the Borrower as the office at which its Loans of such type are to be made and maintained.

"Applicable Margin" means, as at any date of determination thereof, (i) if the Funded Debt to Cash Flow Ratio is less than 1.00 to 1.00, then with respect to any Prime Rate Loans, 0%, and with respect to any Eurodollar Loans, 0.625%; (ii) if the Funded Debt to Cash Flow Ratio is less than 1.50 to 1.00 but equal to or greater than 1.00 to 1.00, then with respect to any Prime Rate Loans, 0%, and with respect to any Eurodollar Loans, 0.875%; (iii) if the Funded Debt to Cash Flow Ratio is less than 2.50 to 1.00 but equal to or greater than 1.50 to 1.00, then with respect to any Prime Rate Loans, 0%, and with respect to any Eurodollar Loans, 1.25%; (iv) if the Funded Debt to Cash Flow Ratio is less than 3.50 to 1.00 but equal to or greater than 2.50 to 1.00, then

with respect to any Prime Rate Loans, 0.25%, and with respect to any Eurodollar Loans, 1.75%; and (v) if the Funded Debt to Cash Flow Ratio is equal to or greater than 3.50 to 1.00, then with respect to any Prime Rate Loans, 0.50%, and with respect to any Eurodollar Loans, 2.00%. The determination of the applicable percentage set forth above shall be made on a quarterly basis based on an examination of the financial statements of the Borrower delivered pursuant to and in compliance with Section 5.1 or Section 5.2 hereof; provided, however, that the applicable percentages as of the date of this Agreement shall be as set forth in clause (i) above until adjusted pursuant to this definition; and provided further, that upon the occurrence and during the continuance of a Default or an Event of Default, the Applicable Margin shall be as set forth in clause (v) above, unless the Funded Debt to Cash Flow Ratio is equal to or greater than 3.50 to 1:00, in which event the Applicable Margin shall be 1.00% with respect to any Prime Rate Loans and 2.50% with respect to any Eurodollar Loans. Each determination of the Applicable Margin shall be effective as of (a) January 15 of each year with respect to financial statements to be delivered pursuant to Section 5.1 hereof and (b) the first day of the calendar quarter following the date on which the financial statements on which such determination was based were to be delivered pursuant to Section 5.2 hereof. In the event that financial statements for the four full fiscal quarters most recently completed prior to such date of determination either: (i) have not been delivered to the Banks in compliance with Section 5.1 or 5.2 hereof, or (ii) if delivered, do not comply in form or substance with Section 5.1 or 5.2 hereof (in the sole judgement of the Banks), then the Banks may determine, in their reasonable judgment, the ratio referred to above that would have been in effect as at such date, and, consequently, the Applicable Margin in effect for the period commencing on such date.

"Assessment Rate" means, at any time, the rate (rounded upwards, if necessary, to the nearest 1/100 of 1%) then charged by the Federal Deposit Insurance Corporation (or any successor) to the applicable Principal Office for deposit insurance for Dollar time deposits with such Principal Office as determined by such Principal Office.

"Assignment and Acceptance" - an agreement in the form of Exhibit L hereto.

"Borrowing Notice" is defined in Section 2.2 hereof.

"Business Day" means, any day other than Saturday, Sunday or any other day on which commercial banks in New York City are authorized or required to close under the laws of the State of New York.

"Capitalized Lease" means, any lease the obligations to pay rent or other amounts under which constitute Capitalized Lease Obligations.

"Capitalized Lease Obligations" means, as to any Person, the obligations of such Person to pay rent or other amounts under a lease of (or other agreement conveying the right to use) real and/or personal property which obligations are required to be classified and accounted for as a capital lease on a balance sheet of such Person under generally accepted accounting principles and, for purposes of this Agreement, the amount of such obligations shall be the capitalized amount thereof, determined in accordance with generally accepted accounting principles.

"Cash" means, as to any Person, such Person's cash and cash equivalents, as defined in accordance with generally accepted accounting principles consistently applied.

"Change of Control" means (a) the acquisition by any Person, or two or more Persons acting in concert, of beneficial ownership (within the meaning of Rule 13d-3 of the Securities and Exchange Commission under the Securities Exchange Act of 1934) of 30% or more of the outstanding shares of voting stock of the Borrower, or (b) during any period of 25 consecutive calendar months, commencing on the date of this Agreement, the ceasing of those individuals (the "Continuing Directors") who (i) were directors of the Borrower on the first day of each such period or (ii) subsequently became directors of the Borrower and whose initial election or initial nomination for election subsequent to that date was approved by a majority of the Continuing Directors then on the board of directors of the Borrower, to constitute a majority of the board of directors of the Borrower.

"Chemical" means Chemical Bank, a New York banking corporation, in its capacity as a Bank hereunder.

"Clopay" means Clopay Corporation, a Delaware corporation.

"Code" means the Internal Revenue Code of 1986, as it may be amended from time to time.

"Collateral Agent" means NatWest Bank N.A., a national banking association, in its capacity as Collateral Agent pursuant to the terms and conditions of the Collateral Agent Agreement, and any successor thereto.

"Collateral Agent Agreement" means that certain Collateral Agent Agreement substantially in the form of Exhibit M hereto, dated as of the date hereof between NatWest and Chemical, including all amendments, modifications and supplements thereto.

"Commitment" means, as to each Bank, the amount set forth opposite such Bank's name on the signature pages hereof under the caption "Commitment" as such amount is subject to reduction in accordance with the terms hereof.

"Commitment Fee" is defined in subsection 2.7(a) hereof.

"Commitment Termination Date" means May 31, 1998.

"Compliance Certificate" means a certificate executed by the president or chief financial officer of the Borrower to the effect that: (i) as of the effective date of the certificate, no Default or Event of Default under this Agreement exists or would exist after giving effect to the action intended to be taken by the Borrower as described in such certificate, including, without limitation, that the covenants set forth in Section 6.9 hereof would not be breached after giving effect to such action, together with a calculation in reasonable detail, and in form and substance satisfactory to the Banks, of such compliance, and (ii) the representations and warranties contained in Article 3 hereof are true and with the same effect as though such representations and warranties were made on the date of such certificate, except for changes in the ordinary course of business none of which, either singly or in the aggregate, have had a material adverse effect on the business, operations or financial conditions of the Borrower or any of its Subsidiaries.

"Contingent Obligation", as applied to any Person, means any direct or indirect liability, contingent or otherwise, of that Person, without duplication: (a) with respect to any indebtedness, lease, dividend or other obligation of another Person if the primary purpose or intent of the Person incurring such liability, or the primary effect thereof, is to provide assurance to the

obligee of such liability that such liability will be paid or discharged, or that any agreements relating thereto will be complied with, or that the holders of such liability will be protected (in whole or in part) against loss with respect thereto; (b) with respect to any letter of credit issued for the account of that Person or as to which that Person is otherwise liable for reimbursement of drawings; (c) under any interest rate swap agreement, interest rate cap agreement, interest rate collar agreement or other similar agreement or arrangement designed to protect that Person against fluctuations in interest rates; or (d) under any foreign exchange contract, currency swap agreement or other similar agreement or arrangement designed to protect that Person against fluctuations in currency values. Contingent Obligations shall include (i) the direct or indirect guaranty, endorsement (other than for collection or deposit in the ordinary course of business), co-making, discounting with recourse or sale with recourse by such Person of the obligation of another, (ii) the obligation to make take-or-pay or similar payments if required regardless of nonperformance by any other party or parties to an agreement, and (iii) any liability of such Person for the

obligations of another through any agreement to purchase, repurchase or otherwise acquire such obligation or any property constituting security therefor, to provide funds for the payment or discharge of such obligation or to maintain the solvency, financial condition or any balance sheet item or level of income of another. The amount of any Contingent Obligation shall be equal to the amount of the obligation so guaranteed or otherwise supported or, if not a fixed and determined amount, the maximum amount so guaranteed.

"Controlled Group" means all members of a controlled group of corporations and all trades or businesses (whether or not incorporated) under common control which, together with the Borrower, are treated as a single employer under Section 414(b), 414(c) or 414(m) of the Code and Section 4001(a)(14) of ERISA.

"Current Assets" means current assets as determined in accordance with generally accepted accounting principles, consistently applied; provided, however, that any of such assets that are subject to a pledge, lien or security interest held by any Person to secure payment of any Indebtedness that is not included in Current Liabilities shall be excluded from Current Assets to the extent of such Indebtedness.

"Current Liabilities" means current liabilities as determined in accordance with generally accepted accounting principles, consistently applied, and shall include, as of the date of determination thereof: (i) all Indebtedness payable on demand or maturing within one year after such date without any option on the part of the obligor to extend or renew beyond such year, (ii) final maturities, installments and prepayments of Indebtedness required to be made within one year after such date, (iii) the unpaid principal balance of the Notes due within one year after such date, and (iv) all other items (including taxes accrued as estimated and reserves for deferred income taxes) that in accordance with generally accepted accounting principles, would be included on a balance sheet as current liabilities.

"Debt Instrument" is defined in subsection 8.4(a) hereof.

"Default" means an event which with notice or lapse of time, or both, would constitute an Event of Default.

"Defined Contribution Plan" means a plan which is not covered by Title IV of ERISA or subject to the minimum funding standards of Section 412 of the Code and which provides for an individual account for each participant and for benefits based

solely on the amount contributed to the participant's account, and any income, expenses, gains and losses, and any forfeitures of accounts of other participants which may be allocated to such participant's account.

"Dollars" and "$" means lawful currency of the United States of America.

"Eligible Assignee" - (a) any of the following that have been approved by the Majority Banks: (i) a commercial bank organized under the laws of the United States, or any state thereof; (ii) a savings and loan association or savings bank organized under the laws of the United States, or any state thereof; (iii) a commercial bank organized under the laws of any other country that is a member of the OECD or has concluded special lending arrangements with the International Monetary Fund associated with its General Arrangements to Borrow, or a political subdivision of any such country, so long as such bank is acting through a branch or agency located in the country in which it is organized or another country that is described in this clause (iii); (iv) the central bank of any country that is a member of the OECD which bank has assumed the assets and liabilities of a Bank; and (v) a finance company, insurance company or other financial institution or fund (whether a corporation, partnership, trust or other entity) that is engaged in making, purchasing or otherwise investing in commercial loans in the ordinary course of its business; (b) any other Person approved by the Majority Banks; and (c) a Bank or an Affiliate of a Bank.

"Employee Benefit Plan" means any employee benefit plan within the meaning of Section 3(3) of ERISA which (a) is maintained for employees of Borrower or any of its ERISA Affiliates or (b) has at any time within the preceding six (6) years been maintained for employees of the Borrower or any current ERISA Affiliate while an ERISA Affiliate.

"Employee Welfare Benefit Plan" means any employee benefit plan within the meaning of Section 3(1) of ERISA.

"Environmental Laws and Regulations" means all environmental, health and safety laws, regulations, resolutions, and ordinances applicable to the Borrower or any Subsidiary, or any of their respective assets or properties, including, without limitation: (i) all regulations, resolutions, ordinances, decrees, and other similar documents and instruments of all courts and governmental authorities, bureaus and agencies, domestic and foreign, whether issued by environmental regulatory agencies or otherwise, and (ii) all laws, regulations, resolutions, ordinances and decrees relating to Environmental Matters.

"Environmental Liability" means any liability under any applicable law for any release of a hazardous substance caused by the seeping, spilling, leaking, pumping, pouring, emitting, emptying, discharging, injecting, escaping, leaching, dumping or disposing of hazardous wastes or other chemical substances, pollutants or contaminants into the environment, and any liability for the costs of any clean-up or other remedial action including, without limitation, costs arising out of security fencing, alternative water supplies, temporary evacuation and housing and other emergency assistance undertaken by any environmental regulatory body having jurisdiction over the Borrower or any Subsidiary to prevent or minimize any actual or threatened release by the Borrower or any Subsidiary of any hazardous wastes or other hazardous substances, pollutants and contaminants into the environment that would endanger the public health or the environment.

"Environmental Matter(s)" means a release of any toxic or

hazardous waste or other hazardous substance, pollutant or contaminant into the environment or the generation, treatment, storage or disposal of any toxic or hazardous wastes or other hazardous substances.

"Environmental Proceeding" means any judgment, action, proceeding or investigation pending before any court or governmental authority, bureau or agency, including, without limitation, any environmental regulatory body, with respect to, or to the best of Borrower's knowledge threatened against, the Borrower or any Subsidiary or relating to the assets or liabilities of any of them, including, without limitation, in respect of any "facility" owned, leased or operated by any of them under the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended, or under any state, local or municipal statute, ordinance or regulation in respect thereof, in connection with any release of any toxic or hazardous waste or other chemical substance, pollutant or contaminant into the environment, or with the generation, storage or disposal of any toxic or hazardous wastes or other chemical substances.

"ERISA" means the Employee Retirement Income Security Act of 1974, as it may be amended from time to time, and the regulations promulgated thereunder.

"ERISA Affiliate" means as applied to the Borrower, any corporation, person or trade or business which is a member of the Borrower's Controlled Group.

"Eurodollar Business Day" means a Business Day on which dealings in Dollar deposits are carried out in the Eurodollar interbank market.

"Eurodollar Loans" means Loans the interest on which is determined on the basis of rates referred to in subparagraph (a) of the definition of "Fixed Base Rate" in this Article 1.

"Event of Default" is defined in Article 8 hereof.

"Facility Fee" is defined in subsection 2.7(b) hereof.

"Federal Funds Rate" means, for any day, the weighted average of the rates on overnight federal funds transactions with member banks of the Federal Reserve System arranged by federal funds brokers as published by the Federal Reserve Bank of New York for such day, or if such day is not a Business Day, for the next preceding Business Day (or, if such rate is not so published for any such day, the average rate charged to each Bank on such day on such transactions as reasonably determined by the Banks).

"Fee(s)" is defined in subsection 2.7(c) hereof.

"Financial Statements" means, with respect to the Borrower: (i) its consolidated audited Balance Sheet as at September 30, 1994, together with the related audited Income Statement, Statement of Shareholders' Equity and Statement of Cash Flows for the fiscal year then ended, (ii) its consolidated unaudited Balance Sheet as at March 31, 1995, together with the related unaudited Income Statement and Statement of Cash Flows for the 3-month period then ended, and (iii) each of the financial statements delivered to the Banks pursuant to subsections 5.1 and 5.2 hereof.

"Fixed Base Rate" means, with respect to any Eurodollar Loan for any Interest Period therefor, the rate per annum equal to the offered rate for deposits in Dollars, for a period comparable to the Interest Period and in an amount substantially equal to the principal amount of the Eurodollar Loan to be made by each Bank to

which such Interest Period relates, appearing on the Reuters Screen LIBO Page as of 11:00 a.m. London time (or as soon thereafter as practicable) on the day that is two (2) Eurodollar Business Days prior to the first day of such Interest Period. If two or more of such rates appear on the Reuters Screen LIBO Page, the rate shall be the arithmetic mean of such rates. If the foregoing rate is unavailable from the Reuters Screen for any reason, then such rate shall be determined by each Bank from Telerate Page 3750 or, if such rate is also unavailable on such service, then from any other interest rate reporting service of recognized standing designated in writing by each Bank to the Borrower and the other Bank.

"Fixed Rate" means, for any Eurodollar Rate Loan for any Interest Period therefor, the rate per annum (rounded upwards, if necessary, to the nearest 1/100 of 1%) equal to (x) the Fixed Base Rate for such Loan for such Interest Period; divided by (y) 1 minus the Reserve Requirement for such Loan for such Interest Period. Each Bank shall use its best efforts to advise the Borrower upon its request of the Fixed Rate for each Interest Period as soon as practicable after each change in the Fixed Rate; provided, however, that the failure of either Bank to so advise the Borrower on any one or more occasions shall not affect the rights of either Bank or the obligations of the Borrower hereunder.

"Funded Debt to Cash Flow Ratio" means, for any period, the ratio of (a) Long-term Indebtedness of the Borrower and its Subsidiaries plus, without duplication, any Indebtedness for money borrowed of the Borrower and its Subsidiaries which will be due and payable during the immediately succeeding twelve month period, in each case outstanding as of the last day of such period, to (b) the sum of net income of the Borrower and its Subsidiaries (determined in accordance with generally accepted accounting principles consistently applied) for the most recently completed four fiscal quarters, plus extraordinary and unusual non-cash losses for such period, plus depreciation and amortization expense for such period, minus extraordinary and unusual non-cash gains for such period, minus capital expenditures for such period.

"Indebtedness" means, with respect to any Person, all: (i) liabilities or obligations, direct and contingent, which in accordance with generally accepted accounting principles would be included in determining total liabilities as shown on the liability side of a balance sheet of such Person at the date as of which Indebtedness is to be determined, including, without limitation, contingent liabilities that in accordance with such principles, would be set forth in a specific Dollar amount on the liability side of such balance sheet, and Capitalized Lease Obligations of such Person; (ii) liabilities or obligations of others for which such Person is directly or indirectly liable, by way of guaranty (whether by direct guaranty, suretyship, discount, endorsement, take-or-pay agreement, agreement to purchase or advance or keep in funds or other agreement having the effect of a guaranty) or otherwise; (iii) liabilities or obligations secured by Liens on any assets of such Person, whether or not such liabilities or obligations shall have been assumed by it; and (iv) liabilities or obligations of such Person, direct or contingent, with respect to letters of credit (other than documentary letters of credit used in connection with the purchase of goods) issued for the account of such Person and bankers acceptances created for such Person.

