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

FORM 10-K

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended September 30, 2003

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
(State or other jurisdiction of
incorporation or organization)

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

100 Jericho Quadrangle, Jericho, New York
(Address of Principal Executive Offices)

11753
(Zip Code)

Registrant's telephone number, including area code:

(516) 938-5544

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

| Title of each class | Name of each exchange on which registered |
|---------------------------------|--|
| Common Stock, \$.25 par value | New York Stock Exchange |
| Preferred Share Purchase Rights | 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 No

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.

Indicate by check mark whether this registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes No

State the aggregate market value of the voting and non-voting common equity 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 December 15, 2003 - approximately \$557,000,000.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date. As of December 15, 2003 - 29,602,208.

DOCUMENTS INCORPORATED BY REFERENCE:

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

PART I

ITEM 1 - BUSINESS

The Company

Griffon is a diversified manufacturing company with operations in four business segments: Garage Doors; Installation Services; Specialty Plastic Films; and Electronic Information and Communication Systems. The company's Garage Doors segment designs, manufactures and sells garage doors for use in the residential housing and commercial building markets. The Installation Services segment sells, installs and services garage doors, garage door openers, manufactured fireplaces, floor coverings, cabinetry and a range of related building products primarily for the new residential housing market. The company's Specialty Plastic Films segment develops, produces and sells plastic films and film laminates for use in infant diapers, adult incontinence products, feminine hygiene products and disposable surgical and patient care products. The company's Electronic Information and Communication Systems segment designs, manufactures, sells and provides logistical support for communications, radar, information, command and control systems and large-scale integrated circuits for defense and commercial markets.

The company has made strategic investments in each of its business segments to enhance its market position, expand into new markets and further accelerate growth. Garage Doors and Installation Services have acquired several manufacturing and installation companies in recent years. In 1999, Installation Services acquired an operation located in the Southwest that sells and installs a range of specialty products to the new residential construction market, expanding the products and services offered by the company. In 2000, the company acquired a Michigan garage door wholesale and installation company and a Seattle fireplace and garage door installation business. In 1998, Specialty Plastic Films acquired a manufacturer of printed plastic packaging and specialty films located in Germany, expanding its markets and technical capabilities, and subsequently added additional production capacity in its European joint venture to enhance its business with a major international consumer products company. In 2002, Specialty Plastic Films acquired 60% ownership of a Brazilian manufacturer of plastic hygienic and specialty films, further expanding its markets and global supply capabilities. In fiscal 2003, Specialty Plastic Films commenced a significant capital expansion program designed to increase its overall production capacity and support anticipated growth opportunities with its major customers. In 2000, the Electronic Information and Communication Systems segment acquired a search and weather radar business.

The company was incorporated on May 18, 1959 under the laws of the State of New York. It was reincorporated in Delaware in 1970 and its name was changed to Griffon Corporation in 1995. The company makes available, free of charge through its website at www.griffoncorp.com, its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) of the Securities Exchange Act of 1934 as soon as reasonably practicable after such material is filed with the Securities and Exchange Commission.

Garage Doors

The company believes that its wholly-owned subsidiary, Clopay, is the largest manufacturer and marketer of residential garage doors and among the largest manufacturers of commercial sectional doors in the United States. The company's building products are sold under Clopay[®], Ideal Door[®] and Holmes[®] brand names through an extensive distribution network throughout the United States. The company estimates that the majority of Garage Doors' net sales are from sales of garage doors to the home remodeling segment of the residential housing market, with the balance from the new residential housing and commercial building markets. Sales into the home remodeling market are being driven by the continued aging of the housing stock and the conversion by homeowners from wood doors to lighter weight, easier to maintain steel doors.

Industry

According to industry sources, the residential and commercial sectional garage door market for 2002 was estimated to be \$1.6 billion. Over the past decade there have been several key trends driving the garage door industry, including the shift from wood to steel doors and the growth of the home center channel of distribution. The company estimates that over 90% of the total garage door market today is steel doors. Superior strength, reduced weight and low maintenance have favored the steel door. Other product innovations during this period include insulated double-sided steel doors, new springing systems and residential garage doors with improved safety features.

The growth of the home center channel of distribution in the United States has resulted in a shift from traditional channels, including professional installers and wholesalers. Over the past decade, an increasing number of garage doors have been sold through home center retail chains such as The Home Depot, Inc. These home centers offer garage doors for the do-it-yourself market and commercial contractors, as well as installation services for other customers. Distribution through the retail channel requires a different approach than that traditionally utilized by garage door manufacturers. Factors such as immediately available inventory, national distribution, national installation services, point-of-sale merchandising and special packaging are all important to the retailer.

Key Competitive Strengths

The company believes that the following strengths will continue to enhance the market position of Garage Doors:

National Distribution Network. The company distributes its building products through a wide range of distribution channels including installing dealers, retailers and wholesalers. The company owns and operates a national network of 47 distribution centers. The company's building products are sold to approximately 2,000 independent professional installing dealers and to major home center retail chains, including The Home Depot, Inc., Menards, Inc. and Lowe's Companies, Inc. The company maintains strong relationships with its installing dealers and believes it is the largest supplier of residential garage doors to the retail and professional installing channels.

Low-Cost Manufacturing Capabilities. The company believes it has low-cost manufacturing capabilities as a result of its automated, continuous production manufacturing facilities and its reduced costs for raw materials based on volume purchases. These manufacturing facilities produce a broad line of high quality garage doors for distribution to professional installer, retail and wholesale channels.

Strong Brand Franchise. The company's brand names, particularly Clopay[®], Holmes[®] and Ideal Door[®], are widely recognized in the building products industry. The company believes that it has earned a reputation among installing dealers, retailers and wholesalers for producing a broad range of high-quality doors. The company's market leadership and strong brand recognition are key marketing tools for expanding its customer base, leveraging its distribution network and increasing its market share.

Strategy

The company intends to increase its market share in Garage Doors by capitalizing on what it believes to be its leadership position as the largest manufacturer and marketer of residential garage doors. Specifically, the company intends to: (i) continue sales growth through its dealer network and the retail market; (ii) increase brand awareness through merchandising programs and advertising; (iii) maintain a leadership position in new product development; and (iv) expand its production and presence nationally through internal investment and strategic acquisitions.

Products and Services

The company manufactures a broad line of residential and commercial sectional garage doors with a variety of options at varying prices. The company also sells related products such as garage door openers. The company offers garage doors made from several materials, including steel and wood.

The company generally markets its lines of residential garage doors in three primary product categories: Value, Value Plus and Premium. The Value series door construction consists of a single layer of steel or wood doors targeting the new construction market and the cost-conscious consumer market. The Value Plus series consists of insulated steel doors targeting the new construction market and the quality-oriented consumer market. The Premium series consists of steel doors with a layer of insulation bonded between two sheets of steel targeting consumers who desire exceptional strength, durability, high insulation value, quiet operation, and a finished interior appearance.

The company also markets commercial sectional doors. Commercial sectional doors are similar to residential garage doors, but are designed to meet more demanding performance specifications.

In 2002, the company discontinued the Atlas[®] brand commercial/industrial product line, which included slatted steel coiling doors, service doors, thermal doors, fire doors and counter shutters, fire shutters and grilles.

Sales by Garage Doors have provided approximately 32% of the company's consolidated revenue in 2003, 35% in 2002 and 35% in 2001.

Sales and Marketing

The company sells residential and commercial doors for professional installation directly to a national network of professional installing dealers. We also sell garage doors to retailers such as The Home Depot, Inc., Menards, Inc. and Lowe's Companies, Inc. The company is the principal supplier of residential garage doors throughout the United States and Canada to The Home Depot, Inc., with Clopay[®] brand doors being sold exclusively to this customer in the retail channel of distribution. Sales of the Clopay[®] brand outside the retail channel of distribution are not restricted. The segment's largest customers are The Home Depot, Inc. and Menards, Inc. The loss of these customers would have a material adverse effect on the company's business. The company distributes its garage doors directly to customers from its manufacturing facilities and through its network of 47 company-

owned distribution centers located throughout the United States and in Canada. These distribution centers allow the company to maintain an inventory of garage doors near installing dealers and provide quick-ship service to retail customers.

Manufacturing and Raw Materials

The company currently operates four garage door manufacturing facilities. A key aspect of Garage Doors' research and development efforts has been the ability to continually improve and streamline its manufacturing process. The company's engineering and technological expertise, combined with its capital investment in equipment, generally has enabled the company to efficiently manufacture products in large volume and meet changing customer needs. The company's facilities use proprietary manufacturing processes to produce the majority of its products. Certain of the company's equipment and machinery are internally modified to achieve its manufacturing objectives.

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

Research and Development

The company operates a technical development center where its research engineers work to design, develop and implement new products and technologies and perform durability and performance testing of new and existing products, materials and finishes. Also at this facility, the company's process engineering team works to develop new manufacturing processes and production techniques aimed at improving manufacturing efficiencies.

Competition

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

Installation Services

The company has developed a substantial network of specialty building products installation and service operations. Its network of locations cover many of the key new single family home markets in the United States and offer an increasing variety of building products and services to the residential construction and remodeling industries. The company believes that it is one of the leading installing dealers of both garage doors and manufactured fireplaces in the United States.

Industry

The company provides installed specialty building products to residential builders and to consumers. Builders are increasingly acting as developers and marketers, sub-contracting a substantial portion of the actual construction of a home. Consumers require professional installation services of the company's building products due to the skill levels required for installation and/or the lack of time to perform the installation themselves. Traditionally, the market for installation services has been very fragmented, characterized by small operations offering a single type of building product in a single market.

Key Competitive Strengths

The company believes that the following strengths will continue to enhance the market position of the Installation Services business:

Scale of Operations. In what has historically been an undercapitalized, fragmented industry, the company has sufficient capital and the scale to attract professional management, achieve operating economies, and serve the needs of even the largest national builders.

Multiple product and service offerings. The company believes it is unique in its offering of products and services in several product categories. This offering is leveraged over a common customer base, providing efficiencies and convenience for the customer.

Selection Centers. The company operates well-appointed product design centers that facilitate selection of products by the consumer, enhancing customer service and providing an environment conducive to up-selling into higher margin products.

Strategy

The company believes that Installation Services has distinguished itself in the marketplace as an expert in select building product categories, with a focus on value-added service.

Installation Services has targeted geographic markets that have a sizeable population or significant growth demographics. The company currently serves 14 of the top 100 metropolitan markets based on population and 9 of the top 20 new single-family residential construction markets. The markets served account for approximately 20% of all new residential housing permits in the United States. The company seeks to promote the continued growth of the Installation Services business through both internal growth and strategic acquisitions of new operations in high growth construction markets.

Installation Services' multiple product offering is primarily targeted at new construction, wherein products are generally consumed at approximately the same time in the construction process. Products offered can be selected and upgraded by the end-customer in the company's design centers. The company believes that its multi-product offering provides strategic marketing advantages over traditional, single product competitors, and provides the company with operational efficiencies. The company seeks to increase the cross-selling of its multiple products to its

existing customers. Additionally, the company plans further growth through the introduction of additional installed building products. The replacement and remodeling markets are additional markets for the company's products and professional installation services.

Products and Services

Installation Services sells and installs a variety of building products:

Garage Doors and Openers - garage doors are distributed, professionally installed and serviced in the new construction and replacement markets. Installation Services sources most of its garage doors from Garage Doors.

Fireplaces - manufactured wood and gas fireplaces and related products such as stone or marble surrounds, wood mantels and gas logs are distributed, professionally installed and serviced primarily to the new construction market.

Flooring - flooring products distributed and installed to the new construction market include carpeting, tile and stone, wood and vinyl.

Appliances - appliances distributed to the new construction market include refrigerators, stoves, cooktops, ovens and dishwashers.

Kitchen and Bath Cabinets - cabinetry, with options in wood varieties and door styles, are offered for distribution and installation to the new construction market.

Other - other products include seamless gutters, closet systems, window coverings, bath enclosures, and architectural hardware. Tile and stone applications for shower and bath walls, counter tops and fireplace surrounds are also offered.

Sales by Installation Services have provided approximately 23% of the company's consolidated revenue in 2003, 2002 and 2001.

Acquisitions

The Installation Services business has entered new markets primarily through acquisition. Once established in a market, the company introduces additional product categories to the acquired company's product offerings. From 1993 through 2000, the company completed thirteen acquisitions of building products service and installation operations.

Competition

The installation services industry is fragmented, consisting primarily of small, single-market companies which have less financial resources than the company. The company competes on the basis of service, product line diversity, price and brand awareness.

Specialty Plastic Films

The company believes that, through Clopay Plastics Products Company, it is a leading developer and producer of specialty plastic films and laminates for a variety of hygienic, health care and industrial uses in domestic and certain international markets. Specialty Plastic Films' products include thin gauge embossed and printed films, elastomeric films and laminates of film and non-woven fabrics. These products are used primarily as moisture barriers in disposable infant diapers, adult incontinence products and feminine hygiene products, as protective barriers in single-use surgical and industrial gowns, drapes, equipment covers, and as packaging for hygienic products. Specialty Plastic Films' products are sold through the company's direct sales force primarily to multinational consumer and medical products companies.

The segment's major customer is Procter & Gamble, with whom the company enjoys a long and growing relationship. Specialty Plastic Films supplies Procter & Gamble with a variety of products used primarily for its infant diapers, both domestically and internationally, and expects to continue to expand the relationship in the future. See "Strategy".

Industry

The segment of the specialty plastic films industry in which Clopay participates has been affected by several key trends over the past five years. These trends include the increased use of disposable products in developing countries and favorable demographics, such as the aging of the population, in the major global economies. Other key trends representing significant opportunities for manufacturers include the continued demand for new advanced products such as cloth-like, breathable, laminated, and printed products and the need of major customers for global supply partners.

Key Competitive Strengths

The company believes that the following strengths will continue to enhance the market position of Specialty Plastic Films:

Technological Expertise and Product Development. The company believes that, as a result of ongoing research and development activities and continued capital investment, including completion of a new Technical Center in 2003, it is a leader in new product development and commercialization of specialty plastic films and laminates for its markets. The company has developed technologically advanced embossed films, elastomeric films, breathable films, laminates and cloth-like barrier products for diapers, feminine hygiene products, disposable health care and industrial products. The company believes that its technical expertise and product development capabilities enhance its market position and customer relationships.

Long-Term Customer Relationships and Expanding International Presence. The company has developed strong, long-term relationships with leading consumer and health care products companies. The company believes that these relationships, combined with its technological expertise, product development and production capabilities, including global operations, have positioned it to meet changing customer needs, which the company expects will drive growth. In addition, the company believes its strong, long-term relationships provide it with increasing opportunities to expand and enter new international markets.

Strategy

The company seeks to expand its market presence for Specialty Plastic Films by capitalizing on its technological and manufacturing expertise and on its relationships with major international consumer products companies. Specifically, the company believes that it can continue to increase its North American sales and

expand internationally through ongoing product development and enhancement and by marketing its technologically advanced breathable films and laminates for use in all of its markets. The company believes that its Finotech joint venture, the 1998 acquisition of Böhme (see "European Operations") and the 2002 acquisition of Clopay do Brasil (see "South American Operations") provide a strong platform for additional sales growth in certain international markets.

This segment started a significant capital expansion program in fiscal 2003 to maintain its technology leadership, support new opportunities with its major customers and to increase capacity throughout its operations. The segment began a facility-wide program both domestically and internationally to add manufacturing capacity. In addition, during fiscal 2003, Specialty Plastic Films introduced a product initiative involving the production of high quality, multi-color printing of films and laminates for the baby diaper market in North America and Europe. Consolidated equipment and plant additions during fiscal 2003 were \$44 million, of which \$30 million was for specialty plastic films. It is anticipated that consolidated equipment and plant additions in fiscal 2004 will aggregate \$40-50 million, the major portion of which will also be for specialty plastic films' ongoing capital expansion programs.

