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

# FORM 10-Q

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

For the quarterly period ended June 30, 1998

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 Number: 1-6620

## GRIFFON CORPORATION

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| DELAWARE | 11-1893410 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| 100 JERICHO QUADRANGLE, JERICHO, NEW YORK | 11753 |
| (Address of principal executive offices) | (Zip Code) |

(516) 938-5544

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days.

X Yes ___ No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. 30,958,482 shares of Common Stock as of July 31, 1998.

FORM 10-Q

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GRIFFON CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

| | June 30, 1998 (Unaudited) | September 30, 1997 (Note 1) |
|---|---|---|
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | $ 7,635,000 | $ 15,414,000 |
| Marketable securities | 383,000 | 1,379,000 |
| Accounts receivable, less allowance for doubtful accounts | 112,568,000 | 105,050,000 |
| Contract costs and recognized income not yet billed | 44,570,000 | 40,465,000 |
| Inventories (Note 2) | 93,228,000 | 88,123,000 |
| Prepaid expenses and other current assets | 15,728,000 | 13,676,000 |
| Total current assets | 274,112,000 | 264,107,000 |
| PROPERTY, PLANT AND EQUIPMENT at cost, less accumulated depreciation and amortization of $62,768,000 at June 30, 1998 and $53,673,000 at September 30, 1997 | 100,267,000 | 77,080,000 |
| OTHER ASSETS | 46,329,000 | 43,572,000 |
| | $420,708,000 | $384,759,000 |

<FN>
See notes to condensed consolidated financial statements.
</FN>



| | June 30, 1998 (Unaudited) | September 30, 1997 (Note 1) |
|---|---|---|

LIABILITIES AND SHAREHOLDERS' EQUITY

| | | |
|---|---|---|
| CURRENT LIABILITIES: | | |
| Accounts and notes payable | $ 58,040,000 | $ 52,612,000 |
| Other current liabilities | 61,822,000 | 76,488,000 |
| Total current liabilities | 119,862,000 | 129,100,000 |
| LONG-TERM DEBT (Notes 4 and 5) | 67,149,000 | 47,689,000 |
| MINORITY INTEREST AND OTHER | 11,397,000 | 6,165,000 |
| SHAREHOLDERS' EQUITY: | | |
| 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 31,698,077 shares at June 30, 1998 and 31,278,830 shares at September 30, 1997, and 817,902 shares and 603,700 shares in treasury at June 30, 1998 and September 30, 1997, respectively | 7,925,000 | 7,820,000 |
| Other shareholders' equity | 214,375,000 | 193,985,000 |
| Total shareholders' equity | 222,300,000 | 201,805,000 |
| | $420,708,000 | $384,759,000 |

<FN>

See notes to condensed consolidated financial statements.

</FN>

GRIFFON CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

| | THREE MONTHS ENDED JUNE 30, | |
|---|---|---|
| | 1998 | 1997 |
| Net sales | $229,407,000 | $193,120,000 |
| Cost of sales | 172,294,000 | 142,310,000 |
| Gross profit | 57,113,000 | 50,810,000 |
| Selling, general and administrative expenses | 46,096,000 | 36,359,000 |
| Income from operations | 11,017,000 | 14,451,000 |
| Other income (expense): | | |
| Interest expense | (530,000) | (582,000) |
| Interest income | 36,000 | 220,000 |
| Other, net | 197,000 | 10,000 |
| | (297,000) | (352,000) |
| Income before income taxes | 10,720,000 | 14,099,000 |
| Provision for income taxes: | | |
| Federal | 3,124,000 | 4,477,000 |
| State and other | 843,000 | 740,000 |
| | 3,967,000 | 5,217,000 |
| Net income | $ 6,753,000 | $ 8,882,000 |