"Interest Period" means, with respect to any Eurodollar Loan, each period commencing on the date such Loan is made or converted from a Loan or Loans of another type, or the last day of the next preceding Interest Period with respect to such Loan, and ending on the same day in the first, second, third or sixth calendar month thereafter, as the Borrower may select as provided in Section 2.2 hereof, except that each such Interest Period that commences on the last Eurodollar Business Day of a calendar month

(or on any day for which there is no numerically corresponding day in the appropriate subsequent calendar month) shall end on the last Eurodollar Business Day of the appropriate subsequent calendar month. Notwithstanding the foregoing: (i) each Interest Period that would otherwise end on a day that is not a Business Day shall end on the next succeeding Business Day (or, in the case of an Interest Period for Eurodollar Loans, if such next succeeding Eurodollar Business Day falls in the next succeeding calendar month, on the next preceding Eurodollar Business Day); (ii) no more than five (5) Interest Periods for Eurodollar Rate Loans shall be in effect at the same time; (iii) any Interest Period for any type of Loan that commences before the Commitment Termination Date shall end no later than the Commitment Termination Date; and (iv) notwithstanding clause (iii) above, no Interest Period shall have a duration of less than one month (in the case of Eurodollar Loans). In the event that the Borrower fails to select the duration of any Interest Period for any Loan within the time period and otherwise as provided in Section 2.2 hereof, such Loans will be automatically converted into a Prime Rate Loan on the last day of the preceding Interest Period for such Loan.

"Investment" means, by any Person:

(a) the amount paid or committed to be paid, or the value of property or services contributed or committed to be contributed, by such Person for or in connection with the acquisition by such Person of any stock, bonds, notes, debentures, partnership or other ownership interests or other securities of any other Person; and

(b) the amount of any advance, loan or extension of credit by such Person, to any other Person, or guaranty or other similar obligation of such Person with respect to any Indebtedness of such other Person, and (without duplication) any amount committed to be advanced, loaned, or extended by such Person to any other Person, or any amount the payment of which is committed to be assured by a guaranty or similar obligation by such Person for the benefit of, such other Person.

"IRS" means the Internal Revenue Service.

"Latest Balance Sheet" is defined in subsection 3.9(a) hereof.

"Leases" means leases and subleases (other than Capitalized Leases), licenses for the use of real property, easements, grants, and other attachment rights and similar instruments under which the Borrower has the right to use real or personal property or rights of way.

"Lien" means any mortgage, deed of trust, pledge, security interest, encumbrance, lien or charge of any kind (including any agreement to give any of the foregoing), any conditional sale or other title retention agreement, any lease in the nature of any of the foregoing, and the filing of or agreement to give any financing statement under the Uniform Commercial Code of any jurisdiction.

"Lightron" means Lightron Corporation, a Delaware corporation.

"Loan(s)" is defined in Section 2.1 hereof. Loans of different types made or converted from Loans of other types on the same day (or of the same type but having different Interest Periods) shall be deemed to be separate Loans for all purposes of this Agreement.

"Loan Documents" means this Agreement, the Notes, the

Pledge Agreements and all other documents required to be executed and delivered in connection herewith or therewith, including all amendments, modifications and supplements of or to all such documents.

"Loan Party" means the Borrower and any Subsidiary which hereafter executes and delivers to the Banks any Loan Document.

"Long-term Indebtedness" means:

(i) any Indebtedness payable more than one year from the date of creation thereof (including, without limitation and without duplication, any portion thereof payable on demand or maturing within one year after such date), which under generally accepted accounting principles is shown on the balance sheet as a liability (including Capitalized Lease Obligations but excluding reserves for deferred income taxes and other reserves to the extent that such reserves do not constitute an obligation), and

(ii) Indebtedness payable more than one year from the date of creation thereof (including, without limitation and without duplication, any portion thereof payable on demand or maturing within one year after such date), which is secured by any Lien on property owned by the Borrower or any Subsidiary, whether or not the indebtedness secured thereby shall have been assumed by the Borrower or such Subsidiary.

Any obligation shall be treated as Long-term Indebtedness, regardless of its term if such obligation is renewable pursuant to the terms thereof or of a revolving credit or similar agreement effective for more than one year after the date of the creation of such obligation, or may be payable out of the proceeds of a similar obligation pursuant to the terms of such obligation or of any such agreement.

"Majority Banks" means, at any time while no Loans are outstanding hereunder, Banks having at least 66-2/3% of the aggregate amount of the Commitments and, at any time while Loans are outstanding hereunder, Banks holding at least 66-2/3% of the outstanding aggregate principal amount of the Loans hereunder.

"Material Adverse Effect" means any matter which would result in liability to the Borrower or any ERISA Affiliate in an amount which would materially adversely affect the business or financial condition of the Borrower and its Subsidiaries on a consolidated basis.

"Monthly Dates" means the first day of each calendar month, the first of which shall be the first day of the first calendar month following the date of this Agreement.

"Multiemployer Plan" means a "multiemployer plan" as defined in Section 4001(a)(3) of ERISA which is a Pension Plan and to which the Borrower or any ERISA Affiliate is making, or is accruing an obligation to make, contributions or has made, or been obligated to make, contributions within the preceding six (6) years while an ERISA Affiliate.

"NatWest" means NatWest Bank N.A., a national banking association, in its capacity as a Bank hereunder.

"New Type Loans" is defined in Section 2.21 hereof.

"Note(s)" is defined in Section 2.4 hereof.

"Obligations" means, collectively, all of the Indebtedness, liabilities and obligations of the Borrower to the Banks, whether now existing or hereafter arising, whether or not

currently contemplated, arising under the Loan Documents.

"PBGC" means the Pension Benefit Guaranty Corporation.

"Pension Plan" means at any time an employee pension benefit plan that is covered by Title IV of ERISA or subject to the minimum funding standards under Section 412 of the Code and is either: (i) maintained by the Borrower or any ERISA Affiliate for employees of the Borrower, or by the Borrower for employees of any ERISA Affiliate, or (ii) maintained pursuant to a collective bargaining agreement or any other arrangement under which more than one employer makes contributions and to which the Borrower or any ERISA Affiliate is then making or accruing an obligation to make contributions or has, while an ERISA Affiliate, within the preceding five plan years made contributions.

"Permitted Acquisition" means the acquisition by the Borrower or any Subsidiary of any Person or of any division or line of business of any Person (whether a Person, or division or line of business, an "Eligible Business"), either by merger, consolidation, purchase of stock, or purchase of all or a substantial part of the assets of such Eligible Business (any such type of transaction is referred to in this Agreement as an "acquisition" and the principal agreement relating thereto, whether a stock purchase agreement, an asset purchase agreement, a merger agreement or otherwise, is referred to in this Agreement as the "acquisition agreement"); provided that (i) the aggregate Permitted Acquisition Purchase Price of all such Permitted Acquisitions during the term of this Agreement does not exceed One Hundred Million Dollars ($100,000,000) in the aggregate, (ii) no Default or Event of Default shall exist immediately before and after giving affect to such Permitted Acquisition or result from the consummation thereof, and (iii) each of the following conditions shall have been satisfied:

(a) such transaction shall not be a "hostile" acquisition or other "hostile" transaction (i.e., such transaction shall not be opposed by the Board of Directors of the Eligible Business), provided that in the event the Borrower proposes to initiate such transaction as a hostile transaction with the intent to subsequently obtain the approval of the Board of Directors of the Eligible Business, the Borrower may notify each Bank in writing in advance of the initiation of such proposed transaction together with any information concerning such transaction as any Bank may request, and, provided that each Bank shall have approved such transaction in writing prior to the initiation of such transaction, with the approval of each Bank being based on any possible conflict of any kind or other policy considerations of such Bank concerning such proposed acquisition and with such approval not to be unreasonably withheld, the Borrower may proceed with such transaction so long as the transaction ultimately is approved by the Board of Directors of the Eligible Business (and a majority of which were members of such Board of Directors at the time such transaction was initiated) and is otherwise in accordance with the terms of this Agreement;

(b) such acquisition (1) if such acquisition is a stock acquisition, shall be of greater than 50% of the issued and outstanding capital stock of such Eligible Business, whether by purchase or as a result of merger or consolidation (provided that the Borrower shall be the surviving corporation in any such merger or consolidation in which it is directly involved), and in any event shall consist of shares of capital stock with sufficient voting rights which entitles the Borrower to elect a majority of

the directors of such Eligible Business and to control the outcome of any shareholder votes with respect to the shareholders of such Eligible Business, and (2) if such acquisition is an asset acquisition, shall be of all or a substantial part of an Eligible

Business; and

(c) the Borrower or its Subsidiaries shall have (1) pledged to the Collateral Agent for the benefit of the Banks all of the issued and outstanding capital stock acquired by the Borrower or any Subsidiary of (A) any Eligible Business the capital stock of which is to be acquired pursuant to such acquisition in which the Permitted Acquisition Purchase Price is greater than $15,000,000, and (B) any new Subsidiary created as an acquisition vehicle with respect to such acquisition, (2) delivered to the Collateral Agent, simultaneously with consummation of such acquisition, all of the stock certificates representing such shares, together with stock powers executed in blank and proxies with respect thereto and (3) caused to be delivered to the Banks from any new Subsidiary customary corporate documents (including certified certificate of incorporation, by-laws and good standing certificates).

"Permitted Acquisition Purchase Price" means, with respect to any Permitted Acquisition, collectively, without duplication, (i) all Cash paid by the Borrower or any of its Subsidiaries in connection with such Permitted Acquisition, including in respect of transaction costs, fees and other expenses incurred by the Borrower or any of its Subsidiaries in connection with such Permitted Acquisition, (ii) all Indebtedness created, and all Indebtedness assumed, by the Borrower or any of its Subsidiaries in connection with such Permitted Acquisition, including, without limitation, the maximum amount of any purchase price to be paid pursuant to any "earn out" provision contained in the agreements related to any Permitted Acquisition, (iii) the value of all capital stock issued by the Borrower or any of its Subsidiaries in connection with such Permitted Acquisition and (iv) any deferred portion of the purchase price or any other costs paid by the Borrower or any of its Subsidiaries in connection with such Permitted Acquisition.

"Permitted Liens" means, as to any Person: (i) pledges or deposits by such Person under workers' compensation laws, unemployment insurance laws, social security laws, or similar legislation, or good faith deposits in connection with bids, tenders, contracts (other than for the payment of Indebtedness of such Person), or leases to which such Person is a party, or deposits to secure public or statutory obligations of such Person or deposits of Cash or United States Government Bonds to secure surety, appeal, performance or other similar bonds to which such Person is a party, or deposits as security for contested taxes or import duties or for the payment of rent; (ii) Liens imposed by law, such as carriers', warehousemen's, materialmen's and mechanics' liens, or Liens arising out of judgments or awards against such Person with respect to which such Person at the time shall currently be prosecuting an appeal or proceedings for review; (iii) Liens for taxes not yet subject to penalties for non-payment and Liens for taxes the payment of which is being contested as permitted by Section 6.6 hereof; and (iv) minor survey exceptions, minor encumbrances, easements or reservations of, or rights of, others for rights of way, highways and railroad crossings, sewers,

electric lines, telegraph and telephone lines and other similar purposes, or zoning or other restrictions as to the use of real properties, or Liens incidental to the conduct of the business of such Person or to the ownership of such Person's property that were not incurred in connection with Indebtedness of such Person, all of which Liens referred to in the preceding clause (iv) do not in the aggregate materially detract from the value of the properties to which they relate or materially impair their use in the operation of the business taken as a whole of such Person, and as to all the foregoing only to the extent arising and continuing in the ordinary course of business.

"Person" means an individual, a corporation, a partnership, a joint venture, a trust or unincorporated organization, a joint stock company or other similar organization, a government or any political subdivision thereof, a court, or any other legal entity, whether acting in an individual, fiduciary or other capacity.

"Pledge Agreements" means that certain Pledge Agreement substantially in the form of Exhibit A-3 hereto, dated as of the date hereof between the Borrower and the Banks, and any other pledge agreement executed and delivered by the Borrower or any Subsidiary from time to time in connection herewith, including all amendments, modifications and supplements of or to all such agreements.

"Post-Default Rate" means (i) in respect to principal of or interest on any Loans not paid when due (whether at stated maturity, by acceleration or otherwise), a rate per annum during the period commencing on the due date until such unpaid principal is paid in full equal to: (x) if such Loans are Prime Rate Loans, 2% above the Prime Rate as in effect from time to time plus the Applicable Margin for Prime Rate Loans (but in no event less than the interest rate in effect on the due date), or (y) if such Loans are Eurodollar Rate Loans, 2% above the rate of interest in effect thereon at the time of such default until the end of the then current Interest Period therefor and, thereafter, 2% above the Prime Rate as in effect from time to time plus the Applicable Margin for Prime Rate Loans (but in no event less than the interest rate in effect on the due date); and (ii) in respect of other amounts payable by the Borrower hereunder (other than interest) not paid when due (whether at stated maturity, by acceleration or otherwise), a rate per annum during the period commencing on the due date until such other amounts are paid in full equal to 2% above the Prime Rate as in effect from time to time plus the Applicable Margin for Prime Rate Loans (but in no event less than the interest rate in effect on the due date).

"Prime Rate" means with respect to Prime Rate Loans made by NatWest, the interest rate established from time to time by NatWest as its prime rate at its Principal Office, and (ii) with respect to Prime Rate Loans made by Chemical, the interest rate publicly announced by Chemical at its Applicable Lending Office as its prime rate. Notwithstanding the foregoing, the Borrower acknowledges that the Banks may regularly make domestic commercial loans at rates of interest less than the rate of interest referred

to in the preceding sentence. Each change in any interest rate provided for herein based upon the Prime Rate resulting from a change in the Prime Rate shall take effect at the time of such change in the Prime Rate.

"Prime Rate Loans" means Loans that bear interest at a rate based upon the Prime Rate.

"Principal Office" means (i) with respect to NatWest, the principal office presently located at 175 Water Street, New York, New York 10038, and (ii) with respect to Chemical, 270 Park Avenue, New York, New York 10017.

"Principal Subsidiary" means Clopay, Telephonics or Lightron.

"Projections" means (i) the Griffon Corporation Statement of Operations for the years ended September 30, 1995 through 1999, and delivered to the Banks on or prior to the date of this Agreement (which includes projected income statements and balance sheets), and (ii) the projections delivered to the Banks pursuant to Section 5.3 hereof.

"Purchase Money Security Interest" is defined in subsection 7.2(c) hereof.

"Quarterly Dates" means the first day of each March, June, September and December of each year, the first of which shall be the first such day after the date of this Agreement, provided that, if any such date is not a Eurodollar Business Day, the relevant Quarterly Date shall be the next succeeding Eurodollar Business Day (or, if the next succeeding Eurodollar Business Day falls in the next succeeding calendar month, then on the next preceding Eurodollar Business Day).

"Quick Ratio" means as at any date, the ratio of Current Assets (excluding inventories) to Current Liabilities.

"Real Property" is defined in Section 7.13 hereof.

"Regulation D" means Regulation D of the Board of Governors of the Federal Reserve System, as the same may be amended or supplemented from time to time.

"Regulatory Change" means, as to any Bank, any change after the date of this Agreement in United States federal, state or foreign laws or regulations (including Regulation D and the laws or regulations that designate any assessment rate relating to certificates of deposit or otherwise (including the "Assessment Rate" if applicable to any Loan)) or the adoption or making after such date of any interpretations, directives or requests applying to a class of banks, including such Bank, of or under any United States federal, state or foreign laws or regulations (whether or not having the force of law) by any court or governmental or monetary authority charged with the interpretation or administration thereof.

"Reserve Requirement" means, for any Eurodollar Rate Loans for any quarterly period (or, as the case may be, shorter period) as to which interest is payable hereunder, the average maximum rate at which reserves (including any marginal, supplemental or emergency reserves) are required to be maintained during such period under Regulation D by member banks of the Federal Reserve System in New York City with deposits exceeding one billion Dollars against "Eurocurrency liabilities" (as such term is used in Regulation D). Without limiting the effect of the foregoing, the Reserve Requirement shall reflect any other reserves required to be maintained by such member banks by reason of any Regulatory Change against: (i) any category of liabilities that includes deposits by references to which the Fixed Rate for Eurodollar Loans is to be determined as provided in the definition of "Fixed Base Rate" in this Article 1, or (ii) any category of extensions of credit or other assets that include Eurodollar Loans.

"Revolving Credit Period" means the period commencing on the date of this Agreement and ending on the Commitment Termination Date.

"Security Documents" is defined in subsection 2.23(b) hereof.

"Standard-Keil" means Standard-Keil Industries, Inc., a Delaware corporation.

"Subordinated Debt" means unsecured Indebtedness for money borrowed that is subordinated upon terms and in form and substance reasonably satisfactory to the Banks, as evidenced by the Banks' written consent thereto given prior to the creation of such Indebtedness.

"Subsidiary" means, with respect to any Person, any corporation, partnership or joint venture whether now existing or hereafter organized or acquired: (i) in the case of a corporation, of which a majority of the securities having ordinary voting power for the election of directors (other than securities having such power only by reason of the happening of a contingency) are at the time owned by such Person and/or one or more Subsidiaries of such Person, or (ii) in the case of a partnership or joint venture in which such Person is a general partner or joint venturer or of which a majority of the partnership or other ownership interests are at the time owned by such Person and/or one or more of its Subsidiaries. Unless the context otherwise requires, references in this Agreement to "Subsidiary" or "Subsidiaries" shall be deemed to be references to a Subsidiary or Subsidiaries of the Borrower.

"Tangible Net Worth" means the sum of capital surplus, earned surplus and capital stock, minus deferred charges (including, but not limited to, unamortized debt discount and expense, organization expenses and experimental and development expenses, but excluding prepaid expenses and deferred income tax assets), intangibles and treasury stock, all as determined in accordance with generally accepted accounting principles consistently applied.

"Telephonics" means Telephonics Corporation, a Delaware corporation.

"Termination Date" means May 31, 2003.

"Termination Event" means (a) a "Reportable Event" described in Section 4043 of ERISA and the regulations issued thereunder for which the 30-day notice requirement is not waived by the regulations; or (b) the withdrawal of the Borrower or any ERISA Affiliate from a Pension Plan during a plan year in which it was a "substantial employer" as defined in Section 4001(a)(2) of ERISA or was deemed such under Section 4068(f) of ERISA; or (c) the termination of a Pension Plan subject to Title IV of ERISA, the filing of a notice of intent to terminate a Pension Plan subject to Title IV of ERISA, or the treatment of a Pension Plan amendment as a termination under Section 4041 of ERISA; or (d) the institution of proceedings to terminate a Pension Plan by the PBGC; or (e) any other event or condition which would constitute grounds under Section 4042(a) of ERISA for the termination of, or the appointment of a trustee to administer, any Pension Plan subject to such Section 4042(a); or (f) the partial or complete withdrawal of the Borrower or any ERISA Affiliate from a Multiemployer Plan; or (g) the imposition of a Lien pursuant to Section 412 of the IRC or Section 302 of ERISA; or (h) any event or condition which results in the reorganization or insolvency of a Multiemployer Plan under Section 4241 or Section 4245 of ERISA, respectively; or (i) any event or condition which results in the termination of a Multiemployer Plan under Section 4041A of ERISA or the institution by the PBGC of proceedings to terminate a Multiemployer Plan under Section 4042 of ERISA.