Products

Specialty Plastic Films manufactures a wide variety of embossed and printed specialty films and laminates for the hygienic, healthcare and other markets. Specialty Plastic Films' products are used as moisture barriers for disposable infant diapers, adult incontinence and feminine hygiene products and as protective barriers in surgical and industrial gowns and drapes, equipment covers, flexible packaging, house wrap and other products. A specialty plastic film is a thin-gauge film (typically 0.0005" to 0.003") that is manufactured from polyolefin resins and engineered to provide certain performance characteristics. A laminate is the combination of a plastic film and a non-woven fabric. These products are produced using both cast and blown extrusion and laminating processes. High speed, multi-color custom printing of films and customized embossing patterns further differentiate the products. The company's specialty plastic film products typically provide a unique combination of performance characteristics that meet specific, proprietary customer needs. Examples of such characteristics include strength, breathability, barrier properties, processibility and aesthetic appeal.

Sales by Specialty Plastic Films have provided approximately 30% of the company's consolidated revenue in 2003, 25% in 2002 and 26% in 2001.

Sales and Marketing

The company sells its products primarily in the United States and Europe with sales also in Canada, Central and South America and Asia Pacific. The company utilizes an internal direct sales force, organized by customer accounts. Senior management actively participates by developing and maintaining close contacts with customers.

The company's largest customer is Procter & Gamble, which has accounted for a substantial portion of Specialty Plastic Films' sales over the last five years. The loss of this customer would have a material adverse effect on the company's business. Specialty plastic films also are sold to a diverse group of other leading consumer, health care and industrial companies.

Research and Development

The company believes it is an industry leader in the research, design and development of specialty plastic films and laminate products. The company operates a technical center where approximately 50 chemists, scientists and engineers work independently and in strategic partnerships with the company's customers to develop new technologies, products, processes and product applications. Currently, the company is engaged in several joint efforts with the research and development departments of its customers.

The company's research and development efforts have resulted in many inventions covering embossing patterns, improved processing methods, product formulations, product applications and other proprietary technology. Products developed by the company include microporous breathable films and cost-effective cloth-like films and laminates. Microporous breathability provides for moisture vapor transmission and airflow while maintaining barrier properties resulting in improved comfort and skin care. Cloth-like films and laminates provide consumers preferred aesthetics such as softness and visual appeal. In fiscal 2003, the company began multi-color printing of films and laminates for its baby diaper products. The company holds a number of patents for its current specialty film and laminate products and related manufacturing processes. The company believes its patents are a less significant factor in its success than its proprietary know-how and the knowledge, ability and experience of its employees.

International Operations

In 1996, the company formed Finotech, a joint venture with Corovin GmbH, a manufacturer of non-woven fabrics headquartered in Germany and a subsidiary of BBA Group PLC, a publicly owned diversified U.K. manufacturer. The joint venture was created to develop, manufacture and market specialty plastic film based laminate products for use in the infant diaper, healthcare and other markets. Finotech, which is 60% owned by the company, focuses on selling its products in Europe.

In 1998, the company acquired Böhme Verpackungsfolien GmbH & Co., a German manufacturer of high-quality printed and conventional plastic packaging and specialty films. The acquisition provides a platform to further expand Specialty Plastic Films' European operations and the opportunity to broaden the segment's product line by bringing Böhme technology and products to North American and other international markets. These products include printed and unprinted film and flexible packaging for hygienic products.

In June 2002, the company acquired 60% ownership in Isofilme Ltda., a Brazilian manufacturer of plastic hygienic and specialty films which operates under the name Clopay do Brasil. The acquisition provides a platform to broaden participation in South American markets and strengthen the company's position as a global supplier.

Manufacturing and Raw Materials

The company manufactures its specialty plastic film and laminate products on high-speed equipment designed to meet stringent tolerances. The manufacturing process consists of melting a mixture of polyolefin resins (primarily polyethylene) and additives, and forcing this mixture through a computer controlled die and rollers to produce embossed films. In addition, the lamination process involves extruding the melted plastic films directly onto a non-woven fabric and bonding these materials to form a laminate. Through statistical process control methods, company personnel monitor and control the entire production process.

Plastic resins, such as polyethylene and polypropylene, and non-woven fabrics are the basic raw materials used in the manufacture of substantially all of Specialty Plastic Films' products. The company currently purchases its plastic resins in pellet form from several suppliers. The purchases are made under supply agreements that do not specify fixed pricing terms. The company's sources for raw materials are believed to be adequate for its current and anticipated needs.

Competition

The market for the company's specialty plastic film and laminate products is highly competitive. The company has a number of competitors in the specialty plastic films and laminates market, some of which are larger and have greater resources than the company. The company competes primarily on the basis of technical expertise, quality, service and price.

Electronic Information and Communication Systems

The company, through its wholly-owned subsidiary, Telephonics Corporation, specializes in advanced electronic information and communication systems for defense, aerospace, civil, industrial, and commercial markets worldwide. The company designs, manufactures, sells, and provides logistical support for aircraft communication systems, radar, air traffic management systems, identification friend or foe ("IFF") equipment, transit communications and custom, mixed-signal, application specific integrated circuits. The company is a leading supplier of airborne maritime surveillance radar and aircraft intercommunication management systems, two of the segment's largest product lines. In addition to its traditional defense products used predominantly by the United States Government, in recent years the company has successfully adapted its core technologies to products used in military and commercial applications worldwide and has expanded its presence in both non-defense government and commercial markets.

Industry

The United States defense electronics procurement budget is expected to grow faster than the overall defense budget. Growth in this budget area reflects the trend in recent years for the United States' Department of Defense to opt for the installation of new electronic systems and equipment in existing aircraft rather than develop totally new weapons systems. Conflicts involving the country's military have also tended in recent years to require deployment and significant coordination between air, sea and ground forces, often in distant parts of the world, underscoring the evolution and growing importance of electronic systems that provide surveillance, tracking, communication and command and control. Telephonics' advanced systems and sub-systems are well positioned to address the needs of an electronic battlefield with emphasis on the generation and dissemination of timely data for use by highly mobile ground, air and naval forces. It is anticipated that the need for such systems will also increase in connection with the increasingly active role that the military is playing in the war on terrorism, both at home and abroad.

The table below lists some of the major programs the company currently participates in:

| Customer | Product | Description |
|-----------------------------|---|---|
| The Boeing Company | Intercommunications Management Systems | U.S. Air Force C-17A Cargo Transport U.S. Air Force C-130 Hercules Air Transport Airborne Warning and Control System (AWACS) U.S. Navy F/A-18E/F Fighter/Attack Aircraft |
| | Identification Friend or Foe System | AWACS |
| BAE Systems | Intercommunications System Integration | U.K. NIMROD Royal Maritime Patrol Aircraft |
| Northrop Grumman | Intercommunications Management Systems | Joint-STARS Surveillance Aircraft |
| | Maritime Surveillance Radar | U.S. Coast Guard HU-25 Aircraft |
| | Ground Surveillance Radar | U.S. Air Force |
| Lockheed Martin Corporation | Intercommunications Management Systems | U.S. Navy MH-60S/MH-60R Helicopters U.S. Navy P-3 Aircraft |
| | Maritime Surveillance Radar and Identification Friend or Foe System | U.S. Navy MH-60R Helicopter |
| Sikorsky Aircraft Company | Maritime Surveillance Radar | S-70B Maritime Surveillance Helicopter |
| | Intercommunications Management Systems | SH-60B Maritime Surveillance Helicopter UH-60M Blackhawk Helicopter Upgrade Program |

Telephonics is generally a first tier supplier to prime contractors in the defense industry such as Boeing, Lockheed Martin, Northrop Grumman and BAE Systems. With the significant contraction and consolidation that has occurred in the U.S. and international defense industry, major prime contractors worldwide are relying more heavily on smaller, key suppliers to provide advances in technology and greater efficiencies to reduce the cost of major systems and platforms. We believe that this situation creates an attractive opportunity for established, first tier suppliers to capitalize on existing relationships with major prime contractors and play a larger role in the foreseeable future.

In recent years, the segment has also significantly expanded its customer base in international markets. The company's international projects include a contract with BAE Systems as part of the United Kingdom's upgrade of the NIMROD surveillance aircraft and increasing number of contracts with the Civil Aviation Authority of China for air traffic management systems for Mainland China.

In addition to our products for defense programs, we have also applied our technology to produce products for commercial applications such as airborne weather and search radar, air traffic control systems and car-borne and wayside communications and vehicle health monitoring systems for rail cars.

Key Competitive Strengths

The company believes that the following strengths will continue to enhance Telephonics' market position:

Innovative Design and Engineering Capability. The company believes that its reputation for innovative product design and engineering capabilities, especially in the areas of voice and data communications, radio frequency (RF) design, digital signal processing, networking systems, inverse synthetic aperture radar and analog, digital and mixed-signal integrated circuits, has enhanced its ability to secure, retain and expand its participation in defense programs and commercial undertakings. The company is capable of meeting a full range of customer requirements including system requirements definition, product design and development, manufacturing and test, integration and installation, and logistical support. As a result, the company has been successful in developing a number of relationships as an important strategic partner and first tier supplier to various prime contractors.

Broad Base of Long-Life Programs and Incumbent Supplier Status. The company participates in a range of long-term defense and non-military government programs, both domestically and internationally. The company has developed a base of installed products in these programs that generate significant recurring revenue and retrofit, spare parts and customer support sales. Due to the inherent complexity of defense electronics, the company believes that its incumbent status on major platforms gives it a competitive advantage in the selection process for the upgrades and enhancements that have characterized defense electronics procurement. Furthermore, the company believes that awards such as the U.S. Navy's MH-60R helicopter program and the recent contract award from Boeing to develop multiple configurations of Telephonics' Secure Digital Intercommunications System in support of the U.S. Air Force's C-130 Avionics Modernization Program, provide competitive advantages when such programs transition from development to the production phase.

Strategy

The company believes that it is a technological leader in its core markets and intends to pursue new growth opportunities by leveraging its systems design and engineering capabilities and incumbent position on key platforms. For example, during 2000 Telephonics was awarded a contract for the development of the next generation integrated radio management system for the U.S. Air Force's C-17A air transport. This program transitioned from development to production in fiscal 2003. The company also expects substantial sales growth as it transitions from development to the production phase of the MH-60R helicopter radar program, which is expected to commence in 2005.

Telephonics' objective is to anticipate the needs of its core markets and to invest in research and development in an effort to provide solutions well in advance of its competitors. In an effort to ensure customer satisfaction and loyalty, Telephonics often designs its products to exceed customers' minimum specifications, providing its customers with greater performance and flexibility. The company believes that these practices engender increased coordination and communication with its customers at the earliest stages of new program development, thereby increasing the likelihood that Telephonics' products will be selected and integrated as part of a total system solution.

Products

The company manufactures specialized electronic products for a variety of applications. Electronic Information and Communication Systems' products include communication systems, radar systems, information and command and control systems, and mixed-signal application specific large-scale integrated circuits used in defense, non-military government, and commercial markets.

The company specializes in communication systems and products and is a leading manufacturer of aircraft intercommunication systems with products in digital and analog communication management, digital audio distribution and control, and communication systems integration. The company's communication products are used on the U.S. Navy's MH-60R multi-mission and MH-60S utility helicopters, the United Kingdom's NIMROD surveillance aircraft, U.S. Air Force C-17A cargo transport, the U.S. Air Force's Joint Surveillance and Target Acquisition Radar System (Joint-STARS), and AWACS. The company has also expanded its communications expertise into the mass transit rail market and its communication systems have been selected for installation by several major mass transit authorities.

The company's command and control systems include airborne maritime surveillance, ground surveillance radar, weather and search radar systems, air traffic management systems and tactical instrument landing systems. The company provides both the expertise and equipment for detecting and tracking targets in a maritime environment and flight path management systems for air traffic control applications. Its maritime radar systems, which are used in more than 20 countries, are fitted aboard helicopters, fixed-wing aircraft, and aerostats for use at sea. The company demonstrated its radar expertise with an award from Northrop Grumman to deliver ground surveillance radar to be deployed at U.S. Air Force air bases around the world. The company also increased its market penetration through an award to develop, manufacture and deliver radar with imaging in both maritime and overland environments for the Canadian Air Force. The company's aerospace electronic systems include IFF systems used by the U.S. Air Force and NATO on the AWACS aircraft and tactical microwave landing systems used by the U.S. Navy, NASA and other customers for ground and ship-based applications.

The company also manufactures custom and standard, mixed-signal, application specific large-scale integrated circuits for customers in the security, military telecommunications and multi-media industries.

Sales by Electronic Information and Communication Systems provided approximately 14% of the company's consolidated revenue in 2003, 16% in 2002 and 17% in 2001.

Backlog

The funded backlog for Electronic Information and Communication Systems was approximately \$159 million on September 30, 2003, compared to \$147 million on September 30, 2002.

Sales and Marketing

Telephonics has approximately 19 technical business development personnel who act as the focal point for its marketing activities and approximately 40 sales representatives who introduce its products and systems to customers worldwide.

Research and Development

This segment regularly updates its core technologies through internally funded research and development. The selection of these R&D projects is based on available opportunities in the marketplace as well as input from the company's customers. These projects have generally represented an evolution of existing products rather than entirely new pursuits. Recent internally funded research and development has resulted in the development of a next generation airborne imaging maritime surveillance radar system and an all digital, totally secure intercommunication management system.

Competition

Electronic Information and Communication Systems competes with major manufacturers of electronic information and communication systems that have greater financial resources than the company, and with several smaller manufacturers of similar products. The company competes on the basis of technology, design, quality, price and program performance.

Employees

The company has approximately 5,600 employees located throughout the United States, in Europe and Brazil. Approximately 125 of its employees are covered by a collective bargaining agreement, primarily with an affiliate of the AFL-CIO. The company believes its relationships with its employees are satisfactory.

Seasonality

Historically the company's revenues and earnings are lowest in the second quarter and highest in the fourth quarter.

Financial Information About Geographic Areas

Revenues, based on the customers' locations, and property, plant and equipment attributed to the United States and all other countries are as follows:

| | 2003 | 2002 | 2001 |
|--|-------------------------|-------------------------|-------------------------|
| Revenues by geographic area- | | | |
| United States | \$ 950,686,000 | \$ 936,704,000 | \$ 921,046,000 |
| Germany | 57,345,000 | 41,366,000 | 51,179,000 |
| United Kingdom | 37,899,000 | 35,650,000 | 36,247,000 |
| Canada | 27,167,000 | 23,405,000 | 24,925,000 |
| Poland | 35,907,000 | 31,176,000 | 27,494,000 |
| All other countries | 145,646,000 | 124,303,000 | 99,234,000 |
| | <u>\$ 1,254,650,000</u> | <u>\$ 1,192,604,000</u> | <u>\$ 1,160,125,000</u> |
| Property, plant and equipment by geographic area- | | | |
| United States | \$ 112,517,000 | \$ 107,248,000 | \$ 108,291,000 |
| Germany | 55,964,000 | 39,929,000 | 37,640,000 |
| All other countries | 1,371,000 | 1,076,000 | — |
| | <u>\$ 169,852,000</u> | <u>\$ 148,253,000</u> | <u>\$ 145,931,000</u> |

Research and Development

Research and development costs not recoverable under contractual arrangements are charged to expense as incurred. Research and development costs for all business segments were approximately \$17,000,000 in 2003, \$17,000,000 in 2002 and \$13,790,000 in 2001.

