



**Annual Report 2021**

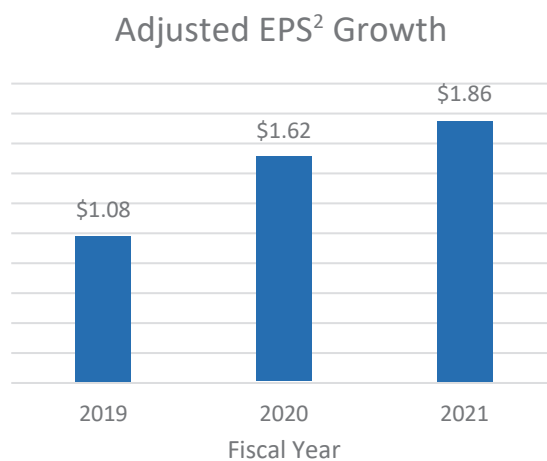
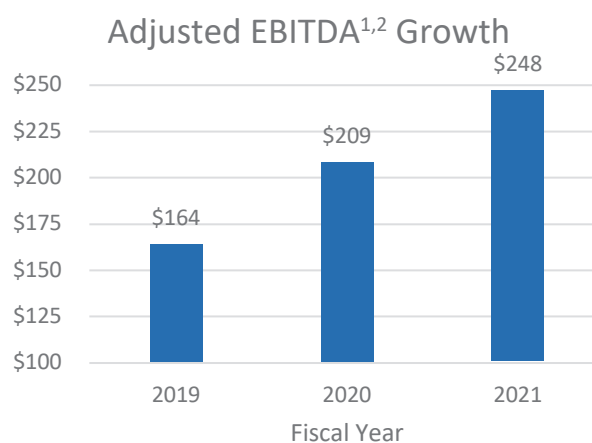
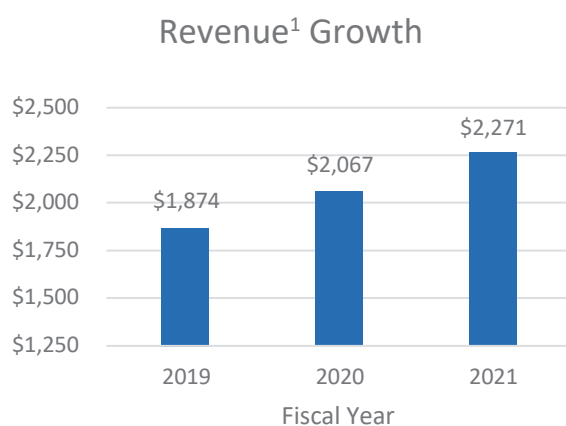
# Letter to Shareholders



Our record performance achieved in fiscal 2021 reflects the cumulative strategic actions we have taken to strengthen Griffon and position ourselves for future growth and increased profitability. I am proud of our ability to deliver these results despite the continually challenging operating environment. This performance is a credit to our team who worked tirelessly to support each other and our customers.

Our fiscal 2021 results speak for themselves. We generated record revenue of \$2.3 billion, up 10% over the prior year, and record adjusted EBITDA of \$248 million, up 18% over the prior year, all while managing through a global pandemic, supply chain issues and labor shortages. We continue to actively manage and mitigate supply chain related issues and are taking the necessary steps to preserve margins.

Our business model has delivered strong results with 3-year CAGRs for revenue, Adjusted EBITDA and Adjusted earnings per share of 11%, 23% and 35%, respectively. The tables below summarize our performance over this period and present Revenue, Adjusted EBITDA and Adjusted Earnings Per Share for fiscal years 2019 through 2021.





While we are pleased with our results, we believe there is additional runway to drive incremental value and we are executing on our strategy to deliver it. Our strong businesses today are a product of our organization's structure. Our disciplined capital allocation approach has created value for shareholders by successfully redeploying capital towards the highest return alternatives including accretive acquisitions, while returning capital to shareholders.

Our portfolio repositioning and strategic acquisitions, along with capacity expansion investments made at our CornellCookson commercial door facility in Mountain Top, Pennsylvania, and our ongoing AMES strategic initiative, have put us into a position to capitalize on the consistent strength of the housing market and homeowner activity. This portfolio repositioning has allowed us to focus on and support our businesses, taking a highly disciplined approach to assessing both acquisitions and divestitures to deliver optimal value to our shareholders.

As part of our continuous portfolio evaluation to optimize returns, in September we announced we are exploring strategic alternatives, including a sale, for Telephonics, our defense electronics business. We are evaluating opportunities to realize the value of the business and focus our resources on areas where we believe we can achieve stronger growth. On the acquisition front, we have an active pipeline of high-quality targets, and we are optimistic about locating attractive opportunities that are value enhancing and immediately accretive. Importantly, we have reduced our leverage to 2.8x<sup>3</sup> net debt to EBITDA as of the end of fiscal 2021 which, coupled with our strong free cash flow and proven ability to access the capital markets, leaves ample resources for us to execute on our acquisition strategy and return capital to shareholders.

While ESG has received heightened focus from investors in recent years, it has been an important part of how we do business for a much longer time. In addition to emphasizing sustainability in our operations, we recognize the importance of our employees and the communities in which we operate. We took significant measures to protect the health and safety of our employees during COVID-19 and will continue to actively monitor the current environment to promote their well-being. Our continued investments in our operations have created opportunities for our employees as well as jobs in our communities. We conduct our business with the highest standards of integrity and require our suppliers and partners to do the same. We believe the short-term costs of these measures are an investment that will strengthen our company in the long-term. The ESG section of our website currently provides details on some of our many efforts and commitments across environmental, social and governance areas. We are preparing our inaugural Fiscal 2021 ESG Report, which will be available on our website in the spring of 2022 and will enable you to track our continuing progress.

Over the past five years, we have refreshed six directors, adding relevant expertise and diversity to our Board, and have undertaken a commitment to further diversify the Board with an objective that by 2025, 40% of our independent directors will be women or persons of color. Additionally, we adopted two amendments to our Certificate of Incorporation for submission to our shareholders at our 2022 Annual Meeting. The first amendment will declassify the board over a three-year transition period after the amendment becomes effective, while the second will reduce the percentage of voting power necessary to call a special meeting of



shareholders. These enhancements to our corporate governance practices will further align our interests with those of our shareholders and contribute to increasing shareholder value.

## **CONSUMER AND PROFESSIONAL PRODUCTS**

The Consumer and Professional Products segment is composed of The AMES Companies (“AMES”), which serves our home markets of the United States, Australia, New Zealand, Canada, the United Kingdom and Ireland. AMES is the leading North American manufacturer and a global provider of branded consumer and professional tools and products for home storage and organization, landscaping and enhancing outdoor lifestyles. AMES’ leading brands include ClosetMaid®, AMES®, True Temper®, Razor-Back® Professional, Jackson® Professional, Hills®, Garant®, Cyclone®, Nylex®, Harper® and Kelkay®.

In 2021, AMES continued to improve its operating performance, driving revenue growth and margin expansion across our global markets. Fiscal 2021 record revenue of \$1.23 billion was up 8%, and record Adjusted EBITDA of \$116 million was up 11% over the prior year. AMES revenue benefitted from continued customer diversification, increased consumer demand and expansion of product offerings, while managing through the challenges of the COVID-19 pandemic as well as labor, transportation and global supply chain disruptions.

During 2021, AMES successfully executed the second year of its multi-year strategic initiative, which included the expansion of its distribution footprint in Australia and the UK, and the opening of a US east coast e-commerce distribution center. Additionally, during 2021 AMES launched its US business intelligence platform to provide predictive and prescriptive analytics for enhanced market insights into consumer demand and trends. These investments support the ongoing change in consumer purchasing behavior favoring digital commerce that accelerated during the COVID-19 pandemic.

The AMES Companies is the third oldest company in continuous operation in the United States. Since 1774, AMES tools helped build America, playing a prominent role in shaping the infrastructure and foundation of our country. With humble beginnings in a blacksmith’s shop in Massachusetts, AMES’ products built Revolutionary War ramparts, connected the nation via the Transcontinental Railroad, carved Mount Rushmore, installed the Statue of Liberty and travelled into space. Today, AMES is a global company comprised of a market-leading portfolio of brands and products that are widely recognized and respected by consumers and professionals worldwide. We expect AMES to benefit from increased economic activity as the world emerges from the height of the pandemic and from long overdue US infrastructure spending.

## **HOME AND BUILDING PRODUCTS**

The Home and Building Products (“HBP”) segment is composed of our Clopay business, the largest manufacturer and marketer of sectional residential and commercial garage doors and rolling steel doors in North America. HBP’s products are sold under the Clopay®, CornellCookson®, Ideal Door® and Holmes®



brands. Clipay leverages its extensive design, and manufacturing and logistics capabilities, including its team of over 2,800 talented associates and 52 North American distribution centers, to serve a diverse customer portfolio including major home center retail chains and a network of over 2,500 professional dealers. The vast majority of our professional dealers are small businesses, frequently family-owned, employing tens of thousands in a variety of mostly suburban and rural locations, as they partner with us to serve our shared end-customers. We applaud their resilience and are grateful for their partnership in these challenging times.

During fiscal 2021, Clipay delivered record financial performance while navigating unprecedented supply chain and labor disruptions, and the continuing COVID-19 pandemic. This performance is a result of the strength of our team and support of our customers. Fiscal 2021 revenue was \$1.0 billion, up 12% over the prior year, and Adjusted EBITDA was \$181 million, up 18% over the prior year.

Clipay's new products, in both the residential and commercial product segments, continue to drive interest and demand from architects, facility owners, homeowners, remodelers and home builders:

- New commercial products such as Entry Defender™, Store Defender™ and Storm Defender™, marketed under the Cornell® and Cookson® brands, have been very well received by architects, designers, retailers and government agencies looking to protect buildings.
- SmokeShield™ Elevator and SmokeShield™ Smoke and Fire products, also marketed under Cornell and Cookson brands, offer an aesthetic alternative to effective smoke and fire control in commercial and institutional buildings.
- New residential garage door products, such as the Bridgeport™ Collection, builds on Clipay's impressive portfolio of premium residential products. Bridgeport brings a unique design appeal to both architects and homeowners and has been received with great interest.
- Clipay's Avante® AX garage door was named one of the Top 100 Products of 2021 by Pro Builder magazine and Clipay was named "Best of Houzz" in the 2021 design category.

Clipay's new product development pipeline continues to expand as we look forward to launching additional new high value products in fiscal 2022 and beyond.

Today, Clipay is the leading manufacturer and marketer of garage doors and rolling steel doors in North America, operating as one team with a unified mission to promote customer success. This mission, supported by our exceptional team and a strong expanding product portfolio, positions Clipay for continued growth and profitability.

## **DEFENSE ELECTRONICS**

On September 27, 2021, we announced that our Board authorized a review of strategic alternatives, including a sale, for our Telephonics business. We believe this transaction will drive long-term value for shareholders



and enhance growth opportunities for the business. The process is ongoing and we expect it to conclude by the end of our second fiscal quarter ending March 2022.

In fiscal 2021, Telephonics revenue was \$271 million compared to \$341 million in 2020. The current and prior year results include revenue from our formerly owned SEG business of \$7 million and \$32 million, respectively. Excluding SEG revenue from both years, revenue decreased \$45 million. The decrease was driven by reduced volume due to delayed awards for Surveillance Systems and decreased deliveries for Communications Systems, partially offset by increased Radar Systems volume.

Telephonics Adjusted EBITDA for 2021 was \$20 million compared to \$25 million in 2020. The current and prior year results include Adjusted EBITDA from the SEG business of \$0.4 million and \$1.5 million, respectively. Excluding SEG from both years, Adjusted EBITDA decreased \$4.0 million. The decrease was due to the reduced revenue noted above, and increased costs primarily for Surveillance Systems, partially offset by favorable program performance for Radar Systems and reduced operating expenses.

## **BALANCE SHEET AND LIQUIDITY**

We have continued to focus on optimizing our businesses through integration activities to drive margin growth and incremental free cash flow generation. As we have worked to fundamentally strengthen our company, we have seen expansion in revenue, Adjusted EBITDA and Adjusted earnings per share, as previously noted, as well as free cash flow. Over the last three years, we have generated \$224 million in free cash flow<sup>4</sup> while cutting our leverage ratio in half to 2.8x<sup>3</sup>, which is well below our prior stated target of 3.5x.<sup>3</sup>

We have successfully executed on deleveraging Griffon, giving us the flexibility and resources we need to continue investing in our existing businesses and opportunistically pursuing value-enhancing and immediately accretive acquisitions to accelerate our growth. We also increased our dividend to \$0.09 per share, marking the 41<sup>st</sup> consecutive quarterly dividend paid to shareholders. Our dividend has grown at a 17% compound annual growth rate since the program was started in 2012.

## **THE YEAR AHEAD**

As we look ahead to fiscal 2022, we plan on executing on our returns driven growth strategy and driving margin expansion which will contribute to maximizing long-term shareholder value. We are prioritizing innovation and technology while expanding our portfolio through organic efforts, as we continue to seek further growth and value creation through the acquisition of companies with strong brand names in the markets we serve.

Our announcement of strategic alternatives for Telephonics marks another fundamental shift in Griffon's portfolio and enables us to unlock value and redeploy capital towards accretive acquisitions. Our M&A pipeline



is active, and we are reviewing exciting opportunities to substantially bolster our existing businesses, as well as considering new opportunities that will further strengthen and diversify Griffon.

Griffon's outstanding performance in fiscal 2021 was made possible through the hard work and dedication of our global workforce. I am proud of all that we have accomplished during the year and excited about our prospects to continue building value and delivering exceptional returns to our shareholders in the future.

*Yours sincerely,*

**Ronald J. Kramer**

Chairman and CEO

<sup>1</sup> On a continuing operations basis.

<sup>2</sup> For a reconciliation of (a) Adjusted EBITDA to Income before taxes from continuing operations and (b) Earnings per share to Adjusted earnings per share, see the GAAP to Non-GAAP reconciliation at the end of this annual report.

<sup>3</sup> Calculated based on the applicable covenant in Griffon's credit agreement.

<sup>4</sup> For a reconciliation of Net cash from operating activities to free cash flow, see the GAAP to Non-GAAP reconciliation at the end of this annual report.

## **Important Additional Information Regarding Proxy Solicitation**

Griffon intends to file a proxy statement and associated WHITE proxy card with the U.S. Securities and Exchange Commission (the "SEC") in connection with the solicitation of proxies for Griffon's 2022 Annual Meeting (the "Proxy Statement"). Griffon, its directors and certain of its executive officers will be participants in the solicitation of proxies from shareholders in respect of the 2022 Annual Meeting. Information regarding the names of Griffon's directors and executive officers and their respective interests in Griffon by security holdings or otherwise is set forth in Griffon's proxy statement for the 2021 Annual Meeting of Shareholders, filed with the SEC on December 16, 2020. To the extent holdings of such participants in Griffon's securities have changed since the amounts set forth in the 2021 proxy statement, such changes have been reflected on Statements of Change in Ownership on Form 4 or Annual Statement of Changes in Beneficial Ownership on Form 5 filed with the SEC. Details concerning the nominees of Griffon's Board of Directors for election at the 2022 Annual Meeting will be included in the Proxy Statement. BEFORE MAKING ANY VOTING DECISION, INVESTORS AND SHAREHOLDERS OF THE COMPANY ARE URGED TO READ ALL RELEVANT DOCUMENTS FILED WITH OR FURNISHED TO THE SEC, INCLUDING THE COMPANY'S DEFINITIVE PROXY STATEMENT AND ACCOMPANYING WHITE PROXY CARD, AND ANY SUPPLEMENTS THERETO, WHEN THEY BECOME AVAILABLE, BECAUSE THEY WILL CONTAIN IMPORTANT INFORMATION. Investors and shareholders will be able to obtain a copy of the definitive Proxy Statement and other relevant documents filed by Griffon with the SEC free of charge from the SEC's website, [www.sec.gov](http://www.sec.gov), or by directing a request by mail to Griffon Corporation, Attention: Corporate Secretary, at 712 Fifth Avenue, New York, NY 10019, or by visiting the investor relations section of Griffon's website, [www.griffon.com](http://www.griffon.com).



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

**FORM 10-K**

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the year ended September 30, 2021

OR

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

Commission File No. 1-06620

**GRIFFON CORPORATION**  
(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of incorporation or organization)

**11-1893410**

(I.R.S. Employer Identification No.)

**712 Fifth Ave, 18<sup>th</sup> Floor New York New York**

(Address of Principal Executive Offices)

**10019**

(Zip Code)

(Registrant's telephone number, including area code)

**(212) 957-5000**

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

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

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

**None**

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

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

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 and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such 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, a 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  Accelerated filer  Non-accelerated filer  Smaller reporting company   
Emerging growth company

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 has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

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

The aggregate market value of the voting and non-voting common stock held by non-affiliates of the registrant as of the close of business March 31, 2021, the registrant's most recently completed second quarter, was approximately \$1,389,000,000. The registrant's closing price as reported by the New York Stock Exchange-Composite Transactions for March 31, 2021 was \$27.17. The number of the registrant's outstanding shares was 56,613,011 as of October 31, 2021.

**DOCUMENTS INCORPORATED BY REFERENCE:**

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

## Special Notes Regarding Forward-Looking Statements

This Annual Report on Form 10-K, especially “Management’s Discussion and Analysis”, contains certain “forward-looking statements” within the meaning of the Securities Act of 1933, as amended, 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-K 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: 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; 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; reduced military spending by the government on projects for which Griffon’s Telephonics Corporation supplies products, including as a result of defense budget cuts or other government actions; the ability of the federal government to fund and conduct its operations; 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 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; unfavorable results of government agency contract audits of Telephonics Corporation; our strategy, future operations, prospects and the plans of our businesses, including the exploration of strategic alternatives for Telephonics Corporation; 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; and possible terrorist threats and actions and their impact on the global economy; the impact of COVID-19 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. 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. 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.

*(Unless otherwise indicated, any reference to years or year-end refers to the fiscal year ending September 30 and U.S. dollars and non-U.S. currencies are in thousands, except per share data)*

## **PART I**

### **Item 1. Business**

#### **Overview**

Griffon Corporation (the “Company” or “Griffon”, “we”, “us”) is a diversified management and holding company that conducts business through wholly-owned subsidiaries. The Company, 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 cyclicity, 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 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 four 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. We expanded the scope of The AMES Companies, Inc. (“AMES”) and Clopay Corporation (“Clopay”) through the acquisitions of ClosetMaid, LLC (“ClosetMaid”) and CornellCookson, Inc. (“CornellCookson”), respectively. CornellCookson has been integrated into Clopay, so that our leading company in residential garage doors and sectional commercial doors now includes a leading manufacturer of rolling steel doors and grille products. ClosetMaid was combined with AMES, and we established an integrated headquarters for AMES in Orlando, Florida. AMES is now positioned to fulfill its mission of Bringing Brands Together™ with the leading brands in home and garage organization, outdoor décor, and lawn, garden and cleaning tools.

On September 27, 2021, we announced we are exploring strategic alternatives, including a sale, for our Defense Electronics (“DE”) segment, which consists of our Telephonics Corporation subsidiary. As a result, 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 as held for sale in the consolidated balance sheets. Accordingly, all references made to results and information in this Annual Report on Form 10-K are to Griffon’s continuing operations, unless noted otherwise.

## **Update of COVID-19 on Our Business**

The health and safety of our employees, our customers and their families is a high priority for Griffon. As of the date of this filing, all of Griffon's facilities are fully operational. We have 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. In the United States, we manufacture a substantial majority of the products that we sell. While this helps mitigate the effects of global supplier and transportation disruptions, we are still impacted by these disruptions. Our supply chain has experienced certain disruptions which, together with other factors such as a shortage of labor, has resulted in longer delivery lead times and restricted manufacturing capacity for certain of our products. Commodity prices have increased during COVID-19 and may continue to increase, and we may not be able to pass off all or any of such price increases to our customers on a timely basis, or at all. It is difficult to predict whether the supply chain disruptions that impact us will improve, worsen or remain the same in the near term. Our suppliers could be required by government authorities to temporarily cease operations in accordance with the various restrictions discussed above; might be limited in their production capacity due to complying with restrictions relating to the operation of businesses during the COVID-19 pandemic; or could suffer their own supply chain disruptions, impacting their ability to continue to supply us with the quantity of materials required by us.

During fiscal 2021 and through the date of this filing, all of our businesses have experienced normal or better order patterns compared with pre-pandemic levels. U.S. executive orders issued in 2020 which required all workers to remain at home unless their work is critical, essential, or life-sustaining, have been lifted. Regardless, we believe that, based on the various standards published to date, the work our employees are performing are either critical, essential and/or life-sustaining for the following reasons: 1) HBP residential and commercial garage doors, rolling steel doors and related products that (a) provide protection and support for the efficient and safe movement of people, goods, and equipment in and out of residential and commercial facilities, (b) help prevent fires from spreading from one location to another, and (c) protect warehouses and homes, and their contents, from damage caused by strong weather events such as hurricanes and tornadoes; and 2) CPP tools and storage products provide critical support for the national infrastructure including construction, maintenance, manufacturing and natural disaster recovery, and is part of the essential supply base to many of its largest customers including Home Depot, Lowe's and Menards. Our AMES international facilities are currently fully operational, as they meet the applicable standards in their respective countries.

On September 9, 2021, President Biden announced a proposed new rule requiring that all employers with at least 100 employees require that their employees be fully vaccinated or tested weekly. The U.S. Department of Labor's Occupational Safety and Health Administration ("OSHA") issued an emergency temporary standard regulation to carry out this mandate. On November 6, 2021, the United States Court of Appeals for the Fifth Circuit granted a stay of the emergency temporary standard, and on November 12, 2021 the Court upheld its stay and barred OSHA from enforcing the mandate "pending adequate judicial review" of a motion for permanent injunction. At this time, it is unclear, among other things, when the vaccine mandate will go into effect (or if it will go into effect at all); whether it will apply to all employees or only to employees who work in the office; and how compliance will be documented.

As a company with more than 100 employees, it is anticipated that, should the vaccine mandate go into effect, we would be subject to the OSHA regulation concerning COVID-19 vaccination and the vaccine mandate. Should the mandate apply to us, we may be required to implement a requirement that all of our employees get vaccinated, subject to limited exceptions. At this time, it is not possible to predict the impact that a vaccine mandate, or a vaccine requirement should we adopt one, will have on us or on our workforce. Any vaccine requirement or vaccine mandate, if implemented, may result in employee attrition, which could materially and adversely affect our business and results of operations.

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. In January 2020, Griffon increased total borrowing capacity under its revolving credit facility ("Credit Agreement") by

\$50,000, to \$400,000 (of which \$370,927 was available at September 30, 2021), and extended maturity of the facility to 2025. In addition, the Credit Agreement has a \$100,000 accordion feature (subject to lender consent). During 2020, Griffon refinanced its \$1,000,000 of senior notes due 2022 with new 5.75% senior notes with a maturity of 2028. In August 2020, we completed a public offering of 8,700,000 shares of our common stock for total net proceeds of \$178,165 (the “Public Offering”); a portion of these net proceeds were used to repay outstanding borrowing under our Credit Agreement. At September 30, 2021 Griffon had cash and equivalents of \$248,653.

We will continue to actively monitor the situation and may take further actions that impact our operations as may be required by federal, state or local authorities or that we determine is in the best interests of our employees, customers, suppliers and shareholders. While we are unable to determine or predict the nature, duration or scope of the overall impact the COVID-19 pandemic 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 our response to COVID-19 is progressing and how our operations and financial condition may change as the fight against COVID-19 progresses.

### **Business Highlights**

As noted above, Griffon is exploring strategic alternatives, including a sale, for its Defense Electronics business. Griffon believes these alternatives will increase long-term value for Griffon shareholders, while creating enhanced growth opportunities for Telephonics. Telephonics is recognized globally as a leading provider of highly sophisticated intelligence, surveillance and communications solutions that are deployed across a wide range of land, sea and air applications. Telephonics designs, develops, manufactures and provides logistical support and lifecycle sustainment services to defense, aerospace and commercial customers worldwide.

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 intends to use the remainder of the proceeds for general corporate purposes, including to expand its current business through acquisitions of, or investments in, other businesses or products.

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.

The expanded focus of this initiative leverages the same three key development areas being executed within our U.S. operations. First, certain AMES global operations will be consolidated to optimize facilities footprint and talent. Second, strategic investments in automation and facilities expansion will be made to increase the efficiency of our manufacturing and fulfillment operations, and support e-commerce growth. Third, multiple independent information systems will be unified into a single data and analytics platform, which will serve the whole AMES global enterprise.

Expanding the roll-out of the new business platform from our AMES U.S. operations to include AMES’ global operations will extend the duration of the project by one year, with completion now expected by the end of calendar year 2023. When fully implemented, these actions will result in annual

cash savings of \$30,000 to \$35,000 and a reduction in inventory of \$30,000 to \$35,000, both based on fiscal 2020 operating levels.

The cost to implement this new business platform, over the duration of the project, will include one-time charges of approximately \$65,000 and capital investments of approximately \$65,000. The one-time charges are comprised of \$46,000 of cash charges, which includes \$26,000 of personnel-related costs such as training, severance, and duplicate personnel costs as well as \$20,000 of facility and lease exit costs. The remaining \$19,000 of charges are non-cash and are primarily related to asset write-downs.

In June 2018, Clopay acquired CornellCookson, a leading provider of rolling steel service doors, fire doors, and grilles, for an effective purchase price of approximately \$170,000. 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 expands the Clopay network of professional dealers focused on the commercial market. CornellCookson generated over \$200,000 in revenue in its first full year of operations.

In March 2018, we announced the combination of the ClosetMaid operations with those of AMES. ClosetMaid generated over \$300,000 in revenue in the first twelve months after the acquisition, and the integration with AMES 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") for approximately \$465,000, net of certain post-closing adjustments, 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) for an effective purchase price of approximately \$165,000. 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). The purchase price is subject to additional contingent consideration of approximately AUD \$1,000 (approximately \$760) based on Quatro exceeding certain EBITDA performance targets in the first year. Quatro is expected to contribute approximately \$5,000 in annualized revenue in the first twelve months after the acquisition.

On December 18, 2020, Defense Electronics completed the sale of its Systems Engineering Group, Inc. ("SEG") business for \$15,000. SEG provides sophisticated, highly technical engineering and analytical support to the U.S. Missile Defense Agency and various U.S. military commands. SEG had sales of approximately \$7,000 for the first fiscal quarter ended December 31, 2020 and \$31,000 for the fiscal year ended September 30, 2020.

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 for approximately \$10,500 (GBP 8,750), inclusive of a post-closing working capital adjustment, net of cash

acquired. This acquisition broadens AMES' product offerings in the U.K. market and increases its in-country operational footprint. Apta contributed approximately \$20,000 in revenue in the first twelve months after the acquisition.

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. In the United Kingdom, Griffon acquired La Hacienda, an outdoor living brand of unique heating and garden décor products, in July 2017. 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](http://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 Reportable Segments footnote in the Notes to Consolidated Financial Statements.

### **Reportable Segments:**

Griffon now conducts its operations through two reportable segments:

- Consumer and Professional Products ("CPP") conducts its operations through AMES. Founded in 1774, AMES is the leading North American manufacturer and a global provider of branded consumer and professional tools and products for home storage and organization, landscaping, and enhancing outdoor lifestyles. CPP sells products globally through a portfolio of leading brands including True Temper, AMES, 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 CornellCookson brand.

Defense Electronics, classified as a discontinued operation, conducts its operations through Telephonics Corporation ("Telephonics"), founded in 1933, a globally recognized leading provider of highly

sophisticated intelligence, surveillance and communications solutions for defense, aerospace and commercial customers.

## **Reportable Segments:**

### **CONSUMER AND PROFESSIONAL PRODUCTS**

The CPP segment consists of AMES. Founded in Massachusetts in 1774, AMES has the distinction of being one of the oldest companies in continuous operation in the United States. Over its long life, AMES has grown organically and through the acquisition of other leading and historic tool businesses such as True Temper, Union Tools, and Garant. Today, AMES is the leading manufacturer of long-handled tools and landscaping products for homeowners and professionals in North America, and also provides these products in key global markets including Canada, Australia, New Zealand, the U.K., and Ireland. AMES is also the leading provider of wood and wire closet organization, general living storage, and wire garage storage products in the United States through its ClosetMaid product line.

Since being acquired by Griffon in 2010, AMES has benefited from strategic acquisitions that have expanded its product portfolio and geographic presence. The ClosetMaid, Southern Patio, and Harper Brush Works acquisitions added to AMES' product categories in North America to include storage and organization, decorative landscaping, and cleaning products. The acquisitions of Northcote, Cyclone, Hills, Nylex Tuscan Path and Quatro in Australia established AMES as a leading supplier of tools and landscaping categories in the Australian market. As a result of the acquisitions of Kelkay, La Hacienda and Apta, the U.K. and Ireland have become key markets for AMES products.

AMES has approximately 3,800 employees worldwide.

#### *Brands*

AMES' brands are among the most recognized across its primary product categories in North America, Australia and the United Kingdom. Its brand portfolio for long-handled tools, outdoor décor, and landscaping product includes AMES®, True Temper®, Garant®, Harper®, UnionTools®, Westmix™, Cyclone®, Southern Patio®, Northcote Pottery™, Nylex®, Hills®, Kelkay®, Tuscan Path®, La Hacienda®, Kelso™, Dynamic Design®™, Apta® and Quatro Design®. Contractor-oriented tool brands include Razor-Back® Professional Tools and Jackson® Professional Tools. AMES' home organization, general living storage, and garage storage products are sold primarily under the ClosetMaid® brand.

This strong portfolio of brands enables AMES to build and maintain long-standing relationships with leading retailers and distributors. In addition, given the breadth of its brand portfolio and product category depth, AMES is able to offer specific, differentiated branding strategies for key retail customers. These strategies focus on enhancement of brand value, with the goal of de-commoditizing AMES products through identity and functionality elements that makes each top brand unique, attractive and visually recognizable by the consumer. In addition to the brands listed, AMES also sells private label branded products, further differentiating AMES in its customer offerings.

#### *Products*

AMES manufactures and markets a broad portfolio of long-handled tools, landscaping products, and home organization products. This portfolio contains many iconic brands and is anchored by five core product categories: seasonal outdoor tools, project tools, outdoor décor and watering, home organization, and cleaning products. As a result of brand portfolio recognition, outstanding product quality, industry leading service and strong customer relationships, AMES has earned market-leading



positions in its five core product categories. The following is a brief description of AMES' primary product lines:

- ***Seasonal Outdoor Tools***

- ***Long-Handled Tools:*** An extensive line of engineered tools including shovels, spades, scoops, rakes, hoes, cultivators, weeders, post hole diggers, scrapers, edgers and forks, marketed under leading brand names including AMES®, True Temper®, UnionTools®, Garant®, Cyclone® and Kelso™, as well as contractor-oriented brands including Razor-Back® Jackson® and Darby™.
- ***Wheelbarrows:*** AMES designs, develops and manufactures a full line of wheelbarrows and lawn carts, primarily under the AMES®, True Temper®, Jackson® Professional Tools, UnionTools®, Garant® and Westmix™ brand names. The products range in size, material (poly and steel), tray form, tire type, handle length and color based on the needs of homeowners, landscapers and contractors.
- ***Snow Tools:*** A complete line of snow tools is marketed under the True Temper®, Garant® and Union Tools® brand names. The snow tool line includes shovels, pushers, roof rakes, sled sleigh shovels, scoops and ice scrapers.
- ***Pruning:*** The pruning line is made up of pruners, loppers, shears, and other tools sold primarily under the True Temper®, Cyclone® and Garant® brand names.