"Unsubordinated Liabilities" means, with respect to any Person, all Indebtedness as defined in clause (i) of the definition of "Indebtedness" but excluding any Subordinated Debt.

"Unused Commitment" means, as at any date, for each Bank, the difference, if any, between: (i) the amount of such Bank's Commitment as in effect on such date, and (ii) the then aggregate outstanding principal amount of all Loans made by such Bank.

"Western Synthetic" means Western Synthetic Felt Company, a division of Lightron.

Any accounting terms used in this Agreement that are not specif-

ically defined herein shall have the meanings customarily given to them in accordance with generally accepted accounting principles as in effect on the date of this Agreement, except that references in Article 5 to such principles shall be deemed to refer to such principles as in effect on the date of the financial statements delivered pursuant thereto.

Article 2. Commitments; Loans.

Section 2.1 Loans.

Each Bank hereby severally agrees, on the terms and subject to the conditions of this Agreement, to make loans (individually a "Loan" and, collectively, the "Loans") to the Borrower during the Revolving Credit Period to and including the Commitment Termination Date in an aggregate principal amount at any one time outstanding up to, but not exceeding, the Commitment of

such Bank as then in effect. Subject to the terms of this Agreement, during the Revolving Credit Period the Borrower may borrow, repay (provided that repayment of Eurodollar Loans shall be subject to the provisions of Section 2.22 hereof) and reborrow up to the amount of each Bank's Commitment (after giving effect to the mandatory and voluntary reductions required and permitted herein) by means of Prime Rate Loans or Eurodollar Loans, and during such period and thereafter until the date of the payment in full of all of the Loans, the Borrower may convert Loans of one type into Loans of another type (as provided in Section 2.17 hereof).

Section 2.2 Notices Relating to Loans.

The Borrower shall give each Bank written notice of each termination or reduction of the Commitments, each borrowing, conversion and prepayment of each Loan and of the duration of each Interest Period applicable to each Eurodollar Rate Loan (in each case, a "Borrowing Notice"). Each such written notice shall be irrevocable and shall be effective only if received by each Bank not later than 11 a.m., New York City time, on the date that is:

(a) in the case of each notice of termination or reduction and each notice of borrowing or prepayment of, or conversion into, Prime Rate Loans, the same as the date of the related termination, reduction, borrowing, prepayment or conversion; and

(b) in the case of each notice of borrowing or prepayment of, or conversion into, Eurodollar Loans, or the duration of an Interest Period for Eurodollar Loans, three (3) Eurodollar Business Days prior to the date of the related borrowing, prepayment, or conversion or the first day of such Interest Period.

Each such notice of termination or reduction shall specify the amount thereof. Each such notice of borrowing, conversion or prepayment shall specify the amount (subject to Section 2.1 hereof) and type of Loans to be borrowed, converted or prepaid (and, in the case of a conversion, the type of Loans to result from such conversion), the date of borrowing, conversion or prepayment (which shall be: (x) a Business Day in the case of each borrowing or prepayment of Prime Rate Loans and (y) a Eurodollar Business Day in the case of each borrowing or prepayment of Eurodollar Loans and each conversion of or into a Eurodollar Loan). Each such notice of the duration of an Interest Period shall specify the Loans to which such Interest Period is to relate.

Section 2.3 Disbursement of Loan Proceeds.

The Borrower shall give the Banks notice of each borrowing hereunder as provided in Section 2.2 hereof. Not later than 3:00 p.m., New York City time, on the date specified for each borrowing hereunder, each Bank shall transfer to the Borrower the amount of the Loan to be made by it on such date by depositing the amount thereof in an account of the Borrower maintained with such Bank.

Section 2.4 Notes.

(a) The Loans made by NatWest shall be evidenced by a single promissory note of the Borrower in substantially the form of Exhibit A-1 hereto and the Loans made by Chemical shall be evidenced by a single promissory note of the Borrower in substantially the form of Exhibit A-2 hereto (each, a "Note" and collectively, the "Notes"). Each Note shall be dated the date of this Agreement, shall be payable to the order of such Bank in a principal amount equal to such Bank's Commitment as originally in effect, and shall otherwise be duly completed. The Notes shall be payable as provided in Sections 2.1 and 2.5 hereof.

(b) Each Bank shall enter on a schedule attached to its Note a notation with respect to each Loan made hereunder of: (i) the date and principal amount thereof, (ii) each payment and prepayment of principal thereof, (iii) whether the interest rate is initially to be determined in accordance with subsection 2.6(a)(i) or 2.6(a)(ii) hereof, and (iv) the Interest Period, if applicable. The failure of any Bank to make a notation on the schedule to its Note as aforesaid shall not limit or otherwise affect the obligation of the Borrower to repay the Loans in accordance with their respective terms as set forth herein.

Section 2.5 Repayment of Principal of Loans.

(a) The Commitments of the Banks to make additional Loans shall terminate on the Commitment Termination Date and the Borrower shall pay to each Bank the principal of the Loans made by such Bank outstanding on the close of business on the Commitment Termination Date in twenty (20) consecutive quarterly installments on the Quarterly Dates, commencing on September 1, 1998 and with the final installment payable on the Termination Date (provided that the last such payment shall be in an amount sufficient to repay in full the principal amount of such Loans), with the amount of the installment paid on each Payment Date to be equal to five percent (5.0%) of the principal of such Loans outstanding at the close of business on the Commitment Termination Date.

(b) The Loans: (i) shall be repaid as and when necessary to cause the aggregate principal amount of the Loans outstanding not to exceed each Bank's Commitment, as reduced pursuant to Section 2.8 hereof, and (ii) may be repaid at any time and from time to time, in whole or in part, without premium or penalty (except as otherwise provided in Section 2.22 hereof), upon prior written notice to each Bank as provided in Section 2.2 hereof, in a minimum amount of $250,000 and in integral multiples of $50,000 in the case of Prime Rate Loans, and in a minimum amount of $1,250,000 and in integral multiples of $50,000 in the case of Eurodollar Rate Loans, except as otherwise provided in Section 2.11 hereof, and any amount so repaid may, subject to the terms and conditions hereof, including the borrowing limitation imposed by the Commitments, be reborrowed hereunder during the Revolving Credit Period; provided, however, that: (A) Eurodollar Rate Loans may be repaid only on the last day of an Interest Period for such Loans, and (B) all repayments of Loans or any portion thereof shall be made together with payment of all interest accrued on the amount repaid through the date of such repayment.

(c) Except as set forth in Sections 2.18, 2.19 and

2.21 hereof, all payments and repayments made pursuant to the terms hereof shall be applied first to Prime Rate Loans, and shall be applied to Eurodollar Rate Loans only to the extent any such payment exceeds the principal amount of Prime Rate Loans outstanding at the time of such payment.

(d) The Borrower may request a Eurodollar Rate Loan only if compliance with the payment schedule set forth in subsection 2.5(a) hereof (with the payments provided for therein being applied in accordance with subsection 2.5(c) hereof) would not result in any portion of the principal amount of such Eurodollar Rate Loan being paid prior to the last day of the Interest Period applicable thereto.

Section 2.6 Interest.

(a) The Borrower shall pay to each Bank interest on the unpaid principal amount of each Loan made by such Bank for the period commencing on the date of such Loan until such Loan shall be paid in full, at the following rates per annum:

(i) During such periods that such Loan is a Prime Rate Loan, the Prime Rate plus the Applicable Margin; and

(ii) During such periods that such Loan is a Eurodollar Loan, for each Interest Period relating thereto, the Fixed Rate for such Loan for such Interest Period plus the Applicable Margin.

(b) Notwithstanding the foregoing, the Borrower shall pay interest on any Loan or any installment thereof, and on any other amount payable by the Borrower hereunder (to the extent permitted by law) that shall not be paid in full when due (whether at stated maturity, by acceleration or otherwise) for the period commencing on the due date thereof until the same is paid in full at the applicable Post-Default Rate.

(c) Except as provided in the next sentence, accrued interest on each Loan shall be payable: (i) in the case of a Prime Rate Loan, monthly in arrears on the Monthly Dates, (ii) in the case of a Eurodollar Rate Loan, on the last day of each Interest Period for such Loan (and, if such Interest Period exceeds one month in duration, monthly, on the Monthly Dates), and (iii) in the case of any Loan, upon the payment or prepayment thereof or the conversion thereof into a Loan of another type (but only on the principal so paid, prepaid or converted). Interest that is payable at the Post-Default Rate shall be payable from time to time on demand of either Bank. Promptly after the establishment of any interest rate provided for herein or any change therein, each Bank will notify the Borrower thereof, provided that the failure of either Bank to so notify the Borrower shall not affect the obligations of the Borrower hereunder or under either of the Notes in any respect.

(d) Anything in this Agreement or either of the Notes to the contrary notwithstanding, the obligation of the Borrower to make payments of interest shall be subject to the limitation that payments of interest shall not be required to be made to either Bank to the extent that such Bank's receipt thereof would not be permissible under the law or laws applicable to such Bank limiting rates of interest that may be charged or collected by such Bank. Any such payments of interest that are not made as a result of the limitation referred to in the preceding sentence shall be made by the Borrower to such Bank on the earliest interest payment date or dates on which the receipt thereof would be permissible under the laws applicable to such Bank limiting rates of interest that may be charged or collected by such Bank. Such deferred interest shall not bear interest.

Section 2.7 Fees.

(a) The Borrower shall pay to each Bank for the account of each Bank a commitment fee (the "Commitment Fee") on the daily average amount of such Bank's Unused Commitment, for the period from the date hereof to and including the earlier of the date such Bank's Commitment is terminated or the Commitment Termination Date, at the rate of one-quarter of one (0.25%) percent per annum on the total Unused Commitment for such Bank. The accrued Commitment Fee shall be payable quarterly in arrears on the Quarterly Dates, commencing with September 1, 1995, and on the earlier of the date the Commitments are terminated or the Commitment Termination Date, and, in the event the Borrower reduces the Commitment as provided in Section 2.8 hereof, on the effective date of such reduction.

(b) Simultaneously with the execution and delivery of this Agreement, the Borrower shall pay to each Bank pro rata according to their respective Commitments, a non-refundable facility fee (the "Facility Fee") in an amount equal to One Hundred Fifty Thousand ($150,000) Dollars in the aggregate.

(c) The Commitment Fee and the Facility Fee are hereinafter sometimes referred to individually as a "Fee" and collectively as the "Fees".

Section 2.8 Voluntary Changes in Commitment; Prepayments After Commitment Termination Date.

Subject to Section 2.15 hereof, the Borrower shall be entitled to terminate or reduce the Banks' Commitments provided that the Borrower shall give notice of such termination or reduction to the Banks as provided in Section 2.2 hereof and that any partial reduction of the Commitments shall be in an aggregate amount equal to $500,000 or an integral multiple thereof. Any such termination or reduction shall be permanent and irrevocable.

Section 2.9 Use of Proceeds of Loans.

The proceeds of the Loans hereunder may be used by the Borrower solely for its working capital purposes and for other corporate purposes permitted hereunder (including, without limitation, Permitted Acquisitions and the repurchase, redemption, retirement or acquisition of the Borrower's capital stock not prohibited by Section 7.5 hereof).

Section 2.10 Computations.

Interest on all Loans and each Fee shall be computed on the basis of a year of 360 days and actual days elapsed (including the first day but excluding the last) occurring in the period for which payable.

Section 2.11 Minimum Amounts of Borrowings, Conversions, Prepayments and Interest Periods.

Except for borrowings, conversions and prepayments that exhaust the full remaining amount of either Commitment (in the case of borrowings) or result in the conversion or prepayment of all Loans of a particular type (in the case of conversions or prepayments) or conversions made pursuant to Section 2.18 or Section 2.20 hereof, each borrowing from each Bank, each conversion of Loans of one type into Loans of another type and each prepayment of principal of Loans hereunder shall be in an amount at least equal to $250,000 and in integral multiples of $50,000 in the case

of Prime Rate Loans, and in an amount at least equal to $1,250,000 and in integral multiples of $50,000 in the case of Eurodollar Rate Loans (borrowings, conversions and prepayments of different types of Loans at the same time hereunder to be deemed separate borrowings, conversions and prepayments for purposes of the foregoing, one for each type).

Section 2.12 Time and Method of Payments.

All payments of principal, interest, Fees and other amounts (including indemnities) payable by the Borrower hereunder shall be made in Dollars, in immediately available funds, to each Bank at its Applicable Lending Office not later than 11:00 a.m., New York City time, on the date on which such payment shall become due (and any Bank for whose account any such payment is to be made may, but shall not be obligated to, debit the amount of any such payment that is not made by such time to any ordinary deposit account of the Borrower with such Bank). Additional provisions relating to payments are set forth in Section 9.3 hereof.

Section 2.13 Lending Offices.

The Loans of each type made by each Bank shall be made and maintained at such Bank's Applicable Lending Office for Loans of such type.

Section 2.14 Several Obligations.

The failure of either Bank to make any Loan to be made by it on the date specified therefor shall not relieve the other Bank of its respective obligations to make its Loans on such date, but neither Bank shall be responsible for the failure of the other Bank to make Loans to be made by such other Bank.

Section 2.15 Pro Rata Treatment Between Banks.

Notwithstanding anything to the contrary provided herein: (i) each borrowing from the Banks under Section 2.1 hereof will be made from the Banks and each payment of each Fee shall be made to the Banks pro rata according to each Bank's respective Commitment (without giving effect to the termination thereof, whether pursuant to subsection 2.5(a), Article 8 or otherwise); (ii) each partial reduction of the Commitments shall be applied to the Commitments of the Banks pro rata according to each Bank's respective Commitment; (iii) each conversion of Loans of a particular type under Section 2.17 hereof (other than conversions provided for by Section 2.20 or 2.21 hereof) will be made pro rata between the Banks holding Loans of such type according to the respective principal amounts of such Loans held by such Banks; (iv) each payment and prepayment of principal of or interest on Loans of a particular type will be made to the Banks pro rata in accordance with the respective unpaid principal amounts of such Loans held by such Banks; and (v) each borrowing from the Banks under Section 2.1 hereof will be made from the Banks at the same Interest Period (if applicable) with respect to each such borrowing.

Section 2.16 Sharing of Payments and Set-Off Among Banks.

The Borrower hereby agrees that, in addition to (and without limitation of) any right of set-off, banker's lien or counterclaim a Bank may otherwise have, each Bank shall be entitled, at its option, to offset balances held by it at any of its offices against any principal of or interest on any of its Loans hereunder, or any Fee payable to it, that is not paid when due (regardless of whether such balances are then due to the Borrower), in which case it shall promptly notify the Borrower

and the other Bank thereof, provided that its failure to give such notice shall not affect the validity thereof. If a Bank shall effect payment of any principal of or interest on Loans held by it under this Agreement through the exercise of any right of set-off, banker's lien, counterclaim or similar right, it shall promptly purchase from the other Bank participations in the Loans held by the other Bank in such amounts, and make such other adjustments from time to time as shall be equitable, to the end that each Bank shall share the benefit of such payment pro rata in accordance with the unpaid principal and interest on the Loans held by each of them. To such end the Banks shall make appropriate adjustments between themselves (by the resale of participations sold or otherwise) if such payment is rescinded or must otherwise be restored. The Borrower agrees that such Bank so purchasing a participation in the Loans held by the other Bank may, to the fullest extent permitted by law, exercise all rights of payment (including the rights of set-off, banker's lien, counterclaim or similar rights)

with respect to such participation as fully as if such Bank were a direct holder of Loans in the amount of such participation. Nothing contained herein shall require either Bank to exercise any such right or shall affect the right of either Bank to exercise and retain the benefits of exercising, any such right with respect to any other indebtedness or obligation of the Borrower.

Section 2.17 Conversions of Loans.

The Borrower shall have the right to convert Loans of one type into Loans of another type from time to time, provided that: (i) the Borrower shall give the Banks notice of each such conversion as provided in Section 2.2 hereof; (ii) Eurodollar Rate Loans may be converted only on the last day of an Interest Period for such Loans; and (iii) except as required by Sections 2.18 or 2.21 hereof, no Prime Rate Loan may be converted into a Eurodollar Rate Loan if on the proposed date of conversion a Default or an Event of Default exists. The Banks shall use their best efforts to notify the Borrower of the effectiveness of such conversion, and the new interest rate to which the converted Loans are subject, as soon as practicable after the conversion; provided, however, that any failure to give such notice shall not affect the Borrower's obligations, or the Banks' rights and remedies, hereunder in any way whatsoever.

Section 2.18 Additional Costs; Capital Requirements.

(a) In the event that any existing or future law or regulation, guideline or interpretation thereof, by any court or administrative or governmental authority charged with the administration thereof, or compliance by either Bank with any request or directive (whether or not having the force of law) of any such authority shall impose, modify or deem applicable or result in the application of, any capital maintenance, capital ratio or similar requirement against loan commitments made by either Bank hereunder, and the result of any event referred to above is to impose upon either Bank or increase any capital requirement applicable as a result of the making or maintenance of, such Bank's Commitment or the obligation of the Borrower hereunder with respect to such Commitment (which imposition of capital requirements may be determined by each Bank's reasonable allocation of the aggregate of such capital increases or impositions), then, upon demand made by such Bank as promptly as practicable after it obtains knowledge that such law, regulation, guideline, interpretation, request or directive exists and determines to make such demand, the Borrower shall immediately pay to such Bank from time to time as specified by such Bank additional commitment fees which shall be sufficient to compensate such Bank for such imposition of or increase in capital requirements together with interest on each such amount from the date demanded until payment

in full thereof at the Post-Default Rate. A certificate setting forth in reasonable detail the amount necessary to compensate such Bank as a result of an imposition of or increase in capital requirements submitted by such Bank to the Borrower shall be conclusive, absent manifest error, as to the amount thereof. For purposes of this Section 2.18: (i) in calculating the amount necessary to compensate any Bank for any imposition of or increase in capital requirements, such Bank shall be deemed to be entitled to a rate of return on capital (after federal, state and local

taxes) of fifteen percent per annum, and (ii) all references to any "Bank" shall be deemed to include any participant in such Bank's Commitment.