Executive Officers of the Registrant

| Name | Age | Served as Officer Since | Positions and Offices |
|-------------------|-----|-------------------------|---|
| Harvey R. Blau | 68 | 1983 | Chairman of the Board and Chief Executive Officer |
| Robert Balemian | 64 | 1976 | President and Chief Financial Officer |
| Patrick L. Alesia | 55 | 1979 | Vice President and Treasurer |
| Edward I. Kramer | 69 | 1997 | Vice President, Administration and Secretary |

ITEM 2 - PROPERTIES

The company occupies approximately 4,100,000 square feet of general office, factory and warehouse space and showrooms throughout the United States, in Germany and in Brazil. The following table sets forth certain information related to 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 and research and development | 167,000 | Owned |
| Huntington, NY | Electronic Information and Communication Systems | Manufacturing | 89,000 | Owned |
| Mason, OH | Garage Doors Installation Services Specialty Plastic Films | Office and research and development | 131,000 | Leased |
| Aschersleben, Germany | Specialty Plastic Films | Manufacturing | 230,000 | Owned |
| Dombühl, Germany | Specialty Plastic Films | Manufacturing | 124,000 | Owned |
| Augusta, KY | Specialty Plastic Films | Manufacturing | 232,000 | Owned |
| Nashville, TN | Specialty Plastic Films | Manufacturing | 210,000 | Leased |
| Sao Paulo, Brazil | Specialty Plastic Films | Manufacturing | 22,000 | Leased |
| Russia, OH | Garage Doors | Manufacturing | 339,000 | Owned |
| Baldwin, WI | Garage Doors | Manufacturing | 148,000 | Leased |
| Los Angeles, CA | Garage Doors | Garage door hardware manufacturing | 40,000 | Leased |
| Auburn, WA | Garage Doors | Manufacturing | 123,000 | Leased |
| Tempe, AZ | Garage Doors | Manufacturing | 100,000 | Leased |

The company also leases approximately 1,700,000 square feet of space for the Garage Doors distribution centers and Installation Services locations in numerous facilities throughout the United States. The company has aggregate minimum annual rental commitments under real estate leases of approximately \$11.8 million. 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 and purchase options.

Equipment and plant expenditures in fiscal 2004 are anticipated to aggregate \$40-50 million, the major portion of which will be for specialty plastic films' ongoing capital expansion programs to increase its capacity to produce printed multi-color films and laminates for its baby diaper products in North America and Europe and to otherwise increase capacity throughout its operations. The other plants and equipment of the company are believed to contain sufficient space for current and presently foreseeable needs.

ITEM 3 - LEGAL PROCEEDINGS

Department of Environmental Conservation of New York State ("DEC"), with ISC Properties, Inc. Lightron Corporation ("Lightron"), a wholly-owned subsidiary of the company, once conducted operations at a location in Peekskill in the Town of Cortland, 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 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. ISC Properties, Inc. then entered into a consent order with the DEC in 1996 (the "Consent Order") to perform a remedial investigation and prepare a feasibility study. After completing the initial remedial investigation pursuant to the Consent Order, ISC Properties, Inc. has now been required by the DEC to conduct a supplemental remedial investigation under the Consent Order, which is currently being performed. No feasibility study has yet been performed pursuant to the Consent Order. Amounts expended to date plus the estimated cost for completion of the supplemental remedial investigation aggregate less than \$750,000 over a period that covers more than ten years. Management believes, based on facts presently known to it, that the resolution of this matter will not have a material adverse effect on the company's consolidated financial position, results of operations and cash flows.

ITEM 4 - 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 5 - MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

(a) The company's Common Stock is listed for trading on the New York Stock Exchange. The following table shows for the periods indicated the quarterly range in the high and low sales prices for the company's Common Stock:

| <u>FISCAL QUARTER ENDED</u> | <u>HIGH</u> | <u>LOW</u> |
|-----------------------------|-------------|------------|
| December 31, 2001 | \$ 15.08 | \$ 10.75 |
| March 31, 2002 | 19.40 | 14.30 |
| June 30, 2002 | 20.00 | 16.24 |
| September 30, 2002 | 18.40 | 10.65 |
| December 31, 2002 | 13.86 | 10.27 |
| March 31, 2003 | 14.49 | 12.28 |
| June 30, 2003 | 16.55 | 12.85 |
| September 30, 2003 | 19.21 | 15.75 |

(b) As of December 1, 2003, there were approximately 14,500 recordholders of the company's Common Stock.

(c) The company declared and paid a 10% Common Stock dividend during fiscal 2001. No cash dividends on Common Stock were declared or paid during the five fiscal years ended September 30, 2003.

(d) Equity Compensation Plan Information

| <u>Plan Category</u> | <u>Number of securities to be issued upon exercise of outstanding options, warrants and rights (Column a)</u> | <u>Weighted average exercise price of outstanding options, warrants and rights (Column b)</u> | <u>Number of securities remaining available for future issuance under equity compensation plans [excluding securities reflected in Column (a)] (Column c)</u> |
|--|---|---|---|
| Equity compensation plans approved by security holders | 5,151,500 | \$10.37 | 451,350 |
| Equity compensation plans not approved by security holders | 1,732,900 | \$10.88 | 233,150 |
| Total | 6,884,400 | \$10.50 | 684,500 |

The company's 1998 Employee and Director Stock Option Plan (the "Employee and Director Plan") is the only option plan which was not approved by the company's stockholders. Eligible participants in the Employee and Director Plan include directors, officers and employees of, and consultants to, the company or any of its subsidiaries and affiliates. Under the terms of the Employee and Director Plan, the purchase price of the shares subject to each option granted will not be less than 100% of the fair market value at the date of grant. The terms of each option shall be determined at the time of grant by the Board of Directors or its Compensation Committee.

ITEM 6 - SELECTED FINANCIAL DATA

| | YEARS ENDED SEPTEMBER 30, | | | | |
|---|---------------------------|------------------|------------------|------------------|------------------|
| | 2003 | 2002 | 2001 | 2000 | 1999 |
| Net sales | \$ 1,254,650,000 | \$ 1,192,604,000 | \$ 1,160,125,000 | \$ 1,118,386,000 | \$ 1,032,697,000 |
| Income before cumulative effect of a change in accounting principle | \$ 43,022,000 | \$ 34,054,000(1) | \$ 30,593,000 | \$ 24,880,000 | \$ 20,211,000 |
| Cumulative effect of a change in accounting principle | — | (24,118,000) | — | (5,290,000) | — |
| Net income | \$ 43,022,000 | \$ 9,936,000(1) | \$ 30,593,000 | \$ 19,590,000 | \$ 20,211,000 |
| Per share: | | | | | |
| Basic | \$ 1.33 | \$.30 | \$.93 | \$.59 | \$.60 |
| Diluted | \$ 1.28 | \$.28 | \$.92 | \$.59 | \$.60 |
| Total assets | \$ 678,730,000 | \$ 587,694,000 | \$ 584,993,000 | \$ 582,026,000 | \$ 533,440,000 |
| Long-term obligations | \$ 155,483,000 | \$ 74,640,000 | \$ 108,615,000 | \$ 125,916,000 | \$ 127,652,000 |

(1) Operating results for 2002 include a pre-tax charge of \$10,200,000 for the divestiture of an unprofitable peripheral operation (Note 1 of Notes to Consolidated Financial Statements).

ITEM 7 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

Fiscal 2003 Compared to Fiscal 2002

Operating results (in thousands) by business segment were as follows:

| | Net Sales | | Operating Profit | |
|--|---------------------|---------------------|------------------|------------------|
| | 2003 | 2002 | 2003 | 2002 |
| Garage doors | \$ 428,437 | \$ 444,443 | \$ 33,755 | \$ 25,414 |
| Installation services | 289,409 | 278,831 | 7,380 | 7,736 |
| Specialty plastic films | 381,910 | 299,585 | 44,244 | 40,278 |
| Electronic information and communication systems | 178,693 | 195,430 | 14,161 | 15,156 |
| Intersegment revenues | (23,799) | (25,685) | — | — |
| | <u>\$ 1,254,650</u> | <u>\$ 1,192,604</u> | <u>\$ 99,540</u> | <u>\$ 88,584</u> |

Garage Doors

Net sales of the garage doors segment decreased by \$16.0 million compared to 2002. The decrease was due to the fiscal 2002 divestiture of Atlas, an unprofitable peripheral operation that sold slatted steel coiling doors and related products for commercial users, which had sales in 2002 of \$28 million. The balance of the garage door business had a sales increase of approximately \$12 million from favorable pricing and product mix.

Operating profit of the garage doors segment increased \$8.3 million compared to last year. The Atlas divestiture accounted for approximately \$4 million of the increase. Gross margin percentage increased to 32.3%, up from 30.7%. The increased margin was due primarily to the Atlas divestiture, improved pricing and product mix and increased manufacturing efficiencies. Selling, general and administrative expenses as a percentage of sales decreased to 24.4%, down from 25.0% last year, primarily due to the Atlas divestiture.

Installation Services

Net sales of the installation services segment increased by \$10.6 million compared to 2002. The increase was principally due to the segment's expanded product offering and increased market share.

Operating profit of the installation services segment decreased \$0.4 million compared to last year. Gross margin percentage decreased to 26.9%, down from 27.6% last year. Selling, general and administrative expenses as a percentage of sales decreased to 24.4% compared to 24.8% last year. The segment's decreased profitability was principally due to costs to adjust inventory levels and make strategic changes in certain locations which have been underperforming.

Specialty Plastic Films

Net sales of the specialty plastic films segment increased \$82.3 million compared to 2002. The net effect of increased unit volume and product mix (\$34 million), the effect of a weaker U.S. dollar on translated foreign sales (\$28 million), the addition of the Brazilian operation which was acquired at the end of fiscal 2002 (\$10 million) and selling price adjustments to pass raw material cost increases to customers (\$10 million) were the principal reasons for the increase.

Operating profit of the specialty plastic films segment increased \$4.0 million compared to last year. Gross margin percentage decreased to 23.8%, down from 25.4%. The lower margin percentage was principally due to the excess of raw material (resin) cost increases over selling price adjustments and costs associated with facility expansion for current and new products, partly offset by increased manufacturing efficiencies. The effect of the lower margin percentage on segment operating results was offset by the net positive effect of increased volume and favorable product mix, and exchange rate differences. Selling, general and administrative expenses as a percentage of sales was 12.4%, up from 12.1% last year, due to product development expenditures and higher freight and administrative costs associated with the segment's European operations in support of the sales growth.

This segment experienced raw material (resin) cost increases through the first half of fiscal 2003 with upward pressure on resin prices easing in the second half of the year. Average resin prices in 2003 were above 2002 levels. Although there could be some effect on future operating results due to the volatility of resin prices and the timing and amount of any related selling price adjustments, the company cannot predict the extent to which the segment's operating results may be affected.

As discussed further in Liquidity and Capital Resources, this segment is implementing a significant capital expansion program to support new opportunities to provide multi-color printing of its films and laminates for its major customers, and to increase capacity throughout its operations.

Electronic Information and Communication Systems

Net sales of the electronic information and communication systems segment decreased \$16.7 million compared to 2002. The decrease was primarily due to delays in anticipated contract awards and continued softness in international markets for radar products, partly offset by sales growth in the last fiscal quarter from certain military production programs. This segment recently received a number of significant awards for its communications and radar products that are expected to favorably affect fiscal 2004 operating results.

Operating profit of the electronic information and communication systems segment decreased \$1.0 million compared to last year primarily due to the sales decrease. Gross margin percentage increased to 26.5%, up from 24.2%. The increased gross margin percentage is primarily due to manufacturing efficiencies in 2003, and lower margins last year in connection with certain development phase programs. Selling, general and administrative expenses increased over last year due primarily to higher research and development expenditures and new business development costs; due to the sales decrease these expenses increased to 19.1% as a percentage of sales, up from 16.9%.

Interest Expense

Interest expense increased by \$0.3 million compared to last year due to the sale in July 2003 of \$130 million of 4% convertible subordinated notes. Based on the company's current debt structure, interest expense is estimated to be approximately \$8 million for 2004 compared to \$4.9 million in 2003. See "Liquidity and Capital Resources."

Income Tax Expense

The company's provision for income taxes includes benefits of \$1.7 million in 2003 and \$2.0 million in 2002 reflecting the resolution of certain previously recorded tax liabilities principally in connection with completed examinations of prior years' tax returns.

Fiscal 2002 Compared to Fiscal 2001

Operating results (in thousands) by business segment were as follows:

| | Net Sales | | Operating Profit | |
|---|---------------------|---------------------|------------------|------------------|
| | 2002 | 2001 | 2002 | 2001 |
| Garage doors | \$ 444,443 | \$ 428,601 | \$ 25,414 | \$ 18,223 |
| Installation services | 278,831 | 268,758 | 7,736 | 6,099 |
| Specialty plastic films | 299,585 | 297,100 | 40,278 | 41,772 |
| Electronic information and communication systems | 195,430 | 191,782 | 15,156 | 16,076 |
| Intersegment revenues | (25,685) | (26,116) | — | — |
| | <u>\$ 1,192,604</u> | <u>\$ 1,160,125</u> | <u>\$ 88,584</u> | <u>\$ 82,170</u> |

Garage Doors

Net sales of the garage doors segment increased by \$15.8 million compared to 2001, principally due to higher unit sales of \$11.0 million driven by increased market share and improved service levels. Improved pricing of \$1.5 million also contributed to the sales increase.

Operating profit of the garage doors segment increased \$7.2 million compared to 2001. Gross margin percentage increased to 30.7%, up from 27.4%. The increased margin was due primarily to lower raw material costs and increased manufacturing efficiencies. Selling, general and administrative expenses as a percentage of sales increased to 25.0%, up from 23.1% in 2001, with higher distribution and product development costs partly offsetting the gross margin increase.

Installation Services

Net sales of the installation services segment increased by \$10.1 million compared to 2001. The increase was principally due to the segment's expanded product offering, stronger new construction markets and increased market share.

Operating profit of the installation services segment increased \$1.6 million compared to 2001. Gross margin percentage increased to 27.6%, up from 26.4% in 2001. The increased margin was due to the sales increase and improved product mix. Selling, general and administrative expenses as a percentage of sales increased to 24.8% compared to 24.2% in 2001 as a result of increased costs to support the sales growth and costs associated with systems upgrades.

Specialty Plastic Films

Net sales of the specialty plastic films segment increased \$2.5 million compared to 2001. The segment experienced increased unit sales amounting to \$6.8 million due primarily to increased demand for its breathable hygienic products used in infant diapers. Also contributing to the sales increase was \$4.3 million from the effect of a weaker U.S. dollar on translated foreign sales, and net sales of \$3.9 million from a Brazilian operation acquired during the year. These increases were partly offset by selling price adjustments of \$7.3 million made to pass through raw material cost decreases to customers and lower average selling prices amounting to \$5.2 million.

Operating profit of the specialty plastic films segment decreased approximately \$1.5 million compared to 2001. The decrease was primarily due to a pension curtailment gain recognized in 2001. The segment's gross margin percentage held steady at 25.4% in 2002 and 2001. The effect of selling price adjustments, lower pricing and costs associated with a production line installed during the first quarter in one of the segment's European operations was offset by lower raw material costs and improved manufacturing efficiencies. Selling, general and administrative expenses as a percentage of sales were 12.1% in 2002, up from 11.1% in 2001 due to costs associated with settled litigation and increased distribution and information technology costs.

Electronic Information and Communication Systems

Net sales of the electronic information and communication systems segment increased \$3.6 million compared to 2001. Sales growth in connection with defense communications and systems integration programs was partly offset by delays in anticipated awards, softness in international markets for radar products and by lower sales in the segment's integrated circuit business.

Operating profit of the electronic information and communication systems segment decreased \$0.9 million compared to 2001. Gross margin percentage was 24.2% in 2002 compared to 24.0% in 2001. The effect of increased sales in the segment's core business was offset by increased costs associated with the segment's technology initiatives. These development efforts are focused on designing equipment that will increase the speed, capacity and quality of service of existing wireless cellular networks.

Interest Expense

Interest expense decreased by \$6.5 million compared to 2001 due to the effect of debt repayments and lower interest rates.

Income Tax Expense

The company's provision for income taxes for fiscal 2002 includes a \$2.0 million tax benefit to reflect the resolution of certain previously recorded tax liabilities.

LIQUIDITY AND CAPITAL RESOURCES

Cash flow provided by operations for 2003 was \$67.5 million, and working capital was \$249.6 million at September 30, 2003.

Net cash used in investing activities during 2003 was \$55.3 million. The company had capital expenditures of \$44.0 million, principally made in connection with a significant capital expansion program in the specialty plastic films segment. Equipment additions in support of new opportunities to provide multi-color printing of films and laminates for its major customers and to increase capacity throughout its operations accounted for a substantial portion of the capital expenditures. The company also expended \$13.8 million for the balance of the purchase price in connection with its 2002 acquisition of a Brazilian manufacturer of plastic hygienic and specialty films.