- ***Project Tools***

- ***Striking Tools:*** Axes, picks, mattocks, mauls, wood splitters, sledgehammers, pry bars and repair handles make up the striking tools product line. These products are marketed under the True Temper®, Cyclone®, Garant®, Jackson® Professional Tools and Razor-Back® Professional Tools brand names.
- ***Hand Tools:*** Hammers, screwdrivers, pliers, adjustable wrenches, handsaws, tape measures, levels, clamps, and other traditional hand tools make up this product line. These products are marketed under the Trojan®, Cyclone® and Supercraft® brand names. In addition, gardening hand tools, such as trowels, cultivators, weeders and other specialty garden hand tools, are marketed under the AMES® brand name.

- ***Outdoor Décor and Watering***

- ***Planters and Lawn Accessories:*** AMES is a designer, manufacturer and distributor of indoor and outdoor planters and accessories, sold under the Southern Patio®, Northcote Pottery™, Tuscan Path, La Hacienda®, Hills®, Kelkay®, Quatro Design® and Dynamic Design®™ brand names, as well as various private label brands. The range of planter sizes (from 6 to 32 inches) is available in various designs, colors and materials.
- ***Garden Hose and Storage:*** AMES offers a wide range of manufactured and sourced garden hoses and hose reels under the AMES®, NeverLeak®, Nylex®, and Hills® brand names.
- ***Home Organization:*** AMES designs, manufactures and sells a comprehensive portfolio of wire and wood shelving, containers, storage cabinets and other closet and home organization accessories primarily under the highly-recognized ClosetMaid® brand name and other private label brands. Wire products include wire shelving and hardware, wire accessories and kitchen storage products. Wire product brands include Maximum Load®, SuperSlide® and ShelfTrack®. Wood solutions include closet systems, cube storage, storage furniture and cabinets. Selected wood product brands include MasterSuite®, Suite Symphony®™, ExpressShelf®, Style+®, and SpaceCreations®.
- ***Cleaning Products:*** AMES offers a complete line of cleaning products for professional, home, and industrial use, including brooms, brushes, squeegees and other cleaning products, primarily under the Harper® brand.

### *Customers*

AMES sells products throughout North America, Australia, New Zealand and Europe through (1) home centers, such as The Home Depot, Inc. (“Home Depot”), Lowe’s Companies Inc. (“Lowe’s”), Rona Inc., Bunnings Warehouse (“Bunnings”) and Woodies (with the average length of the relationship with these customers being approximately 30 years); (2) mass market, specialty, and hardware retailers including Wal-Mart Stores Inc. (“Walmart”), Target Corporation (“Target”), Canadian Tire Corporation, Limited (“Canadian Tire”), Costco Wholesale Corporation (“Costco”), Ace, Do-It-Best and True Value Company; (3) industrial distributors, such as W.W. Grainger, Inc. and ORS Nasco, and (4) homebuilders, such as D.R. Horton, KB Home, Lennar and NVR, Inc.

Home Depot, Lowe’s and Bunnings are significant customers of AMES. The loss of any of these customers would have a material adverse effect on the AMES business and on Griffon.

### *Product Development*

AMES product development efforts focus on both new products and product line extensions. AMES continually improves existing products as well as develops new products to satisfy consumer needs, expand revenue opportunities, maintain or extend competitive advantages, increase market share and reduce production costs. Products are developed through in-house industrial design and engineering staffs to introduce new products and product line extensions that are timely and cost effective.

### *Sales and Marketing*

AMES’ sales organization is structured by distribution channel in the U.S., and by country internationally. In the U.S., a dedicated team of sales professionals is provided for each of the large retail customers. Offices are maintained adjacent to each of the two largest customers’ headquarters, supported by a shared in-house sales analyst. In addition, sales professionals are assigned to domestic, wholesale and industrial distribution channels. Sales teams located in Canada, Australia, the United Kingdom and Ireland handle sales in each of their respective regions. In Australia, a dedicated team of sales professionals is provided for the largest retail customer. AMES also is making investments in automation, facilities expansion and fulfillment operations to support e-commerce growth.

### *Raw Materials and Suppliers*

AMES’ primary raw material inputs include resin (primarily polypropylene and high density polyethylene), wood (particleboard and hardwoods including ash, hickory and poplar logs) and steel (hot rolled, cold rolled, and wire rod). All raw materials are generally available from a number of sources. Certain components are purchased, such as heavy forged components and wheelbarrow tires. Most final assembly is completed internally in order to ensure consistent quality. AMES also sources some finished goods.

### *Competition*

The long-handled tools and landscaping product industry is highly competitive and fragmented. Most competitors consist of small, privately-held companies focusing on a single product category. Some competitors, such as Fiskars Corporation in the hand tool and pruning tool market and Truper Herramientas S.A. de C.V. in the long-handled and garden tool space, compete in various tool categories. Suncoast Corporation competes in the hose reel and accessory market, and more recently in the long-handled plastic snow shovel category. In addition, there is competition from imported or sourced products from China, India and other low-cost producing countries, particularly in long-handled tools, wheelbarrows, planters, striking tools and pruning tools.

The home storage and organizational solutions industry is also highly fragmented. AMES, primarily under the ClosetMaid brands, sells through retail, direct to consumer (e-commerce category) and direct

to installer (building) channels and competes with a significant number of companies across each of these unique channels. Principal competition for retail wire products is from Newell Brands, Inc. through their Rubbermaid® product line. FirstService Brands, Inc. sells competing wood solutions under the brand California Closets®, but does not sell through the retail or direct to consumer channels. We believe that AMES' market share in the U.S. is approximately double that of its largest competitors in the home storage and organizational solutions product category.

AMES differentiates itself and provides the best value to customers through its successful history of innovation, dependable supply chain and high on-time delivery rates, quality, product performance, and highly recognized product brands. AMES' size, depth and breadth of product offering, category knowledge, research and development ("R&D") investment, service and its ability to react to sudden changes in demand from seasonal weather patterns, especially during harsh winter months, are competitive advantages. Offshore manufacturers lack sufficient product innovation, capacity, proximity to market and distribution capabilities to service large retailers or to efficiently and effectively compete in highly seasonal, weather related product categories.

### *Manufacturing and Distribution*

AMES has a combination of internal and external, and domestic and foreign, manufacturing sources from which it sources products for sale in the markets it serves. Principal manufacturing facilities include 644,000 square feet of manufacturing operations in Harrisburg and Camp Hill, Pennsylvania, a 676,000 square foot facility in Ocala, Florida, and a 353,000 square foot manufacturing center in St. Francois, Quebec, Canada. AMES operates smaller manufacturing facilities, including wood mills, at several other locations in the United States, and internationally in Reynosa, Mexico; Jiangmen, China; and Grafton, New South Wales and Wonthaggi, Victoria, both in Australia.

AMES has two principal distribution facilities in the United States, a 1.4 million square foot facility in Carlisle, Pennsylvania and a 774,000 square foot facility in Reno, Nevada. Finished goods are transported to these facilities from AMES' manufacturing sites by both an internal fleet, as well as over the road trucking and rail. Additionally, light assembly is performed at the Carlisle and Reno locations. Smaller distribution centers are also strategically located in the U.S. in Ocala, Florida and Pharr, Texas, and internationally in Canada, Australia, the United Kingdom and Ireland.

## **HOME AND BUILDING PRODUCTS**

The HBP segment consists of Clopay. Founded in 1964 and acquired by Griffon in 1986, Clopay has grown organically and through acquisitions to become the largest manufacturer and marketer of garage doors and rolling steel doors in North America. Clopay also manufactures a complete line of entry door systems uniquely designed to complement its popular residential garage door styles. The majority of Clopay's sales come from home remodeling and renovation projects, with the balance from commercial construction and new residential housing construction. Sales into the home remodeling market are driven by the aging of the housing stock, existing home sales activity, and the trends of improving both home appearance and energy efficiency. Sales into the commercial market are driven by the aging of nonresidential buildings, including warehouses, institutional and industrial facilities, increased business activity, changes to building codes, security of facilities and trends of improving function and performance.

Clopay has approximately 2,900 employees.

### *Brands*

Clopay brings over 50 years of experience and innovation to the residential and sectional garage door industry, and has over 100 years of experience in the rolling steel industry. Residential and commercial sectional products are sold under market-leading brands including Clopay®, America's Favorite Garage

Doors®, Holmes Garage Door Company® and IDEAL Door®. Clopay commercial rolling steel door brands include Cornell®, Cookson®, CornellCookson® and Clopay®.

### *Products and Service*

Clopay manufactures a broad line of residential sectional garage doors with a variety of options, at varying prices. Clopay offers garage doors made primarily from steel, plastic composite and wood, and also sells related products, such as garage door openers manufactured by third parties. Clopay also offers a complete line of entry door systems uniquely designed to complement its popular residential garage door styles.

Commercial door products manufactured and marketed by Clopay include rolling steel service doors, fire doors, shutters, steel security grilles, and room dividers. Clopay also manufactures and markets commercial sectional doors, which are similar to residential garage doors, but are designed to meet the more demanding performance specifications of a commercial application.

### *Customers*

Clopay is currently the exclusive supplier of residential garage doors throughout North America to Home Depot and Menards. The loss of either of these customers would have a material adverse effect on Clopay and Griffon. Clopay distributes its garage doors directly to customers from its manufacturing facilities and through its distribution centers located throughout the U.S. and Canada. These distribution centers allow Clopay to maintain an inventory of garage doors near installing dealers and provide quick-ship service to retail and professional dealer customers.

### *Product Development*

Clopay product development efforts focus on both new products and improvements to existing products. Products are developed through in-house design and engineering staffs.

Clopay operates technical development centers where its research engineers design and develop new products and technologies and perform durability and performance testing of new and existing products, materials and finishes. Clopay continually improves its door offerings through these development efforts, focusing on characteristics such as strength, design, operating performance and durability, and energy efficiency. The process engineering teams also work to develop new manufacturing processes and production techniques aimed at improving manufacturing efficiencies and ensuring quality-made products.

### *Sales and Marketing*

The Clopay sales and marketing organization supports our customers, consults on new product development and aggressively markets door solutions, with a primary focus on the North American market. Clopay maintains a strong promotional presence, in both traditional and digital media.

Clopay customers utilize a proprietary residential door web application, the MyDoor® mobile enabled app, that guides consumers through an easy to use visualization and pricing program, allowing them to select the optimal door for their home. For Clopay's commercial products, Clopay's Commercial Door Quoter (CDQ®™) and CornellCookson's WebGen™ systems are available to assist our professional dealers streamline their quoting and submittal process for greater productivity and back office efficiency improvement.

### *Raw Materials and Suppliers*

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

### *Competition*

The sectional garage door and commercial rolling steel door industry includes several large national manufacturers and many smaller, regional and local manufacturers. Clopay competes on the basis of service, quality, price, brand awareness and product design.

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

### *Manufacturing and Distribution*

Clopay's principal manufacturing facilities include 1,480,000 square feet in Troy and Russia, Ohio, 279,000 square feet in Mountain Top, Pennsylvania and 163,000 square feet in Goodyear, Arizona.

On January 31, 2019, Clopay announced a \$14,000 investment in facilities infrastructure and equipment at its rolling steel manufacturing location in Mountain Top, Pennsylvania. This project included a 95,000 square foot expansion to the already existing 184,000 square foot facility, along with the addition of state-of-the-art manufacturing equipment. Through this expansion, the Mountain Top location improved its manufacturing efficiency and shipping operations, as well as increased manufacturing capacity to support full-rate production of new and core products. The project was completed at the end of calendar 2019.

Clopay distributes its products through a wide range of distribution channels, including a national network of 52 distribution centers with a total of approximately 1,100,000 square feet. Additionally, products are sold to over 2,500 independent professional installing dealers and to major home center retail chains including Home Depot and Menards (with the average length of the relationship with these customers being greater than 25 years). Clopay maintains strong relationships with its installing dealers and believes it is the largest supplier of sectional garage doors to the retail and professional installing channels in North America and the largest supplier of rolling steel door products in North America. Clopay is currently the exclusive supplier of residential garage doors throughout North America to Home Depot and Menards.

### **Discontinued Operation:**

#### **DEFENSE ELECTRONICS**

On September 27, 2021, Griffon announced it is exploring strategic alternatives for its Defense Electronics segment, which consists of Telephonics Corporation ("Telephonics"). As a result, 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 as held for sale in the consolidated balance sheets. Accordingly, all references made to results and information in this Annual Report on Form 10-K are to Griffon's continuing operations unless noted otherwise.

Telephonics, founded in 1933, is recognized globally as a leading provider of highly sophisticated intelligence, surveillance and communications solutions that are deployed across a wide range of land, sea and air applications. Telephonics designs, develops, manufactures and provides logistical support

and lifecycle sustainment services to defense, aerospace and commercial customers worldwide. In 2021, approximately 69% of the DE sales were to the U.S. Government and agencies thereof, as a prime or subcontractor, 26% to international customers and 5% to U.S. commercial customers. Telephonics is headquartered in Farmingdale, New York and currently has approximately 700 employees.

Internationally, demand is growing due to major system capability upgrades in existing systems and recapitalization of aging assets. The U.S. is the largest exporter of defense equipment in the world, and is expected to remain so for the foreseeable future, with significant increases in defense budgets expected in countries that have historically imported defense products from the U.S. such as Saudi Arabia, UAE, Taiwan, Australia, India, South Korea and Japan, among others.

Domestic and international defense market trends bode well for business opportunities for Telephonics products supporting Imaging and Surveillance Radar Systems, Communications, Surveillance and Border Surveillance.

On December 18, 2020, Defense Electronics completed the sale of its SEG business for \$15,000. SEG provides sophisticated, highly technical engineering and analytical support to the Missile Defense Agency and various U.S. military commands. SEG had sales of approximately \$7,000 for the first fiscal quarter ended December 31, 2020 and \$31,000 for the fiscal year ended September 30, 2020. DE recorded a pre-tax gain of \$5,291 (\$5,443, including a net tax benefit of \$152) related to the divestiture of SEG.

Telephonics is organized into four primary business lines: Radar Systems, Surveillance, Communications and Telephonics Large Scale Integration (TLSI).

- *Radar:* Telephonics provides a wide range of high-performing, lightweight and cost-effective maritime surveillance and weather avoidance radar systems for fixed- and rotary-wing aircraft, Unmanned Aerial Vehicles (UAVs) and shipboard platforms to the U.S. Government and numerous international defense agencies. Telephonics is also the sole provider of the US Navy's AN/APS-153 multi-mode radar and the communications suite within the MH-60R/S multi-mission helicopters. Our maritime surveillance radars offer advanced features such as Ground Moving Target Indicator (GMTI), Synthetic Aperture Radar (SAR), Inverse Synthetic Aperture Radar (ISAR), Automatic Identification System (AIS) and weather avoidance. Telephonics is developing the next generation multi-mode maritime and over-land surveillance Active Electronically Scanned Array (AESA) radar known as MOSAIC.
- *Surveillance:* Telephonics is a global leader in Identification Friend or Foe (IFF), Monopulse Secondary Surveillance Radars (MSSR) and Air Traffic Control (ATC) systems enabling military and civilian air traffic controllers to effectively identify aircraft and vehicles as friendly. Telephonics provides both equipment and supporting services required to safely and reliably control flight operations. These systems are used by the U.S. Army, U.S. Navy, U.S. Air Force, U.S. Marines, Federal Aviation Administration ("FAA"), NATO and numerous international defense agencies including those of Japan and South Korea. They have been fielded globally in a wide range of ground, air and sea-based applications.
- *Communications:* Telephonics' advanced wired and wireless communication systems provide the digital backbone for defense and civil platforms worldwide, including fixed- and rotary-wing aircraft, lighter-than-air aircraft and ground control shelters. These systems are designed to meet stringent customer requirements to support adaptability to special missions and communications protocol requirements. Telephonics' vehicle-based intercommunications systems deliver traditional intercom system capabilities while incorporating software-defined features, including an open architecture for integration into vehicle C4 (command, control, communications and computing) systems, networked communications gateways and combat vehicles. Commercial audio products and headsets are utilized worldwide in a wide range of military and civilian applications, including audiometric testing and onboard flight entertainment. Telephonics communications systems are fielded within the U.S. Army, U.S. Navy, U.S. Air Force, U.S.

Marines and numerous international defense agencies. These systems are also sold to aerospace manufacturers, commercial airlines and audiometric original equipment manufacturers.

- *Telephonics Large Scale Integration (TLSI)*: TLSI has designed nearly 400 mixed-signal custom Application Specific Integrated Circuits (ASICs) for customers in the automotive, industrial, defense/avionics and smart energy markets. TLSI works with its customers' technical teams, taking complete responsibility for the ASIC development process, from the initial ASIC specification definition through qualification and volume production, to meet the most stringent customer program requirements. Over 10 million ASICs are shipped every year.

To meet the unique challenges of operating in an increasingly complex industry that is faced with continued economic and budgetary pressure on U.S. defense procurement, Telephonics has adapted its core surveillance and communications products, typically used by the U.S. government and its agencies, to meet the needs of international customers in both defense and commercial markets. Telephonics' two largest product lines include maritime surveillance radar and aircraft intercommunication management systems and as Telephonics continues to concentrate on adjacent markets to grow these product lines both domestically and internationally, the company remains focused on delivering high-quality products and services that protect military personnel and civilian interests world-wide.

Telephonics' leading-edge products and services are well-positioned to address the needs of a fully integrated and modernized battlefield with an emphasis on providing complete situational awareness to the warfighter whether on the ground, in the air or at sea, providing timely, secure and accurate intelligence. Telephonics anticipates that the need for secure, integrated surveillance and communications capabilities will continue to increase as the U.S. and foreign militaries expand their role in fighting terrorism both at home and abroad. Telephonics has also invested in design and development of technologies focused on advanced intelligence and surveillance sensors with applications in both manned and unmanned systems, as well as border and perimeter security markets.

Telephonics is a partner in Mahindra Telephonics Integrated Systems, a Joint Venture (JV) with Mahindra Defense Systems in India. The business is focused on providing the Indian defense and civil sectors with surveillance, communications and IFF systems. The JV also intends to provide air traffic management (ATM), border and perimeter security and other surveillance technologies to meet emerging demands.

### *Programs and Products*

Based on long-established relationships supported by existing contractual arrangements, Telephonics is a first-tier supplier to prime contractors in the defense industry such as Lockheed Martin Corporation ("Lockheed Martin", which includes Sikorsky Aircraft), The Boeing Company ("Boeing"), Northrop Grumman Corporation ("Northrop Grumman"), Airbus Military, Airbus Helicopters, Leonardo (AgustaWestland) Helicopters, and SAAB (with the average length of the relationship with these customers being greater than 20 years), and is a prime contractor to the U.S. Department of Defense and FAA. The significance of each of these customers to Telephonics' revenue fluctuates on an annual basis, based on the timing and funding of the Original Equipment Manufacturers ("OEM") contract award, and the technological scope of the work required. Key products include maritime radars, identification friend or foe systems, mobile surveillance and communication systems. The significant contraction and consolidation in the U.S. and international defense industry provides opportunities for established first-tier suppliers to capitalize on existing relationships with major prime contractors and to play a larger role in defense systems development and procurement for the foreseeable future.

Telephonics successfully leveraged its core Surveillance technologies to develop a solution, now fielded by the FAA as a part of the Common Terminal Digitizer (CTD) program, at numerous air surveillance radar sites across the United States. Telephonics expects to continue to leverage its technology to improve the value proposition offered to future FAA radar infrastructure upgrade programs.

Telephonics continues to direct resources towards border surveillance and critical infrastructure security initiatives. These opportunities represent strategic advances for Telephonics by enabling it to expand its

core technical expertise into the nascent and growing border and perimeter security markets, both in the U.S. and abroad. With many of these programs, system specifications and operational and test requirements are challenging, exacerbated by demanding delivery schedules. Telephonics believes that the technological capabilities these systems encompass will also be able to serve and protect the most complex borders.

### *Backlog*

The funded contract backlog for Telephonics was approximately \$352,200 at September 30, 2021 with 62% expected to be fulfilled in the next 12 months; backlog was \$370,000 at September 30, 2020 (excludes approximately \$10,000 of SEG related backlog).

Backlog is defined as unfilled firm orders for products and services for which funding has been both authorized and appropriated by the customer or U.S. Congress, in the case of U.S. Government agencies. Backlog generally increases with bookings and converts into revenue as we incur costs related to contractual commitments or the shipment of product. The decrease in backlog was primarily attributed to the timing of various international and domestic contract awards with radar, surveillance and communications that were not received by the end of the reporting period. Timing of Domestic awards were impacted by COVID driving significant remote work and inefficiency. Given the nature of our business and a larger dependency on international customers, our bookings, and therefore our backlog, is impacted by the longer maturation cycles resulting in delays in the timing and amounts of such awards, which are subject to numerous factors, including fiscal constraints placed on customer budgets; political uncertainty; the timing of customer negotiations; and the timing of governmental approvals.

### *Customers*

The U.S. Government, through prime contractors like Lockheed Martin, Northrop Grumman, and Boeing, is a significant customer of Telephonics. The loss of the U.S. Government or any of its prime contractors as a customer could have a material adverse effect on Telephonics' business. Notwithstanding the significance of Lockheed Martin, Northrop Grumman and Boeing, Telephonics sells to a diverse group of other domestic and international defense industry contractors, as well as others who use Telephonics products for commercial use.

Telephonics participates in a range of long-term defense and non-military government programs, both in the U.S. and internationally. Telephonics has developed a base of installed products that generate significant recurring revenue from product enhancements and retrofits, as well as providing spare parts and customer support. Due to the inherent complexity of these electronic systems, Telephonics believes that its incumbent status on major platforms provides a competitive advantage in the selection process for platform upgrades and enhancements. Furthermore, Telephonics believes that its ability to leverage and apply its advanced technology to new platforms provides a competitive advantage when bidding for new business.

### *Research and Development (R&D)*

In order to continue to offer affordable and technologically advanced solutions that provide relevant and required features, Telephonics works closely with prime customers to ensure that there is a future market for its products by investing R&D funds in desired enhancements. Telephonics continually updates its core technologies through internally funded R&D while coordinating with customers at the earliest stages of new program development in an effort to provide solutions well in advance of its competitors. Internally funded R&D costs include basic and applied research initiatives, development activities, and other conceptual formulation studies. Telephonics is a technological leader in its core markets and pursues new growth opportunities by leveraging its systems design and engineering capabilities, and incumbent position, on key platforms.



In addition to products for defense programs, Telephonics' technology is also used in commercial applications such as airborne weather, search and rescue radar, and air traffic management systems. Telephonics' reputation for innovative product design and engineering capabilities, especially in the areas of voice and data communications, radio frequency design, digital signal processing, networking systems, inverse synthetic aperture radar and analog, and digital and mixed-signal integrated circuits, will continue to enhance its ability to secure, retain and expand its participation in defense programs and commercial opportunities.

Telephonics often designs its products to exceed customers' minimum specifications, providing its customers with greater performance, flexibility, and value. Telephonics believes that early participation and communication with its customers in the requirements definition stages of new program development increases the likelihood that its products will be selected and integrated as part of a total system solution.

Telephonics is currently investing in an Active Electronically Scanned Array (AESA) based radar solution to address emerging requirements in the maritime and overland radar markets. Continued investments in the Surveillance product portfolio are expected to result in market penetration opportunities in the ground tactical markets with small form factor passive and active IFF solutions.

### *Sales and Marketing*

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

### *Competition*

Telephonics competes with major manufacturers of electronic information and communication systems, as well as several smaller manufacturers of similar products. Telephonics endeavors to design high quality and reliable products with greater performance and flexibility than its competitors while competing on the basis of technology, innovative solutions, and price.

### *Manufacturing Facilities*

Telephonics' manufacturing facilities are located in the U.S., with significant facilities located in New York and North Carolina.

### *Intellectual Property*

In the government and defense business, formal intellectual property rights are of limited value. Therefore, the Telephonics business tends to hold most of its important intellectual property as trade secrets, which it protects through the use of contract terms and carefully restricting access to its technology.

### *Regulation*

Telephonics, which sells directly and indirectly to the U.S. Government, is subject to certain regulations, laws and standards set by the U.S. Government. Additionally, Telephonics is subject to routine audits and investigations by U.S. Government Agencies such as the Defense Contract Audit Agency, the Defense Counterintelligence and Security Agency, with respect to its classified contracts, and other Inspectors General. These agencies review a contractor's performance under its contracts, cost structure and compliance with applicable laws, regulations and standards, including those relating to facility and personnel security clearances. These agencies also review the adequacy of, and a contractor's compliance with, its internal control systems and policies, including the contractor's management, purchasing, property, estimating, compensation, and accounting and information systems.

## *Seasonality*

Telephonics revenue is generally driven by the delivery requirements of its customers; accordingly, Telephonics will often have increased revenue in the latter half of the year due to the U.S. government's annual budget cycle.

## **Griffon Corporation**

### **Employees**

As of September 30, 2021, Griffon and its subsidiaries employ approximately 6,700 employees, excluding approximately 700 employees related to Telephonics discontinued operation, located primarily throughout the U.S., Canada, the United Kingdom, Australia, Mexico and China. Generally, the total number of employees of Griffon and its subsidiaries does not significantly fluctuate throughout the year. However, acquisition activity or the opening of new branches or lines of business may increase the number of employees or fluctuations in the level of Griffon's business activity, which could in turn require staffing level adjustments in response to actual or anticipated customer demand.

Approximately 300 of these employees, excluding approximately 60 employees employed by Telephonics, are covered by collective bargaining agreements in the U.S., with the United Steel, Paper and Forestry, Rubber, Manufacturing, Energy, Allied Industrial and Service Workers International Union (an affiliate of the American Federation of Labor and Congress of Industrial Organizations), and the United Food & Commercial Workers International Union. Additionally, approximately 200 employees in Canada are represented by the Trade Union Advisory Committee. Griffon believes its relationships with its employees are satisfactory.

In managing its human capital resources, Griffon aims to attract a qualified workforce through an inclusive and accessible recruiting process that utilizes online recruiting platforms, campus outreach, internships and job fairs. Griffon also seeks to retain employees by offering competitive wages, benefits and training opportunities, as well as promoting a safe and healthy workplace. Griffon and all of its businesses strictly comply with all applicable state, local and international laws governing nondiscrimination in employment in every location in which Griffon and its businesses have facilities. This applies to all terms and conditions of employment, including recruiting, hiring, placement, promotion, termination, layoff, recall, transfer, leaves of absence, compensation and training. All applicants and employees are treated with the same high level of respect regardless of their gender, ethnicity, religion, national origin, age, marital status, political affiliation, sexual orientation, gender identity, disability or protected veteran status.

The COVID-19 pandemic presented unprecedented challenges in many parts of our businesses and operations, including with respect to our most valuable asset - our people. In response, we developed and implemented new procedures and protocols to minimize the risk to the health and safety of our employees while allowing us to continue to operate our facilities and provide high quality products to our customers on a timely basis. Employees that could work from home were strongly encouraged (and in some cases, required) to do so in order to minimize the number of employees in our facilities. For onsite employees, we implemented protocols for social distancing, sanitation and mask-wearing. We developed systems and purchased new equipment to facilitate the efficient sanitation and disinfection of all work areas. We reconfigured work processes to allow additional spacing between associates whenever possible; eliminated seating in common areas of many buildings to allow for appropriate distancing; staggered shifts and start, stop and break times; and at many facilities we began monitoring temperatures of all employees entering the facility. We also restricted visitors and pre-screened all contractors who required access to our facilities. We implemented appreciation award programs for many of our U.S. employees who continued to work onsite during the pandemic. We have continuously reviewed, upgraded and improved these procedures and policies as circumstances have required. Throughout the pandemic nearly all our facilities around the globe have remained open and we have made every effort to meet our customers' demands for our products, while at the same time making the necessary investments to ensure that we prioritize the health, safety and welfare of our employees.

## **Regulation**

Griffon's operations are subject to various environmental, health, and employee safety laws and regulations. Griffon believes that it is in material compliance with these laws and regulations. Historically, compliance with environmental, health, and employee safety laws and regulations have not materially affected, and are not expected to materially affect, Griffon's capital expenditures, earnings or competitive position. Nevertheless, Griffon cannot guarantee that, in the future, it will not incur additional costs for compliance or that such costs will not be material.

## **Customers**

A small number of customers account for, and are expected to continue to account for, a substantial portion of Griffon's consolidated revenue. In 2021, Home Depot represented 19% of Griffon's consolidated revenue, 26% of CPP's revenue and 10% of HBP's revenue.

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

## **Seasonality**

Griffon's revenue and income are generally lowest in our first and fourth quarters ending December 31, and September 30, respectively, and highest in our second and third quarters ending March 31, and June 30, respectively, primarily due to the seasonality within the AMES and Clopay businesses. In 2021, 53% of AMES' sales occurred during the second and third quarters compared to 53% and 56% in 2020 and 2019, respectively. In 2021 and 2020, as a result of the COVID-19 pandemic, sales orders shifted somewhat into the third and fourth quarters resulting in revenue increasing in these two quarters to 55% in each of 2021 and 2020 sales. Clopay's business is driven by renovation and construction during warm weather, which is generally at reduced levels during the winter months, generally in our second quarter.

Demand for lawn and garden products is influenced by weather, particularly weekend weather during peak gardening season. AMES' sales volume can be adversely affected by certain weather patterns such as unseasonably cool or warm temperatures, hurricanes, water shortages or floods. In addition, lack of snow or lower than average snowfall during the winter season may result in reduced sales of certain AMES' products, such as snow shovels and other snow tools. As a result, AMES' results of operations, financial results and cash flows could be adversely impacted.

## **Financial Information About Geographic Areas**

Segment and operating results are included in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations.

For geographic financial information, see the Reportable Segment footnote in the Notes to Consolidated Financial Statements in Item 8, Financial Statements and Supplementary Data.

Griffon's non-U.S. businesses are primarily in Canada, Australia, the U.K., Mexico and China.

## **Research and Development**

Griffon's businesses are encouraged to improve existing products as well as develop new products to satisfy customer needs; expand revenue opportunities; maintain or extend competitive advantages;

increase market share and reduce production costs. R&D costs, not recoverable under contractual arrangements, are charged to expense as incurred.