Net income per share of common stock (Note 3):

| | | |
|---|---|---|
| Basic | $ .22 | $ .29 |
| Diluted | $ .22 | $ .29 |

<FN>
See notes to condensed consolidated financial statements.
</FN>

GRIFFON CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

| | NINE MONTHS ENDED JUNE 30, | |
|---|---|---|
| | 1998 | 1997 |
| Net sales | $658,297,000 | $535,671,000 |
| Cost of sales | 494,500,000 | 398,591,000 |
| Gross profit | 163,797,000 | 137,080,000 |
| Selling, general and administrative expenses | 132,400,000 | 102,626,000 |
| Income from operations | 31,397,000 | 34,454,000 |
| Other income (expense): | | |
| Interest expense | (2,539,000) | (2,061,000) |
| Interest income | 359,000 | 847,000 |
| Other, net | (32,000) | 144,000 |
| | (2,212,000) | (1,070,000) |
| Income before income taxes | 29,185,000 | 33,384,000 |
| Provision for income taxes: | | |
| Federal | 8,362,000 | 10,687,000 |
| State and other | 2,437,000 | 1,912,000 |
| | 10,799,000 | 12,599,000 |
| Net income | $ 18,386,000 | $ 20,785,000 |

Net income per share of common stock (Note 3):

| | | |
|---|---|---|
| Basic | $ .60 | $ .70 |
| Diluted | $ .59 | $ .67 |

<FN>
See notes to condensed consolidated financial statements.
</FN>

GRIFFON CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

| | NINE MONTHS ENDED JUNE 30, | |
|---|---|---|
| | 1998 | 1997 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |

| | | |
|---|---|---|
| Net income | $18,386,000 | $20,785,000 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 10,704,000 | 8,302,000 |
| Provision for losses on accounts receivable | 1,334,000 | 1,124,000 |
| Change in assets and liabilities: | | |
| (Increase) decrease in accounts receivable and contract costs and recognized income not yet billed | (12,773,000) | 3,926,000 |
| Increase in inventories | (4,807,000) | (2,105,000) |
| Increase in prepaid expenses and other assets | (2,998,000) | (5,725,000) |
| Decrease in accounts payable and accrued liabilities | (8,605,000) | (8,156,000) |
| Other changes, net | 4,114,000 | (120,000) |
| Total adjustments | (13,031,000) | (2,754,000) |
| Net cash provided by operating activities | 5,355,000 | 18,031,000 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Net decrease in marketable securities | 996,000 | 2,918,000 |
| Acquisition of property, plant and equipment | (32,657,000) | (20,470,000) |
| Acquired businesses | (733,000) | (2,232,000) |
| Proceeds from sales of discontinued operations | - | 10,518,000 |
| Other, net | 715,000 | (367,000) |
| Net cash used in investing activities | (31,679,000) | (9,633,000) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Purchase of treasury shares | (3,146,000) | (3,422,000) |
| Proceeds from issuance of long-term debt | 20,685,000 | 5,731,000 |
| Payment of long-term debt | (792,000) | (15,369,000) |
| Increase (decrease) in short-term borrowings | 122,000 | (2,955,000) |
| Other, net | 1,676,000 | (169,000) |
| Net cash provided by (used in) financing activities | 18,545,000 | (16,184,000) |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | (7,779,000) | (7,786,000) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD | 15,414,000 | 17,846,000 |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | $ 7,635,000 | $10,060,000 |

<FN>

See notes to condensed consolidated financial statements.

</FN>

## GRIFFON CORPORATION AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

### (1) Basis of Presentation -

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the three and nine month periods ended June 30, 1998 are not necessarily indicative of the results that may be expected for the year ended September 30, 1998. The balance sheet at September 30, 1997 has been derived from the audited financial statements at that date. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's annual report to shareholders for the year ended September 30, 1997.

### (2) Inventories -

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

| | June 30, 1998 | September 30, 1997 |
|---|---|---|
| Finished goods . . . . . . . . . . | $52,877,000 | $43,722,000 |
| Work in process . . . . . . . . . | 22,157,000 | 21,228,000 |
| Raw materials and supplies . . . . | 18,194,000 | 23,173,000 |
| | $93,228,000 | $88,123,000 |

(3) Net Income Per Share -

Statement of Financial Accounting Standards No. 128, "Earnings per Share" which became effective for the fiscal year beginning October 1, 1997, establishes new standards for computing and presenting earnings per share (EPS). The new standard requires the presentation of basic EPS and diluted 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. Diluted EPS is calculated by dividing income available to common shareholders by the weighted average number of common shares outstanding adjusted to reflect potentially dilutive securities. Previously reported EPS amounts have been restated under the new standard.

