

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

FORM 10-Q

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

For the quarterly period ended December 31, 2022

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

For the transition period from to

Commission File Number: 1-06620

GRIFFON CORPORATION

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

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

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

10019
(Zip Code)

(212) 957-5000

(Registrant's telephone number, including area code)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$0.25 par value	GFF	New York Stock Exchange

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

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

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The number of shares of common stock outstanding at **January 27, 2023** was 57,186,222.

Griffon Corporation and Subsidiaries

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Part I – Financial Information
Item 1 – Financial Statements

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

	(Unaudited) December 31, 2022	September 30, 2022
CURRENT ASSETS		
Cash and equivalents	\$ 120,558	\$ 120,184
Accounts receivable, net of allowances of \$13,636 and \$12,137	350,625	361,653
Inventories	646,352	669,193
Prepaid and other current assets	64,108	62,453
Assets of discontinued operations	1,122	1,189
Total Current Assets	1,182,765	1,214,672
PROPERTY, PLANT AND EQUIPMENT, net	290,505	294,561
OPERATING LEASE RIGHT-OF-USE ASSETS	182,799	183,398
GOODWILL	333,982	335,790
INTANGIBLE ASSETS, net	761,126	761,914
OTHER ASSETS	21,490	21,553
ASSETS OF DISCONTINUED OPERATIONS	4,571	4,586
Total Assets	\$ 2,777,238	\$ 2,816,474
CURRENT LIABILITIES		
Notes payable and current portion of long-term debt	\$ 12,840	\$ 12,653
Accounts payable	160,441	194,793
Accrued liabilities	178,154	171,797
Current portion of operating lease liabilities	31,283	31,680
Liabilities of discontinued operations	8,141	12,656
Total Current Liabilities	390,859	423,579
LONG-TERM DEBT, net	1,507,681	1,560,998
LONG-TERM OPERATING LEASE LIABILITIES	160,664	159,414
OTHER LIABILITIES	186,977	190,651
LIABILITIES OF DISCONTINUED OPERATIONS	4,209	4,262
Total Liabilities	2,250,390	2,338,904
COMMITMENTS AND CONTINGENCIES - See Note 22		
SHAREHOLDERS' EQUITY		
Total Shareholders' Equity	526,848	477,570
Total Liabilities and Shareholders' Equity	\$ 2,777,238	\$ 2,816,474

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

GRIFFON CORPORATION
CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
For the Three Months Ended December 31, 2022 and 2021
(Unaudited)

(in thousands)	COMMON STOCK		CAPITAL IN EXCESS OF	RETAINED EARNINGS	TREASURY SHARES		ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	DEFERRED COMPENSATION	TOTAL
	SHARES	PAR VALUE	PAR VALUE		SHARES	COST			
Balance at September 30, 2022	84,746	\$ 21,187	\$ 627,982	\$ 344,060	27,682	\$ (420,116)	\$ (82,738)	\$ (12,805)	\$ 477,570
Net income	—	—	—	48,702	—	—	—	—	48,702
Dividend	—	—	—	(6,145)	—	—	—	—	(6,145)
Shares withheld on employee taxes on vested equity awards	—	—	(180)	—	333	(12,554)	—	—	(12,734)
Amortization of deferred compensation	—	—	—	—	—	—	—	571	571
Equity awards granted, net	—	—	(6,902)	—	(455)	6,902	—	—	—
ESOP allocation of common stock	—	—	1,127	—	—	—	—	—	1,127
Stock-based compensation	—	—	5,538	—	—	—	—	—	5,538
Other comprehensive income, net of tax	—	—	—	—	—	—	12,219	—	12,219
Balance at December 31, 2022	<u>84,746</u>	<u>\$ 21,187</u>	<u>\$ 627,565</u>	<u>\$ 386,617</u>	<u>27,560</u>	<u>\$ (425,768)</u>	<u>\$ (70,519)</u>	<u>\$ (12,234)</u>	<u>\$ 526,848</u>

(in thousands)	COMMON STOCK		CAPITAL IN EXCESS OF	RETAINED EARNINGS	TREASURY SHARES		ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	DEFERRED COMPENSATION	TOTAL
	SHARES	PAR VALUE	PAR VALUE		SHARES	COST			
Balance at September 30, 2021	84,375	\$ 21,094	\$ 602,181	\$ 669,998	27,762	\$ (416,850)	\$ (45,977)	\$ (23,288)	\$ 807,158
Net income	—	—	—	19,298	—	—	—	—	19,298
Dividend	—	—	—	(4,739)	—	—	—	—	(4,739)
Shares withheld on employee taxes on vested equity awards	—	—	—	—	422	(10,886)	—	—	(10,886)
Amortization of deferred compensation	—	—	—	—	—	—	—	591	591
Equity awards granted, net	113	28	(28)	—	—	—	—	—	—
ESOP allocation of common stock	—	—	848	—	—	—	—	—	848
Stock-based compensation	—	—	2,866	—	—	—	—	—	2,866
Other comprehensive income, net of tax	—	—	—	—	—	—	(2,751)	—	(2,751)
Balance at December 31, 2021	<u>84,488</u>	<u>\$ 21,122</u>	<u>\$ 605,867</u>	<u>\$ 684,557</u>	<u>28,184</u>	<u>\$ (427,736)</u>	<u>\$ (48,728)</u>	<u>\$ (22,697)</u>	<u>\$ 812,385</u>

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

GRIFFON CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)
(in thousands, except per share data)
(Unaudited)

	Three Months Ended December 31,	
	2022	2021
Revenue	\$ 649,384	\$ 591,749
Cost of goods and services	415,559	425,907
Gross profit	233,825	165,842
Selling, general and administrative expenses	152,720	127,352
Income from operations	81,105	38,490
Other income (expense)		
Interest expense	(24,648)	(15,681)
Interest income	104	33
Gain on sale of building	10,852	—
Other, net	607	1,075
Total other expense, net	(13,085)	(14,573)
Income before taxes from continuing operations	68,020	23,917
Provision for income taxes	19,318	7,213
Income from continuing operations	\$ 48,702	\$ 16,704
Discontinued operations:		
Income from operations of discontinued operations	—	3,320
Provision for income taxes	—	726
Income from discontinued operations	—	2,594
Net income	\$ 48,702	\$ 19,298
Basic earnings per common share:		
Income from continuing operations	\$ 0.93	\$ 0.33
Income from discontinued operations	—	0.05
Basic earnings per common share	\$ 0.93	\$ 0.38
Basic weighted-average shares outstanding	52,579	51,178
Diluted earnings per common share:		
Income from continuing operations	\$ 0.88	\$ 0.31
Income from discontinued operations	—	0.05
Diluted earnings per common share	\$ 0.88	\$ 0.36
Diluted weighted-average shares outstanding	55,298	53,753
Dividends paid per common share	\$ 0.10	\$ 0.09
Net income	\$ 48,702	\$ 19,298
Other comprehensive income (loss), net of taxes:		
Foreign currency translation adjustments	11,937	(2,319)
Pension and other post retirement plans	862	668
Change in cash flow hedges	(580)	(1,100)
Total other comprehensive income (loss), net of taxes	12,219	(2,751)
Comprehensive income, net	\$ 60,921	\$ 16,547

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

GRIFFON CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(Unaudited)

	Three Months Ended December 31,	
	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 48,702	\$ 19,298
Net income from discontinued operations	—	(2,594)
Adjustments to reconcile net income to net cash provided by (used in) operating activities of continuing operations:		
Depreciation and amortization	17,113	13,081
Stock-based compensation	6,742	4,867
Asset impairment charges - restructuring	—	289
Provision for losses on accounts receivable	482	352
Amortization of debt discounts and issuance costs	1,023	654
Deferred income taxes	—	2,883
Gain on sale of assets and investments	(10,923)	(154)
Change in assets and liabilities, net of assets and liabilities acquired:		
(Increase) decrease in accounts receivable	13,689	(53,030)
(Increase) decrease in inventories	22,931	(59,478)
Increase in prepaid and other assets	100	329
Decrease in accounts payable, accrued liabilities, income taxes payable and operating lease liabilities	(26,333)	(12,164)
Other changes, net	1,954	662
Net cash provided by (used in) operating activities - continuing operations	<u>75,480</u>	<u>(85,005)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of property, plant and equipment	(4,726)	(10,573)
Payments related to sale of Telephonics	(2,568)	—
Proceeds from investments	—	575
Proceeds from the sale of property, plant and equipment	11,815	29
Net cash provided by (used in) investing activities - continuing operations	<u>4,521</u>	<u>(9,969)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Dividends paid	(7,126)	(5,260)
Purchase of shares for treasury	(12,735)	(10,886)
Proceeds from long-term debt	29,823	10,815
Payments of long-term debt	(87,539)	(2,500)
Financing costs	(744)	(753)
Other, net	(42)	(28)
Net cash used in financing activities - continuing operations	<u>(78,363)</u>	<u>(8,612)</u>

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

GRIFFON CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(Unaudited)

	Three Months Ended December 31,	
	2022	2021
CASH FLOWS FROM DISCONTINUED OPERATIONS:		
Net cash provided by (used in) operating activities	(1,953)	7,916
Net cash used in investing activities	—	(853)
Net cash provided by (used in) discontinued operations	(1,953)	7,063
Effect of exchange rate changes on cash and equivalents	689	(910)
NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS	374	(97,433)
CASH AND EQUIVALENTS AT BEGINNING OF PERIOD	120,184	248,653
CASH AND EQUIVALENTS AT END OF PERIOD	\$ 120,558	\$ 151,220

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

GRIFFON CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(US dollars and non US currencies in thousands, except per share data)

(Unaudited)

(Unless otherwise indicated, references to years or year-end refer to Griffon's fiscal period ending September 30)

NOTE 1 – DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

About Griffon Corporation

Griffon Corporation (the "Company", "Griffon", "we" or "us") is a diversified management and holding company that conducts business through wholly-owned subsidiaries. Griffon oversees the operations of its subsidiaries, allocates resources among them and manages their capital structures. Griffon provides direction and assistance to its subsidiaries in connection with acquisition and growth opportunities as well as in connection with divestitures. In order to further diversify, Griffon also seeks out, evaluates and, when appropriate, will acquire additional businesses that offer potentially attractive returns on capital.

The Company was founded in 1959, is a Delaware corporation headquartered in New York, N.Y. and is listed on the New York Stock Exchange (NYSE:GFF).

On June 27, 2022, we completed the sale of our Defense Electronics segment which consisted of our Telephonics subsidiary for \$330,000 in cash. As a result, the results of operations of our Telephonics business is classified as a discontinued operation in the Consolidated Statements of Operations for all periods presented and classified the related assets and liabilities associated with the discontinued operation in the consolidated balance sheets. Accordingly, all references made to results and information in this Quarterly Report on Form 10-Q are to Griffon's continuing operations, unless noted otherwise.

On May 16, 2022, Griffon announced that its Board of Directors initiated a process to review a comprehensive range of strategic alternatives to maximize shareholder value including a sale, merger, divestiture, recapitalization or other strategic transaction. While the process remains ongoing, there is no assurance that the process will result in any transaction being entered into or consummated.

On January 24, 2022, Griffon acquired Hunter Fan Company ("Hunter"), a market leader in residential ceiling, commercial, and industrial fans, from MidOcean Partners ("MidOcean") for a contractual purchase price of approximately \$845,000. Hunter, which is part of Griffon's Consumer and Professional Products segment, complements and diversifies our portfolio of leading consumer brands and products. We financed the acquisition of Hunter with a new \$800,000 seven year Term Loan B facility; we used a combination of cash on hand and revolving credit facility borrowings to fund the balance of the purchase price and related acquisition and debt expenditures.

Griffon conducts its operations through two reportable segments:

- Consumer and Professional Products ("CPP") is a leading North American manufacturer and a global provider of branded consumer and professional tools; residential, industrial and commercial fans; home storage and organization products; and products that enhance indoor and outdoor lifestyles. CPP sells products globally through a portfolio of leading brands including AMES, since 1774, Hunter, since 1886, True Temper, and ClosetMaid.
- Home and Building Products ("HBP") conducts its operations through Clopay Corporation ("Clopay"). Founded in 1964, Clopay is the largest manufacturer and marketer of garage doors and rolling steel doors in North America. Residential and commercial sectional garage doors are sold through professional dealers and leading home center retail chains throughout North America under the brands Clopay, Ideal, and Holmes. Rolling steel door and grille products designed for commercial, industrial, institutional, and retail use are sold under the Cornell and Cookson brands.

GRIFFON CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(US dollars and non US currencies in thousands, except per share data)

(Unaudited)

Update on COVID-19 on our Business

The health and safety of our employees, our customers and their families is always a high priority for Griffon. As of the date of this filing, all of Griffon's facilities are fully operational. When COVID-19 struck, we implemented a variety of new policies and procedures, including additional cleaning, social distancing, staggered shifts and prohibiting or significantly restricting on-site visitors, to minimize the risk to our employees of contracting COVID-19. While many of these precautions have been relaxed or eliminated as the health risk of COVID-19 has decreased, we would not hesitate to reinstitute and/or modify these policies and procedures as necessary should the health risk return to an unacceptable level. In such event, our businesses or our suppliers could be required by government authorities to temporarily cease operations; might be limited in their production capacity due to complying with restrictions relating to the operation of businesses to mitigate the impacts of COVID-19; or could suffer their own supply chain disruptions, impacting their ability to continue to supply us with the quantity of materials required by us. While we are unable to determine or predict the nature, duration or scope of the overall impact COVID-19 will have on our businesses, results of operations, liquidity or capital resources, we believe it is important to discuss where our company stands today, how we have responded (and will continue to respond) to COVID 19 and how our operations and financial condition may change as COVID-19 evolves. See information provided in Part 1, Item 1A, "Risk Factors" our Form 10-K filed on November 18, 2022.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP") for interim financial information, and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, these financial statements do not include all the information and footnotes required by US GAAP for complete financial statements. As such, they should be read together with Griffon's Annual Report on Form 10-K for the fiscal year ended September 30, 2022, which provides a more complete explanation of Griffon's accounting policies, financial position, operating results, business, properties and other matters. In the opinion of management, these financial statements reflect all adjustments considered necessary for a fair statement of interim results. Griffon's businesses, in particular its CPP operations, are seasonal; for this and other reasons, the financial results of the Company for any interim period are not necessarily indicative of the results for the full year.

The condensed consolidated balance sheet information at September 30, 2022 was derived from the audited financial statements included in Griffon's Annual Report on Form 10-K for the year ended September 30, 2022.

The condensed consolidated financial statements include the accounts of Griffon and all subsidiaries. Intercompany accounts and transactions have been eliminated in consolidation.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting periods. These estimates may be adjusted due to changes in economic, industry or customer financial conditions, as well as changes in technology or demand. Significant estimates include expected loss allowances for credit losses and returns, net realizable value of inventories, restructuring reserves, valuation of goodwill and intangible assets, sales, assumptions associated with pension benefit obligations and income or expenses, useful lives associated with depreciation and amortization of intangible and fixed assets, warranty reserves, sales incentive accruals, assumption associated with stock based compensation valuation, income taxes and tax valuation reserves, environmental reserves, legal reserves, insurance reserves, the valuation of assets and liabilities of discontinued operations, assumptions associated with valuation of acquired assets and assumed liabilities of acquired companies and the accompanying disclosures. These estimates are based on management's best knowledge of current events and actions Griffon may undertake in the future. Actual results may ultimately differ from these estimates.

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

GRIFFON CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(US dollars and non US currencies in thousands, except per share data)

(Unaudited)

NOTE 2 – FAIR VALUE MEASUREMENTS

The carrying values of cash and equivalents, accounts receivable, accounts and notes payable, and revolving credit and variable interest rate debt approximate fair value due to either the short-term nature of such instruments or the fact that the interest rate of the revolving credit and variable rate debt is based upon current market rates.

Applicable accounting guidance establishes a fair value hierarchy requiring the Company to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. A financial instrument's categorization within the hierarchy is based on the lowest level of input that is significant to the fair value measurement. The accounting guidance establishes three levels of inputs that may be used to measure fair value, as follows:

- Level 1 inputs are measured and recorded at fair value based upon quoted prices in active markets for identical assets.
- Level 2 inputs include inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices in active markets for similar assets and liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of assets or liabilities.
- Level 3 inputs are unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

On December 31, 2022, the fair values of Griffon's 2028 senior notes and Term Loan B facility approximated \$877,298 and \$485,355, respectively. Fair values were based upon quoted market prices (level 1 inputs).

