GRIFFON CORP
Form 10-K
December 15, 2008

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended September 30, 2008

OR

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

Commission File No. 1-06620

GRIFFON CORPORATION

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**11-1893410** (I.R.S. Employer Identification No.)
100 Jericho Quadrangle, Jericho, New York (Address of Principal Executive Offices)	**11753** (zip code)

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

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

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

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No ý

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No ý

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 ý No o

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. o

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

Large accelerated filer o	Accelerated filer ý	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes o No ý

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter. Approximately $230,000,000 as of March 31, 2008.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date: 59,275,870 shares as of December 11, 2008.

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 Corporation ("Griffon" or the "Company"), headquartered in Jericho, New York, is a diversified holding company consisting of three distinct business segments:

Electronic Information and Communication Systems, through Telephonics Corporation, a provider of integrated information, communication and sensor system solutions to military and commercial markets worldwide.

Garage Doors, through Clopay Building Products Company, a leading manufacturer and marketer of residential, commercial and industrial garage doors to professional installing dealers and major home center retail chains.

Specialty Plastic Films, through Clopay Plastic Products Company, an international leader in the development and production of embossed, laminated and printed specialty plastic films used in a variety of hygienic, health-care and industrial markets.

In fiscal 2008, the Company substantially strengthened its balance sheet by refinancing its senior debt and by raising $241 million in gross proceeds from the sale of its common stock. The latter transaction was effected through a common stock rights offering, along with an investment by GS Direct, L.L.C. ("GS Direct"), an affiliate of Goldman Sachs. The Company intends to use such proceeds for general corporate purposes and to fund its growth.

As a result of the downturn in the residential housing market, in fiscal 2008, the Company exited substantially all of the operating activities of its Installation Services segment. The Installation Services segment sold, installed and serviced garage doors, garage door openers, fireplaces, floor coverings, cabinetry and a range of related building products primarily for the new residential housing market. Operating results of substantially all of the Installation Services segment have been reported as discontinued operations in the consolidated statements of operations for all periods presented herein, and the Installation Services segment is excluded from segment reporting (see Note 2 to Notes to Consolidated Financial Statements).

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 or furnished to the Securities and Exchange Commission. For information regarding revenues, profit and total assets of each segment, see Note 8 to Notes to Consolidated Financial Statements.

Electronic Information and Communication Systems ("EICS")

The Company, through its wholly-owned subsidiary, Telephonics Corporation ("Telephonics" or the "EICS" segment), specializes in advanced electronic information and communication systems for defense, aerospace, civil, industrial, and commercial applications domestically and in certain international markets. Telephonics designs, manufactures, sells, and provides logistical support for aircraft communication systems, radar, air traffic management, information and command and control systems, identification friend or foe ("IFF") equipment, Integrated Homeland Security Systems and custom, mixed-signal, application specific integrated circuits. Telephonics is a leading supplier of airborne maritime surveillance radar and aircraft intercommunication management systems, the segment's two largest product lines. In addition to its traditional defense products used predominantly by the United States Government, in recent years Telephonics has adapted its core technologies to products used in international markets and has expanded its presence in both non-defense government and commercial markets. In fiscal 2008, approximately 70% of the EICS segment's sales were to the United States Government and agencies thereof, 24% to international customers and 6% to commercial customers. The segment employs approximately 1,300 employees.

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. The Company believes that 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. Telephonics anticipates that the need for such systems will increase in connection with the increasingly active role that the military is playing in the war on terrorism, both at home and abroad. In order to expand its current market share, Telephonics has increasingly focused its technologies and core competencies in the Homeland Security and Air Traffic Management market segments.

Programs and Products

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

Telephonics, under a primary contract with Syracuse Research Corporation, had been manufacturing counter-IED devices to support the Warlock Duke program. The program entailed the achievement of high rate production, in an accelerated timetable, of equipment designed to defeat the roadside bomb threats that our armed forces face in certain regions of the world. The program resulted in sales of $18 million in 2008, $190 million in 2007 and $143 million in 2006. Telephonics does not presently anticipate significant revenues, if any, under this contract in the fiscal 2009 or beyond.

Telephonics has directed more of its resources towards Homeland Security Systems and was selected by Boeing Company in 2007 to participate in the Secure Border Initiative net (SBInet) program. Additionally, Telephonics was recently awarded a contract from the U.S. Customs and Border Protection for mobile surveillance systems as part of the Homeland Security department's initiative to protect both the U.S. Northern and Southern borders. These two programs represent strategic advances for the Company by allowing it to expand its core technical expertise into the Homeland Security market segment. The expectation is that these recent awards will generate significant future growth opportunities for Telephonics.

Telephonics' core products, both communications and surveillance and detection equipment, are utilized by the U.S. Navy's mission critical initiatives and are installed on both the MH-60R and MH-60S utility helicopter platforms. Recently, Telephonics Corporation was awarded additional follow-on contracts for the development of increased capabilities and functional enhancements to the Multi-Mode Radar (MMR) for the U.S. Navy's MH-60R Maritime Strike Helicopter. The program, called Automatic Radar Periscope Detection and Discrimination (ARPDD), will develop a next-generation Telephonics AN/APS-147 multi-mode radar that will feature new capabilities to detect very small, low visibility targets using advanced algorithms and additional hardware and software improvements. The Company believes ARPPD will bring unprecedented performance against these most difficult targets and enable new mission capabilities. This capability sets the AN/APS-147 apart from every other maritime surveillance radar available on the market today, and opens a number of additional opportunities for Telephonics.

Revenues of the EICS segment were approximately 29% of the Company's consolidated net sales from continuing operations in 2008, 35% in 2007 and 29% in 2006.

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

Customer	Program	Product
The Boeing Company	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-18/E/F Fighter/Attack Aircraft	Intercommunications Management Systems
	AWACS	Identification Friend or Foe System
	Secure Border Initiative net (SBInet)	Ground Surveillance Radar
General Dynamics, Canada	Maritime Helicopter Project	Maritime Surveillance Radar
BAE Systems	U.K. NIMROD Royal Maritime Patrol Aircraft	Intercommunications Systems Integration
Northrop Grumman	Joint-STARS Surveillance Aircraft	Intercommunications Management Systems
	U.S. Coast Guard HU-25 Aircraft	Maritime Surveillance Radar
Lockheed Martin Corporation	U.S. Navy MH-60S/MH-60R Helicopters U.S. Navy P-3 Aircraft	Intercommunications Management Systems
	U.S. Navy MH-60R Helicopter U.S. Coast Guard CN 235 Maritime Patrol Aircraft	Maritime Surveillance Radar and Identification Friend or Foe System
MacDonald Dettwiler	Canadian Forces' CP-140 Aurora Aircraft Modernization Program	Maritime Surveillance Radar and Identification Friend or Foe System
Sikorsky Aircraft Company	S-70B Maritime Surveillance Helicopter	Maritime Surveillance Radar
	UH-60M Blackhawk Helicopter Upgrade Program	Management Systems
U.S. Customs and Border Protection	Mobile Surveillance Systems	Integrated Surveillance Systems

Backlog

The funded backlog for the EICS segment was approximately $335 million at September 30, 2008, compared to $309 million at September 30, 2007. Approximately 76% of the current backlog is expected to be filled during fiscal 2009. The increase in backlog is primarily attributable to additional funding received for the MH-60R program.

Sales and Marketing

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

Telephonics participates in a range of long-term defense and non-military government programs, both domestically and internationally. Telephonics 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, Telephonics 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 in recent years. Furthermore, Telephonics believes that with programs such as the U.S. Navy's MH-60R helicopter transitioning to full scale production concurrently with other radar and intercommunications systems production programs underway, Telephonics will have a competitive price advantage on bids for new business.

In recent years, the segment has also significantly expanded its customer base in international markets. Telephonics' international projects include a contract with MacDonald Dettwiler as part of Canada's CP-140 Aurora Aircraft Modernization program and a number of contracts with the Civil Aviation Authority of China for air traffic management systems for Mainland China.

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 Telephonics' customers. The Company believes that Telephonics 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.

In addition to products for defense programs, Telephonics has also applied its technology to produce products for commercial applications such as airborne weather and search radar air traffic control systems. Telephonics believes that its reputation for innovative product design and engineering capabilities, especially in the areas of voice and data communications, radio frequency 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. Telephonics 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.

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. Telephonics 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 its products will be selected and integrated as part of a total system solution.