## **Intellectual Property**

Griffon follows a practice of actively protecting and enforcing its proprietary rights in the U.S. and throughout the world where Griffon's products are sold. All intellectual property information presented in this section is as of September 30, 2021.

Trademarks are of significant importance to Griffon's AMES and Clopay businesses. With 50 years of experience and innovation in the garage door industry, and over 100 years of experience in the rolling steel door industry, Clopay has a significant level of goodwill in its strong family of brands, including: Clopay®, America's Favorite Doors®; Holmes Garage Door Company®; IDEAL Door®; and the Cornell®, Cookson®, and CornellCookson® commercial door brands. Principal global and regional trademarks used by AMES for its tool and landscape products include AMES®, True Temper®, Garant®, Harper®, UnionTools®, Westmix™, Cyclone®, Southern Patio®, Northcote Pottery™, Nylex®, Hills®, Kelkay®, Tuscan Path®, La Hacienda®, Kelso™, Apta®, and Dynamic Design®, as well as contractor-oriented brands including Razor-Back® Professional Tools and Jackson® Professional Tools. Storage and home organization brands within AMES include ClosetMaid®, MasterSuite®, Suite Symphony®, Cubeicals®, ExpressShelf®, SpaceCreations®, Maximum Load®, SuperSlide® and ShelfTrack®. The AMES and Clopay businesses have approximately 1,305 registered trademarks and approximately 251 pending trademark applications around the world. Griffon's rights in these trademarks endure for as long as they are used and registered.

Patents are also important to the AMES and Clopay businesses. Clopay holds approximately 40 issued patents and 29 pending patent applications in the U.S., as well as approximately 16 and 29 corresponding foreign patents and patent applications, primarily related to garage door system components and operation. AMES protects its designs and product innovation through the use of patents, and currently has approximately 304 issued patents and approximately 54 pending patent applications in the U.S., as well as approximately 281 and 60 corresponding foreign patents and patent applications, respectively. Design patents are generally valid for fourteen years, and utility patents are generally valid for twenty years, from the date of filing. Griffon's patents are in various stages of their terms of validity.

## **Environmental, Social and Governance**

Griffon and its operating companies have taken into account environmental, social and governance (ESG) considerations in the management of our businesses for years. This year, Griffon formalized its ESG commitment by subscribing to the United Nations Global Compact (UNGC) and reinforcing its commitment to protecting the environment and our workers, and to ethical and transparent behavior in our business relationships. The Griffon ESG policy can be found on the Griffon website at [www.griffon.com](http://www.griffon.com). The ESG section of our website also provides details on some of the Company's efforts and commitments in the environmental, social and governance areas as well as a statement from Ronald J. Kramer, our Chief Executive Officer, reinforcing management's strong support for our ESG efforts.

As part of its commitment to the Sustainable Development Goals contained in the UNGC, Griffon will periodically communicate the status of its ESG goals, starting with the publication of its inaugural FY21 ESG Report. The fiscal 2021 ESG Report will discuss community involvement, charitable giving, employee safety, employee education and welfare, energy consumption, water consumption, waste generated, recycled raw materials, and packaging initiatives. During fiscal 2021, Griffon began gathering ESG metrics in each of these areas. The fiscal 2021 ESG Report will be benchmarked against the UNGC Sustainable Development Goals and the Sustainability Accounting Standards Board Standards applicable to Griffon's businesses. We are preparing to set ESG goals based on the metrics gathered in fiscal 2021 and will begin announcing these goals in fiscal 2022.

Griffon has assessed the environmental risk from its operations and has focused its efforts to date on areas with the potential to have the greatest environmental impact. Where available, we use recycled materials to construct our products, and we continuously improve our packaging to reduce both volume and environmental impact. For example, bags used for AMES' Kelkay aggregate products in the UK are made from plant-based materials, and not from petroleum. Seventy percent of the steel used in Clopay garage doors is recycled steel. AMES is a member of the Appalachian Hardwood Manufacturers Association, which provides sustainable hardwoods for AMES tools, and is committed to purchasing hardwoods through the Sustainable Forestry Initiative.

Griffon has made a focused effort to reduce carbon emissions by reducing electricity and natural gas usage at its operating facilities. Our Clopay business also helps its customers reduce their own carbon footprints by providing garage doors that meet LEED (Leadership in Energy and Environmental Design) building construction standards. While Griffon's facilities are not large consumers of water, we routinely examine options to reduce water usage or reuse water at our facilities. AMES used recycled AMES and ClosetMaid tools and scrap materials in the construction of the new AMES and ClosetMaid headquarters facility in the Orlando, Florida area. Over the years, Griffon operating companies have reduced the use of solvents and other chemicals and now rarely generate hazardous waste of any kind.

Our operating companies are involved in the local communities in which they operate, where we have chosen to expand United States based production facilities rather than outsource production. We are involved in more than 100 charitable and community organizations, including well known national concerns such as Habitat for Humanity, Boys and Girls Clubs, the Home Depot Foundation (Diamond Sponsor) and the American Cancer Society, as well as local groups such as garden clubs. For example, employees at our Telephonics subsidiary established and maintained a produce garden, donating all of the food grown to local food pantries. Employees at our Clopay subsidiary built a new home for Habitat for Humanity, and our AMES subsidiary contributed tools and products to that effort. Our communities know that they can count on us in a crisis.

The COVID-19 pandemic presented unprecedented challenges in many parts of our businesses and operations, including with respect to our most valuable asset - our people. In response, we developed and implemented new procedures and protocols to minimize the risk to the health and safety of our employees while allowing us to continue to operate our facilities and provide high quality products to our customers on a timely basis. Employees that could work from home were strongly encouraged (and in some cases, required) to do so in order to minimize the number of employees in our facilities. For onsite employees, we implemented protocols for social distancing, sanitation and mask-wearing. We developed systems and purchased new equipment to facilitate the efficient sanitation and disinfection of all work areas. We reconfigured work processes to allow additional spacing between associates whenever possible; eliminated seating in common areas of many buildings to allow for appropriate distancing; staggered shifts and start, stop and break times; and at many facilities we began monitoring temperatures of all employees entering the facility. We also restricted visitors and pre-screened all contractors who required access to our facilities. We implemented appreciation award programs for many of our U.S. employees who continued to work onsite during the pandemic. We have continuously reviewed, upgraded and improved these procedures and policies as circumstances have required. Throughout the pandemic nearly all our facilities around the globe have remained open and we have made every effort to meet our customers' demands for our products, while at the same time making the necessary investments to ensure that we prioritize the health, safety and welfare of our employees.

Over the last three years, we have invested millions of dollars in capital improvements relating to energy consumption and to employee safety and health. These improvements include lighting energy efficiency projects saving in excess of 1.5 million kilowatt-hours, major upgrades to our loading and unloading operations (which had been the source of a significant portion of our worker injuries), ergonomic improvements, machine guarding and elimination of certain high-risk repetitive jobs through use of robotics. Griffon has also invested significant time and capital reducing ergonomic injuries through better work positioning and lifting improvements. We have seen significant reductions in both the number and severity of employee injuries in recent years. Griffon has also invested over one million dollars in improvements to employee welfare facilities, such as break areas and cafeterias. We view our

employees as more than just workers. Through our Employee Stock Ownership Plan, our U.S. employees own approximately nine percent of Griffon stock. Our businesses engage in a variety of outreach programs in the various communities in which we operate to recruit new employees at all levels. These programs involve high schools and vocational schools, as well as colleges and universities, and often include internships as a means for potential new employees to experience what it is like to be part of our team. We also have a variety of onboarding programs, onsite job training programs, leadership development programs, and tuition reimbursement and education assistance policies to further the development and advancement of our employees.

In all of our geographies, we use on-site inspections and specific contractual terms to manage our supply chains to ensure compliance with environmental and social laws and regulations, as well as our policies in these areas, including with respect to human rights, child labor, slave labor and unsafe working conditions. Telephonics requires that its subcontractors and suppliers periodically certify adherence to various Telephonics' policies, such as those relating to human trafficking, corporate ethics and the prohibition of gratuities. All significant AMES suppliers worldwide must periodically submit to a Factory Compliance and Capacity Assessment, which evaluates not only quality control and vendor capabilities, but assesses to what extent each supplier emphasizes environmental, labor and social considerations in the operation of its business. These activities have continued despite the travel difficulties caused by COVID. In China, where AMES both operates a manufacturing facility and sources materials and products from third parties, AMES has dedicated compliance personnel who report directly into AMES' Vice President and General Counsel.

Honesty, transparency, and ethical practices have been ordinary course at Griffon for decades, and we continue to review and upgrade our programs in these areas. Our Code of Business Ethics and Conduct ("Code"), to which every employee certifies annually, requires that each and every employee conduct business to the highest ethical standards. Any acts of bribery are strictly prohibited, as is human trafficking and activities supporting human trafficking, such as the use of conflicts minerals. The Code prohibits all business courtesies except for those with an insignificant value, and even then, only under limited circumstances. Our Corporate Governance Guidelines are published on our website. While the guidelines require that a majority of directors be independent, currently all of our directors are independent except our CEO and our President (constituting over 85% of our directors). Griffon has appointed a lead independent director and has four principal board committees - Audit, Compensation, Nominating and Corporate Governance, and Finance - each of which has its responsibilities set forth in a charter available on the Griffon website.

We expect each of our employees around the world to work hard to deliver outstanding products to our customers and to deliver value to our shareholders. And, while doing so, we expect them to respect and adhere to our environmental, social and governance commitments and policies, and to make our company a place at which all employees are proud to come to work every day.

## Executive Officers of the Registrant

The following is a current list of Griffon's executive officers:

<u>Name</u>	<u>Age</u>	<u>Positions Held and Prior Business Experience</u>
Ronald J. Kramer . . . . .	63	Chief Executive Officer since April 2008, Chairman of the Board since January 2018, Director since 1993, Vice Chairman of the Board from November 2003 to January 2018. From 2002 through March 2008, President and a Director of Wynn Resorts, Ltd. (Nasdaq:WYNN), a developer, owner and operator of destination casino resorts. From 1999 to 2001, Managing Director at Dresdner Kleinwort Wasserstein, an investment banking firm, and its predecessor Wasserstein Perella & Co. Member of the board of directors of Business Development Corporation of America and Franklin BSP Capital Corporation.
Robert F. Mehmel . . . . .	59	Director since May 2018, President and Chief Operating Officer since December 2012. From August 2008 to October 2012, President and Chief Operating Officer of DRS Technologies (Formerly NYSE:DRS) ("DRS"), a supplier of integrated products, services and support to military forces, intelligence agencies and prime contractors worldwide. From May 2006 to August 2008, Executive Vice President and Chief Operating Officer of DRS and from January 2001 to May 2006, Executive Vice President, Business Operations and Strategy, of DRS.
Brian G. Harris . . . . .	52	Senior Vice President and Chief Financial Officer since August 2015. From November 2012 to July 2015, Vice President and Controller of Griffon. From July 2009 to July 2015, Griffon's Chief Accounting Officer. From May 2005 to June 2009, Assistant Controller of Dover Corporation, a diversified global manufacturer (NYSE:DOV). Prior to this time, held various finance and accounting roles with Hearst Argyle Television (Formerly NYSE:HTV), John Wiley and Sons, Inc. (NYSE:JW.A) and Arthur Andersen, LLP.
Seth L. Kaplan . . . . .	52	Senior Vice President, General Counsel and Secretary since May 2010. From July 2008 to May 2010, Assistant General Counsel and Assistant Secretary at Hexcel Corporation (NYSE:HXL), a manufacturer of advanced composite materials for space and defense, commercial aerospace and wind energy applications. From 2000 to July 2008, Senior Corporate Counsel and Assistant Secretary at Hexcel. From 1994 to 2000, associate at the law firm Winthrop, Stimson, Putnam & Roberts (now Pillsbury Winthrop Shaw Pittman LLP).

## **Item 1A. Risk Factors**

Griffon's business, financial condition, operating results and cash flows can be impacted by a number of factors which could cause Griffon's actual results to vary materially from recent or anticipated future results. The risk factors discussed in this section should be carefully considered with all of the information in this Annual Report on Form 10-K. These risk factors should not be considered the only risk factors facing Griffon. Additional risks and uncertainties not presently known or that are currently deemed immaterial may also materially impact Griffon's business, financial condition, operating results and cash flows in the future.

In general, Griffon is subject to the same general risks and uncertainties that impact other diverse manufacturing companies including, but not limited to, general economic, industry and/or market conditions and growth rates; impact of natural disasters and pandemics, and their effect on global markets; possible future terrorist threats and their effect on the worldwide economy; and changes in laws or accounting rules. Griffon has identified the following specific risks and uncertainties that it believes have the potential to materially affect its business and financial condition.

### **Risks Related to Our Business**

*The COVID-19 outbreak could adversely impact our results of operations.*

The future impact of the COVID-19 outbreak, or any other future pandemic, and the spread of the pathogen on a global basis could adversely affect our businesses in a number of respects, although the extent, nature and timing of such impact cannot be predicted as of the date of this filing. The COVID-19 outbreak has led countries around the world, as well as most states in the U.S., to implement restrictions from time-to-time relating to the operation of almost all types of businesses. Within the U.S., the standards vary from state to state, but typically require all but "critical", "essential" or "life-sustaining" businesses to close all offices and facilities. We believe, based on the various standards published to date, that our businesses meet the requisite standard in all U.S. states. We also believe that our businesses meet the applicable standards to remain open in Canada, the U.K., Ireland and Australia. As of the date of this filing, all of our manufacturing and distribution facilities in the U.S., Canada, the U.K., Ireland, Australia and China are operating, although some of them are operating at reduced capacity as a result of our implementation of procedures designed to prevent the spread of the virus, such as social distancing and staggered shifts. However, government actions taken based on the changing nature of the outbreak in the U.S. or in other countries in which we do business, as well as the changing of standards regarding what type of facilities are permitted to remain open and evolving interpretations of existing standards, could result in additional closures of Griffon facilities.

Our supply chain has experienced certain disruptions which, together with other factors such as a shortage of labor, has resulted in longer delivery lead times and restricted manufacturing capacity for certain of our products. Commodity prices have increased during COVID-19 and may continue to increase, and we may not be able to pass off all or any of such price increases to our customers on a timely basis, or at all. It is difficult to predict whether the supply chain disruptions that impact us will improve, worsen or remain the same in the near term. Our suppliers could be required by government authorities to temporarily cease operations in accordance with the various restrictions discussed above; might be limited in their production capacity due to complying with restrictions relating to the operation of businesses during the COVID-19 pandemic; or could suffer their own supply chain disruptions, impacting their ability to continue to supply us with the quantity of materials required by us.

On September 9, 2021, President Biden announced a proposed new rule requiring that all employers with at least 100 employees require that their employees be fully vaccinated or tested weekly. The U.S. Department of Labor's Occupational Safety and Health Administration ("OSHA") issued an emergency temporary standard regulation to carry out this mandate. On November 6, 2021, the United States Court of Appeals for the Fifth Circuit granted a stay of the emergency temporary standard, and on November 12, 2021 the Court upheld its stay and barred OSHA from enforcing the mandate



“pending adequate judicial review” of a motion for permanent injunction. At this time, it is unclear, among other things, when the vaccine mandate will go into effect (or if it will go into effect at all); whether it will apply to all employees or only to employees who work in the office; and how compliance will be documented.

As a company with more than 100 employees, it is anticipated that, should the vaccine mandate go into effect, we would be subject to the OSHA regulation concerning COVID-19 vaccination and the vaccine mandate. Should the mandate apply to us, we may be required to implement a requirement that all of our employees get vaccinated, subject to limited exceptions. At this time, it is not possible to predict the impact that a vaccine mandate, or a vaccine requirement should we adopt one, will have on us or on our workforce. Any vaccine requirement or vaccine mandate, if implemented, may result in employee attrition, which could materially and adversely affect our business and results of operations.

If as a result of the COVID-19 outbreak, including a potential resurgence of the virus in the fall and winter months, governments take additional protective actions, or extend the time period for existing protective actions, it may have a material adverse impact on Griffon’s businesses and operating results. This could include additional closures of our facilities of an unknown duration, or the closure of the facilities of our customers, suppliers, or other vendors in our supply chain. Any disruption of our supply chain or the businesses of our customers could adversely impact our businesses and results of operations. The COVID-19 outbreak has recently worsened in some U.S. states, and as a result, some states have put in place new restrictions regarding the operation of many types of businesses or have tightened up restrictions already in place. Many medical experts believe that during the winter, as the weather gets colder and more people spend time with others indoors, the COVID-19 infection rate will worsen. In addition, the widespread public health crisis caused by the COVID-19 outbreak has adversely impacted the economies and financial markets worldwide, resulting in an economic downturn that has adversely impacted many businesses, including ours. The extent and duration of the impact on the global economy and financial markets from the COVID-19 outbreak is difficult to predict, and the extent to which the COVID-19 outbreak will negatively affect us and the duration of any potential business disruption is uncertain. The impact to our results will depend to a large extent on future developments and new information that may emerge regarding the duration and severity of the COVID-19 outbreak and the actions taken by authorities and other entities to contain the COVID-19 outbreak or treat its impact, and the impact of such actions, all of which are beyond our control. These potential impacts, while uncertain, could adversely affect our operating results. To the extent the COVID-19 outbreak adversely affects our businesses, operations, financial condition and operating results, it may also have the effect of heightening many of the other risks factors such as those relating to our high level of indebtedness, our need to generate sufficient cash flows to service our indebtedness, and our ability to comply with the covenants contained in the agreements that govern our indebtedness, as described in more detail below.

*Current worldwide economic uncertainty and market volatility could adversely affect Griffon’s businesses.*

The current worldwide economic uncertainty and market volatility could continue to have an adverse effect on Griffon during 2022, particularly within the CPP and HBP segments, which is linked to the U.S. housing and the commercial property markets, and the U.S. economy in general. Purchases of many CPP and HBP products are discretionary for consumers who are generally more willing to purchase products during periods in which favorable macroeconomic conditions prevail. These conditions could make it more difficult to obtain additional credit on favorable terms for investments in current businesses or for acquisitions, or could render financing unavailable; in addition, while we do not have any near term debt maturities, if these conditions persist, we may have difficulty refinancing our debt when it comes due. Griffon is also exposed to certain fundamental economic risks including a decrease in the demand for the products and services it offers or a higher likelihood of default on its receivables.

*Adverse trends and general economic conditions, especially those that relate to construction and renovation, will impact Griffon's business.*

The CPP and HBP businesses serve residential and commercial construction and renovation, and are influenced by market conditions that affect these industries. For the year ended September 30, 2021, approximately 54% and 46% of Griffon's consolidated revenue was derived from the CPP and HBP segments, respectively, which was dependent on renovation of existing homes, new home construction, and commercial non-residential construction, repair and replacement. The strength of the U.S. economy, the age of existing home stock, job growth, interest rates, consumer confidence and the availability of consumer credit, as well as demographic factors such as migration into the U.S. and migration of the population within the U.S., have an effect on CPP and HBP. To the extent market conditions for residential or commercial construction and renovation are weaker than expected, this will likely have an adverse impact on the performance and financial results of the CPP and HBP businesses.

*Griffon operates in highly competitive industries and may be unable to compete effectively.*

Griffon's operating companies face intense competition in the markets they serve. Griffon competes primarily on the basis of technical expertise, product differentiation, quality of products and services, and price. There are a number of competitors to Griffon, some of which are larger and have greater resources than Griffon's operating companies. Griffon's operating companies may face additional competition from companies that operate in countries with significantly lower operating costs.

Many CPP and HBP customers are large mass merchandisers, such as home centers, warehouse clubs, discount stores, commercial distributors and e-commerce companies. The growing share of the market represented by these large mass merchandisers, together with changes in consumer shopping patterns, have contributed to the increase of multi-category retailers and e-commerce companies that have strong negotiating power with suppliers. Many of these retailers import products directly from foreign suppliers to source and sell products under their own private label brands to compete with CPP and HBP products and brands, which puts increasing price pressure on the products of these businesses. In addition, the intense competition in the retail and e-commerce sectors, combined with the overall increasingly competitive economic environment, may result in a number of customers experiencing financial difficulty, or failing in the future. The loss of, or a failure by, one of CPP's or HBP's significant customers could adversely impact our sales and operating cash flows.

To address all of these challenges, CPP and HBP must be able to respond to these competitive pressures, and the failure to respond effectively could result in a loss of sales, reduced profitability and a limited ability to recover cost increases through price increases. In addition, there can be no assurance that Griffon will not encounter increased competition in the future, which could have a material adverse effect on Griffon's financial results.

*The loss of large customers can harm financial results.*

A small number of customers account for, and are expected to continue to account for, a substantial portion of Griffon's consolidated revenue. Home Depot, Lowe's and Bunnings are significant customers of CPP, and Home Depot and Menards are significant customers of HBP. Home Depot accounted for approximately 19% of consolidated revenue, 26% of CPP's revenue and 10% HBP's revenue for the year ended September 30, 2021. Future operating results will continue to substantially depend on the success of Griffon's largest customers, as well as Griffon's relationships with them. Orders from these customers are subject to fluctuation and may be reduced materially due to changes in customer needs or other factors. Any reduction or delay in sales of products to one or more of these customers could significantly reduce Griffon's revenue. Griffon's operating results will also depend on successfully developing relationships with additional key customers. Griffon cannot assure that its largest customers will be retained or that additional key customers will be recruited. Also, both CPP and HBP extend credit to its customers, which exposes it to credit risk. The largest customer accounted for approximately 28%, 7% and 19% of the net accounts receivable of CPP, HBP and Griffon's net

accounts receivable as of September 30, 2021, respectively. If this customer were to become insolvent or otherwise unable to pay its debts, the financial condition, results of operations and cash flows of CPP, HBP and Griffon could be adversely affected.

A significant customer of our discontinued DE segment is the U.S. Government and its agencies and subcontractors, including Lockheed Martin and Boeing, and together accounts for approximately 69% of DE revenue.

*Reliance on third party suppliers and manufacturers may impair the ability of CPP and HBP to meet its customer demands.*

CPP and HBP rely on a limited number of domestic and foreign companies to supply components and manufacture certain of its products. The percentage of CPP and HBP worldwide sourced finished goods as a percent of revenue approximated 40% and 8%, respectively, in 2021. The percentage of CPP and HBP's worldwide sourced components as a percent of cost of goods sold approximated 9% and 19%, respectively, in 2021. Reliance on third party suppliers and manufacturers may reduce control over the timing of deliveries and quality of both CPP and HBP products. Reduced product quality or failure to deliver products timely may jeopardize relationships with certain of CPP's and HBP's key customers. In addition, reliance on third party suppliers or manufacturers may result in the failure to meet CPP and HBP customer demands. Continued turbulence in the worldwide economy may affect the liquidity and financial condition of CPP and HBP suppliers. Should any of these parties fail to manufacture sufficient supply, go out of business or discontinue a particular component, alternative suppliers may not be found in a timely manner, if at all. Such events may impact the ability of CPP and HBP to fill orders, which could have a material adverse effect on customer relationships.

Recently, one of our suppliers informed HBP that a component it supplies to HBP was found to infringe on the intellectual property rights of one of its competitors. This supplier has assured HBP that it is developing an alternative design for such component that will allow it to continue to meet HBP's needs on an uninterrupted basis. However, should the supply of this component be interrupted, it could adversely impact HBP's business and results of operations.

*If Griffon is unable to obtain raw materials for products at favorable prices it could adversely impact operating performance.*

CPP and HBP suppliers primarily provide resin, wood, steel and wire rod. Both of these businesses could experience shortages of raw materials or components for products or be forced to seek alternative sources of supply. If temporary shortages due to disruptions in supply caused by weather, transportation, production delays or other factors require raw materials to be secured from sources other than current suppliers, the terms may not be as favorable as current terms or certain materials may not be available at all. In recent years, both CPP and HBP have experienced price increases for most of its raw materials.

While most key raw materials used in Griffon's businesses are generally available from numerous sources, raw materials are subject to price fluctuations. Because raw materials in the aggregate constitute a significant component of the cost of goods sold, price fluctuations could have a material adverse effect on Griffon's results of operations. Griffon's ability to pass raw material price increases to customers is limited due to supply arrangements and competitive pricing pressure, and there is generally a time lag between increased raw material costs and implementation of corresponding price increases for Griffon's products. In particular, sharp increases in raw material prices are more difficult to pass through to customers and may negatively affect short-term financial performance.

*CPP is subject to risks from sourcing from international locations, especially China*

CPP's business is global, with products and raw materials sourced from, manufactured in and sold in multiple countries around the world. There are risks associated with conducting a business that may be

impacted by political and other developments associated with international trade. In this regard, certain products sold by CPP in the United States and elsewhere are sourced from China; and raw materials used by CPP may be sourced from China and therefore may have their prices impacted by tariffs imposed on trade between the United States and China.

The sourcing of CPP finished goods, components and raw materials from China are generally subject to supply agreements with Chinese companies. China does not have a well-developed, consolidated body of laws governing agreements with international customers. Enforcement of existing laws or contracts based on existing law may be uncertain and sporadic, and it may be difficult to obtain swift and equitable enforcement or to obtain enforcement of a judgment by a court of another jurisdiction. The relative inexperience of China's judiciary on matters of international trade in many cases creates additional uncertainty as to the outcome of any litigation. In addition, interpretation of statutes and regulations in China may be subject to government policies or political changes.

Because of the volume of sourcing by CPP from China, the ongoing trade dispute between the U.S. and China, including the imposition of tariffs on various Chinese imports into the U.S. at various times since March 2018, represents a continuing risk to CPP revenue and operating performance. The United States entered into what is described as "Phase 1" trade agreement with China on January 15, 2020, which reduces some existing tariffs that had been imposed and defers proposed increases of the tariff rate on an additional \$250 billion of Chinese goods from 25% to 30% that had been planned for October 15, 2019, and proposed 15% tariffs on an additional \$160 billion of a wide range of goods and materials imported from China to be effective December 15, 2019. Under the Phase 1 agreement, existing 25% tariffs previously imposed on \$250 billion of Chinese goods will remain in place, while a 15% tariff on another \$120 billion of Chinese goods has been reduced to 7.5%. In response, China has imposed tariffs on certain U.S. products, some of which are being reduced as part of the Phase 1 agreement. China may take additional actions if additional U.S. tariffs are reduced or imposed. On May 8, 2020, the two countries reaffirmed their Phase 1 trade agreement notwithstanding the COVID-19 pandemic. In October 2021 the U.S. and Chinese trade representatives discussed the status of the Phase 1 agreement after the Biden administration outlined its agenda for trade policy with China. The Biden administration has indicated it will continue the strict tariffs against Chinese imports to maintain pressure on China to live up to its commitments under the Phase 1 agreement, while reinstating the process for U.S. importers to seek exclusions from the tariffs. In view of the early stage of re-engagement on trade policy between the Chinese and U.S. governments, any potential impact on our business remains uncertain. Any escalation of trade tensions or the imposition of additional tariffs by the U.S. Government on various steel and aluminum finished goods, as well as a variety of resins, fabrics and wood products could materially affect our operations. As a result of these tariffs and the fluid nature of ongoing trade negotiations, we intend to continue to manage our China supply base, which may include raising prices on certain goods. This may in turn result in reduced sales or the loss of customers and could impact our operating performance.

The continuing political and economic conflicts between U.S. and China have resulted in and may continue to cause retaliatory policies from both countries, including a recent executive order issued by the U.S. President eliminating the preferential trade status of Hong Kong in response to China's action to impose new security measures and regulation on Hong Kong. We cannot predict what new and additional retaliatory policies and regulations may be implemented by the Chinese government in response to U.S. actions, and such policies and regulations may adversely affect our business operations in China.

CPP and HBP operations are also subject to the effects of international trade agreements and regulations such as the United States-Mexico-Canada Agreement, and the activities and regulations of the World Trade Organization. Although these trade agreements generally have positive effects on trade liberalization, sourcing flexibility and cost of goods by reducing or eliminating the duties and/or quotas assessed on products manufactured in a particular country, trade agreements can also adversely affect CPP and HBP businesses. For example, trade agreements can result in setting quotas on products that may be imported from a particular country into key markets including the U.S., Canada, Australia and the U.K., or may make it easier for other companies to compete by eliminating restrictions on products from countries where CPP and HBP competitors source products.

The ability of CPP and HBP to import products in a timely and cost-effective manner may continue to be affected by conditions at ports or issues that otherwise affect transportation and warehousing providers, such as port and shipping capacity, labor disputes, severe weather or increased homeland security requirements in the U.S. and other countries, as well as the potential for increased costs due to currency exchange fluctuations. These issues could delay importation of products or require CPP and HBP to locate alternative ports or warehousing providers to avoid disruption to customers. These alternatives may not be available on short notice or could result in higher transit costs, which could have an adverse impact on CPP and HBP business and financial condition.

*Griffon's businesses are subject to seasonal variations and the impact of uncertain weather patterns.*

Griffon's revenue and earnings are generally lowest in our first and fourth quarters ending December 31, and September 30, respectively, and highest in the second and third quarters ending March 31, and June 30, respectively, primarily due to the seasonality within the AMES and Clopay businesses. In 2021, 53% of AMES' sales occurred during the second and third quarters compared to 53% and 56% in 2020 and 2019, respectively. In 2021 and 2020, as a result of the COVID-19 pandemic, sales orders shifted somewhat into the third and fourth quarters resulting in revenue increasing in these two quarters to 55% in each of 2021 and 2020 sales. Clopay's business is driven by renovation and construction during warm weather, which is generally at reduced levels during the winter months, generally in our second quarter.

Telephonics historically has had higher revenue and earnings in the second half of Griffon's fiscal year ending September 30 (although this has not always been the case).

Demand for lawn and garden products is influenced by weather, particularly weekend weather during the peak gardening season. AMES' sales volumes could be adversely affected by certain weather patterns such as unseasonably cool or warm temperatures, hurricanes, water shortages or floods. In addition, lack of snow or lower than average snowfall during the winter season may result in reduced sales of certain AMES' products such as snow shovels and other snow tools. As a result, AMES' results of operations, financial results and cash flows could be adversely impacted.

*Unionized employees could strike or participate in a work stoppage.*

At September 30, 2021, Griffon employed approximately 6,700 people on a full-time basis, excluding approximately 700 related to Telephonics, approximately 5% of whom are covered by collective bargaining or similar labor agreements (all within Telephonics and CPP). If unionized employees engage in a strike or other work stoppage, or if Griffon is unable to negotiate acceptable extensions of agreements with labor unions, a significant disruption of operations and increased operating costs could occur. In addition, any renegotiation or renewal of labor agreements could result in higher wages or benefits paid to unionized employees, which could increase operating costs and as a result have a material adverse effect on profitability.