Insurance contracts with values of \$3,466 at December 31, 2022 are measured and recorded at fair value based upon quoted prices in active markets for similar assets (level 2 inputs) and are included in Prepaid and other current assets on the Consolidated Balance Sheets.

Items Measured at Fair Value on a Recurring Basis

At December 31, 2022, marketable debt and equity securities, measured at fair value based on quoted prices in active markets for similar assets (level 2 inputs), with a fair value of \$67 (\$83 cost basis) were included in Prepaid and other current assets on the Consolidated Balance Sheets. Realized and unrealized gains and losses on marketable debt and equity securities are included in Other income in the Consolidated Statements of Operations and Comprehensive Income (Loss).

In the normal course of business, Griffon's operations are exposed to the effects of changes in foreign currency exchange rates. To manage these risks, Griffon may enter into various derivative contracts such as foreign currency exchange contracts, including forwards and options. As of December 31, 2022, Griffon entered into several such contracts in order to lock into a foreign currency rate for planned settlements of trade liabilities payable in U.S. dollars.

At December 31, 2022, Griffon had \$15,000 of Australian dollar contracts at a weighted average rate of \$1.46 which qualified for hedge accounting (level 2 inputs). These hedges were all deemed effective as cash flow hedges with gains and losses related to changes in fair value deferred and recorded in Accumulated other comprehensive income (loss) ("AOCI") and Prepaid and other current assets, or Accrued liabilities, until settlement. Upon settlement, gains and losses are recognized in the Consolidated Statements of Operations and Comprehensive Income (Loss) in Cost of goods and services ("COGS"). AOCI included deferred gains of \$188 (\$132, net of tax) at December 31, 2022. Upon settlement, gains of \$2,261 were recorded in COGS during the quarter ended December 31, 2022, respectively. All contracts expire in 30 to 90 days.

At December 31, 2022, Griffon had \$71,500 of Chinese Yuan contracts at a weighted average rate of \$6.88 which qualified for hedge accounting (level 2 inputs). These hedges were all deemed effective as cash flow hedges with gains and losses related to changes in fair value deferred and recorded in Accumulated other comprehensive income (loss) ("AOCI") and Prepaid and other current assets, or Accrued liabilities, until settlement. Upon settlement, gains and losses are recognized in the Consolidated Statements of Operations and Comprehensive Income (Loss) in Cost of goods and services ("COGS"). AOCI

GRIFFON CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(US dollars and non US currencies in thousands, except per share data)

(Unaudited)

included deferred gains of \$109 (\$79, net of tax) at December 31, 2022. Upon settlement, losses of \$1,257 were recorded in COGS during the quarter ended December 31, 2022. All contracts expire in 4 to 334 days.

At December 31, 2022, Griffon had \$6,900 of Canadian dollar contracts at a weighted average rate of \$1.26. The contracts, which protect Canadian operations from currency fluctuations for U.S. dollar based purchases, do not qualify for hedge accounting. For the three months ended December 31, 2022, fair value gains of \$217, respectively, were recorded to Other liabilities and to Other income for the outstanding contracts, based on similar contract values (level 2 inputs). Realized gains of \$174 was recorded in Other income during the three months ended December 31, 2022, respectively for all settled contracts. All contracts expire in 30 to 300 days.

NOTE 3 – REVENUE

The Company recognizes revenue when performance obligations identified under the terms of contracts with its customers are satisfied. A performance obligation is a promise in a contract to transfer a distinct good or service, or a bundle of goods or services, to the customer, and is the unit of accounting. A contract with a customer is an agreement which both parties have approved, that creates enforceable rights and obligations, has commercial substance and with respect to which payment terms are identified and collectability is probable. Once the Company has entered into a contract or purchase order, it is evaluated to identify performance obligations. For each performance obligation, revenue is recognized when control of the promised products is transferred to the customer, or services are satisfied under the contract or purchase order, in an amount that reflects the consideration the Company expects to be entitled to in exchange for those products or services (the transaction price).

The Company's performance obligations are recognized at a point in time related to the manufacture and sale of a broad range of products and components, and revenue is recognized when title, and risk and rewards of ownership, have transferred to the customer, which is generally upon shipment.

For a complete explanation of Griffon's revenue accounting policies, this note should be read in conjunction with Griffon's Annual Report on Form 10-K for the year ended September 30, 2022. See Note 13 - Business Segments for revenue from contracts with customers disaggregated by end markets, segments and geographic location.

NOTE 4 – ACQUISITIONS

Griffon continually evaluates potential acquisitions that strategically fit within its portfolio or expand its portfolio into new product lines or adjacent markets. Griffon has completed a number of acquisitions that have been accounted for as business combinations, in which assets acquired and liabilities assumed are recorded at fair value as of the date of acquisition and have resulted in the recognition of goodwill. The operating results of the business acquisitions are included in Griffon's consolidated financial statements from the date of acquisition; in each instance, Griffon is in the process of finalizing the initial purchase price allocation unless otherwise noted.

On January 24, 2022, Griffon acquired Hunter, a market leader in residential ceiling, commercial, and industrial fans, from MidOcean for a contractual purchase price of \$845,000. The acquisition was primarily financed with a new \$800,000 seven year Term Loan B facility; we used a combination of cash on hand and revolver borrowings to fund the balance of the purchase price and related acquisition and debt expenditures. Hunter complements and diversifies Griffon's portfolio of leading consumer brands and products. For the three months ended December 31, 2022, Hunter's revenue and Segment Adjusted EBITDA was \$54,117 and \$4,428, respectively. The goodwill recognized was \$256,728, which was assigned to the CPP segment, and is not deductible for income tax purposes. The preliminary purchase price allocation is based on appraisals and other analysis of fair values of acquired assets and liabilities. The following unaudited proforma summary from continuing operations presents consolidated information as if the Company acquired Hunter on October 1, 2020:

GRIFFON CORPORATION AND SUBSIDIARIES
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	Proforma For the Three Months Ended December 31, (unaudited)	
	2021	
Revenue	\$	670,839
Income from continuing operations		19,974

Griffon did not include any material, nonrecurring proforma adjustments directly attributable to the business combination in the proforma revenue and earnings. These proforma amounts have been compiled by adding the historical results from continuing operations of Griffon, restated for classifying the results of operations of the Telephonics business as a discontinued operation, to the historical results of Hunter after applying Griffon's accounting policies and the following proforma adjustments:

- Depreciation and amortization that would have been charged assuming the preliminary fair value adjustments to property, plant, and equipment, and intangible assets had been applied from October 1, 2021.
- Additional interest and related expenses from the new \$800,000 seven year Term Loan B facility that Griffon used to acquire Hunter Fan reduced by historical Hunter interest expense.
- The tax effects on the above adjustments using the statutory tax rate of 25.7% for Griffon and 27.1% for Hunter.

The calculation of the preliminary purchase price allocation is as follows:

Accounts receivable ⁽¹⁾	\$	64,602
Inventories ⁽²⁾		110,299
Other current assets		7,940
Property, plant and equipment		15,007
Operating lease right-of-use assets		12,447
Goodwill		256,728
Intangible assets		616,000
Total assets acquired	\$	1,083,023
Accounts payable and accrued liabilities	\$	69,789
Current portion of operating lease liabilities		3,323
Deferred tax liability ⁽³⁾		145,486
Long-term operating lease liabilities		9,123
Other long-term liabilities		3,848
Total liabilities assumed	\$	231,569
Total net assets acquired	\$	851,454

⁽¹⁾ Includes \$67,201 of gross accounts receivable of which \$2,599 was not expected to be collected. The fair value of accounts receivable approximated book value acquired.

⁽²⁾ Includes \$113,287 of gross inventory of which \$2,988 was reserved for obsolete items.

⁽³⁾ Deferred tax liability recorded on intangibles assets.

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The amounts assigned to goodwill and major intangible asset classifications for the Hunter acquisition are as follows:

		Average Life (Years)
Goodwill	\$ 256,728	N/A
Indefinite-lived intangibles (Hunter and Casablanca brands)	356,000	N/A
Definite-lived intangibles (Customer relationships)	250,000	20
Total goodwill and intangible assets	\$ 862,728	

During the quarter ended December 31, 2022, there were no acquisition costs. During the quarter ended December 31, 2021, the Company incurred acquisition costs of \$2,595.

NOTE 5 – INVENTORIES

Inventories are stated at the lower of cost (first-in, first-out or average cost) or net realizable value.

The following table details the components of inventory:

	At December 31, 2022	At September 30, 2022
Raw materials and supplies	\$ 163,118	\$ 173,520
Work in process	34,484	50,963
Finished goods	448,750	444,710
Total	\$ 646,352	\$ 669,193

NOTE 6 – PROPERTY, PLANT AND EQUIPMENT

The following table details the components of property, plant and equipment, net:

	At December 31, 2022	At September 30, 2022
Land, building and building improvements	\$ 157,626	\$ 159,693
Machinery and equipment	518,478	511,779
Leasehold improvements	35,814	35,489
	711,918	706,961
Accumulated depreciation and amortization	(421,413)	(412,400)
Total	\$ 290,505	\$ 294,561

Depreciation and amortization expense for property, plant and equipment was \$11,489 and \$10,694 for the quarters ended December 31, 2022 and 2021, respectively. Depreciation and amortization expense included in Selling, general and administrative ("SG&A") expenses was \$4,239 and \$3,400 for the quarters ended December 31, 2022 and 2021, respectively. Remaining components of depreciation, attributable to manufacturing operations, are included in Cost of goods and services.

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NOTE 7 – CREDIT LOSSES

The Company is exposed to credit losses primarily through sales of products and services. Trade receivables are recorded at their stated amount, less allowances for discounts, credit losses and returns. The Company’s expected loss allowance methodology for trade receivables is primarily based on the aging method of the accounts receivables balances and the financial condition of its customers. The allowances represent estimated uncollectible receivables associated with potential customer defaults on contractual obligations (usually due to customers’ potential insolvency), discounts related to early payment of accounts receivables by customers and estimates for returns. The allowance for credit losses includes amounts for certain customers in which a risk of default has been specifically identified, as well as an amount for customer defaults, based on a formula, when it is determined the risk of some default is probable and estimable, but cannot yet be associated with specific customers. Allowance for discounts and returns are recorded as a reduction of revenue and the provision related to the allowance for credit losses is recorded in SG&A expenses.

The Company also considers current and expected future economic and market conditions when determining any estimate of credit losses. Generally, estimates used to determine the allowance are based on assessment of anticipated payment and all other historical, current and future information that is reasonably available. All accounts receivable amounts are expected to be collected in less than one year.

Based on a review of the Company's policies and procedures across all segments, including the aging of its trade receivables, recent write-off history and other factors related to future macroeconomic conditions, Griffon determined that its method to determine credit losses and the amount of its allowances for bad debts is in accordance with the accounting guidance for credit losses on financial instruments, including trade receivables, in all material respects.

The following table provides a roll-forward of the allowance for credit losses that is deducted from the amortized cost basis of accounts receivable to present the net amount expected to be collected:

	Three months ended December 31,	
	2022	2021
Beginning Balance, October 1	\$ 12,137	\$ 8,787
Provision for expected credit losses	1,457	1,039
Amounts written off charged against the allowance	(48)	(4)
Other, primarily foreign currency translation	90	(35)
Ending Balance, December 31	<u>\$ 13,636</u>	<u>\$ 9,787</u>

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NOTE 8 – GOODWILL AND OTHER INTANGIBLES

The following table provide a summary of the carrying value of goodwill by segment as of September 30, 2022 and December 31, 2022, as follows:

	At September 30, 2022	Hunter Acquisition	At December 31, 2022
Consumer and Professional Products	\$ 144,537	\$ (1,808)	\$ 142,729
Home and Building Products	191,253	—	191,253
Total	\$ 335,790	\$ (1,808)	\$ 333,982

(1) The decrease is due to the preliminary allocation of the purchase price for the Hunter acquisition.

The following table provides the gross carrying value and accumulated amortization for each major class of intangible assets:

	At December 31, 2022		Average Life (Years)	At September 30, 2022	
	Gross Carrying Amount	Accumulated Amortization		Gross Carrying Amount	Accumulated Amortization
Customer relationships & other	\$ 443,915	\$ 97,316	23	\$ 442,085	\$ 91,143
Technology and patents	14,648	3,197	13	14,326	3,022
Total amortizable intangible assets	458,563	100,513		456,411	94,165
Trademarks	403,076	—		399,668	—
Total intangible assets	\$ 861,639	\$ 100,513		\$ 856,079	\$ 94,165

The gross carrying amount of intangible assets was impacted by \$5,560 related to favorable foreign currency translation.

Amortization expense for intangible assets was \$5,624 and \$2,387 for the quarters ended December 31, 2022 and 2021, respectively. The increase in intangible assets and amortization is related to the Hunter acquisition.

Amortization expense for the remainder of 2023 and the next five fiscal years and thereafter, based on current intangible balances and classifications, is estimated as follows: remaining in 2023 - \$16,161; 2024 - \$21,305; 2025 - \$21,305; 2026 - \$21,305; 2027 - \$21,305; 2028 - \$21,305; thereafter \$235,364.

During the quarter ended December 31, 2022, the Company determined that there were no triggering events and, as a result, there was no impairment to either its goodwill or indefinite-lived intangible assets at December 31, 2022.

NOTE 9 – INCOME TAXES

During the quarter ended December 31, 2022, the Company recognized a tax provision of \$19,318 on income before taxes from continuing operations of \$68,020, compared to a tax provision of \$7,213 on income before taxes from continuing operations of \$23,917 in the comparable prior year quarter. The current year quarter results include a gain on the sale of a building of \$10,852 (\$8,323, net of tax), strategic review (retention and other) of \$8,232 (\$6,222, net of tax), proxy costs of \$1,503 (\$1,153, net of tax), and discrete and certain other tax benefits, net, that affect comparability of \$333. The prior year quarter results included restructuring charges of \$1,716 (\$1,330, net of tax), acquisition costs of \$2,595 (\$2,003, net of tax), proxy contest costs of \$2,291 (\$1,768, net of tax) and discrete and certain other tax benefits, net, that affect comparability of \$891. Excluding these items, the effective tax rates for the quarters ended December 31, 2022 and 2021 were 29.1% and 31.5%, respectively.