Competition

The EICS segment 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. Telephonics competes on the basis of technology, design, quality, price and program performance.

Garage Doors

The Company believes that its wholly-owned subsidiary, Clopay Building Products Company ("Clopay Building Products" or "Garage Doors" segment), 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. The Garage Doors segment employs approximately 1,500 employees. Sales into the home remodeling market are being driven by the continued aging of the housing stock and the trend of improving home appearance.

According to industry sources, the residential and commercial sectional garage door market for 2007 was estimated to be $2.0 billion. The Company believes the market has declined in 2008. 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, sophisticated window options, improved safety features, and product designs with increased aesthetic appeal.

The garage door industry has been negatively impacted by the crisis in the residential housing market. Key statistics are poor and in some cases, getting worse. According to the National Association of Home Builders, current data compared to the prior fiscal year show new home starts down 31%, new home sales down 33% and a 10.4 month supply of new homes. Existing home sales are essentially flat and the inventory of existing homes now stands at a 10-month supply.

Products and Services

Clopay Building Products manufactures a broad line of residential sectional garage doors with a variety of options at varying prices. Clopay Building Products offers garage doors made primarily from several materials, including steel and wood, and also sells related products, such as garage door openers, manufactured by third parties.

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

Revenues of the Garage Doors segment were approximately 34% of the Company's consolidated net sales from continuing operations in 2008, 36% in 2007 and 42% in 2006.

Sales and Marketing

Clopay Building Products distributes its products through a wide range of distribution channels, including installing dealers, retailers and wholesalers. Clopay Building Products owns and operates a national network of 49 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. and Menards, Inc. Clopay Building Products 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.

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 sell garage doors to the do-it-yourself consumer, the small residential and commercial contractor, as well as installed residential doors and operators for the rapidly growing do-it-for-me consumer segment. Distribution through the retail channel requires different capabilities and skills than those 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.

Clopay Building Products 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 either of these customers would have a material adverse effect on the Company's business. Clopay Building Products distributes its garage doors directly to customers from its manufacturing facilities and through its distribution centers located throughout the United States and Canada. These distribution centers allow Clopay Building Products to maintain an inventory of garage doors near installing dealers and provide quick-ship service to retail and professional dealer customers.

Manufacturing and Raw Materials

Clopay Building Products 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 processes. Clopay Building Products' engineering and technological expertise, combined with its capital investment in equipment, generally has enabled it to efficiently manufacture products in large volume and meet changing customer needs. Its facilities use proprietary manufacturing processes to produce the majority of its products. Certain of its machinery and equipment are internally modified to achieve its manufacturing objectives. These manufacturing facilities produce a broad line of high quality garage doors for distribution to professional installer, retail and wholesale channels.

The principal raw material used in Clopay Building Products' manufacturing operations is galvanized steel, the price of which trended slightly downward in fiscal 2007 before increasing dramatically in fiscal 2008. 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

Clopay Building Products 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 process engineering team works to develop new manufacturing processes and production techniques aimed at improving manufacturing efficiencies.

Competition and market conditions

The garage door industry is characterized by several large national manufacturers and many smaller regional and local manufacturers. Clopay Building Products competes on the basis of service, quality, price, brand awareness and product design.

Clopay Building Products' brand names are widely recognized in the building products industry. Clopay Building Products believes that it has earned a reputation among installing dealers, retailers and wholesalers for producing a broad range of high-quality doors. Clopay Building Products' market position and brand recognition are key marketing tools for expanding its customer base, leveraging its distribution network and increasing its market share.

Specialty Plastic Films

The Company, through its wholly-owned subsidiary Clopay Plastic Products Company ("Clopay Plastic" or "Specialty Plastic Films" segment), develops and produces specialty plastic films and laminates for a variety of hygienic, health care and industrial uses in domestic and certain international markets. Clopay Plastic's 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 and equipment covers, as packaging for hygienic products, house wrap and other products. Clopay Plastic's products are sold through a direct sales force primarily to multinational consumer and medical products companies. The segment employs approximately 1,200 employees worldwide.

The segment's major customer is Procter & Gamble, with whom Clopay Plastic enjoys a long and successful relationship. Clopay Plastic supplies Procter & Gamble with a variety of products used primarily for its infant diapers, both domestically and internationally.

The segment of the specialty plastic films industry in which Clopay Plastic 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, including increasing immigration, in the major global economies. Other 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. Notwithstanding the positive trends affecting the industry, design changes by Procter & Gamble for its infant diaper products have resulted in a change in products produced by Clopay Plastic from laminates to narrower and thinner gauged printed film. As a result, the volume of film products sold by the segment for this customer has declined. Clopay Plastic believes that its business development activities targeting major multinational and regional producers of hygiene, healthcare and related products and its investments in its technology development capability and capacity increases will lead to additional sales of new and related products, minimizing the impact of this reduction.

Products

Clopay Plastic's specialty plastic film is a thin-gauge film (typically 0.0005" to 0.003") that is manufactured from polymer resins and engineered to provide certain performance characteristics. A laminate is the combination of a plastic film and a woven or 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. Clopay Plastic'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, elastic properties, processibility and aesthetic appeal.

Revenues of the Specialty Plastic Films segment were approximately 37% of the Company's consolidated net sales from continuing operations for in 2008, 30% in 2007 and 29% in 2006.

Sales and Marketing

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

The segment'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.

Clopay Plastic seeks to expand its market presence by capitalizing on its technological and manufacturing expertise and on its relationships with major international consumer products companies. Specifically, Clopay Plastic 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 films and laminates and printed film for use in all of its markets. Clopay Plastic believes that its operations in Germany and Brazil provide a strong platform for additional sales growth in certain international markets.

Research and Development

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

Clopay Plastic'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 include microporous breathable films and cost-effective printed films and laminates. Microporous breathability provides for moisture vapor transmission and airflow while maintaining barrier properties resulting in improved comfort and skin care. Elastic laminates provide the user with improved comfort and fit. Printed films and laminates provide consumers preferred aesthetics, such as softness and visual appeal. Clopay Plastic holds a number of patents for its current specialty film and laminate products and related manufacturing processes. Clopay Plastic 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

The Specialty Plastic Films segment has two operations in Germany from which it sells plastic films throughout Europe. One of its German operations, Finotech, was structured as a joint venture with Corovin GmbH, a manufacturer of non-woven fabrics headquartered in Germany that is a subsidiary of BBA Group PLC, a publicly owned diversified U.K. manufacturer. In July 2005, Clopay Plastic purchased the remaining 40% interest from BBA in a cash transaction for approximately $82 million.

In June 2002, Clopay Plastic acquired 60% ownership for approximately $18 million in Isofilme Ltda., a manufacturer of plastic hygienic and specialty films located in Sao Paulo, Brazil which operates under the name Clopay do Brasil. In October 2004, Clopay Plastic acquired an additional 30% of Isofilme for approximately $3.9 million and, in October 2005, purchased the remaining 10% interest for approximately $1.3 million. In 2005 and 2006, Clopay Plastic constructed and relocated to a new facility near São Paulo. The installation of new manufacturing capacity and capabilities was completed in conjunction with the move. Clopay do Brasil provides a platform to broaden participation in South American markets and strengthens Clopay Plastic's position as a global supplier.

Manufacturing and Raw Materials

Clopay Plastic 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 polymer 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. Clopay Plastic also manufactures multi-color printed films and laminates. Through statistical process control methods, employees monitor and control the entire production process.

This segment launched a significant capital expansion program in fiscal 2003 to support new opportunities with its major customers and to increase capacity throughout its operations. The 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 is complete and successful. The segment's most advanced production line went on-stream in 2005. In 2006, the segment completed the installation of a key production line in Brazil and also installed additional North American capacity for the production of the latest technology in elastomeric materials for its key customers.

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 recent price of which has fluctuated dramatically over the past five years. Clopay Plastic 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. Clopay Plastic's sources for raw materials are believed to be adequate for its current and anticipated needs.

Competition

The market for Clopay Plastic's specialty plastic film and laminate products is highly competitive. Clopay Plastic 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. Clopay Plastic believes that its technical expertise, product development capabilities and broad international footprint enhance its market position and customer relationships. Clopay Plastic competes primarily on the basis of technical expertise, quality, service and price.

Clopay Plastic has developed strong, long-term relationships with leading consumer and health care products companies. Clopay Plastic 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 is expected to drive growth. In addition, Clopay Plastic believes its strong, long-term relationships provide it with increasing opportunities to expand and enter new international markets.