Equipment and plant expenditures in fiscal 2004 are anticipated to aggregate \$40-\$50 million, the major portion of which will be for specialty plastic films' ongoing capital expansion programs. It is expected that such property additions will be funded principally by existing cash balances and internal cash flows. In addition, in fiscal 2004 equipment with an estimated cost of approximately \$25 million is expected to be put in use under operating leases.

Net cash provided by financing activities during 2003 was \$10.1 million. Proceeds from issuance of long-term debt aggregated approximately \$157 million, principally resulting from the July 2003 sale of \$130 million of 4% convertible subordinated notes (the "Notes"). See Note 2 of "Notes to Consolidated Financial Statements."

Payments of long-term debt aggregating \$78.3 million consisted primarily of a \$49 million repayment of all domestic revolving credit debt with the net proceeds

from the sale of the Notes. Concurrently with the sale of the Notes, approximately \$50 million of the net proceeds was used to repurchase 3.1 million shares of Common Stock. Debt issuance costs in connection with the sale of the Notes were \$4.2 million and the remaining net proceeds will be used for general corporate purposes.

During 2003, approximately \$61,000,000 was used to acquire a total of 3.8 million shares of Common Stock. Additional purchases under the company's stock buyback program will be made from time to time, depending on market conditions, at prices deemed appropriate by management.

Contractual Obligations

At September 30, 2003, payments to be made pursuant to significant contractual obligations are as follows (000's omitted):

| Year | Purchase Obligations | Capital Expenditures | Operating Leases | Debt Repayments | Total |
|------------|----------------------|----------------------|------------------|-----------------|-----------|
| 2004 | \$50,400 | \$19,500 | \$24,800 | \$6,300 | \$101,000 |
| 2005 | 12,400 | — | 18,300 | 13,500 | 44,200 |
| 2006 | 2,400 | — | 12,300 | 5,600 | 20,300 |
| 2007 | — | — | 8,600 | 6,400 | 15,000 |
| 2008 | — | — | 4,700 | — | 4,700 |
| Thereafter | — | — | 4,900 | 130,000 | 134,900 |

The purchase obligations are generally for the purchase of goods and services in the ordinary course of business. The company uses blanket purchase orders to communicate expected requirements to certain of its vendors. Purchase obligations reflect those purchase orders where the commitment is considered to be firm. Purchase obligations that extend beyond 2004 are related to long-term contracts received from customers of the Electronic Information and Communication Systems segment.

A wholly owned subsidiary of the company has a lease agreement that limits dividends and advances it may pay to the parent company. The agreement permits the payment of income taxes based on a tax sharing arrangement, and dividends based on a percentage of the subsidiary's net income. At September 30, 2003 the subsidiary had net assets of approximately \$280,000,000. The company expects that cash flows from operations, together with existing cash, bank lines of credit and lease line availability, should be adequate to satisfy contractual obligations and finance presently anticipated working capital and capital expenditure requirements.

ACCOUNTING POLICIES AND PRONOUNCEMENTS

Critical Accounting Policies

The company's significant accounting policies are set forth in Note 1 of Notes to Consolidated Financial Statements. The following discussion of critical accounting policies addresses those policies that require management judgment and estimates and are most important in determining the company's operating results and financial condition.

The company recognizes revenues for most of its operations when title and the risks of ownership pass to its customers. Provisions for estimated losses resulting from the inability of our customers to remit payments are recorded in the company's consolidated financial statements. Judgment is required to estimate the ultimate realization of receivables, including specific reviews for collectibility when, based on an evaluation of facts and circumstances, the company may be unable to collect amounts owed to it, as well as estimation of overall collectibility of those receivables that have not required specific review.

The company's electronic information and communication systems segment does a significant portion of its business under long-term contracts. This unit generally recognizes contract-related revenue and profit using the percentage of completion method of accounting, which relies on estimates of total expected contract costs. A significant amount of judgment is required to estimate contract costs, including estimating many variables such as costs for material, labor and subcontracting costs, as well as applicable indirect costs. The company follows this method of accounting for its long-term contracts since reasonably dependable estimates of costs applicable to various elements of a contract can be made. Since the financial reporting of these contracts depends on estimates, recognized revenues and profit are subject to revisions as contracts progress to completion. Contract cost estimates are generally updated quarterly. Revisions in revenue and profit estimates are reflected in the period in which the circumstances requiring the revision become known. Provisions are made currently for anticipated losses on uncompleted contracts.

Inventory is stated at the lower of cost (principally first-in, first-out) or market. Inventory valuation requires the company to use judgment to estimate any necessary allowances for excess, slow-moving and obsolete inventory, which estimates are based on assessments about future demands, market conditions and management actions.

The company sponsors several defined benefit pension plans. The amount of the company's liability for pension benefits and the amount of pension expense recognized in the financial statements is determined using actuarial assumptions such as the discount rate, the long-term rate of return on plan assets and the rate of compensation increases. Judgment is required to annually determine the rates to be used in performing the actuarial calculations.

Upon acquisition, the excess of cost over the fair value of an acquired business' net assets is recorded as goodwill. Annually in its fourth fiscal quarter, the company evaluates goodwill for impairment by comparing the carrying value of its operating units to estimates of the related operation's fair values. An evaluation would also be performed if an event occurs or circumstances change such that the estimated fair value of the company's operating units would be reduced below its carrying value.

The company depreciates property, plant and equipment on a straight-line basis over their estimated useful lives, which are based upon the nature of the assets and their planned use in the company's operations. Events and circumstances such as changes in operating plans, technological change or regulatory matters could affect the manner in which long-lived assets are held and used. Judgment is required to establish depreciable lives for operating assets and to evaluate events or circumstances for indications that the value of long-lived assets has been impaired.

Income taxes include current year amounts that are payable or refundable and deferred taxes reflecting the company's estimate of the future tax consequences of temporary differences between amounts reflected in the financial statements and their tax basis. Changes in tax laws and rates may affect the amount of recorded deferred tax assets and liabilities.

Recent Accounting Pronouncements

Effective October 1, 2001, the company adopted Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" (SFAS 142). SFAS 142 addresses accounting and reporting for acquired goodwill. It eliminates the previous requirement to amortize goodwill and establishes new requirements with respect to evaluating goodwill for impairment. With the assistance of a third-party valuation expert, the company ascertained the fair value of its reporting units as part of adopting SFAS 142 and determined that goodwill of the installation services segment was impaired pursuant to the new standard. The fair value of the

installation services segment used in computing the impairment loss was determined through a combination of market-based approaches and present value techniques. Results for fiscal 2002 include the related cumulative effect of a change in accounting principle in the amount of \$24.1 million (net of an income tax benefit of \$2.5 million) to reflect the impairment.

The Financial Accounting Standards Board has issued Interpretations Nos. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees Including Indirect Guarantees of Indebtedness of Others" and 46, "Consolidation of Variable Interest Entities," and also issued Statements of Financial Accounting Standards Nos. 146, "Accounting for Costs Associated with Exit and Disposal Activities," 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities" and 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity". Interpretation No. 45 elaborates on disclosures to be made by a guarantor in its financial statements about its obligations under certain guarantees that it has issued. Interpretation No. 46 addresses consolidation of variable interest entities and related disclosure. The interpretation requires that a variable interest entity be consolidated by the holder of the interest that will receive the majority of the entity's expected losses, receive a majority of its expected residual returns, or both. Statement 146 addresses accounting standards for costs associated with exit and disposal activities. Statement 149 amends and clarifies accounting standards for derivatives. Statement 150 establishes standards that require certain financial instruments with the characteristics of both liabilities and equity to be classified as liabilities. Adoption of these pronouncements has not had a material effect on the company's results of operations, cash flows or financial condition.

FORWARD-LOOKING STATEMENTS

All statements other than statements of historical fact included in this annual report, including without limitation statements regarding the company's financial position, business strategy, and the plans and objectives of the company's management for future operations, are forward-looking statements. When used in this annual report, words such as "anticipate", "believe", "estimate", "expect", "intend" and similar expressions, as they relate to the company or its management, identify forward-looking statements. Such forward-looking statements are based on the beliefs of the company's management, as well as assumptions made by and information currently available to the company's management. Actual results could differ materially from those contemplated by the forward-looking statements as a result of certain factors, including but not limited to, business and economic conditions, competitive factors and pricing pressures, capacity and supply constraints. Such statements reflect the views of the company with respect to future events and are subject to these and other risks, uncertainties and assumptions relating to the operations, results of operations, growth strategy and liquidity of the company. Readers are cautioned not to place undue reliance on these forward-looking statements. The company does not undertake any obligation to release publicly any revisions to these forward-looking statements to reflect future events or circumstances or to reflect the occurrence of unanticipated events.

ITEM 7A - QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Management does not believe that there is any material market risk exposure with respect to foreign currency, derivatives or other financial instruments that would require disclosure under this item.

ITEM 8 - FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements of the company and its subsidiaries and the report thereon of PricewaterhouseCoopers LLP, dated November 5, 2003 for the fiscal years ended September 30, 2003 and 2002 and of Arthur Andersen LLP, dated November 6, 2001 for the fiscal year ended September 30, 2001 are included herein:

- Reports of Independent Auditors.
- Consolidated Balance Sheets at September 30, 2003 and 2002.
- Consolidated Statements of Income, Cash Flows and Shareholders' Equity for the years ended September 30, 2003, 2002 and 2001.
- Notes to Consolidated Financial Statements.

Report of Independent Auditors

To Board of Directors and Shareholders of Griffon Corporation:

In our opinion, the consolidated financial statements listed in the index appearing under Item 15(a)(1) on page 48 present fairly, in all material respects, the financial position of Griffon Corporation and its subsidiaries (the "Company") at September 30, 2003 and 2002, and the results of their operations and their cash flows for each of the two years in the period ended September 30, 2003 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedules listed in the index appearing under Item 15(a)(2) on page 48 present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedules are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements and financial statement schedules based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion. The financial statements and schedule of the Company as of September 30, 2001 and for the year then ended, were audited by other independent accountants who have ceased operations. Those independent accountants expressed an unqualified opinion on those financial statements and schedule in their report dated November 6, 2001. As discussed in Note 1, the Company changed the manner in which it accounts for goodwill and other intangible assets upon adoption of Statement of Financial Accounting Standards No. 142 ("SFAS 142") "Goodwill and Other Intangible Assets", on October 1, 2001.

As discussed above, the financial statements and schedule of the Company as of September 30, 2001, and for the year then ended, were audited by other independent accountants who have ceased operations. As described in Note 1, these financial statements have been revised to include the transitional disclosures required by SFAS 142. We audited the transitional disclosures described in Note 1. In our opinion, the transitional disclosures for 2001 in Note 1 are appropriate. However, we were not engaged to audit, review, or apply any procedures to the 2001 financial statements of the Company other than with respect to such disclosures and, accordingly, we do not express an opinion or any other form of assurance on the 2001 financial statements taken as a whole.

/s/PricewaterhouseCoopers LLP

New York, New York
November 5, 2003

The following report is a copy of a report previously issued by Arthur Andersen LLP and has not been reissued by Arthur Andersen LLP.

Report of Previous Independent Auditors

To Griffon Corporation:

We have audited the accompanying consolidated balance sheets of Griffon Corporation (a Delaware corporation) and subsidiaries as of September 30, 2001 and 2000 and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended September 30, 2001. These financial statements and the schedule referred to below are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. 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, 2001 and 2000 and the results of their operations and their cash flows for each of the three years in the period ended September 30, 2001 in conformity with accounting principles generally accepted in the United States.

As explained more fully in Note 1 to the consolidated financial statements, in fiscal 2000 the company changed its method of accounting for start-up costs to conform with Statement of Position 98-5.

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.

ARTHUR ANDERSEN LLP

Roseland, New Jersey
November 6, 2001

GRIFFON CORPORATION
CONSOLIDATED BALANCE SHEETS

| | September 30, | |
|--|-----------------------|-----------------------|
| | 2003 | 2002 |
| ASSETS | | |
| Current Assets: | | |
| Cash and cash equivalents | \$ 69,816,000 | \$ 45,749,000 |
| Accounts receivable, less allowance for doubtful accounts of \$7,965,000 in 2003 and \$8,734,000 in 2002 (Note 1) | 173,942,000 | 147,890,000 |
| Contract costs and recognized income not yet billed (Note 1) | 46,642,000 | 58,440,000 |
| Inventories (Note 1) | 114,003,000 | 104,792,000 |
| Prepaid expenses and other current assets | 39,280,000 | 25,470,000 |
| Total current assets | 443,683,000 | 382,341,000 |
| Property, Plant and Equipment, at cost, net of depreciation and amortization (Note 1) | 169,852,000 | 148,253,000 |
| Other Assets: | | |
| Costs in excess of fair value of net assets of businesses acquired, net (Note 1) | 49,983,000 | 44,978,000 |
| Other | 15,212,000 | 12,122,000 |
| | 65,195,000 | 57,100,000 |
| | \$ 678,730,000 | \$ 587,694,000 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current Liabilities: | | |
| Notes payable and current portion of long-term debt (Note 2) | \$ 12,161,000 | \$ 10,036,000 |
| Accounts payable | 69,555,000 | 62,023,000 |
| Accrued liabilities (Note 1) | 95,372,000 | 101,496,000 |
| Income taxes (Note 1) | 16,975,000 | 15,592,000 |
| Total current liabilities | 194,063,000 | 189,147,000 |
| Long-Term Debt (Note 2) | 155,483,000 | 74,640,000 |
| Minority Interest and Other | 45,130,000 | 30,938,000 |
| Commitments and Contingencies (Note 5) | | |
| Shareholders' Equity (Note 3): | | |
| Preferred stock, par value \$.25 per share, authorized 3,000,000 shares, no shares issued | — | — |
| Common stock, par value \$.25 per share, authorized 85,000,000 shares, issued 36,625,717 shares in 2003 and 36,337,192 shares in 2002 | 9,156,000 | 9,084,000 |
| Capital in excess of par value | 97,721,000 | 94,777,000 |
| Retained earnings | 284,626,000 | 241,604,000 |
| Treasury shares, at cost, 7,165,919 common shares in 2003 and 3,266,983 common shares in 2002 | (97,902,000) | (36,201,000) |
| Accumulated other comprehensive income (Note 1) | (6,064,000) | (12,246,000) |
| Deferred compensation | (3,483,000) | (4,049,000) |
| Total shareholders' equity | 284,054,000 | 292,969,000 |
| | \$ 678,730,000 | \$ 587,694,000 |

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

GRIFFON CORPORATION
CONSOLIDATED STATEMENTS OF INCOME

| | YEARS ENDED SEPTEMBER 30, | | |
|---|---------------------------|---------------------|----------------------|
| | 2003 | 2002 | 2001 |
| Net sales | \$ 1,254,650,000 | \$ 1,192,604,000 | \$ 1,160,125,000 |
| Cost of sales: | | | |
| Products | 899,257,000 | 854,881,000 | 849,436,000 |
| Divested operation inventory charge (Note 1) | — | 3,200,000 | — |
| | <u>899,257,000</u> | <u>858,081,000</u> | <u>849,436,000</u> |
| Selling, general and administrative expenses (Note 1) | 355,393,000 | 334,523,000 | 310,689,000 |
| Loss on divestiture (Note 1) | 268,990,000 | 260,006,000 | 239,275,000 |
| | <u>—</u> | <u>7,000,000</u> | <u>—</u> |
| | <u>86,403,000</u> | <u>67,517,000</u> | <u>71,414,000</u> |
| Other income (expense): | | | |
| Interest expense | (4,867,000) | (4,569,000) | (11,065,000) |
| Interest income | 682,000 | 866,000 | 1,959,000 |
| Other, net | 847,000 | 589,000 | (581,000) |
| | <u>(3,338,000)</u> | <u>(3,114,000)</u> | <u>(9,687,000)</u> |
| Income before income taxes | 83,065,000 | 64,403,000 | 61,727,000 |
| Provision for income taxes (Note 1) | 29,876,000 | 22,506,000 | 25,308,000 |
| Income before minority interest and cumulative effect of a change in accounting principle | 53,189,000 | 41,897,000 | 36,419,000 |
| Minority interest | (10,167,000) | (7,843,000) | (5,826,000) |
| Income before cumulative effect of a change in accounting principle | 43,022,000 | 34,054,000 | 30,593,000 |
| Cumulative effect of a change in accounting principle, net of income taxes (Note 1) | — | (24,118,000) | — |
| Net income | <u>\$ 43,022,000</u> | <u>\$ 9,936,000</u> | <u>\$ 30,593,000</u> |
| Basic earnings per share of common stock (Note 1): | | | |
| Income before cumulative effect of a change in accounting principle | \$1.33 | \$1.03 | \$.93 |
| Cumulative effect of a change in accounting principle | — | (.73) | — |
| | <u>\$1.33</u> | <u>\$.30</u> | <u>\$.93</u> |
| Diluted earnings per share of common stock (Note 1): | | | |
| Income before cumulative effect of a change in accounting principle | \$1.28 | \$.97 | \$.92 |
| Cumulative effect of a change in accounting principle | — | (.69) | — |
| | <u>\$1.28</u> | <u>\$.28</u> | <u>\$.92</u> |