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NOTE 10 – LONG-TERM DEBT

	At December 31, 2022					At September 30, 2022				
	Outstanding Balance	Original Issuer Premium/(Discount)	Capitalized Fees & Expenses	Balance Sheet	Coupon Interest Rate	Outstanding Balance	Original Issuer Premium/(Discount)	Capitalized Fees & Expenses	Balance Sheet	Coupon Interest Rate
Senior notes due 2028	(a) \$ 974,775	\$ 254	(10,434)	\$ 964,595	5.75 %	\$ 974,775	\$ 266	\$(10,939)	\$ 964,102	5.75 %
Term Loan B due 2029	(b) 494,000	(1,101)	(8,472)	484,427	Variable	496,000	(1,144)	(8,823)	486,033	Variable
Revolver due 2025	(b) 45,100	—	(1,104)	43,996	Variable	97,328	—	(1,227)	96,101	Variable
Finance lease - real estate	(c) 12,751	—	—	12,751	Variable	13,091	—	—	13,091	Variable
Non US lines of credit	(d) —	—	(4)	(4)	Variable	—	—	(2)	(2)	Variable
Non US term loans	(d) 12,663	—	(21)	12,642	Variable	12,090	—	(27)	12,063	Variable
Other long term debt	(e) 2,127	—	(13)	2,114	Variable	2,276	—	(13)	2,263	Variable
Totals	1,541,416	(847)	(20,048)	1,520,521		1,595,560	(878)	(21,031)	1,573,651	
less: Current portion	(12,840)	—	—	(12,840)		(12,653)	—	—	(12,653)	
Long-term debt	<u>\$1,528,576</u>	<u>\$ (847)</u>	<u>\$(20,048)</u>	<u>\$1,507,681</u>		<u>\$1,582,907</u>	<u>\$ (878)</u>	<u>\$(21,031)</u>	<u>\$1,560,998</u>	

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	Three Months Ended December 31, 2022						Three Months Ended December 31, 2021					
	Effective Interest Rate	Cash Interest	Amort. Debt (Premium)/Discount	Amort. Debt Issuance Costs & Other Fees	Total Interest Expense		Effective Interest Rate	Cash Interest	Amort. Debt Premium	Amort. Debt Issuance Costs & Other Fees	Total Interest Expense	
Senior notes due 2028	(a)	5.9 %	\$ 14,012	\$ (12)	\$ 505	\$ 14,505	5.9 %	\$ 14,375	\$ (12)	\$ 518	\$ 14,881	
Term Loan B due 2029	(b)	Variable	7,808	43	351	8,202	n/a	—	—	—	—	
Revolver due 2025	(b)	Variable	1,344	—	123	1,467	Variable	261	—	122	383	
Finance lease - real estate	(c)	5.6 %	178	—	—	178	5.6 %	198	—	4	202	
Non US lines of credit	(d)	Variable	155	—	13	168	Variable	3	—	4	7	
Non US term loans	(d)	Variable	—	—	—	—	Variable	166	—	17	183	
Other long term debt	(e)	Variable	130	—	—	130	Variable	97	—	1	98	
Capitalized interest			(2)	—	—	(2)		(73)	—	—	(73)	
Totals			<u>\$ 23,625</u>	<u>\$ 31</u>	<u>\$ 992</u>	<u>\$ 24,648</u>		<u>\$ 15,027</u>	<u>\$ (12)</u>	<u>\$ 666</u>	<u>\$ 15,681</u>	

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- (a) During 2020, Griffon issued, at par, \$1,000,000 of 5.75% Senior Notes due 2028 (the "2028 Senior Notes"). Proceeds from the 2028 Senior Notes were used to redeem \$1,000,000 of 5.25% Senior Notes due 2022. In connection with the issuance and exchange of the 2028 Senior Notes, Griffon capitalized \$16,448 of underwriting fees and other expenses incurred, which is being amortized over the term of such notes.

During 2022, Griffon purchased \$25,225 of 2028 Senior Notes in the open market at a weighted average discount of 91.82% of par, or \$23,161. In connection with these purchases, Griffon recognized a \$1,767 net gain on the early extinguishment of debt comprised of \$2,064 of face value in excess of purchase price, offset by \$297 related to the write-off of underwriting fees and other expenses. As of December 31, 2022, outstanding 2028 Senior Notes due totaled \$974,775; interest is payable semi-annually on March 1 and September 1.

The 2028 Senior Notes are senior unsecured obligations of Griffon guaranteed by certain domestic subsidiaries, and subject to certain covenants, limitations and restrictions. The 2028 Senior Notes were registered under the Securities Act of 1933, as amended (the "Securities Act") via exchange offer. The fair value of the 2028 Senior Notes approximated \$877,298 on December 31, 2022 based upon quoted market prices (level 1 inputs). At December 31, 2022, \$10,434 of underwriting fees and other expenses incurred remained to be amortized.

- (b) On January 24, 2022, Griffon amended and restated its Revolving Credit Facility (as amended, "Credit Agreement") to provide for a new \$800,000 Term Loan B facility, due January 24, 2029, in addition to its \$400,000 revolving credit facility ("Revolver"), and replaced LIBOR with SOFR (Secured Overnight Financing Rate). The Term Loan B accrues interest at the Term SOFR rate plus a credit adjustment spread with a floor of 0.50%, and a current spread of 2.50% (7.01% as of December 31, 2022). Additionally, there are two interest rate step-downs tied to achieving decreased secured leverage ratio thresholds, the first of which was achieved during 2022. The Original Issue Discount for the Term Loan B was 99.75%. In connection with this amendment, Griffon capitalized \$15,466 of underwriting fees and other expenses incurred, which are being amortized over the term of the loan.

The Term Loan B facility requires nominal quarterly principal payments of \$2,000, which began with the quarter ended June 30, 2022; potential additional annual principal payments based on a percentage of excess cash flow and certain secured leverage thresholds starting with the fiscal year ending September 30, 2023; and a final balloon payment due at maturity. Term Loan B borrowings may generally be repaid without penalty but may not be re-borrowed. During the third quarter of 2022, Griffon prepaid \$300,000 aggregate principal amount of the Term Loan B, which permanently reduced the outstanding balance. In connection with the prepayment of the Term Loan B, Griffon recognized a \$6,296 charge on the prepayment of debt; \$5,575 related to the write-off of underwriting fees and other expenses and \$721 of the original issuer discount. The Term Loan B facility is subject to the same affirmative and negative covenants that apply to the Revolver, but is not subject to any financial maintenance covenants. Term Loan B borrowings are secured by the same collateral as the Revolver on an equal and ratable basis. The fair value of the Term Loan B facility approximated \$485,355 on December 31, 2022 based upon quoted market prices (level 1 inputs). At December 31, 2022, \$8,472 of underwriting fees and other expenses incurred, remained to be amortized.

The Revolver's maximum borrowing availability is \$400,000 and it matures on March 22, 2025. The Revolver includes a letter of credit sub-facility with a limit of \$100,000; a multi-currency sub-facility of \$200,000; and contains a customary accordion feature that permits us to request, subject to each lender's consent, an increase in the maximum aggregate amount that can be borrowed by up to an additional \$100,000.

During 2022, Griffon replaced the Revolver GBP LIBOR benchmark rate with a Sterling Overnight Index Average ("SONIA"). Borrowings under the Revolver may be repaid and re-borrowed at any time. Interest is payable on borrowings at either a SOFR, SONIA or base rate benchmark rate, plus an applicable margin, which adjusts based on financial performance. Griffon's SOFR loans accrue interest at Term SOFR plus a credit adjustment spread and a margin of 1.50% (5.91% at December 31, 2022) and SONIA loans accrue interest at SONIA Base Rate plus a credit adjustment spread and a margin of 1.50% (4.96% at December 31, 2022). The Revolver has certain financial maintenance tests including a maximum total leverage ratio, a maximum senior secured leverage ratio and a minimum interest coverage ratio, as well as customary affirmative and negative covenants and events of default. The negative covenants place limits on Griffon's ability to, among other things, incur indebtedness, incur liens, and make restricted payments and investments. Both the Revolver and Term Loan B borrowings under the Credit Agreement are guaranteed by Griffon's

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material domestic subsidiaries and are secured, on a first priority basis, by substantially all domestic assets of the Company and the guarantors, and a pledge of not greater than 65% of the equity interest in Griffon's material, first-tier foreign subsidiaries. At December 31, 2022, there were \$45,100 of outstanding borrowings under the Revolver; outstanding standby letters of credit were \$12,287; and \$342,613 was available, subject to certain loan covenants, for borrowing at that date.

- (c) Griffon has one finance lease outstanding for real estate located in Ocala, Florida. The lease matures in 2025 and bears interest at a fixed rate of approximately 5.6%. The Ocala, Florida lease contains two five-year renewal options. At December 31, 2022, \$12,751 was outstanding. During 2022, the financing lease on the Troy, Ohio location expired. The lease bore interest at a rate of approximately 5.0%, was secured by a mortgage on the real estate, which was guaranteed by Griffon, and had a one dollar buyout at the end of the lease. Griffon exercised the one dollar buyout option in November 2021. Refer to Note 21- Leases for further details.
- (d) In November 2012, Garant G.P. ("Garant"), a Griffon wholly owned subsidiary, entered into a CAD 15,000 (\$11,072 as of December 31, 2022) revolving credit facility. Effective in December 2022, the facility was amended to replace LIBOR (USD) with the Canadian Dollar Offer Rate ("CDOR"). The facility accrues interest at CDOR or the Bankers Acceptance Rate (CDN) plus 1.3% per annum (6.04% using CDOR and 5.79% using Bankers Acceptance Rate CDN as of December 31, 2022). The revolving facility matures in December 2023, but is renewable upon mutual agreement with the lender. Garant is required to maintain a certain minimum equity. At December 31, 2022, there were no outstanding borrowings under the revolving credit facility with CAD 15,000 (\$11,072 as of December 31, 2022) available.

During 2022, Griffon Australia Holdings Pty Ltd and its Australian subsidiaries (collectively, "Griffon Australia") amended its AUD 18,375 term loan, AUD 20,000 revolver and AUD 15,000 receivable purchase facility agreement that was entered into in July 2016 and further amended in fiscal 2020. Griffon Australia paid off the term loan in the amount of AUD 9,625 and canceled the AUD 20,000 revolver. The amendment refinanced the existing AUD 15,000 receivable purchase facility. The receivable purchase facility matures in March 2023, but is renewable upon mutual agreement with the lender. The receivable purchase facility accrues interest at BBSY (Bank Bill Swap Rate) plus 1.25% per annum (4.51% at December 31, 2022). At December 31, 2022, there was no balance outstanding under the receivable purchase facility with AUD 15,000 (\$10,134 as of December 31, 2022) available. The receivable purchase facility is secured by substantially all of the assets of Griffon Australia and its subsidiaries. Griffon Australia is required to maintain a certain minimum equity level.

In July 2018, The AMES Companies UK Ltd and its subsidiaries (collectively, "AMES UK") entered into a GBP 14,000 term loan, GBP 4,000 mortgage loan and GBP 5,000 revolver. The term loan and mortgage loan require quarterly principal payments of GBP 438 and GBP 105 plus interest, respectively, and have balloon payments due upon maturity, July 2023, of GBP 7,088 and GBP 2,349, respectively. Effective in January 2022, the Term Loan and Mortgage Loan were amended to replace GBP LIBOR with SONIA. The Term Loan and Mortgage Loans each accrue interest at the SONIA Rate plus 1.80% (5.23% at December 31, 2022). The revolving facility accrues interest at the Bank of England Base Rate plus 3.25% (6.75% as of December 31, 2022). The revolving credit facility matures in July 2023, but is renewable upon mutual agreement with the lender. As of December 31, 2022, the revolver had no outstanding balance while the term and mortgage loan balances amounted to GBP 10,519 (\$12,663 as of December 31, 2022). The revolver and the term loan are both secured by substantially all the assets of AMES UK and its subsidiaries. AMES UK is subject to a maximum leverage ratio and a minimum fixed charges cover ratio.

- (e) Other long-term debt primarily consists of a loan with the Pennsylvania Industrial Development Authority, with the balance consisting of finance leases.

At December 31, 2022, Griffon and its subsidiaries were in compliance with the terms and covenants of all credit and loan agreements.

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NOTE 11 — SHAREHOLDERS' EQUITY AND EQUITY COMPENSATION

During the three months ended December 31, 2022, the Company paid a quarterly cash dividend of \$0.10 per share. During 2022, the Company paid a regular quarterly cash dividend of \$0.09 per share, totaling \$0.36 per share for the year. Additionally, on June 27, 2022, the Board of Directors declared a special cash dividend of \$2.00 per share, paid on July 20, 2022. For all dividends, a dividend payable is established for the holders of restricted shares; such dividends will be released upon vesting of the underlying restricted shares.

On January 30, 2023, the Board of Directors declared a quarterly cash dividend of \$0.10 per share, payable on March 23, 2023 to shareholders of record as of the close of business on February 23, 2023.

On January 29, 2016, shareholders approved the Griffon Corporation 2016 Equity Incentive Plan (the "Original Incentive Plan") pursuant to which, among other things, awards of performance shares, performance units, stock options, stock appreciation rights, restricted shares, restricted stock units, deferred shares and other stock-based awards may be granted. On January 31, 2018, shareholders approved Amendment No. 1 to the Original Incentive Plan pursuant to which, among other things, 1,000,000 shares were added to the Original Incentive Plan; and on January 30, 2020, shareholders approved Amendment No. 2 to the Original Incentive Plan, pursuant to which 1,700,000 shares were added to the Original Incentive Plan. On February 17, 2022, shareholders approved the Amended and Restated 2016 Equity Incentive Plan (the "Amended Incentive Plan"), which amended and restated the Original Incentive Plan and pursuant to which, among other things, 1,200,000 shares were added to the Original Incentive Plan. Options granted under the Amended Incentive Plan may be either "incentive stock options" or nonqualified stock options, generally expire ten years after the date of grant and are granted at an exercise price of not less than 100% of the fair market value at the date of grant. The maximum number of shares of common stock available for award under the Amended Incentive Plan is 6,250,000 (600,000 of which may be issued as incentive stock options), plus (i) any shares that were reserved for issuance under the Original Incentive Plan as of the effective date of the Original Incentive Plan, and (ii) any shares underlying awards outstanding on such date under the 2011 Incentive Plan that were subsequently canceled or forfeited. As of December 31, 2022, there were 368,445 shares available for grant.

Compensation expense for restricted stock and restricted stock units is recognized ratably over the required service period based on the fair value of the grant, calculated as the number of shares or units granted multiplied by the stock price on the date of grant, and for performance shares, including performance units, the likelihood of achieving the performance criteria. The Company recognizes forfeitures as they occur. Compensation expense for restricted stock granted to two senior executives is calculated as the maximum number of shares granted, upon achieving certain performance criteria, multiplied by the stock price as valued by a Monte Carlo Simulation Model. Compensation cost related to stock-based awards with graded vesting, generally over a period of three to four years, is recognized using the straight-line attribution method and recorded within SG&A expenses.

The following table summarizes the Company's compensation expense relating to all stock-based incentive plans:

	For the Three Months Ended December 31,	
	2022	2021
Restricted stock	\$ 5,538	\$ 3,890
ESOP	1,204	977
Total stock-based compensation	\$ 6,742	\$ 4,867

During the first quarter of 2023, Griffon granted 466,677 shares of restricted stock and restricted stock units ("RSUs"). This includes 249,480 shares of restricted stock and 11,901 RSUs granted to 44 executives and key employees, subject to certain performance conditions, with a vesting period of thirty-six months and a total fair value of \$8,385, or a weighted average fair value of \$33.61 per share. This also includes 205,296 shares of restricted stock granted to two senior executives with a vesting period of thirty-six months and a two-year post-vesting holding period, subject to the achievement of certain performance conditions relating to required levels of return on invested capital and the relative total shareholder return of Griffon's common stock as compared to a market index. So long as the minimum performance conditions are attained, the amount of shares that can vest will range from a minimum of 51,324 to a maximum of 205,296, with the target number of shares being 102,648. The total fair value of these restricted shares, assuming achievement of the performance conditions at target, is \$3,555, or a

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weighted average fair value of \$34.63 per share. During the three months ended December 31, 2022, 454,776 shares granted were issued out of treasury stock.

On each of August 3, 2016 and August 1, 2018, Griffon's Board of Directors authorized the repurchase of up to \$50,000 of Griffon's outstanding common stock. Under this share repurchase program, the Company may purchase shares in the open market, including pursuant to a 10b5-1 plan, or in privately negotiated transactions. During the three months ended December 31, 2022, Griffon did not purchase any shares of common stock under these repurchase programs. As of December 31, 2022, an aggregate of \$57,955 remains under Griffon's Board authorized repurchase programs.

During the three months ended December 31, 2022, 345,051 shares, with a market value of \$12,627, or \$36.59 per share were withheld to settle employee taxes due upon the vesting of restricted stock, and were added to treasury stock. Furthermore, during the three months ended December 31, 2022, an additional 3,066 shares, with a market value of \$108, or \$35.31 per share, were withheld from common stock issued upon the vesting of restricted stock units to settle employee taxes due upon vesting.

NOTE 12 – EARNINGS PER SHARE (EPS)

Basic EPS was calculated by dividing income available to common shareholders by the weighted average number of shares of common stock outstanding during the period. Diluted EPS was calculated by dividing income available to common shareholders by the weighted average number of shares of common stock outstanding plus additional common shares that could be issued in connection with stock-based compensation.