*Telephonics' business depends heavily upon government contracts and, therefore, the defense budget.*

Telephonics sells products to the U.S. Government and its agencies both directly and indirectly as a first-tier supplier to prime contractors in the defense industry such as Lockheed Martin, Boeing and Northrop Grumman. In the year ended September 30, 2021, U.S. government contracts and subcontracts accounted for approximately 10% of the combined revenue of Griffon's consolidated revenue and Telephonics revenue. Contracts involving the U.S. government may include various risks, including:

- Termination for default or for convenience by the government;
- Reduction or modification in the event of changes in the government's requirements or budgetary constraints;

- Increased or unexpected costs, causing losses or reduced profits under contracts where Telephonics' prices are fixed, or determinations that certain costs are not allowable under particular government contracts;
- The failure or inability of the prime contractor to perform its contract under circumstances in which Telephonics is a subcontractor;
- Failure to observe and comply with government and procurement regulations such that Telephonics could be suspended or barred from bidding on or receiving awards of new government contracts;
- The failure of the government to exercise options for additional work provided for in contracts;
- The inherent discretion of government agencies in determining whether Telephonics has complied with all specifications set forth in a government contract; and
- The government's right, in certain circumstances, to freely use technology developed under these contracts.

Telephonics' U.S. Government end-user contracts contain a termination for convenience clause, regardless if Telephonics is the prime contractor or the subcontractor. This clause generally entitles Telephonics, upon a termination for convenience, to receive the purchase price for delivered items, reimbursement of allowable work-in-process costs, and an allowance for profit. Allowable costs would include the costs to terminate existing agreements with suppliers.

The programs in which Telephonics participate may extend for several years, and may be funded on an incremental basis. Decreases in the U.S. defense budget, in particular with respect to programs to which Telephonics supplies materials, could have a material adverse impact on Telephonics' financial conditions, results of operations and cash flows. The U.S. government may not continue to fund programs to which Telephonics' development projects apply. Even if funding is continued, Telephonics may fail to compete successfully to obtain funding pursuant to such programs. Reductions to funding on existing programs or delays in the funding of new opportunities could affect the timing of revenue recognition, and impact Telephonics' and Griffon's results of operations.

*Telephonics' business could be adversely affected by a government shutdown*

The impact of a government shutdown for any duration could have a material adverse effect on Telephonics' revenues, profits and cash flows. Telephonics relies on government personnel to conduct routine business processes related to the inspection and delivery of products for various programs, to approve and pay certain billings and invoices, to process export licenses and for other administrative services that, if disrupted, could have an immediate impact on Telephonics' business.

*Telephonics' business could be adversely affected by a negative audit by the U.S. Government*

As a government contractor, and a subcontractor to government contractors, Telephonics is subject to audits and investigations by U.S. Government Agencies such as the Defense Contract Audit Agency, the Defense Security Service, with respect to its classified contracts, other Inspectors General and the Department of Justice. These agencies review a contractor's performance under its contracts, its cost structure and compliance with applicable laws and standards as well as compliance with applicable regulations, including those relating to facility and personnel security clearances. These agencies also review the adequacy of, and a contractor's compliance with, its internal control systems and policies, including the contractor's management, purchasing, property, estimating, compensation, and accounting and information systems. Any costs found to be misclassified or improperly allocated to a specific contract will not be reimbursed, or must be refunded if already billed and collected. Griffon could incur significant expenses in complying with audits and subpoenas issued by the government in aid of inquiries and investigations. If an audit or an investigation uncovers a failure to comply with applicable laws or regulations, or improper or illegal activities, Telephonics may be subject to civil and criminal

penalties and/or administrative sanctions, which could include contract termination, forfeiture of profit, suspension of payments, fines, including treble damages, and suspension or prohibition from doing business with the U.S. Government. In addition, if allegations of impropriety are made, Telephonics and Griffon could suffer serious harm to their reputation.

*Many Telephonics contracts contain performance obligations that require innovative design capabilities, are technologically complex, or are dependent upon factors not wholly within Telephonics' control. Failure to meet these obligations could adversely affect customer relations, future business opportunities, and overall profitability.*

Telephonics designs, develops and manufactures advanced and innovative surveillance and communication products for a broad range of applications for use in varying environments. As with many of Telephonics' programs, system specifications, operational requirements and test requirements are challenging, exacerbated by the need for quick delivery schedules. Technical problems encountered and delays in the development or delivery of such products, as well as the inherent discretion involved in government approval related to compliance with applicable specifications of products supplied under government contracts, could prevent Telephonics from meeting contractual obligations, which could subject Telephonics to termination for default. Under a termination for default, the company is entitled to negotiate payment for undelivered work if the Government requests the transfer of title and delivery of partially completed supplies and materials. Conversely, if the Government does not make this request, there is no obligation to reimburse the company for its costs incurred. Telephonics may also be subject to the repayment of advance and progress payments, if any. Additionally, Telephonics may be liable to the Government for any of its excess costs incurred in acquiring supplies and services similar to those terminated for default, and for other damages. Should any of the foregoing events occur, it could result in a material adverse effect on Griffon's financial position.

*Griffon's business could be negatively affected by cyber or other security threats or other disruptions.*

Griffon and its operating companies are subjected to cyber and other security threats common to U.S. businesses. As a U.S. defense contractor, Telephonics, in particular, may be the target of cyber security threats to its information technology infrastructure and unauthorized attempts to gain access to sensitive or highly confidential information that could compromise U.S. security. The types of threats could vary from attacks common to most industries to more advanced and persistent, highly organized adversaries who target Telephonics because of national security information in its possession. Individuals and groups of hackers and sophisticated organizations, including organizations sponsored by foreign countries, may use a wide variety of methods, such as deploying malicious software or exploiting vulnerabilities in hardware, software, or other infrastructure in order to gain access to our networks or using social engineering techniques to induce our employees to disclose passwords or other sensitive information or take other actions to gain access to our data. Inadequate account security practices may also result in unauthorized access to confidential data. For example, system administrators may fail to timely remove employee account access when no longer appropriate. Employees or third parties may also intentionally compromise our systems, security or confidential information.

If Telephonics is unable to protect sensitive information, its customers or governmental authorities could question the adequacy of its security processes and procedures and its compliance with evolving government cyber security requirements for government contractors. Due to the evolving nature of these security threats, and the increasing difficulty of detecting and defending against them, the risk and impact of any future incident cannot be predicted.

The costs related to cyber or other security threats or disruptions could be significant. Security events such as these could adversely affect Griffon's internal operations, future financial results and reputation, as well as result in the loss of competitive advantages derived from research and development efforts and other intellectual property.

*Griffon may be unable to implement its acquisition growth strategy, which may result in added expenses without a commensurate increase in revenue and income, and divert management's attention.*

Making strategic acquisitions is a significant part of Griffon's growth plans. The ability to successfully complete acquisitions depends on identifying and acquiring, on acceptable terms, companies that either complement or enhance currently held businesses or expand Griffon into new profitable businesses, and, for certain acquisitions, obtaining financing on acceptable terms. Additionally, Griffon must properly integrate acquired businesses in order to maximize profitability. The competition for acquisition candidates is intense and Griffon cannot assure that it will successfully identify acquisition candidates and complete acquisitions at reasonable purchase prices, in a timely manner, or at all. Further, there is a risk that acquisitions will not be properly integrated into Griffon's existing structure. Griffon closed the acquisitions of La Hacienda, Tuscan Path, ClosetMaid and Harper Brush in the months of July through November 2017, Kelkay in February 2018, CornellCookson in June 2018, Apta in November 2019 and Quatro in December 2020. This integration risk may be exacerbated when numerous acquisitions are consummated in a short time period.

In implementing an acquisition growth strategy, the following may be encountered:

- Costs associated with incomplete or poorly implemented acquisitions;
- Expenses, delays and difficulties of integrating acquired companies into Griffon's existing organization;
- Dilution of the interest of existing stockholders;
- Diversion of management's attention; or
- Difficulty in obtaining financing on acceptable terms, or at all.

An unsuccessful implementation of Griffon's acquisition growth strategy, including the failure to properly integrate acquisitions, could have an adverse impact on Griffon's results of operations, cash flows and financial condition. We may also incur debt or assume contingent liabilities in connection with acquisitions, which could impose restrictions on our business operations and harm our operating results.

### **Risks Related to Our Indebtedness**

While Griffon's senior notes, which have limited covenants, are not due until 2028, and while its \$400 million revolving line of credit, which is largely undrawn and has greater covenant requirements, does not mature until 2025, there are potential impacts from Griffon's use of debt to finance certain of its activities, especially acquisitions and expansions, as set forth below.

*Compliance with restrictions and covenants in Griffon's debt agreements may limit its ability to take corporate actions.*

The credit agreement entered into by, and, to a lesser extent, the terms of the senior notes issued by, Griffon each contain covenants that restrict the ability of Griffon and its subsidiaries to, among other things, incur additional debt, pay dividends, incur liens and make investments, acquisitions, dispositions, restricted payments and capital expenditures. Under the credit agreement, which is largely undrawn, Griffon is also required to comply with specific financial ratios and tests. Griffon may not be able to comply in the future with these covenants or restrictions as a result of events beyond its control, such as prevailing economic, financial and industry conditions or a change in control of Griffon. If Griffon defaults in maintaining compliance with the covenants and restrictions in its credit agreement or the senior notes, its lenders could declare all of the principal and interest amounts outstanding due and payable and, in the case of the credit agreement, terminate the commitments to extend credit to Griffon in the future. If Griffon or its subsidiaries are unable to secure credit in the future, its business could be harmed.



*Griffon may be unable to raise additional financing if needed.*

Griffon may need to raise additional financing in the future in order to implement its business plan, refinance debt, or acquire new or complimentary businesses or assets. Any required additional financing may be unavailable, or only available at unfavorable terms, due to uncertainties in the credit markets. If Griffon raises additional funds by issuing equity securities, current holders of its common stock may experience significant ownership interest dilution and the holders of the new securities may have rights senior to the rights associated with current outstanding common stock.

*Griffon's indebtedness and interest expense could limit cash flow and adversely affect operations and Griffon's ability to make full payment on outstanding debt.*

Griffon's indebtedness poses potential risks such as:

- A substantial portion of cash flows from operations could be used to pay principal and interest on debt, thereby reducing the funds available for working capital, capital expenditures, acquisitions, product development and other general corporate purposes;
- Insufficient cash flows from operations may force Griffon to sell assets, or seek additional capital, which Griffon may not be able to secure on favorable terms, if at all; and
- Its level of indebtedness may make Griffon more vulnerable to economic or industry downturns.

### **Risk Related to Our Common Stock**

*Griffon has the ability to issue additional equity securities, which would lead to dilution of issued and outstanding common stock.*

The issuance of additional equity securities or securities convertible into equity securities would result in dilution to existing stockholders' equity interests. Griffon is authorized to issue, without stockholder vote or approval, 3,000,000 shares of preferred stock in one or more series, and has the ability to fix the rights, preferences, privileges and restrictions of any such series. Any such series of preferred stock could contain dividend rights, conversion rights, voting rights, terms of redemption, redemption prices, liquidation preferences or other rights superior to the rights of holders of Griffon's common stock. While there is no present intention of issuing any such preferred stock, Griffon reserves the right to do so at any time. In addition, Griffon is authorized to issue, without stockholder approval, up to 85,000,000 shares of common stock, of which 56,613,011 shares, net of treasury shares, were outstanding as of September 30, 2021. Additionally, Griffon is authorized to issue, without stockholder approval, securities convertible into either shares of common stock or preferred stock.

### **General Risk Factors**

*Each of Griffon's businesses faces risks related to the disruption of its primary manufacturing facilities.*

The manufacturing facilities for each of Griffon's businesses are concentrated in just a few locations, and in the case of CPP, some of these locations are abroad in low-cost locations. Any of Griffon's manufacturing facilities are subject to disruption for a variety of reasons, such as natural or man-made disasters, pandemics, terrorist activities, disruptions of information technology resources, and utility interruptions. Such disruptions may cause delays in shipping products, which could result in the loss of business or customer trust, adversely affecting Griffon's businesses and operating results.

*Manufacturing capacity constraints or increased manufacturing costs may have a material adverse effect on Griffon's business, results of operations, financial condition and cash flows.*

Griffon's current manufacturing resources may be inadequate to meet significantly increased demand for some of its products. Griffon's ability to increase its manufacturing capacity depends on many factors, including the availability of capital, steadily increasing consumer demand, equipment delivery, construction lead-times, installation, qualification, and permitting and other regulatory requirements. Increasing capacity through the use of third-party manufacturers may depend on Griffon's ability to develop and maintain such relationships and the ability of such third parties to devote additional capacity to fill its orders.

A lack of sufficient manufacturing capacity to meet demand could cause customer service levels to decrease, which may negatively affect customer demand for Griffon's products and customer relations generally, which in turn could have a material adverse effect on Griffon's business, results of operations, financial condition and cash flows. In addition, operating facilities at or near capacity may also increase production and distribution costs and negatively impact relations with employees or contractors, which could result in disruptions to operations.

In addition, manufacturing costs may increase significantly and Griffon may not be able to pass along all or any of such increase to its customers; and when such increases are passed off to customers, there will be a time lag, which may be significant.

*If CPP and HBP do not continue to develop and maintain leading brands or realize the anticipated benefits of advertising and promotion spend, its operating results may suffer.*

The ability of CPP and HBP to compete successfully depends in part on the company's ability to develop and maintain leading brands so that retail and other customers will need its products to meet consumer demand. Leading brands allow both CPP and HBP to realize economies of scale in its operations. The development and maintenance of such brands require significant investment in brand-building and marketing initiatives. While CPP and HBP plan to continue to increase its expenditures for advertising and promotion and other brand-building and marketing initiatives over the long term, the initiatives may not deliver the anticipated results and the results of such initiatives may not cover the costs of the increased investment.

*Griffon may be required to record impairment charges for goodwill and indefinite-lived intangible assets.*

Griffon is required to assess goodwill and indefinite-lived intangible assets annually for impairment or on an interim basis if changes in circumstances or the occurrence of events suggest impairment exists. If impairment testing indicates that the carrying value of reporting units or indefinite-lived intangible assets exceeds the respective fair value, an impairment charge would be recognized. If goodwill or indefinite-lived intangible assets were to become impaired, the results of operations could be materially and adversely affected.

*If Griffon's subcontractors or suppliers fail to perform their obligations, Griffon's performance and ability to win future business could be harmed.*

Griffon relies on other companies to provide materials, major components and products to fulfill contractual obligations. Such arrangements may involve subcontracts, teaming arrangements, or supply agreements with other companies. There is a risk that Griffon may have disputes regarding the quality and timeliness of work performed. In addition, changes in the economic environment, including defense budgets and constraints on available financing, may adversely affect the financial stability of Griffon's supply chain and their ability to meet their performance requirements or to provide needed supplies on a timely basis. A disruption or failure of any supplier could have an adverse effect on Griffon's business resulting in an impact to profitability, possible termination of a contract, imposition of fines or penalties, and harm to Griffon's reputation impacting its ability to secure future business.

*Griffon's companies must continually improve existing products, design and sell new products and invest in research and development in order to compete effectively.*

The markets for Griffon's products are characterized by rapid technological change, evolving industry standards and continuous improvements in products. Due to constant changes in Griffon's markets, future success depends on Griffon's ability to develop new technologies, products, processes and product applications. Griffon's long-term success in the competitive retail environment and the industrial and commercial markets depends on its ability to develop and commercialize a continuing stream of innovative new products that are appealing to ultimate end users and create demand. New product development and commercialization efforts, including efforts to enter markets or product categories in which Griffon has limited or no prior experience, have inherent risks. These risks include the costs involved, such as development and commercialization, product development or launch delays, and the failure of new products and line extensions to achieve anticipated levels of market acceptance or growth in sales or operating income.

Griffon also faces the risk that its competitors will introduce innovative new products that compete with Griffon's products. In addition, sales generated by new products could cause a decline in sales of Griffon's other existing products. If new product development and commercialization efforts are not successful, Griffon's financial results could be adversely affected.

Product and technological developments are accomplished both through internally-funded R&D projects, as well as through strategic partnerships with customers. Because it is not generally possible to predict the amount of time required and costs involved in achieving certain R&D objectives, actual development costs may exceed budgeted amounts and estimated product development schedules may be extended. Griffon's financial condition and results of operations may be materially and adversely affected if:

- Product improvements are not completed on a timely basis;
- New products are not introduced on a timely basis or do not achieve sufficient market penetration;
- There are budget overruns or delays in R&D efforts; or
- New products experience reliability or quality problems, or otherwise do not meet customer preferences or requirements.

*The loss of certain key officers or employees could adversely affect Griffon's business.*

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

*Griffon is exposed to a variety of risks relating to non-U.S. sales and operations, including non-U.S. economic and political conditions and fluctuations in exchange rates.*

Griffon and its companies conduct operations in Canada, Australasia, the U.K., Mexico and China, and sell their products in many countries around the world. Sales of products through non-U.S. subsidiaries accounted for approximately 17% of consolidated revenue for the year ended September 30, 2021. These sales could be adversely affected by changes in political and economic conditions, trade protection measures, such as tariffs, the ability of the Company to enter into industrial cooperation agreements (offset agreements), differing intellectual property rights and laws and changes in regulatory requirements that restrict the sales of products or increase costs in such locations. Enforcement of existing laws in such jurisdictions can be uncertain, and the lack of a sophisticated body of laws can create various uncertainties, including with respect to customer and supplier contracts. Currency fluctuations between the U.S. dollar and the currencies in the non-U.S. regions in which Griffon does business may also have an impact on future reported financial results.

Griffon's international sales and operations are subject to applicable laws relating to trade, export controls and foreign corrupt practices, the violation of which could adversely affect operations. Griffon is subject to various anti-corruption laws that prohibit improper payments or offers of payments to foreign governments and their officials for the purpose of obtaining or retaining business. In addition, Griffon is subject to export controls, laws and regulations such as the Arms Export Control Act, the International Traffic in Arms Regulation and the Export Administration Regulations, as well as to economic sanctions, laws and embargoes imposed by various governments or organizations, including the U.S. and the European Union or member countries. Violations of anti-corruption, export controls or sanctions laws may result in severe criminal or civil sanctions and penalties, including debarment, loss of export privileges and loss of authorizations needed to conduct Griffon's international business, and could harm the ability to enter into contracts with the U.S. Government. Such violations could also result in Griffon being subject to other liabilities, which could have a material adverse effect on Griffon's business, results of operations and financial condition.

*Griffon may not be able to protect its proprietary rights.*

Griffon relies on a combination of patent, copyright and trademark laws, common law, trade secrets, confidentiality and non-disclosure agreements and other contractual provisions to protect proprietary rights. Such measures do not provide absolute protection and Griffon cannot give assurance that measures for protecting these proprietary rights are and will be adequate, or that competitors will not independently develop similar technologies.

*Griffon may inadvertently infringe on, or may be accused of infringing on, proprietary rights held by another party.*

Griffon is regularly improving its technology and employing existing technologies in new ways. Though Griffon takes reasonable precautions to ensure it does not infringe on the rights of others, it is possible that Griffon may inadvertently infringe on, or be accused of infringing on, proprietary rights held by others. If Griffon is found to have infringed on the proprietary rights held by others, any related litigation or settlement relating to such infringement may have a material effect on Griffon's business, results of operations and financial condition.

*Griffon is exposed to product liability and warranty claims.*

Griffon is subject to product liability and warranty claims in the ordinary course of business, including with respect to former businesses now included within discontinued operations. These claims relate to the conformity of its products with required specifications, and to alleged or actual defects in Griffon's products (or in end-products in which Griffon's products were a component part) that cause damage to property or persons. There can be no assurance that the frequency and severity of product liability claims brought against Griffon will not increase, which claims can be brought either by an injured customer of an end product manufacturer who used one of Griffon's products as a component or by a direct purchaser. There is also no assurance that the number and value of warranty claims will not increase as compared to historical claim rates, or that Griffon's warranty reserve at any particular time is sufficient. No assurance can be given that indemnification from customers or coverage under insurance policies will be adequate to cover future product liability claims against Griffon; for example, product liability insurance typically does not cover claims for punitive damages. Warranty claims are typically not covered by insurance at all. Product liability insurance can be expensive, difficult to maintain and may be unobtainable in the future on acceptable terms. The amount and scope of any insurance coverage may be inadequate if a product liability claim is successfully asserted. Furthermore, if any significant claims are made, the business and the related financial condition of Griffon may be adversely affected by negative publicity.

*Griffon has been, and may in the future be, subject to claims and liabilities under environmental laws and regulations.*

Griffon's operations and assets are subject to environmental laws and regulations pertaining to the discharge of materials into the environment, the handling and disposal of wastes, including solid and hazardous wastes, and otherwise relating to health, safety and protection of the environment, in the various jurisdictions in which it operates. Griffon does not expect to make any expenditure with respect to ongoing compliance with or remediation under these environmental laws and regulations that would have a material adverse effect on its business, operating results or financial condition. However, the applicable requirements under environmental laws and regulations may change at any time.

Griffon can incur environmental costs related to sites that are no longer owned or operated, as well as third-party sites to which hazardous materials are sent. Material expenditures or liabilities may be incurred in connection with such claims. See the Commitment and Contingencies footnote in the Notes to Consolidated Financial Statements for further information on environmental contingencies. Based on facts presently known, the outcome of current environmental matters are not expected to have a material adverse effect on Griffon's results of operations and financial condition. However, presently unknown environmental conditions, changes in environmental laws and regulations or other unanticipated events may give rise to claims that may involve material expenditures or liabilities.

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

Griffon is subject to Federal, state and local income taxes in the U.S. and in various taxing jurisdictions outside the U.S. Tax provisions and liabilities are subject to the allocation of income among various U.S. and international tax jurisdictions. Griffon's effective tax rate could be adversely affected by changes in the mix of earnings in countries with differing statutory tax rates, changes in any valuation allowance for deferred tax assets or the amendment or enactment of tax laws. The amount of income taxes paid is subject to audits by U.S. Federal, state and local tax authorities, as well as tax authorities in the taxing jurisdictions outside the U.S. If such audits result in assessments different from recorded income tax liabilities, Griffon's future financial results may include unfavorable adjustments to its income tax provision.

**Actions taken by activist shareholders could be disruptive and costly and may conflict with or disrupt the strategic direction of our business.**

Activist shareholders may from time to time attempt to effect changes in our strategic direction and seek changes regarding Griffon's corporate governance or structure. Our Board of Directors and management team strive to maintain constructive, ongoing communications with all shareholders who wish to speak with us, including activist shareholders, and welcomes their views and opinions with the goal of working together constructively to enhance value for all shareholders. However, activist campaigns that contest, or conflict with, our strategic direction could have an adverse effect on us because:

- a. responding to actions by activist shareholders can disrupt our operations, be costly and time consuming, and divert the attention of our Board and senior management from the pursuit of our business strategies, and
- b. perceived uncertainties as to our future direction may cause (i) instability or lack of continuity, which may be exploited by our competitors, (ii) concern on the part of current or potential customers, (iii) loss of business opportunities, or (iv) difficulties in attracting and retain qualified personnel and business partners.

Activist campaigns may also cause significant fluctuations in our stock price based on temporary or speculative market perceptions, or other factors that do not necessarily reflect the fundamental underlying value of our businesses.

**Item 1B. *Unresolved Staff Comments***

None.

## Item 2. Properties

Griffon occupies approximately 9,500,000 square feet of general office, factory and warehouse space primarily throughout the U.S., Canada, Mexico, Australia, U.K. and China. For a description of the encumbrances on certain of these properties, see the Notes Payable, Capitalized Leases and Long-Term Debt footnote in the Notes to Consolidated Financial Statements. The following table sets forth certain information related to Griffon's major facilities:

<u>Location</u>	<u>Business Segment</u>	<u>Primary Use</u>	<u>Approx. Square Footage</u>	<u>Owned/Leased</u>	<u>Lease End Year</u>
New York, NY .....	Corporate	Headquarters	13,000	Leased	2025
Farmingdale, NY <sup>(1)</sup> .....	Corporate	Manufacturing/R&D	180,000	Owned	
Huntington, NY <sup>(1)</sup> .....	Corporate	Manufacturing	90,000	Owned	
Troy, OH .....	Home and Building Products	Manufacturing	1,230,000	Owned	
Russia, OH .....	Home and Building Products	Manufacturing	250,000	Owned	
Mountain Top, PA .....	Home and Building Products	Manufacturing	279,000	Owned	
Goodyear, AZ .....	Home and Building Products	Manufacturing	163,000	Owned	
Carlisle, PA .....	Consumer and Professional Products	Manufacturing, Distribution	1,409,000	Leased	2035
Reno, NV .....	Consumer and Professional Products	Manufacturing, Distribution	774,000	Leased	2022
Camp Hill, PA .....	Consumer and Professional Products	Manufacturing	380,000	Owned	
Harrisburg, PA .....	Consumer and Professional Products	Manufacturing	264,000	Owned	
St. Francois, Quebec .....	Consumer and Professional Products	Manufacturing, Distribution	353,000	Owned	
Champion, PA .....	Consumer and Professional Products	Wood Mill	225,000	Owned	
Cork, Ireland .....	Consumer and Professional Products	Manufacturing, Distribution	74,000	Owned	
Pollington Site, UK .....	Consumer and Professional Products	Manufacturing, Distribution	115,000	Owned	
Gloucestershire, UK .....	Consumer and Professional Products	Distribution	46,000	Leased	2022
Barmby Moor, UK .....	Consumer and Professional Products	Manufacturing	240,000	Leased	2026
South Yorkshire, UK .....	Consumer and Professional Products	Manufacturing	59,000	Leased	2025
Kent, UK .....	Consumer and Professional Products	Distribution	32,000	Leased	2026
Australia (various) .....	Consumer and Professional Products	7 Distribution	624,000	Leased	2022–2027
Quebec, Canada .....	Consumer and Professional Products	Distribution	32,000	Lease	2022
Ocala, FL .....	Consumer and Professional Products	Manufacturing	676,000	Leased	2030
Grantsville, MD .....	Consumer and Professional Products	Manufacturing	155,000	Owned	
Reynosa, MX .....	Consumer and Professional Products	Manufacturing (owned), Distribution (leased)	133,000	Owned/ Leased	2023
Pharr, TX .....	Consumer and Professional Products	Distribution	80,000	Leased	2022
Fairfield, IA .....	Consumer and Professional Products	Manufacturing	54,000	Leased	2024
Guangdong, China .....	Consumer and Professional Products	Manufacturing	211,000	Leased	2022

<sup>(1)</sup> This property is owned by Griffon and is leased to Defense Electronics.

As of September 30, 2021, Griffon classified the following Defense Electronics properties in discontinued operations:

<u>Location</u>	<u>Business Segment</u>	<u>Primary Use</u>	<u>Approx. Square Footage</u>	<u>Owned/Leased</u>	<u>Lease End Year</u>
Elizabeth City, NC .....	Defense Electronics	Manufacturing (Owned), Repair and Service (Leased)	46,500	Owned/ Leased	2039

HBP also leases approximately 1,173,000 square feet of space for distribution centers in numerous facilities throughout the U.S. and in Canada. In addition, HBP and CPP leases approximately 276,000 square feet of office space throughout the U.S. and various international locations. CPP also owns approximately 200,000 square feet of additional space for operational wood mills in the U.S.

All facilities are generally well maintained and suitable for the operations conducted.

### **Item 3. Legal Proceedings**

Griffon is involved in litigation, investigations and claims arising out of the normal conduct of business, including those relating to commercial transactions, product liability and warranty claims, environmental, employment, and health and safety matters. Griffon estimates and accrues liabilities resulting from such matters based on a variety of factors, including the stage of the proceeding; potential settlement value; assessments by internal and external counsel; and assessments by environmental engineers and consultants of potential environmental liabilities and remediation costs. Such estimates are not discounted to reflect the time value of money due to the uncertainty in estimating the timing of the expenditures, which may extend over several years.

While it is impossible to ascertain the ultimate legal and financial liability with respect to certain contingent liabilities and claims, Griffon believes, based upon examination of currently available information, experience to date, and advice from legal counsel, that the individual and aggregate liabilities resulting from the ultimate resolution of these contingent matters, after taking into consideration existing insurance coverage and amounts already provided for, will not have a material adverse impact on consolidated results of operations, financial position or cash flows. Refer to Note 16—Commitments and Contingent Liabilities for a discussion of the Company's litigation.

### **Item 4. Mine Safety Disclosures.**

Not applicable.

## **PART II**

### **Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**

Griffon's Common Stock is listed for trading on the New York Stock Exchange under the symbol "GFF".

#### *Dividends*

During 2021, 2020 and 2019, the Company declared and paid dividends totaling \$0.32 per share, \$0.30 per share and \$0.29 per share, respectively. 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 November 15, 2021, the Board of Directors declared a cash dividend of \$0.09 per share, payable on December 16, 2021 to shareholders of record as of the close of business on November 29, 2021.

#### *Holders*

As of October 31, 2021, there were approximately 13,100 holders of Griffon's Common Stock.



*Securities Authorized for Issuance Under Equity Compensation Plans*

The following sets forth information relating to Griffon’s equity compensation plans as of September 30, 2021:

<u>Plan Category</u>	<u>(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights</u>	<u>(b) Weighted-average exercise price of outstanding options, warrants and rights</u>	<u>(c) Number of securities remaining available for future issuance under equity plans (excluding securities reflected in column (a))</u>
Equity compensation plans approved by security holders <sup>(1)</sup> .....	—	\$ —	488,376
Equity compensation plans not approved by security holders .....	—	\$ —	—

<sup>(1)</sup> Excludes restricted shares and restricted stock units issued in connection with Griffon’s equity compensation plans. The total reflected in column (c) includes shares available for grant as any type of equity award under the Incentive Plan.

*Issuer Purchase of Equity Securities*

The table below presents shares of Griffon Stock which were acquired by Griffon during the fourth quarter of 2021:

**ISSUER PURCHASES OF EQUITY SECURITIES**

<u>Period</u>	<u>(a) Total Number of Shares (or Units) Purchased</u>	<u>(b) Average Price Paid Per Share (or Unit)</u>	<u>(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs (1)</u>	<u>(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) That May Yet Be Purchased Under the Plans or Programs</u>
July 1–31, 2021 .....	—	\$ —	—	
August 1–31, 2021 .....	—	—	—	
September 1–30, 2021 .....	—	—	—	
Total .....	<u>—</u>	<u>\$ —</u>	<u>—</u>	\$57,955 <sup>(1)</sup>

<sup>1</sup> Shares, if any, purchased by the Company in open market purchases are pursuant to share repurchases authorized by the Company’s Board of Directors. 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 September 30, 2021, \$57,955 remained available for purchase under these Board authorized repurchase programs.