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

GRIFFON CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

| | YEARS ENDED SEPTEMBER 30, | | |
|--|---------------------------|---------------|---------------|
| | 2003 | 2002 | 2001 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | |
| Net income | \$ 43,022,000 | \$ 9,936,000 | \$ 30,593,000 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation and amortization | 26,182,000 | 22,637,000 | 24,204,000 |
| Gain on sale of real estate | — | (1,974,000) | — |
| Loss on divestiture | — | 10,200,000 | — |
| Minority interest | 10,167,000 | 7,843,000 | 5,826,000 |
| Pension curtailment gain | — | — | (3,156,000) |
| Cumulative effect of a change in accounting principle | — | 24,118,000 | — |
| Provision for losses on accounts receivable | 1,879,000 | 1,407,000 | 4,836,000 |
| Deferred income taxes | 4,535,000 | (3,275,000) | 4,268,000 |
| Change in assets and liabilities: | | | |
| (Increase) decrease in accounts receivable and contract costs and recognized income not yet billed | (12,621,000) | 4,214,000 | 4,767,000 |
| (Increase) decrease in inventories | (9,832,000) | (8,673,000) | 625,000 |
| (Increase) decrease in prepaid expenses and other assets | (1,257,000) | 1,951,000 | (304,000) |
| Increase in accounts payable, accrued liabilities and income taxes payable | 4,919,000 | 8,637,000 | 22,384,000 |
| Other changes, net | 492,000 | 5,631,000 | 4,736,000 |
| Total adjustments | 24,464,000 | 72,716,000 | 68,186,000 |
| Net cash provided by operating activities | 67,486,000 | 82,652,000 | 98,779,000 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | |
| Acquisition of property, plant and equipment | (44,049,000) | (24,300,000) | (26,678,000) |
| Proceeds from divestiture | 3,826,000 | — | — |
| Proceeds from sale of real estate | — | 2,638,000 | — |
| Acquired businesses | (13,773,000) | (4,598,000) | — |
| (Increase) decrease in equipment lease deposits | (1,261,000) | (2,816,000) | 1,469,000 |
| Other, net | — | (789,000) | (315,000) |
| Net cash used in investing activities | (55,257,000) | (29,865,000) | (25,524,000) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | | |
| Purchase of treasury shares | (60,655,000) | (11,874,000) | (97,000) |
| Proceeds from issuance of long-term debt | 157,193,000 | 4,000,000 | 1,406,000 |
| Payments of long-term debt | (78,259,000) | (39,217,000) | (52,052,000) |
| Increase (decrease) in short-term borrowings | 1,072,000 | (963,000) | (5,548,000) |
| Exercise of stock options | 1,288,000 | 6,788,000 | 646,000 |
| Payment of debt issuance costs | (4,218,000) | — | — |
| Other, net | (6,362,000) | (6,756,000) | (4,087,000) |
| Net cash provided (used) by financing activities | 10,059,000 | (48,022,000) | (59,732,000) |
| Effect of exchange rate changes on cash and cash equivalents | 1,779,000 | 888,000 | (43,000) |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 24,067,000 | 5,653,000 | 13,480,000 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | 45,749,000 | 40,096,000 | 26,616,000 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | \$ 69,816,000 | \$ 45,749,000 | \$ 40,096,000 |

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

GRIFFON CORPORATION
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(Dollars in Thousands)

For the Years Ended September 30, 2003, 2002 and 2001

| | COMMON STOCK | | CAPITAL IN EXCESS OF PAR VALUE | RETAINED EARNINGS | TREASURY SHARES | | ACCUMULATED OTHER COMPREHENSIVE INCOME | DEFERRED COMPENSATION | COMPREHENSIVE INCOME |
|---|--------------|-----------|---|----------------------|-----------------|-----------|--|--------------------------|-------------------------|
| | SHARES | PAR VALUE | | | SHARES | COST | | | |
| Balances, September 30, 2000 | 31,749,199 | \$ 7,937 | \$ 42,167 | \$ 237,786 | 2,068,002 | \$ 19,133 | \$ (3,769) | \$ 1,027 | |
| Foreign currency translation adjustment | — | — | — | — | — | — | 999 | — | \$ 999 |
| Minimum pension liability adjustment | — | — | — | — | — | — | (1,803) | — | (1,803) |
| Net income | — | — | — | 30,593 | — | — | — | — | 30,593 |
| Comprehensive income (Note 1) | — | — | — | — | — | — | — | — | \$ 29,789 |
| Amortization of deferred compensation | — | — | — | — | — | — | — | (598) | — |
| ESOP purchase of Common Stock | — | — | — | — | — | — | — | 2,000 | — |
| Purchase of treasury shares | — | — | — | — | 10,000 | 97 | — | — | — |
| Exercise of stock options | 77,000 | 19 | 627 | — | — | — | — | — | — |
| 10% stock dividend | 3,183,028 | 796 | 35,904 | (36,711) | 206,800 | — | — | — | — |
| Other | 14,210 | 4 | 1,063 | — | — | — | — | 100 | — |
| Balances, September 30, 2001 | 35,023,437 | 8,756 | 79,761 | 231,668 | 2,284,802 | 19,230 | (4,573) | 2,529 | |
| Foreign currency translation adjustment | — | — | — | — | — | — | (4,660) | — | \$ (4,660) |
| Minimum pension liability adjustment | — | — | — | — | — | — | (3,013) | — | (3,013) |
| Net income | — | — | — | 9,936 | — | — | — | — | 9,936 |
| Comprehensive income (Note 1) | — | — | — | — | — | — | — | — | \$ 2,263 |
| Amortization of deferred compensation | — | — | — | — | — | — | — | (580) | — |
| ESOP purchase of Common Stock | — | — | — | — | — | — | — | 2,000 | — |
| Purchase of treasury shares | — | — | — | — | 982,181 | 16,971 | — | — | — |
| Exercise of stock options | 1,307,025 | 327 | 9,608 | — | — | — | — | — | — |
| Tax benefit from exercise of stock options | — | — | 4,661 | — | — | — | — | — | — |
| Other | 6,730 | 1 | 747 | — | — | — | — | 100 | — |
| Balances, September 30, 2002 | 36,337,192 | 9,084 | 94,777 | 241,604 | 3,266,983 | 36,201 | (12,246) | 4,049 | |
| Foreign currency translation adjustment | — | — | — | — | — | — | 7,921 | — | \$ 7,921 |
| Minimum pension liability adjustment | — | — | — | — | — | — | (1,739) | — | (1,739) |
| Net income | — | — | — | 43,022 | — | — | — | — | 43,022 |
| Comprehensive income (Note 1) | — | — | — | — | — | — | — | — | \$ 49,204 |
| Amortization of deferred compensation | — | — | — | — | — | — | — | (666) | — |
| Purchase of treasury shares | — | — | — | — | 3,825,284 | 60,655 | — | — | — |
| Exercise of stock options | 281,225 | 70 | 1,923 | — | 73,652 | 1,046 | — | — | — |
| Tax benefit from exercise of stock options | — | — | 854 | — | — | — | — | — | — |
| Other | 7,300 | 2 | 167 | — | — | — | — | 100 | — |
| Balances, September 30, 2003 | 36,625,717 | \$ 9,156 | \$ 97,721 | \$ 284,626 | 7,165,919 | \$ 97,902 | \$ (6,064) | \$ 3,483 | |

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

GRIFFON CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Consolidation

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

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash flows and credit risk

The company considers all highly liquid investments purchased with an initial maturity of three months or less to be cash equivalents. Cash payments for interest were approximately \$3,995,000, \$5,522,000 and \$13,577,000 in 2003, 2002 and 2001, respectively.

A substantial portion of the company's trade receivables are from customers of the garage doors and installation services segments whose financial condition is dependent on the construction and related retail sectors of the economy.

Comprehensive income

Comprehensive income is presented in the consolidated statements of shareholders' equity and consists of net income and other items of comprehensive income such as minimum pension liability adjustments and foreign currency translation adjustments.

The components of accumulated other comprehensive income at September 30, 2003 were a foreign currency translation adjustment of (\$1,048,000) and a minimum pension liability adjustment, net of tax, of \$7,112,000.

Foreign currency

The financial statements of foreign subsidiaries were prepared in their respective local currencies and translated into U.S. Dollars based on the current exchange rates at the end of the period for the balance sheet and average exchange rates for results of operations.

Revenue recognition

Sales are generally recorded as products are shipped and title and risk of ownership have passed to customers.

The Electronic Information and Communication Systems segment records sales and gross profits on its long-term contracts on a percentage-of-completion basis. The percentage of completion method is used for those construction-type contracts where the performance is anticipated to take more than one year. Contract claims are recognized in revenue to the extent of costs incurred when their amounts can be reliably estimated and realization is probable. The company determines sales and gross profits by relating costs incurred to current estimates of total

manufacturing costs of such contracts. 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, net of progress payments of \$985,000 and \$5,325,000 at September 30, 2003 and 2002, respectively. Amounts become billable when applicable contractual terms are met. Such terms vary, and include the achievement of specified milestones, product delivery and stipulated progress payments. Substantially all such amounts will be billed and collected within one year.

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, | |
|----------------------------|-----------------------|-----------------------|
| | 2003 | 2002 |
| Finished goods | \$ 50,270,000 | \$ 45,288,000 |
| Work in process | 42,029,000 | 37,870,000 |
| Raw materials and supplies | 21,704,000 | 21,634,000 |
| | <u>\$ 114,003,000</u> | <u>\$ 104,792,000</u> |

Property, plant and equipment

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

Estimated useful lives for property, plant and equipment are as follows: buildings - 25 to 40 years; machinery and equipment - 2 to 15 years and leasehold improvements - over the life of the lease or life of the improvement, whichever is shorter. The original cost of fully-depreciated property, plant and equipment remaining in use at September 30, 2003 is approximately \$50,000,000.

Property, plant and equipment consists of the following:

| | SEPTEMBER 30, | |
|--|----------------------|----------------------|
| | 2003 | 2002 |
| Land, buildings and building improvements | \$ 60,276,000 | \$ 47,805,000 |
| Machinery and equipment | 244,808,000 | 214,701,000 |
| Leasehold improvements | 13,261,000 | 12,307,000 |
| | 318,345,000 | 274,813,000 |
| Less-Accumulated depreciation and amortization | 148,493,000 | 126,560,000 |
| | <u>\$169,852,000</u> | <u>\$148,253,000</u> |

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

In June 2002, the company acquired a 60% interest in Isofilme Ltda., a Brazilian manufacturer of plastic hygienic and specialty films for approximately \$18,000,000, including \$13,800,000 paid in fiscal 2003.

The above acquisition has been accounted for as a purchase and resulted in an increase in goodwill of \$661,000 in 2003 and \$15,797,000 in 2002. Currency translation adjustments related to specialty plastic films' foreign operations increased goodwill by \$4,300,000 in 2003 and decreased goodwill by \$4,500,000 in 2002.

Income taxes

The company provides for income taxes using the liability method. Deferred taxes reflect the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting and income tax purposes, as determined under enacted tax laws and rates. The effect of changes in tax laws or rates is accounted for in the period of enactment.

The provision for income taxes is comprised of the following:

| | 2003 | 2002 | 2001 |
|----------|---------------------|---------------------|---------------------|
| Current | \$25,341,000 | \$25,781,000 | \$21,040,000 |
| Deferred | 4,535,000 | (3,275,000) | 4,268,000 |
| | <u>\$29,876,000</u> | <u>\$22,506,000</u> | <u>\$25,308,000</u> |

| | 2003 | 2002 | 2001 |
|-----------------|---------------------|---------------------|---------------------|
| Federal | \$10,947,000 | \$ 9,193,000 | \$13,114,000 |
| Foreign | 16,386,000 | 12,206,000 | 9,939,000 |
| State and local | 2,543,000 | 1,107,000 | 2,255,000 |
| | <u>\$29,876,000</u> | <u>\$22,506,000</u> | <u>\$25,308,000</u> |

The components of income before income taxes are as follows:

| | 2003 | 2002 | 2001 |
|----------|---------------------|---------------------|---------------------|
| Domestic | \$43,534,000 | \$34,586,000 | \$38,022,000 |
| Foreign | 39,531,000 | 29,817,000 | 23,705,000 |
| | <u>\$83,065,000</u> | <u>\$64,403,000</u> | <u>\$61,727,000</u> |

The provision for income taxes includes current U.S. Federal income taxes of \$5,152,000 in 2003, \$12,468,000 in 2002 and \$10,152,000 in 2001. The deferred taxes result primarily from differences in the reporting of depreciation, the allowance for doubtful accounts and other nondeductible accruals. Prepaid expenses and Other Assets at September 30, 2003 and 2002 include deferred income tax assets aggregating \$11,497,000 and \$9,300,000, respectively, attributable primarily to nondeductible accruals and allowances. The company has not recorded deferred income taxes on the undistributed earnings of its foreign subsidiaries because of management's intent to indefinitely reinvest such earnings and because they can be repatriated with no additional tax liability. At September 30, 2003, the company's share of the undistributed earnings of the foreign subsidiaries amounted to approximately \$20,000,000.

Cash payments for income taxes were \$30,150,000, \$31,500,000 and \$10,350,000 in 2003, 2002 and 2001, respectively.

The company's provision for income taxes includes a benefit of \$1,700,000 in 2003 and \$2,000,000 in 2002 reflecting the resolution of certain previously recorded tax liabilities principally in connection with completed examinations of prior years' tax returns. The following table indicates the significant elements contributing to the difference between the U.S. Federal statutory tax rate and the company's effective tax rate:

| | <u>2003</u> | <u>2002</u> | <u>2001</u> |
|---------------------------------|--------------|--------------|--------------|
| U.S. Federal statutory tax rate | 35.0% | 35.0% | 35.0% |
| State and foreign income taxes | 4.2 | 5.0 | 5.0 |
| Resolution of contingencies | (2.0) | (3.1) | — |
| Other | (1.2) | (2.0) | 1.0 |
| Effective tax rate | <u>36.0%</u> | <u>34.9%</u> | <u>41.0%</u> |

Research and development costs and shipping and handling costs

Research and development costs not recoverable under contractual arrangements are charged to expense as incurred. Approximately \$17,000,000, \$17,000,000, and \$13,790,000 in 2003, 2002 and 2001, respectively, was incurred on such research and development.

Selling, general and administrative expenses include shipping and handling costs of \$30,100,000 in 2003, \$29,000,000 in 2002 and \$34,400,000 in 2001.

Accrued liabilities

Accrued liabilities included the following at September 30:

| | <u>2003</u> | <u>2002</u> |
|---------------------------------------|---------------|---------------|
| Payroll and other employee benefits | \$ 39,000,000 | \$ 33,900,000 |
| Balance of acquisition purchase price | — | 13,000,000 |
| Insurance and related accruals | 12,400,000 | 10,300,000 |

Earnings per share (EPS)

Basic EPS is calculated by dividing income available to common shareholders by the weighted average number of shares of Common Stock outstanding during the period. The weighted average number of shares of Common Stock used in determining basic EPS was 32,289,000 in 2003, 33,250,000 in 2002 and 32,965,000 in 2001.