The following table is a reconciliation of the share amounts (in thousands) used in computing earnings per share:

	Three Months Ended December 31,	
	2022	2021
Common shares outstanding	57,186	56,304
Unallocated ESOP shares	(979)	(1,816)
Non-vested restricted stock	(3,230)	(2,869)
Impact of weighted average shares	(398)	(441)
Weighted average shares outstanding - basic	52,579	51,178
Incremental shares from stock-based compensation	2,719	2,575
Weighted average shares outstanding - diluted	55,298	53,753

GRIFFON CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(US dollars and non US currencies in thousands, except per share data)

(Unaudited)

NOTE 13 – BUSINESS SEGMENTS

Griffon reports its operations through two reportable segments, as follows:

- Consumer and Professional Products (“CPP”) is a leading North American manufacturer and a global provider of branded consumer and professional tools; residential, industrial and commercial fans; home storage and organization products; and products that enhance indoor and outdoor lifestyles. CPP sells products globally through a portfolio of leading brands including AMES, since 1774, Hunter, since 1886, True Temper, and ClosetMaid.
- Home and Building Products (“HBP”) conducts its operations through Clopay. Founded in 1964, Clopay is the largest manufacturer and marketer of garage doors and rolling steel doors in North America. Residential and commercial sectional garage doors are sold through professional dealers and leading home center retail chains throughout North America under the brands Clopay, Ideal, and Holmes. Rolling steel door and grille products designed for commercial, industrial, institutional, and retail use are sold under the Cornell and Cookson brands.

Information on Griffon’s reportable segments from continuing operations is as follows:

REVENUE	For the Three Months Ended December 31,	
	2022	2021
Consumer and Professional Products	\$ 252,811	\$ 283,173
Home and Building Products	396,573	308,576
Total revenue	\$ 649,384	\$ 591,749

Disaggregation of Revenue

Revenue from contracts with customers is disaggregated by end markets, segments and geographic location, as it more accurately depicts the nature and amount of the Company’s revenue. The following table presents revenue disaggregated by end market and segment:

	For the Three Months Ended December 31,	
	2022	2021
Residential repair and remodel	\$ 81,706	\$ 38,759
Retail	68,497	130,235
Residential new construction	12,487	10,327
Industrial	17,093	11,306
International excluding North America	73,028	92,546
Total Consumer and Professional Products	252,811	283,173
Residential repair and remodel	190,730	145,085
Commercial construction	169,514	130,789
Residential new construction	36,329	32,702
Total Home and Building Products	396,573	308,576
Total Consolidated Revenue	\$ 649,384	\$ 591,749

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The following table presents revenue disaggregated by geography based on the location of the Company's customer:

	For the Three Months Ended December 31,					
	2022			2021		
	CPP	HBP	Total	CPP	HBP	Total
United States	\$ 153,667	\$ 379,300	\$ 532,967	\$ 164,899	\$ 294,576	\$ 459,475
Europe	4,696	16	4,712	18,330	37	18,367
Canada	23,116	15,355	38,471	22,628	12,013	34,641
Australia	66,217	—	66,217	74,349	—	74,349
All other countries	5,115	1,902	7,017	2,967	1,950	4,917
Consolidated revenue	\$ 252,811	\$ 396,573	\$ 649,384	\$ 283,173	\$ 308,576	\$ 591,749

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Griffon evaluates performance and allocates resources based on each segment's operating results before interest income and expense, income taxes, depreciation and amortization, unallocated amounts (mainly corporate overhead), restructuring charges, loss from debt extinguishment and acquisition related expenses, as well as other items that may affect comparability, as applicable ("Segment adjusted EBITDA"). Griffon believes this information is useful to investors for the same reason. The following table provides a reconciliation of Segment adjusted EBITDA to Income before taxes from continuing operations:

	For the Three Months Ended December 31,	
	2022	2021
Segment adjusted EBITDA:		
Consumer and Professional Products	\$ (1,809)	\$ 16,214
Home and Building Products	124,145	56,297
Segment adjusted EBITDA	122,336	72,511
Unallocated amounts, excluding depreciation *	(13,776)	(13,263)
Adjusted EBITDA	108,560	59,248
Net interest expense	(24,544)	(15,648)
Depreciation and amortization	(17,113)	(13,081)
Gain on sale of building	10,852	—
Strategic review - retention and other	(8,232)	—
Proxy expenses	(1,503)	(2,291)
Acquisition costs	—	(2,595)
Restructuring charges	—	(1,716)
Income before taxes from continuing operations	<u>\$ 68,020</u>	<u>\$ 23,917</u>

* Unallocated amounts typically include general corporate expenses not attributable to a reportable segment.

	For the Three Months Ended December 31,	
	2022	2021
<u>DEPRECIATION and AMORTIZATION</u>		
Segment:		
Consumer and Professional Products	\$ 13,127	\$ 8,606
Home and Building Products	3,846	4,338
Total segment depreciation and amortization	16,973	12,944
Corporate	140	137
Total consolidated depreciation and amortization	<u>\$ 17,113</u>	<u>\$ 13,081</u>
<u>CAPITAL EXPENDITURES</u>		
Segment:		
Consumer and Professional Products	\$ 2,658	\$ 7,130
Home and Building Products	2,068	3,349
Total segment	4,726	10,479
Corporate	—	94
Total consolidated capital expenditures	<u>\$ 4,726</u>	<u>\$ 10,573</u>

GRIFFON CORPORATION AND SUBSIDIARIES
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ASSETS	At December 31, 2022	At September 30, 2022
Segment assets:		
Consumer and Professional Products	\$ 1,908,749	\$ 1,914,529
Home and Building Products	707,309	737,860
Total segment assets	2,616,058	2,652,389
Corporate	155,487	158,310
Total continuing assets	2,771,545	2,810,699
Discontinued operations	5,693	5,775
Consolidated total	<u>\$ 2,777,238</u>	<u>\$ 2,816,474</u>

NOTE 14 – EMPLOYEE BENEFIT PLANS

Defined benefit pension expense (income) included in Other Income (Expense), net was as follows:

	Three Months Ended December 31,	
	2022	2021
Interest cost	\$ 1,825	\$ 796
Expected return on plan assets	(2,553)	(2,589)
Amortization:		
Recognized actuarial loss	944	845
Net periodic expense (income)	<u>\$ 216</u>	<u>\$ (948)</u>

NOTE 15 – RECENT ACCOUNTING PRONOUNCEMENTS

In October 2021, the Financial Accounting Standards Board ("FASB") issued ASU No. 2021-08, *Business Combinations (Topic 805); Accounting for Contract Assets and Contract Liabilities from Contracts with Customers*. This new guidance affects all entities that enter into a business combination within the scope of ASC 805-10. Under this new guidance, the acquirer should determine what contract assets and/or liabilities it would have recorded under ASC 606 (Revenue Guidance) as of the acquisition date, as if the acquirer had entered into the original contract at the same date and on the same terms as the acquirer. Under current U.S. GAAP, contract assets and contract liabilities acquired in a business combination are recorded by the acquirer at fair value. This update is effective for the Company beginning in fiscal 2023. Adoption of this standard did not have a material impact on our consolidated financial statements and the related disclosures.

The Company has implemented all new accounting pronouncements that are in effect and that may impact its financial statements, and does not believe that there are any other new accounting pronouncements that have been issued that might have a material impact on its financial position or results of operations.

GRIFFON CORPORATION AND SUBSIDIARIES
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NOTE 16 – DISCONTINUED OPERATIONS

On September 27, 2021, Griffon announced it was exploring strategic alternatives for its DE segment, which consisted of its Telephonics subsidiary. On June 27, 2022, Griffon completed the sale of Telephonics to TTM for \$330,000 in cash, excluding \$2,568 for post-closing working capital adjustments. In connection with the sale of Telephonics, the Company recorded a gain of \$107,517 (\$89,241, net of tax) for the year ended September 30, 2022. The gain and related tax for the sale of Telephonics is preliminary and is subject to finalization.

In accordance with ASC 205-20 Presentation of Financial Statements: Discontinued Operations, a disposal of a component of an entity or a group of components of an entity is required to be reported as discontinued operations if the disposal represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results when the component of an entity meets the criteria in paragraph 205-20-45-10. In the period in which the component meets held-for-sale or discontinued operations criteria, the major current assets, other assets, current liabilities, and noncurrent liabilities shall be reported as components of total assets and liabilities separate from those balances of the continuing operations. At the same time, the results of all discontinued operations, less applicable income taxes (benefit), shall be reported as components of net income (loss) separate from the net income (loss) of continuing operations.

Defense Electronics (DE or Telephonics)

The following amounts related to Telephonics have been segregated from Griffon's continuing operations and are reported as a discontinued operation:

	For the Three Months Ended December 31, 2021
Revenue	\$ 53,993
Cost of goods and services	40,961
Gross profit	13,032
Selling, general and administrative expenses	10,020
Income from discontinued operations	3,012
Other income (expense)	—
Interest income, net	—
Other, net	308
Total other income (expense)	308
Income from discontinued operations before taxes	\$ 3,320
Provision for income taxes	726
Income from discontinued operations	<u>\$ 2,594</u>

Depreciation and amortization was excluded from the prior year results since DE was classified as a discontinued operation and, accordingly, the Company ceased depreciation and amortization in accordance with discontinued operations accounting guidelines. Depreciation and amortization would have been approximately \$2,700 for the quarter ended December 31, 2021.

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The following amounts summarize the total assets and liabilities related to Telephonics, Installation Services and other discontinued activities which have been segregated from Griffon's continuing operations, and are reported as assets and liabilities of discontinued operations in the Condensed Consolidated Balance Sheets:

	<u>At December 31, 2022</u>	<u>At September 30, 2022</u>
Assets of discontinued operations:		
Prepaid and other current assets	\$ 1,122	\$ 1,189
Other long-term assets	4,571	4,586
Total assets of discontinued operations	<u>\$ 5,693</u>	<u>\$ 5,775</u>
Liabilities of discontinued operations:		
Accrued liabilities, current	\$ 8,141	\$ 12,656
Other long-term liabilities	4,209	4,262
Total liabilities of discontinued operations	<u>\$ 12,350</u>	<u>\$ 16,918</u>

At December 31, 2022 and September 30, 2022, Griffon's discontinued assets and liabilities includes the Company's obligation of \$5,288 and \$8,846, respectively, in connection with the sale of Telephonics primarily related to certain customary post-closing adjustments, primarily working capital and stay bonuses. At December 31, 2022 and September 30, 2022, Griffon's liabilities for Installations Services and other discontinued operations primarily relate to insurance claims, income taxes, product liability, warranty and environmental reserves total \$7,062 and \$8,072, respectively.

There was no reported revenue in the quarters ended December 31, 2022 and 2021 for Installations Services and other discontinued operations.

NOTE 17 – RESTRUCTURING CHARGES

In November 2019, Griffon announced the development of a next-generation business platform for CPP to enhance the growth, efficiency, and competitiveness of its U.S. operations, and on November 12, 2020, Griffon announced that CPP was broadening this strategic initiative to include additional North American facilities, the AMES United Kingdom (U.K.) and Australia businesses, and a manufacturing facility in China. On April 28, 2022, Griffon announced a reduced scope and accelerated timeline for the initiative, which was completed in fiscal 2022.

The cost to implement this new business platform, over the duration of the project, included one-time charges of approximately \$51,869 and capital investments of approximately \$15,000, net of future proceeds from the sale of exited facilities. Total cumulative charges of \$51,869 consisted of cash charges totaling \$35,691 and non-cash, asset-related charges totaling \$16,178; the cash charges included \$12,934 for one-time termination benefits and other personnel-related costs and \$22,757 for facility exit costs. As a result of these transactions, headcount was reduced by approximately 420.

In the quarter ended December 31, 2021, CPP incurred pre-tax restructuring and related exit costs approximating \$1,716. During the quarter ended December 31, 2021, cash charges totaled \$1,427 and non-cash, asset-related charges totaled \$289; the cash charges included \$260 for one-time termination benefits and other personnel-related costs and \$1,167 for facility exit costs.

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A summary of the restructuring and other related charges included in Cost of goods and services and SG&A expenses in the Company's Condensed Consolidated Statements of Operations were as follows:

	For the Three Months Ended December 31, 2021
Cost of goods and services	\$ 322
Selling, general and administrative expenses	1,394
Total restructuring charges	<u>\$ 1,716</u>
	For the Three Months Ended December 31, 2021
Personnel related costs	\$ 260
Facilities, exit costs and other	1,167
Non-cash facility and other	289
Total	<u>\$ 1,716</u>

The following table summarizes the accrued liabilities of the Company's restructuring actions:

	Cash Charges		Non-Cash	
	Personnel related costs	Facilities & Exit Costs	Facility and Other Costs⁽¹⁾	Total
Accrued liability at September 30, 2021	\$ 418	\$ 264	\$ —	\$ 682
Q1 Restructuring charges	260	1,167	289	1,716
Q1 Cash payments	(275)	(1,167)	—	(1,442)
Q1 Non-cash charges	—	—	(289)	(289)
Accrued liability at December 31, 2021	<u>\$ 403</u>	<u>\$ 264</u>	<u>\$ —</u>	<u>\$ 667</u>

(1) Non-cash charges in Facility and Other Costs primarily represent the non-cash write-off of certain long-lived assets and inventory that has no recoverable value in connection with certain facility closures

	Cash Charges		
	Personnel related costs	Facilities & Exit Costs	Total
Accrued liability at September 30, 2022	\$ 386	\$ 264	\$ 650
Q1 Cash payments	(74)	(93)	(167)
Accrued liability at December 31, 2022	<u>\$ 312</u>	<u>\$ 171</u>	<u>\$ 483</u>

NOTE 18 – OTHER INCOME (EXPENSE)

For the quarters ended December 31, 2022 and 2021, Other income (expense) of \$607 and \$1,075, respectively, includes \$67 and (\$394), respectively, of net currency exchange gains (losses) in connection with the translation of receivables and payables denominated in currencies other than the functional currencies of Griffon and its subsidiaries, net periodic benefit plan income (expense) of \$(216) and \$948, respectively, and \$33 and \$374, respectively, of net investment income. Other income (expense) also includes rental income of \$212 and \$156 for the three months ended December 31, 2022 and 2021, respectively. Additionally, it includes royalty income of \$549 for the three months ended December 31, 2022.

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NOTE 19 – WARRANTY LIABILITY

CPP and HBP offer warranties against product defects for periods generally ranging from one to ten years, with limited lifetime warranties on certain door and fan models. Typical warranties require CPP and HBP to repair or replace the defective products during the warranty period at no cost to the customer. At the time revenue is recognized, Griffon records a liability for warranty costs, estimated based on historical experience, and periodically assesses its warranty obligations and adjusts the liability as necessary. CPP offers an express limited warranty for a period of ninety days on all products from the date of original purchase unless otherwise stated on the product or packaging from the date of original purchase.

Changes in Griffon’s warranty liability, included in Accrued liabilities, were as follows:

	Three Months Ended December 31,			
	2022		2021	
Balance, beginning of period	\$	16,786	\$	7,818
Warranties issued and changes in estimated pre-existing warranties		4,667		3,461
Actual warranty costs incurred		(3,754)		(1,707)
Balance, end of period	\$	17,699	\$	9,572

NOTE 20 – OTHER COMPREHENSIVE INCOME (LOSS)

The amounts recognized in other comprehensive income (loss) were as follows:

	For the Three Months Ended December 31,					
	2022			2021		
	Pre-tax	Tax	Net of tax	Pre-tax	Tax	Net of tax
Foreign currency translation adjustments	\$ 11,937	\$ —	\$ 11,937	\$ (2,319)	\$ —	\$ (2,319)
Pension and other defined benefit plans	1,088	(226)	862	846	(178)	668
Cash flow hedges	(829)	249	(580)	(1,571)	471	(1,100)
Total other comprehensive income (loss)	\$ 12,196	\$ 23	\$ 12,219	\$ (3,044)	\$ 293	\$ (2,751)

The components of Accumulated other comprehensive income (loss) are as follows:

	At December 31, 2022		At September 30, 2022	
Foreign currency translation adjustments	\$	(45,233)	\$	(57,170)
Pension and other defined benefit plans		(26,437)		(27,299)
Change in Cash flow hedges		1,151		1,731
	\$	(70,519)	\$	(82,738)

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(US dollars and non US currencies in thousands, except per share data)

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Amounts reclassified from accumulated other comprehensive income (loss) to income were as follows:

	For the Three Months Ended December 31,	
	2022	2021
Gain (Loss)		
Pension amortization	\$ (944)	\$ (845)
Cash flow hedges	1,004	1,533
Total gain (loss)	\$ 60	\$ 688
Tax benefit (expense)	(13)	(144)
Total	\$ 47	\$ 544

NOTE 21 — LEASES

The Company recognizes right-of-use ("ROU") assets and lease liabilities on the balance sheet, with the exception of leases with a term of twelve months or less. The Company determines if an arrangement is a lease at inception. The ROU assets and short and long-term liabilities associated with our Operating leases are shown as separate line items on our Condensed Consolidated Balance Sheets. Finance leases are included in property, plant, and equipment, net, other accrued liabilities, and other non-current liabilities. The Company's finance leases are immaterial. ROU assets, along with any other related long-lived assets, are periodically evaluated for impairment.