(b) In the event that any Regulatory Change shall: (i) change the basis of taxation of any amounts payable to any Bank under this Agreement or the Notes in respect of any Loans including, without limitation, Eurodollar Rate Loans (other than taxes imposed on the overall net income of such Bank for any such Loans by the United States of America or the jurisdiction in which such Bank has its Principal Office); or (ii) impose or modify any reserve, Federal Deposit Insurance Corporation premium or assessment, special deposit or similar requirements relating to any extensions of credit or other assets of, or any deposits with or other liabilities of, such Bank (including any of such Loans or any deposits referred to in the definition of "Fixed Base Rate" in Article 1 hereof); or (iii) impose any other conditions affecting this Agreement in respect of Loans, including, without limitation, Eurodollar Rate Loans (or any of such extensions of credit, assets, deposits or liabilities); and the result of any event referred to in clause (i), (ii) or (iii) above shall be to increase such Bank's costs of making or maintaining any Loans, including, without limitation, Eurodollar Rate Loans, or its Commitment, or to reduce any amount receivable by such Bank hereunder in respect of any of its Eurodollar Rate Loans, or its Commitment (such increases in costs and reductions in amounts receivable are hereinafter referred to as "Additional Costs") in each case, only to the extent that such Additional Costs are not included in the Fixed Base Rate applicable to such Eurodollar Rate Loans, then, upon demand made by such Bank as promptly as practicable after it obtains knowledge that such a Regulatory Change exists and determines to make such demand, the Borrower shall pay to such Bank from time to time as specified by such Bank, additional commitment fees or other amounts which shall be sufficient to compensate such Bank for such increased cost or reduction in amounts receivable by such Bank from the date of such change, together with interest on each such amount from the date demanded until payment in full thereof at the Post-Default Rate. All references to any "Bank" shall be deemed to include any participant in such Bank's Commitment.

(c) Without limiting the effect of the foregoing provisions of this Section 2.18, in the event that, by reason of any Regulatory Change, either Bank either: (i) incurs Additional Costs based on or measured by the excess above a specified level of the amount of a category of deposits or other liabilities of such Bank which includes deposits by reference to which the interest rate on Eurodollar Rate Loans is determined as provided in this Agreement or a category of extensions of credit or other assets of such Bank which includes Eurodollar Rate Loans, or (ii) becomes subject to restrictions on the amount of such a category of liabilities or assets that it may hold, then, if such Bank so elects by notice to the Borrower (with a copy to the other Bank), the obligation of such Bank to make, and to convert Loans of any other type into, Loans of such type hereunder shall be suspended until the date such Regulatory Change ceases to be in effect (and all Loans of such type then outstanding shall be converted into Prime Rate Loans or into Eurodollar Rate Loans of another duration, as the case may be, in accordance with Sections 2.17 and 2.21

hereof).

(d) Determinations by any Bank for purposes of this Section 2.18 of the effect of any Regulatory Change on its costs of making or maintaining Loans or on amounts receivable by it in respect of Loans, and of the additional amounts required to compensate such Bank in respect of any Additional Costs, shall be set forth in writing in reasonable detail and shall be conclusive, absent manifest error.

Section 2.19 Limitation on Types of Loans.

Anything herein to the contrary notwithstanding, if, on or prior to the determination of an interest rate for any Eurodollar Loans for any Interest Period therefor, either Bank determines (which determination shall be conclusive):

(a) by reason of any event affecting the Eurodollar interbank market, quotations of interest rates for the relevant deposits are not being provided in the relevant amounts or for the relevant maturities for purposes of determining the rate of interest for such Loans under this Agreement; or

(b) the rates of interest referred to in the definition of "Fixed Base Rate" in Article 1 hereof upon the basis of which the rate of interest on any Eurodollar Loans for such period is determined, do not accurately reflect the cost to the Banks of making or maintaining such Loans for such period;

then such Bank shall give the Borrower and the other Bank prompt notice thereof (and shall thereafter give the Borrower and such other Bank prompt notice of the cessation, if any, of such condition), and so long as such condition remains in effect, the Banks shall be under no obligation to make Loans of such type or to convert Loans of any other type into Loans of such type and the Borrower shall, on the last day(s) of the then current Interest Period(s) for the outstanding Loans of the affected type either prepay such Loans in accordance with Section 2.8 hereof or convert such Loans into Loans of another type in accordance with Section 2.17 hereof.

Section 2.20 Illegality.

Notwithstanding any other provision in this Agreement, in the event that it becomes unlawful for either Bank or its Applicable Lending Office to: (i) honor its obligation to make Eurodollar Loans hereunder, or (ii) maintain Eurodollar Loans hereunder, then such Bank shall promptly notify the Borrower thereof (with a copy to the other Bank), describing such illegality in reasonable detail (and shall thereafter promptly notify the Borrower and the other Bank of the cessation, if any, of such illegality), and such Bank's obligation to make Eurodollar Loans and to convert other types of Loans into Eurodollar Loans hereunder shall, upon written notice given by such Bank to the Borrower, be suspended until such time as such Bank may again make and maintain Eurodollar Loans and such Bank's outstanding Eurodollar Loans shall be converted into Prime Rate Loans in accordance with Sections 2.17 and 2.21 hereof.

Section 2.21 Certain Conversions pursuant to Sections 2.18 and 2.20.

If the Loans of any Bank of a particular type (Loans of such type are hereinafter referred to as "Affected Loans" and such type is hereinafter referred to as the "Affected Type") are to be converted pursuant to Section 2.18 or 2.20 hereof, such Bank's Affected Loans shall be converted into Prime Rate Loans, or Eurodollar Rate Loans of another type, as the case may be (the "New

Type Loans") on the last day(s) of the then current Interest Period(s) for the Affected Loans (or, in the case of a conversion required by subsection 2.18(c) or Section 2.20 hereof, on such earlier date as such Bank may specify to the Borrower with a copy to the other Bank) and, until such Bank gives notice as provided below that the circumstances specified in Section 2.18 or 2.20 hereof that gave rise to such conversion no longer exist:

(a) to the extent that such Bank's Affected Loans have been so converted, all payments and prepayments of principal that would otherwise be applied to such Affected Loans shall be applied instead to its New Type Loans; and

(b) all Loans that would otherwise be made by such Bank as Loans of the Affected Type shall be made instead as New Type Loans and all Loans of such Bank that would otherwise be converted into Loans of the Affected Type shall be converted instead into (or shall remain as) New Type Loans.

Section 2.22 Indemnity.

The Borrower hereby agrees to indemnify each Bank against any loss or expense which either Bank may sustain or incur as a consequence of any of the following:

(a) the failure of the Borrower to borrow a Eurodollar Rate Loan after agreement shall have been reached on the amount, interest rate and Interest Period thereof;

(b) the receipt or recovery by either Bank, whether by voluntary prepayment, acceleration or otherwise, of all or any part of a Eurodollar Rate Loan prior to the last day of an Interest Period applicable thereto; or

(c) the conversion, prior to the last day of an applicable Interest Period, of a Eurodollar Rate Loan into a Prime Loan.

Without limiting the effect of the foregoing, the amount to be paid by the Borrower to either Bank in order to so indemnify such Bank for any loss occasioned by any of the events described in the preceding paragraph, and as liquidated damages therefor, shall be equal to the excess, discounted to its present value as of the date paid to such Bank, of (i) the amount of interest which otherwise would have accrued on the principal amount so received, recovered, converted or not borrowed during the period (the "Indemnity Period") commencing with the date of such receipt, recovery, conversion, or failure to borrow to the last day of the applicable Interest Period for such Eurodollar Rate Loan at the rate of interest applicable to such Loan (or the rate of interest

agreed to in the case of a failure to borrow) provided for herein (prior to default) over (ii) the amount of interest which would be earned by such Bank during the Indemnity Period if it invested the principal amount so received, recovered, converted or not borrowed at the rate per annum determined by such Bank as the rate it would bid in the London interbank market for a deposit of eurodollars in an amount approximately equal to such principal amount for a period of time comparable to the Indemnity Period.

A certificate as to any additional amounts payable pursuant to this Section 2.22 setting forth the basis and method of determining such amounts shall be conclusive, absent manifest error, as to the determination by such Bank set forth therein if made reasonably and in good faith. The Borrower shall pay any amounts so certified to it by such Bank within 10 days of receipt of any such certificate. For purposes of this Section 2.22, all references to the "Bank" shall be deemed to include any participant in such Bank's

Commitment and/or Loans.

The indemnities set forth herein shall survive payment in full of all Eurodollar Rate Loans and all other Loans made pursuant to this Agreement.

Section 2.23 Security.

(a) In order to secure the due payment and performance by the Borrower of the Obligations, simultaneously with the execution and delivery of this Agreement (or such later date as referenced below) the Borrower shall:

(A) Grant to the Collateral Agent for the ratable benefit of the Banks a first Lien on, and pledge to the Collateral Agent for the ratable benefit of the Banks, all of the issued and outstanding shares of the capital stock of Telephonics by the execution and delivery to the Collateral Agent of a Pledge Agreement substantially in the form of Exhibit A-3 hereto;

(B) Grant to the Collateral Agent for the ratable benefit of the Banks a first Lien on, and pledge to the Collateral Agent for the ratable benefit of the Banks, all of the issued and outstanding shares of the capital stock of Clopay at such time as required by Section 6.13 hereof by the execution and delivery to the Collateral Agent of a Pledge Agreement substantially in the form of Exhibit A-3 hereto;

(C) Grant to the Collateral Agent for the ratable benefit of the Banks a first Lien on, and pledge to the Collateral Agent for the ratable benefit of the Banks, all of the issued and outstanding shares of the capital stock of any Eligible Business acquired after the date hereof in a Permitted Acquisition; and

(D) Execute and deliver or cause to be executed and delivered such other agreements, instruments and documents as the Collateral Agent of any Bank may reasonably require in order to effect the purposes of the Pledge Agreements, this Section 2.23 and this Agreement.

(b) All of the agreements, instruments and documents provided for or referred to in this Section 2.23 are hereinafter sometimes referred to collectively as the "Security Documents".

Article 3. Representations and Warranties.

The Borrower hereby represents and warrants to the Banks that:

Section 3.1 Organization.

(a) Each of the Borrower and each Subsidiary is duly organized and validly existing under the laws of its state of organization and has the power to own its assets and to transact the business in which it is presently engaged and in which it proposes to be engaged. Exhibit B hereto accurately and completely lists, as to the Borrower and each Principal Subsidiary: (i) the state of incorporation or organization, and the type of legal entity that each of them is, and (ii) the classes and number of authorized and outstanding shares of capital stock of each such corporation, and the owners of such outstanding shares of capital stock (other than with respect to the Borrower). All of the shares of capital stock of the Borrower and each Subsidiary or other equity interests that are issued and outstanding have been duly and validly issued and are fully paid and non-assessable, and are owned

by the Persons (other than with respect to the Borrower and any Subsidiary that is not a Principal Subsidiary) referred to on Exhibit B, free and clear of any Lien except as otherwise provided for herein. Except as set forth on Exhibit B, there are no outstanding warrants, options, contracts or commitments of any kind entitling any Person to purchase or otherwise acquire any shares of capital stock or other equity interests of any Subsidiary nor are there outstanding any securities that are convertible into or exchangeable for any shares of capital stock or other equity interests of any Subsidiary. Except as set forth on Exhibit B, neither the Borrower nor any Subsidiary has any Subsidiary.

(b) Each of the Borrower and each Subsidiary is in good standing in its state of organization and in each state in which it is qualified to do business. There are no jurisdictions other than as set forth on Exhibit B hereto in which the character of the properties owned or proposed to be owned by the Borrower or any Principal Subsidiary or in which the transaction of the business of the Borrower or any Principal Subsidiary as now conducted or as proposed to be conducted requires or will require the Borrower or any Principal Subsidiary to qualify to do business and as to which failure so to qualify could have a material adverse effect on the business, operations, financial condition or properties of the Borrower or any Principal Subsidiary on a consolidated basis.

Section 3.2 Power, Authority, Consents.

The Borrower and each Loan Party has the power to execute, deliver and perform the Loan Documents. The Borrower has the power to borrow hereunder and has taken all necessary corporate action to authorize the borrowing hereunder on the terms and

conditions of this Agreement. The Borrower and each Loan Party has taken all necessary action, corporate or otherwise, to authorize the execution, delivery and performance of the Loan Documents. No consent or approval of any Person (including, without limitation, any stockholder of the Borrower), no consent or approval of any landlord or mortgagee, no waiver of any Lien or right of distraint or other similar right and no consent, license, certificate of need, approval, authorization or declaration of any governmental authority, bureau or agency, is or will be required in connection with the execution, delivery or performance by the Borrower or any Loan Party, or the validity, enforcement or priority, of the Loan Documents or any Lien created and granted thereunder, except as set forth on Exhibit C hereto, each of which either has been duly and validly obtained on or prior to the date hereof and is now in full force and effect, or is designated on Exhibit C as waived by the Majority Banks.

Section 3.3 No Violation of Law or Agreements.

The execution and delivery by the Borrower and each Subsidiary of each Loan Document to which it is a party and performance by it hereunder and thereunder, will not violate any provision of law applicable to the Borrower and its Subsidiaries and will not, except as set forth on Exhibit C hereto, conflict with or result in a breach of any order, writ, injunction, ordinance, resolution, decree, or other similar document or instrument of any court or governmental authority, bureau or agency, domestic or foreign applicable to the Borrower and its Subsidiaries, or any certificate of incorporation or by-laws of the Borrower or any Subsidiary or create (with or without the giving of notice or lapse of time, or both) a default under or breach of any agreement, bond, note or indenture to which the Borrower or any Subsidiary is a party, or by which it is bound or any of its properties or assets is affected, or result in the imposition of any Lien of any nature whatsoever upon any of the properties or

assets owned by or used in connection with the business of the Borrower or any Subsidiary.

Section 3.4 Due Execution, Validity, Enforceability.

This Agreement and each other Loan Document has been duly executed and delivered by the Borrower and each Loan Party and each constitutes the valid and legally binding obligation of the Borrower and each Loan Party, enforceable in accordance with its terms, except as such enforcement may be limited by applicable bankruptcy, insolvency, reorganization, moratorium, or other similar laws, now or hereafter in effect, relating to or affecting the enforcement of creditors' rights generally and except that the remedy of specific performance and other equitable remedies are subject to judicial discretion.

Section 3.5 Properties, Priority of Liens.

All of the properties and assets owned by the Borrower and each Subsidiary that is executing a Security Document are owned by each of them, respectively, free and clear of any Lien of any nature whatsoever, except as provided for in the Security Documents, and as permitted by Section 7.2 hereof. The Liens that have been created and granted by the Security Documents constitute

valid perfected first Liens on the properties and assets covered by the Security Documents, subject to no prior or equal Lien except as permitted by Section 7.2 hereof.

Section 3.6 Judgments, Actions, Proceedings.

Except as set forth on Exhibit E hereto, there are no outstanding judgments, actions or proceedings, including, without limitation, any Environmental Proceeding, pending before any court or governmental authority, bureau or agency, with respect to or, to the best of the Borrower's knowledge, threatened against or affecting the Borrower or any Subsidiary involving, in the case of any court proceeding, a claim in excess of $200,000, nor, to the best of the Borrower's knowledge, is there any reasonable basis for the institution of any material action or proceeding that is probable of assertion, nor are there any such actions or proceedings in which the Borrower or any Subsidiary is a plaintiff or complainant.

Section 3.7 No Defaults, Compliance With Laws.

Except as set forth on Exhibit F hereto, neither the Borrower nor any Subsidiary is in default under any agreement, ordinance, resolution, decree, bond, note, indenture, order or judgment to which it is a party or by which it is bound, or any other agreement or other instrument by which any of the properties or assets owned by it or used in the conduct of its business is affected, which default could have a material adverse effect on the business, operations, financial condition or properties of the Borrower and its Subsidiaries on a consolidated basis or on the ability of the Borrower to perform its obligations under the Loan Documents. The Borrower and each Subsidiary has complied and is in compliance in all respects with all applicable laws, ordinances and regulations, resolutions, ordinances, decrees and other similar documents and instruments of all courts and governmental authorities, bureaus and agencies, domestic and foreign, including, without limitation, all applicable Environmental Laws and Regulations, non-compliance with which could have a material adverse effect on the business, operations, financial condition or properties of the Borrower and its Subsidiaries on a consolidated basis or on the ability of the Borrower to perform its obligations under the Loan Documents.

Section 3.8 Burdensome Documents.

Except as set forth on Exhibit G hereto, neither the Borrower nor any Subsidiary is a party to or bound by, nor are any of the properties or assets owned by the Borrower or any Subsidiary used in the conduct of their respective businesses affected by, any agreement, ordinance, resolution, decree, bond, note, indenture, order or judgment, including, without limitation, any of the foregoing relating to any Environmental Matter, that materially and adversely affects their respective businesses, assets or conditions, financial or otherwise, on a consolidated basis.

Section 3.9 Financial Statements; Projections.

(a) Each of the Financial Statements is correct and complete and presents fairly the consolidated financial position, the consolidated results of operations and changes in financial position of the Borrower and its Subsidiaries, as at and for its date, and has been prepared in accordance with generally accepted accounting principles consistently applied. Neither the Borrower nor any Subsidiary has any material obligation, liability or commitment, direct or contingent (including, without limitation, any Environmental Liability and any Contingent Obligation), that is required to be but is not reflected in the Financial Statements. There has been no material adverse change in the financial position or operations of the Borrower and its Subsidiaries on a consolidated basis since the date of the latest balance sheet included in the Financial Statements (the "Latest Balance Sheet"). The Borrower's fiscal year is the twelve-month period ending on September 30th in each year.