Employees

On a consolidated basis, the Company has approximately 4,100 employees located throughout the United States, in Europe and Brazil. Approximately 140 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.

Regulation

The Company's operations are subject to various environmental, health and employee safety laws. The Company has spent money and management has spent time complying with environmental, health and worker safety laws which apply to its operations and facilities and the Company expects to continue to do so. Compliance with environmental laws has not historically materially affected the Company's capital expenditures, earnings or competitive position. The Company does not expect compliance with environmental laws to have a material effect on the Company in the future. The Company believes that it generally complies with applicable environmental, health and worker safety laws and governmental regulations. Nevertheless, the Company cannot guarantee that in the future it will not incur additional costs for compliance or that those costs will not be material.

Seasonality

Historically, the Company's revenues and earnings are lowest in its second fiscal quarter and highest in its fourth fiscal quarter.

Financial Information About Geographic Areas

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

(in thousands)	2008	2007	2006
Revenues by geographic area			
United States	$ 853,692	$ 978,220	$ 977,625
Germany	110,900	83,446	74,886
United Kingdom	23,276	33,893	21,392
Canada	64,378	57,759	59,797
Brazil	44,019	34,526	26,621
All other countries	173,040	177,885	167,414
	$1,269,305	$1,365,729	$1,327,735
Property, plant and equipment by geographic area			
United States	$ 151,733	$ 128,595	$ 129,610
Germany	67,800	79,132	79,493
All other countries	19,470	22,505	19,477
	$ 239,003	$ 230,232	$ 228,580

Also see Note 8 to Notes to Consolidated Financial Statements for additional segment information.

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 $17,500,000 in 2008, $16,400,000 in 2007 and $15,300,000 in 2006.

Item 1A. Risk Factors

You should carefully consider the risks described below, as well as the other information appearing in this document. If any of the following risks actually occur, they could materially adversely affect our business, financial condition, operating results or prospects. The risks and uncertainties described below are not the only ones facing us. Additional risks and uncertainties not presently known or that are currently deemed immaterial may also impair our business, financial condition, operating results and prospects.

Periods of adverse market volatility could adversely affect our business.

During periods of economic decline in the markets in which we operate, which include the residential and commercial real estate markets, as well as the credit markets, we are exposed to basic economic risks including a decrease in the demand for the products and services that we offer and a higher risk of default on our receivables, which may, in turn, have a material adverse effect on our business and results of operations.

Adverse trends in the housing sector and in general economic conditions will directly impact our business.

The garage door business is influenced by market conditions for new home construction and renovation of existing homes. For the year ended September 30, 2008, approximately 34% of our total net sales from continuing operations were related to new home construction and renovation of existing homes in our Garage Doors segment. Trends in the housing sector directly affect financial performance. Accordingly, the strength of the U.S. economy, the age of existing home stock, job growth, interest rates, consumer confidence and the availability of consumer credit, as well as demographic factors such as the migration into the United States and migration of the population within the United States have an effect on our business. In that respect, the significant downturn in the housing market has had an adverse effect on the operating results of our Garage Doors segment. We continue to be concerned about trends in market conditions and the outlook for 2009.

We operate in highly competitive industries and may be unable to compete effectively.

We face intensive competition in each of our markets. We have a number of competitors, some of which are larger and have greater resources. We compete primarily on the basis of competitive prices, technical expertise, product differentiation, and quality of products and services. In addition, there can be no assurance that we will not encounter increased competition in the future, which could have a material adverse effect on our business.

If we were to lose any of our largest customers, our results of operations could be significantly harmed.

A small number of customers has accounted for a substantial portion of historical net sales, and we expect that a limited number of customers will continue to represent a substantial portion of sales for the foreseeable future. Approximately 21% of our total net sales from continuing operations and 56% of our Specialty Plastic Films sales for the fiscal year ended September 30, 2008 were made to Procter & Gamble, which is the largest customer in the Specialty Plastic Films segment. The Home Depot, Inc. and Menards, Inc. are significant customers of the Garage Doors segment and Lockheed Martin Corporation and the Boeing Company are significant customers of the Electronic Information and Communication Systems segment. Future operating results will continue to substantially depend on the success of the largest customers and our relationships with them. Orders from these customers are subject to fluctuation and may be reduced materially. Any reduction or delay in sales of products to one or more of these customers could significantly harm our business. Our operating results will also depend onour ability to successfully develop relationships with additional key customers. We cannot assure you that we will retain our largest customers or that we will be able to recruit additional key customers.

Increases in raw material costs could adversely impact our financial condition and operating results.

We purchase raw materials from various suppliers. While all raw materials are available from numerous sources, commodity raw materials are subject to fluctuations in price. Because raw materials in the aggregate constitute significant components of the cost of goods sold, such fluctuations could have a material adverse effect on our results of operations. In recent years, there have been price increases in plastic resins and steel, which are the basic raw materials used in the manufacture of specialty plastic films and garage door products, respectively. Our ability to pass on to customers increases in raw material prices is limited due to customer supply arrangements and competitive pricing pressure, and there is generally a time lag between increased costs and implementation of related price increases. We have not always been able to increase our prices to fully recoup our increased costs. In addition, sharp increases in raw material prices are more difficult to pass through to our customers in a short period of time and may negatively affect our short-term financial performance.

Trends in the baby diaper market will directly impact our business.

Recent trends have been for baby diaper manufacturers to specify thinner plastic films for use in their products. This trend has generally resulted in Specialty Plastic Films incurring costs to redesign and reengineer its own products to accommodate the specification change. This has had the effect of reducing our revenue due to lower plastic film content in products sold. Such decreases, or our failure to meet changing customer specifications, could result in a decline in our revenues and profits that may have a material adverse effect on our business, operating results, financial condition and prospects.

The Electronic Information and Communication Systems business depends heavily upon government contracts.

The Electronic Information and Communication Systems business sells products to the U.S. government primarily as a subcontractor. We are generally a first-tier supplier to prime contractors in the defense industry, such as Boeing, Lockheed Martin and Northrop Grumman. In the fiscal year ended September 30, 2008, U.S. government contracts and subcontracts accounted for approximately 20% of our total net sales from continuing operations. Contracts involving the U.S. government may include various risks, including:

- termination by the government;
- reduction or modification in the event of changes in the government's requirements or budgetary constraints;
- increased or unexpected costs causing losses or reduced profits under contracts where our prices are fixed, or unallowable costs under contracts where the government reimburses us for costs and pays an additional premium;
- the failure or inability of the prime contractor to perform its contract in circumstances where we are a subcontractor;
- our failure to observe and comply with government business practice and procurement regulations such that we could be suspended or barred from bidding on or receiving awards of new government contracts;
- the failure of the government to exercise options for additional work provided for in the contracts; and
- the government's right, in certain circumstances, to freely use technology developed under these contracts.

The programs in which we participate may extend for several years, but are normally funded on an annual basis. The U.S. government may not continue to fund programs to which development projects apply. Even if funding is continued, we may fail to compete successfully to obtain funding pursuant to such programs.

We must continually improve existing products, design and sell new products and manage the costs of research and development in order to compete effectively.

The markets for Specialty Plastic Films and Electronic Information and Communication Systems businesses are characterized by rapid technological change, evolving industry standards and continuous improvements in products. Due to constant changes in these markets, future success depends on our ability to develop new technologies, products, processes and product applications.

We develop technologies and products through internally-funded research and development and strategic partnerships with our customers. Because it is generally not possible to predict the amount of time required and the costs involved in achieving certain research and development objectives, actual development costs may exceed budgeted amounts and estimated product development schedules may be extended. Our business, financial condition and results of operations may be materially and adversely affected if:

- we are unable to improve our existing products on a timely basis;
- new products are not introduced on a timely basis or do not achieve sufficient market penetration;
- we incur budget overruns or delays in research and development efforts; or
- new products experience reliability or quality problems.

We may be unable to implement our acquisition growth strategy, and failure to manage our acquisition strategy properly may result in added expenses to our company without a commensurate increase in revenues and divert our management's attention.