ROU assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. ROU assets and liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. Lease payments primarily include rent and insurance costs (lease components). The Company's leases also include non-lease components such as real estate taxes and common-area maintenance costs. The Company elected the practical expedient to account for lease and non-lease components as a single component. In certain of the Company's leases, the non-lease components are variable and in accordance with the standard are therefore excluded from lease payments to determine the ROU asset. As most of our leases do not provide an implicit rate, we use our incremental borrowing rate based on the information available at the commencement date in determining the present value of lease payments. We use the implicit rate when readily determinable. Our determination of the lease term may include options to extend or terminate the lease when it is reasonably certain that we will exercise that option.

For operating leases, fixed lease payments are recognized as operating lease cost on a straight-line basis over the lease term. For finance leases and impaired operating leases, the ROU asset is depreciated on a straight-line basis over the remaining lease term, along with recognition of interest expense associated with accretion of the lease liability. For leases with a lease term of 12 months or less (a "Short-term" lease), any fixed lease payments are recognized on a straight-line basis over such term, and are not recognized on the Condensed Consolidated Balance Sheets. Variable lease cost for both operating and finance leases, if any, is recognized as incurred. Components of operating lease costs are as follows:

	For the Three Months Ended December 31,	
	2022	2021
Fixed	\$ 11,294	\$ 9,747
Variable ^{(a), (b)}	2,772	1,852
Short-term ^(b)	2,204	1,349
Total	\$ 16,270	\$ 12,948

(a) Primarily relates to common-area maintenance and property taxes.

(b) Not recorded on the balance sheet.

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(US dollars and non US currencies in thousands, except per share data)

(Unaudited)

Supplemental cash flow information were as follows:

	For the Three Months Ended December 31,	
	2022	2021
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$ 9,623	\$ 10,844
Financing cash flows from finance leases	744	753
Total	\$ 10,367	\$ 11,597

Supplemental Condensed Consolidated Balance Sheet information related to leases were as follows:

	December 31, 2022	September 30, 2022
Operating Leases:		
Right of use assets:		
Operating right-of-use assets	\$ 182,799	\$ 183,398
Lease Liabilities:		
Current portion of operating lease liabilities	\$ 31,283	\$ 31,680
Long-term operating lease liabilities	160,664	159,414
Total operating lease liabilities	<u>\$ 191,947</u>	<u>\$ 191,094</u>
Finance Leases:		
Property, plant and equipment, net ⁽¹⁾	\$ 13,334	\$ 13,696
Lease Liabilities:		
Notes payable and current portion of long-term debt	\$ 2,011	\$ 2,065
Long-term debt, net	11,623	11,995
Total financing lease liabilities	<u>\$ 13,634</u>	<u>\$ 14,060</u>

(1) Finance lease assets are recorded net of accumulated depreciation of \$5,568 and \$4,972 as of December 31, 2022 and September 30, 2022, respectively.

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Griffon has one finance lease outstanding for real estate located in Ocala, Florida. The lease matures in 2025 and bears interest at a fixed rate of approximately 5.6%. The Ocala, Florida lease contains two five-year renewal options. At December 31, 2022, \$12,751 was outstanding. During 2022, the financing lease on the Troy, Ohio location expired. The lease bore interest at a rate of approximately 5.0%, was secured by a mortgage on the real estate, which was guaranteed by Griffon, and had a one dollar buyout at the end of the lease. Griffon exercised the one dollar buyout option in November 2021. The remaining lease liability balance relates to finance equipment leases.

The aggregate future maturities of lease payments for operating leases and finance leases as of December 31, 2022 are as follows (in thousands):

	Operating Leases	Finance Leases
2023 ^(a)	\$ 31,784	\$ 2,074
2024	35,893	2,344
2025	33,183	2,169
2026	24,262	2,112
2027	20,101	2,074
2028	16,439	2,074
Thereafter	83,397	3,629
Total lease payments	\$ 245,059	\$ 16,476
Less: Imputed Interest	(53,112)	(2,842)
Present value of lease liabilities	\$ 191,947	\$ 13,634

(a) Excluding the three months ended December 31, 2022.

Average lease terms and discount rates at December 31, 2022 were as follows:

Weighted-average remaining lease term (years):	
Operating leases	8.3
Finance Leases	7.2
Weighted-average discount rate:	
Operating Leases	5.68 %
Finance Leases	5.54 %

NOTE 22 — COMMITMENTS AND CONTINGENCIES

Legal and environmental

Peekskill Site. Lightron Corporation (“Lightron”), a wholly-owned subsidiary of Griffon, once conducted lamp manufacturing and metal finishing operations at a location in the Town of Cortlandt, New York, just outside the city of Peekskill, New York (the “Peekskill Site”) which was owned by ISC Properties, Inc. (“ISCP”), a wholly-owned subsidiary of Griffon, for approximately three years. ISCP sold the Peekskill Site in November 1982.

Based upon studies conducted by ISCP and the New York Department of Environmental Conservation, soils and groundwater beneath the Peekskill Site contain chlorinated solvents and metals. Stream sediments downgradient from the Peekskill Site also contain metals. On May 15, 2019 the United States Environmental Protection Agency (“EPA”) added the Peekskill Site to the National Priorities List under CERCLA and has since reached agreement with Lightron and ISCP wherein Lightron and ISCP will perform a Remedial Investigation/Feasibility Study (“RI/FS”).

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(Unaudited)

Lightron has not engaged in any operations in over three decades. ISCP functioned solely as a real estate holding company and has not held any real property in over three decades. Griffon does not acknowledge any responsibility to perform any investigation or remediation at the Peekskill Site. One of Griffon's insurers is defending Lightron, ISCP and Griffon subject to a reservation of rights and is paying the costs of the RI/FS.

Memphis, TN site. Hunter Fan Company ("Hunter") operated headquarters and a production plant in Memphis, TN for over 50 years (the "Memphis Site"). While Hunter completed certain on-site remediation of PCB-contaminated soils, Hunter did not investigate the extent to which PCBs existed beneath the building itself nor determine whether off-site areas had been impacted. Hunter vacated the site approximately twenty years ago, and the on-site buildings have now been demolished.

The State of Tennessee Department of Environment and Conservation ("TDEC") identified the Memphis site as being potentially contaminated, raising the possibility that site operations could have resulted in soil and groundwater contamination involving volatile organic compounds and metals. In 2021, the TDEC performed a preliminary assessment of the site and recommended to the United States Environmental Protection Agency ("EPA") that the site be listed on the National Priorities List established under CERCLA. The TDEC further recommended that the EPA fund an investigation of potential soil gas contamination in receptors near the site. The TDEC has also indicated that it will proceed with this investigation if the EPA does not act.

It is unknown whether the EPA will add the Memphis Site to the National Priorities List, whether a site investigation will reveal contamination and, if there is contamination, the extent of such contamination. However, given that certain PCB work was not completed in the past and the TDEC's stated intent for the EPA to perform an investigation (and the statement by the TDEC that it will perform the investigation if the EPA will not), liability is probable in this matter. There are other potentially responsible parties for this site, including a former owner of Hunter; Hunter has notified such former owner of this matter, which may have certain liability for any required remediation.

If the EPA decides to add this site to the National Priorities List, a Remedial Investigation/Feasibility Study ("RI/FS") will be required. Hunter expects that the EPA will ask it to perform this work. If Hunter does not reach an agreement with the EPA to perform this work, the EPA will implement the RI/FS on its own. Should the EPA implement the RI/FS or perform further studies and/or subsequently remediate the site without first reaching an agreement with one or more relevant parties, the EPA would likely seek from such parties, including Hunter, reimbursement for the costs incurred.

General legal

Griffon 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 matters above and such other matters will not have a material adverse effect on Griffon's consolidated financial position, results of operations or cash flows.

(Unless otherwise indicated, US dollars and non-US currencies are in thousands, except per share data)

Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations

BUSINESS

Overview

Griffon Corporation (the "Company", "Griffon", "we" or "us") is a diversified management and holding company that conducts business through wholly-owned subsidiaries. The Company was founded in 1959, is a Delaware corporation headquartered in New York, N.Y. and is listed on the New York Stock Exchange (NYSE:GFF).

Business Strategy

We own and operate, and seek to acquire, businesses in multiple industries and geographic markets. Our objective is to maintain leading positions in the markets we serve by providing innovative, branded products with superior quality and industry-leading service. We place emphasis on our iconic and well-respected brands, which helps to differentiate us and our offerings from our competitors and strengthens our relationship with our customers and those who ultimately use our products.

Through operating a diverse portfolio of businesses, we expect to reduce variability caused by external factors such as market cyclicality, seasonality, and weather. We achieve diversity by providing various product offerings and brands through multiple sales and distribution channels and conducting business across multiple countries which we consider our home markets. Griffon's businesses, in particular its CPP operations, are seasonal; for this and other reasons, the financial results of the Company for any interim period are not necessarily indicative of the results for the full year.

Griffon oversees the operations of its subsidiaries, allocates resources among them and manages their capital structures. Griffon provides direction and assistance to its subsidiaries in connection with acquisition and growth opportunities as well as in connection with divestitures. As long-term investors, having substantial experience in a variety of industries, our intent is to continue the growth and strengthening of our existing businesses, and to diversify further through investments in our businesses and through acquisitions.

Over the past five years, we have undertaken a series of transformative transactions. We divested our specialty plastics business in 2018 to focus on our core markets and improve our free cash flow conversion. In our Consumer and Professional Products ("CPP") segment, we expanded the scope of our brands through the acquisition of Hunter Fan Company ("Hunter") on January 24, 2022 and ClosetMaid, LLC ("ClosetMaid") in 2018. In our Home and Building Products ("HBP") segment, we acquired CornellCookson, Inc. ("CornellCookson") in 2018, which has been integrated into Clopay Corporation ("Clopay"), creating a leading North American manufacturer and marketer of residential garage doors and sectional commercial doors, and rolling steel doors and grille products under brands that include Clopay, Ideal, Cornell and Cookson. We established an integrated headquarters for CPP in Orlando, Florida for our portfolio of leading brands that includes AMES, Hunter, True Temper and ClosetMaid. CPP is well positioned to fulfill its ongoing mission of Bringing Brands Together™ with the leading brands in consumer and professional tools; residential, industrial and commercial fans; home storage and organization products; and products that enhance indoor and outdoor lifestyles.

On September 27, 2021, we announced we were exploring strategic alternatives for our Defense Electronics ("DE") segment, which consisted of our Telephonics Corporation ("Telephonics") subsidiary. On June 27, 2022, we completed the sale of Telephonics to TTM Technologies, Inc. (NASDAQ:TTMI) ("TTM") for \$330,000 in cash. Griffon classified the results of operations of our Telephonics business as a discontinued operation in the Consolidated Statements of Operations for all periods presented and classified the related assets and liabilities associated with the discontinued operation in the consolidated balance sheets. Accordingly, all references made to results and information in this Quarterly Report on Form 10-Q are to Griffon's continuing operations, unless noted otherwise.

On May 16, 2022, Griffon announced that its Board of Directors initiated a process to review a comprehensive range of strategic alternatives to maximize shareholder value including a sale, merger, divestiture, recapitalization or other strategic transaction. While the process remains ongoing, there is no assurance that the process will result in any transaction being entered into or consummated.

On January 24, 2022, Griffon acquired Hunter, a market leader in residential ceiling, commercial, and industrial fans, from MidOcean Partners (“MidOcean”) for a contractual purchase price of \$845,000. Hunter, part of our CPP segment, complements and diversifies our portfolio of leading consumer brands and products. We financed the acquisition of Hunter with a new \$800,000 seven year Term Loan B facility; we used a combination of cash on hand and revolver borrowings to fund the balance of the purchase price and related acquisition and debt expenditures.

Update on COVID-19 on our Business

The health and safety of our employees, our customers and their families is always a high priority for Griffon. As of the date of this filing, all of Griffon's facilities are fully operational. When COVID-19 struck, we implemented a variety of new policies and procedures, including additional cleaning, social distancing, staggered shifts and prohibiting or significantly restricting on-site visitors, to minimize the risk to our employees of contracting COVID-19. While many of these precautions have been relaxed or eliminated as the health risk of COVID-19 has decreased, we would not hesitate to reinstitute and/or modify these policies and procedures as necessary should the health risk return to an unacceptable level. In such event, our businesses or our suppliers could be required by government authorities to temporarily cease operations; might be limited in their production capacity due to complying with restrictions relating to the operation of businesses to mitigate the impacts of COVID-19; or could suffer their own supply chain disruptions, impacting their ability to continue to supply us with the quantity of materials required by us. While we are unable to determine or predict the nature, duration or scope of the overall impact COVID-19 will have on our businesses, results of operations, liquidity or capital resources, we believe it is important to discuss where our company stands today, how we have responded (and will continue to respond) to COVID 19 and how our operations and financial condition may change as COVID-19 evolves.

Griffon believes it has adequate liquidity to invest in its existing businesses and execute its business plan, while managing its capital structure on both a short-term and long-term basis. At December 31, 2022, \$342,613 of revolver capacity was available under Griffon's Credit Agreement and Griffon had cash and equivalents of \$120,558.

Other Business Highlights

In August 2020 Griffon completed the Public Offering of 8,700,000 shares of our common stock for total net proceeds of \$178,165. The Company used a portion of the net proceeds to repay outstanding borrowings under its Credit Agreement. The Company used the remainder of the proceeds for working capital and general corporate purposes.

During 2020, Griffon issued, at par, \$1,000,000 of 5.75% Senior Notes due in 2028 (the “2028 Senior Notes”). Proceeds from the 2028 Senior Notes were used to redeem the \$1,000,000 of 5.25% Senior Notes due 2022.

In January 2020, Griffon amended its credit agreement to increase the total amount available for borrowing from \$350,000 to \$400,000, extend its maturity date from March 22, 2021 to March 22, 2025 and modify certain other provisions of the facility (the “Credit Agreement”).

In November 2019, Griffon announced the development of a next-generation business platform for CPP to enhance the growth, efficiency, and competitiveness of its U.S. operations, and on November 12, 2020, Griffon announced that CPP is broadening this strategic initiative to include additional North American facilities, the AMES United Kingdom (U.K.) and Australia businesses, and a manufacturing facility in China. On April 28, 2022, Griffon announced a reduced scope and accelerated timeline for the initiative, which was completed in fiscal 2022. We continue to expect that this initiative will result in annual cash savings of \$25,000. Realization of expected cash savings began in the current quarter. The cost to implement this new business platform, over the duration of the project, included one-time charges of approximately \$51,869 and capital investments of approximately \$15,000, net of future proceeds from the sale of exited facilities.

In June 2018, Clopay acquired CornellCookson, a leading provider of rolling steel service doors, fire doors, and grilles. This transaction strengthened Clopay's strategic portfolio with a line of commercial rolling steel door products to complement Clopay's sectional door offerings in the commercial sector, and expanded the Clopay network of professional dealers focused on the commercial market.

In March 2018, we announced the combination of the ClosetMaid operations with those of AMES, which improved operational efficiencies by leveraging the complementary products, customers, warehousing and distribution, manufacturing, and sourcing capabilities of the two businesses.

In February 2018, we closed on the sale of our Clopay Plastics Products ("Plastics") business to Berry Global, Inc. ("Berry"), thus exiting the specialty plastics industry that the Company had entered when it acquired Clopay Corporation in 1986. This transaction provided immediate liquidity and improved Griffon's cash flow given the historically higher capital needs of the Plastics operations as compared to Griffon's remaining businesses.