(b) The Projections reflect as of the date thereof the Borrower's good faith projections, after reasonable analysis, of the matters set forth therein.

Section 3.10 Tax Returns.

Each of the Borrower and each of the Subsidiaries has filed all federal, state and local tax returns required to be filed by it and has not failed to pay any taxes, or interest and penalties relating thereto, on or before the due dates thereof. Except to the extent that reserves therefor are reflected in the Financial Statements: (i) there are no material federal, state or local tax liabilities of the Borrower or any Subsidiary due or to become due for any tax year ended on or prior to the date of the Latest Balance Sheet relating to such entity, whether incurred in respect of or measured by the income of such entity, that are not properly reflected in the Latest Balance Sheet relating to such entity, and (ii) there are no material claims pending or, to the knowledge of the Borrower, proposed or threatened against the Borrower or any Subsidiary for past federal, state or local taxes, except those, if any, as to which proper reserves are reflected in the Financial Statements.

Section 3.11 Intangible Assets.

Each of the Borrower and each Subsidiary possesses all patents, trademarks, service marks, trade names, and copyrights, and rights with respect to the foregoing, necessary to conduct its business as now conducted and as proposed to be conducted, without any conflict with the patents, trademarks, service marks, trade names, and copyrights and rights with respect to the foregoing, of any other Person.

Section 3.12 Regulation U.

No part of the proceeds received by the Borrower from the Loans will be used directly or indirectly for: (a) any

purpose other than as set forth in Section 2.9 hereof, or (b) the purpose of purchasing or carrying, or for payment in full or in part of Indebtedness that was incurred for the purposes of

purchasing or carrying, any "margin stock", as such term is defined in 221.3 of Regulation U of the Board of Governors of the Federal Reserve System, 12 C.F.R., Chapter II, Part 221, other than purchases made in compliance with Regulation U.

Section 3.13 Name Changes, Mergers, Acquisitions.

Except as set forth on Exhibit H hereto, neither the Borrower nor any Principal Subsidiary has within the six-year period immediately preceding the date of this Agreement changed its name, been the surviving entity of a merger or consolidation, or acquired all or substantially all of the assets of any Person, where the value of the assets acquired in such merger, consolidation or acquisition was material in relation to the total assets of the Borrower and its Subsidiaries on a consolidated basis.

Section 3.14 Full Disclosure.

None of the Financial Statements, the Projections, nor any certificate, opinion, or any other statement made or furnished in writing to the Banks by or on behalf of the Borrower or any Subsidiary in connection with this Agreement or the transactions contemplated herein, contains any untrue statement of a material fact, or omits to state a material fact necessary in order to make the statements contained therein or herein not misleading, as of the date such statement was made. There is no fact known to the Borrower that has, or would in the forseeable future have, a material adverse effect on the Borrower or any of its Subsidiaries on a consolidated basis, which fact has not been set forth herein, or in the Financial Statements, the Projections, or any certificate, opinion or other written statement so made or furnished to the Banks.

Section 3.15 Licenses and Approvals.

The Borrower and each of the Subsidiaries has all material licenses, permits and governmental authorizations, including, without limitation, licenses, permits and authorizations relating to Environmental Matters, to own and operate its properties and to carry on its business as now conducted.

Section 3.16 Labor Disputes; Collective Bargaining Agreements; Employee Grievances.

Except as set forth on Exhibit I hereto: (a) no collective bargaining agreement or other labor contract will expire during the term of this Agreement; (b) to the Borrower's knowledge, no union or other labor organization is seeking to organize, or to be recognized as bargaining representative for, a bargaining unit of employees of the Borrower or any Subsidiary; (c) there is no pending or threatened strike, work stoppage, material unfair labor practice claim or charge, arbitration or other material labor dispute against or affecting the Borrower or any Subsidiary or their representative employees, in each case the consequences of which could reasonably be expected to affect aggregate business (regardless of division or entity) of the Borrower and its Subsidiaries which business generated gross revenues in excess of

$50,000,000 individually or in the aggregate in the prior fiscal year; and (d) there are no actions, suits, charges, demands, claims, counterclaims or proceedings pending or, to the best of the Borrower's knowledge, threatened against the Borrower or any of the

Subsidiaries, by or on behalf of, or with, its employees, other than any such actions, suits, charges, demands, claims, counterclaims or proceedings arising in the ordinary course of business that are not, in the aggregate, material.

Section 3.17 Condition of Assets.

All of the assets and properties of the Borrower and the Subsidiaries that are reasonably necessary for the operation of their respective businesses, are in good working condition, ordinary wear and tear excepted, and are able to serve the function for which they are currently being used.

Section 3.18 ERISA.

(a) Except as disclosed on Exhibit J hereto, no Pension Plan or Defined Contribution Plan which is an Employee Benefit Plan including, without limitation, any Multiemployer Plan, exists or has ever, within the six-year period immediately preceding the date of this Agreement, existed and neither the Borrower nor any ERISA Affiliate is a participating employer in any Pension Plan which is an Employee Benefit Plan in which more than one employer makes contributions as described in Sections 4063 and 4064 of ERISA. Except as disclosed on Exhibit J, neither the Borrower nor any ERISA Affiliate has any contingent liability with respect to any post-retirement benefit under any Employee Welfare Benefit Plan which is a welfare plan (as defined in Section 3(1) of ERISA), other than liability for health plan continuation coverage described in Part 6 of Title I of ERISA, which together with any disclosed liability on Exhibit J, will not have a Material Adverse Effect. The Borrower has given, made available, or upon request will deliver, to the Banks true and complete copies of all the following: each Pension Plan or Defined Contribution Plan which is an Employee Benefit Plan and related trust agreement (including all amendments and commitments with respect to such Employee Benefit plan or trust) which the Borrower or any ERISA Affiliate maintains or is committed to contribute to as of the date hereof and the most recent summary plan description, actuarial report, determination letter issued by the Internal Revenue Service and Form 5500 filed in respect of each such Employee Benefit Plan; a listing of all of the Multiemployer Plans to which the Borrower or any ERISA Affiliate contributes or is committed to contribute and the aggregate amount of the most recent annual contributions required to be made to each such Multiemployer Plan, and any information which has been provided to the Borrower or any ERISA Affiliate regarding withdrawal liability under any Multiemployer Plan and the collective bargaining agreement pursuant to which such contribution is required to be made.

(b) Each Employee Benefit Plan complies, in both form and operation in all material respects, with its terms, ERISA and the Code including, without limitation, Code Section 4980B, and no condition exists or event has occurred with respect to any such plan which would result in the incurrence by the Borrower or any ERISA Affiliate of any material liability, fine or penalty.

Neither the Borrower nor any ERISA Affiliate has incurred any liability to the PBGC which remains outstanding other than the payment of premiums, and there are no premiums which have become due which are unpaid. Neither the Borrower nor any ERISA Affiliate has engaged in any transaction which could subject it to material liability under Section 4069 or Section 4212(c) of ERISA. Each Employee Benefit Plan, related trust agreement, arrangement and commitment of the Borrower and each ERISA Affiliate is legally valid and binding and in full force and effect. Except as provided on Exhibit J and subject to amendment and submission for a determination letter with regard to the Tax Reform Act of 1986 requirements and other post 1986 requirements, each Employee

Benefit Plan that is intended to be qualified under Section 401(a) of the Code has been determined by the Internal Revenue Service to be so qualified, and each trust related to such plan has been determined to be exempt under Section 501(a) of the Code. To the knowledge of the Borrower, nothing has occurred or is expected to occur that would adversely affect the qualified status of the Employee Benefit Plan or any related trust subsequent to the issuance of such determination letter. No Employee Benefit Plan is being audited or, to the knowledge of the Borrower, investigated by any government agency or subject to any pending or threatened claim or suit.

(c) Each Pension Plan currently meets the minimum funding standard of Section 302 of ERISA and Section 412 of the Code (without regard to any funding waiver). All contributions or payments due and owing as required by Section 302 of ERISA, Section 412 of the Code or the terms of any Pension Plan have been made by the due date for such contributions or payments. With respect to each Multiemployer Plan, the Borrower and each ERISA Affiliate has paid or accrued all contributions pursuant to the terms of the applicable collective bargaining agreement required to be paid or accrued by it and neither the Borrower nor any ERISA Affiliate has incurred any withdrawal liability in connection with a complete withdrawal or partial withdrawal from any Multiemployer Plan that has not been discharged. With respect to each Pension Plan, the market value of assets (exclusive of any contribution due to the Pension Plan) equals or exceeds or is not more than $250,000 below the present value of benefit liabilities (FAS 35) (assuming such Plan were to continue in existence) as of the latest actuarial valuation date for such plan (but not prior to 24 months prior to the date hereof), determined on the basis of such Pension Plan's actuarial assumptions set forth in the most recent actuarial report, and since its last valuation date, there have been no amendments to such plan that materially increased the present value of accrued benefits nor any other material adverse changes in the funding status of such plan. Neither the Borrower nor any ERISA Affiliate is required to provide security to a Pension Plan pursuant to Section 307 of ERISA or Section 401(a)(29) of the Code.

(d) Neither the Borrower nor any ERISA Affiliate, nor, to the best of the Borrower's knowledge, any fiduciary of any Employee Benefit Plan, has engaged in a prohibited transaction under Section 406 of ERISA or Section 4975 of the Code with regard to any such Employee Benefit Plans. The execution, delivery and carrying out of the terms of any agreements that are related to this transaction will not constitute a prohibited transaction under the aforementioned sections.

(e) No Termination Event has occurred or is reasonably expected to occur.

(f) None of the following "reportable events" which are subject to the 30-day notice requirement of Section 4043(b) of ERISA in respect of any of the Pension Plans has occurred: (i) an inability to pay benefits when due, (ii) bankruptcy or insolvency of the sponsor of the Pension Plan, (iii) liquidation or dissolution of the sponsor of the Pension Plan, (iv) a failure to meet the minimum funding standards, or (v) certain transactions involving a change of employer. The Borrower has not received any notice from the PBGC that any of the Pension Plans is being involuntarily terminated or from the Secretary of the Treasury that any partial or full termination of any of the Employee Benefit Plans has occurred and no event shall have occurred, and there shall exist as of the date hereof no condition or set of circumstances which present a material risk of the involuntary termination of any of the Pension Plans.

(g) All references to the Borrower in this Section

3.18 or in any other Section of this Agreement relating to ERISA shall be deemed to refer to the Borrower, and any other entity which is considered an ERISA Affiliate.

(h) All references in this Section 3.18, and in other provisions of this Agreement relating to ERISA, to materiality or material liability or similar phrases shall be deemed to refer to the event or matter described both individually and when taken together in the aggregate with respect to all other events and matters referred to in this Agreement relating to ERISA as to which a materiality standard applies.

Article 4. Conditions to the Loans.

Section 4.1 Conditions to Initial Loans.

The obligation of each Bank to make the initial Loan to be made by it hereunder shall be subject to the fulfillment of the following conditions precedent:

(a) The Borrower shall have executed and delivered to each Bank its Note.

(b) The Borrower shall have executed and delivered to the Banks the Pledge Agreement together with the certificates evidencing the capital stock of Telephonics, accompanied by stock powers duly endorsed in blank and undated, and irrevocable proxies relating thereto;

(c) The Borrower shall have paid to the Banks the Facility Fee.

(d) Blau, Kramer, Wactlar & Lieberman, P.C., general counsel to the Borrower and the Subsidiaries shall have delivered its opinion to, and in form and substance satisfactory to, the Banks.

(e) The Banks shall have received copies of the following:

(i) All of the consents, approvals and waivers referred to on Exhibit C hereto (except only those which, as stated on Exhibit C, shall not be delivered);

(ii) The certificate of incorporation of the Borrower and each Principal Subsidiary certified by the Secretary of State of its state of incorporation;

(iii) The by-laws of the Borrower and each Principal Subsidiary certified by its secretary or assistant secretary;

(iv) All corporate action taken by the Borrower to authorize the execution, delivery and performance of the Loan Documents and the transactions contemplated thereby, certified by its secretary or assistant secretary, including, without limitation, resolutions of the Board of Directors of the Borrower;

(v) Good standing certificates as of dates not more than forty (40) prior to the date of the initial Loan, with respect to the Borrower and each Principal Subsidiary from the Secretary of State of its state of incorporation and each state in which it is qualified to do business;

(vi) An incumbency certificate (with specimen signatures) with respect to the Borrower; and

(vii) Lien searches from such jurisdictions and in such names as the Banks may request.

(f) (i) The Borrower and each Subsidiary shall have complied and shall then be in compliance with all of the terms, covenants and conditions of this Agreement;

(ii) After giving effect to the initial Loan, there shall exist no Default or Event of Default hereunder; and

(iii) The representations and warranties contained in Article 3 hereof and in the other Loan Documents shall be true and correct on the date hereof;

and the Banks shall have received a Compliance Certificate dated the date hereof certifying, inter alia, that the conditions set forth in this subsection 4.1(f) are satisfied on such date.

(g) The Banks shall have executed and delivered the Collateral Agent Agreement.

(h) All legal matters incident to the initial Loans shall be satisfactory to counsel to each Bank.

Section 4.2 Conditions to Subsequent Loans.

The obligation of each Bank to make each Loan subsequent to its initial Loan shall be subject to the fulfillment of the condition precedent that each Bank shall have received a

Borrowing Notice in accordance with Section 2.2 hereof, containing, in addition to the notice of borrowing, a representation by the Borrower (signed by the president or chief financial officer of the Borrower) that no Default or Event of Default has occurred and is continuing.

Article 5. Delivery of Financial Reports, Documents and Other Information.

While the Commitments are outstanding, and, in the event any Loan remains outstanding, so long as the Borrower is indebted to the Banks under this Agreement, and until payment in full of the Notes and full and complete performance of all of its other obligations arising hereunder, the Borrower shall deliver to each Bank:

Section 5.1 Annual Financial Statements.

Annually, as soon as available, but in any event within one hundred (100) days after the last day of each of its fiscal years, a consolidated balance sheet of the Borrower and the Subsidiaries as at such last day of the fiscal year, and consolidated statements of income, shareholders' equity and cash flows, for such fiscal year, each prepared in accordance with generally accepted accounting principles consistently applied, in reasonable detail, and certified without a "going concern" or like qualification or exception, or qualification arising out of the scope of the audit by Arthur Andersen LLP or another firm of independent certified public accountants satisfactory to the Banks, which shall state that such consolidated financial statements present fairly the consolidated financial position, the consolidated results of operations and cash flows of the Borrower as at and for the year ending on its date and as having been prepared in accordance with generally accepted accounting principles.

Section 5.2 Quarterly Financial Statements.

As soon as available, but in any event within (i) seventy (70) days after the end of each of the Borrower's first three fiscal quarterly periods and (ii) one hundred (100) days after the end of each of the Borrower's fourth fiscal quarterly periods, a consolidated and consolidating balance sheet of the Borrower and the Subsidiaries as of the last day of such quarter and consolidated and consolidating statements of income and cash flows, for such quarter, and on a comparative basis figures for the corresponding period of the immediately preceding fiscal year, all in reasonable detail, each such statement to be certified in a certificate of the president or chief financial officer of the Borrower and the Subsidiaries as fairly presenting the consolidated and consolidating financial position, the consolidated and consolidating results of operations and cash flows of the Borrower as at its date and for such quarter and as having been prepared in accordance with generally accepted accounting principles consistently applied (subject to year-end audit adjustments).

Section 5.3 Projections.

Annually, as soon as available, but in any event within 60 days after the last day of each of the Borrower's fiscal years, consolidated and consolidating projections of the Borrower and the Subsidiaries for the following five (5) fiscal years of the Borrower.

Section 5.4 Compliance Information.

Promptly after a written request therefor, such other financial data or information evidencing compliance with the requirements of this Agreement, the Notes and the other Loan Documents, as any Bank may reasonably request from time to time.

Section 5.5 No Default Certificate.

At the same time as it delivers the financial statements required under the provisions of Section 5.2 hereof, a certificate of the president or chief financial officer of the Borrower to the effect that no Default or Event of Default hereunder and that no default under any other agreement to which the Borrower or any of the Subsidiaries is a party or by which it is bound, or by which, to the best knowledge of the Borrower or any Subsidiary any of its properties or assets, taken as a whole, may be materially adversely affected, and no event which, with the giving of notice or the lapse of time, or both, would constitute such an Event of Default or default, exists, or, if such cannot be so certified, specifying in reasonable detail the exceptions, if any, to such statement. Such certificate shall be accompanied by a detailed calculation indicating compliance with the covenants contained in Sections 6.9, 7.3, 7.4, 7.8 (other than 7.8(a)) and 7.11 hereof.

Section 5.6 Certificate of Accountants.

At the same time as it delivers the financial statements required under the provisions of Section 5.1 hereof, a certificate of the independent certified public accountants of the Borrower to the effect that during the course of their audit of the operations of the Borrower and its condition as of the end of the fiscal year, nothing has come to their attention which would indicate that the Borrower was not in compliance with any of the terms, covenants, provisions or conditions of Section 6.9 or Article 7 insofar as they relate to accounting matters, or, if such cannot be so certified, specifying in reasonable detail the exceptions, if any, to such statement.

Section 5.7 Accountants' Reports.

Promptly upon receipt thereof, copies of all other reports submitted to the Borrower by its independent certified public accountants in connection with any annual or interim audit or review of the books of the Borrower made by such accountants.

Section 5.8 Copies of Documents.

(a) Promptly upon their becoming available, copies of any: (i) financial statements, projections, and requests for waivers, in each case, delivered by the Borrower or any of the Subsidiaries to any lending institution other than the Banks; (ii) correspondence or notices received by the Borrower from any federal, state or local governmental authority that regulates the operations of the Borrower or any of its Subsidiaries or relating to an actual or threatened change or development that would be materially adverse to the Borrower or any Subsidiary; (iii) registration statements and any amendments and supplements thereto, and any regular and periodic reports, if any, filed by the Borrower or any of its Subsidiaries with any securities exchange or with the Securities and Exchange Commission or any governmental authority succeeding to any or all of the functions of the said Commission; and (iv) any other items which the Banks may reasonably request.