As part of our plan to grow our business, we anticipate making strategic acquisitions of other companies. Our growth may depend on our ability to identify and acquire, on acceptable terms, companies that complement or enhance our business. After our acquisition of any such companies, we will need to properly integrate them into our company. The competition for acquisition candidates is intense and we expect this competition to increase. We cannot give you any assurance that we will identify and successfully compete for appropriate acquisition candidates or complete acquisitions at reasonable purchase prices, in a timely manner or at all. Further, we may not be able to properly integrate such companies into our company. In implementing our acquisition growth strategy, we may encounter:

- costs associated with incomplete or poorly implemented acquisitions;
- expenses, delays and difficulties of integrating acquired companies into our existing organization;
- dilution of the interest of existing stockholders; and
- diversion of management's attention.

If we are not successful in implementing our acquisition growth strategy, it could have an adverse impact on our results of operations.

There may be unforeseen expenses in connection with our exit from substantially all operating activities of our Installation Services segment.

As a result of the downturn in the residential housing market and the impact on the Installation Services segment, in May 2008, our Board of Directors approved a plan to exit substantially all operating activities of the Installation Services segment in 2008. We are winding down remaining disposal activities in the first half of fiscal 2009 and do not expect to incur significant expenses in the future. Future net cash outflows to satisfy restructuring liabilities that were accrued as of September 30, 2008 are estimated to range between $7 million and $8 million. Substantially all of such liabilities are expected to be paid within the next twelve months. Such estimates may be exceeded by unforeseen events.

The loss of certain key officers or employees could adversely affect our business.

The success of our business is materially dependent upon the continued services of certain of key officers and employees. The loss of such key personnel could have a material adverse effect on our business, operating results or financial condition.

Our businesses are subject to seasonal variations.

Historically, our revenues and income are lowest in the second fiscal quarter ending on March 31 and highest in the fourth fiscal quarter ending September 30. The quarterly operating results fluctuation is mainly due to the seasonality in our Garage Doors business. The primary revenues of our Garage Doors business are driven by residential renovation and construction. Cold weather in the winter months usually reduces the level of building and remodeling activity in both the home improvement and new construction markets and, accordingly, has an adverse effect on the demand for Garage Doors products. Seasonal fluctuation in the demand for Garage Doors products could have a material adverse effect on results of our operations. Because a high percentage of manufacturing overhead and operating expenses are relatively fixed throughout the year, our operating margins have historically been lower in quarters with lower sales. As a result, our operating results and our stock price could be volatile, particularly on a quarterly basis.

We are exposed to a variety of risks relating to international sales and operations, including foreign economic and political conditions and fluctuations in exchange rates.

We own properties and conducts operations in Europe and South America through our foreign subsidiaries. Sales of our products through foreign subsidiaries accounted for approximately 24% of total net sales from continuing operations for the fiscal year ended September 30, 2008. These foreign sales could be adversely affected by changes in various foreign countries' political and economic conditions, trade protection measures, differing intellectual property rights and changes in regulatory requirements that restrict the sales of our products or increase our costs. Currency fluctuations between the U.S. dollar and the currencies in the foreign countries or regions in which we do business may also have an impact on our future operating results.

We may not be able to protect our proprietary rights.

We rely on a combination of patent, copyright and trademark laws, trade secrets, confidentiality and non-disclosure agreements and other contractual provisions to protect our proprietary rights. Such measures provide only limited protection. We cannot assure that our means of protecting these proprietary rights will be adequate or that competitors will not independently develop similar technologies.

We are exposed to product liability claims.

We may be the subject of product liability claims in the future relating to the performance of our products or the performance of a product in which any of our products was a component part. There can be no assurance that product liability claims will not be brought against us in the future, either by an injured customer of an end product manufacturer who used one of the products as a component or by a direct purchaser from us. In addition, no assurance can be given that indemnification from customers or coverage under insurance policies will be adequate to cover future product liability claims against us. Moreover, liability insurance is expensive, difficult to maintain and may be unobtainable in the future on acceptable terms. The amount and scope of any insurance coverage may be inadequate if a product liability claim is successfully asserted against us. Furthermore, if any significant claims are made, our business may be adversely affected by any resulting negative publicity.

We have been, and may in the future be, subject to claims and liabilities under environmental laws and regulations.

Our operations and assets are subject to federal, state, local and foreign environmental laws and regulations pertaining to the discharge of materials into the environment, the handling and disposal of wastes, including solid and hazardous wastes, or otherwise relating to health, safety and protection of the environment. We do not expect to make any expenditures with respect to ongoing compliance with or remediation under these environmental laws and regulations that would have a material adverse effect on our business, operating results or financial condition. However, the applicable requirements under the law may change at any time.

We can also incur environmental liabilities in respect of sites that we no longer own or operate, as well as third-party sites to which we send hazardous materials. We cannot assure you that material costs or liabilities will not be incurred in connection with such claims. A site in Peekskill in the town of Cortlandt, New York was previously owned and used by two of our subsidiaries. The Peekskill site was sold in December 1982. In 1984, we were advised by the New York State Department of Environmental Conservation ("DEC") that random sampling of the Peekskill site indicated concentrations of solvents and other chemicals common to the operations of our subsidiary that used the site. In May 1996, our subsidiary that formerly owned the site entered into a consent order with the DEC to investigate and remediate environmental conditions at this site, including the performance of a remedial investigation and feasibility study. After completing the initial remedial investigation, the subsidiary has now performed a supplemental remedial investigation under the consent order. Subsequently, an addendum to the supplemental remediation investigation was negotiated and conducted and a further report submitted to the DEC. We believe, based on facts presently known, that the outcome of this matter will not have a material adverse effect on our results of operations and financial condition. We cannot assure you, however, that the discovery of presently unknown environmental conditions, changes in environmental laws and regulations or other unanticipated events will not give rise to claims that may involve material expenditures or liabilities.

Changes in income tax laws and regulations or exposure to additional income tax liabilities could adversely affect profitability.

We are subject to income taxes in the United States and in various foreign jurisdictions. Domestic and international tax liabilities are subject to the allocation of income among various tax jurisdictions. Our effective tax rate could be adversely affected by changes in the mix of earnings in countries with differing statutory tax rates, changes in any valuation allowance for deferred tax assets or the amendment or enactment of tax laws. The amount of income taxes paid is subject to ongoing audits by U.S. Federal, state and local tax authorities and also by foreign authorities. If these audits result in assessments different from recorded income tax liabilities, our future financial results may include unfavorable adjustments to income tax expense.

Our compliance with restrictions and covenants in our debt agreements may limit our ability to take corporate actions and harm our business.

The debt agreements entered into by certain of our subsidiaries contain a number of covenants that restrict their ability to incur additional debt and to pay dividends to us. Under the respective revolving credit agreements, these subsidiaries are also required to comply with specific financial ratios and tests. These subsidiaries may not be able to comply in the future with these covenants or restrictions as a result of events beyond their control, such as prevailing economic, financial and industry conditions or a change in control of our company. If our subsidiary defaults in maintaining compliance with the covenants and restrictions in its debt agreement, its lenders could declare all of the principal and interest amounts outstanding due and payable and terminate their commitments to extend credit to the subsidiary in the future. If the subsidiairy or we are unable to secure credit in the future, our business could be harmed.

Our inability to repurchase outstanding convertible notes as required under the indenture may cause an event of default under other agreements.

On July 18, 2010, 2013, 2018, as well as upon a change in control, as defined in the indenture, noteholders will have the right to require repurchase of their notes. If our common stock price is below the conversion price of the debenture on the earliest of these dates, we anticipate that noteholders will require us to repurchase their outstanding notes. If we do not have sufficient funds to pay the repurchase price for all of the notes tendered, an event of default under the indenture governing the notes would occur as a result of such failure, which could have a material adverse effect on our company. At September 30, 2008, we had $130 million outstanding of convertible notes. In October 2008, we purchased $35.5 million face value of the notes from certain note holders for $28.4 million.

Our reported earnings per share may be more volatile because of the conversion contingency provision of the notes.

The outstanding convertible notes are convertible when a "market price" condition is satisfied and also upon the occurrence of other circumstances as more fully described in Note 3 to the Notes to Consolidated Financial Statements. Upon conversion, noteholders will receive at least $1,000 in cash for each $1,000 principal amount of notes presented for conversion. The excess of the value of our common stock that would have been issuable upon conversion over the cash delivered will be paid to noteholders in shares of our common stock. These shares are considered in the calculation of diluted earnings per share and volatility in our stock price could cause these notes to be dilutive in one quarter and not in a subsequent quarter, increasing the volatility of fully diluted earnings per share.