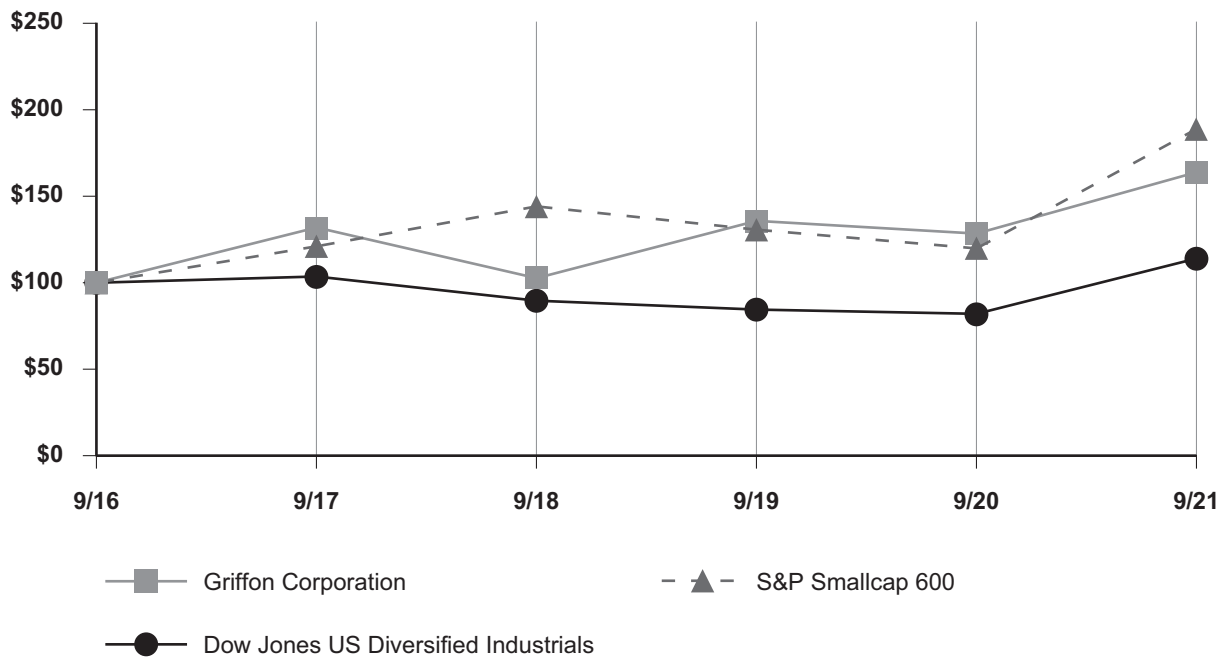
### Performance Graph

The performance graph does not constitute soliciting material, is not deemed filed with the SEC and is not incorporated by reference in any of Griffon's filings under the Securities Act of 1933 or the Exchange Act of 1934, whether made before or after the date of this Annual Report on Form 10-K and irrespective of any general incorporation language in any such filings, except to the extent Griffon specifically incorporates this performance graph by reference therein.

The following graph sets forth the cumulative total return to Griffon's stockholders during the five years ended September 30, 2021, as well as an overall stock market (S&P Small Cap 600 Index) and Griffon's peer group index (Dow Jones U.S. Diversified Industrials Index). Assumes \$100 was invested on September 30, 2016, including the reinvestment of dividends, in each category.

### COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN

Among Griffon Corporation, the S&P Smallcap 600 Index  
and the Dow Jones US Diversified Industrials Index



Item 6. [Reserved]

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

*(Unless otherwise indicated, all references to years or year-end refers to the fiscal year ending September 30 and dollars are in thousands, except per share data)*

### **OVERVIEW**

#### **The Company**

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 September 27, 2021, Griffon announced it is exploring strategic alternatives, including a sale, for its Defense Electronics (DE) segment, which consists of its subsidiary Telephonics Corporation ("Telephonics"). As a result, 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 as held for sale in the consolidated balance sheets. Accordingly, all references made to results and information in this Annual Report on Form 10-K are to Griffon's continuing operations, unless specifically noted. Telephonics is recognized globally as a leading provider of highly sophisticated intelligence, surveillance and communications solutions that are deployed across a wide range of land, sea and air applications. Telephonics designs, develops, manufactures and provides logistical support and lifecycle sustainment services to defense, aerospace and commercial customers worldwide.

Griffon now conducts its operations through two reportable segments:

- Consumer and Professional Products ("CPP") conducts its operations through AMES. Founded in 1774, AMES is the leading North American manufacturer and a global provider of branded consumer and professional tools and products for home storage and organization, landscaping, and enhancing outdoor lifestyles. CPP sells products globally through a portfolio of leading brands including True Temper, AMES, and ClosetMaid. CPP revenue was 54%, 55%, and 53% of Griffon's consolidated revenue in 2021, 2020 and 2019, respectively.
- 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 CornellCookson brand. HBP revenue was 46%, 45% and 47% of Griffon's consolidated revenue in 2021, 2020 and 2019, respectively.

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. Quatro is expected to contribute approximately \$5,000 in annualized revenue in the first twelve months under AMES' ownership.

In August 2020 Griffon Corporation completed the public offering of 8,700,000 shares of our common stock for total net proceeds of \$178,165 (the "Public Offering"). The Company used a portion of the net proceeds to repay outstanding borrowings under its Credit Agreement. The Company intends to use the

remainder of the proceeds for general corporate purposes, including to expand its current business through acquisitions of, or investments in, other businesses or products.

On February 19, 2020, Griffon issued, at par, \$850,000 of 5.75% Senior Notes due in 2028 and on June 8, 2020 Griffon issued an additional \$150,000 of notes under the same indenture at 100.25% of par (collectively 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 (the “2022 Senior Notes”).

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”).

On November 29, 2019, AMES acquired Vatre Group Limited (“Apta”), a leading United Kingdom supplier of innovative garden pottery and associated products sold to leading UK and Ireland garden centers for approximately \$10,500 (GBP 8,750), inclusive of a post-closing working capital adjustment, net of cash acquired. This acquisition broadens AMES’ product offerings in the UK market and increases its in-country operational footprint. Apta contributed approximately \$20,000 in revenue in the first 12 months after the acquisition.

### **Update of COVID-19 on Our Business**

The health and safety of our employees, our customers and their families is a high priority for Griffon. As of the date of this filing, all of Griffon’s facilities are fully operational. We have 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. In the United States, we manufacture a substantial majority of the products that we sell. While this helps mitigate the effects of global supplier and transportation disruptions, we are still impacted by these disruptions. Our supply chain has experienced certain disruptions which, together with other factors such as a shortage of labor, has resulted in longer delivery lead times and restricted manufacturing capacity for certain of our products. Commodity prices have increased during COVID-19 and may continue to increase, and we may not be able to pass off all or any of such price increases to our customers on a timely basis, or at all. It is difficult to predict whether the supply chain disruptions that impact us will improve, worsen or remain the same in the near term. Our suppliers could be required by government authorities to temporarily cease operations in accordance with the various restrictions discussed above; might be limited in their production capacity due to complying with restrictions relating to the operation of businesses during the COVID-19 pandemic; or could suffer their own supply chain disruptions, impacting their ability to continue to supply us with the quantity of materials required by us.

During fiscal 2021 and through the date of this filing, all of our businesses have experienced normal or better order patterns compared with the same time period last year. U.S. executive orders issued in 2020, which required workers to remain at home unless their work is critical, essential, or life-sustaining, have been lifted. Regardless, we believe that, based on the various standards published to date, the work our employees are performing are either critical, essential and/or life-sustaining for the following reasons: 1) HBP residential and commercial garage doors, rolling steel doors and related products that (a) provide protection and support for the efficient and safe movement of people, goods, and equipment in and out of residential and commercial facilities, (b) help prevent fires from spreading from one location to another, and (c) protect warehouses and homes, and their contents, from damage caused by strong weather events such as hurricanes and tornadoes; and 2) CPP tools and storage products provide critical support for the national infrastructure including construction, maintenance, manufacturing and natural disaster recovery, and is part of the essential supply base to many of its largest customers including Home Depot, Lowe’s and Menards. Our AMES international facilities are currently fully operational, as they meet the applicable standards in their respective countries.

On September 9, 2021, President Biden announced a proposed new rule requiring that all employers with at least 100 employees require that their employees be fully vaccinated or tested weekly. The U.S.

Department of Labor's Occupational Safety and Health Administration ("OSHA") issued an emergency temporary standard regulation to carry out this mandate. On November 6, 2021, the United States Court of Appeals for the Fifth Circuit granted a stay of the emergency temporary standard, and on November 12, 2021 the Court upheld its stay and barred OSHA from enforcing the mandate "pending adequate judicial review" of a motion for permanent injunction. At this time, it is unclear, among other things, when the vaccine mandate will go into effect (or if it will go into effect at all); whether it will apply to all employees or only to employees who work in the office; and how compliance will be documented.

As a company with more than 100 employees, it is anticipated that, should the vaccine mandate go into effect, we would be subject to the OSHA regulation concerning COVID-19 vaccination and the vaccine mandate. Should the mandate apply to us, we may be required to implement a requirement that all of our employees get vaccinated, subject to limited exceptions. At this time, it is not possible to predict the impact that a vaccine mandate, or a vaccine requirement should we adopt one, will have on us or on our workforce. Any vaccine requirement or vaccine mandate, if implemented, may result in employee attrition, which could materially and adversely affect our business and results of operations.

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. In January 2020, Griffon increased total borrowing capacity under its Credit Agreement by \$50,000, to \$400,000 (of which \$370,927 was available at September 30, 2021), and extended maturity of the facility to 2025. In addition, the Credit Agreement has a \$100,000 accordion feature (subject to lender consent). In February 2020, Griffon refinanced \$850,000 of its \$1,000,000 of senior notes due 2022 with new 5.75% senior notes with a maturity of 2028, and in June 2020 refinanced the remaining \$150,000 under the same terms and indenture as the \$850,000 senior notes due 2028. In August 2020, we completed a Public Offering of 8,700,000 shares of our common stock for total net proceeds of \$178,165; a portion of these net proceeds were used to repay outstanding borrowing under our Credit Agreement. At September 30, 2021 Griffon had cash and equivalents of \$248,653.

We will continue to actively monitor the situation and may take further actions that impact our operations as may be required by federal, state or local authorities or that we determine is in the best interests of our employees, customers, suppliers and shareholders. While we are unable to determine or predict the nature, duration or scope of the overall impact the COVID-19 pandemic 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 our response to COVID-19 is progressing and how our operations and financial condition may change as the fight against COVID-19 progresses.

## **CONSOLIDATED RESULTS OF OPERATIONS**

### **2021 Compared to 2020**

Revenue for the year ended September 30, 2021 of \$2,270,626 compared to \$2,066,546 in the year ended September 30, 2020 increased 10% resulting from increased revenue at HBP and CPP of 12% and 8%, respectively.

Gross profit for 2021 was \$641,113 compared to \$583,994 in 2020. Gross margin as a percent of sales ("gross margin") for 2021 and 2020 was 28.2% and 28.3%, respectively. In the years ended 2021 and 2020, gross profit included restructuring charges of \$7,923 and \$4,159, respectively. Excluding restructuring charges from both years, gross profit would have been \$649,036 or 28.6% of revenue, compared to \$588,153 or 28.5% in the prior year.

Selling, general and administrative ("SG&A") expenses in 2021 of \$470,530 increased 6% from \$444,454 in 2020. The 2021 SG&A expenses included restructuring charges of \$13,495. The 2020 SG&A expenses included restructuring charges of \$9,510, acquisition costs of \$2,960 and income from the reversal of contingent consideration related to the Kelkay acquisition of \$1,733. Excluding these items from both periods, the 2021 SG&A expenses would have been \$457,035, or 20.1% of revenue compared

to \$433,717 or 21.0%, with the increase in expenses primarily due to increased distribution and shipping costs.

Interest expense in 2021 of \$63,175 decreased 5% compared to 2020 of \$66,544, primarily as a result of decreased outstanding borrowings and decreased variable interest rates on our Revolving Credit Facility.

Other income (expense) of \$3,331 and \$2,885 in 2021 and 2020, respectively, includes \$81 and \$915, respectively, of net currency exchange transaction losses from receivables and payables held in non-functional currencies, \$283 and \$184, respectively, of net gains on investments, and \$907 and \$1,559, respectively, of net periodic benefit plan income. Other income (expense) also includes rental income of \$1,848 in 2021 and 2020.

Griffon reported Income before tax from continuing operations for 2021 of \$111,179 compared to \$68,705 for 2020. In 2021, the Company had an effective income tax rate of 35.9% compared to 38.2% in 2020. The 2021 tax rate included \$3,245 of discrete and certain other tax provisions, net, and other items that affect comparability, as listed below. The 2020 tax rate included \$965 of discrete and certain other tax provisions, net, and other items that affect comparability, as listed below. Excluding the discrete and certain other tax provisions, net, and other items that affect comparability, as listed below, the effective income tax rates for 2021 and 2020 were 31.7% and 33.7%, respectively. These rates reflect the impact of tax reserves and changes in earnings mix between U.S. and non-U.S. operations.

Income from continuing operations for 2021 was \$71,239, or \$1.33 per share, compared to \$42,443, or \$0.94 per share in 2020. The 2021 income from continuing operations included the following:

- Restructuring charges of \$21,418 (\$16,131, net of tax, or 0.30 per share);
- Discrete and certain other tax provision, net, of \$3,245 or 0.06 per share.

The 2020 income from continuing operations included the following:

- Restructuring charges of \$13,670 (\$10,177, net of tax, or \$0.23 per share);
- Loss from debt extinguishment \$7,925 (\$6,167, net of tax, or \$0.14 per share);
- Acquisition costs of \$2,960 (\$2,297, net of tax, or \$0.05 per share); and
- Acquisition contingent consideration benefit of \$1,733 (\$1,403, net of tax, or \$0.03 per share); and
- Discrete and certain other tax provision, net, of \$965 or \$0.02 per share.

Excluding these items from both reporting periods, 2021 Income from continuing operations would have been \$90,615, or \$1.70 per share compared to \$60,646, or \$1.35 per share, in 2020.

## **2020 Compared to 2019**

Revenue for the year ended September 30, 2020 of \$2,066,546 increased 10% compared to \$1,874,248 in the year ended September 30, 2019, primarily driven by increased consumer demand for home improvement projects at both CPP and HBP. Organic growth was 9%.

Gross profit for 2020 was \$583,994 compared to \$516,845 in 2019, with gross margin of 28.3% in 2020, compared to 27.6% in 2019. In 2020, gross profit included restructuring charges of \$4,159. Excluding restructuring charges in 2020, gross profit would have been \$588,153 or 28.5% of revenue compared to \$516,845 or 27.6% in the prior year.

Selling, general and administrative (“SG&A”) expenses in 2020 of \$444,454 increased 9% from \$408,339 in 2019. The 2020 SG&A expenses included restructuring charges of \$9,510, acquisition costs of \$2,960 and the reversal of contingent consideration related to the Kelkey acquisition of \$1,733. The 2019 SG&A expenses include income from the reversal of contingent consideration related to the

Kelkay acquisition of \$1,646. Excluding these items from both periods, the 2020 SG&A expenses would have been \$433,717 or 21.0% of revenue compared to \$409,985 or 21.9%, with the increase in expenses primarily due to the Apta acquisition and increased management incentives, partially offset by COVID-19 related reduced travel expenses.

Interest expense in 2020 of \$66,544 decreased 3% compared to 2019 of \$68,312, primarily as a result of decreased outstanding borrowings and variable interest rates on our Revolving Credit Facility.

Other income (expense) of \$2,885 and \$5,230 in 2020 and 2019, respectively, includes \$915 and \$438, respectively, of net currency exchange transaction losses from receivables and payables held in non-functional currencies, \$184 and \$(40), respectively, of net gains or (losses) on investments, and \$1,559 and \$3,148, respectively, of net periodic benefit plan income. Other income (expense) also includes rental income of \$1,848 in 2020 and 2019.

Griffon reported Income before tax from continuing operations for 2020 of \$68,705 compared to \$46,223 for 2019. In 2020, the Company recognized an effective income tax rate of 38.2% compared to 44.9% in 2019. The 2020 tax rate included \$965 of discrete and certain other tax provisions, net, and other items that affect comparability, as listed below. The 2019 tax rate included \$1,786 of discrete and certain other tax provisions, net. Excluding the discrete and certain other tax provisions, net, and other items that affect comparability, as listed below, the effective income tax rates for 2020 and 2019 were 33.7% and 41.8%, respectively. These rates reflect the impact of tax reserves and changes in earnings mix between U.S. and non-U.S. operations.

Income from continuing operations for 2020 was \$42,443, or \$0.94 per share, compared to \$25,470, or \$0.59 per share in 2019. The 2020 income from continuing operations included the following:

- Restructuring charges of \$13,670 (\$10,177, net of tax, or \$0.23 per share);
- Loss from debt extinguishment \$7,925 (\$6,167, net of tax, or \$0.14 per share);
- Acquisition costs of \$2,960 (\$2,297, net of tax, or \$0.05 per share); and
- Acquisition contingent consideration benefit of \$1,733 (\$1,403, net of tax, or \$0.03 per share); and
- Discrete and certain other tax provision, net, of \$965 or \$0.02 per share.

The 2019 Income from continuing operations included a benefit from the reversal of contingent consideration related to the Kelkay acquisition of \$1,646 (\$1,333, net of tax, or \$0.03 per share) and discrete and certain other tax provisions, net, of \$1,786 or \$0.04 per share.

Excluding these items from both reporting periods, 2020 Income from continuing operations would have been \$60,646, or \$1.35 share compared to \$25,923, or \$0.60 per share, in 2019.

Griffon evaluates performance based on Earnings per share and Net income excluding restructuring charges, loss on debt extinguishment, acquisition related expenses, discrete and certain other tax items, as well 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 common share from continuing operations to Adjusted earnings per common share from continuing operations:

**GRIFFON CORPORATION AND SUBSIDIARIES**  
**RECONCILIATION OF INCOME FROM CONTINUING OPERATIONS**  
**TO ADJUSTED INCOME FROM CONTINUING OPERATIONS**  
**(Unaudited)**

	<u>For the Years Ended September 30,</u>		
	<u>2021</u>	<u>2020</u>	<u>2019</u>
Income from continuing operations.....	\$71,239	\$42,443	\$25,470
Adjusting items:			
Restructuring charges .....	21,418	13,670	—
Loss from debt extinguishment .....	—	7,925	—
Acquisition costs .....	—	2,960	—
Acquisition contingent consideration.....	—	(1,733)	(1,646)
Tax impact of above items.....	(5,287)	(5,584)	313
Discrete and other certain tax provisions .....	<u>3,245</u>	<u>965</u>	<u>1,786</u>
Adjusted income from continuing operations.....	<u>\$90,615</u>	<u>\$60,646</u>	<u>\$25,923</u>
Earnings per common share from continuing operations....	\$ 1.33	\$ 0.94	\$ 0.59
Adjusting items, net of tax:			
Restructuring charges .....	0.30	0.23	—
Loss from debt extinguishment .....	—	0.14	—
Acquisition costs .....	—	0.05	—
Acquisition contingent consideration.....	—	(0.03)	(0.03)
Discrete and other certain tax provisions .....	0.06	0.02	0.04
Adjusted earnings per share from continuing operations....	<u>\$ 1.70</u>	<u>1.35</u>	<u>\$ 0.60</u>
Weighted-average shares outstanding (in thousands).....	<u>53,369</u>	<u>45,015</u>	<u>42,888</u>

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

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

**REPORTABLE SEGMENTS**

Griffon evaluates performance and allocates resources based on each segment's operating results from continuing operations 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 18—Reportable Segments, for a reconciliation of Segment Adjusted EBITDA to Income before taxes from continuing operations.



## Consumer and Professional Products

	For the Years Ended September 30,		
	2021	2020	2019
United States .....	\$ 766,150	\$ 769,100	\$ 690,772
Europe.....	123,607	85,339	63,284
Canada .....	85,676	74,072	72,327
Australia.....	244,674	203,012	165,291
All other countries.....	9,411	7,710	8,934
Total Revenue .....	\$1,229,518	\$1,139,233	\$1,000,608
Adjusted EBITDA .....	\$ 115,673 9.4%	\$ 104,053 9.1%	\$ 90,677 9.1%
Depreciation and amortization .....	\$ 34,433	\$ 32,788	\$ 32,289

### 2021 Compared to 2020

CPP revenue in 2021 increased \$90,285, or 8%, compared to 2020, comprised of a 3% increase in volume, driven by increased consumer demand across all international geographies, partially offset by reduced volume in the U.S. due to labor, transportation and supply chain disruptions. Revenue also benefited from favorable price and mix of 1%, and a favorable impact from foreign exchange of 4%.

CPP Adjusted EBITDA in 2021 increased \$11,620 or 11% to \$115,673 compared to \$104,053 in 2020. The favorable variance resulted primarily from the increased revenue noted above and a favorable foreign exchange impact of 5%, partially offset by increased U.S. material costs coupled with the lag in realization of price increases and COVID-19 related inefficiencies.

Segment depreciation and amortization increased \$1,645 from the comparable prior year period primarily due to the onset of depreciation for new assets placed in service.

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. Quatro is expected to contribute approximately \$5,000 in annualized revenue in the first twelve months under AMES’ ownership.

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 UK and Ireland garden centers for approximately \$10,500 (GBP 8,750), inclusive of a post-closing working capital adjustment, net of cash acquired. This acquisition broadens AMES’ product offerings in the U.K. market and increases its in-country operational footprint. Apta contributed approximately \$20,000 in revenue in the first 12 months after the acquisition.

### Strategic Initiative and 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 is broadening this strategic initiative to include additional North American facilities, the AMES UK and Australia businesses, and a manufacturing facility in China.

The expanded focus of this initiative leverages the same three key development areas being executed within our U.S. operations. First, certain AMES global operations will be consolidated to optimize facilities footprint and talent. Second, strategic investments in automation and facilities expansion will be made to increase the efficiency of our manufacturing and fulfillment operations, and support e-commerce growth. Third, multiple independent information systems will be unified into a single data and analytics platform, which will serve the whole AMES global enterprise.

Expanding the roll-out of the new business platform from our AMES U.S. operations to include AMES’ global operations will extend the duration of the project by one year, with completion now

expected by the end of calendar year 2023. When fully implemented, these actions will result in annual cash savings of \$30,000 to \$35,000 and a reduction in inventory of \$30,000 to \$35,000 both based on fiscal 2020 operating levels.

The cost to implement this new business platform, over the duration of the project, will include one-time charges of approximately \$65,000 and capital investments of approximately \$65,000. The one-time charges are comprised of \$46,000 of cash charges, which includes \$26,000 of personnel-related costs such as training, severance, and duplicate personnel costs as well as \$20,000 of facility and lease exit costs. The remaining \$19,000 of charges are non-cash and are primarily related to asset write-downs.

In connection with this initiative, during the years ended September 30, 2021 and 2020, CPP incurred pre-tax restructuring and related exit costs approximating \$21,418 and \$13,669, respectively. Since inception of this initiative in fiscal 2020, total cumulative charges totaled \$35,087, comprised of cash charges of \$23,740 and non-cash, asset-related charges of \$11,347; the cash charges included \$8,810 for one-time termination benefits and other personnel-related costs and \$14,930 for facility and lease exit costs primarily driven by the consolidation of distribution facilities and system optimization. During the years ended September, 30, 2021 and 2020, capital expenditures of \$8,774 and \$6,733, respectively, were driven by investment in CPP business intelligence systems and e-commerce facility.

	<u>Cash Charges</u>		<u>Non-Cash Charges</u>	<u>Total</u>	<u>Capital Investments</u>
	<u>Personnel related costs</u>	<u>Facilities, exit costs and other</u>	<u>Facility and other</u>		
Domestic Expansion.....	\$12,000	\$ 4,000	\$ 19,000	35,000	\$ 40,000
Global Expansion .....	14,000	16,000	—	30,000	25,000
Total Anticipated Charges .....	26,000	20,000	19,000	65,000	65,000
Total 2020 restructuring charges.....	(5,620)	(3,357)	(4,692)	(13,669)	(6,733)
Total 2021 restructuring charges.....	(3,190)	(11,573)	(6,655)	(21,418)	(8,774)
Total cumulative charges.....	<u>\$(8,810)</u>	<u>\$(14,930)</u>	<u>\$(11,347)</u>	<u>\$(35,087)</u>	<u>\$(15,507)</u>
Estimate to Complete .....	<u>\$17,190</u>	<u>\$ 5,070</u>	<u>\$ 7,653</u>	<u>\$ 29,913</u>	<u>\$ 49,493</u>

## 2020 Compared to 2019

CPP revenue in 2020 increased \$138,625, or 14%, compared to 2019, primarily from a 12% increase in volume, due to increased consumer demand for home improvement initiatives across most of our geographic regions supplemented by COVID-19 stay at home orders, favorable price and mix of 1% and an incremental 2% revenue contribution from the Apta acquisition, partially offset by an unfavorable impact of foreign exchange of 1%. Organic growth was 12%.

CPP Adjusted EBITDA in 2020 increased \$13,376 or 15% to \$104,053 compared to \$90,677 in 2019. The favorable variance resulted primarily from the increased revenue noted above, partially offset by increased tariffs, COVID-19 related inefficiencies and direct costs, and an unfavorable foreign exchange impact of 1%.

Direct COVID-19 related expenses totaled approximately \$5,000 in 2020.

## Home and Building Products

	For the Years Ended September 30,						
	2021		2020		2019		
Residential.....	\$	633,523		\$572,397		\$538,301	
Commercial.....		407,585		354,916		335,339	
Total Revenue .....		<u>\$1,041,108</u>		<u>\$927,313</u>		<u>\$873,640</u>	
Adjusted EBITDA .....	\$	181,015	17.4%	\$153,631	16.6%	\$120,161	13.8%
Depreciation and amortization .....	\$	17,370		\$ 18,361		\$ 18,334	

### 2021 Compared to 2020

HBP revenue in 2021 increased \$113,795, or 12%, compared to 2020, primarily due to favorable mix and pricing of 8% driven by both residential and commercial, and increased volume of 4% equally driven by both residential and commercial.

HBP Adjusted EBITDA in 2021 increased \$27,384, or 18% to \$181,015 compared to \$153,631 in 2020. EBITDA benefited from the increased revenue noted above, partially offset by increased material costs coupled with the lag in realization of price increases and COVID-19 related inefficiencies.

Segment depreciation and amortization decreased \$991 from the comparable prior year period primarily due to fully depreciated assets.

### 2020 Compared to 2019

HBP revenue in 2020 increased \$53,673, or 6%, compared to 2019, with 4% from volume and 2% from favorable mix and pricing.

HBP Adjusted EBITDA in 2020 increased 33,470, or 28% to \$153,631 compared to \$120,161 in 2019. The favorable variance resulted from the increased revenue noted above and general operational efficiency improvements, partially offset by COVID-19 related inefficiencies and direct costs. Direct COVID-19 related expenses totaled approximately \$2,000 in 2020.

### Unallocated Amounts

For 2021, unallocated amounts, excluding depreciation, consisted primarily of corporate overhead costs, totaled \$49,054 compared to \$48,262 in 2020, with the increase primarily due to compensation and incentive costs.

For 2020, unallocated amounts, excluding depreciation, consisted primarily of corporate overhead costs, totaled \$48,262 compared to \$47,231 in 2019, with the increase primarily due to compensation and incentive costs.

### Depreciation and Amortization

Depreciation and amortization of \$52,302 in 2021 compared to \$52,100 in 2020; the increase was primarily due to depreciation for new assets placed in service.

Depreciation and amortization of \$52,100 in 2020 compared to \$51,517 in 2019; the increase was primarily due to depreciation for new assets placed in service.

### Comprehensive Income (Loss)

During 2021, total other comprehensive income (loss), net of taxes, of \$26,115 included a gain of \$6,433 from foreign currency translation adjustments primarily due to the strengthening of the Canadian,

British and Australian currencies, all in comparison to the U.S. Dollar; a \$17,796 gain from Pension and other post-retirement benefits, primarily related to the change between actual and expected return on assets compared to 2020; and a \$1,886 gain on cash flow hedges.

During 2020, total other comprehensive income (loss), net of taxes, of \$(6,176) included a gain of \$5,601 from foreign currency translation adjustments primarily due to the strengthening of the Euro, Canadian, British and Australian currencies, all in comparison to the U.S. Dollar; a \$11,784 loss from Pension and other post-retirement benefits, primarily associated with a decrease in the assumed discount rate compared to 2019; and a \$7 gain on cash flow hedges.

## DISCONTINUED OPERATIONS

### Defense Electronics

On September 27, 2021, Griffon announced it will explore strategic alternatives for its DE segment, which consists of its Telephonics subsidiary. As a result, the DE segment results have been classified as a discontinued operation.

	For the Years Ended September 30,		
	2021	2020	2019
Revenue.....	\$271,060	\$340,976	\$335,041
Adjusted EBITDA.....	\$ 20,486 7.6%	\$ 25,228 7.4%	\$ 35,104 10.5%
Depreciation and amortization .....	\$ 10,762	\$ 10,645	\$ 10,667

### 2021 Compared to 2020

DE revenue in 2021 decreased \$69,916, or 21%, compared to 2020. The current and prior year results include revenue from the SEG business of \$6,713 and \$31,758, respectively. Excluding SEG from both years, revenue decreased \$44,871, or 15%. The decrease was driven by reduced volume due to delayed awards for Surveillance Systems and decreased deliveries for Communications Systems, partially offset by increased Radar Systems volume.

DE Adjusted EBITDA in 2021 decreased \$4,742, or 19% to \$20,486, compared to \$25,228 in 2020. The current and prior year results include Adjusted EBITDA from the SEG business of \$412 and \$1,491, respectively. Excluding SEG from both years, Adjusted EBITDA decreased \$3,663, or 15%. The decrease was due to the reduced revenue noted above and cost growth primarily for Surveillance Systems, partially offset by favorable program performance for Radar Systems and reduced operating expenses.

DE's depreciation and amortization remained consistent with the prior year period.

On December 18, 2020, DE completed the sale of its SEG business. SEG provides sophisticated, highly technical engineering and analytical support to the Missile Defense Agency and various U.S. military commands. SEG had sales of approximately \$7,000 for the first fiscal quarter ended December 31, 2020 and \$32,000 for the fiscal year ended September 30, 2020.

During 2021, DE was awarded new contracts and incremental funding on existing contracts approximating \$246,500 (excludes \$5,500 of SEG awards). Contract backlog was \$352,200 at September 30, 2021 with 62% expected to be fulfilled in the next 12 months; backlog was \$370,000 at September 30, 2020 (excludes approximately \$10,000 of SEG related backlog). The decrease in backlog is primarily due to awards delayed until 2022. Backlog is defined as unfilled firm orders for products and services for which funding has been both authorized and appropriated by the customer or Congress, in the case of U.S. government agencies.

## **2020 Compared to 2019**

DE revenue in 2020 increased \$5,935, or 2%, compared to 2019, primarily due to increased deliveries and increased volume on airborne and ground communications systems as well as airborne surveillance systems, partially offset by reduced volume on Multi-Mode airborne maritime surveillance radar systems.

DE Adjusted EBITDA in 2020 decreased \$9,876, or 28% to \$25,228, compared to \$35,104 in 2019, primarily due to program inefficiencies associated with certain radar programs, unfavorable program mix and increased operating expenses primarily due to bid and proposal activities and timing of research and development initiatives, partially offset by program efficiencies within airborne intercommunication surveillance systems.