(b) Promptly upon request by any Bank, copies of all acquisition agreements, exhibits, schedules, documents and other agreements relating to any Permitted Acquisition (as and when available and whether in draft or final form).

Section 5.9 Certain Notices.

Promptly, notice of the occurrence of any Default or Event of Default, or any event that would constitute or cause a material adverse change in the condition, financial or otherwise, or the operations of the Borrower or any of its Subsidiaries on a consolidated basis.

Section 5.10 ERISA Notices and Requests.

Notice of any of the following within twenty (20) days after such event or occurrence:

(a) the Borrower or any ERISA Affiliate knowing or having reason to know that a Termination Event has occurred or that a Defined Contribution Plan has been terminated or partially terminated, and a written statement by the appropriate chief financial officer setting forth the details of such event;

(b) the filing of a request for a funding waiver by the Borrower or any ERISA Affiliate with respect to any Pension Plan, and a copy of such request and all communications received by the Borrower or any ERISA Affiliate with respect to such request;

(c) receipt by the Borrower or any ERISA Affiliate of a notice of the PBGC's intent to terminate a Pension Plan, and a copy of such notice;

(d) the Borrower or any ERISA Affiliate failing to make a required installment or payment under Section 302 of ERISA or Section 412 of the Code by the due date, and a written notice of such failure;

(e) the Borrower or any ERISA Affiliate knowing or having reason to know that a prohibited transaction (as defined in Section 406 of ERISA or Section 4975 of the Code) has occurred with respect to any Employee Benefit Plan, and a written statement of the appropriate chief financial officer describing such transaction

and the action taken;

(f) the establishment of a Pension Plan and written notice of such occurrence;

(g) receipt by the Borrower or any ERISA Affiliate of any disqualification notice from the Internal Revenue Service regarding the qualification of a Pension Plan under Section 401(a) of the Code and a copy of such letter;

(h) upon the request of either Bank, the filing of an annual report (Form 5500 series), including Schedule B thereto, filed by the Borrower or any ERISA Affiliate with respect to a Employee Benefit Plan, and a copy of such report;

(i) upon request of either Bank, receipt by the Borrower or any ERISA Affiliate of an actuarial report for any Pension Plan, and a copy of such report;

(j) receipt by the Borrower or any ERISA Affiliate of all correspondence from the PBGC, the Secretary of Labor or any representative of the IRS with respect to any Employee Benefit Plans, relating to an actual or threatened change or development which would have a materially adverse effect on Borrower's business; and

(k) receipt by the Borrower or any ERISA Affiliate of any correspondence from a Multiemployer Plan with respect to withdrawal liability.

Section 5.11 Permitted Acquisition Deliveries.

Not later than ten (10) Business Days after the consummation of a Permitted Acquisition, (i) on a pro forma basis after giving effect to the proposed acquisition and based on reasonable assumptions made by the Borrower in good faith, a consolidated and consolidating balance sheet of the Borrower, its Subsidiaries and each Eligible Business, and a related consolidated and consolidating statement of income and statements of cash flow for the three (3) fiscal years following the date of such acquisition, each such statement (1) to show all deferred and contingent payments which the Borrower or the Eligible Business, as applicable, directly or indirectly, would be required to make based on the Eligible Business' projected pro forma results of operations, and (2) to be accompanied by a certificate of the chief financial officer of the Borrower certifying that after giving effect to the acquisition, no Default or Event of Default has occurred and is continuing, which certificate shall be accompanied by a list of Liens, Indebtedness, guaranties and letters of credit incurred or otherwise assumed in connection with such acquisition and such other information as any Bank may reasonably request.

Article 6. Affirmative Covenants.

While the Commitments are outstanding, and, in the event any Loan remains outstanding, so long as the Borrower is indebted to the Banks under this Agreement, and until payment in full of the Notes and full and complete performance of all of its other obligations arising hereunder, the Borrower shall and shall cause each Subsidiary to:

Section 6.1 Books and Records.

Keep proper books of record and account in which full, true and correct entries shall be made of all dealings or transactions in relation to its business and activities.

Section 6.2 Inspections and Audits.

Permit the Banks (i) to make or cause to be made (and, after the occurrence of and during the continuance of an Event of Default, at the Borrower's expense), inspections and audits of any books, records and papers of the Borrower and each of its Subsidiaries and to make extracts therefrom and copies thereof and (ii) make inspections and examinations of any properties and facilities of the Borrower and the Subsidiaries on reasonable notice, at all such reasonable times and as often as either Bank may reasonably require, in order to assure each Bank that the Borrower is and will be in compliance with its obligations under the Loan Documents or to evaluate either Bank's investment in the then outstanding Notes.

Section 6.3 Maintenance and Repairs.

Maintain in good repair, working order and condition, subject to normal wear and tear, all material properties and assets from time to time owned by it and used in or necessary for the operation of its business, and make all reasonable repairs, replacements, additions and improvements thereto.

Section 6.4 Continuance of Business.

Do, or cause to be done, all things reasonably necessary to preserve and keep in full force and effect its corporate existence and all permits, rights and privileges necessary for the proper conduct of its business and continue to engage in the same line of business and comply in all material respects with all applicable laws, regulations and orders.

Section 6.5 Copies of Corporate Documents.

Promptly deliver to the Banks copies of any amendments or modifications to its and any Subsidiary's certificate of incorporation and by-laws, certified with respect to the certificate of incorporation by the Secretary of State of its state of incorporation and, with respect to the by-laws, by the secretary or assistant secretary of such corporation.

Section 6.6 Perform Obligations.

Pay and discharge all of its obligations and liabilities, including, without limitation, all taxes, assessments and governmental charges upon its income and properties when due, unless and to the extent only that such obligations, liabilities, taxes, assessments and governmental charges shall be contested in good faith and by appropriate proceedings and that, to the extent required by generally accepted accounting principles then in effect, proper and adequate book reserves relating thereto are established by the Borrower, or, as the case may be, by the appropriate Subsidiary and then only to the extent that a bond is filed in cases where the filing of a bond is necessary to avoid the creation of a Lien, other than a Permitted Lien, against any of its properties.

Section 6.7 Notice of Litigation.

Promptly notify the Banks in writing of any litigation, legal proceeding or dispute (including, without limitation, any Environmental Proceeding), other than disputes in the ordinary course of business or, whether or not in the ordinary course of business, involving amounts in excess of One Million ($1,000,000) Dollars, affecting the Borrower, any Subsidiary or any Eligible Business whether or not fully covered by insurance, and regardless of the subject matter thereof (excluding, however, any actions relating to workers' compensation claims or negligence

claims relating to use of motor vehicles, if fully covered by insurance, subject to deductibles).

Section 6.8 Insurance.

(a) (i) Maintain with responsible insurance companies such insurance on such of its properties, in such amounts and against such risks as is customarily maintained by similar businesses; (ii) file with each of the Banks upon its request a detailed list of the insurance then in effect, stating the names of the insurance companies, the amounts and rates of the insurance, the dates of the expiration thereof and the properties and risks covered thereby; and (iii) within ten (10) days after notice in writing from the Banks, obtain such additional insurance as either Bank may reasonably request; provided, that, the Borrower may maintain self-insurance consistent with its past practices and policies; and

(b) Carry all insurance available through the PBGC or any private insurance companies covering its obligations to the PBGC.

Section 6.9 Financial Covenants.

Have or maintain, on a consolidated basis:

(a) A Quick Ratio of not less than 1.10:1.00 at all times.

(b) Tangible Net Worth at not less than $120,000,000 at all times, provided that for purposes of calculating Tangible Net Worth for this subsection 6.9(b), any net loss after-income tax up to an aggregate amount of $6,000,000 recognized by the Borrower from the sale or other disposition of Standard-Keil or Western Synthetic shall be excluded.

(c) As of the end of each fiscal quarter, a Funded Debt to Cash Flow Ratio for the most recently completed four fiscal quarters at not more than 4.00 to 1.00.

(d) The ratio of (a) Unsubordinated Liabilities of the Borrower and its Subsidiaries to (b) the sum of Tangible Net Worth plus Subordinated Debt of the Borrower and its Subsidiaries at not more than 1.25 to 1.00 at all times.

Section 6.10 Notice of Certain Events.

(a) Promptly notify the Banks in writing of the occurrence of any "Reportable Event", as defined in Section 4043 of ERISA, if a notice of such Reportable Event is required under ERISA to be delivered to the PBGC within 30 days after the occurrence thereof, together with a description of such Reportable Event and a statement of the action the Borrower or any ERISA Affiliate intends to take with respect thereto, together with a copy of the notice thereof given to the PBGC.

(b) Promptly notify the Banks in writing of the receipt by the Borrower or any ERISA Affiliate of an assessment of withdrawal liability in connection with a complete or partial withdrawal with respect to any Multiemployer Plan, which liability of the Borrower and/or any ERISA Affiliate may exceed $1,000,000 in aggregate amount, and a statement of the action that the Borrower or any ERISA Affiliate intends to take with respect thereto.

(c) Promptly notify the Banks in writing if the Borrower or any Subsidiary receives: (i) any notice of any violation or administrative or judicial complaint or order having been filed or about to be filed against the Borrower or such

Subsidiary alleging violations of any Environmental Law and Regulation which could reasonably be expected to result in liability to the Borrower or any Subsidiary in excess of $1,000,000, or (ii) any notice from any governmental body or any other Person alleging that the Borrower or such Subsidiary is or may be subject to any Environmental Liability in excess of $1,000,000; and promptly upon receipt thereof, provide the Banks with a copy of such notice together with a statement of the action the Borrower or such Subsidiary intends to take with respect thereto.

Section 6.11 Comply with ERISA.

Materially comply with all applicable provisions of ERISA and the Code now or hereafter in effect.

Section 6.12 Environmental Compliance.

Operate all property owned or leased by it such that no obligation, including a clean-up obligation, shall arise under any Environmental Law and Regulation, which obligation would

constitute a Lien on any property of the Borrower or any of its Subsidiaries; provided, however, that in the event that any such claim is made or any such obligation arises, the Borrower or such Subsidiary shall, at its own cost and expense:

(a) provide the Banks with prompt written notice with respect to any suit or claim initiated or threatened against the Borrower or any of its Subsidiaries involving liability in excess of $1,000,000; and

(b) either: (i) immediately satisfy such claim or obligation; or (ii) contest such claim by appropriate proceedings and upon final judgment (subject to no further appeal) immediately satisfy such judgment; provided, however, that, in all such cases, the Borrower shall file a bond when necessary to avoid the creation of a Lien against any of its or any of its Subsidiaries' properties; and provided, further, that the Borrower shall indemnify and hold harmless the Banks from any liability, responsibility or obligation in respect thereof or in respect of any clean-up or any other liability, as successor, secured party or otherwise for any reason, including, without limitation, the enforcement of the Banks' rights under any Loan Document or by operation of law.

Section 6.13 Pledge of Clopay Capital Stock.

Pledge to the Banks all of the issued and outstanding capital stock of Clopay at such time as the outstanding principal amount of the Loans exceeds $20,000,000, pursuant to a pledge agreement substantially in the form of Exhibit A-3 hereto, and deliver to the Banks all of the stock certificates representing such shares, together with stock powers duly executed in blank and undated, and proxies with respect thereto.

Article 7. Negative Covenants.

While the Commitments are outstanding, and, in the event any Loan remains outstanding, so long as the Borrower is indebted to the Banks under this Agreement, and until payment in full of the Notes and full and complete performance of all of its other obligations arising hereunder, the Borrower shall not and shall not permit any of its Subsidiaries to do or agree to do, or permit to be done, any of the following:

Section 7.1 Indebtedness.

Create, incur, permit to exist or have outstanding any Indebtedness that would violate the terms of this Agreement.

Section 7.2 Liens.

Create, or assume or permit to exist, any Lien on any of the properties or assets of the Borrower or any of its Subsidiaries whether now owned or hereafter acquired, except:

(a) Permitted Liens;

(b) Liens in favor of the Banks under the Loan Documents;

(c) Purchase money mortgages or security interests, conditional sale arrangements and other similar security interests, on property acquired by the Borrower or any Subsidiary (hereinafter referred to individually as a "Purchase Money Security Interest") with the proceeds of Indebtedness; provided, however, that:

(i) The transaction in which any Purchase Money Security Interest is proposed to be created is not then prohibited by this Agreement;

(ii) Any Purchase Money Security Interest shall attach only to the property or asset acquired in such transaction and shall not extend to or cover any other assets or properties of the Borrower or, as the case may be, a Subsidiary;

(iii) The Indebtedness secured or covered by any Purchase Money Security Interest is secured solely by such Purchase Money Security Interest and shall not exceed the cost of the property or asset acquired; and

(iv) Such Indebtedness may be refinanced provided that the principal amount of such outstanding Indebtedness is not increased;

(d) The interests of the lessor under any Capitalized Lease as permitted hereunder;

(e) Liens on specifically identified inventory and accounts receivable covered by bankers acceptances resulting from import letters of credit which do not cover any assets other than those financed with such bankers acceptances;

(f) Liens securing Indebtedness permitted to exist in accordance with the terms of Section 7.4 hereof in connection with a Permitted Acquisition, provided that (i) such Liens were existing prior to the Permitted Acquisition in which such Indebtedness was assumed or acquired and not created in contemplation of such Permitted Acquisition, and (ii) such Liens shall only attach to or encumber the property and assets acquired in the Permitted Acquisition in which such Indebtedness was assumed or acquired and shall not attach to or encumber any other property or assets of the Borrower or any Subsidiary (including, without limitation, any Eligible Business); and

(g) As set forth on Exhibit D hereto.

Section 7.3 Guaranties.

Except (i) as set forth on Exhibit K hereto, (ii) guarantees of the Borrower and its Subsidiaries not in excess of an aggregate of $5,000,000 at any one time outstanding, (iii) guarantees by the Borrower or any Subsidiary of obligations of the Subsidiaries, (iv) guarantees by a Subsidiary of obligations of the

Borrower under leases for real or personal property, provided, that such Subsidiary will utilize all or a portion of such property, and

(v) other Contingent Obligations not described in the preceding clauses (i) through (iv) of the Borrower and the Subsidiaries not in excess of an aggregate amount of 20% of the consolidated Tangible Net Worth of the Borrower and its Subsidiaries (as computed at any time as shown on the Borrower's Financial Statements most recently delivered to the Banks) at any one time outstanding, assume, endorse, be or become liable for, or guarantee, (a) the obligations of any Person, except by the endorsement of negotiable instruments for deposit or collection in the ordinary course of business, or (b) any Contingent Obligations. For the purposes hereof, the term "guarantee" shall include any agreement, whether such agreement is on a contingency or otherwise, to purchase, repurchase or otherwise acquire Indebtedness of any other Person, or to purchase, sell or lease, as lessee or lessor, property or services, in any such case primarily for the purpose of enabling another person to make payment of Indebtedness, or to make any payment (whether as an advance, capital contribution, purchase of an equity interest or otherwise) to assure a minimum equity, asset base, working capital or other balance sheet or financial condition, in connection with the Indebtedness of another Person, or to supply funds to or in any manner invest in another Person in connection with such Person's Indebtedness.

Section 7.4 Mergers, Acquisitions.

Merge or consolidate with any Person (whether or not the Borrower or any Subsidiary is the surviving entity), or acquire all or substantially all of the assets or any of the capital stock of any Person; provided, however, that (i) any Subsidiary may merge with and into any other Subsidiary or the Borrower (so long as the Borrower or a wholly-owned Subsidiary is the surviving entity) and (ii) the Borrower or any Subsidiary may make Permitted Acquisitions.

Section 7.5 Redemptions; Distributions.

Upon the occurrence and during the continuance of a Default or Event of Default or, if any Default or Event of Default would exist after giving effect to any of the following:

(a) Purchase, redeem, retire or otherwise acquire, directly or indirectly, or make any sinking fund payments with respect to, any shares of any class of stock of the Borrower now or hereafter outstanding or set apart any sum for any such purpose; or

(b) Declare or pay any dividends or make any distribution of any kind on the Borrower's outstanding stock, or set aside any sum for any such purpose, except that the Borrower may declare or pay any dividend payable solely in shares of its capital stock.

Section 7.6 Stock Issuance.

Issue any additional shares or any right or option to acquire any shares, or any security convertible into any shares, of the capital stock of any Subsidiary, except (a) in connection with stock dividends permitted under subsection 7.5(b) hereof and (b) to the Borrower.

Section 7.7 Changes in Business and Sales or Pledges of Assets.

Make any material change in its business on a consolidated basis, or in the nature of its operation, or liquidate or dissolve itself (or suffer any liquidation or dissolution), or

convey, sell, lease, assign, transfer or otherwise dispose of any of its property, assets or business except in the ordinary course of business and for a fair consideration or dispose of any shares of stock (other than sales or issuances of the Borrower's treasury stock) or any Indebtedness, whether now owned or hereafter acquired, or discount, sell, pledge, hypothecate or otherwise dispose of accounts receivable, except in the ordinary course of business and for fair consideration; provided, however, that the Borrower or any Subsidiary may convey, sell, lease, assign, transfer or otherwise dispose of (a) its property and assets the fair market value of which does not exceed in the aggregate in any fiscal year five percent (5%) of the consolidated assets of the Borrower and its Subsidiaries as of the end of the immediately preceding fiscal year for fair consideration, (b) the capital stock of any Subsidiary (i) the net revenues of which do not exceed five percent (5%) of the consolidated net revenues of the Borrower and its Subsidiaries or (ii) the assets of which do not exceed five percent (5%) of the consolidated assets of the Borrower and its Subsidiaries; provided, however, that in no event may the Borrower or any Subsidiary convey, sell, lease, assign, transfer or otherwise dispose of any capital stock that is at any time pledged to the Banks pursuant to the Security Documents, (c) all or any portion of the property and assets of Standard-Keil and Western Synthetic and (d) all or any portion of the capital stock of Standard-Keil.