Diluted EPS is calculated by dividing income available to common shareholders by the weighted average number of shares of Common Stock outstanding plus additional common shares that could be issued in connection with potentially dilutive securities. The weighted average number of shares of Common Stock used in determining diluted EPS was 33,597,000 in 2003, 34,951,000 in 2002 and 33,406,000 in 2001 and reflects additional shares in connection with stock option and other stock-based compensation plans.

Options to purchase approximately 1,790,000 shares were not included in the computation of diluted earnings per share for 2001 because the effect would have been anti-dilutive.

Divested operation

In the fourth quarter of fiscal 2002 the company adopted a plan to divest an unprofitable peripheral garage door operation that sold slatted steel coiling doors and related products for commercial users. Consequently, the company recorded a pre-tax charge of \$10,200,000 in connection with the divestiture. The charge included inventory write-downs of \$3,200,000, other asset write-downs aggregating \$4,200,000 and accruals for severance and facility costs of \$2,800,000.

The accompanying consolidated statements of income for 2002 and 2001 include the divested unit, which had net sales of \$28,500,000 in 2002 and \$28,700,000 in 2001. Operating losses of this unit were \$4,400,000 in 2002 and \$3,700,000 in 2001.

Recent accounting pronouncements

Effective October 1, 2001, the company adopted Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets," (SFAS 142). SFAS 142 addresses accounting and reporting for acquired goodwill. It eliminates the previous requirement to amortize goodwill and establishes new requirements with respect to evaluating goodwill and impairment. With the assistance of a third-party valuation expert, the company ascertained the fair value of its reporting units as part of adopting SFAS 142 and determined that goodwill of the installation services segment was impaired pursuant to the new standard. The fair value of the installation services segment used in computing the impairment loss was determined through a combination of market based approaches and present value techniques. Results for the year ended September 30, 2002 included the related cumulative effect of a change in accounting principle in the amount of \$24,118,000 (net of an income tax benefit of \$2,457,000) to reflect the impairment.

Had SFAS 142 been in effect for the year ended September 30, 2001, the related elimination of goodwill amortization would have increased the company's net income and earnings per share as follows:

| | <u>As Reported</u> | <u>Increase</u> | <u>Pro Forma</u> |
|--|--------------------|-----------------|------------------|
| Net income | \$30,593,000 | \$1,833,000 | \$32,426,000 |
| Basic earnings per share of common stock | \$.93 | | \$.98 |
| Diluted earnings per share of common stock | \$.92 | | \$.97 |

The Financial Accounting Standards Board has issued Interpretations Nos. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees Including Indirect Guarantees of Indebtedness of Others" and 46, "Consolidation of Variable Interest Entities," and also issued Statements of Financial Accounting Standards Nos. 146, "Accounting for Costs Associated with Exit and Disposal Activities," 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities" and 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity". Interpretation No. 45 elaborates on disclosures to be made by a guarantor in its financial statements about its obligations under certain guarantees that it has issued. Interpretation No. 46 addresses consolidation of variable interest entities and related disclosure. Statement 146 addresses accounting standards for costs associated with exit and disposal activities. Statement 149 amends and clarifies accounting standards for derivatives. Statement 150 establishes standards that require certain financial instruments with the characteristics of both liabilities and equity to be classified as liabilities. Adoption of these pronouncements has not had a material effect on the company's consolidated results of operations, cash flows or financial condition.

2. NOTES PAYABLE AND LONG-TERM DEBT:

At September 30, 2003 and 2002, the company had short-term notes payable of \$5,832,000 and \$3,809,000, respectively, principally in connection with its European operations. The interest rate of outstanding short-term debt was 3.9% at September 30, 2003 and 4.2% at September 30, 2002.

Long-term debt at September 30 consisted of the following:

| | <u>2003</u> | <u>2002</u> |
|---|----------------------|----------------------|
| 4% convertible subordinated notes | \$130,000,000 | \$ — |
| Notes payable to banks- revolving credits | 4,666,000 | 45,800,000 |
| Notes payable to banks - term loan | 10,498,000 | 12,840,000 |
| Real estate mortgages | 12,896,000 | 13,783,000 |
| ESOP loan | 3,500,000 | 4,000,000 |
| Industrial Revenue Bonds | — | 3,300,000 |
| Other | 252,000 | 1,144,000 |
| | <u>161,812,000</u> | <u>80,867,000</u> |
| Less: current portion | <u>(6,329,000)</u> | <u>(6,227,000)</u> |
| | <u>\$155,483,000</u> | <u>\$ 74,640,000</u> |

In July 2003, the company completed the sale of \$130,000,000 of 4% convertible subordinated notes due 2023 (the "Notes"). Holders may convert the Notes into shares of the company's Common Stock at an initial conversion price of \$24.13 per share, subject to adjustment, which is equal to a conversion rate of approximately 41.4422 shares per \$1,000 principal amount of Notes. The Notes are convertible (1) when the market price of the company's Common Stock is more than 120% of the conversion price, (2) if the company has called the notes for redemption, (3) if during a 5 day trading period the trading price of the Notes falls below certain thresholds or (4) upon the occurrence of specified corporate transactions.

The company may redeem the Notes on or after July 26, 2010, for cash, at their principal amount plus accrued interest. Holders of the Notes may require the company to repurchase all or a portion of their Notes on July 18, 2010, 2013 and 2018, and upon a change in control.

Approximately \$50,000,000 of the net proceeds from the sale of the Notes was used to repurchase 3,067,484 shares of Common Stock concurrently with the sale of the Notes. Approximately \$49,000,000 of the net proceeds was used to repay revolving credit debt with the remainder to be used for general corporate purposes.

The company and a subsidiary have a credit agreement with several banks. This agreement, as amended, provides revolving credit through October 2005, after which the credit facility may be converted, at the option of the company, into a reducing revolving credit for two years. Borrowings under the agreement bear interest based upon the prime rate or LIBOR and are collateralized by the capital stock of a subsidiary. In July 2003, all outstanding amounts under this agreement were paid with the proceeds of the Notes described above, and the company reduced the maximum amount available under the agreement from \$160,000,000 to \$100,000,000.

The company's European operations have bank agreements that provide for revolving credit up to \$23,000,000 (\$4,666,000 outstanding at September 30, 2003) and a term loan with a balance of \$10,498,000 at September 30, 2003. Borrowings under these agreements bear interest based upon the prime rate or Euribor and mature in 2004. At September 30, 2003 amounts outstanding under the revolving credit and term loan agreements bore interest at 2.9% and 3.8%, respectively.

Real estate mortgages bear interest at rates ranging from 4.25% to 8.9% with maturities extending through 2007 and are collateralized by real property whose carrying value at September 30, 2003 aggregated approximately \$18,000,000.

The company's ESOP (see Note 4) has a loan agreement the proceeds of which were used to purchase equity securities of the company. Outstanding borrowings of the ESOP have maturities extending through 2007, bear interest at rates (2.4% at September 30, 2003) based upon the prime rate or LIBOR and are guaranteed by the company.

The following are the maturities of long-term debt outstanding at September 30, 2003:

| | | |
|-------------|----|-------------|
| 2004 | \$ | 6,329,000 |
| 2005 | | 13,475,000 |
| 2006 | | 5,642,000 |
| 2007 | | 6,366,000 |
| 2008 | | — |
| Later Years | | 130,000,000 |

3. SHAREHOLDERS' EQUITY:

The company has stock option plans under which options for an aggregate of 8,050,000 shares of Common Stock may be granted. As of September 30, 2003 options for 684,500 shares remain available for future grants. 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 ten years after date of grant and become exercisable in equal installments over two years. Transactions under the plans are as follows:

| | NUMBER OF SHARES UNDER OPTION | WEIGHTED AVERAGE EXERCISE PRICE |
|-----------------------------------|-------------------------------------|------------------------------------|
| Outstanding at September 30, 2000 | 6,250,475 | \$9.57 |
| Granted | 1,158,850 | \$7.58 |
| Exercised | (84,700) | \$7.63 |
| Terminated | (85,250) | \$8.91 |
| Outstanding at September 30, 2001 | 7,239,375 | \$9.28 |
| Granted | 709,200 | \$13.85 |
| Exercised | (1,307,025) | \$7.60 |
| Terminated | (14,075) | \$4.89 |
| Outstanding at September 30, 2002 | 6,627,475 | \$10.11 |
| Granted | 578,050 | \$13.46 |
| Exercised | (281,225) | \$7.09 |
| Terminated | (39,900) | \$14.15 |
| Outstanding at September 30, 2003 | <u>6,884,400</u> | \$10.50 |

At September 30, 2003 option groups outstanding and exercisable are as follows:

| Range of Exercise Prices | Outstanding Options | | |
|-----------------------------|----------------------|--|--|
| | Number of Options | Weighted Average Remaining Life | Weighted Average Exercise Price |
| \$12.00 to \$17.72 | 2,890,900 | 5.9 years | \$13.47 |
| \$6.82 to \$10.11 | 3,342,300 | 4.6 | \$8.70 |
| \$5.46 to \$6.65 | 651,200 | 6.0 | \$6.53 |
| Range of Exercise Prices | Exercisable Options | | |
| | Number of Options | | Weighted Average Exercise Price |
| \$12.00 to \$15.29 | 1,985,525 | | \$13.42 |
| \$6.82 to \$10.11 | 3,342,300 | | \$8.70 |
| \$5.46 to \$6.65 | 651,200 | | \$6.53 |

Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation", permits an entity to account for employee stock-based compensation under APB Opinion No. 25, "Accounting for Stock Issued to Employees", or adopt a fair value based method of accounting for such compensation. The company has elected to account for stock-based compensation under Opinion No. 25. Accordingly, no compensation expense has been recognized in connection with options granted. Had compensation expense for options granted been determined based on the fair value at the date of grant in accordance with Statement No. 123, the company's net income and earnings per share would have been as follows:

| | 2003 | 2002 | 2001 |
|---------------------------|--------------|-------------|--------------|
| Net income | | | |
| As reported | \$43,022,000 | \$9,936,000 | \$30,593,000 |
| Pro forma | 40,441,000 | 7,313,000 | 28,354,000 |
| Earnings per share | | | |
| As reported - | | | |
| Basic | \$1.33 | \$.30 | \$.93 |
| Diluted | 1.28 | .28 | .92 |
| Pro forma - | | | |
| Basic | \$1.25 | \$.22 | \$.86 |
| Diluted | 1.19 | .21 | .85 |

The fair value of options granted is estimated on the date of grant using the Black-Scholes option pricing model. The weighted average fair values of options granted in fiscal 2003, 2002 and 2001 were \$6.51, \$6.46 and \$3.98, respectively, based upon the following weighted average assumptions: expected volatility (.388 in 2003, .336 in 2002 and .338 in 2001), risk-free interest rate (4.23% in 2003, 4.59% in 2002 and 5.57% in 2001), expected life (7 years in 2003, 2002 and 2001), and expected dividend yield (0% in 2003, 2002 and 2001).

The company has an Outside Director Stock Award Plan (the "Outside Director Plan"), which was approved by the shareholders in 1994, under which 330,000 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 is amortized to compensation expense over the vesting period. The related deferred compensation has been reflected as a reduction of shareholders' equity. In 2003, 2002 and 2001, 7,300, 6,730 and 15,631 shares, respectively, were issued under the Outside Director Plan.

As of September 30, 2003, a total of approximately 13,728,000 shares of the company's authorized Common Stock were reserved for issuance in connection with the 4% convertible subordinated notes (5,387,000 shares) and stock compensation plans (8,341,000 shares).

The company has a shareholder rights plan which provides for one right to be attached to each share of Common Stock. The rights are currently not exercisable or transferable apart from the Common Stock, and have no voting power. Under certain circumstances, each right entitles the holder to purchase, for \$34, 11 ten-thousandths of a share of a new series of participating preferred stock, which is substantially equivalent to one share of Common Stock. These rights would become exercisable if a person or group acquires 10% or more of the company's Common Stock or announces a tender offer which would increase the person's or

group's beneficial ownership to 10% or more of the company's Common Stock, subject to certain exceptions. After a person or group acquires 10% or more of the company's Common Stock, each right (other than those held by the acquiring party) will entitle the holder to purchase Common Stock having a market price of two times the exercise price. If the company is acquired in a merger or other business combination, each exercisable right entitles the holder to purchase Common Stock of the acquiring company or an affiliate having a market price of two times the exercise price of the right. In certain events the Board of Directors may exchange each right (other than those held by an acquiring party) for one share of the company's Common Stock or 11 ten-thousandths of a share of a new series of participating preferred stock. The rights expire on May 9, 2006 and can be redeemed at \$.01 per right at any time prior to becoming exercisable.

A wholly-owned subsidiary of the company has a lease agreement that limits dividends and advances it may pay to the parent company. The agreement permits the payment of income taxes based on a tax sharing arrangement, and dividends based on a percentage of the subsidiary's net income. At September 30, 2003 the subsidiary had net assets of approximately \$280,000,000.

4. PENSION PLANS:

The company has pension plans that cover substantially all employees, most of which are defined contribution plans. Company contributions to the defined contribution plans are generally based upon various percentages of compensation, and aggregated \$7,300,000 in 2003, \$7,400,000 in 2002 and \$5,900,000 in 2001. The company also has defined benefit pension plans covering certain employees.

Plan assets and benefit obligations of the defined benefit plans are as follows:

| | September 30, | |
|---|----------------|----------------|
| | 2003 | 2002 |
| Change in benefit obligation | | |
| Projected benefit obligation, beginning of year | \$ 27,367,000 | \$ 23,100,000 |
| Service cost | 1,042,000 | 952,000 |
| Interest cost | 2,066,000 | 1,801,000 |
| Amendments | — | 58,000 |
| Actuarial loss | 4,287,000 | 1,932,000 |
| Benefit payments | (484,000) | (476,000) |
| Projected benefit obligation, end of year | 34,278,000 | 27,367,000 |
| Change in plan assets | | |
| Fair value of plan assets, beginning of year | 10,460,000 | 12,135,000 |
| Actual return on plan assets | 1,785,000 | (1,248,000) |
| Contributions | 169,000 | 49,000 |
| Benefits paid | (484,000) | (476,000) |
| Fair value of plan assets, end of year | 11,930,000 | 10,460,000 |
| Reconciliation of funded status | | |
| Projected benefit obligation in excess of plan assets | (22,348,000) | (16,907,000) |
| Unrecognized net loss | 11,378,000 | 8,540,000 |
| Unrecognized prior service cost | 77,000 | 88,000 |
| Unrecognized net transition asset | 2,659,000 | 2,973,000 |
| Net amount recognized | \$ (8,234,000) | \$ (5,306,000) |
| Balance sheet amounts | | |
| Accumulated other comprehensive income | \$ 10,941,000 | \$ 8,265,000 |
| Intangible asset | 2,741,000 | 3,066,000 |
| Accrued pension liabilities | (21,916,000) | (16,637,000) |
| Net amount recognized | \$ (8,234,000) | \$ (5,306,000) |

Net periodic pension cost for the defined benefit plans was as follows:

| | 2003 | 2002 | 2001 |
|---------------------------------------|---------------------|---------------------|---------------------|
| Service cost | \$ 1,042,000 | \$ 952,000 | \$ 894,000 |
| Interest cost | 2,066,000 | 1,801,000 | 1,661,000 |
| Expected return on plan assets | (873,000) | (1,301,000) | (1,097,000) |
| Amortization of net actuarial loss | 538,000 | 190,000 | 155,000 |
| Amortization of prior service cost | 11,000 | 8,000 | 8,000 |
| Amortization of transition obligation | 312,000 | 312,000 | 312,000 |
| | <u>\$ 3,096,000</u> | <u>\$ 1,962,000</u> | <u>\$ 1,933,000</u> |

The following actuarial assumptions were used for the company's defined benefit pension plans:

| | 2003 | 2002 | 2001 |
|--------------------------------|---------------|---------------|---------------|
| Discount rate | 6.50% | 7.25% - 8.00% | 7.75% - 8.00% |
| Expected return on plan assets | 8.50% | 9.20% | 9.20% |
| Compensation rate increase | 3.00% - 5.50% | 3.00% - 5.50% | 3.00% - 5.50% |

Pursuant to the provisions of Statement of Financial Accounting Standards No. 88, "Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits", modifications to certain subsidiary employee benefits and related benefit freezes resulted in the recognition of a pretax curtailment gain of \$3,156,000 in 2001.