In October 2017, we acquired ClosetMaid from Emerson Electric Co. (NYSE:EMR). ClosetMaid, founded in 1965, is a leading North American manufacturer and marketer of wood and wire closet organization, general living storage and wire garage storage products, and sells to some of the largest home center retail chains, mass merchandisers, and direct-to-builder professional installers in North America. We believe that ClosetMaid is the leading brand in its category, with excellent consumer recognition.

We believe these actions have established a solid foundation for growth in sales, profit, and cash generation and bolster Griffon's platforms for opportunistic strategic acquisitions.

Other Acquisitions and Dispositions

On December 22, 2020, AMES acquired Quatro Design Pty Ltd ("Quatro"), a leading Australian manufacturer and supplier of glass fiber reinforced concrete landscaping products for residential, commercial, and public sector projects for a purchase price of AUD \$3,500 (approximately \$2,700). Quatro contributed approximately \$5,000 in revenue in the first twelve months after the acquisition.

On November 29, 2019, AMES acquired Vatre Group Limited ("Apta"), a leading U.K. supplier of innovative garden pottery and associated products sold to leading U.K. and Ireland garden centers. This acquisition broadens AMES' product offerings in the U.K. market and increases its in-country operational footprint.

On February 13, 2018, AMES acquired Kelkay, a leading U.K. manufacturer and distributor of decorative outdoor landscaping products sold to garden centers, retailers and grocers in the U.K. and Ireland. This acquisition broadened AMES' product offerings in the market and increased its in-country operational footprint.

In November 2017, Griffon acquired Harper Brush Works, a leading U.S. manufacturer of cleaning products for professional, home, and industrial use, from Horizon Global (NYSE:HZN). This acquisition expanded the AMES line of long-handle tools in North America to include brooms, brushes, and other cleaning products.

During fiscal 2017, Griffon also completed a number of other acquisitions to expand and enhance AMES' global footprint, including the acquisitions of La Hacienda, an outdoor living brand of unique heating and garden décor products in the United Kingdom. The acquisition of La Hacienda, together with the February 2018 acquisition of Kelkay and November 2020 acquisition of Apta, provides AMES with additional brands and a platform for growth in the U.K. market and access to leading garden centers, retailers, and grocers in the UK and Ireland. In Australia, Griffon acquired Hills Home Living, the iconic brand of clotheslines and home products, from Hills Limited (ASX:HIL) in December 2016, and in September 2017 Griffon acquired Tuscan Path, an Australian provider of pots, planters, pavers, decorative stone, and garden décor products. The Hills, Tuscan Path and December, 2020 Quatro acquisitions broadened AMES' outdoor living and lawn and garden business, strengthening AMES' portfolio of brands and its market position in Australia and New Zealand.

Further Information

Griffon posts and makes available, free of charge through its website at www.griffon.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 well as press releases, as soon as reasonably practicable after such materials are published or filed with or furnished to the Securities and Exchange Commission (the "SEC"). The information found on Griffon's website is not part of this or any other report it files with or furnishes to the SEC.

For information regarding revenue, profit and total assets of each segment, see the Business Segments footnote in the Notes to Consolidated Financial Statements.

Reportable Segments:

Griffon conducts its operations through two reportable segments:

- Consumer and Professional Products ("CPP") is a leading North American manufacturer and a global provider of branded consumer and professional tools; residential, industrial and commercial fans; home storage and organization products; and products that enhance indoor and outdoor lifestyles. CPP sells products globally through a portfolio of leading brands including AMES, since 1774, Hunter, since 1886, True Temper, and ClosetMaid.
- Home and Building Products ("HBP") conducts its operations through Clopay. Founded in 1964, Clopay is the largest manufacturer and marketer of garage doors and rolling steel doors in North America. Residential and commercial sectional garage doors are sold through professional dealers and leading home center retail chains throughout North America under the brands Clopay, Ideal, and Holmes. Rolling steel door and grille products designed for commercial, industrial, institutional, and retail use are sold under the Cornell and Cookson brands.

OVERVIEW

Revenue for the quarter ended December 31, 2022 was \$649,384 compared to \$591,749 in the prior year comparable quarter, an increase of 10%. Revenue increased at HBP by 29% but decreased at CPP by 11%. Hunter contributed \$54,117 of revenue for the quarter, excluding Hunter revenue increased 1% to \$595,267. Income from continuing operations was \$48,702 or \$0.88 per share, compared to \$16,704, or \$0.31 per share, in the prior year quarter.

The current year quarter results from operations included the following:

- Strategic review - retention and other of \$8,232 (\$6,222, net of tax, or \$0.11 per share);
- Proxy contest costs of \$1,503 (\$1,153, net of tax, or \$0.02 per share);
- Gain on sale of building of \$10,852 (\$8,323, net of tax, or \$0.15 per share);
- Discrete and certain other tax benefits, net, of \$333 or \$0.01 per share.

The prior year quarter results from operations included the following:

- Restructuring charges of \$1,716 (\$1,330, net of tax, or \$0.02 per share);
- Acquisition costs of \$2,595 (\$2,003, net of tax, or \$0.04 per share); and
- Proxy contest costs of \$2,291 (\$1,768, net of tax, or \$0.03 per share);
- Discrete and certain other tax benefits, net, of \$891 or \$0.02 per share.

Excluding these items from the respective quarterly results, Income from continuing operations would have been \$47,421, or \$0.86 per share, in the current year quarter compared to \$20,914, or \$0.39 per share in the prior year quarter.

Griffon evaluates performance based on Net income and the related Earnings per share excluding restructuring charges, loss from debt extinguishment, acquisition related expenses and discrete and certain other tax items, as well as other items that may affect comparability, as applicable. Griffon believes this information is useful to investors for the same reason. The following table provides a reconciliation of Income from continuing operations to Adjusted income from continuing operations and Earnings per share from continuing operations to Adjusted earnings per share from continuing operations:

	For the Three Months Ended December 31,	
	2022	2021
	(Unaudited)	
Income from continuing operations	\$ 48,702	\$ 16,704
Adjusting items:		
Restructuring charges	—	1,716
Gain on sale of building	(10,852)	—
Acquisition costs	—	2,595
Strategic review - retention and other	8,232	—
Proxy expenses	1,503	2,291
Tax impact of above items	169	(1,501)
Discrete and certain other tax benefits, net	(333)	(891)
Adjusted income from continuing operations	<u>\$ 47,421</u>	<u>\$ 20,914</u>
Earnings per common share from continuing operations	\$ 0.88	\$ 0.31
Adjusting items, net of tax:		
Restructuring charges	—	0.02
Gain on sale of building	(0.15)	—
Acquisition costs	—	0.04
Strategic review - retention and other	0.11	—
Proxy expenses	0.02	0.03
Discrete and certain other tax benefits, net	(0.01)	(0.02)
Adjusted earnings per common share from continuing operations	<u>\$ 0.86</u>	<u>\$ 0.39</u>
Weighted-average shares outstanding (in thousands)	<u>55,298</u>	<u>53,753</u>

Note: Due to rounding, the sum of earnings per common share from continuing operations and adjusting items, net of tax, may not equal adjusted earnings per common share from continuing operations.

The tax impact for the above reconciling adjustments from GAAP to non-GAAP Net income and EPS is determined by comparing the Company's tax provision, including the reconciling adjustments, to the tax provision excluding such adjustments.

RESULTS OF OPERATIONS

Three months ended December 31, 2022 and 2021

Griffon evaluates performance and allocates resources based on each segment's operating results before interest income and expense, income taxes, depreciation and amortization, unallocated amounts (primarily corporate overhead), restructuring charges, loss on debt extinguishment and acquisition related expenses, as well as other items that may affect comparability, as applicable ("Adjusted EBITDA", a non-GAAP measure). Griffon believes this information is useful to investors for the same reason. See table provided in Note 13 - Business Segments for a reconciliation of Segment Adjusted EBITDA to Income before taxes from continuing operations.

Consumer and Professional Products

	For the Three Months Ended December 31,	
	2022	2021
United States	\$ 153,667	\$ 164,899
Europe	4,696	18,330
Canada	23,116	22,628
Australia	66,217	74,349
All other countries	5,115	2,967
Total Revenue	\$ 252,811	\$ 283,173
Adjusted EBITDA	(1,809) (0.7)%	16,214 5.7 %
Depreciation and amortization	13,127	8,606

For the quarter ended December 31, 2022, revenue decreased \$30,362, or 11%, compared to the prior year period due to a 34% reduction in volume primarily in the U.S., the United Kingdom (U.K.) and Australia and a 3% unfavorable currency impact, partially offset by a 19% or \$54,117 contribution from the Hunter acquisition, and favorable price and mix of 7%.

For the quarter ended December 31, 2022, Adjusted EBITDA loss of \$1,809 compared to Adjusted EBITDA of \$16,214 in the prior year quarter. The current quarter included Adjusted EBITDA of \$4,428 from the Hunter acquisition. Excluding the Hunter contribution, Adjusted EBITDA loss of \$6,237 compared to Adjusted EBITDA of \$16,214 in the prior year quarter. The variance to prior year was primarily due to the unfavorable impact of the reduced volume noted above and the related impact on manufacturing absorption, and increased material costs in Australia and Canada, partially offset by the benefits of price and mix.

For the quarter ended December 31, 2022, segment depreciation and amortization increased \$4,521 compared to the prior year comparable periods, due to the Hunter assets acquired and new assets placed in service.

On January 24, 2022, Griffon completed the acquisition of Hunter Fan Company ("Hunter"), a market leader in residential ceiling, commercial, and industrial fans for a contractual purchase price of \$845,000. Hunter adds to Griffon's CPP segment, complementing and diversifying our portfolio of leading consumer brands and products.

Home and Building Products

	For the Three Months Ended December 31,	
	2022	2021
Residential	\$ 227,059	\$ 177,787
Commercial	169,514	130,789
Total Revenue	\$ 396,573	\$ 308,576
Adjusted EBITDA	\$ 124,145 31.3 %	\$ 56,297 18.2 %
Depreciation and amortization	\$ 3,846	\$ 4,338

For the quarter ended December 31, 2022, HBP revenue increased \$87,997, or 29%, compared to the prior year period due to favorable pricing and mix of 23% and volume of 6% driven by both residential and commercial. Residential and commercial sectional backlog and overall lead times continued to normalize during the quarter.

For the quarter ended December 31, 2022, Adjusted EBITDA increased 121% to \$124,145 compared to \$56,297 in the prior year period. Adjusted EBITDA benefited from the increased revenue noted above and reduced material costs, partially offset by increased labor and transportation costs.

For the quarter ended December 31, 2022, segment depreciation and amortization decreased compared with the prior year comparable period due to fully depreciated assets.

Unallocated

For the quarter ended December 31, 2022, unallocated amounts, excluding depreciation, consisted primarily of corporate overhead costs totaling \$13,776 compared to \$13,263 in the prior year quarter. The increase in the current quarter, compared to the respective comparable prior year period, primarily relates to increased incentive and equity compensation.

Proxy expenses

During the quarters ended December 31, 2022 and 2021, we incurred \$1,503 (\$1,153, net of tax) and \$2,291 (\$1,768, net of tax) of proxy expenses (including legal and advisory fees) in SG&A, respectively. During the quarter ended December 31, 2021, proxy expenses related to a proxy contest initiated by a shareholder which was completed at the shareholder meeting on February 17, 2022. During the quarter ended December 31, 2022, proxy expenses related to a settlement entered into with a shareholder that had submitted a slate of director nominees.

Segment Depreciation and Amortization

Segment depreciation and amortization increased \$4,029 for the quarter ended December 31, 2022 compared to the comparable prior year period, primarily due to depreciation and amortization on the Hunter assets acquired and new assets placed in service.

Other Income (Expense)

For the quarters ended December 31, 2022 and 2021, Other income (expense) of \$607 and \$1,075, respectively, includes \$67 and (\$394), respectively, of net currency exchange gains (losses) in connection with the translation of receivables and payables denominated in currencies other than the functional currencies of Griffon and its subsidiaries, net periodic benefit plan income (expense) of \$(216) and \$948, respectively, and \$33 and \$374, respectively, of net investment income. Other income (expense) also includes rental income of \$212 and \$156 for the three months ended December 31, 2022 and 2021, respectively. Additionally, it includes royalty income of \$549 for the three months ended December 31, 2022.

Provision for income taxes

During the quarter ended December 31, 2022, the Company recognized a tax provision of \$19,318 on income before taxes from continuing operations of \$68,020, compared to a tax provision of \$7,213 on income before taxes from continuing operations of \$23,917 in the comparable prior year quarter. The current year quarter results include a gain on the sale of a building of \$10,852 (\$8,323, net of tax), strategic review (retention and other) of \$8,232 (\$6,222, net of tax), proxy costs of \$1,503 (\$1,153, net of tax), and discrete and certain other tax benefits, net, that affect comparability of \$333. The prior year quarter results included restructuring charges of \$1,716 (\$1,330, net of tax), acquisition costs of \$2,595 (\$2,003, net of tax), proxy contest costs of \$2,291 (\$1,768, net of tax) and discrete and certain other tax benefits, net, that affect comparability of \$891. Excluding these items, the effective tax rates for the quarters ended December 31, 2022 and 2021 were 29.1% and 31.5%, respectively.

Stock-based compensation

For the quarters ended December 31, 2022 and 2021, stock based compensation expense, which includes expenses for both restricted stock grants and the ESOP, totaled \$6,742 and \$4,867, respectively.

Comprehensive income (loss)

For the quarter ended December 31, 2022, total other comprehensive gain, net of taxes, of \$12,219 included a gain of \$11,937 from foreign currency translation adjustments primarily due to the strengthening of the Euro, Australian Dollars and British Pound, all in comparison to the US Dollar; a \$862 benefit from pension amortization; and a \$580 loss on cash flow hedges.

For the quarter ended December 31, 2021, total other comprehensive loss, net of taxes, of \$2,751 included a loss of \$2,319 from foreign currency translation adjustments primarily due to the weakening of the Euro and British Pound, all in comparison to the US Dollar; a \$668 benefit from pension amortization; and a \$1,100 loss on cash flow hedges.

DISCONTINUED OPERATIONS

Defense Electronics

On September 27, 2021, Griffon announced it was exploring strategic alternatives for its Defense Electronics segment, which consisted of Telephonics Corporation ("Telephonics"), and on June 27, 2022, Griffon completed the sale of Telephonics to TTM for \$330,000. Griffon classified the results of operations of the Telephonics business as a discontinued operation in the Consolidated Statements of Operations for all periods presented and classified the related assets and liabilities associated with the discontinued operation in the consolidated balance sheets. Accordingly, all references made to results and information in this Quarterly Report on Form 10-Q are to Griffon's continuing operations unless noted otherwise.

At December 31, 2022 and September 30, 2022, Griffon's discontinued assets and liabilities includes the Company's obligation of \$5,288 and \$8,846, respectively, in connection with the sale of Telephonics primarily related to certain customary post-closing adjustments, primarily working capital and stay bonuses. At December 31, 2022 and September 30, 2022, Griffon's liabilities for Installations Services and other discontinued operations primarily relate to insurance claims, income taxes, product liability, warranty and environmental reserves total \$7,062 and \$8,072, respectively.

LIQUIDITY AND CAPITAL RESOURCES**Liquidity**

Management assesses Griffon's liquidity in terms of its ability to generate cash to fund its operating, investing and financing activities. Significant factors affecting liquidity include cash flows from operating activities, capital expenditures, acquisitions, dispositions, bank lines of credit and the ability to attract long-term capital under satisfactory terms. Griffon believes it has sufficient liquidity available to invest in existing businesses and strategic acquisitions while managing its capital structure on both a short-term and long-term basis.

As of December 31, 2022, the amount of cash, cash equivalents and marketable securities held by foreign subsidiaries was \$49,600. Our intent is to permanently reinvest these funds outside the U.S., and we do not currently anticipate that we will need funds generated from foreign operations to fund our domestic operations. In the event we determine that funds from foreign operations are needed to fund operations in the U.S., we will be required to accrue and pay U.S. taxes to repatriate these funds (unless applicable U.S. taxes have already been paid).