Direct COVID-19 related expenses totaled approximately \$1,000 in 2020.

## **Restructuring Charges and Divestiture**

In September 2020, a Voluntary Employee Retirement Plan was initiated, which was subsequently followed by a reduction in force in November 2020, to improve efficiencies by combining functions and responsibilities. The reduction in force initiative resulted in severance charges of approximately \$2,200, recorded in the first quarter of fiscal 2021. These actions reduced headcount by approximately 90 people.

In addition, in the first quarter of fiscal 2021, charges of \$5,601 were recorded primarily related to exiting our older weather radar product lines.

DE recorded a pre-tax gain of \$5,291 (\$5,443, including a net tax benefit of \$152) during the year ended September 30, 2021 related to the divestiture of SEG.

## **Other Discontinued Activities**

In fiscal 2018, Griffon completed the sale of Plastics to Berry for approximately \$465,000, net of certain post-closing adjustments. During 2019, Griffon recorded an \$11,050 charge (\$8,335, net of tax) to discontinued operations. The charge consisted primarily of a purchase price adjustment to resolve a claim related to the \$465,000 Plastics divestiture and included an additional reserve for a legacy environmental matter.

At September 30, 2021 and 2020, Griffon's liabilities for discontinued operations primarily related to insurance claims, income taxes and product liability, warranty and environmental reserves totaling liabilities of approximately \$10,811 and \$7,074, respectively. See Note 8, Discontinued Operations.

## **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 September 30, 2021, the amount of cash, cash equivalents and marketable securities held by foreign subsidiaries was \$65,000. 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 2020 five-year secured \$400,000 revolving credit facility ("Credit Facility"). During the fiscal year ended September 30, 2021, the Company generated \$71,032 of net cash from continuing operating activities and had \$370,927 available, subject to certain loan covenants, for borrowing at that date.

The table below provides a summary of the Consolidated Statements of Cash Flows for the periods indicated.

	<b>Years Ended</b>	
	<b>September 30,</b>	
	<b>2021</b>	<b>2020</b>
	<b>(in thousands)</b>	
<b>Cash Flows from Continuing Operations</b>		
Net Cash Flows Provided By (Used In):		
Operating activities .....	\$ 71,032	\$107,803
Investing activities .....	(56,167)	(51,477)
Financing activities .....	(28,245)	68,190

Cash provided by operating activities from continuing operations for 2021 was \$71,032 compared to \$107,803 in 2020, a decrease of \$36,771. The variance was primarily due to increased working capital, primarily inventory, partially offset by increased in accounts payable and income from continuing operations, adjusted for non-cash expenditures.

Cash flows from investing activities from continuing operations is primarily comprised of capital expenditures and business acquisitions as well as proceeds from the sale of businesses, investments and property, plant and equipment. During 2021, Griffon used \$56,167 in investing activities from continuing operations compared to \$51,477 in 2020. Capital expenditures, net of proceeds from the sale of assets, totaled \$36,714 in 2021 compared to \$40,816 in 2020. Payments for acquired businesses totaled \$2,242 in 2021 compared to \$10,531 in 2020. On December 22, 2020, AMES acquired Quatro, a leading Australian manufacturer and supplier of glass fiber reinforced concrete landscaping products for residential, commercial, and public sector projects. On November 29, 2019, AMES acquired Apta, a leading United Kingdom supplier of innovative garden pottery and associated products sold to leading UK and Ireland garden centers for approximately \$10,500 (GBP 8,750), inclusive of a post-closing working capital adjustment, net of cash acquired. During 2021, Griffon also invested \$17,211, primarily in marketable debt and equity securities.

During 2021, Griffon used cash of \$28,245 in financing activities from continuing operations compared to cash provided by of \$68,190 in 2020. During 2021, cash flows from financing activities from continuing operations primarily consisted of the payment of dividends of \$17,139, purchase of treasury shares to satisfy vesting of restricted stock of \$(3,357) and net repayments of long-term debt and lease payments of \$6,921. During 2020, cash flows from financing activities from continuing operations primarily consisted of proceeds from the issuance of common stock, partially offset by the payment of dividends of \$14,529 and net repayments of long-term debt and lease payments of \$68,835. At September 30, 2021, there were \$13,483 in outstanding borrowings under the Credit Agreement, compared to 12,858 in outstanding borrowings at the same date in 2020.

In 2020, Griffon Corporation 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. Additionally, on June 22, 2020, Griffon completed an add-on offering through a private placement of \$150,000 aggregate principal amount of its 5.75% Senior Notes, at 100.25% of par, to Griffon's previously issued \$850,000 principal amount of its 5.75% Senior Notes, at par, completed on February 19, 2020. Proceeds from the Senior Notes were used to redeem the \$1,000,000 of 2022 Senior Notes. Cash provided by financing activities in 2020 also included financing costs of \$571 primarily associated with the redemption of the \$1,000,000 of 2022 Senior Notes; and the amendment and extension of the Company's revolving credit facility which increased the

maximum borrowing availability from \$350,000 to \$400,000 and extended its maturity date from March 22, 2021 to March 22, 2025.

During 2021, the Board of Directors approved four quarterly cash dividends each for \$0.08 per share, totaling \$0.32. On November 15, 2021, the Board of Directors declared a cash dividend of \$0.09 per share, payable on December 16, 2021 to shareholders of record as of the close of business on November 29, 2021.

During 2021, 152,435 shares, with a market value of \$3,222, or \$21.14 per share were withheld to settle employee taxes due upon the vesting of restricted stock, and were added to treasury stock. Furthermore, during 2021, an additional 6,507 shares, with a market value of \$135, or \$20.75 per share, were withheld from common stock issued upon the vesting of restricted stock units to settle employee taxes due upon vesting.

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 these share repurchase programs, the Company may purchase shares in the open market, including pursuant to a 10b5-1 plan, or in privately negotiated transactions. During 2021, Griffon did not purchase any shares of common stock under these repurchase programs. At September 30, 2021, \$57,955 remains under Griffon’s Board authorized repurchase programs.

During 2021, cash provided by discontinued operations from operating activities of \$40,737 primarily related to DE operations and the settling of certain Installation services and environmental liabilities. Cash provided by discontinued operations from investing activities of \$6,751 primarily related to net proceeds received of \$14,345 from DE’s sale of its SEG business less capital expenditures of \$10,343 and a recovery of insurance proceeds received of \$2,748 associated with other discontinued operations.

## Debt

At September 30, 2021 and 2020, Griffon had debt, net of cash and equivalents, as follows:

	<u>At September 30, 2021</u>	<u>At September 30, 2020</u>
	(in thousands)	
<b>Cash and Equivalents and Debt</b>		
Cash and equivalents.....	\$ 248,653	\$ 218,089
Notes payables and current portion of long-term debt.....	\$ 12,486	\$ 9,922
Long-term debt, net of current maturities.....	1,033,197	1,037,042
Debt discount and issuance costs.....	<u>14,823</u>	<u>17,458</u>
Total debt.....	<u>1,060,506</u>	<u>1,064,422</u>
Debt, net of cash and equivalents.....	<u><b>\$ 811,853</b></u>	<u><b>\$ 846,333</b></u>

On June 22, 2020, in an unregistered offering through a private placement, Griffon completed the add-on offering of \$150,000 principal amount of its 5.75% senior notes due 2028, at 100.25% of par, to Griffon’s previously issued \$850,000 principal amount of its 5.75% senior notes due 2028, at of par, completed on February 19, 2020 (collectively, the “Senior Notes”). Proceeds from the Senior Notes were used to redeem the \$1,000,000 of 5.25% senior notes due 2022 (the “2022 Senior Notes”). As of September 30, 2021, outstanding Senior Notes due totaled \$1,000,000; interest is payable semi-annually on March 1 and September 1.

The Senior Notes are senior unsecured obligations of Griffon guaranteed by certain domestic subsidiaries, and subject to certain covenants, limitations and restrictions. On April 22, 2020 and August 3, 2020, Griffon exchanged substantially all of the Senior Notes for substantially identical Senior Notes registered under the Securities Act of 1933, as amended (the “Securities Act”), via an exchange

offer. The fair value of the 2028 Senior Notes approximated \$1,060,000 on September 30, 2021 based upon quoted market prices (level 1 inputs).

In connection with these transactions, Griffon capitalized \$16,448 of underwriting fees and other expenses incurred related to the issuance and exchange of the Senior Notes, which will amortize over the term of such notes, and, at September 30, 2021, \$13,293 remained to be amortized. Furthermore, all of the obligations associated with the 2022 Senior Notes were discharged. Additionally, Griffon recognized a \$7,925 loss on the early extinguishment of debt of the 2022 Senior Notes, comprised primarily of the write-off of \$6,725 of remaining deferred financing fees, \$607 of tender offer net premium expense and \$593 of redemption interest expense.

On January 30, 2020, Griffon amended its Credit Agreement to increase the maximum borrowing availability from \$350,000 to \$400,000, extend its maturity from March 22, 2021 to March 22, 2025 and modify certain other provisions of the facility. The facility includes a letter of credit sub-facility with a limit of \$100,000 and a multi-currency sub-facility of \$200,000; and contains a customary accordion feature that permits the Company to request, subject to each lender's consent, an increase in the maximum aggregate amount that can be borrowed up to an additional \$100,000.

Borrowings under the Credit Agreement may be repaid and re-borrowed at any time. Interest is payable on borrowings at either a LIBOR or base rate benchmark rate, plus an applicable margin, which adjusts based on financial performance. Current margins are 0.50% for base rate loans and 1.50% for LIBOR loans. The Credit Agreement 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. 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 September 30, 2021, under the Credit Agreement, there were \$13,483 in outstanding borrowings; outstanding standby letters of credit were \$15,590; and \$370,927 was available, subject to certain loan covenants, for borrowing at that date.

At September 30, 2021, Griffon and its subsidiaries were in compliance with the terms and covenants of its credit and loan agreements. Net Debt to EBITDA (Leverage), as calculated in accordance with the definition in the Credit Agreement, was 2.8x at September 30, 2021.

Two Griffon subsidiaries have finance leases outstanding for real estate located in Troy, Ohio and Ocala, Florida. The leases mature in November 2021 and 2025, respectively, and bear interest at fixed rates of approximately 5.0% and 5.6%, respectively. The Troy, Ohio lease is secured by a mortgage on the real estate, which is guaranteed by Griffon, and has a one dollar buyout at the end of the lease in the first fiscal quarter of 2022. The Ocala, Florida lease contains two five-year renewal options. As of September 30, 2021, \$14,590 was outstanding, net of issuance costs. Refer to Note 21—Leases for further details.

In November 2012, Garant G.P. ("Garant"), a Griffon subsidiary, entered into a CAD 15,000 (\$11,798 as of September 30, 2021) revolving credit facility. The facility accrues interest at LIBOR (USD) or the Bankers Acceptance Rate (CDN) plus 1.3% per annum (1.38% LIBOR USD and 1.51% Bankers Acceptance Rate CDN as of September 30, 2021 and September 29, 2021, respectively). The revolving facility matures in October 2022. Garant is required to maintain a certain minimum equity. As of September 30, 2021, there were no borrowings under the revolving credit facility with CAD 15,000 (\$11,798 as of September 30, 2021) available for borrowing.

In July 2016, Griffon Australia Holdings Pty Ltd and its Australian subsidiaries ("Griffon Australia") entered into an AUD 29,625 term loan, AUD 20,000 revolver and AUD 10,000 receivable purchase facility agreement. The term loan requires quarterly principal payments of AUD 1,250 plus interest with a balloon payment of AUD 9,625 due upon maturity in March 2022, and accrues interest at Bank Bill Swap Bid Rate "BBSY" plus 1.95% per annum (2.01% at September 30, 2021). During fiscal 2020, the



term loan balance was reduced by AUD 5,000 from AUD 23,375 to AUD 18,375 with proceeds from an AUD 5,000 increase in the commitment of the receivables purchase line from AUD 10,000 to AUD 15,000. As of September 30, 2021, the term loan had an outstanding balance of AUD 10,875 (\$7,847 as of September 30, 2021). The revolving facility and receivable purchase facility mature in March 2022, but are renewable upon mutual agreement with the lender. The revolving facility and receivable purchase facility accrue interest at BBSY plus 1.9% and 1.35%, respectively, per annum (1.97% and 1.41%, respectively, at September 30, 2021). At September 30, 2021, there were no borrowings outstanding under the revolver and the receivable purchase facility. The revolver, receivable purchase facility and term loan are all secured by substantially all of the assets of Griffon Australia and its subsidiaries. Griffon Australia is required to maintain a certain minimum equity level and is subject to a maximum leverage ratio and a minimum fixed charges cover ratio.

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. The term loan and mortgage loan accrue interest at the GBP LIBOR Rate plus 1.8% (1.85% at September 30, 2021, respectively). The revolving facility matures in June 2022, but is renewable upon mutual agreement with the lender, and accrues interest at the Bank of England Base Rate plus 3.25% (3.35% as of September 30, 2021). As of September 30, 2021, the revolver had an outstanding balance of GBP 2,234 (\$3,012 as of September 30, 2021), while the term and mortgage loan balances amounted to GBP 13,229 (\$17,837 as of September 30, 2021). The revolver and the term loan are both secured by substantially all of the assets of AMES UK and its subsidiaries. AMES UK is subject to a maximum leverage ratio and a minimum fixed charges cover ratio. An invoice discounting arrangement was canceled and replaced by the above loan facilities.

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

In August 2016 and as amended on June 30, 2017, Griffon’s ESOP entered into a Term Loan with a bank (the “ESOP Agreement”). The Term Loan interest rate was LIBOR plus 3.00%. The Term Loan required quarterly principal payments of \$569 with a balloon payment due at maturity. The Term Loan was secured by shares purchased with the proceeds of the loan and with a lien on a specific amount of Griffon assets (which ranked pari passu with the lien granted on such assets under the Credit Agreement) and was guaranteed by Griffon. On March 13, 2019, the ESOP Term Loan was refinanced with an internal loan from Griffon which was funded with cash and a draw under its Credit Agreement. The internal loan interest rate is fixed at 2.91%, matures in June 2033 and requires quarterly payments of principal, currently \$620, and interest. The internal loan is secured by shares purchased with the proceeds of the loan. The amount outstanding on the internal loan at September 30, 2021 was \$27,368.

### **Capital Resource Requirements**

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 UK and Australia businesses, and a manufacturing facility in China. The project is expected to be completed by the end of calendar year 2023. For additional information, see CPP reportable segments discussion.

Griffon’s debt requirements include principal on our outstanding debt, most notably our Senior Notes totaling \$1,000,000 payable in 2028 and related annual interest payments of approximately \$57,500.

Griffon’s purchase obligations, which are generally for the purchase of goods and services in the ordinary course of business over the next twelve months is approximately \$255,661. Griffon uses blanket purchase orders to communicate expected requirements to certain vendors. Purchase obligations reflect those purchase orders in which the commitment is considered to be firm.

Griffon rents real property and equipment under operating leases expiring at various dates. Operating lease obligations over the next twelve months is approximately \$36,109. Refer to Note 21—Leases.

### **Customers**

A small number of customers account for, and are expected to continue to account for, a substantial portion of Griffon's consolidated revenue. In 2021, Home Depot represented 19% of Griffon's consolidated revenue, 26% of CPP's revenue and 10% of HBP's revenue.

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

### **Off-Balance Sheet Arrangements**

Except for purchase obligations as disclosed herein, Griffon is not a party to any off-balance sheet arrangements.

### **SUPPLEMENTAL GUARANTOR FINANCIAL INFORMATION**

Griffon's Senior Notes are fully and unconditionally guaranteed, jointly and severally by Clopay Corporation, Telephonics Corporation, The AMES Companies, Inc., ATT Southern LLC, Clopay AMES Holding Corp., ClosetMaid LLC, 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 September 30, 2021 and September 30, 2020 and for the years ended September 30, 2021 and 2020. 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 Year Ended September 30, 2021		For the Year Ended September 30, 2020	
	Parent Company	Guarantor Companies	Parent Company	Guarantor Companies
Net sales.....	\$ —	\$1,991,434	\$ —	\$1,938,972
Gross profit.....	\$ —	\$ 497,829	\$ —	\$ 488,048
Income (loss) from operations.....	\$(22,321)	\$ 132,870	\$(24,876)	\$ 130,147
Equity in earnings of Guarantor subsidiaries .....	\$ 79,055	\$ —	\$ 58,455	\$ —
Net income (loss).....	\$(40,035)	\$ 79,055	\$(48,546)	\$ 58,455

## Summarized Balance Sheet Information

	For the Year Ended September 30, 2021		For the Year Ended September 30, 2020	
	Parent Company	Guarantor Companies	Parent Company	Guarantor Companies
Current assets.....	\$ 114,377	\$ 951,609	\$ 140,003	\$ 776,069
Non-current assets .....	17,665	1,069,540	23,069	1,046,225
Total assets.....	<u>\$ 132,042</u>	<u>\$2,021,149</u>	<u>\$ 163,072</u>	<u>\$1,822,294</u>
Current liabilities .....	\$ 41,334	\$ 397,121	\$ 39,130	\$ 296,293
Long-term debt.....	998,787	14,482	995,636	15,992
Other liabilities.....	43,337	164,122	38,024	195,792
Total liabilities.....	<u>\$1,083,458</u>	<u>\$ 575,725</u>	<u>\$1,072,790</u>	<u>\$ 508,077</u>

## **CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

The preparation of Griffon's consolidated financial statements in conformity with accounting principles generally accepted in the U.S. 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.

An estimate is considered to be critical if it is subjective and if changes in the estimate using different assumptions would result in a material impact on Griffon's financial position or results of operations. The following have been identified as the most critical accounting policies and estimates:

### **Revenue Recognition**

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).

A contract's transaction price is allocated to each distinct performance obligation and recognized as revenue when each performance obligation is satisfied. A majority of the Company's contracts have a single performance obligation which represents, in most cases, the product being sold to the customer. To a lesser extent, some contracts include multiple performance obligations such as a product, the related installation, and extended warranty services. These contracts require judgment in determining the number of performance obligations. For contracts with multiple performance obligations, judgment is required to determine whether performance obligations specified in these contracts are distinct and should be accounted for as separate revenue transactions for recognition purposes. In these types of contracts, the Company allocates the total transaction price to each performance obligation in an amount based on the estimated relative standalone selling prices of the promised goods or services underlying each performance obligation. The Company uses an observable price to determine the stand-alone selling price for separate performance obligations or a cost plus margin approach when one is not available. The transaction price includes variable consideration, such as discounts and volume rebates, when it is probable that a significant reversal of revenue recognized will not occur. Variable consideration is determined using either the expected value or the most likely amount of consideration to be received based on historical experience and the specific facts and circumstances at the time of evaluation.

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.

A majority of the Company's revenue is short cycle in nature with shipments occurring within one year from order and does not include a material long-term financing component, implicitly or explicitly. Payment terms generally range between 15 to 90 days and vary by the location of the business, the type of products manufactured to be sold and the volume of products sold, among other factors.

The Company recognizes revenue from product sales when all factors are met, including when control of a product transfers to the customer upon its shipment, completion of installation, testing, certification or other substantive acceptance required under the contract. Other than standard product warranty provisions, sales arrangements provide for no other significant post-shipment obligations on the Company. From time-to-time and for certain customers, rebates and other sales incentives, promotional allowances or discounts are offered, typically related to customer purchase volumes, all of which are fixed or determinable and are classified as a reduction of revenue and recorded at the time of sale. Griffon provides for sales returns and allowances based upon historical returns experience. The Company includes shipping costs billed to customers in revenue and the related shipping costs in either Cost of Goods and Services and Selling, general and administrative expenses, as applicable.

The majority of the Company's contracts offer assurance-type warranties in connection with the sale of a product to a customer. Assurance-type warranties provide a customer with assurance that the related product will function as the parties intended because it complies with agreed-upon specifications. Such warranties do not represent a separate performance obligation.

Payment terms vary depending on the type and location of the customer and the products or services offered. Generally, the period between the time revenue is recognized and the time payment is due is not significant. Shipping and handling charges are not considered a separate performance obligation. Additionally, all taxes assessed by a governmental authority that are both imposed on and concurrent with a specific revenue-producing transaction and collected from a customer (e.g., sales, use, value added, and some excise taxes) are excluded from revenue.

## **Inventories**

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

Griffon's businesses typically do not require inventory that is susceptible to becoming obsolete or dated. In general, HBP produces residential and commercial sectional garage doors, commercial rolling steel door and grille products, and CPP produces long-handled tools and landscaping products, and storage and organizational products, both in response to orders from customers of retailers and dealers or based on expected orders, as applicable.

### **Warranty Accruals**

Direct customer and end-user warranties are provided on certain products. These warranties cover manufacturing defects that would prevent the product from performing in line with its intended and marketed use. The terms of such warranties vary by product line and generally provide for the repair or replacement of the defective product. Warranty claims data is collected and analyzed with a focus on the historical amount of claims, the products involved, the amount of time between the warranty claims and the products' respective sales and the amount of current sales. Based on such analysis, warranty accruals are recorded as an increase to cost of sales and regularly reviewed for adequacy.

### **Stock-based Compensation**

Griffon has issued stock-based compensation to certain employees, officers and directors in the form of restricted stock and restricted stock units.

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 or units, the likelihood of achieving the performance criteria. For certain restricted stock grants with a performance metric related to Griffon's stock price, the company performs a valuation as of the date of grant and recognizes the expense over the vesting period. The Company recognizes forfeitures as they occur.

### **Expected Loss Allowances for Discount, Doubtful Account and Returns**

Trade receivables are recorded at their stated amount, less allowances for discounts, doubtful accounts and returns. The expected loss allowance represents 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 expected loss allowance for doubtful accounts 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 doubtful accounts is recorded in SG&A expenses.

### **Acquisitions**

Acquired businesses are accounted for using the acquisition method of accounting which requires, among other things, that most assets acquired and liabilities assumed be recognized at their fair values as of the acquisition date and that the fair value of acquired in-process research and development be recorded on the balance sheet. Related transaction costs are expensed as incurred. Any excess of the purchase price over the assigned values of the net assets acquired is recorded as goodwill.

### **Goodwill, Long-Lived Intangible and Tangible Assets, and Impairment**

Griffon has significant intangible and tangible long-lived assets on its balance sheet that includes goodwill and other intangible assets related to acquisitions. Goodwill represents the excess of the cost of net assets acquired in business combinations over the fair value of the identifiable tangible and intangible assets acquired and liabilities assumed in a business combination. We review goodwill and

indefinite-lived intangibles for impairment at least annually in the fourth quarter, or more frequently whenever events or circumstances change that would more likely than not reduce the fair value of a reporting unit below the carrying amount. Such events or changes in circumstance include significant deterioration in overall economic conditions, changes in the business climate in which our reporting units operate, a decline in our market capitalization, operating performance indicators, when some portion of a reporting unit is disposed of or classified as held for sale, or when a change in the composition of reporting units occurs for other reasons, such as a change in operating segments.

We had two reporting units as of September 30, 2021 and three reporting units as of September 30, 2020, which are our operating segments. The change in reporting units was a result of classifying our Defense Electronics segment as a discontinued operation as of September 30, 2021. We use both qualitative and quantitative approaches when testing goodwill and indefinite-lived intangibles for impairment. When determining the approach to use, we consider the current facts and circumstances of each reporting unit, as well as the excess of each reporting unit's estimated fair value over its carrying value based on our most recent quantitative assessment. In addition, our qualitative approach evaluates industry and market conditions and various events impacting a reporting unit including, but not limited to, macroeconomic conditions, changes in the business environment in which our reporting units operate and other reporting unit specific events and circumstances. If, based on the qualitative assessment, we determine that it is more likely than not that the fair value of a reporting unit is greater than its carrying value, then a quantitative assessment is not necessary. However, if a quantitative assessment is necessary, we use the income approach methodology of valuation that includes the present value of expected future cash flows.

We performed a quantitative annual impairment test as of September 30, 2019, and a quantitative impairment test as of March 31, 2020, to assess the impact of the global outbreak of COVID-19, using discounted future cash flows for each reporting unit, which did not result in impairments to goodwill. The more significant assumptions used for the impairment test as of March 31, 2020 were a five-year cash flow projection and a 3.0% terminal value to which discount rates between 7.1% and 9.0% were applied to calculate each unit's fair value. To substantiate fair values derived from the income approach methodology of valuation, the implied fair value was compared to the marketplace fair value of a comparable industry grouping for reasonableness. Further, the fair values were reconciled to Griffon's market capitalization.

We performed a qualitative assessment as of September 30, 2021 and 2020, as the estimated fair values of each reporting unit significantly exceeded the carrying value based on our most recent quantitative assessment, which was performed as of March 31, 2020. Our qualitative assessment determined that indicators that the fair value of each reporting unit was less than the carrying value were not present. In addition, we performed a qualitative assessment as of September 30, 2021 of the Defense Electronics discontinued operation goodwill and determined that an indicator that the fair value was less than the carrying value of the business was not present.

With respect to indefinite-lived intangibles we performed a quantitative annual impairment test as of September 30, 2019, and a quantitative impairment test as of March 31, 2020, to assess the impact of the global outbreak of COVID-19, using a relief from royalty method, neither of which resulted in an impairment. We performed a qualitative assessment as of September 30, 2021 and 2020 considering all the above factors and determined that indefinite-lived intangibles fair values were greater than their book values.

Long-lived amortizable intangible assets, such as customer relationships and software, and tangible assets, primarily property, plant and equipment, are amortized over their expected useful lives, which involve significant assumptions and estimates. Long-lived intangible and tangible assets are tested for impairment by comparing estimated future undiscounted cash flows to the carrying value of the asset when an impairment indicator, such as change in business, customer loss or obsolete technology, exists.

Fair value estimates are based on assumptions believed to be reasonable at the time, but such assumptions are subject to inherent uncertainty. Actual results may differ materially from those estimates. Any changes in key assumptions or management judgment with respect to a reporting unit or

its prospects, which may result from a decline in Griffon's stock price, a change in market conditions, market trends, interest rates or other factors outside of Griffon's control, or significant under-performance relative to historical or projected future operating results, could result in a significantly different estimate of the fair value of Griffon's reporting units, which could result in an impairment charge in the future.

## **Leases**

On October 1, 2019, the Company adopted the Accounting Standards Codifications ("ASC") Topic 842, Leases, which requires the recording of operating lease Right-of-Use ("ROU") assets and operating lease liabilities. Finance leases were not impacted by the adoption of ASC Topic 842, as finance lease liabilities and the corresponding assets were already recorded in the balance sheet under the previous guidance, ASC Topic 840. The Company has elected the package of practical expedients permitted under the transition guidance within the new standard, which among other things, allows us to carry forward the historical lease classification. We also elected a practical expedient to determine the reasonably certain lease term.

The Company applied the modified retrospective approach, whereby the cumulative effect of adoption is recognized as of the date of adoption and comparative prior periods are not retrospectively adjusted. As a result, upon adoption, we recognized ROU assets of \$163,552 and lease liabilities of \$163,676 associated with our operating leases. The standard had no material impact to retained earnings or on our Consolidated Statements of Income or Consolidated Statements of Cash Flows.

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. 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. For leases existing as of October 1, 2019, we have elected to use the remaining lease term as of the adoption date in determining the incremental borrowing rate. 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.

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 Consolidated Balance Sheets. Finance leases are included in property, plant, and equipment, net, other accrued liabilities, and other non-current liabilities.

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 Consolidated Balance Sheets. Variable lease cost for both operating and finance leases, if any, is recognized as incurred. The Company has lease agreements that contain both lease and non-lease components. For real estate leases, we account for lease components together with non-lease components (e.g., common-area maintenance).

## **Restructuring Reserves**

From time to time, Griffon will establish restructuring reserves at an operation. These reserves, for both termination and facility related exit costs, require the use of estimates. Though Griffon believes the estimates made are reasonable, they could differ materially from the actual costs.

## **Income Taxes**

Griffon's effective tax rate is based on income, statutory tax rates and tax planning opportunities available in the various jurisdictions in which Griffon operates. For interim financial reporting, the annual tax rate is estimated based on projected taxable income for the full year, and a quarterly income tax provision is recorded in accordance with the anticipated annual rate. As the year progresses, the annual tax rate is refined as new information becomes available, including year-to-date financial results. This process often results in changes to the effective tax rate throughout the year. Significant judgment is required in determining the effective tax rate and in evaluating tax positions.

Deferred tax assets and liabilities are recognized based on the differences between the financial statement carrying amounts and the tax basis of assets and liabilities. Deferred tax assets represent items to be used as a tax deduction or credit in future tax returns for which a tax benefit has been recorded in the income statement. The Company assesses whether a valuation allowance should be established against its deferred tax assets based on consideration of all available evidence, both positive and negative, using a more likely than not standard. This assessment considers, among other matters, the nature, frequency and severity of recent losses; a forecast of future profitability; the duration of statutory carryback and carryforward periods; the Company's experience with tax attributes expiring unused; and tax planning alternatives. The likelihood that the deferred tax asset balance will be recovered from future taxable income is assessed at least quarterly, and the valuation allowance, if any, is adjusted accordingly.

Tax benefits are recognized for an uncertain tax position when, in management's judgment, it is more likely than not that the position will be sustained upon examination by a taxing authority. For a tax position that meets the more-likely-than-not recognition threshold, the tax benefit is measured as the largest amount that is judged to have a greater than 50% likelihood of being realized upon ultimate settlement with a taxing authority. The liability associated with unrecognized tax benefits is adjusted periodically due to changing circumstances, such as the progress of tax audits, case law developments and new or emerging legislation. Such adjustments are recognized in the period in which they are identified. The effective tax rate includes the net impact of changes in the liability for unrecognized tax benefits and subsequent adjustments as considered appropriate by management. A number of years may elapse before a particular matter for which Griffon has recorded a liability related to an unrecognized tax benefit is audited and finally resolved. The number of years with open tax audits varies by jurisdiction. While it is often difficult to predict the final outcome or the timing of resolution of any particular tax matter, Griffon believes its liability for unrecognized tax benefits is adequate. Favorable resolution of an unrecognized tax benefit could be recognized as a reduction in Griffon's tax provision and effective tax rate in the period of resolution. Unfavorable settlement of an unrecognized tax benefit may require the use of cash in the period of resolution. The liability for unrecognized tax benefits is generally presented as non-current. However, if it is anticipated that a cash settlement will occur within one year, that portion of the liability is presented as current. Interest and penalties recognized on the liability for unrecognized tax benefits is recorded as income tax expense.

## **Pension Benefits**

Griffon sponsors defined and supplemental benefit pension plans for certain active and retired employees. Annual amounts relating to these plans are recorded based on actuarial projections, which include various actuarial assumptions, including discount rates, assumed rates of return, compensation increases and turnover rates. The actuarial assumptions used to determine pension liabilities, assets and expense are reviewed annually and modified based on current economic conditions and trends. The expected return on plan assets is determined based on the nature of the plans' investments and expectations for long-term rates of return. The discount rate used to measure obligations is based on a corporate bond spot-rate yield curve that matches projected future benefit payments, with the appropriate spot rate applicable to the timing of the projected future benefit payments. Assumptions used in determining Griffon's obligations under the defined benefit pension plans are believed to be reasonable, based on experience and advice from independent actuaries; however, differences in actual



experience or changes in the assumptions may materially affect Griffon's financial position or results of operations.