The company has an Employee Stock Ownership Plan ("ESOP") that covers substantially all employees. Shares of the ESOP which have been allocated to employee accounts are charged to expense based on the fair value of the shares transferred and are treated as outstanding in earnings per share calculations. Compensation expense under the ESOP was \$637,000 in 2003, \$718,000 in 2002 and \$384,000 in 2001. The cost of shares held by the ESOP and not yet allocated to employees is reported as a reduction of shareholders' equity.

5. 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, 2003:

| | |
|-------------|---------------|
| 2004 | \$ 24,785,000 |
| 2005 | 18,308,000 |
| 2006 | 12,256,000 |
| 2007 | 8,649,000 |
| 2008 | 4,743,000 |
| Later years | 4,853,000 |

Rent expense for all operating leases totaled approximately \$30,900,000, \$30,500,000, and \$31,800,000 in 2003, 2002 and 2001, respectively.

The company is subject to various laws and regulations relating to the protection of the environment and is a party to legal proceedings arising in the ordinary course of business. Under a Consent Order entered into with the New York State Department of Environmental Conservation, a subsidiary of the company has performed a remedial investigation and currently is performing a supplemental remedial investigation at a site in Peekskill, New York which was sold in 1982. Based on facts presently known to it, the company believes that the resolution of such matters will not have a material adverse effect on its consolidated financial position, results of operations and cash flows.

6. QUARTERLY FINANCIAL INFORMATION (UNAUDITED):

Quarterly results of operations for the years ended September 30, 2003 and 2002 are as follows:

| | QUARTERS ENDED | | | |
|--|-----------------------|------------------|-------------------|----------------------|
| | September 30, 2003 | June 30, 2003 | March 31, 2003 | December 31, 2002 |
| Net sales | \$362,619,000 | \$312,547,000 | \$277,330,000 | \$302,154,000 |
| Gross profit | 105,099,000 | 87,452,000 | 75,844,000 | 86,998,000 |
| Net income | 16,163,000 | 11,322,000 | 4,617,000 | 10,920,000 |
| Earnings per share of common stock(1): | | | | |
| Basic | \$.53 | \$.34 | \$.14 | \$.33 |
| Diluted | \$.50 | \$.33 | \$.14 | \$.32 |

| | QUARTERS ENDED | | | |
|--|-----------------------|------------------|-------------------|----------------------|
| | September 30, 2002 | June 30, 2002 | March 31, 2002 | December 31, 2001 |
| Net sales | \$326,059,000 | \$297,335,000 | \$267,308,000 | \$301,902,000 |
| Gross profit | 90,800,000 | 85,108,000 | 74,775,000 | 83,840,000 |
| Net income (loss) | 7,220,000(2) | 11,437,000 | 4,815,000 | (13,536,000)(3) |
| Earnings per share of common stock(1): | | | | |
| Basic | \$.22 | \$.34 | \$.14 | \$(.41) |
| Diluted | \$.21 | \$.32 | \$.14 | \$(.39) |

- (1) Earnings per share are computed independently for each of the quarters presented on the basis described in Note 1. The sum of the quarters may not be equal to the full year earnings per share amounts.
- (2) Includes a pre-tax charge of \$10,200,000 for the divestiture of an unprofitable peripheral operation (see Note 1).
- (3) Includes the cumulative effect of a change in accounting principle (see Note 1) in the amount of \$24,118,000 (\$.73 per basic share and \$.70 per diluted share).

7. BUSINESS SEGMENTS:

The company's reportable business segments are as follows - Garage Doors (manufacture and sale of residential and commercial/industrial garage doors, and related products); Installation Services (sale and installation of building products, primarily for new construction, such as garage doors, garage door openers, manufactured fireplaces and surrounds, cabinets and flooring); Electronic Information and Communication Systems (communication and information systems for government and commercial markets); and Specialty Plastic Films (manufacture and sale of plastic films and film laminates for baby diapers, adult incontinence care products, disposable surgical and patient care products and plastic packaging). The company's reportable segments are distinguished from each other by types of products and services offered, classes of customers, production and distribution methods, and separate management.

The company evaluates performance and allocates resources based on operating results before interest income or expense, income taxes and certain nonrecurring items of income or expense. The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies, including the use of the percentage of completion method of accounting by the Electronic Information and Communication Systems segment (see Note 1). Intersegment sales are based on prices negotiated between the segments, and intersegment sales and profits are not eliminated in evaluating performance of a segment.

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

| | Garage Doors | Installation Services | Electronic Information and Communication Systems | Specialty Plastic Films | Totals |
|--|-----------------|--------------------------|--|-------------------------------|------------------|
| Revenues from external customers - | | | | | |
| 2003 | \$ 404,723,000 | \$ 289,324,000 | \$ 178,693,000 | \$ 381,910,000 | \$ 1,254,650,000 |
| 2002 | 418,979,000 | 278,610,000 | 195,430,000 | 299,585,000 | 1,192,604,000 |
| 2001 | 402,788,000 | 268,455,000 | 191,782,000 | 297,100,000 | 1,160,125,000 |
| Intersegment revenues - | | | | | |
| 2003 | \$ 23,714,000 | \$ 85,000 | \$ — | \$ — | \$ 23,799,000 |
| 2002 | 25,464,000 | 221,000 | — | — | 25,685,000 |
| 2001 | 25,813,000 | 303,000 | — | — | 26,116,000 |
| Segment profit - | | | | | |
| 2003 | \$ 33,755,000 | \$ 7,380,000 | \$ 14,161,000 | \$ 44,244,000 | \$ 99,540,000 |
| 2002 | 25,414,000 | 7,736,000 | 15,156,000 | 40,278,000 | 88,584,000 |
| 2001 | 18,223,000 | 6,099,000 | 16,076,000 | 41,772,000 | 82,170,000 |
| Segment assets - | | | | | |
| 2003 | \$ 151,373,000 | \$ 65,332,000 | \$ 159,158,000 | \$ 197,633,000 | \$ 573,496,000 |
| 2002 | 149,844,000 | 67,066,000 | 159,516,000 | 145,458,000 | 521,884,000 |
| 2001 | 165,483,000 | 89,684,000 | 157,590,000 | 120,821,000 | 533,578,000 |
| Segment capital expenditures - | | | | | |
| 2003 | \$ 7,303,000 | \$ 1,351,000 | \$ 4,325,000 | \$ 30,002,000 | \$ 42,981,000 |
| 2002 | 4,553,000 | 1,236,000 | 4,736,000 | 12,650,000 | 23,175,000 |
| 2001 | 6,444,000 | 3,012,000 | 6,653,000 | 10,519,000 | 26,628,000 |
| Depreciation and amortization expense - | | | | | |
| 2003 | \$ 7,250,000 | \$ 1,304,000 | \$ 3,778,000 | \$ 12,170,000 | \$ 24,502,000 |
| 2002 | 6,652,000 | 1,085,000 | 3,721,000 | 10,641,000 | 22,099,000 |
| 2001 | 7,520,000 | 1,995,000 | 4,052,000 | 10,161,000 | 23,728,000 |

Goodwill at September 30, 2003 includes \$12,900,000 attributable to the garage doors segment, \$14,300,000 in the electronic information and communication systems segment and \$22,800,000 in the specialty plastic films segment.

Following are reconciliations of segment profit, assets, capital expenditures and depreciation and amortization expense to amounts reported in the consolidated financial statements:

| | 2003 | 2002 | 2001 |
|---|-----------------------|-----------------------|-----------------------|
| Profit - | | | |
| Profit for all segments | \$ 99,540,000 | \$ 88,584,000 | \$ 82,170,000 |
| Unallocated amounts | (12,290,000) | (10,278,000) | (11,337,000) |
| Loss on divestiture (Note 1) | — | (10,200,000) | — |
| Interest expense, net | (4,185,000) | (3,703,000) | (9,106,000) |
| Income before income taxes | \$ 83,065,000 | \$ 64,403,000 | \$ 61,727,000 |
| Assets - | | | |
| Total for all segments | \$ 573,496,000 | \$ 521,884,000 | \$ 533,578,000 |
| Unallocated amounts | 107,273,000 | 68,518,000 | 54,305,000 |
| Intersegment eliminations | (2,039,000) | (2,708,000) | (2,890,000) |
| Total consolidated assets | \$ 678,730,000 | \$ 587,694,000 | \$ 584,993,000 |
| Capital expenditures - | | | |
| Total for all segments | \$ 42,981,000 | \$ 23,175,000 | \$ 26,628,000 |
| Unallocated amounts | 1,068,000 | 1,125,000 | 50,000 |
| Total consolidated capital expenditures | \$ 44,049,000 | \$ 24,300,000 | \$ 26,678,000 |
| Depreciation and amortization expense - | | | |
| Total for all segments | \$ 24,502,000 | \$ 22,099,000 | \$ 23,728,000 |
| Unallocated amounts | 1,680,000 | 538,000 | 476,000 |
| Total consolidated depreciation and amortization | \$ 26,182,000 | \$ 22,637,000 | \$ 24,204,000 |

Revenues, based on the customers' locations, and property, plant and equipment attributed to the United States and all other countries are as follows:

| | 2003 | 2002 | 2001 |
|---|-------------------------|-------------------------|-------------------------|
| Revenues by geographic area - | | | |
| United States | \$ 950,686,000 | \$ 936,704,000 | \$ 921,046,000 |
| Germany | 57,345,000 | 41,366,000 | 51,179,000 |
| United Kingdom | 37,899,000 | 35,650,000 | 36,247,000 |
| Canada | 27,167,000 | 23,405,000 | 24,925,000 |
| Poland | 35,907,000 | 31,176,000 | 27,494,000 |
| All other countries | 145,646,000 | 124,303,000 | 99,234,000 |
| Consolidated net sales | \$ 1,254,650,000 | \$ 1,192,604,000 | \$ 1,160,125,000 |
| Property, plant and equipment by geographic area - | | | |
| United States | \$ 112,517,000 | \$ 107,248,000 | \$ 108,291,000 |
| Germany | 55,964,000 | 39,929,000 | 37,640,000 |
| All other countries | 1,371,000 | 1,076,000 | — |
| Consolidated property, plant and equipment | \$ 169,852,000 | \$ 148,253,000 | \$ 145,931,000 |

Sales to a customer of the specialty plastic films segment were approximately \$285,000,000 in 2003, \$214,000,000 in 2002 and \$209,000,000 in 2001. Sales to the United States Government and its agencies, either as a prime contractor or subcontractor, aggregated approximately \$103,000,000 in 2003, \$102,000,000 in 2002 and \$100,000,000 in 2001, all of which are included in the electronic information and communication systems segment. Unallocated amounts include general corporate expenses and assets, which consist mainly of cash, investments, and other assets not attributable to any reportable segment.

ITEM 9 - CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

On April 30, 2002, the company dismissed Arthur Andersen LLP as its independent public accountants and, as of May 1, 2002, engaged PricewaterhouseCoopers LLP as its independent public accountants for the fiscal year ending September 30, 2002, as previously disclosed in the company's Report on Form 8-K dated April 30, 2002.

ITEM 9A - CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The company's management, with the participation of our Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of the design and operation of the company's disclosure controls and procedures, as required by Exchange Act Rule 13a-15. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that the company's disclosure controls and procedures were effective to ensure that information required to be disclosed by the company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms.

Changes in Internal Controls

There were no significant changes in the company's internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation.

Limitations on the Effectiveness of Controls

The company believes that a control system, no matter how well designed and operated, cannot provide absolute assurance that the objectives of the control system are met, and no evaluation of controls can provide absolute assurance that all controls issues and instances of fraud, if any, within a company have been detected.

PART III

The information required by Part III (Items 10, 11, 12, 13 and 14) 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, 2004, to be filed with the Securities and Exchange Commission within 120 days following the end of the company's fiscal year ended September 30, 2003. Information relating to the executive officers of the Registrant appears under Item 1 of this report.

PART IV

ITEM 15 - 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

[Consolidated Balance Sheets at September 30, 2003 and 2002](#)

[Consolidated Statements of Income for the Years Ended September 30, 2003, 2002 and 2001](#)

[Consolidated Statements of Cash Flows for the Years Ended September 30, 2003, 2002 and 2001](#)

[Consolidated Statements of Shareholders' Equity for the Years Ended September 30, 2003, 2002 and 2001](#)

[Notes to Consolidated Financial Statements](#)

2. Schedules

I [Condensed Financial Information of Registrant](#)

II [Valuation and Qualifying Accounts](#)

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 (Exhibit 3.1 of Annual Report on Form 10-K for the year ended September 30, 1995)
- 3.2 Amended and restated By-laws (Exhibit 3 of Current Report on Form 8-K dated May 2, 2001)
- 4.1 Rights Agreement dated as of May 9, 1996 between the Registrant and American Stock Transfer Company (Exhibit 1.1 of Current Report on Form 8-K dated May 9, 1996)
- 4.2 Loan Agreement dated as of October 25, 2001 among Registrant and lending institutions. (Exhibits 4.2 of Annual Report on Form 10-K for the year ended September 30, 2001)
- 4.3 Indenture, dated as of July 18, 2003, between Registrant and American Stock Transfer and Trust Company, as Trustee, including the form of 4.0% Contingent Convertible Subordinated Note due 2003 (Exhibit 4.1 of Form S-3 Registration Statement No. 333-109171)
- 4.4 Registration Rights Agreement, dated July 18, 2003, by and between Registrant and Deutsche Bank Securities, as representative of the initial purchasers of 4.0% Contingent Convertible Subordinated Notes due 2003 (Exhibit 4.2 of Form S-3 Registration Statement No. 333-109171)
- 10.1 Employment Agreement dated as of July 1, 2001 between the Registrant and Harvey R. Blau (Exhibit 10.1 of Current Report on Form 8-K dated May 2, 2001)
- 10.2 Employment Agreement dated as of July 1, 2001 between the Registrant and Robert Balemian (Exhibit 10.2 of Current Report on Form 8-K dated May 2, 2001)
- 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 1992 Non-Qualified Stock Option Plan (Exhibit 10.10 of Annual Report on Form 10-K for the year ended September 30, 1993)
- 10.5 Non-Qualified Stock Option Plan (Exhibit 10.12 of Annual Report on Form 10-K for the year ended September 30, 1998)
- 10.6 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)
- 10.7 Outside Director Stock Award Plan (Exhibit 4 of Form S-8 Registration Statement No. 33-52319)
- 10.8 1995 Stock Option Plan (Exhibit 4 of Form S-8 Registration Statement No. 33-57683)
- 10.9 1997 Stock Option Plan (Exhibit 4.2 of Form S-8 Registration Statement No. 333-21503)
- 10.10 2001 Stock Option Plan (Exhibit 4.1 of Form S-8 Registration Statement No. 333-67760)
- 10.11 Senior Management Incentive Compensation Plan (Exhibit 4.2 of Form S-8 Registration Statement No. 333-62319)
- 10.12 1998 Employee and Director Stock Option Plan, as amended (Exhibit 4.1 of Form S-8 Registration Statement No. 333-102742)

- 10.13 1998 Stock Option Plan (Exhibit 4.1 of Form S-8 Registration Statement No. 333-62319)
- 10.14 Amendment to Employment Agreement between the Registrant and Harvey R. Blau dated August 8, 2003 (Exhibit 10.1 of Quarterly Report on Form 10-Q for the quarter ended June 30, 2003)
- 10.15 Amendment to Employment Agreement between the Registrant and Robert Balemian dated August 8, 2003 (Exhibit 10.2 of Quarterly Report on Form 10-Q for the quarter ended June 30, 2003)
- 14** Code of Ethics for Senior Financial Officers
- 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.

| <u>Name of Subsidiary</u> | <u>State of Incorporation</u> |
|---------------------------|-------------------------------|
| Clopay Corporation | Delaware |
| Telephonics Corporation | Delaware |

- 23.1** Consent of PricewaterhouseCoopers LLP
- 23.2* Consent of Arthur Andersen LLP
- 31.1** Certification of Chief Executive Officer pursuant to Section 302 of Sarbanes-Oxley Act
- 31.2** Certificate of Chief Financial Officer pursuant to Section 302 of Sarbanes-Oxley Act
- 32** Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of Sarbanes-Oxley Act.