We may be unable to raise additional financing if needed.

We may need to raise additional funds in the future in order to implement our business plan, to refinance our debt or to acquire businesses or products. Any required additional financing may be unavailable on terms favorable to us, or at all, due to the uncertainties in the current credit market. If we raise additional funds by issuing equity securities, holders of our common stock may experience significant dilution of their ownership interest and these securities may have rights senior to those of the holders of our common stock.

Our indebtedness and interest expense could limit our cash flow and adversely affect our operations and our ability to make full payment on our outstanding notes.

Our indebtedness poses risks to our business, including the risks that:

- we could use a substantial portion of its consolidated cash flow from operations to pay principal and interest on its debt, thereby reducing the funds available for working capital, capital expenditures, acquisitions, product development and other general corporate purposes;

- insufficient cash flow from operations may force us to sell assets, or seek additional capital, which we may be unable to do at all or on terms favorable to us; and

- our level of indebtedness may make us more vulnerable to economic or industry downturns.

We have the ability to issue additional equity securities, which would lead to dilution of our issued and outstanding common stock.

The issuance of additional equity securities or securities convertible into equity securities would result in dilution of our existing stockholders' equity interests. We are authorized to issue, without stockholder approval, 3,000,000 shares of preferred stock in one or more series, which may give other stockholders dividend, conversion, voting, and liquidation rights, among other rights, which may be superior to the rights of holders of our common stock. Our Board of Directors has the authority to issue, without vote or action of stockholders, shares of preferred stock in one or more series, and has the ability to fix the rights, preferences, privileges and restrictions of any such series. Any such series of preferred stock could contain dividend rights, conversion rights, voting rights, terms of redemption, redemption prices, liquidation preferences or other rights superior to the rights of holders of our common stock. Our Board of Directors has no present intention of issuing any such preferred stock, but reserves the right to do so in the future. In addition, we are authorized to issue, without stockholder approval, up to 85,000,000 shares of common stock, of which approximately 58,655,000 shares were outstanding as of September 30, 2008. We are also authorized to issue, without stockholder approval, securities convertible into either shares of common stock or preferred stock.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

The Company occupies approximately 4,800,000 square feet of general office, factory and warehouse space throughout the United States, Germany and Brazil. For a description of the encumbrances on certain of these properties, see Note 3 to the Company's Notes to Consolidated Financial Statements. 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	193,000	Owned
Huntington, NY	Electronic Information and Communication Systems	Manufacturing	94,000 55,000	Owned Leased
Melville, NY	Electronic Information and Communication Systems	Manufacturing	25,000	Leased
Columbia, MD	Electronic Information and Communication Systems	Engineering	25,000	Leased
Gardena, CA	Electronic Information and Communication Systems	Repairs	10,000	Leased
Stockholm, Sweden	Electronic Information and Communication Systems	Manufacturing/ Engineering	22,000	Leased
Mason, OH	Garage Doors Specialty Plastic Films	Office and research and development	131,000	Owned
Aschersleben, Germany	Specialty Plastic Films	Manufacturing	289,000	Owned
Dombühl, Germany	Specialty Plastic Films	Manufacturing	124,000	Owned
Augusta, KY	Specialty Plastic Films	Manufacturing	275,000	Owned
Nashville, TN	Specialty Plastic Films	Manufacturing	210,000 150,000	Owned Leased
Jundiai, Brazil	Specialty Plastic Films	Manufacturing	88,000	Owned
Troy, OH	Garage Doors	Manufacturing	867,000	Leased
Russia, OH	Garage Doors	Manufacturing	339,000	Owned
Baldwin, WI	Garage Doors	Manufacturing	155,000	Leased
Auburn, WA	Garage Doors	Manufacturing	123,000	Leased

The Company also leases approximately 1,900,000 square feet of space for the Garage Doors distribution centers in numerous facilities throughout the United States.

The Company has minimum annual rental commitments under real estate leases of approximately $12 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.

In fiscal 2006, the Company acquired a manufacturing facility for the Garage Doors segment in Troy, Ohio. In fiscal 2007, the Company entered into a capital lease for this facility. The plants and equipment of the Company are believed to contain sufficient space for current and presently foreseeable needs.

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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 Cortlandt, New York owned by ISC Properties, Inc., a wholly-owned subsidiary of the Company (the "Peekskill Site"). ISC Properties, Inc. sold the Peekskill Site in November 1982.

Subsequently, the Company was advised by the 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. was required by the DEC to conduct a supplemental remedial investigation under the Consent Order. In or about August 2004, a report was submitted to the DEC of the findings under the supplemental remedial investigation. Subsequently, an addendum to the supplemental remediation investigation was negotiated and conducted and a further report submitted to the DEC. A soil vapor investigation report that contained the findings of a soil vapor investigation conducted at the Site under the Consent Order was submitted in July 2007 to, and accepted in September 2007 by, the DEC. Thereafter, ISC Properties, Inc. submitted to the DEC for its approval, a final draft of all of the Remedial Investigation work performed in connection with, and as required by, the Consent Order. In accordance with the soil vapor investigation work that ISC Properties, Inc. had performed at the Peekskill Site under the Consent Order, ISC Properties, Inc., per the request of the DEC, proposed to, and did undertake to perform one additional one day sampling event in March 2008 in accordance with an approved soil vapor work plan, and a soil vapor investigation report was submitted to DEC in May 2008.

In March 2008, DEC requested additional, supplemental sampling at the Site, and a Supplemental Investigation Work Plan was submitted to the DEC in April 2008. Based on comments received from the DEC in July 2008, a revised Supplemental Investigation Work Plan was submitted on July 30, 2008 to, was approved subsequently by, the DEC. The work that was required to be performed in accordance with the Supplemental Investigation Work Plan was performed in October 2008 and a report was prepared for submission to the DEC. No feasibility study has yet been performed pursuant to the Consent Order.

In addition, 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. Management believes, based on facts presently known to it, that the resolution of the matter above and such other matters will not have a material adverse effect on the Company's consolidated financial position, results of operations or 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, Related Stockholder Matters and Issuer Purchases of Equity Securities

The Company's Common Stock is listed for trading on the New York Stock Exchange under the symbol "GFF". The following table shows for the periods indicated the quarterly range in the high and low sales prices for the Company's Common Stock:

Fiscal Quarter Ended	High	Low
December 31, 2006	26.25	21.46
March 31, 2007	26.10	22.66
June 30, 2007	24.90	21.27
September 30, 2007	22.32	11.97
December 31, 2007	15.82	11.97
March 31, 2008	12.70	7.39
June 30, 2008	11.40	8.38
September 30, 2008	12.70	8.36

As of December 1, 2008, there were approximately 14,000 recordholders of the Company's Common Stock.

No cash dividends on Common Stock were declared or paid during the five fiscal years ended September 30, 2008.

Equity Compensation Plan Information

The following sets forth information relating to the Company's equity compensation plans as of September 30, 2008:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (Column a)	Weighted average exercise price of outstanding options, warrants and rights (Column b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in Column (a)) (Column c)
Equity compensation plans approved by security holders(1)	1,006,240	$ 13.32	974,336
Equity compensation plans not approved by security holders(2)	394,651	$ 15.27	
Total	1,400,891	$ 13.87(3)	974,336

(1) Excludes restricted shares issued in connection with the Company's equity compensation plans. The total reflected in Column (c) includes 713,440 shares available for grant as stock options under the Incentive Plan; however, because the number of shares available under the Incentive Plan is reduced by a factor of two-to-one for awards other than stock options, this number would be reduced to 356,720 if all available shares under the Incentive Plan were issued as restricted stock. Accordingly, if all grants under the Incentive Plan were made as restricted stock, the total in Column (c) would be reduced to 617,616. As of September 30, 2008, 475,544 unvested shares of restricted stock have been awarded under the Company's equity compensation plans and remain subject to certain forfeiture conditions.

(2) The Company's 1998 Employee and Director Stock Option Plan is the only option plan which was not approved by the Company's stockholders. The Employee and Director Stock Option Plan expired in February 2008.

(3)

On October 1, 2008, the Company's Chief Executive Officer was awarded a stock option grant for 350,000 shares with an above-market exercise price of $20.00 per share. If such grant were included in the above table, the weighted average exercise price set forth in Column (b) would increase to $15.10 and the weighted average life of the outstanding options would increase from 4.46 years to 5.57 years.