All of the defined benefit plans are frozen and have ceased accruing benefits.

### **New Accounting Standards**

For a discussion of the new accounting standards impacting the Company, see Note 1 to the Consolidated Financial Statements.

### **Item 7A. Quantitative and Qualitative Disclosures About Market Risk**

#### **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.

The revolving credit facility and certain other of Griffon's credit facilities have a LIBOR- and EURIBOR- based variable interest rate. Due to the current and expected level of borrowings under these facilities, a 100 basis point change in LIBOR or EURIBOR would not have a material impact on Griffon's results of operations or liquidity.

#### **Foreign Exchange**

Griffon conducts business in various non-U.S. countries, primarily in Canada, Australia, United Kingdom, Ireland, New Zealand and China; therefore, changes in the value of the currencies of these countries affect the financial position and cash flows when translated into U.S. Dollars. Griffon has generally accepted the exposure to exchange rate movements relative to its non-U.S. 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 8. Financial Statements and Supplementary Data**

The financial statements of Griffon and its subsidiaries and the report thereon of Grant Thornton LLP are included herein:

- Report of Independent Registered Public Accounting Firm.
- Consolidated Balance Sheets at September 30, 2021 and 2020.
- Consolidated Statements of Operations and Comprehensive Income (Loss) for the years ended September 30, 2021, 2020 and 2019.
- Consolidated Statements of Cash Flows for the years ended September 30, 2021, 2020 and 2019.
- Consolidated Statements of Shareholders' Equity for the years ended September 30, 2021, 2020 and 2019.
- Notes to Consolidated Financial Statements.
- Schedule II—Valuation and Qualifying Account.

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders  
**Griffon Corporation**

### **Opinions on the financial statements and internal control over financial reporting**

We have audited the accompanying consolidated balance sheets of Griffon Corporation (a Delaware corporation) and subsidiaries (the “Company”) as of September 30, 2021 and 2020, and the related consolidated statements of operations and comprehensive income, changes in shareholders’ equity, and cash flows for each of the three years in the period ended September 30, 2021, and the related notes and financial statement schedule included under Item 15(a) (collectively referred to as the “financial statements”). We also have audited the Company’s internal control over financial reporting as of September 30, 2021, based on criteria established in the 2013 *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”).

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of September 30, 2021 and 2020, and the results of its operations and its cash flows for each of the three years in the period ended September 30, 2021 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of September 30, 2021, based on criteria established in the 2013 *Internal Control—Integrated Framework* issued by COSO.

### **Basis for opinions**

The Company’s management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company’s financial statements and an opinion on the Company’s internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the financial statements included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

### **Definition and limitations of internal control over financial reporting**

A company’s internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

### **Critical audit matters**

The critical audit matters communicated below are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements; and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

#### *Revenue from Customer Contracts—Discontinued Defense Electronics Segment*

As described further in note 2 to the consolidated financial statements, the Company's discontinued Defense Electronics segment earns its revenue as either a prime contractor or subcontractor from contract awards with the U.S. Government, as well as foreign governments and other commercial contracts. Such contracts are typically long-term in nature and revenue and profits are recognized over time, primarily under fixed-price arrangements, which are determined using a cost-to-cost method of accounting. Using the cost-to-cost method, revenue is recorded at amounts equal to the ratio of actual cumulative costs incurred divided by total estimated costs at completion, multiplied by the total estimated contract revenue, less the cumulative revenue recognized in prior periods. The profit recorded on a contract using this method is equal to the current estimated total profit margin multiplied by the cumulative revenue recognized, less the amount of cumulative profit previously recorded for the contract in prior periods. This method relies on substantial use of estimates. These estimations require the Company to have effective cost estimation processes, forecasting, and revenue and expense reporting. Due to these aspects, this issue was considered a critical audit matter.

The principal consideration for our determination that Defense Electronics revenue and gross profit recognition is a critical audit matter is that significant management judgments and estimates are utilized to determine probable costs at contract completion and are subject to estimation uncertainty and require significant auditor subjectivity in evaluating those judgments and estimates.

Our audit procedures related to Defense Electronics revenue recognition included the following. We tested the design and operating effectiveness of controls relating to the cost accumulation, cost estimation and revenue recognition processes, including the Company's ability to develop the estimates utilized in determining costs at completion. We inspected a selection of contracts and evaluated those contracts for appropriate revenue recognition and consideration over key terms and provisions. We analyzed trends in revenue, costs and margin on all contracts, on a contract-by-contract basis, both year-over-year and since contract inception to assess the historical accuracy of management's estimates in the final outcomes of projects. We assessed the appropriateness of adjustments to estimates on a cumulative basis for the year ended September 30, 2021 and their impact on the financial statements. We tested the cost accumulation process by obtaining and inspecting underlying documents for a sample of labor,

material costs and overhead and agreeing to amounts recorded by the Company. We also recalculated revenue and gross profit recognized for the year ended September 30, 2021, for a selection of contracts, to test the accuracy of amounts recognized.

/s/ GRANT THORNTON LLP

We have served as the Company's auditor since 2006.

New York, New York

November 16, 2021

## GRIFFON CORPORATION AND SUBSIDIARIES

### CONSOLIDATED BALANCE SHEETS

(in thousands, except per share data)

	At September 30, 2021	At September 30, 2020
<b>CURRENT ASSETS</b>		
Cash and equivalents .....	\$ 248,653	\$ 218,089
Accounts receivable, net of allowances of \$8,787 and \$8,178 .....	294,804	278,420
Inventories.....	472,794	320,188
Prepaid and other current assets.....	76,009	41,514
Assets of discontinued operations held for sale .....	273,414	245,726
Assets of discontinued operations not held for sale.....	605	2,091
Total Current Assets .....	1,366,279	1,106,028
PROPERTY, PLANT AND EQUIPMENT, net .....	292,622	297,084
OPERATING LEASE RIGHT-OF-USE ASSETS.....	144,598	154,349
GOODWILL.....	426,148	424,098
INTANGIBLE ASSETS, net.....	350,025	354,202
OTHER ASSETS.....	21,589	26,474
ASSETS OF DISCONTINUED OPERATIONS HELD FOR SALE.....	—	79,952
ASSETS OF DISCONTINUED OPERATIONS.....	3,424	6,406
Total Assets.....	\$2,604,685	\$2,448,593
<b>CURRENT LIABILITIES</b>		
Notes payable and current portion of long-term debt.....	\$ 12,486	\$ 9,922
Accounts payable.....	260,140	172,537
Accrued liabilities .....	145,101	143,971
Current portion of operating lease liabilities.....	29,881	29,672
Liabilities of discontinued operations held for sale .....	80,748	81,923
Liabilities of discontinued operations .....	3,280	3,797
Total Current Liabilities.....	531,636	441,822
LONG-TERM DEBT, net .....	1,033,197	1,037,042
LONG-TERM OPERATING LEASE LIABILITIES.....	119,315	130,588
OTHER LIABILITIES .....	109,585	121,538
LIABILITIES OF DISCONTINUED OPERATIONS HELD FOR SALE ..	—	10,438
LIABILITIES OF DISCONTINUED OPERATIONS.....	3,794	7,014
Total Liabilities .....	1,797,527	1,748,442
<b>COMMITMENTS AND CONTINGENCIES – See Note 16</b>		
<b>SHAREHOLDERS' EQUITY</b>		
Preferred stock, par value \$0.25 per share, authorized 3,000 shares, no shares issued .....	—	—
Common stock, par value \$0.25 per share, authorized 85,000 shares, issued shares of 84,375 and 83,739, respectively .....	21,094	20,935
Capital in excess of par value .....	602,181	583,008
Retained earnings .....	669,998	607,518
Treasury shares, at cost, 27,762 common shares and 27,610 common shares, respectively.....	(416,850)	(413,493)
Accumulated other comprehensive loss .....	(45,977)	(72,092)
Deferred compensation .....	(23,288)	(25,725)
Total Shareholders' Equity .....	807,158	700,151
Total Liabilities and Shareholders' Equity .....	\$2,604,685	\$2,448,593

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

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

	Years Ended September 30,		
	2021	2020	2019
Revenue .....	\$2,270,626	\$2,066,546	\$1,874,248
Cost of goods and services.....	1,629,513	1,482,552	1,357,403
Gross profit .....	641,113	583,994	516,845
Selling, general and administrative expenses .....	470,530	444,454	408,339
Income from continuing operations .....	170,583	139,540	108,506
Other income (expense)			
Interest expense .....	(63,175)	(66,544)	(68,312)
Interest income.....	440	749	799
Loss from debt extinguishment.....	—	(7,925)	—
Other, net.....	3,331	2,885	5,230
Total other income (expense).....	(59,404)	(70,835)	(62,283)
Income before taxes from continuing operations.....	111,179	68,705	46,223
Provision for income taxes.....	39,940	26,262	20,753
Income from continuing operations .....	71,239	42,443	25,470
Discontinued operations:			
Income before tax from discontinued operations .....	8,897	14,052	14,905
Provision for income taxes .....	925	3,066	3,088
Income from discontinued operations.....	7,972	10,986	11,817
Net income .....	<u>\$ 79,211</u>	<u>\$ 53,429</u>	<u>\$ 37,287</u>
Basic earnings per common share:			
Income from continuing operations .....	\$ 1.40	\$ 1.00	\$ 0.62
Income from discontinued operations .....	0.16	0.26	0.29
Basic earnings per common share.....	<u>\$ 1.56</u>	<u>\$ 1.25</u>	<u>\$ 0.91</u>
Weighted-average shares outstanding .....	<u>50,830</u>	<u>42,588</u>	<u>40,934</u>
Diluted earnings per common share:			
Income from continuing operations .....	\$ 1.33	\$ 0.94	\$ 0.59
Income from discontinued operations .....	0.15	0.24	0.28
Diluted earnings per common share .....	<u>\$ 1.48</u>	<u>\$ 1.19</u>	<u>\$ 0.87</u>
Weighted-average shares outstanding .....	<u>53,369</u>	<u>45,015</u>	<u>42,888</u>
Net income .....	\$ 79,211	\$ 53,429	\$ 37,287
Other comprehensive income (loss), net of taxes:			
Foreign currency translation adjustments.....	6,433	5,601	(8,460)
Pension and other post retirement plans .....	17,796	(11,784)	(23,055)
Gain (loss) on cash flow hedge .....	1,886	7	(289)
Total other comprehensive income (loss), net of taxes.....	26,115	(6,176)	(31,804)
Comprehensive income .....	<u>\$ 105,326</u>	<u>\$ 47,253</u>	<u>\$ 5,483</u>

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

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

	<u>Years Ended September 30,</u>		
	<u>2021</u>	<u>2020</u>	<u>2019</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES - CONTINUING OPERATIONS:</b>			
Net income .....	\$ 79,211	\$ 53,429	\$ 37,287
Net income from discontinued operations.....	(7,972)	(10,986)	(11,817)
Adjustments to reconcile net income to net cash provided by operating activities of continuing operations:			
Depreciation and amortization.....	52,302	52,100	51,517
Stock-based compensation .....	20,088	17,580	15,914
Asset impairment charges - restructuring .....	6,655	4,692	—
Provision for losses on accounts receivable .....	501	1,332	535
Amortization of deferred financing costs and debt discounts.....	2,640	3,661	5,393
Loss from debt extinguishment .....	—	7,925	—
Deferred income tax .....	13,763	2,122	(5,465)
(Gain)/ loss on sale/disposal of assets and investments.....	231	(287)	(179)
Change in assets and liabilities, net of assets and liabilities acquired:			
(Increase) decrease in accounts receivable.....	(7,002)	(72,565)	13,422
(Increase) decrease in inventories .....	(154,515)	23,262	(31,775)
Increase in prepaid and other assets.....	(9,598)	(15,878)	(4,456)
Increase in accounts payable, accrued liabilities and income taxes payable .....	72,894	40,399	19,615
Other changes, net .....	1,834	1,017	355
Net cash provided by operating activities - continuing operations.....	<u>71,032</u>	<u>107,803</u>	<u>90,346</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES - CONTINUING OPERATIONS:</b>			
Acquisition of property, plant and equipment .....	(36,951)	(41,168)	(34,869)
Acquired business, net of cash acquired.....	(2,242)	(10,531)	(9,219)
Investment purchases.....	(17,211)	(130)	(149)
Payments from sale of business .....	—	—	(9,500)
Insurance payments .....	—	—	(10,604)
Proceeds from sale of property, plant and equipment .....	237	352	280
Net cash used in investing activities - continuing operations .....	<u>(56,167)</u>	<u>(51,477)</u>	<u>(64,061)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES - CONTINUING OPERATIONS:</b>			
Proceeds from issuance of common stock .....	—	178,165	—
Dividends paid .....	(17,139)	(14,529)	(13,676)
Purchase of shares for treasury.....	(3,357)	(7,479)	(1,478)
Proceeds from long-term debt.....	20,912	1,240,080	201,748
Payments of long-term debt .....	(27,833)	(1,308,915)	(218,248)
Change in short-term borrowings.....	—	—	(366)
Financing costs .....	(571)	(17,384)	(1,090)
Contingent consideration for acquired businesses.....	—	(1,733)	(1,686)
Other, net .....	(257)	(15)	(180)
Net cash provided by (used) in financing activities - continuing operations ..	<u>(28,245)</u>	<u>68,190</u>	<u>(34,976)</u>
<b>CASH FLOWS FROM DISCONTINUED OPERATIONS:</b>			
Net cash provided by operating activities.....	40,737	26,206	21,489
Net cash provided by (used in) investing activities.....	6,751	(7,387)	(10,492)
Net cash provided by discontinued operations .....	47,488	18,819	10,997
Effect of exchange rate changes on cash and equivalents .....	(3,544)	2,377	313
<b>NET INCREASE IN CASH AND EQUIVALENTS .....</b>	<b>30,564</b>	<b>145,712</b>	<b>2,619</b>
<b>CASH AND EQUIVALENTS AT BEGINNING OF PERIOD .....</b>	<b>218,089</b>	<b>72,377</b>	<b>69,758</b>
<b>CASH AND EQUIVALENTS AT END OF PERIOD .....</b>	<b><u>\$ 248,653</u></b>	<b><u>\$ 218,089</u></b>	<b><u>\$ 72,377</u></b>
<b>Supplemental Disclosure of Cash Flow Information:</b>			
Cash paid for interest .....	\$ 60,781	\$ 63,139	\$ 63,580
Cash paid for taxes.....	41,216	21,016	25,339

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

**GRIFFON CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**  
(in thousands)

(in thousands)	Common Stock		Capital in Excess of Par Value	Retained Earnings	Treasury Shares		Accumulated Other Comprehensive Income (Loss)	Deferred Compensation	Total
	Shares	Par Value			Shares	Cost			
<b>Balance at 9/30/2018</b> .....	81,520	\$20,380	\$503,396	\$550,523	35,846	\$(534,830)	\$(34,112)	\$(30,966)	\$474,391
Net income.....	—	—	—	37,287	—	—	—	—	37,287
Cumulative catch-up adjustment related to adoption of ASC 606..	—	—	—	(5,618)	—	—	—	—	(5,618)
Dividends.....	—	—	—	(13,676)	—	—	—	—	(13,676)
Shares withheld on employee taxes on vested equity awards ..	—	—	—	—	86	(1,106)	—	—	(1,106)
Amortization of deferred compensation.....	—	—	—	—	—	—	—	2,726	2,726
Common stock acquired.	—	—	—	—	37	(372)	—	—	(372)
Equity awards granted, net .....	1,255	314	(314)	—	—	—	—	—	—
ESOP allocation of common stock.....	—	—	1,512	—	—	—	—	—	1,512
Stock-based compensation.....	—	—	13,285	—	—	—	—	—	13,285
Stock-based consideration.....	—	—	1,138	—	—	—	—	—	1,138
Other comprehensive loss, net of tax .....	—	—	—	—	—	—	(31,804)	—	(31,804)
<b>Balance at 9/30/2019</b> .....	82,775	\$20,694	\$519,017	\$568,516	35,969	\$(536,308)	\$(65,916)	\$(28,240)	\$477,763
Net income.....	—	—	—	53,429	—	—	—	—	53,429
Dividends.....	—	—	—	(14,427)	—	—	—	—	(14,427)
Shares withheld on employee taxes on vested equity awards ..	—	—	—	—	341	(7,479)	—	—	(7,479)
Amortization of deferred compensation.....	—	—	—	—	—	—	—	2,515	2,515
Common stock issued, net of issuance costs...	—	—	46,900	—	(8,700)	130,294	—	—	177,194
Equity awards granted, net .....	964	241	(241)	—	—	—	—	—	—
ESOP allocation of common stock.....	—	—	1,985	—	—	—	—	—	1,985
Stock-based compensation.....	—	—	14,702	—	—	—	—	—	14,702
Stock-based consideration.....	—	—	645	—	—	—	—	—	645
Other comprehensive loss, net of tax .....	—	—	—	—	—	—	(6,176)	—	(6,176)
<b>Balance at 9/30/2020</b> .....	83,739	\$20,935	\$583,008	\$607,518	27,610	\$(413,493)	\$(72,092)	\$(25,725)	\$700,151
Net income.....	—	—	—	79,211	—	—	—	—	79,211
Dividends.....	—	—	—	(16,731)	—	—	—	—	(16,731)
Shares withheld on employee taxes on vested equity awards ..	—	—	—	—	152	(3,357)	—	—	(3,357)
Amortization of deferred compensation.....	—	—	—	—	—	—	—	2,437	2,437
Equity awards granted, net .....	636	159	(159)	—	—	—	—	—	—
ESOP allocation of common stock.....	—	—	2,922	—	—	—	—	—	2,922
Stock-based compensation.....	—	—	16,410	—	—	—	—	—	16,410
Other comprehensive income, net of tax.....	—	—	—	—	—	—	26,115	—	26,115
<b>Balance at 9/30/2021</b> .....	<u>84,375</u>	<u>\$21,094</u>	<u>\$602,181</u>	<u>\$669,998</u>	<u>27,762</u>	<u>\$(416,850)</u>	<u>\$(45,977)</u>	<u>\$(23,288)</u>	<u>\$807,158</u>

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



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

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

**NOTE 1—DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Description of business**

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 September 27, 2021, Griffon announced it is exploring strategic alternatives, including a sale, for its Defense Electronics segment, which consists of its Telephonics Corporation subsidiary. As a result, 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 as held for sale in the consolidated balance sheets. Accordingly, all references made to results and information in this Annual Report on Form 10-K are to Griffon's continuing operations, unless specifically noted. Telephonics is recognized globally as a leading provider of highly sophisticated intelligence, surveillance and communications solutions that are deployed across a wide range of land, sea and air applications. Telephonics designs, develops, manufactures and provides logistical support and lifecycle sustainment services to defense, aerospace and commercial customers worldwide.

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. Quatro is expected to contribute approximately \$5,000 in annualized revenue in the first twelve months under AMES' ownership.

In August 2020 Griffon Corporation completed the public offering of 8,700,000 shares of our common stock for total net proceeds of \$178,165 (the “Public Offering”). The Company used a portion of the net proceeds to repay outstanding borrowings under its Credit Agreement. The Company intends to use the remainder of the proceeds for general corporate purposes, including to expand its current business through acquisitions of, or investments in, other businesses or products.

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

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,

# GRIFFON CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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

2020, Griffon announced that CPP is broadening this strategic initiative to include additional North American facilities, the AMES UK and Australia businesses, and a manufacturing facility in China.

The expanded focus of this initiative leverages the same three key development areas being executed within our U.S. operations. First, certain AMES global operations will be consolidated to optimize facilities footprint and talent. Second, strategic investments in automation and facilities expansion will be made to increase the efficiency of our manufacturing and fulfillment operations, and support e-commerce growth. Third, multiple independent information systems will be unified into a single data and analytics platform, which will serve the whole AMES global enterprise.

The cost to implement this new business platform, over the duration of the project, will include one-time charges of approximately \$65,000 and capital investments of approximately \$65,000. The one-time charges are comprised of \$46,000 of cash charges, which includes \$26,000 of personnel-related costs such as training, severance, and duplicate personnel costs as well as \$20,000 of facility and lease exit costs. The remaining \$19,000 of charges are non-cash and are primarily related to asset write-downs.

In March 2020, the World Health Organization declared the outbreak of COVID-19 a pandemic, which continues to spread throughout the U.S. and the world. The impact from the rapidly changing U.S. and global market and economic conditions due to the COVID-19 outbreak is uncertain, with disruptions to the business of our customers and suppliers, which has, and could continue, to impact our business and consolidated results of operations and financial condition. As of the date of this filing, all of Griffon's facilities are fully operational. We have 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. In the United States, we manufacture a substantial majority of the products that we sell. While this helps mitigate the effects of global supplier and transportation disruptions, we are still impacted and are unable to accurately predict the impact COVID-19 will have due to numerous uncertainties, including the severity of the disease, the duration of the outbreak, actions that may be taken by governmental authorities, the impact to our customers' and suppliers' businesses and other factors identified in Part 1, Item 1A, "Risk Factors" in this Form 10-K. We will continue to evaluate the nature and extent of the impact to our business, consolidated results of operations, and financial condition.

Griffon currently conducts its operations through two reportable segments:

- Consumer and Professional Products ("CPP") conducts its operations through The AMES Companies, Inc. ("AMES"). Founded in 1774, AMES is the leading North American manufacturer and a global provider of branded consumer and professional tools and products for home storage and organization, landscaping, and enhancing outdoor lifestyles. CPP sells products globally through a portfolio of leading brands including True Temper, AMES, 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 CornellCookson brand.

**GRIFFON CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
(US dollars and non-US currencies in thousands, except per share data)

**Consolidation**

The consolidated financial statements include the accounts of Griffon and all subsidiaries. Intercompany accounts and transactions have been eliminated in consolidation. The results of operations of acquired businesses are included from the dates of acquisitions.

**Earnings per share**

Due to rounding, the sum of earnings per share may not equal earnings per share of Net income.

**Discontinued operations**

For the years ended September 30, 2021, 2020 and 2019, discontinued operations includes the Telephonics business, and the assets and liabilities of discontinued installations business and other discontinued activities which have been segregated from Griffon's continuing operations primarily related to insurance claims, product liability, warranty and environmental reserves. See Note 8, Discontinued Operations.

**Reclassifications**

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

**Use of estimates**

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 doubtful accounts receivable and returns, net realizable value of inventories, restructuring reserves, valuation of goodwill and intangible assets, sales, profits and loss recognition for performance obligations satisfied over time, 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.

**Cash and equivalents**

Griffon considers all highly liquid investments purchased with an initial maturity of three months or less to be cash equivalents. Cash equivalents primarily consist of overnight commercial paper, highly-rated liquid money market funds backed by U.S. Treasury securities and U.S. Agency securities, as well as insured bank deposits. Griffon had cash in non-U.S. bank accounts of approximately \$65,000 and \$55,000 at September 30, 2021 and 2020, respectively. Substantially all U.S. cash and equivalents are in

**GRIFFON CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
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excess of FDIC insured limits. Griffon regularly evaluates the financial stability of all institutions and funds that hold its cash and equivalents.

**Fair value of financial instruments**

The carrying values of cash and cash equivalents, accounts receivable, accounts and notes payable and revolving credit 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 debt is based upon current market rates.

The fair value hierarchy, as outlined in the applicable accounting guidance, establishes a fair value hierarchy that requires 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.

The fair value of Griffon's 2028 Senior Notes approximated \$1,060,000, on September 30, 2021. Fair values were based upon quoted market prices (level 1 inputs).

Insurance contracts with a value of \$3,973 at September 30, 2021 are measured and recorded at fair value based upon quoted prices in active markets for similar assets (level 2 inputs) and are included in Other current assets on the consolidated balance sheet.

*Items Measured at Fair Value on a Recurring Basis*

At September 30, 2021 and 2020, 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 \$16,044 (\$15,050 cost basis) and \$1,703 (\$1,000 cost basis), respectively, were included in Prepaid and other current assets on the Consolidated Balance Sheets.

In the normal course of business, Griffon's operations are exposed to the effect 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. During 2021 and 2020, Griffon entered into several such contracts in order to lock into a foreign currency rate for planned settlements of trade and inter-company liabilities payable in USD.

At September 30, 2021 and 2020, Griffon had \$20,000 and \$32,000 of Australian dollar contracts at a weighted average rate of \$1.27 and \$1.41, respectively, which qualified for hedge accounting. These hedges were all deemed effective as cash flow hedges with gains and losses related to changes in fair value deferred and recorded in Other comprehensive income (loss) and Prepaid and other current assets, or Accrued liabilities, until settlement. Upon settlement, gains and losses were recognized in the

## GRIFFON CORPORATION

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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Consolidated Statements of Operations and Comprehensive Income (Loss) in Cost of goods and services. AOCI included deferred gains of \$1,710 (\$1,197, net of tax) and deferred losses of \$168 (\$109, net of tax) at September 30, 2021 and 2020, respectively. Upon settlement losses of \$(2,204) and \$(2,163) were recognized in the Consolidated Statements of Operations and Comprehensive Income (Loss) in Cost of goods and services (“COGS”) during 2021 and 2020, respectively. Contracts expire in 29 to 90 days.

At September 30, 2021 and 2020, Griffon had \$4,600 and \$7,900, respectively, of Canadian dollar contracts at a weighted average rate of \$1.26 and \$1.32. These contracts, which protect Canadian operations from currency fluctuations for U.S. dollar based purchases, do not qualify for hedge accounting and fair value gains (losses) of \$38 and \$(92) were recorded in Other assets and to Other income for the outstanding contracts, based on similar contract values (level 2 inputs), for the years ended September 30, 2021 and 2020, respectively. Realized (losses) gains of \$(381) and \$189, were recorded in Other income during 2021 and 2020, respectively. Contracts expire in 30 to 360 days.

At September 30, 2021, Griffon did not have Great Britain Pound contracts outstanding and had \$5,400 of Great Britain Pound contracts at a weighted average rate of \$0.77 at September 31, 2020. These contracts, which protect U.K. operations from currency fluctuations for U.S. dollar based purchases, do not qualify for hedge accounting; fair value (losses) gains of \$30 and \$39 were recorded in Other assets and to Other income for the outstanding contracts, based on similar contract values (level 2 inputs), for the years ended September 30, 2021 and September 30, 2020. Realized losses of \$494 were recorded in Other income during the year ended September 30, 2021. There were no realized gains or losses recorded for these contracts during the year ended September 30, 2020.

Pension plan assets with a fair value of \$160,523 at September 30, 2021, are measured and recorded at fair value based upon quoted prices in active markets for identical assets (level 1 inputs), quoted market prices for similar assets (level 2 inputs) and fair value assumptions for unobservable inputs in which little or no market data exists (level 3).

#### **Non-U.S. currency translation**

Assets and liabilities of non-U.S. subsidiaries, where the functional currency is not the U.S. dollar, have been translated at year-end exchange rates and profit and loss accounts have been translated using weighted average exchange rates. Adjustments resulting from currency translation have been recorded in the equity section of the balance sheet in AOCI as cumulative translation adjustments. Cumulative translation adjustments were gains (losses) of \$6,433 and \$5,601 for 2021 and 2020, respectively. As of September 30, 2021 and 2020, the foreign currency translation components of Accumulated other comprehensive loss were \$19,250 and \$25,683, respectively. Assets and liabilities of an entity that are denominated in currencies other than that entity’s functional currency are re-measured into the functional currency using period end exchange rates, or historical rates where applicable to certain balances. Gains and losses arising on remeasurements are recorded within the Consolidated Statement of Operations and Comprehensive Income as a component of Other income (expense).

#### **Revenue recognition**

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

## **GRIFFON CORPORATION**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

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

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.

Refer to Note 2—Revenue for a discussion of our revenue recognition practices for each of our reportable segments.

#### **Accounts receivable, expected loss allowance for doubtful accounts and concentrations of credit risk**

Accounts receivable is composed principally of trade accounts receivable, that arise from the sale of goods or services on account, and is stated at historical cost. A substantial portion of Griffon's trade receivables are from Home Depot, whose financial condition is dependent on the construction and related retail sectors of the economy. As a percentage of consolidated accounts receivable, Home Depot was 19%. Griffon performs continuing evaluations of the financial condition of its customers, and although Griffon generally does not require collateral, letters of credit may be required from customers in certain circumstances.

Trade receivables are recorded at the stated amount, less expected loss allowance for doubtful accounts and, when appropriate, for customer program reserves and cash discounts. The expected loss allowance represents estimated uncollectible receivables associated with potential customer defaults on contractual obligations (usually due to customers' potential insolvency). The expected loss allowance for doubtful accounts includes amounts for certain customers where 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. The provision related to the expected loss allowance for doubtful accounts is recorded in Selling, general and administrative ("SG&A") expenses. The Company writes-off accounts receivable when they are deemed to be uncollectible.

Customer program reserves and cash discounts are netted against accounts receivable when it is customer practice to reduce invoices for these amounts. The amounts netted against accounts receivable in 2021 and 2020 were \$49,833 and \$44,439, respectively.

All accounts receivable amounts are expected to be collected in less than one year.

The Company does not currently have customers or contracts that prescribe specific retainage provisions.

#### **Inventories**

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

Griffon's businesses typically do not require inventory that is susceptible to becoming obsolete or dated. In general, HBP produces residential and commercial sectional garage doors, commercial rolling steel door and grille products, and CPP produces long-handled tools and landscaping products, and storage and organizational products, both in response to orders from customers of retailers and dealers or based on expected orders, as applicable.

# GRIFFON CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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### Property, plant and equipment

Property, plant and equipment includes the historical cost of land, buildings, equipment and significant improvements to existing plant and equipment or, in the case of acquisitions, a fair market value appraisal of such assets completed at the time of acquisition. Expenditures for maintenance, repairs and minor renewals are expensed as incurred. When property or equipment is sold or otherwise disposed of, the related cost and accumulated depreciation is removed from the respective accounts and the gain or loss is recognized. No event or indicator of impairment occurred during the three years ended September 30, 2021, which would require additional impairment testing of property, plant and equipment.

Depreciation expense, which includes amortization of assets under capital leases, was \$42,741, \$42,614 and \$42,124 in 2021, 2020 and 2019, respectively, and was calculated on a straight-line basis over the estimated useful lives of the assets. Depreciation included in SG&A expenses was \$14,362, \$13,944 and \$13,314 in 2021, 2020 and 2019, respectively. The remaining components of depreciation, attributable to manufacturing operations, are included in Cost of goods and services. Estimated useful lives for property, plant and equipment are as follows: buildings and building improvements, 25 to 40 years; machinery and equipment, 2 to 15 years; and leasehold improvements, over the term of the lease or life of the improvement, whichever is shorter.