* Not required pursuant to Rule 437a.

** Filed herewith. All other exhibits are incorporated herein by reference to the exhibit indicated in the parenthetical references.

The following undertakings are incorporated into the company's Registration Statements on Form S-8 and S-3 (Registration Nos. 33-39090, 33-62966, 33-52319, 33-57683, 333-21503, 333-62319, 333-84409, 333-67760, 333-88422, 333-102742 and 333-109171).

(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 facts 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. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than 20 percent change in the maximum aggregate offering price set forth in the "Calculation of Registration Fee" table in the effective 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, Form S-8 or Form F-3, and the information required to be included in a post-effective amendment by those paragraphs is contained in periodic reports filed with or furnished to the Commission 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 of such securities at that time shall be deemed to be the initial bona fide 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.

(c) 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 19th day of December 2003.

GRIFFON CORPORATION

By: /s/ Harvey R. Blau
Harvey R. Blau,
Chairman of the Board
and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below on December 19, 2003 by the following persons in the capacities indicated:

| | |
|---|--|
| <u>/s/ Harvey R. Blau</u> Harvey R. Blau | Chairman of the Board and Chief Executive Officer (Principal Executive Officer) |
| <u>/s/ Robert Balemian</u> Robert Balemian | President and Director (Chief Operating and Financial Officer) |
| <u>/s/ Patrick L. Alesia</u> Patrick L. Alesia | Vice President and Treasurer (Chief Accounting Officer) |
| <u>/s/ Henry A. Alpert</u> Henry A. Alpert | Director |
| <u>/s/ Bertrand M. Bell</u> Bertrand M. Bell | Director |
| <u>/s/ Abraham M. Buchman</u> Abraham M. Buchman | Director |
| <u>/s/ Clarence A. Hill, Jr.</u> Clarence A. Hill, Jr. | Director |
| <u>/s/ Ronald J. Kramer</u> Ronald J. Kramer | Director |
| <u>/s/ James W. Stansberry</u> James W. Stansberry | Director |
| <u>/s/ Martin S. Sussman</u> Martin S. Sussman | Director |
| <u>/s/ William H. Waldorf</u> William H. Waldorf | Director |
| <u>/s/ Joseph J. Whalen</u> Joseph J. Whalen | Director |
| <u>/s/ Lester L. Wolff</u> Lester L. Wolff | Director |

GRIFFON CORPORATION
SCHEDULE I - CONDENSED FINANCIAL INFORMATION OF REGISTRANT
(PARENT COMPANY ONLY)
BALANCE SHEETS - SEPTEMBER 30, 2003 AND 2002

| | September 30, | |
|--|-----------------------|-----------------------|
| | 2003 | 2002 |
| ASSETS | | |
| Current Assets: | | |
| Cash and cash equivalents | \$ 35,117,000 | \$ 5,335,000 |
| Prepaid expenses and other current assets | 11,219,000 | 7,699,000 |
| Total current assets | 46,336,000 | 13,034,000 |
| Property, plant & equipment at cost, less accumulated depreciation | 1,439,000 | 166,000 |
| Investment in subsidiaries | 399,212,000 | 333,394,000 |
| Other assets | 12,614,000 | 9,796,000 |
| | <u>\$ 459,601,000</u> | <u>\$ 356,390,000</u> |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current Liabilities: | | |
| Current portion of long-term debt | \$ 500,000 | \$ 500,000 |
| Accounts payable and accrued liabilities | 24,880,000 | 18,899,000 |
| Income taxes | 1,129,000 | — |
| Total current liabilities | 26,509,000 | 19,399,000 |
| Long-term liabilities: | | |
| Convertible subordinated notes | 130,000,000 | — |
| Notes payable to banks - revolving credit | — | 29,000,000 |
| Other | 19,038,000 | 15,022,000 |
| | <u>149,038,000</u> | <u>44,022,000</u> |
| Shareholders' equity | 284,054,000 | 292,969,000 |
| | <u>\$ 459,601,000</u> | <u>\$ 356,390,000</u> |

GRIFFON CORPORATION
SCHEDULE I – CONDENSED FINANCIAL INFORMATION OF REGISTRANT (Continued)
(PARENT COMPANY ONLY)
STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED SEPTEMBER 30,

| | <u>2003</u> | <u>2002</u> | <u>2001</u> |
|---|----------------------|---------------------|----------------------|
| Costs and Expenses: | | | |
| General and administrative expenses | \$ 11,640,000 | \$ 10,341,000 | \$ 10,028,000 |
| Interest expense and other, net | 2,325,000 | 1,435,000 | 1,969,000 |
| | <u>13,965,000</u> | <u>11,776,000</u> | <u>11,997,000</u> |
| Loss before credit for federal income taxes and equity in net income of subsidiaries | (13,965,000) | (11,776,000) | (11,997,000) |
| Credit for federal income taxes resulting from tax sharing arrangement with subsidiaries | (8,451,000) | (6,015,000) | (4,178,000) |
| Loss before equity in net income of subsidiaries | (5,514,000) | (5,761,000) | (7,819,000) |
| Equity in net income of subsidiaries before the cumulative effect of a change in accounting principle | 48,536,000 | 39,815,000 | 38,412,000 |
| Income before cumulative effect of a change in accounting principle | 43,022,000 | 34,054,000 | 30,593,000 |
| Cumulative effect of a change in accounting principle, net of income taxes | — | (24,118,000) | — |
| Net income | <u>\$ 43,022,000</u> | <u>\$ 9,936,000</u> | <u>\$ 30,593,000</u> |

S-1a

GRIFFON CORPORATION
SCHEDULE I – CONDENSED FINANCIAL INFORMATION OF REGISTRANT (Continued)
(PARENT COMPANY ONLY)
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30,

| | 2003 | 2002 | 2001 |
|---|--------------|--------------|--------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | |
| Net Income | \$43,022,000 | \$9,936,000 | \$30,593,000 |
| Adjustments to reconcile net income to net cash provided (used) by operating activities | | | |
| - | | | |
| Cumulative effect of a change in accounting principle | — | 24,118,000 | — |
| Deferred income taxes | 5,795,000 | (3,275,000) | 2,962,000 |
| Equity in net income of subsidiaries | (48,536,000) | (39,815,000) | (38,412,000) |
| Change in assets and liabilities - | | | |
| Increase in prepaid expenses and other assets | (1,262,000) | (316,000) | (237,000) |
| Increase (decrease) in accounts payable, accrued liabilities and income taxes payable | (2,540,000) | 3,051,000 | 8,021,000 |
| Other changes, net | 2,456,000 | 5,077,000 | 2,646,000 |
| Total adjustments | (44,087,000) | (11,160,000) | (25,020,000) |
| Net cash provided (used) by operating activities | (1,065,000) | (1,224,000) | 5,573,000 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | |
| Acquisition of property, plant and equipment | (1,068,000) | — | (50,000) |
| Advances to subsidiaries | (18,000,000) | — | — |
| Distributions from subsidiaries | 13,000,000 | 38,000,000 | 29,506,000 |
| Net cash provided (used) by investing activities | (6,068,000) | 38,000,000 | 29,456,000 |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | | |
| Purchase of treasury shares | (60,655,000) | (11,874,000) | (97,000) |
| Proceeds from issuance of long-term debt | 147,000,000 | — | — |
| Payment of long-term debt | (46,500,000) | (29,500,000) | (34,500,000) |
| Exercise of stock options | 1,288,000 | 6,788,000 | 646,000 |
| Payment of debt issuance costs | (4,218,000) | — | — |
| Other, net | — | (504,000) | 199,000 |
| Net cash provided (used) by financing activities | 36,915,000 | (35,090,000) | (33,752,000) |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 29,782,000 | 1,686,000 | 1,277,000 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | 5,335,000 | 3,649,000 | 2,372,000 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | \$35,117,000 | \$5,335,000 | \$3,649,000 |

GRIFFON CORPORATION AND SUBSIDIARIES
SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS
FOR THE YEARS ENDED SEPTEMBER 30, 2003, 2002 AND 2001

| Description | Balance at Beginning of Period | Additions | | Deductions | | Balance at End of Period |
|---|--------------------------------|----------------------------|---------------------------|----------------------|---------------------|--------------------------|
| | | Charged to Profit and Loss | Charged to Other Accounts | Accounts Written Off | Other | |
| FOR THE YEAR ENDED SEPTEMBER 30, 2003: | | | | | | |
| Allowance for doubtful accounts: | | | | | | |
| Bad debts | \$ 5,705,000 | \$ 1,879,000 | \$ 847,000 | \$ 3,050,000 | \$ — | \$ 5,381,000 |
| Sales returns and allowances | 3,029,000 | 1,102,000 | 228,000 | 1,775,000 | — | 2,584,000 |
| | <u>\$ 8,734,000</u> | <u>\$ 2,981,000</u> | <u>\$ 1,075,000</u> | <u>\$ 4,825,000</u> | <u>\$ —</u> | <u>\$ 7,965,000</u> |
| Inventory valuation | <u>\$ 7,635,000</u> | <u>\$ 2,623,000</u> | <u>\$ 242,000</u> | <u>\$ 2,990,000</u> | <u>\$ —</u> | <u>\$ 7,510,000</u> |
| FOR THE YEAR ENDED SEPTEMBER 30, 2002: | | | | | | |
| Allowance for doubtful accounts: | | | | | | |
| Bad debts | \$ 6,851,000 | \$ 1,406,000 | \$ 631,000 | \$ 3,128,000 | \$ 55,000 | \$ 5,705,000 |
| Sales returns and allowances | 3,721,000 | 887,000 | 119,000 | 846,000 | 852,000(1) | 3,029,000 |
| | <u>\$ 10,572,000</u> | <u>\$ 2,293,000</u> | <u>\$ 750,000</u> | <u>\$ 3,974,000</u> | <u>\$ 907,000</u> | <u>\$ 8,734,000</u> |
| Inventory valuation | <u>\$ 7,445,000</u> | <u>\$ 4,157,000</u> | <u>\$ 64,000</u> | <u>\$ 4,031,000</u> | <u>\$ —</u> | <u>\$ 7,635,000</u> |
| FOR THE YEAR ENDED SEPTEMBER 30, 2001: | | | | | | |
| Allowance for doubtful accounts: | | | | | | |
| Bad debts | \$ 6,064,000 | \$ 4,836,000 | \$ 644,000 | \$ 2,574,000 | \$ 2,119,000 (1) | \$ 6,851,000 |
| Sales returns and allowances | 3,430,000 | 2,979,000 | 114,000 | 2,696,000 | 106,000 | 3,721,000 |
| | <u>\$ 9,494,000</u> | <u>\$ 7,815,000</u> | <u>\$ 758,000</u> | <u>\$ 5,270,000</u> | <u>\$ 2,225,000</u> | <u>\$ 10,572,000</u> |
| Inventory valuation | <u>\$ 7,869,000</u> | <u>\$ 3,374,000</u> | <u>\$ 30,000</u> | <u>\$ 3,828,000</u> | <u>\$ —</u> | <u>\$ 7,445,000</u> |

(1) Reclassified to other balance sheet accounts

**CODE OF ETHICS
FOR THE CHAIRMAN AND CHIEF EXECUTIVE OFFICER AND
SENIOR FINANCIAL OFFICERS**

OF GRIFFON CORPORATION

It is the policy of Griffon Corporation that the Chairman and Chief Executive Officer and other senior financial officers of Griffon Corporation (“Griffon”) adhere to and advocate the following principles governing their professional and ethical conduct in the fulfillment of their responsibilities:

1. Act with honesty and integrity, avoiding actual or apparent conflicts between his or her personal, private interests and the interests of Griffon, including receiving improper personal benefits as a result of his or her position.
 2. Disclose to the Corporate Ethics Officer of Griffon any material transaction or relationship that reasonably could be expected to give rise to a conflict of interest.
 3. Perform responsibilities with a view to causing periodic reports and documents filed with or submitted to the SEC and all other public communications made by Griffon to contain information which is accurate, complete, fair, objective, relevant, timely and understandable.
 4. Comply with laws, rules and regulations of federal, state, and local governments applicable to Griffon, and with the rules and regulations of private and public regulatory agencies having jurisdiction over Griffon.
 5. Act in good faith, responsibly, with due care, competence and diligence, without misrepresenting or omitting material facts or allowing independent judgment to be compromised or subordinated.
 6. Respect the confidentiality of information acquired in the course of performance of his or her responsibilities except when authorized or otherwise legally obligated to disclose any such information; not use confidential information acquired in the course of performing his or her responsibilities for personal advantage.
 7. Share knowledge and maintain skills important and relevant to the needs of Griffon, its shareholders and other constituencies, and the general public.
 8. Pro-actively promote ethical behavior among subordinates and peers in his or her work environment and community.
 9. Use and control all corporate assets and resources employed by or entrusted to him or her in a responsible manner.
-

10. Not use corporate information, corporate assets, corporate opportunities or his or her position with Griffon for personal gain; not compete directly or indirectly with Griffon.

11. Comply in all respects with Griffon's Code of Business Ethics and Standards of Conduct.

12. Advance Griffon's legitimate interests when the opportunity arises.

The Ethics Committee will investigate any reported violations and will oversee an appropriate response, including corrective action and preventative measures. Any officer who violates this Code will face appropriate, case-specific disciplinary action, which may include demotion or discharge.

Any request for a waiver of any provision of this Code must be in writing and addressed to the Corporate Ethics Officer. Any waiver of this Code will be disclosed promptly on Form 8-K or any other means approved by the SEC.

It is also the Policy of Griffon Corporation that each officer covered by this Code shall acknowledge and certify to the foregoing annually and file a copy of such certification with Griffon's Corporate Ethics Officer.

OFFICER'S CERTIFICATION

I have read and understand the foregoing Code of Ethics. I hereby certify that I am in compliance with the foregoing Code of Ethics, and I will comply with the Code in the future. I understand that any violation of the Code will subject me to appropriate disciplinary action, which may include demotion or discharge.

Date: _____

Name: _____

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (Nos. 33-39090, 33-62966, 33-52319, 33-57683, 333-21503, 333-62319, 333-84409, 333-67760, 333-88422 and 333-102742) and on Form S-3 (No. 333-109171) of Griffon Corporation and its subsidiaries of our report dated November 5, 2003 relating to the financial statements and financial statement schedules, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP

New York, NY
December 19, 2003

CERTIFICATION

I, Harvey R. Blau, certify that:

1. I have reviewed this annual report on Form 10-K of Griffon Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: December 19, 2003

By: /s/ Harvey R. Blau
Chairman of the Board and
Chief Executive Officer

CERTIFICATION

I, Robert Balemian, certify that:

1. I have reviewed this annual report on Form 10-K of Griffon Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: December 19, 2003

By: /s/ Robert Balemian
President and Chief
Financial Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Harvey R. Blau, Chief Executive Officer of Griffon Corporation, certify that the Form 10-K of Griffon Corporation for the period ended September 30, 2003, fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 and the information contained in such report fairly presents, in all material respects, the financial condition and results of operations of Griffon Corporation for the periods presented.

/s/ Harvey R. Blau
Name Harvey R. Blau
Date December 19, 2003

I, Robert Balemian, Chief Financial Officer, of Griffon Corporation, certify that the Form 10-K of Griffon Corporation for the period ended September 30, 2003, fully complies with the requirements of Section 13 (a) of the Securities Exchange Act of 1934 and the information contained in such report fairly presents, in all materials respects, the financial condition and results of operations of Griffon Corporation for the periods presented.

/s/ Robert Balemian
Name Robert Balemian
Date December 19, 2003

These certifications are being furnished pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and, except to the extent required by the Sarbanes-Oxley Act, shall not be deemed to be filed as part of the periodic report described herein nor shall they be deemed filed by Griffon Corporation for purposes of Section 18 of the Securities Exchange Act of 1934, as amended. A signed original of this written statement required by Section 906 has been provided to Griffon Corporation and will be retained by Griffon Corporation and furnished to the Securities and Exchange Commission or its staff upon request.