The following table sets forth the computation of basic and diluted net income per share:

| | THREE MONTHS ENDED JUNE 30, | | NINE MONTHS ENDED JUNE 30, | |
|---|---|---|---|---|
| | 1998 | 1997 | 1998 | 1997 |
| Numerator: | | | | |
| Net Income | $6,753,000 | $8,882,000 | $18,386,000 | $20,785,000 |
| Preferred Stock dividends | --- | --- | --- | (7,000) |
| Numerator for basic net income per share -- income available to common stockholders | 6,753,000 | 8,882,000 | 18,386,000 | 20,778,000 |
| Effect of dilutive securities: | | | | |
| Preferred Stock dividends | --- | --- | --- | 7,000 |
| Numerator for diluted net income per share -- income available to common stock-holders after assumed conversions | $6,753,000 | $8,882,000 | $18,386,000 | $20,785,000 |
| Denominator: | | | | |
| Denominator for basic net income per share -- weighted average shares | 30,625,000 | 30,180,000 | 30,533,000 | 29,473,000 |
| Effect of dilutive securities: | | | | |
| Convertible Preferred Stock | --- | --- | --- | 856,000 |
| Employee stock options and other | 693,000 | 950,000 | 880,000 | 893,000 |
| Dilutive potential common shares | 693,000 | 950,000 | 880,000 | 1,749,000 |
| Denominator for diluted net income per share -- adjusted weighted average shares and assumed conversions | 31,318,000 | 31,130,000 | 31,413,000 | 31,222,000 |

(4) Long-term Debt -

In April 1998 the specialty plastic films' joint venture entered into a credit agreement with a bank to finance new production lines. The agreement provides for borrowings of approximately $28 million and bears interest based upon LIBOR. Existing joint venture borrowings of approximately $7 million at March 31, 1998 were refinanced under the agreement.

(5) Subsequent Event -

In July 1998 the specialty plastic films business acquired, in a cash transaction, a plastic packaging manufacturer located in Germany with annual sales of approximately $35 million. The purchase price of approximately $28 million was substantially financed by borrowings of approximately $20 million at interest rates based upon LIBOR under a subsidiary's bank credit agreement.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

### Three Months Ended June 30,1998

Net sales were $229.4 million for the three-month period ended June 30, 1998, an increase of $36.3 million or 18.8% over last year.

Net sales of the building products business were $149.5 million, an increase of $30.6 million or 25.8% over last year. Net sales of acquired companies accounted for $24.2 million of the increase. The balance of the increase was accounted for by higher garage door unit sales and internal growth in the service business, partly offset by competitive pricing. Net sales of the specialty plastic films business were $39.5 million compared to $44.2 million last year. The decrease was primarily due to lower than anticipated sales from new programs in the infant diaper market. Net sales of the electronic information and communication systems business were $40.4 million, an increase of $10.4 million or 34.6% due to new programs and increased funding on existing programs.

Income from operations for the three-month period ended June 30, 1998 was $11.0 million compared to $14.5 million last year. Operating income of the building products business decreased approximately $2 million compared to last year. The effect of the sales growth was offset by competitive pricing pressures, capacity constraints and related manufacturing inefficiencies due to delay in implementing an additional production line, increased operating expenses associated with new distribution centers and certain manufacturing inefficiencies related to production of commercial doors. Orders in the garage door business remain strong. However, near-term capacity constraints and continued competitive pricing are anticipated to impact this segment's operating earnings. Additional capacity is being implemented and is expected to be in place early in fiscal 1999. Recent acquisitions have increased the number of production facilities in the building products segment. Consequently, the company is completing the review of its manufacturing structure and expects to implement related decisions in the last quarter of fiscal 1998 or early in fiscal 1999. Operating income of the specialty plastic films segment declined by $1.5 million for the quarter compared to last year. Profitability in this segment declined due to the sales decrease and price competition in the commodity end of the segment's business. Although specialty plastic films continues to be affected by pricing pressures, anticipated volume growth plus earnings from the recently announced acquisition of a plastic packaging manufacturer located in Germany are expected to result in improved operating results from this segment. Operating income of the electronic information and communication systems business for the quarter increased by approximately $.3 million compared to the prior year. The effect of the increased sales was partly offset by lower margins on certain development contracts that are expected to be completed in fiscal 1999.