Griffon's primary sources of liquidity are cash flows generated from operations, cash on hand and our January 2025 five-year secured \$400,000 revolving credit facility ("Credit Facility"). At December 31, 2022, \$342,613 of revolver capacity was available, subject to certain loan covenants, for borrowing under the Credit Agreement and we had cash and cash equivalents of \$120,558.

The following table is derived from the Condensed Consolidated Statements of Cash Flows:

Cash Flows from Operations	For the Three Months Ended December 31,	
	2022	2021
Net Cash Flows Provided by (Used In):		
Operating activities	\$ 75,480	\$ (85,005)
Investing activities	4,521	(9,969)
Financing activities	(78,363)	(8,612)

Cash provided by operating activities from continuing operations for the three months ended December 31, 2022 was \$75,480 compared to cash used in continuing operations of \$85,005 in the comparable prior year period. The variance was due to increased cash generated from operations at HBP and a decrease in working capital across all businesses, primarily accounts receivable and inventory.

During the quarter ended December 31, 2022, Cash provided by investing activities from continuing operations was \$4,521 compared to cash used in investing activities from continuing operations of \$9,969 in the comparable prior year period. In the current quarter, cash flows provided by investing activities from continuing operations primarily consisted of proceeds totaling \$11,815 from the sale of a building, partially offset by capital expenditures of \$4,726 and a working capital adjustment payment of \$2,568 related to the sale of Telephonics. In the prior year comparable quarter, cash flows used in investing activities from continuing operations primarily consisted of capital expenditures of \$10,573, partially offset by proceeds from the sale of investments totaling \$575.

During the three months ended December 31, 2022, Cash used in financing activities from continuing operations totaled \$78,363 compared to \$8,612 used in the comparable prior year period. Cash used in financing activities from continuing operations in the current period consisted of net repayments of long-term debt of \$57,716, primarily related to the Credit Facility, the purchase of treasury shares to satisfy vesting of restricted stock of \$12,735, the payment of dividends of \$7,126 and the payment of financing costs of \$744. Cash used in financing activities from continuing operations in the prior year period consisted primarily of the purchase of treasury shares to satisfy vesting of restricted stock of \$10,886 and the payment of dividends of \$5,260, partially offset by net proceeds from long-term debt of \$8,315.

During the three months ended December 31, 2022, 345,051 shares, with a market value of \$12,627, or \$36.59 per share were withheld to settle employee taxes due upon the vesting of restricted stock, and were added to treasury stock. Furthermore, during the three months ended December 31, 2022, an additional 3,066 shares, with a market value of \$108, or \$35.31 per share, were withheld from common stock issued upon the vesting of restricted stock units to settle employee taxes due upon vesting.

During 2022, the Company declared and paid regular cash dividends totaling \$0.36 per share, or \$0.09 per share each quarter. Additionally, on June 27, 2022, the Board of Directors declared a special dividend of \$2.00 per share, paid on July 20, 2022. During the three months ended December 31, 2022, the Board of Directors approved and paid a quarterly cash dividend of \$0.10 per share. The Company currently intends to pay dividends each quarter; however, payment of dividends is determined by the Board of Directors at its discretion based on various factors, and no assurance can be provided as to the payment of future dividends. On January 30, 2023, the Board of Directors declared a quarterly cash dividend of \$0.10 per share, payable on March 23, 2023 to shareholders of record as of the close of business on February 23, 2023.

On each of August 3, 2016 and August 1, 2018, Griffon's Board of Directors authorized the repurchase of \$50,000 of Griffon's outstanding common stock. Under these share repurchase programs, the Company may, from time to time, purchase shares of its common stock in the open market, including pursuant to a 10b5-1 plan, or in privately negotiated transactions. As of December 31, 2022, an aggregate of \$57,955 remains under Griffon's Board authorized repurchase programs. No shares were repurchased during the three months ended December 31, 2022 under these share repurchase programs.

During the three months ended December 31, 2022, cash used in discontinued operations from operating activities of \$1,953 primarily related to the settling of certain liabilities and environmental costs associated with the former Installations Services business. During the three months ended December 31, 2021, cash provided by discontinued operations from operating activities of \$7,916 primarily related to DE operations and the settling of certain liabilities and environmental costs associated with the former Installations Services business. During the three months ended December 31, 2021, Cash provided by discontinued operations from investing activities of \$853 related to DE operations capital expenditures.

Cash and Equivalents and Debt

	December 31, 2022	September 30, 2022
Cash and equivalents	\$ 120,558	\$ 120,184
Notes payables and current portion of long-term debt	12,840	12,653
Long-term debt, net of current maturities	1,507,681	1,560,998
Debt discount/premium and issuance costs	20,895	21,909
Total debt	1,541,416	1,595,560
Debt, net of cash and equivalents	<u>\$ 1,420,858</u>	<u>\$ 1,475,376</u>

During 2020, Griffon issued, at par, \$1,000,000 of 5.75% Senior Notes due in 2028 (the "2028 Senior Notes"). Proceeds from the 2028 Senior Notes were used to redeem \$1,000,000 of 5.25% Senior Notes due 2022. In connection with the issuance and exchange of the 2028 Senior Notes, Griffon capitalized \$16,448 of underwriting fees and other expenses incurred, which is being amortized over the term of such notes.

During 2022, Griffon purchased \$25,225 of 2028 Senior Notes in the open market at a weighted average discount of 91.82% of par, or \$23,161. In connection with these purchases, Griffon recognized a \$1,767 net gain on the early extinguishment of debt comprised of \$2,064 of face value in excess of purchase price, offset by \$297 related to the write-off of underwriting fees and other expenses. As of December 31, 2022, outstanding 2028 Senior Notes due totaled \$974,775; interest is payable semi-annually on March 1 and September 1.

The 2028 Senior Notes are senior unsecured obligations of Griffon guaranteed by certain domestic subsidiaries, and subject to certain covenants, limitations and restrictions. The 2028 Senior Notes were registered under the Securities Act of 1933, as amended (the "Securities Act") via exchange offer. The fair value of the 2028 Senior Notes approximated \$877,298 on December 31, 2022 based upon quoted market prices (level 1 inputs). At December 31, 2022, \$10,434 of underwriting fees and other expenses incurred remained to be amortized.

On January 24, 2022, Griffon amended and restated its Revolving Credit Facility (as amended, "Credit Agreement") to provide for a new \$800,000 Term Loan B facility, due January 24, 2029, in addition to its current \$400,000 revolving credit facility ("Revolver"), and replaced LIBOR with SOFR (Secured Overnight Financing Rate). The Term Loan B accrues interest at the Term SOFR rate plus a credit adjustment spread with a floor of 0.50%, and a current spread of 2.50% (7.01% as of December 31, 2022). Additionally, there are two interest rate step-downs tied to achieving decreased secured leverage ratio thresholds, the first of which was achieved during 2022. The Original Issue Discount for the Term Loan B was 99.75%. In connection with this amendment, Griffon capitalized \$15,466 of underwriting fees and other expenses incurred, which are being amortized over the term of the loan.

The Term Loan B facility requires nominal quarterly principal payments of \$2,000, which began with the quarter ended June 30, 2022; potential additional annual principal payments based on a percentage of excess cash flow and certain secured leverage thresholds starting with the fiscal year ending September 30, 2023; and a final balloon payment due at maturity. Term Loan B borrowings may generally be repaid without penalty but may not be re-borrowed. During 2022, Griffon prepaid \$300,000 aggregate principal amount of the Term Loan B, which permanently reduced the outstanding balance. In connection with the prepayment of the Term Loan B Griffon recognized a \$6,296 charge on the prepayment of debt; \$5,575 related to the write-off of underwriting fees and other expenses and \$721 of the original issuer discount. The Term Loan B facility is subject to the same affirmative and negative covenants that apply to the Revolver, but is not subject to any financial maintenance covenants. Term Loan B borrowings are secured by the same collateral as the Revolver on an equal and ratable basis. The fair value of the Term Loan B facility approximated \$485,355 on December 31, 2022 based upon quoted market prices (level 1 inputs). At December 31, 2022, \$8,472 of underwriting fees and other expenses incurred, remained to be amortized.

The Revolver's maximum borrowing availability is \$400,000 and it matures on March 22, 2025. The Revolver includes a letter of credit sub-facility with a limit of \$100,000; a multi-currency sub-facility of \$200,000; and contains a customary accordion feature that permits us to request, subject to each lender's consent, an increase in the maximum aggregate amount that can be borrowed by up to an additional \$100,000.

During 2022, Griffon replaced the Revolver GBP LIBOR benchmark rate with a Sterling Overnight Index Average ("SONIA"). Borrowings under the Revolver may be repaid and re-borrowed at any time. Interest is payable on borrowings at either a SOFR, SONIA or base rate benchmark rate, plus an applicable margin, which adjusts based on financial performance. SOFR loans accrue interest at Term SOFR plus a credit adjustment spread and a margin of 1.50% (5.91% at December 31, 2022) and SONIA loans accrue interest at SONIA Base Rate plus a credit adjustment spread and a margin of 1.50% (4.96% at December 31, 2022). The Revolver has certain financial maintenance tests including a maximum total leverage ratio, a maximum senior secured leverage ratio and a minimum interest coverage ratio, as well as customary affirmative and negative covenants and events of default. The negative covenants place limits on Griffon's ability to, among other things, incur indebtedness, incur liens, and make restricted payments and investments. Both the Revolver and Term Loan B borrowings under the Credit Agreement are guaranteed by Griffon's material domestic subsidiaries and are secured, on a first priority basis, by substantially all domestic assets of the Company and the guarantors, and a pledge of not greater than 65% of the equity interest in Griffon's material, first-tier foreign subsidiaries. At December 31, 2022, there were \$45,100 of outstanding borrowings under the Revolver; outstanding standby letters of credit were \$12,287; and \$342,613 was available, subject to certain loan covenants, for borrowing at that date.

Griffon has one finance lease outstanding for real estate located in Ocala, Florida. The lease matures in 2025 and bears interest at a fixed rate of approximately 5.6%. The Ocala, Florida lease contains two five-year renewal options. At December 31, 2022, \$12,751 was outstanding. During 2022, the financing lease on the Troy, Ohio location expired. The lease bore interest at a rate of approximately 5.0%, was secured by a mortgage on the real estate, which was guaranteed by Griffon, and had a one dollar buyout at the end of the lease. Griffon exercised the one dollar buyout option in November 2021. Refer to Note 21- Leases for further details.

In November 2012, Garant G.P. ("Garant"), a Griffon wholly owned subsidiary, entered into a CAD 15,000 (\$11,072 as of December 31, 2022) revolving credit facility. Effective in December 2022, the facility was amended to replace LIBOR (USD) with the Canadian Dollar Offer Rate ("CDOR"). The facility accrues interest at CDOR or the Bankers Acceptance Rate (CDN) plus 1.3% per annum (6.04% CDOR and 5.79% Bankers Acceptance Rate CDN as of December 31, 2022). The revolving facility matures in December 2023, but is renewable upon mutual agreement with the lender. Garant is required to maintain a certain minimum equity. At December 31, 2022, there were no outstanding borrowings under the revolving credit facility with CAD 15,000 (\$11,072 as of December 31, 2022) available.

During 2022, Griffon Australia Holdings Pty Ltd and its Australian subsidiaries (collectively, "Griffon Australia") amended its AUD 18,375 term loan, AUD 20,000 revolver and AUD 15,000 receivable purchase facility agreement that was entered into in July 2016 and further amended in fiscal 2020. Griffon Australia paid off the term loan in the amount of AUD 9,625 and canceled the AUD 20,000 revolver. The amendment refinanced the existing AUD 15,000 receivable purchase facility. The receivable purchase facility matures in March 2023, but is renewable upon mutual agreement with the lender. The receivable purchase facility accrues interest at BBSY (Bank Bill Swap Rate) plus 1.25% per annum (4.51% at December 31, 2022). At December 31, 2022, there was no balance outstanding under the receivable purchase facility with AUD 15,000 (\$10,134 as of December 31, 2022) available. The receivable purchase facility is secured by substantially all of the assets of Griffon Australia and its subsidiaries. Griffon Australia is required to maintain a certain minimum equity level.

In July 2018, The AMES Companies UK Ltd and its subsidiaries (collectively, "AMES UK") entered into a GBP 14,000 term loan, GBP 4,000 mortgage loan and GBP 5,000 revolver. The term loan and mortgage loan require quarterly principal payments

of GBP 438 and GBP 105 plus interest, respectively, and have balloon payments due upon maturity, July 2023, of GBP 7,088 and GBP 2,349, respectively. Effective in January 2022, the Term Loan and Mortgage Loan were amended to replace GBP LIBOR with SONIA. The Term Loan and Mortgage Loans each accrue interest at the SONIA Rate plus 1.80% (5.23% at December 31, 2022). The revolving facility accrues interest at the Bank of England Base Rate plus 3.25% (6.75% as of December 31, 2022). The revolving credit facility matures in July 2023, but is renewable upon mutual agreement with the lender. As of December 31, 2022, the revolver had no outstanding balance while the term and mortgage loan balances amounted to GBP 10,519 (\$12,663 as of December 31, 2022). The revolver and the term loan are both secured by substantially all the assets of AMES UK and its subsidiaries. AMES UK is subject to a maximum leverage ratio and a minimum fixed charges cover ratio.

Other long-term debt primarily consists of a loan with the Pennsylvania Industrial Development Authority, with the balance consisting of finance leases.

At December 31, 2022, Griffon and its subsidiaries were in compliance with the terms and covenants of its credit and loan agreements. Gross Debt to EBITDA (Leverage), as calculated in accordance with the definition in the Credit Agreement, was 2.7x at December 31, 2022.

Capital Resource Requirements

Griffon's debt requirements include principal on our outstanding debt, most notably our Senior Notes totaling \$974,775 payable in 2028 and related annual interest payments of approximately \$57,246, a Term Loan B facility maturing in 2029 with an outstanding balance of \$494,000 on December 31, 2022 and revolving credit facility maturing in 2025 with an outstanding balance of \$45,100. The Term Loan B accrues interest at the Term SOFR rate plus a credit adjustment spread with a floor of 0.50%, and a current spread of 2.50% (7.01% as of December 31, 2022). Additionally, the Term Loan B facility requires quarterly payments of \$2,000 and a balloon payment due at maturity. For the revolving credit facility interest is payable on borrowings at either a SOFR, SONIA or base rate benchmark rate, plus an applicable margin, which adjusts based on financial performance. Griffon's SOFR loans accrue interest at Term SOFR plus a credit adjustment spread and a margin of 1.50% (5.91% at December 31, 2022) and SONIA loans accrue interest at SONIA Base Rate plus a credit adjustment spread and a margin of 1.50% (4.96% at December 31, 2022).

Customers

A small number of customers account for, and are expected to continue to account for, a substantial portion of Griffon's consolidated revenue. For the three months ended December 31, 2022, our largest customer, The Home Depot, represented 11% of Griffon's consolidated revenue, 14% of CPP's revenue and 8% of HBP's revenue.

No other customer exceeded 10% of consolidated revenue. Future operating results will continue to depend substantially on the success of Griffon's largest customers and our ongoing relationships with them. Orders from these customers are subject to change and may fluctuate materially. The loss of all or a portion of the volume from any one of these customers could have a material adverse impact on Griffon's liquidity and results of operations.

SUPPLEMENTAL GUARANTOR FINANCIAL INFORMATION

Griffon's Senior Notes are fully and unconditionally guaranteed, jointly and severally by Clopay Corporation, The AMES Companies, Inc., Clopay AMES Holding Corp., ClosetMaid LLC, AMES Hunter Holdings Corporation, Hunter Fan Company, CornellCookson, LLC and Cornell Real Estate Holdings, LLC, all of which are indirectly 100% owned by Griffon. In accordance with Rule 3-10 of Regulation S-X promulgated under the Securities Act, presented below are summarized financial information of the Parent (Griffon) subsidiaries and the Guarantor subsidiaries as of December 31, 2022 and September 30, 2022 and for the three months ended December 31, 2022 and for the year ended September 30, 2022. All intercompany balances and transactions between subsidiaries under Parent and subsidiaries under the Guarantor have been eliminated. The information presented below excludes eliminations necessary to arrive at the information on a consolidated basis. The summarized information excludes financial information of the Non-Guarantors, including earnings from and investments in these entities. The financial information may not necessarily be indicative of the results of operations or financial position of the guarantor companies or non-guarantor companies had they operated as independent entities. The guarantor companies and the non-guarantor companies include the consolidated financial results of their wholly-owned subsidiaries accounted for under the equity method.