Section 7.8 Investments.

Make, or suffer to exist, any Investment in any Person, including, without limitation, any shareholder, director, officer or employee of the Borrower or any of the Subsidiaries, except Investments which do not in the aggregate, exceed $1,000,000 and:

(a) Investments in:

(i) obligations issued or guaranteed by the United States of America;

(ii) certificates of deposit, bankers acceptances and other "money market instruments" issued by any bank or trust company organized under the laws of the United States of America or any State thereof and having capital and surplus in an aggregate amount of not less than $100,000,000;

(iii) open market commercial paper bearing the highest credit rating issued by Standard & Poor's Corporation or by another nationally recognized credit rating agency;

(iv) repurchase agreements entered into with any bank or trust company organized under the laws of the United States of America or any State thereof and having capital and surplus in an aggregate amount of not less than $100,000,000 relating to United States of America government obligations;

(v) shares of "money market funds", each having net assets of not less than $100,000,000; and

(vi) corporate bonds rated at least AA or the equivalent thereof by Standard & Poor's Corporation or Aa or the equivalent thereof by Moody's Investors Service, Inc.;

in each case maturing or being due or payable in full not more than 180 days after the Borrower's acquisition thereof;

to the business of the Borrower or any Subsidiary in an aggregate amount not to exceed $5,000,000;

(c) Investment by the Borrower in any majority-owned Subsidiary; and

(d) Permitted Acquisitions by the Borrower or any Subsidiary pursuant to Section 7.4 hereof.

Section 7.9 Fiscal Year.

Change its fiscal year.

Section 7.10 ERISA Obligations.

The Borrower will not:

(a) permit the occurrence of any Termination Event, or the occurrence of a termination or partial termination of a Defined Contribution Plan which would have a material adverse effect on the Borrower; or

(b) permit any accumulated deficiency (as defined in Section 302 of ERISA and Section 412 of the Code) in excess of $1,000,000 in the aggregate liability to the Borrower and its ERISA Affiliates with respect to all Pension Plans, whether or not waived; or

(c) engage, or permit the Borrower or any ERISA Affiliate to engage, in any prohibited transaction under Section 406 of ERISA or Section 4975 of the Code for which a civil penalty pursuant to Section 502(i) of ERISA or a tax pursuant to Section 4975 of the Code which would have a material adverse effect on the Borrower; or

(d) engage or permit the Borrower or any ERISA Affiliate to engage, in any breach of fiduciary duty under Part 4 of Title I of ERISA for which 20 percent of the applicable recovery amount under Section 502(l) of ERISA which would have a material adverse effect on the Borrower; or

(e) fail, or permit any ERISA Affiliate to fail, to establish, maintain and operate each Employee Benefit Plan in compliance in all material respects with the provisions of ERISA, the Code and all other applicable laws and the regulations and interpretations thereof.

Section 7.11 Rental Obligations.

Enter into, or permit to remain in effect, any lease of personal property during any fiscal year (other than Capitalized Leases), if, after giving effect thereto, the aggregate amount of all rentals under any such lease, including, without limitation, all percentage rents, due from the Borrower and the Subsidiaries thereunder would exceed an amount equal to four (4%) percent of the gross sales of the Borrower and its Subsidiaries on a consolidated basis for the preceding fiscal year.

Section 7.12 Transactions with Affiliates.

Except as expressly permitted by this Agreement, directly or indirectly: (a) make any Investment in an Affiliate; (b) transfer, sell, lease, assign or otherwise dispose of any assets to an Affiliate; (c) merge into or consolidate with or purchase or acquire assets from an Affiliate; or (d) enter into any other transaction directly or indirectly with or for the benefit of any Affiliate (including, without limitation, guarantees and assumptions of obligations of an Affiliate); provided, however, that: (i) payments on Investments expressly permitted by Section 7.8 hereof may be made, (ii) any Affiliate who is a natural person may serve as an employee or director of the Borrower and receive

reasonable compensation for his services in such capacity, (iii) the Borrower may enter into any transaction with an Affiliate providing for the leasing of property, the rendering or receipt of services or the purchase or sale of product, inventory and other assets in the ordinary course of business if the monetary or business consideration arising therefrom would be substantially as advantageous to the Borrower as the monetary or business consideration that would obtain in a comparable arm's length transaction with a Person not an Affiliate and (iv) the Borrower or any Subsidiary may make loans to Persons who are stockholders, officers or directors of the Borrower or a Subsidiary which do not, in the aggregate, exceed $250,000; provided, however, that for purposes of this Section 7.12 an Affiliate shall not be deemed to include a Subsidiary of the Borrower.

Section 7.13 Hazardous Material.

(a) Cause or permit (i) any "Hazardous Material" (as defined in any applicable Environmental Laws and Regulations) to be placed, held, located or disposed of, on, under or at any real property used in connection with the operation of the business of the Borrower or any of its Subsidiaries ("Real Property") or any part thereof, except for such Hazardous Materials which are necessary for the Borrower's operation of its business thereon and which shall be used, stored and disposed of in compliance with all applicable Environmental Laws and Regulations or (ii) such Real Property or any part thereof to be used as a collection, storage or dump site for any Hazardous Material.

(b) The Borrower and each Subsidiary acknowledges and agrees that the Banks shall have no liability or responsibility for either:

(i) damage, loss, or injury to human health, the environment or natural resources caused by the presence, disposal, release or threatened release of Hazardous Materials on any part of such real property; or

(ii) abatement and/or clean-up required under any applicable Environmental Laws and Regulations for a release, threatened release or disposal of any Hazardous Materials located at such real property or used by or in connection with the Borrower's or any Subsidiary's or any such tenant's business.

Section 7.14 Regulation U.

Not use any part of the proceeds received by the Borrower from the Loans directly or indirectly for: (a) any purpose other than as set forth in Section 2.9 hereof, or (b) the purpose of purchasing or carrying, or for payment in full or in part of Indebtedness that was incurred for the purposes of purchasing or carrying, any "margin stock", as such term is defined in 221.3 of Regulation U of the Board of Governors of the Federal Reserve System, 12 C.F.R., Chapter II, Part 221, other than purchases made in compliance with Regulation U.

Article 8. Events of Default.

If any one or more of the following events ("Events of Default") shall occur and be continuing, the Commitments shall terminate and the entire unpaid balance of the principal of and interest on the Notes outstanding and all other obligations and Indebtedness of the Borrower to each Bank arising hereunder and under the other Loan Documents shall immediately become due and payable upon written notice to that effect given to the Borrower by either Bank upon consent of the Majority Banks (except that in the case of the occurrence of any Event of Default described in Section

8.6 no such notice shall be required), without presentment or demand for payment, notice of non-payment, protest or further notice or demand of any kind, all of which are expressly waived by the Borrower:

Section 8.1 Payments.

Failure to make (i) any payment or mandatory prepayment of principal under any Note when due or (ii) any payment or mandatory prepayment of interest upon any Note or to make any payment of any Fee not later than five (5) days after such payment or prepayment is due; or

Section 8.2 Certain Covenants.

Failure to perform or observe any of the agreements of the Borrower contained in Section 6.9, Section 6.13 or Article 7 hereof; or

Section 8.3 Other Covenants.

Failure by the Borrower or any Subsidiary to perform or observe any other term, condition or covenant of this Agreement or of any of the other Loan Documents to which it is a party, which shall remain unremedied for a period of 15 days after notice thereof shall have been given to the Borrower by either Bank; or

Section 8.4 Other Defaults.

(a) Failure to perform or observe any term, condition or covenant of any bond, note, debenture, loan agreement, indenture, guaranty, trust agreement, mortgage or similar instrument to which the Borrower or any Subsidiary is a party or by which it is bound, or by which any of its properties or assets may be affected (a "Debt Instrument"), so that, as a result of any such failure to perform, the Indebtedness included therein or secured or covered thereby has been declared due and payable prior to the date on which such Indebtedness would otherwise become due and payable; or

(b) Any event or condition referred to in any Debt Instrument shall occur or fail to occur, so that, as a result thereof, the Indebtedness included therein or secured or covered thereby has been declared due and payable prior to the date on which such Indebtedness would otherwise become due and payable; or

(c) Failure to pay any Indebtedness for borrowed money when due;

provided, however, that the provisions of this Section 8.4 shall not be applicable to any Debt Instrument that on the date this Section 8.4 would otherwise be applicable thereto, relates to or evidences Indebtedness in a principal amount of less than $500,000; or

Section 8.5 Representations and Warranties.

Any representation or warranty made in writing to the Banks in any of the Loan Documents, or any certificate, statement or report made or delivered in compliance with this Agreement, shall have been false or misleading in any material respect when made or delivered; or

Section 8.6 Bankruptcy.

(a) The Borrower or any Subsidiary shall make an assignment for the benefit of creditors, file a petition in bankruptcy, be adjudicated insolvent, petition or apply to any

tribunal for the appointment of a receiver, custodian, or any trustee for it or a substantial part of its assets, or shall commence any proceeding under any bankruptcy, reorganization, arrangement, readjustment of debt, dissolution or liquidation law or statute of any jurisdiction, whether now or hereafter in effect, or the Borrower or any Subsidiary shall take any corporate action to authorize any of the foregoing actions; or there shall have been filed any such petition or application, or any such proceeding shall have been commenced against it, that remains undismissed for a period of thirty (30) days or more; or any order for relief shall

be entered in any such proceeding; or the Borrower or any Subsidiary by any act or omission shall indicate its consent to, approval of or acquiescence in any such petition, application or proceeding or the appointment of a custodian, receiver or any trustee for it or any substantial part of any of its properties, or shall suffer any custodianship, receivership or trusteeship to continue undischarged for a period of thirty (30) days or more; or

(b) The Borrower or any Subsidiary shall generally not pay its debts as such debts become due; or

(c) The Borrower or any Subsidiary shall have concealed, removed, or permitted to be concealed or removed, any part of its property, with intent to hinder, delay or defraud its creditors or any of them or made or suffered a transfer of any of its property that may be fraudulent under any bankruptcy, fraudulent conveyance or similar law; or shall have made any transfer of its property to or for the benefit of a creditor at a time when other creditors similarly situated have not been paid; or shall have suffered or permitted, while insolvent, any creditor to obtain a Lien upon any of its property through legal proceedings or distraint that is not vacated within thirty (30) days from the date thereof; or

Section 8.7 Judgments.

Any judgment against the Borrower or any Subsidiary or any attachment, levy or execution against any of their properties for any amount in excess of $500,000 shall remain unpaid, unstayed on appeal, undischarged, unbonded or undismissed for a period of thirty (30) days or more; or

Section 8.8 ERISA.

(a) The termination of any Pension Plan or the institution by the PBGC of proceedings for the involuntary termination of any Pension Plan, in either case, by reason of, or that results in, a material "accumulated funding deficiency" with respect to the Borrower and its ERISA Affiliates, individually or in the aggregate, under Section 412 of the Code; or

(b) Failure by the Borrower to make required contributions, in accordance with the applicable provisions of ERISA, to each of the Pension Plans hereafter established or assumed by it; or

Section 8.9 Liens.

Any of the Liens created and granted to the Collateral Agent for the ratable benefit of the Banks under the Security Documents shall fail to be valid, first, perfected Liens, subject to no prior or equal Lien, except as permitted by Section 7.2 hereof; or

Section 8.10 Change of Control.

A Change of Control shall occur.

Article 9. Miscellaneous Provisions.

Section 9.1 Fees and Expenses; Indemnity.

The Borrower will on demand pay: (a) all reasonable costs of each Bank in preparing the Loan Documents and (b) all costs and expenses of the issuance of the Notes and of the Borrower's performance and the Subsidiaries' performance of and compliance with all agreements and conditions contained herein on its part to be performed or complied with (including, without limitation, all costs of filing or recording any assignments, mortgages, financing statements and other documents), and (c) the fees and expenses and disbursements of special counsel to each Bank and the Collateral Agent and of examiners and consultants of each Bank in connection with the preparation, execution and delivery, review, administration, interpretation and enforcement of the Loan Documents, the consummation of the transactions contemplated by all such documents, the negotiation, preparation, execution and delivery of any amendment, modification or supplement of or to, or any consent or waiver under, any such document (or any such instrument which is proposed but not executed and delivered) and with any claim or action threatened, made or brought against either Bank or the Collateral Agent arising out of or relating to any extent to the Loan Documents, or the transactions contemplated hereby or thereby. In addition, the Borrower will on demand pay all costs and expenses (including, without limitation, fees and disbursements of counsel) suffered or incurred by each Bank and the Collateral Agent in connection with its enforcement of the payment of the Note held by it or any sum due to it under the Loan Documents, or any of its other rights hereunder or thereunder. In addition to the foregoing, the Borrower shall indemnify each Bank and the Collateral Agent and each of their respective directors, officers, employees, attorneys, agents and Affiliates against, and hold each of them harmless from, any loss, liabilities, damages, claims, costs and expenses (including reasonable attorneys' fees and disbursements) suffered or incurred by any of them arising out of, resulting from or in any manner connected with, the execution, delivery and performance of each of the Loan Documents, the Loans and any and all transactions related to or consummated in connection with the Loans, including, without limitation, losses, liabilities, damages, claims, costs and expenses suffered or incurred by each Bank or the Collateral Agent or any of their respective directors, officers, employees, attorneys or Affiliates in investigating, preparing for, defending against, or providing evidence, producing documents or taking any other action in respect of any commenced or threatened litigation, administrative proceeding or investigation under any federal securities law or any other statute of any jurisdiction, or any regulation, or at common law or otherwise. The indemnity set forth herein shall be in addition to any other obligations or liabilities of the Borrower to each Bank or the Collateral Agent hereunder or at common law or otherwise. All fees, expenses, costs, charges and other amounts payable by the Borrower hereunder shall be deemed to be Obligations, and each Bank or the Collateral Agent may, in its sole discretion, exercise its rights under Section 9.5 of this Agreement in respect of any or all thereof. The provisions of this Section 9.1 shall survive the payment of the Notes and the termination of this Agreement.

Section 9.2 Taxes.

If, under any law in effect on the date of the closing of any Loan hereunder, or under any retroactive provision of any law subsequently enacted, it shall be determined that any Federal, state or local tax is payable in respect of the issuance of any Note, or in connection with the filing or recording of any

assignments, mortgages, financing statements, or other documents (whether measured by the amount of Indebtedness secured or otherwise) as contemplated by this Agreement, then the Borrower will pay any such tax and all interest and penalties, if any, and will indemnify each Bank and the Collateral Agent against and save each of them harmless from any loss or damage resulting from or arising out of the nonpayment or delay in payment of any such tax. If any such tax or taxes shall be assessed or levied against either Bank or the Collateral Agent, such Bank or the Collateral Agent, as the case may be, may notify the Borrower and make immediate payment thereof, together with interest or penalties in connection therewith, and shall thereupon be entitled to and shall receive immediate reimbursement therefor from the Borrower. Notwithstanding any other provision contained in this Agreement, the covenants and agreements of the Borrower in this Section 9.2 shall survive payment of the Notes and the termination of this Agreement.

Section 9.3 Payments.

As set forth in Article 2 hereof, all payments by the Borrower on account of principal, interest, fees and other charges (including any indemnities) shall be made to each Bank or the Collateral Agent at its Applicable Lending Office, in lawful money of the United States of America in immediately available funds, by wire transfer or otherwise, not later than 11:00 A.M. New York City time on the date such payment is due. Any such payment made on such date but after such time shall, if the amount paid bears interest, be deemed to have been made on, and interest shall continue to accrue and be payable thereon until, the next succeeding Business Day. If any payment of principal or interest becomes due on a day other than a Business Day, such payment may be made on the next succeeding Business Day and such extension shall be included in computing interest in connection with such payment. All payments hereunder and under the Notes shall be made without set-off or counterclaim and in such amounts as may be necessary in order that all such payments shall not be less than the amounts otherwise specified to be paid under this Agreement and the Notes (after withholding for or on account of: (i) any present or future taxes, levies, imposts, duties or other similar charges of whatever nature imposed by any government or any political subdivision or taxing authority thereof, other than any tax (except those referred to in clause (ii) below) on or measured by the net income of the Bank or the Collateral Agent to which any such payment is due pursuant to applicable federal, state and local income tax laws, and (ii) deduction of amounts equal to the taxes on or measured by the net income of such Bank or the Collateral Agent payable by such Bank or the Collateral Agent with respect to the amount by which the payments required to be made under this sentence exceed the amounts otherwise specified to be paid in this Agreement and the Notes). Upon payment in full of any Note, the Bank holding such Note shall mark the Note "Paid" and return it to the Borrower.

Section 9.4 Survival of Agreements and Representations; Construction.

All agreements, representations and warranties made herein shall survive the delivery of this Agreement and the Notes. The headings used in this Agreement and the table of contents are for convenience only and shall not be deemed to constitute a part hereof. All uses herein of the masculine gender or of singular or plural terms shall be deemed to include uses of the feminine or neuter gender, or plural or singular terms, as the context may require.

Section 9.5 Lien on and Set-off of Deposits.

As security for the due payment and performance of

all the Obligations, the Borrower hereby grants to each Bank and the Collateral Agent a Lien on any and all deposits or other sums at any time credited by or due from either Bank or the Collateral Agent to the Borrower, whether in regular or special depository accounts or otherwise, and any and all monies, securities and other property of the Borrower, and the proceeds thereof, now or hereafter held or received by or in transit to either Bank or the Collateral Agent from or for the Borrower, whether for safekeeping, custody, pledge, transmission, collection or otherwise, and any such deposits, sums, monies, securities and other property, may at any time after the occurrence and during the continuance of any Event of Default be set-off, appropriated and applied by either Bank or the Collateral Agent against any of the Obligations, whether or not any of such Obligations is then due or is secured by any collateral, or, if it is so secured, whether or not the collateral held by either Bank or the Collateral Agent is considered to be adequate, all as set forth in and pursuant to Section 2.16 hereof.

Section 9.6 Modifications, Consents and Waivers; Entire Agreement.