### Nine Months Ended June 30, 1998

Net sales were $658.3 million for the nine-month period ended June 30, 1998, an increase of $122.6 million or 22.9% over last year.

Net sales of the building products business were $426.6 million, an increase of $100.1 million or 30.7% over last year, primarily due to acquired businesses ($70 million), higher garage door unit sales ($14 million), and the service business' internal growth ($15 million). Net sales of the specialty plastic films business were $115.2 million compared to $124.0 million last year. The sales decrease was primarily due to lower than anticipated sales for new programs in the infant diaper market. Net sales of the electronic information and communication systems business were $116.5 million, an increase of $31.2 million or 36.6% compared to last year, principally due to new programs and increased funding levels on existing programs.

Income from operations for the nine-month period ended June 30, 1998 was $31.4 million compared to $34.5 million last year. Operating income of the building products business decreased approximately $1.0 million compared to last year, with such reduction occurring during the third quarter, for the reasons discussed above. Operating income of the specialty plastic films business decreased by $3.3 million compared to last year, due to the reasons discussed above. Operating income of the electronic information and communication systems business increased by $1.2 million due to the higher sales, partly offset by lower margins on certain development contracts.

Interest expense, net for the nine months ended June 30, 1998 increased by $.9 million compared to the prior year due to higher outstanding borrowings in connection with an acquisition made in the fourth quarter of fiscal 1997.

LIQUIDITY AND CAPITAL RESOURCES

Cash flow provided by operations for the nine months was $5.4 million, and working capital was $154.3 million at June 30, 1998.

Programs to upgrade and enhance the company's strategic business systems were previously initiated in order to replace aging technologies and provide the infrastructure to support growth in each of our business segments. In addition to other benefits that are anticipated from these upgrades and enhancements, the new systems are designed to be Year 2000 compliant. The implementation of this new technology has already begun, and is planned to be completed in stages over the next two years. During the nine months the company had fixed asset additions of $33 million, including approximately $8 million in connection with such upgrades and enhancements and construction and equipment costs of approximately $13 million for its 60%-owned specialty plastic films joint venture in Germany to expand production capacity in connection with a multi-year contract with the specialty plastic films segment's major customer.

In April 1998 the specialty plastic films' joint venture entered into a credit agreement with a bank to finance new production lines. The agreement provides for borrowings of approximately $28 million and bears interest based upon LIBOR. Existing joint venture borrowings of approximately $7 million at March 31, 1998 were refinanced under the agreement.

In July 1998 the specialty plastic films business acquired, in a cash transaction, a plastic packaging manufacturer located in Germany with annual sales of approximately $35 million. The purchase price of approximately $28 million was substantially financed by borrowings of approximately $20 million at interest rates based upon LIBOR under a subsidiary's bank credit agreement.

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

All statements other than statements of historical fact included in this report are forward-looking statements. When used in this report, words such as "anticipate," "believe," "estimate," "expect,"intend" and similar expressions, as they relate to the Company or its management, as well as assumptions made by and information currently available to the Company's management, identify forward-looking statements. Actual results could differ materially from those contemplated by the forward-looking statements as a result of certain factors including, but not limited to, the effect of business and economic conditions; the impact of competitive products and pricing; and capacity and supply constraints or difficulties. Such statements reflect the current 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.

## PART II - OTHER INFORMATION

Item 1 Legal Proceedings

None

Item 2 Changes in Securities

None

Item 3 Defaults upon Senior Securities

None

Item 4 Submission of Matters to a Vote of Security Holders

None

Item 5 Other Information

None

Item 6 Exhibits and Reports on Form 8-K

27 -- Financial Data Schedule (for electronic submission only)

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

GRIFFON CORPORATION

By /s/ Robert Balemian

Robert Balemian
President
(Principal Financial Officer)

Date: August 4, 1998

<ARTICLE> 5
<LEGEND>
The schedule contains summary financial information extracted from the condensed consolidated financial statements for the period ended June 30, 1998 and is qualified in its entirety by reference to such statements.
</LEGEND>

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