The indentures relating to the Senior Notes (the “Indentures”) contain terms providing that, under certain limited circumstances, a guarantor will be released from its obligations to guarantee the Senior Notes. These circumstances include (i) a sale of at least a majority of the stock, or all or substantially all the assets, of the subsidiary guarantor as permitted by the Indentures; (ii) a public equity offering of a subsidiary guarantor that qualifies as a “Minority Business” as defined in the Indentures (generally, a business the EBITDA of which constitutes less than 50% of the segment adjusted EBITDA of the Company for the most recently ended four fiscal quarters), and that meets certain other specified conditions as set forth in the Indentures; (iii) the designation of a guarantor as an “unrestricted subsidiary” as defined in the Indentures, in compliance with the terms of the Indentures; (iv) Griffon exercising its right to defease the Senior Notes, or to otherwise discharge its obligations under the Indentures, in each case in accordance with the terms of the Indentures; and (v) upon obtaining the requisite consent of the holders of the Senior Notes.

Summarized Statements of Operations and Comprehensive Income (Loss)

	For the Three Months Ended December 31, 2022		For the Year Ended September 30, 2022	
	Parent Company	Guarantor Companies	Parent Company	Guarantor Companies
Net sales	\$ —	\$ 532,317	\$ —	\$ 2,301,215
Gross profit	\$ —	\$ 191,989	\$ —	\$ 752,982
Income (loss) from operations	\$ (11,656)	\$ 83,127	\$ (43,492)	\$ (127,982)
Equity in earnings of Guarantor subsidiaries	\$ 51,576	\$ —	\$ (184,618)	\$ —
Net income (loss)	\$ (18,245)	\$ 51,576	\$ (74,423)	\$ (184,618)

Summarized Balance Sheet Information

	For the Three Months Ended December 31, 2022		For the Year Ended September 30, 2022	
	Parent Company	Guarantor Companies	Parent Company	Guarantor Companies
Current assets	\$ 56,386	\$ 883,327	\$ 49,238	\$ 915,329
Non-current assets	14,810	1,389,550	15,571	1,393,864
Total assets	\$ 71,196	\$ 2,272,877	\$ 64,809	\$ 2,309,193
Current liabilities	\$ 55,416	\$ 243,269	\$ 78,635	\$ 275,165
Long-term debt	1,485,018	12,453	1,538,235	12,886
Other liabilities	3,779	350,218	4,331	322,224
Total liabilities	\$ 1,544,213	\$ 605,940	\$ 1,621,201	\$ 610,275

CRITICAL ACCOUNTING POLICIES

The preparation of Griffon’s consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (“GAAP”) requires the use of estimates, assumptions, judgments and subjective interpretations of accounting principles that have an impact on assets, liabilities, revenue and expenses. These estimates can also affect supplemental information contained in public disclosures of Griffon, including information regarding contingencies, risk and its financial condition. These estimates, assumptions and judgments are evaluated on an ongoing basis and based on historical experience, current conditions and various other assumptions, and form the basis for estimating the carrying values of assets and liabilities, as well as identifying and assessing the accounting treatment for commitments and contingencies. Actual results may materially differ from these estimates. There have been no changes in Griffon’s critical accounting policies from September 30, 2022.

Griffon’s significant accounting policies and procedures are explained in the Management Discussion and Analysis section in the Annual Report on Form 10-K for the year ended September 30, 2022. In the selection of the critical accounting policies, the objective is to properly reflect the financial position and results of operations for each reporting period in a consistent manner that can be understood by the reader of the financial statements. Griffon considers an estimate to be critical if it is subjective and if changes in the estimate using different assumptions would result in a material impact on the financial position or results of operations of Griffon.

RECENT ACCOUNTING PRONOUNCEMENTS

The FASB issues, from time to time, new financial accounting standards, staff positions and emerging issues task force consensus. See the Notes to Condensed Consolidated Financial Statements for a discussion of these matters.

FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q, especially “Management’s Discussion and Analysis”, contains certain “forward-looking statements” within the meaning of the Securities Act, the Securities Exchange Act of 1934, as amended, and the Private Securities Litigation Reform Act of 1995. Such statements relate to, among other things, income (loss), earnings, cash flows, revenue, changes in operations, operating improvements, industries in which Griffon Corporation (the “Company” or “Griffon”) operates and the United States and global economies. Statements in this Form 10-Q that are not historical are hereby identified as “forward-looking statements” and may be indicated by words or phrases such as “anticipates,” “supports,” “plans,” “projects,” “expects,” “believes,” “should,” “would,” “could,” “hope,” “forecast,” “management is of the opinion,” “may,” “will,” “estimates,” “intends,” “explores,” “opportunities,” the negative of these expressions, use of the future tense and similar words or phrases. Such forward-looking statements are subject to inherent risks and uncertainties that could cause actual results to differ materially from those expressed in any forward-looking statements. These risks and uncertainties include, among others: the outcome (if any) and impact of the strategic alternatives review process announced in May 2022; current economic conditions and uncertainties in the housing, credit and capital markets; Griffon’s ability to achieve expected savings from cost control, restructuring, integration and disposal initiatives; the ability to identify and successfully consummate, and integrate, value-adding acquisition opportunities (including, in particular, integration of the Hunter Fan acquisition); increasing competition and pricing pressures in the markets served by Griffon’s operating companies; the ability of Griffon’s operating companies to expand into new geographic and product markets, and to anticipate and meet customer demands for new products and product enhancements and innovations; increases in the cost or lack of availability of raw materials such as resin, wood and steel, components or purchased finished goods, including any potential impact on costs or availability resulting from tariffs; changes in customer demand or loss of a material customer at one of Griffon’s operating companies; the potential impact of seasonal variations and uncertain weather patterns on certain of Griffon’s businesses; political events that could impact the worldwide economy; a downgrade in Griffon’s credit ratings; changes in international economic conditions including inflation, interest rate and currency exchange fluctuations; the reliance by certain of Griffon’s businesses on particular third party suppliers and manufacturers to meet customer demands; the relative mix of products and services offered by Griffon’s businesses, which impacts margins and operating efficiencies; short-term capacity constraints or prolonged excess capacity; unforeseen developments in contingencies, such as litigation, regulatory and environmental matters; Griffon’s ability to adequately protect and maintain the validity of patent and other intellectual property rights; the cyclical nature of the businesses of certain of Griffon’s operating companies; possible terrorist threats and actions and their impact on the global economy; effects of possible IT system failures, data breaches or cyber-attacks; the impact of COVID-19, or some other future pandemic, on the U.S. and the global economy, including business disruptions, reductions in employment and an increase in business and operating facility failures, specifically among our customers and suppliers; Griffon’s ability to service and refinance its debt; and the impact of recent and future legislative and regulatory changes, including, without limitation, changes in tax laws. Additional important factors that could cause the statements made in this Quarterly Report on Form 10-Q or the actual results of operations or financial condition of Griffon to differ are discussed under the caption “Item 1A. Risk Factors” and “Special Notes Regarding Forward-Looking Statements” in Griffon’s Annual Report on Form 10-K for the year ended September 30, 2022. Readers are cautioned not to place undue reliance on these forward-looking statements. These forward-looking statements speak only as of the date made. Griffon undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law. Such statements reflect the views of the Company with respect to future events and are subject to these and other risks, as previously disclosed in the Company’s Securities and Exchange Commission filings.

Item 3 - Quantitative and Qualitative Disclosure About Market Risk

Griffon’s business activities necessitate the management of various financial and market risks, including those related to changes in interest rates, foreign currency rates and commodity prices.

Interest Rates

Griffon’s exposure to market risk for changes in interest rates relates primarily to variable interest rate debt and investments in cash and equivalents.

Griffon's amended and restated Credit Agreement references a benchmark rate with SONIA or SOFR. In addition, certain other of Griffon's credit facilities have a LIBOR and BBSY (Bank Bill Swap Rate) based variable interest rate. Due to the current and expected level of borrowings under these facilities, a 100 basis point change in SONIA, SOFR, BBSY, or LIBOR would not have a material impact on Griffon's results of operations or liquidity.

Foreign Exchange

Griffon conducts business in various non-US countries, primarily in Canada, Australia, the United Kingdom, Ireland, New Zealand and China; therefore, changes in the value of the currencies of these countries affect Griffon's financial position and cash flows when translated into US Dollars. Griffon has generally accepted the exposure to exchange rate movements relative to its non-US operations. Griffon may, from time to time, hedge its currency risk exposures. A change of 10% or less in the value of all applicable foreign currencies would not have a material effect on Griffon's financial position and cash flows.

Item 4 - Controls and Procedures

Under the supervision and with the participation of Griffon's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), Griffon's disclosure controls and procedures, as defined by Exchange Act Rule 13a-15(e) and 15d-15(e), were evaluated as of the end of the period covered by this report. Based on that evaluation, Griffon's CEO and CFO concluded that Griffon's disclosure controls and procedures were effective at the reasonable assurance level.

SEC guidance permits the exclusion of an evaluation of the effectiveness of a registrant's disclosure controls and procedures as they relate to the internal control over financial reporting for an acquired business during the first year following such acquisition. As discussed in Note 3 to the consolidated financial statements contained in this Report, the Company acquired Hunter Fan Company ("Hunter"). The acquisition represents approximately 9.0% of the Company's consolidated revenue for the year ended September 30, 2022, and approximately 31.0% of the Company's consolidated assets at September 30, 2022. Management's evaluation and conclusion as to the effectiveness of the design and operation of the Company's disclosure controls and procedures as of December 31, 2022 and September 30, 2022 excludes any evaluation of the internal control over financial reporting of Hunter. Griffon expects to include the internal controls with respect to Hunter operations in its assessment of the effectiveness of its internal controls over financial reporting as of the end of fiscal year 2023. During the period covered by this report, there were no changes in Griffon's internal control over financial reporting which materially affected, or are reasonably likely to materially affect, Griffon's internal control over financial reporting.

Limitations on the Effectiveness of Controls

Griffon believes that a control system, no matter how well designed and operated, cannot provide absolute assurance that the objectives of the control system are met, and no evaluation of controls can provide absolute assurance that all controls issues and instances of fraud, if any, within a company have been detected. Griffon's disclosure controls and procedures, as defined by Exchange Act Rule 13a-15(e) and 15d-15(e), are designed to provide reasonable assurance of achieving their objectives.

PART II - OTHER INFORMATION

Item 1 Legal Proceedings

None

Item 1A Risk Factors

In addition to the other information set forth in this report, carefully consider the factors in Item 1A to Part I in Griffon's Annual Report on Form 10-K for the year ended September 30, 2022, which could materially affect Griffon's business, financial condition or future results. The risks described in Griffon's Annual Report on Form 10-K are not the only risks facing Griffon. Additional risks and uncertainties not currently known to Griffon or that Griffon currently deems to be immaterial also may materially adversely affect Griffon's business, financial condition and/or operating results.

Item 2 Unregistered Sales of Equity Securities and Use of Proceeds**(c) ISSUER PURCHASES OF EQUITY SECURITIES**

Period	(a) Total Number of Shares (or Units) Purchased ⁽¹⁾	(b) Average Price Paid Per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs ⁽²⁾	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) That May Yet Be Purchased Under the Plans or Programs ⁽²⁾
October 1 - 31, 2022	—	\$ —	—	
November 1 - 30, 2022	78,770	42.01	—	
December 1 - 31, 2022	266,281	34.99	—	
Total	<u>345,051</u>	\$ 36.59	<u>—</u>	\$ 57,955

1. Shares acquired by the Company from holders of restricted stock upon vesting of the restricted stock, to satisfy tax-withholding obligations of the holders.
2. On each of August 3, 2016 and August 1, 2018, the Company's Board of Directors authorized the repurchase of up to \$50,000 of Griffon common stock; as of December 31, 2022, an aggregate of \$57,955 remained available for the purchase of Griffon common stock under these repurchase programs.

Item 3 Defaults Upon Senior Securities

None

Item 4 Mine Safety Disclosures

None

Item 5 Other Information

None

Item 6	Exhibits
3.2	Amended and Restated By-laws, as amended (Exhibit 3.1 of Quarterly Report on Form 10-Q for the quarter ended March 31, 2013 (Commission File No. 1-06620), Exhibit 3.2 of Current Report on Form 8-K dated February 18, 2022 (Commission File No. 1-06620), and Exhibit 3.1 of Current Report on Form 8-K dated October 6, 2022 (Commission File No. 1-06620)).
10.1*	Amendment No. 4 to Employment Agreement made as of November 14, 2022 by and between Griffon Corporation and Ronald J. Kramer (Exhibit 10.9 to Annual Report on Form 10-K dated November 17, 2022 (Commission File No. 1-06620)).
10.2*	Amendment No. 1 to Employment Agreement made as of November 14, 2022 by and between Griffon Corporation and Robert F. Mehmel (Exhibit 10.15 to Annual Report on Form 10-K dated November 17, 2022 (Commission File No. 1-06620)).
10.3*	Amendment No. 2 to Severance Agreement made as of November 14, 2022 by and between Griffon Corporation and Brian G. Harris (Exhibit 10.19 to Annual Report on Form 10-K dated November 17, 2022 (Commission File No. 1-06620)).
10.4*	Amendment No. 2 to Severance Agreement made as of November 14, 2022 by and between Griffon Corporation and Seth L. Kaplan (Exhibit 10.13 to Annual Report on Form 10-K dated November 17, 2022 (Commission File No. 1-06620)).
10.5	Cooperation Agreement, dated as of January 8, 2023, by and among Voss Value Master Fund, L.P., Voss Value-Oriented Special Situations Fund, L.P., Voss Advisors GP, LLC, Voss Capital, LLC and Griffon Corporation (incorporated by reference to Exhibit 10.1 of Current Report on Form 8-K filed January 9, 2023).
31.1	Certification pursuant to Rule 13a-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification pursuant to Rule 13a-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certifications pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Document
101.DEF	XBRL Taxonomy Extension Definitions Document
101.LAB	XBRL Taxonomy Extension Labels Document
101.PRE	XBRL Taxonomy Extension Presentations Document

* Indicates a management contract or compensatory plan or arrangement.

SIGNATURES

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

GRIFFON CORPORATION

/s/ Brian G. Harris

Brian G. Harris
Senior Vice President and Chief Financial Officer
(Principal Financial Officer)

/s/ W. Christopher Durborow

W. Christopher Durborow
Vice President and Chief Accounting Officer
(Principal Accounting Officer)

Date: January 31, 2023

Exhibit 31.1

CERTIFICATION

I, Ronald J. Kramer, certify that:

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

Date: January 31, 2023

/s/ Ronald J. Kramer
Ronald J. Kramer
Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION

I, Brian G. Harris, certify that:

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

Date: January 31, 2023

/s/ Brian G. Harris
Brian G. Harris
Senior Vice President and Chief Financial Officer
(Principal Financial Officer)

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

I, Ronald J. Kramer, Chief Executive Officer of Griffon Corporation, hereby certify that the Form 10-Q of Griffon Corporation for the period ended December 31, 2022 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and the information contained in such report fairly presents, in all material respects, the financial condition and results of operations of Griffon Corporation.

/s/ Ronald J. Kramer

Name: Ronald J. Kramer

Date: January 31, 2023

I, Brian G. Harris, Senior Vice President and Chief Financial Officer of Griffon Corporation, hereby certify that the Form 10-Q of Griffon Corporation for the period ended December 31, 2022 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and the information contained in such report fairly presents, in all material respects, the financial condition and results of operations of Griffon Corporation.

/s/ Brian G. Harris

Name: Brian G. Harris

Date: January 31, 2023

A signed original of this written statement required by Section 906 has been provided to Griffon Corporation and will be retained by Griffon Corporation and furnished to the Securities and Exchange Commission or its staff upon request.