PERFORMANCE GRAPH

The following graph sets forth the cumulative total return to our stockholders during the five years ended September 30, 2008, as well as an overall stock market (S&P SmallCap 600 Index) and our peer group index (Dow Jones U.S. Diversified Industrials Index).

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*

Among Griffon Corporation, The S&P Smallcap 600 Index
And The Dow Jones US Diversified Industrials Index

* $100 invested on 9/30/03 in stock & index including reinvestment of dividends. Fiscal year ending September 30.

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased(1)	Average Price Paid Per Share	Total Number of Shares Purchased as part of Publicly Announced Plans or Programs	Maximum Number of shares that may yet be Purchased under the Plans or Programs
July 1 - 31, 2008				1,366,295
August 1 - 31, 2008				1,366,295
September 1 - 30, 2008				1,366,295
Total				

(1)

The Company's stock buyback program has been in effect since 1993, under which a total of approximately 17.2 million shares have been purchased for approximately $234 million. There is no time limit on the repurchases to be made under the plan. Shares purchased apart from publicly announced programs were in connection with the cashless exercise of stock options.

Item 6. Selected Financial Data

(in thousands, except per share data)	2008	2007	2006	2005	2004
Net sales from continuing operations	$1,269,305	$1,365,729	$1,327,735	$1,132,382	$1,114,891
Income from continuing operations	$ 88	$ 28,165	$ 45,856	$ 42,980	$ 46,528
Income (loss) from discontinued operations	(40,591)	(6,086)	5,930	5,833	7,331
Net income (loss)	$ (40,503)	$ 22,079	$ 51,786	$ 48,813	$ 53,859
Earnings (loss) per share:					
Basic:					
Continuing operations	$ .00	$ .87	$ 1.42	$ 1.33	$ 1.45
Discontinued operations	(1.24)	(.19)	.18	.18	.22
	$ (1.24)	$ .68	$ 1.60	$ 1.51	$ 1.67
Diluted:					
Continuing operations	$ .00	$ .84	$ 1.36	$ 1.27	$ 1.37
Discontinued operations	(1.24)	(.19)	.17	.17	.21
	$ (1.24)	$ .65	$ 1.53	$ 1.44	$ 1.58
Total assets	$1,171,566	$ 959,858	$ 928,214	$ 851,427	$ 749,516
Long-term obligations	$ 230,930	$ 229,438	$ 209,228	$ 196,540	$ 154,445

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

OVERVIEW

Net sales from continuing operations for the fiscal year ended September 30, 2008 were $1.27 billion, compared to $1.37 billion in fiscal 2007. Income from continuing operations, which was significantly impacted by a non-cash goodwill write-off taken in the fourth quarter of fiscal 2008 of $12.9 million in the Garage Doors segment, was $.1 million, or nil per diluted share, for the year compared to $28.2 million, or $.84 per diluted share, last year. Loss from discontinued operations for fiscal 2008 was $40.6 million, or $1.24 per diluted share, compared to $6.1 million, or $.19 per diluted share, last year. Net loss for fiscal 2008 was $40.5 million, or $1.24 per diluted share, compared to net income of $22.1 million, or $.65 per diluted share, last year.

The fourth-quarter non-cash goodwill write-off is not tax deductible, resulting in an increase in the Company's effective tax rate from continuing operations for the fiscal year ended September 30, 2008.

In September 2008, the Company received $241.3 million of gross proceeds from the first closing of its rights offering and the closing of the related investments by GS Direct and by the Company's Chief Executive Officer. An additional $5.3 million of rights offering proceeds were received in October 2008 in connection with the second and final closing of the rights offering, after which the rights offering was terminated. The Company intends to use the proceeds for general corporate purposes and to fund future growth.

The Electronic Information and Communications Systems segment was impacted in fiscal 2008 by the anticipated wind down of contract work from the Warlock-Duke program with Syracuse Research Corporation (SRC) in late fiscal 2007. The SRC program contributed revenues of $190.1 million in fiscal 2007, while producing revenues of $18.1 million in fiscal 2008. However, the segment's other programs continue to expand and funded backlog was approximately $335 million at September 30, 2008. Excluding the impact of the SRC contracts in the respective fiscal-year periods, core business sales grew by approximately $66.4 million, or 24%. The Electronic Information and Communications Systems segment was awarded contracts in excess of $400 million for the MH-60 program that are expected to be incrementally funded over the next several years. Based on these contract awards, this program is anticipated to generate revenues at a run rate of approximately $100 million per year for the next several years.

The Company's Garage Doors segment results were impacted by the sustained downturn in the residential housing and credit markets, with sales and operating profits decreasing from the prior-year period. As previously stated, operating results were significantly impacted by the $12.9 million non-cash goodwill write-off. Such goodwill write-off does not affect the Company's cash position, cash flow from operating activities, credit availability or liquidity and will not have any affect on the Company's future operations. The segment continues to be challenged by the trends in market conditions and the outlook for 2009. According to the National Association of Home Builders, current data compared to the prior fiscal year show new home starts down 31%, new home sales down 33% and a 10.4-month supply of new homes. Existing home sales are flat and the inventory of existing homes is is also flat at a 10-month supply. The segment remains committed to retaining its customer base and, where possible, growing market share to offset the shrinking market. Steel costs, a key component of garage doors, rose considerably in fiscal 2008 and adversely impacted results. Selling prices were increased during the fiscal year, partially offsetting rising costs. As a result of the Company's decision to exit the Installation Services business (see below), two Installation Services units were transferred into the Garage Doors segment. All periods presented herein have been recasted to include the operating results of these two units in the Garage Doors segment.

The Specialty Plastic Films segment had increases in sales of 15% and increases in operating profit of 19% in fiscal 2008. The segment's operating results were favorably impacted by growth in its elastics program, resulting in an improved product mix, operational efficiencies in its foreign facilities and favorable foreign currency translation adjustments. These results were unfavorably affected by significant reductions in pricing to a major customer as a result of continued product alterations and competitive factors, as well as the adverse impact of rising resin costs. Over the past several years, the segment has been successful in diversifying its customer portfolio. In 2009, the segment is optimistic that their progress on cost reduction programs and product mix should result in further improved performance, but expects to be challenged with new product roll-outs.

Discontinued Operations Installation Services segment

As a result of the downturn in the residential housing market and the impact on the Installation Services segment, in May 2008, the Company's Board of Directors approved a plan to exit substantially all operating activities of the Installation Services segment in 2008. Certain operating units in the Installation Services segment were closed during the second and third quarters, two units were transferred into the Garage Doors segment (as noted above), others were sold during the third quarter and the remaining operating units in Las Vegas and Phoenix were sold in the fourth quarter of fiscal 2008. Net sales of discontinued operations were $109.4 million, $250.9 million and $308.8 million for the years ended September 30, 2008, 2007 and 2006, respectively. Disposal costs related to the Installation Services segment included in its operating results were $43.1 million for fiscal 2008. The Company is winding down remaining disposal activities in the first half of fiscal 2009 and does not expect to incur significant expenses in the future. Future net cash outflows to satisfy liabilities that were accrued as of September 30, 2008 are estimated to range between $7 million and $8 million. Substantially all of such liabilities are expected to be paid within the next twelve months, and the Installation Services segment is excluded from segment reporting.

RESULTS OF OPERATIONS

Fiscal 2008 Compared to Fiscal 2007

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

	Net Sales		Operating Profit	
	2008	**2007**	**2008**	**2007**
Electronic Information and Communication Systems	$ 366,288	$ 472,549	$ 32,737	$45,888
Garage Doors(1)	435,321	486,606	(17,444)	7,117
Specialty Plastic Films	467,696	406,574	20,620	17,263
	$1,269,305	$1,365,729	$ 35,913	$70,268

(1) Operating profit of Garage Doors was significantly impacted by the write-off of goodwill of $12.9 million in 2008.

Electronic Information and Communication Systems

Net sales of the Electronic Information and Communication Systems segment decreased $106.3 million, or 22.5%, compared to last year. The sales decrease was attributable to the wind down in late fiscal 2007 of substantial contracts with SRC, as anticipated. Partially offsetting this decrease was revenue growth in the segment's core business of $66.4 million, or 23.6%, related to new and expanded programs.