No modification, amendment or waiver of or with respect to any provision of this Agreement, any Notes, the Security Documents, or any of the other Loan Documents and all other agreements, instruments and documents delivered pursuant hereto or thereto, nor consent to any departure by the Borrower from any of the terms or conditions thereof, shall in any event be effective unless it shall be in writing and signed by the Majority Banks; provided, however, that notwithstanding the foregoing, without the written consent of each Bank and the Collateral Agent, in no event shall any amendment, modification, waiver or consent:

(a) Be effective with respect to Article 2 or Article 3 (it being understood that a waiver of any Default or Event of Default under Section 8.5 hereof shall not constitute an amendment or modification of any Section therein), or Sections 8.1 or 9.6 hereof or the definitions in Article 1 which are used in any of the foregoing;

(b) Extend the final maturity of any Loan or Note (it being understood that any waiver of the application of any prepayment of or the method of application of any prepayment to the amortization of, the Loans shall not constitute any such extension) or reduce the principal amount thereof, or reduce the rate or extend the time of payment of interest or fees thereon;

(c) Reduce the percentage specified in the definition of Majority Banks;

(d) Increase the amount of the Commitment of any Bank hereunder (it being understood that a waiver of any Default or Event of Default shall not constitute a change in the terms of any Commitment of any Bank);

(e) Extend the Commitment Termination Date;

(f) Release or permit the release of any asset pledged under any of the Security Documents; or

(g) Consent to any assignment by the Borrower of the Obligations.

Any such waiver or consent shall be effective only in the specific instance and for the purpose for which given. No consent to or demand on the Borrower in any case shall, of itself, entitle it to any other or further notice or demand in similar or other circumstances. This Agreement and the other Loan Documents embody

the entire agreement and understanding among the Banks, the Collateral Agent and the Borrower and supersede all prior agreements and understandings relating to the subject matter hereof.

Section 9.7 Remedies Cumulative.

Each and every right granted to the Banks and the Collateral Agent hereunder or under any other document delivered hereunder or in connection herewith, or allowed it by law or equity, shall be cumulative and may be exercised from time to time. No failure on the part of either Bank or the Collateral Agent to exercise, and no delay in exercising, any right shall operate as a waiver thereof, nor shall any single or partial exercise of any right preclude any other or future exercise thereof or the exercise of any other right. The due payment and performance of the Obligations shall be without regard to any counterclaim, right of offset or any other claim whatsoever that the Borrower may have against either Bank or the Collateral Agent and without regard to any other obligation of any nature whatsoever that either Bank or the Collateral Agent may have to the Borrower, and no such counter-claim or offset shall be asserted by the Borrower in any action, suit or proceeding instituted by either Bank or the Collateral Agent for payment or performance of the Obligations.

Section 9.8 Further Assurances.

At any time and from time to time, upon the request of either Bank or the Collateral Agent, the Borrower shall execute, deliver and acknowledge or cause to be executed, delivered and acknowledged, such further documents and instruments and do such

other acts and things as either Bank or the Collateral Agent may reasonably request in order to fully effect the purposes of this Agreement, the other Loan Documents and any other agreements, instruments and documents delivered pursuant hereto or in con-nection with the Loans.

Section 9.9 Notices.

All notices, requests, reports and other communi-cations pursuant to this Agreement shall be in writing, either by letter (delivered by hand or commercial messenger service or sent by certified mail, return receipt requested, except for routine reports delivered in compliance with Article 5 hereof which may be sent by ordinary first-class mail) or telegram or telecopy, addressed as follows:

(a) If to the Borrower:

Griffon Corporation
100 Jericho Quadrangle
Jericho, New York 11753
Attention: Robert Balemian
Telecopier No.: (516) 938-5644

with a copy to:

Blau, Kramer, Wactlar &
Lieberman, P.C.
100 Jericho Quadrangle
Jericho, New York 11753
Attention: Edward I. Kramer
Telecopier No.: (516) 822-4824

(b) If to Chemical:

Chemical Bank
7600 Jericho Turnpike
Suite 306
Woodbury, NY 11797
Attention: Barbara G. Bertschi
Vice President
Telecopier No.: (516) 364-3307

(c) If to NatWest or the Collateral Agent:

NatWest Bank N.A.
100 Jericho Quadrangle
Jericho, New York 11753
Attention: Christopher J. Mendelsohn
Vice President
Telecopier No.: (516) 349-2098

with a copy (other than in the case of Borrowing Notices and reports and other documents delivered in compliance with Article 5 hereof) to:

Winston & Strawn
175 Water Street
New York, New York 10038
Attention: Susan Berkwitt-Malefakis, Esq.
Telecopier No.: (212) 952-1474

Any notice, request or communication hereunder shall be deemed to have been given on the day on which it is telecopied to such party at the telecopier number specified above or delivered by hand or such commercial messenger service to such party at its address specified above, or, if sent by mail, on the third Business Day after the day deposited in the mail, postage prepaid, or in the case of telegraphic notice, when delivered to the telegraph company, addressed as aforesaid. Any party may change the person, address or telecopier number to whom or which notices are to be given hereunder, by notice duly given hereunder; provided, however, that any such notice shall be deemed to have been given hereunder only when actually received by the party to which it is addressed.

Section 9.10 Counterparts.

This Agreement may be signed in any number of counterparts with the same effect as if the signatures thereto and hereto were upon the same instrument.

Section 9.11 Severability.

The provisions of this Agreement are severable, and if any clause or provision hereof shall be held invalid or unenforceable in whole or in part in any jurisdiction, then such invalidity or unenforceability shall affect only such clause or provision, or part thereof, in such jurisdiction and shall not in any manner affect such clause or provision in any other jurisdiction, or any other clause or provision in this Agreement in any jurisdiction. Each of the covenants, agreements and conditions contained in this Agreement is independent and compliance by the Borrower with any of them shall not excuse non-compliance by the Borrower with any other. All covenants hereunder shall be given independent effect so that if a particular action or condition is not permitted by any of such covenants, the fact that it would be permitted by an exception to, or be otherwise within the limitations of, another covenant shall not avoid the occurrence of a Default or an Event of Default if such action is taken or condition exists.

Section 9.12 Binding Effect; No Assignment or Delegation by Borrower.

This Agreement shall be binding upon and inure to the benefit of the Borrower and its successors and to the benefit of the Banks and the Collateral Agent and their respective successors and assigns. The rights and obligations of the Borrower under this Agreement shall not be assigned or delegated without the prior written consent of each Bank and the Collateral Agent, and any purported assignment or delegation without such consent shall be void.

Section 9.13 Assignments and Participations by Banks.

(a) Each Bank may assign to one or more banks or other entities all or a portion of its rights and obligations under this Agreement (including, without limitation, all or a portion of its Commitment, the Loans owing to it, and the Note or Notes held by it); provided, however, that: (i) each such assignment shall be of a constant, and not a varying, percentage of all of the assigning Bank's rights and obligations under this Agreement, (ii) the amount of the Commitment of the assigning Bank being assigned pursuant to each such assignment (determined as of the date of the Assignment and Acceptance with respect to such assignment) shall in no event be less than $5,000,000 and shall be an integral multiple of $500,000, (iii) each assignee shall agree in writing satisfactory in form and substance to the Collateral Agent to be bound by the terms and conditions of the Collateral Agent Agreement, (iv) each such assignment other than to a Bank or a banking Affiliate of a Bank shall require the consent of the Borrower, and (v) each such assignment shall be to an Eligible Assignee. Upon such execution, delivery, acceptance and recording, from and after the effective date specified in each Assignment and Acceptance, which effective date shall be at least five (5) Business Days after the execution thereof: (x) the assignee thereunder shall be a party hereto and, to the extent that rights and obligations hereunder have been assigned to it pursuant to such Assignment and Acceptance, have the rights and obligations of a Bank hereunder, and (y) the Bank assignor thereunder shall, to the extent that rights and obligations hereunder have been assigned by it pursuant to such Assignment and Acceptance, relinquish its rights and be released from its obligations under this Agreement (and, in the case of an Assignment and Acceptance covering all or the remaining portion of an assigning Bank's rights and obligations under this Agreement, such Bank shall cease to be a party hereto).

(b) By executing and delivering an Assignment and Acceptance, the Bank assignor thereunder and the assignee thereunder confirm to and agree with each other and the other parties hereto as follows: (i) other than as provided in such Assignment and Acceptance, such assigning Bank makes no representation or warranty and assumes no responsibility with respect to any statements, warranties or representations made in or in connection with this Agreement or the execution, legality, validity, enforceability, genuineness, sufficiency or value of this Agreement or any other instrument or document furnished pursuant hereto; (ii) such assigning Bank makes no representation or warranty and assumes no responsibility with respect to the financial condition of the Borrower or the performance or observance by the Borrower of any of its obligations under this Agreement or any other instrument or document furnished pursuant hereto; (iii) such assignee confirms that it has received a copy of this Agreement, together with copies of such financial statements and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into such Assignment and Acceptance; (iv) such assignee will, independently and without reliance upon such assigning Bank or any other Bank and based on such documents and information as it shall deem appropriate at the time, continue

to make its own credit decisions in taking or not taking action under this Agreement; (v) such assignee confirms that it is an Eligible Assignee; and (vi) such assignee agrees that it will perform in accordance with their terms all of the obligations which by the terms of this Agreement are required to be performed by it as a Bank.

(c) Upon its receipt of an Assignment and Acceptance executed by an assignee representing that it is an Eligible Assignee, together with any Note subject to such assignment, the assigning Bank shall: (i) accept such Assignment and Acceptance, and (ii) give prompt notice thereof to the Borrower and each of the other Banks. Within five Business Days after its receipt of such notice, the Borrower, at its own expense, shall execute and deliver to the assignee Bank in exchange for the surrendered Note a new Note to the order of such Eligible Assignee in an amount equal to the Commitment assumed by it pursuant to such Assignment and Acceptance and, if the assigning Bank has retained a Commitment hereunder, a new Note to the order of the assigning Bank in an amount equal to the Commitment retained by it hereunder. Such new Notes shall be in an aggregate principal amount equal to the aggregate principal amount of such surrendered Note, shall be dated the effective date of such Assignment and Acceptance and shall otherwise be in substantially the form of Exhibits A-1 and A-2 hereto.

(d) Each Bank may, without the prior consent of the other Bank or the Borrower, sell participations to one or more banks or other entities in all or a portion of its rights and obligations under this Agreement (including, without limitation, all or a portion of its Commitment, the Loans owing to it, and the Note held by it; provided, however, that: (i) such Bank's obligations under this Agreement (including, without limitation, its Commitment hereunder) shall remain unchanged, (ii) such Bank shall remain solely responsible to the other parties hereto for the performance of such obligations, (iii) such Bank shall remain the holder of any such Note for all purposes of this Agreement, and the Borrower and the other Bank shall continue to deal solely and directly with such Bank in connection with such Bank's rights and obligations under this Agreement.

(e) Each Bank may, in connection with any assignment or participation or proposed assignment or participation pursuant to this Section 9.13, disclose to the assignee or participant or proposed assignee or participant, any information relating to the Borrower furnished to such Bank by or on behalf of the Borrower; provided that, prior to any such disclosure, the assignee or participant or proposed assignee or participant shall agree to preserve the confidentiality of any confidential information relating to the Borrower received by it from such Bank.

(f) Notwithstanding any other provision contained in this Agreement or any other Loan Document to the contrary, each Bank may assign all or any portion of its Loans and its Notes to any Federal Reserve Bank or the United States Treasury (and its transferees) as collateral security pursuant to Regulation A of the Board of Governors of the Federal Reserve System and any Operating Circular issued by such Federal Reserve Bank, provided that any payment in respect of such assigned Loan made by the Borrower to or for the account of the assigning Bank in accordance with the terms of this Agreement shall satisfy the Borrower's obligations hereunder in respect of such assigned Loans to the extent of such payment. No such assignment shall release the assigning Bank from its obligations hereunder.

Section 9.14 Relief From Bankruptcy Stay.

In the event that the Borrower or any of the persons or parties constituting the Borrower shall (i) file with any bankruptcy court of competent jurisdiction or be the subject of any petition under Title 11 of the U.S. Code, as amended ("Bankruptcy Code"), (ii) be the subject of any order for relief issued under the Bankruptcy Code, (iii) file or be the subject of any petition seeking any reorganization, arrangement, composition, readjustment, liquidation, dissolution, or similar relief under any present or future federal or state act or law relating to bankruptcy, insolvency, or other relief for debtors (collectively, "Insolvency Law"), (iv) have sought or consented to or acquiesced in the appointment of any trustee, receiver, conservator, or liquidator, or (v) be the subject of any order, judgment, or decree entered by any court of competent jurisdiction approving a petition filed against such party for any reorganization, arrangement, composition, readjustment, liquidation, dissolution, or similar relief under any Insolvency Law, each Bank shall thereupon be entitled and the Borrower irrevocably consents to immediate and unconditional relief from any automatic stay imposed by Section 362 of the Bankruptcy Code, or any other stay issued pursuant to the Bankruptcy Code or any Insolvency Law, on or against the exercise of the rights and remedies otherwise available to each Bank or the Collateral Agent as provided in connection herewith and as otherwise provided by law, and the Borrower hereby irrevocably waives any right to object to such relief and will not contest any motion by each Bank or the Collateral Agent seeking relief from such stay and the Borrower will cooperate with each Bank and the Collateral Agent, in any manner requested by each Bank or the Collateral Agent, in its efforts to obtain relief from any such stay.

Section 9.15 Governing Law; Consent to Jurisdiction; Waiver of Trial by Jury.

(a) THIS AGREEMENT, THE OTHER LOAN DOCUMENTS AND ALL OTHER DOCUMENTS AND INSTRUMENTS EXECUTED AND DELIVERED IN CONNECTION HEREWITH AND THEREWITH, SHALL BE GOVERNED BY, AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK WITHOUT REGARD TO ITS RULES PERTAINING TO CONFLICTS OF LAWS.

(b) THE BORROWER IRREVOCABLY CONSENTS THAT ANY LEGAL ACTION OR PROCEEDING AGAINST IT UNDER, ARISING OUT OF OR IN ANY MANNER RELATING TO THIS AGREEMENT, AND EACH OTHER LOAN DOCUMENT MAY BE BROUGHT IN ANY COURT OF THE STATE OF NEW YORK, COUNTY OF NEW YORK, OR IN THE UNITED STATES DISTRICT COURT FOR THE SOUTHERN DISTRICT OF NEW YORK. THE BORROWER, BY THE EXECUTION AND DELIVERY OF THIS AGREEMENT, EXPRESSLY AND IRREVOCABLY ASSENTS AND SUBMITS TO THE PERSONAL JURISDICTION OF ANY OF SUCH COURTS IN ANY SUCH ACTION OR PROCEEDING. THE BORROWER FURTHER IRREVOCABLY CONSENTS TO THE SERVICE OF ANY COMPLAINT, SUMMONS, NOTICE OR OTHER PROCESS RELATING TO ANY SUCH ACTION OR PROCEEDING BY THE DELIVERY THEREOF TO IT BY HAND OR BY MAIL IN THE MANNER PROVIDED FOR IN SECTION 9.9 HEREOF. THE BORROWER HEREBY EXPRESSLY AND IRREVOCABLY WAIVES ANY CLAIM OR DEFENSE IN ANY SUCH ACTION OR PROCEEDING BASED ON ANY ALLEGED LACK OF PERSONAL JURISDICTION, IMPROPER VENUE OR FORUM NON CONVENIENS OR ANY SIMILAR BASIS. THE BORROWER SHALL NOT BE ENTITLED IN ANY SUCH ACTION OR PROCEEDING TO ASSERT ANY DEFENSE GIVEN OR ALLOWD UNDER THE LAWS OF ANY STATE OTHER THAN THE STATE OF NEW YORK UNLESS SUCH DEFENSE IS ALSO GIVEN OR ALLOWED BY THE LAWS OF THE STATE OF NEW YORK. ANOTHER IN THIS SECTION 9.15 SHALL AFFECT OR IMPAIR IN ANY MANNER OR TO ANY EXTENT THE RIGHT OF ANY BANK TO COMMENCE LEGAL PROCEEDINGS OR OTHERWISE PROCEED AGAINST THE BORROWER IN ANY JURISDICTION OR TO SERVE PROCESS IN ANY MANNER PERMITTED BY LAW.

(c) EACH OF THE BORROWER AND EACH BANK WAIVES TRIAL BY JURY IN ANY LITIGATION IN ANY COURT WITH RESPECT TO, IN CONNECTION WITH, OR ARISING OUT OF, THIS AGREEMENT, ANY OF THE OTHER LOAN DOCUMENTS, OR ANY INSTRUMENT OR DOCUMENT DELIVERED PURSUANT TO THIS AGREEMENT OR THE VALIDITY, PROTECTION, INTERPRETATION, COLLECTION OR ENFORCEMENT THEREOF.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed on the date first above written.

GRIFFON CORPORATION

By: Robert Balemian

Name: Robert Balemian

Title: President

[SIGNATURES CONTINUE ON NEXT PAGE]

Commitment:

$36,000,000

NATWEST BANK N.A., individually and
in its capacity as Collateral Agent

By: Christopher Mendelsohn

Name: Christopher Mendelsohn

Title: Vice President

Lending Office for Prime Rate
Loans and Eurodollar Loans:

100 Jericho Quadrangle
Jericho, New York 11753

Attention: Christopher J. Mendelsohn

[SIGNATURES CONTINUE ON NEXT PAGE]

Commitment:

$24,000,000

CHEMICAL BANK

By: Barbara G. Bertsche

Name: Barbara G. Bertsche

Title: Vice President

Lending Office for Prime Rate
Loans and Eurodollar Loans:

7600 Jericho Turnpike
Suite 306
Woodbury, New York 11797

Attention: Barbara G. Bertschi

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our report, dated November 6, 1995, included in this Form 10-K, into the Company's previously filed Registration Statements on Form S-8 (Nos. 2-82183, 2-99536, 33-14259, 33-39090, 33-62966, 33-52319 and 33-57683).

Arthur Andersen LLP

Roseland, New Jersey
November 17, 1995

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THE SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE
CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 1995
AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.
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