Gross profit of the Electronic Information and Communication Systems segment decreased by $9.3 million compared to last year. However, gross margin percentage increased to 21.5% from 18.7% last year, principally due to a favorable program mix, as the margin on the SRC contracts was lower than the average margin on other contracts. SG&A expenses increased $3.7 million compared to last year and increased, as a percentage of sales, to 12.8% compared to 9.1% last year. The increase in SG&A is primarily due to expenditures associated with product engineering and enhancement, as well as increases in expenses related to certain sales and marketing related efforts. Operating profit of the

Electronic Information and Communication Systems segment decreased $13.2 million, or 28.7%, principally due to the substantial revenue decline attributable to the SRC contracts noted above.

Garage Doors

Net sales of the Garage Doors segment decreased by $51.3 million, or 10.5%, compared to last year primarily due to the effects of the weak residential housing market. The decline in unit sales was partially offset by higher selling prices to pass through rising material and freight costs, a favorable product mix, and a decrease in customer returns and deductions.

Gross profit of the Garage Doors segment decreased by $16.5 million compared to last year. Gross margin percentage, increased to 28.3% from 28.2% last year, primarily due to the operating efficiencies derived from the closure of the Tempe, AZ facility and other headcount and cost reductions, lower customer returns and deductions, partially offset by reduced sales volume and associated plant efficiency loss and lower margins from the businesses transferred from the Installation Services segment. SG&A expenses were approximately $5.0 million lower than last year but, as a percentage of sales, increased to 28.8% from 26.3% last year due to the sales decrease. The operating loss of Garage Doors was further impacted by the write-off of its goodwill of $12.9 million. Operating profit of the Garage Doors segment decreased by $24.6 million compared to last year, resulting in an operating loss.

Specialty Plastic Films

Net sales of the Specialty Plastic Films segment increased $61.1 million, or 15.0%, compared to last year. The increase was principally due to a favorable product mix in North America, the impact of increased selling prices due to the rising cost of resin and the favorable impact of exchange rates on translated foreign sales, partially offset by lower selling prices to a major customer associated with a multi-year contract and lower volumes in Europe.

Gross profit of the Specialty Plastic Films segment increased by $3.8 million, or 6.0%, compared to last year. Gross margin percentage decreased to 14.3% from 15.5% last year. The effect of higher resin costs not fully recovered in increased selling prices and lower unit volumes negatively affected margins, which were partially offset by a favorable product mix in North America and Brazil and manufacturing efficiencies in Europe and Brazil. SG&A expenses were flat from last year and, as a percentage of sales, decreased to 10.3% from 11.9% last year due to the sales increase. Operating profit of the Specialty Plastic Films segment increased $3.4 million, or 19.4%, compared to last year.

Interest Expense

Interest expense decreased by $1 million compared to 2007 principally due to lower levels of outstanding borrowings and lower average borrowing rates during the year.

Provision (benefit) for income taxes

The Company's overall effective tax rate when combining results from continuing and discontinued operations was approximately 30.2%, reported as a net benefit, compared to 30.2%, reported as a net provision, last year. The rate change was principally due to the Company's current-year loss position and the ability to derive benefit from this loss, as well as additional benefit derived from the reversal of certain reserves of approximately $11.4 million in connection with closed tax years and the settlement of certain tax examinations included in the calculation of the tax rate for fiscal 2008. The benefit rate was partially offset by the non-deductability of the goodwill write-off and the inability to utilize certain foreign tax credits related to certain dividends paid by foreign subsidiairies. The prior-year tax provision rate was principally related to differences in the mix of income in lower, foreign tax jurisdictions, partially offset by a benefit derived from closed tax years.

Discontinued operations Installation Services

Net sales of the Installation Services' operating units were $109.4 million and $250.9 million for fiscal 2008 and 2007, respectively. Net sales of the Installation Services segment decreased $141.5 attributed to overall weakness in the residential construction market and closure or sale of operating units that resulted from the Company's decision to exit the segment in fiscal 2008. Operating loss of the Installation Services' operating units was $62.4 million and $9.8 million for fiscal 2008 and 2007, respectively.

Fiscal 2007 Compared to Fiscal 2006

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

	Net Sales		Operating Profit	
	2007	2006	2007	2006
Electronic Information and Communication Systems	$ 472,549	$ 387,437	$45,888	$39,609
Garage Doors	486,606	558,925	7,117	42,493
Specialty Plastic Films	406,574	381,373	17,263	15,450
	$1,365,729	$1,327,735	$70,268	$97,552

Electronic Information and Communication Systems

Net sales of the Electronic Information and Communication Systems segment increased $85.1 million compared to last year primarily from an SRC contract revenue increase of $47 million and MH-60 program revenue of $31 million.

Gross profit of the Electronic Information and Communication Systems segment increased $13.1 million compared to last year. Gross margin percentage decreased to 18.7% from 19.4% last year, principally due to lower margins on the SRC contract. Selling, general and administrative expenses increased approximately $7 million over last year but, as a percentage of sales, was 9.1% compared to 9.4% last year due to the sales growth. Operating profit of the Electronic Information and Communication Systems segment increased $6.3 million compared to last year.

Garage Doors

Net sales of the Garage Doors segment decreased by $72.3 million compared to 2006. The sales decrease was principally due to lower sales volumes to dealers and retailers, partially offset by higher selling prices that passed on the effect of higher raw material costs to customers, favorable product mix and improved product quality that resulted in decreased customer deductions.

Gross profit of the Garage Doors segment decreased $36.5 million compared to last year. Gross margin percentage was 28.2% in 2007 compared to 30.8% in 2006, reflecting lower sales volume which resulted in less overhead absorption and increased material costs. Selling, general and administrative expenses decreased approximately $1.2 million from 2006, as lower freight and distribution costs were partially offset by costs associated with the closure of a manufacturing facility in Tempe, Arizona and the movement of a production line from Tempe to Troy, Ohio. As a percentage of sales, selling, general and administrative expenses were 26.3% in 2007 compared to 23.5% in 2006. Operating profit of the Garage Doors segment decreased $35.4 million compared to last year.

Specialty Plastic Films

Net sales of the Specialty Plastic Films segment increased $25.2 million compared to last year. The increase reflects higher unit volumes principally related to strong European volume and sales of the new, elastic laminates product in North America, the effect of selling price adjustments to partially pass increased raw material costs to customers, and the impact of a weaker U.S. dollar on translated sales, offset in part by lower selling prices to the segment's major customer, unfavorable product mix and the timing of development cost reimbursements.

Gross profit of the Specialty Plastic Films segment decreased $2.8 million compared to last year. Gross margin percentage decreased to 15.5% from 17.2% last year primarily due to the lower selling prices to the segments major customer. The decrease in gross profit was primarily attributable to lower selling prices to the segment's major customer, partially offset by higher unit sales volume, the impact of resin price and cost fluctuations, the weaker U.S. dollar and its impact on foreign sales, profit contribution of new products and lower operational expenses. Selling, general and administrative expenses decreased $4 million compared to last year principally due to the elimination of start-up costs related to the Brazilian facility and lower costs due to a reduction in force at the end of 2006. As a percentage of sales, selling, general and administrative expenses were 11.9% in 2007 compared to 13.7% last year. Operating profit of the Specialty Plastic Films segment increased $1.8 million compared to last year.

Interest Expense

Interest expense increased by $2 million compared to 2006 principally due to higher levels of outstanding borrowings throughout the year.

Provision for income taxes

The provision for income taxes from continuing operations for the fiscal year ended September 30, 2007 reflects a rate that is lower than the statutory United States and applicable foreign tax rates primarily due to a reversal of approximately $1.4 million of estimated income tax liabilities in connection with closed tax years and a statutory tax rate change in Germany that caused an adjustment in the valuation of net deferred tax liabilities of approximately $1 million.

Discontinued operations Installation Services

Net sales of the Installation Services operating units were $250.9 million and $308.8 million for fiscal 2007 and 2006, respectively. Net sales of the Installation Services segment decreased $57.9 million compared to last year. The lower sales was primarily attributed to decreased revenue in the Las Vegas and Atlanta markets resulting from a decline in flooring, fireplace, garage door and appliance installations sales offset by cabinet sale gains attributable to the cabinet installation Company acquisition.

Gross profit of the Installation Services segment decreased $14.2 million compared to last year, reflecting lower unit volumes. Gross margin percentage increased to 29.7% from 29.2% last year due to improved sales mix and higher margins from the cabinet installation company acquisition. Selling, general and administrative expenses increased approximately $3.6 million due primarily to expenses from the cabinet installation company acquisition and additional bad debt expense due to increased risk in accounts receivable related to the impact of the general market decline. As a percentage of sales, selling, general and administrative expenses were 33.6% in 2007 compared to 26.1% in 2006. Operating profit (loss) of the Installation Services segment was $(9.8) million and $9.6 million for fiscal 2007 and 2006, respectively.

LIQUIDITY AND CAPITAL RESOURCES

Cash flows generated by continuing operations for fiscal 2008 were $86.0 million compared to $59.7 million last year. Working capital increased to $562.1 million at September 30, 2008 compared to $354.2 million last year, primarily as a result of proceeds from the rights offering concluded in September 2008. Operating cash flows from continuing operations were principally the result of decreased accounts receivable and increased accounts payable, partially offset by increased inventories and increased prepaid expenses and other current assets.

During fiscal 2008, the Company used cash from investing activities of continuing operations of $49.4 million compared to $41.2 million last year. The Company had capital expenditures of approximately $53.1 million, primarily related to the financing of existing maturing lease obligations for certain property, plant and equipment (see below).

During fiscal 2008, the Company provided cash from financing activities of continuing operations of $231.4 million. Financing cash flows primarily relate to net cash proceeds received of $234.2 million provided from the issuance of shares of common stock pursuant to a rights offering (see below). Uses of cash included treasury stock purchases of $579,000 to acquire 40,900 shares of the Company's common stock. Approximately 1.4 million shares of common stock are available for purchase pursuant to the Company's stock buyback program and additional purchases, including pursuant to a 10b5-1 plan, may be made, depending upon market conditions and other factors, at prices deemed appropriate by management.

In August 2008, the Company's Board of Directors authorized a 20 million share common stock rights offering to its shareholders in order to raise equity capital for general corporate purposes and to fund future growth. The rights had an exercise price of $8.50 per share. In conjunction with the rights offering, GS Direct agreed to back stop the rights offering by purchasing, on the same terms, any and all shares not subscribed through the exercise of rights. GS Direct also agreed to purchase additional shares of common stock at the rights offering price if it did not acquire a minimum of 10 million shares of common stock as a result of its back stop commitment. In September 2008, the Company received $241.3 million of gross proceeds from the first closing of its rights offering and the closing of the related investments by GS Direct and by Ronald Kramer, the Company's Chief Executive Officer. An additional $5.3 million of rights offering proceeds were received in October 2008 in connection with the second and final closing of the rights offering, after which the rights offering was terminated.

In June 2008, Clopay Building Products Company, Inc. ("BPC") and Clopay Plastic Products Company, Inc. ("PPC"), each a wholly-owned subsidiary of the Company, entered into a credit agreement for their domestic operations with JPMorgan Chase Bank, N.A., as administrative agent, and the lenders party thereto, pursuant to which the lenders agreed to provide a five-year, senior secured revolving credit facility of $100 million (the "Clopay Credit Agreement"). Availability under the credit facility is based upon certain eligible accounts receivable, inventory, cash and cash equivalents and property, plant and equipment. Commitments under the Clopay Credit Agreement may be increased by up to an additional $50 million under certain circumstances. Borrowings under the Clopay Credit Agreement bear interest at rates based upon LIBOR or the prime rate and are collateralized by the stock and assets of BPC and PPC and the stock of their subsidiaries. The Clopay Credit Agreement contains certain restrictive and financial covenants, certain of which are only subject to compliance if borrowing availability falls below a certain level. Upon the occurrence of certain events of default specified in the Clopay Credit Agreement, amounts due under the agreement may be declared immediately due and payable. Proceeds of a $33 million initial draw under this facility were primarily used to finance existing maturing lease obligations. At September 30, 2008, $33.9 million was outstanding under the Clopay Credit Agreement and approximately $42.9 million was available for borrowing. BPC and PPC were in compliance with all of their financial covenants under the Clopay Credit Agreement at September 30, 2008.

In March 2008, Telephonics Corporation ("Telephonics"), a wholly-owned subsidiary of the Company, entered into a credit agreement with JPMorgan Chase Bank, N.A., as administrative agent, and the lenders party thereto, pursuant to which the lenders agreed to provide a five-year, revolving credit facility of $100 million (the "Telephonics Credit Agreement"). Commitments under the Telephonics Credit Agreement may be increased by up to an additional $50 million under certain circumstances. Borrowings under the Telephonics Credit Agreement bear interest at rates based upon LIBOR or the prime rate and are collateralized by the stock and assets of Telephonics and the stock of Telephonics' subsidiaries pursuant to a Guarantee and Collateral Agreement made by Gritel Holding Co., Inc., a subsidiary of the Company newly-formed at the time and the parent of Telephonics, and Telephonics in favor of the lenders. The Telephonics Credit Agreement contains certain restrictive and financial covenants. Upon the occurrence of certain events of default specified in the Telephonics Credit Agreement, amounts due under the Telephonics Credit Agreement may be declared immediately due and payable. Proceeds of a $50 million initial draw under this facility, together with internal cash of the Company, were used to repay $62.5 million of outstanding debt under the Company's Amended and Restated Credit Agreement, dated as of December 20, 2006, as amended, among the Company, Telephonics, JPMorgan Chase Bank, N.A., as administrative agent, and the lenders party thereto, at which time such Amended and Restated Credit Agreement was terminated. At September 30, 2008, $44.5 million was outstanding under the Telephonics Credit Agreement and approximately $51.5 million was available for borrowing. Telephonics was in compliance with all of its financial covenants under the Telephonics Credit Agreement at September 30, 2008.

The Telephonics Credit Agreement and the Clopay Credit Agreement include various sublimits for standby letters of credit. At September 30, 2008, there were approximately $17 million of aggregate standby letters of credit outstanding under these credit facilities. These credit agreements limit dividends and advances that these subsidiaries may pay to the parent Company. The agreements permit the payment of income taxes, overhead and expenses, with dividends or advances in excess of these amounts being limited based on (a) with respect to the Clopay Credit Agreement, maintaining certain minimum availability under the loan agreement or (b) with respect to the Telephonics Credit Agreement, compliance with certain conditions and limited to an annual maximum.

At September 30, 2008, the Company had $130 million outstanding of 4% convertible subordinated notes due 2023 (the "Notes"). Holders of the Notes may require the Company to repurchase all or a portion of their Notes on July 18, 2010, 2013 and 2018, as well as upon a change in control. If our common stock price is below the conversion price of the debenture on the earliest of these dates, we anticipate that noteholders will require us to repurchase their outstanding notes. In October 2008, the Company purchased $35.5 million face value of the Notes from certain Noteholders for $28.4 million. This will result in a pre-tax gain from the early extinguishment of debt of approximately $7 million in the first quarter of fiscal 2009. Such $35.5 million face value of the Notes has remained classified as long-term debt in the accompanying consolidated balance sheet at September 30, 2008.

The Company's Employee Stock Ownership Plan ("ESOP") has a loan agreement guaranteed by the Company, the proceeds of which were used to purchase equity securities of the Company. The loan bears interest at rates based upon the prime rate or LIBOR In addition, the ESOP had a $5 million line of credit that expired on October 31, 2008. In September 2008, $630,000 was drawn under the ESOP line of credit to purchase equity securities associated with the rights offering and was outstanding at September 30, 2008. In October 2008, the remaining balance of the available ESOP line of credit was drawn for the purpose of purchasing additional equity securities in the Company. In accordance with the terms of the ESOP line of credit agreement, the $5 million outstanding at October 31, 2008 was refinanced along with the balance of the then outstanding ESOP loan amount of $1.25 million. The new ESOP loan provides for quarterly payments of principal and interest through September 2012, at which time the balance of the loan of approximately $3.9 million will be payable. The $630,000 outstanding on the ESOP line of credit at September 30, 2008 has been classified as long-term debt in the accompanying consolidated balance sheet at that date.

In May 2008, the Company's Board of Directors approved a plan to exit substantially all operating activities of the Installation Services segment in 2008. In the third quarter of fiscal 2008, the Company sold nine units to one buyer, closed one unit and merged two units into its Garage Doors segment. In the fourth quarter of fiscal 2008, the Company sold its two remaining units in Phoenix and Las Vegas. The Company recorded aggregate disposal costs of $43.7 million in fiscal 2008. The Company is winding down remaining disposal activities in the first half of fiscal 2009 and does not expect to incur significant expenses in th