Capitalized interest costs included in Property, plant and equipment were \$1,592, \$2,098 and \$2,410 for the years ended September 30, 2021, 2020 and 2019, respectively. The original cost of fully-depreciated property, plant and equipment remaining in use at September 30, 2021 was approximately \$261,101.

### Goodwill and indefinite-lived intangibles

Griffon has significant intangible and tangible long-lived assets on its balance sheet that includes goodwill and other intangible assets related to acquisitions. Goodwill represents the excess of the cost of net assets acquired in business combinations over the fair value of the identifiable tangible and intangible assets acquired and liabilities assumed in a business combination. We review goodwill and indefinite-lived intangibles for impairment at least annually in the fourth quarter, or more frequently whenever events or circumstances change that would more likely than not reduce the fair value of a reporting unit below the carrying amount. Such events or changes in circumstance include significant deterioration in overall economic conditions, changes in the business climate in which our reporting units operate, a decline in our market capitalization, operating performance indicators, when some portion of a reporting unit is disposed of or classified as held for sale, or when a change in the composition of reporting units occurs for other reasons, such as a change in operating segments.

We had two reporting units as of September 30, 2021 and three reporting units as of September 30, 2020, which are our operating segments. The change in reporting units was a result of classifying our Defense Electronics segment as a discontinued operation as of September 30, 2021. We use both qualitative and quantitative approaches when testing goodwill and indefinite-lived intangibles for impairment. When determining the approach to use, we consider the current facts and circumstances of each reporting unit, as well as the excess of each reporting unit's estimated fair value over its carrying value based on our most recent quantitative assessment. In addition, our qualitative approach evaluates industry and market conditions and various events impacting a reporting unit including, but not limited to, macroeconomic conditions, changes in the business environment in which our reporting units operate and other reporting unit specific events and circumstances. If, based on the qualitative assessment, we determine that it is more likely than not that the fair value of a reporting unit is greater than its carrying value, then a quantitative assessment is not necessary. However, if a quantitative assessment is necessary, we use the income approach methodology of valuation that includes the present value of expected future cash flows.

## GRIFFON CORPORATION

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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

We performed a quantitative annual impairment test as of September 30, 2019, and a quantitative impairment test as of March 31, 2020, to assess the impact of the global outbreak of COVID-19, using discounted future cash flows for each reporting unit, which did not result in impairments to goodwill. The more significant assumptions used for the impairment test as of March 31, 2020 were a five-year cash flow projection and a 3.0% terminal value to which discount rates between 7.1% and 9% were applied to calculate each unit's fair value. To substantiate fair values derived from the income approach methodology of valuation, the implied fair value was compared to the marketplace fair value of a comparable industry grouping for reasonableness. Further, the fair values were reconciled to Griffon's market capitalization.

We performed a qualitative assessment as of September 30, 2021 and 2020, as the estimated fair values of each reporting unit significantly exceeded the carrying value based on our most recent quantitative assessment, which was performed as of March 31, 2020. Our qualitative assessment determined that indicators that the fair value of each reporting unit was less than the carrying value were not present. In addition, we performed a qualitative assessment as of September 30, 2021 of the Defense Electronics discontinued operation goodwill and determined that an indicator that the fair value was less than the carrying value of the business was not present.

With respect to indefinite-lived intangibles we performed a quantitative annual impairment test as of September 30, 2019, and a quantitative impairment test as of March 31, 2020, to assess the impact of the global outbreak of COVID-19, using a relief from royalty method, neither of which did not result in an impairment. We performed a qualitative assessment as of September 30, 2021 and 2020 considering all the above factors and determined that indefinite-lived intangibles fair values were greater than their book values.

Long-lived amortizable intangible assets, such as customer relationships and software, and tangible assets, primarily property, plant and equipment, are amortized over their expected useful lives, which involve significant assumptions and estimates. Long-lived intangible and tangible assets are tested for impairment by comparing estimated future undiscounted cash flows to the carrying value of the asset when an impairment indicator, such as change in business, customer loss or obsolete technology, exists.

Fair value estimates are based on assumptions believed to be reasonable at the time, but such assumptions are subject to inherent uncertainty. Actual results may differ materially from those estimates. Any changes in key assumptions or management judgment with respect to a reporting unit or its prospects, which may result from a decline in Griffon's stock price, a change in market conditions, market trends, interest rates or other factors outside of Griffon's control, or significant under-performance relative to historical or projected future operating results, could result in a significantly different estimate of the fair value of Griffon's reporting units, which could result in an impairment charge in the future.

#### Leases

On October 1, 2019, the Company adopted the Accounting Standards Codifications ("ASC") Topic 842, Leases, which requires the recording of operating lease Right-of-Use ("ROU") assets and operating lease liabilities. Finance leases were not impacted by the adoption of ASC Topic 842, as finance lease liabilities and the corresponding assets were already recorded in the balance sheet under the previous guidance, ASC Topic 840. The Company has elected the package of practical expedients permitted under the transition guidance within the new standard, which among other things, allows us to carry forward the historical lease classification. We also elected a practical expedient to determine the reasonably certain lease term.



## GRIFFON CORPORATION

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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

The Company applied the modified retrospective approach, whereby the cumulative effect of adoption is recognized as of the date of adoption and comparative prior periods are not retrospectively adjusted. As a result, upon adoption, we recognized ROU assets of \$163,552 and lease liabilities of \$163,676 associated with our operating leases. The standard had no material impact to retained earnings or on our Consolidated Statements of Income or Consolidated Statements of Cash Flows.

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. 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. For leases existing as of October 1, 2019, we have elected to use the remaining lease term as of the adoption date in determining the incremental borrowing rate. 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.

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.

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. The Company has lease agreements that contain both lease and non-lease components. For real estate leases, we account for lease components together with non-lease components (e.g., common-area maintenance).

#### **Definite-lived long-lived assets**

Amortizable intangible assets are carried at cost less accumulated amortization. For financial reporting purposes, definite-lived intangible assets are amortized on a straight-line basis over their useful lives, generally eight to twenty-five years. Long-lived assets and certain identifiable intangible assets to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Determination of recoverability is based on an estimate of undiscounted future cash flows resulting from the use of the asset and its eventual disposition.

There were no indicators of impairment during the three years ending September 30, 2021.

#### **Income taxes**

We are subject to Federal, state and local income taxes in the U.S. and in various taxing jurisdictions outside the U.S. We recognize deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns in accordance with applicable accounting guidance for accounting for income taxes, using currently enacted tax rates in effect for the year in which the differences are expected to reverse.

# GRIFFON CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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We record a valuation allowance when necessary to reduce deferred tax assets to the amount expected to be realized. Deferred tax assets are reduced by a valuation allowance if, based on the weight of available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Both positive and negative evidence are considered in forming our judgment as to whether a valuation allowance is appropriate, and more weight is given to evidence that can be objectively verified. Valuation allowances are reassessed whenever there are changes in circumstances that may cause a change in judgment.

The accounting for uncertainty in income taxes requires a more-likely-than-not threshold for financial statement recognition of tax positions taken or expected to be taken in a tax return. We record, as needed, a liability for the difference between the benefit recognized for financial statement purposes and the tax position taken or expected to be taken on our tax return. To the extent that our assessment of such tax positions changes, the change in estimate is recorded in the period in which the determination is made.

### **Research and development costs, shipping and handling costs and advertising costs**

Research and development costs are charged to SG&A expense as incurred and amounted to approximately \$7,000 in 2021 and \$8,000 in 2020 and 2019.

Total shipping and handling costs were \$113,700 in 2021, \$100,135 in 2020 and \$93,700 in 2019, of which \$58,100 in 2021, \$54,500 in 2020 and \$53,500 in 2019 were included in SG&A. Advertising costs, which are expensed as incurred in SG&A, was \$19,000 in 2021, \$18,000 in 2020 and \$18,000 in 2019.

### **Risk, retention and insurance**

Griffon's property and casualty insurance programs contain various deductibles that, based on Griffon's experience, are reasonable and customary for a company of its size and risk profile. Griffon generally maintains deductibles for claims and liabilities related primarily to workers' compensation, general, product and automobile liability as well as property damage and business interruption losses resulting from certain events. Griffon does not consider any of the deductibles to represent a material risk to Griffon. Griffon accrues for claim exposures that are probable of occurrence and can be reasonably estimated. Insurance is maintained to transfer risk beyond the level of self-retention and provides protection on both an individual claim and annual aggregate basis.

### **Pension benefits**

Griffon sponsors defined and supplemental benefit pension plans for certain retired employees. Annual amounts relating to these plans are recorded based on actuarial projections, which include various actuarial assumptions, including discount rates, assumed rates of return, compensation increases and turnover rates. Actuarial assumptions used to determine pension liabilities, assets and expense are reviewed annually and modified based on current economic conditions and trends. The expected return on plan assets is determined based on the nature of the plan's investments and expectations for long-term rates of return. The discount rate used to measure obligations is based on a corporate bond spot-rate yield curve that matches projected future benefit payments, with the appropriate spot rate applicable to the timing of the projected future benefit payments. Assumptions used in determining Griffon's obligations under the defined benefit pension plans are believed to be reasonable, based on experience and advice from independent actuaries; however, differences in actual experience or changes in assumptions may materially impact Griffon's financial position or results of operations.

All of the defined benefit plans are frozen and have ceased accruing benefits.

**GRIFFON CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
(US dollars and non-US currencies in thousands, except per share data)

The Company's non-service cost components of net periodic benefit plan cost was a benefit of \$907, \$1,559 and \$3,148 during 2021, 2020, and 2019 respectively.

**Issued but not yet effective accounting pronouncements**

In December 2019, the FASB issued guidance on simplifying the accounting for income taxes by clarifying and amending existing guidance related to the recognition of franchise tax, the evaluation of a step up in the tax basis of goodwill, and the effects of enacted changes in tax laws or rates in the effective tax rate computation, among other clarifications. Our effective date for adoption of this ASU is our fiscal year beginning October 1, 2021 with early adoption permitted. The adoption of this guidance is not expected to have a material impact on our consolidated financial statements and the related disclosures.

**New Accounting Standards Implemented**

In April 2019, the FASB issued guidance relating to accounting for credit losses on financial instruments, including trade receivables, and derivatives and hedging. This guidance was effective for the Company beginning in fiscal 2021. Adoption of this standard did not have a material impact on our consolidated financial statements and the related disclosures.

In August 2018, the FASB issued guidance which modifies the disclosures on fair value measurements by removing the requirement to disclose the amount and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy and the policy for timing of such transfers. This guidance expands the disclosure requirements for Level 3 fair value measurements, primarily focused on changes in unrealized gains and losses included in other comprehensive income (loss). This guidance was effective for the Company beginning in fiscal 2021. Adoption of this standard did not have a material impact on our consolidated financial statements and the related disclosures.

In March 2020, the SEC adopted amendments to the financial disclosure requirements for guarantors and issuers of guaranteed securities registered or being registered in Rule 3-10 of Regulation S-X, and affiliates whose securities collateralize securities registered or being registered in Rule 3-16 of Regulation S-X (SEC Release No. 33-10762). The amendment replaces the requirement to present condensed consolidating financial statements, comprised of balance sheets and statements of operations, comprehensive income and cash flows for all periods presented, with summarized financial information of the guarantor only for the most recently completed fiscal year and any subsequent interim period. We adopted the amendments to the disclosure requirements during the first quarter of fiscal 2021. This amendment did not have an impact on our consolidated financial statements as this amendment simplifies the financial disclosures required in our guarantor and non-guarantor financial information. See Part I, Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations—Supplemental Guarantor Financial Information.

In August 2018, the FASB issued guidance to clarify disclosure requirements related to defined benefit pension and other post-retirement plans. The guidance is effective for fiscal years ending after December 15, 2020, with early adoption permitted, and was effective for the Company's for the fiscal year ended 2021. 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

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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

#### NOTE 2—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).

A contract's transaction price is allocated to each distinct performance obligation and recognized as revenue when each performance obligation is satisfied. A majority of the Company's contracts have a single performance obligation which represents, in most cases, the product being sold to the customer. To a lesser extent, some contracts include multiple performance obligations such as a product, the related installation, and extended warranty services. These contracts require judgment in determining the number of performance obligations. For contracts with multiple performance obligations, judgment is required to determine whether performance obligations specified in these contracts are distinct and should be accounted for as separate revenue transactions for recognition purposes. In these types of contracts, the Company allocates the total transaction price to each performance obligation in an amount based on the estimated relative standalone selling prices of the promised goods or services underlying each performance obligation. The Company uses an observable price to determine the stand-alone selling price for separate performance obligations or a cost plus margin approach when one is not available. The transaction price includes variable consideration, such as discounts and volume rebates, when it is probable that a significant reversal of revenue recognized will not occur. Variable consideration is determined using either the expected value or the most likely amount of consideration to be received based on historical experience and the specific facts and circumstances at the time of evaluation.

See Note 18—Business Segments for revenue from contracts with customers disaggregated by end markets, segments and geographic location.

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.

A majority of the Company's revenue is short cycle in nature with shipments occurring within one year from order and does not include a material long-term financing component, implicitly or explicitly. Payment terms generally range between 15 to 90 days and vary by the location of the business, the type of products manufactured to be sold and the volume of products sold, among other factors.

The Company recognizes revenue from product sales when all factors are met, including when control of a product transfers to the customer upon its shipment, completion of installation, testing, certification or other substantive acceptance required under the contract. Other than standard product warranty provisions, sales arrangements provide for no other significant post-shipment obligations on the Company. From time-to-time and for certain customers, rebates and other sales incentives, promotional allowances or discounts are offered, typically related to customer purchase volumes, all of which are fixed or determinable and are classified as a reduction of revenue and recorded at the time of sale. Griffon provides for sales returns and allowances based upon historical returns experience. The Company includes shipping costs billed to customers in revenue and the related shipping costs in either Cost of Goods and Services or Selling, General and Administrative expenses.

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The majority of the Company's contracts offer assurance-type warranties in connection with the sale of a product to a customer. Assurance-type warranties provide a customer with assurance that the related product will function as the parties intended because it complies with agreed-upon specifications. Such warranties do not represent a separate performance obligation.

Payment terms vary depending on the type and location of the customer and the products or services offered. Generally, the period between the time revenue is recognized and the time payment is due is not significant. Shipping and handling charges are not considered a separate performance obligation. Additionally, all taxes assessed by a governmental authority that are both imposed on and concurrent with a specific revenue-producing transaction and collected from a customer (e.g., sales, use, value added, and some excise taxes) are excluded from revenue.

*Discontinued Operations: Revenue from Defense Electronics*

Performance obligations are recognized over time and relate to prime or subcontractors from contract awards with the U.S. Government, as well as foreign governments and other commercial customers within DE. Revenue recognized over time is generally accounted for using an input measure to determine progress completed at the end of the period. We believe that cumulative costs incurred to date as a percentage of estimated total contract costs at completion (cost-to-cost method) is an appropriate measure of progress towards satisfaction of performance obligations recognized over time, as it most accurately depicts the progress of our work and transfer of control to our customers.

Revenue and profits from such contracts are recognized over time as work is performed because control of the work in process transfers continuously to the customer. For U.S. Government contracts, the continuous transfer of control to the customer is supported by contract clauses that provide for: (i) progress or performance-based payments or (ii) the unilateral right of the customer to terminate the contract for convenience, in which case we have the right to receive payment for costs incurred plus a reasonable profit for products and services that do not have alternative use to us. Foreign government and certain commercial contracts contain similar termination for convenience clauses, or we have a legally enforceable right to receive payment for costs incurred and a reasonable profit for product or services that do not have alternative use to us. Revenue and profits on fixed-price and cost-plus contracts that include performance obligations satisfied over time are recorded at amounts equal to the ratio of actual cumulative costs incurred divided by total estimated costs at completion, multiplied by the total estimated contract revenue, less the cumulative revenue recognized in prior periods. The profit recorded on a contract using this method is equal to the current estimated total profit margin multiplied by the cumulative revenue recognized, less the amount of cumulative profit previously recorded for the contract in prior periods.

Accounting for the sales and profits on performance obligations for which progress is measured using the cost-to-cost method relies on the substantial use of estimates, these projections may be revised throughout the life of a contract. Components of this formula and ratio that may be estimated include gross profit margin and total costs at completion. The cost performance and estimates to complete long-term contracts are reviewed, at a minimum, on a quarterly basis, as well as when information becomes available that would necessitate a review of the current estimate. Adjustments to estimates for a contract's estimated costs at completion and estimated profit or loss are often required as experience is gained, more information is obtained (even though the scope of work required under the contract may or may not change) and contract modifications occur.

For contracts in which anticipated total costs exceed the total expected revenue, an estimated loss is recognized in the period when identifiable. A provision for the entire amount of the estimated loss is recorded on a cumulative basis.

# GRIFFON CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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

Contract modifications routinely occur to account for changes in contract specifications or requirements. Depending on the nature of the modification, we consider whether to account for the modification as an adjustment to the existing contract or as a separate contract. Contract modifications for goods or services that are not distinct are accounted for as part of the existing contract on a cumulative catch-up basis.

From time to time, Telephonics may combine contracts if they are negotiated together, have specific requirements to combine, or are otherwise closely related.

### NOTE 3—ACQUISITIONS

Griffon continually evaluates potential acquisitions that either 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 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) in cash. The purchase price is subject to additional contingent consideration of approximately AUD \$1,000 (approximately \$760) based on Quatro exceeding certain EBITDA performance targets in the first year. The preliminary goodwill and acquired intangibles allocated to this acquisition was AUD \$1,038 (approximately \$784) and AUD \$2,755 (approximately \$2,082), respectively, which was assigned to the CPP segment, and is not deductible for income tax purposes.

On November 29, 2019, AMES acquired 100% of the outstanding stock of Vatre Group Limited (“Apta”), a leading United Kingdom supplier of innovative garden pottery and associated products sold to leading UK and Ireland garden centers for approximately \$10,500 (GBP 8,750), inclusive of a post-closing working capital adjustment, net of cash acquired. This acquisition broadens AMES' product offerings in the U.K. market and increases its in-country operational footprint. The purchase price was finalized and goodwill of GBP 3,449 and acquired intangible assets of GBP 3,454, was assigned to the CPP segment and is deductible for tax purposes. The purchase price was also allocated to inventory of GBP 2,914, accounts receivable and other assets of GBP 2,492 and accounts payable and other accrued liabilities of GBP 3,765,

During the year ended September 30, 2021, acquisition related costs were de minimis. During the year ended September 30, 2020, SG&A included acquisition costs of \$2,960. There were no acquisition-related costs in 2019.

### NOTE 4—INVENTORIES

The following table details the components of inventory:

	At September 30, 2021	At September 30, 2020
Raw materials and supplies .....	\$133,684	\$110,696
Work in process.....	48,531	38,011
Finished goods .....	<u>290,579</u>	<u>171,481</u>
<b>Total</b> .....	<u><u>\$472,794</u></u>	<u><u>\$320,188</u></u>

# GRIFFON CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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

### NOTE 5—PROPERTY, PLANT AND EQUIPMENT

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

	<u>At September 30, 2021</u>	<u>At September 30, 2020</u>
Land, building and building improvements .....	\$ 164,486	\$ 165,086
Machinery and equipment.....	520,110	493,146
Leasehold improvements .....	<u>39,913</u>	<u>38,435</u>
	724,509	696,667
Accumulated depreciation and amortization.....	<u>(431,887)</u>	<u>(399,583)</u>
<b>Total</b> .....	<u>\$ 292,622</u>	<u>\$ 297,084</u>

Except as described in Note 10, Restructuring Charges, no event or indicator of impairment occurred during the year ended September 30, 2021 which would require additional impairment testing of property, plant and equipment.

### NOTE 6—CREDIT LOSSES

Effective October 1, 2020, the Company adopted accounting guidance related to accounting for credit losses on financial instruments, including trade receivables (ASU 2016-13, Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments). The guidance requires companies to consider forward-looking information to estimate expected credit losses, resulting in earlier recognition of losses for receivables that are current or not yet due, which were not considered under the previous accounting guidance.

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, doubtful accounts 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 doubtful accounts 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 doubtful accounts is recorded in SG&A expenses.

The Company also considers current and expected future economic and market conditions, such as the COVID-19 pandemic, 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 this guidance in all material respects.

## GRIFFON CORPORATION

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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

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:

Beginning Balance, October 1, 2020 .....	\$8,178
Provision for expected credit losses .....	795
Amounts written off charged against the allowance .....	(393)
Other, primarily foreign currency translation .....	<u>207</u>
Ending Balance, September 30, 2021 .....	<u><u>\$8,787</u></u>

#### NOTE 7—GOODWILL AND OTHER INTANGIBLES

Griffon had two reporting units at September 30, 2021 and three reporting units at September 30, 2020, which are our operating segments. The change in reporting units was a result of classifying the Defense Electronics segment as a discontinued operation as of September 30, 2021. Refer to Note 1, for additional information on the Company's Goodwill and Goodwill and indefinite-lived intangibles annual impairment testing.

The following table provides changes in carrying value of goodwill by segment through the year ended September 30, 2021:

	At September 30, 2019	Goodwill from acquisitions <sup>(a)</sup>	Foreign currency translation adjustments	At September 30, 2020	Goodwill from acquisitions <sup>(a)</sup>	Foreign currency translation adjustments	At September 30, 2021
Consumer and Professional Products ..	\$227,269	\$4,451	\$1,125	\$232,845	\$784	\$1,266	\$234,895
Home and Building Products .....	<u>191,253</u>	<u>—</u>	<u>—</u>	<u>191,253</u>	<u>—</u>	<u>—</u>	<u>191,253</u>
<b>Total .....</b>	<u><u>\$418,522</u></u>	<u><u>\$4,451</u></u>	<u><u>\$1,125</u></u>	<u><u>\$424,098</u></u>	<u><u>\$784</u></u>	<u><u>\$1,266</u></u>	<u><u>\$426,148</u></u>

<sup>(a)</sup> The increase in the CPP segment was due to the acquisitions of Apta in 2020 and Quatro in 2021.

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

	At September 30, 2021			At September 30, 2020	
	Gross Carrying Amount	Accumulated Amortization	Average Life (Years)	Gross Carrying Amount	Accumulated Amortization
Customer relationships & other .....	\$187,732	\$75,794	23	\$184,699	\$65,417
Unpatented technology .....	<u>13,429</u>	<u>2,439</u>	13	<u>13,503</u>	<u>2,633</u>
<b>Total amortizable intangible assets .....</b>	201,161	78,233		198,202	68,050
Trademarks .....	<u>227,097</u>	<u>—</u>		<u>224,050</u>	<u>—</u>
<b>Total intangible assets .....</b>	<u><u>\$428,258</u></u>	<u><u>\$78,233</u></u>		<u><u>\$422,252</u></u>	<u><u>\$68,050</u></u>

The gross carrying amount of intangible assets was impacted by \$3,924 related to foreign currency translation.

Amortization expense for intangible assets subject to amortization was \$9,561, \$9,486 and \$9,393 in 2021, 2020 and 2019, respectively. Amortization expense for each of the next five years and thereafter, based on current intangible balances and classifications, is estimated as follows: 2022 - \$9,272; 2023 - \$9,198; 2024 - \$9,198; 2025 - \$9,198 and 2026 - \$9,198; thereafter - \$76,864.



## GRIFFON CORPORATION

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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

#### NOTE 8—DISCONTINUED OPERATIONS

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 discontinued operations:

	<u>For the Year Ended September 30,</u>		
	<u>2021</u>	<u>2020</u>	<u>2019</u>
Revenue .....	\$271,060	\$340,976	\$335,041
Cost of goods and services.....	<u>232,075</u>	<u>285,022</u>	<u>269,890</u>
Gross profit.....	38,985	55,954	65,151
Selling, general and administrative expenses .....	<u>35,532</u>	<u>42,314</u>	<u>39,194</u>
Income from discontinued operations.....	3,453	13,640	25,957
Other income (expense)			
Gain on sale of business.....	5,291	—	—
Interest income, net .....	117	4	253
Other, net .....	<u>36</u>	<u>408</u>	<u>(255)</u>
Total other income (expense).....	<u>5,444</u>	<u>412</u>	<u>(2)</u>
Income from discontinued operations before tax.....	<u>\$ 8,897</u>	<u>\$ 14,052</u>	<u>\$ 25,955</u>

The gain on sale of business relates to the divestiture of the SEG business on December 18, 2020, SEG had sales of approximately \$6,713, \$31,758, and \$27,450 for the years ended 2021, 2020 and 2019.

Income from discontinued operations includes severance charges of approximately \$4,300, with \$2,100 recognized in fiscal 2020, and the remaining \$2,200 recognized in fiscal 2021. In September 2020, the DE Voluntary Employee Retirement Plan was initiated, which was subsequently followed by a reduction in force in November 2020, to improve efficiencies by combining functions and responsibilities. These actions reduced headcount by approximately 90 people.

Income from discontinued operations includes charges of \$5,601 recorded in fiscal 2021 primarily related to exiting our older weather radar product lines.

## GRIFFON CORPORATION

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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

The following amounts related to Telephonics have been segregated from Griffon's continuing operations and are reported as assets and liabilities of discontinued operations held for sale in the consolidated balance sheets:

	At September 30, 2021	At September 30, 2020
<b>CURRENT ASSETS</b>		
Accounts receivable, net .....	42,020	62,127
Contract assets, net of progress payments.....	72,983	84,426
Inventories.....	83,970	93,637
Prepaid and other current assets.....	4,409	5,536
<b>PROPERTY, PLANT AND EQUIPMENT, net.....</b>	<b>45,371</b>	<b>46,880</b>
<b>OPERATING LEASE RIGHT-OF-USE ASSETS.....</b>	<b>1,167</b>	<b>7,278</b>
<b>GOODWILL.....</b>	<b>17,734</b>	<b>18,545</b>
<b>INTANGIBLE ASSETS, net.....</b>	<b>131</b>	<b>826</b>
<b>OTHER ASSETS.....</b>	<b>5,629</b>	<b>6,423</b>
Total Assets Held for Sale.....	<b>\$273,414</b>	<b>\$325,678</b>
<b>CURRENT LIABILITIES</b>		
Accounts payable .....	60,486	59,724
Accrued liabilities.....	15,153	20,023
Current portion of operating lease liabilities.....	287	2,176
<b>LONG-TERM OPERATING LEASE LIABILITIES.....</b>	<b>867</b>	<b>5,466</b>
<b>OTHER LIABILITIES.....</b>	<b>3,955</b>	<b>4,972</b>
Total Liabilities Held for Sale.....	<b>\$ 80,748</b>	<b>\$ 92,361</b>

#### Installation Services and Other Discontinued Activities

During 2019, Griffon recorded an \$11,050 charge (\$8,335, net of tax) to discontinued operations. The charge consisted primarily of a purchase price adjustment to resolve a claim related to the Plastics divestiture and included an additional reserve for a legacy environmental matter. The following amounts summarize the total assets and liabilities of 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 consolidated balance sheets:

	At September 30, 2021	At September 30, 2020
Assets of discontinued operations:		
Prepaid and other current assets.....	\$ 605	\$ 2,091
Other long-term assets.....	3,424	6,406
Total assets of discontinued operations.....	<b>\$4,029</b>	<b>\$ 8,497</b>
Liabilities of discontinued operations:		
Accrued liabilities, current.....	\$3,280	\$ 3,797
Other long-term liabilities .....	3,794	7,014
Total liabilities of discontinued operations....	<b>\$7,074</b>	<b>\$10,811</b>

At September 30, 2021, Griffon's liabilities for Installations Services and other discontinued operations primarily related to insurance claims, income taxes and product liability, warranty and environmental reserves totaling liabilities of approximately \$7,074. The decrease in assets and liabilities were primarily associated with insurance claims receivable and payable.

**GRIFFON CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
(US dollars and non-US currencies in thousands, except per share data)

There was no reported revenue in 2021, 2020 and 2019.

**NOTE 9—ACCRUED LIABILITIES**

The following table details the components of accrued liabilities:

	<u>At September 30,</u> <u>2021</u>	<u>At September 30,</u> <u>2020</u>
Compensation .....	\$ 76,781	\$ 73,262
Interest.....	4,156	4,371
Warranties and rebates.....	11,709	14,112
Insurance.....	10,462	9,552
Rent, utilities and freight.....	11,212	8,816
Income and other taxes .....	11,264	14,369
Marketing and advertising.....	5,157	7,968
Restructuring.....	682	845
Other .....	<u>13,678</u>	<u>10,676</u>
<b>Total .....</b>	<u><u>\$145,101</u></u>	<u><u>\$143,971</u></u>

**NOTE 10—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 is broadening this strategic initiative to include additional North American facilities, the AMES UK and Australia businesses, and a manufacturing facility in China.

The expanded focus of this initiative leverages the same three key development areas being executed within our U.S. operations. First, certain AMES global operations will be consolidated to optimize facilities footprint and talent. Second, strategic investments in automation and facilities expansion will be made to increase the efficiency of our manufacturing and fulfillment operations, and support e-commerce growth. Third, multiple independent information systems will be unified into a single data and analytics platform, which will serve the whole AMES global enterprise.

Expanding the roll-out of the new business platform from our AMES U.S. operations to include AMES' global operations will extend the duration of the project by one year, with completion now expected by the end of calendar year 2023. When fully implemented, these actions will result in annual cash savings of \$30,000 to \$35,000 and a reduction in inventory of \$30,000 to \$35,000 both based on fiscal 2020 operating levels.

The cost to implement this new business platform, over the duration of the project, will include one-time charges of approximately \$65,000 and capital investments of approximately \$65,000. The one-time charges are comprised of \$46,000 of cash charges, which includes \$26,000 of personnel-related costs such as training, severance, and duplicate personnel costs as well as \$20,000 of facility and lease exit costs. The remaining \$19,000 of charges are non-cash and are primarily related to asset write-downs.

In the year ended September 30, 2021, CPP incurred pre-tax restructuring and related exit costs approximating \$21,418. Cash charges totaled \$14,763 and non-cash, asset-related charges totaled \$6,655; the cash charges included \$3,190 for one-time termination benefits and other personnel-related costs and \$11,573 for facility and lease exit costs primarily driven by the consolidation of distribution facilities and system optimization. Non-cash charges of \$6,655 predominantly related to inventory of \$4,158 that have no recoverable value, and a \$1,882 impairment charge related to machinery and equipment that have no recoverable value at one of the Company's owned manufacturing locations.

## GRIFFON CORPORATION

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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

In the year ended September 30, 2020, CPP incurred pre-tax restructuring and related exit costs approximating \$13,669. Cash charges totaled \$8,977 and non-cash, asset-related charges totaled \$4,692; the cash charges included \$5,620 for one-time termination benefits and other personnel-related costs and \$3,357 for facility exit costs. Non-cash charges included a \$1,968 impairment charge related to a facility's operating lease as well as \$671 of leasehold improvements made to the leased facility and \$304 of inventory that have no recoverable value, and a \$1,749 impairment charge related to machinery and equipment that have no recoverable value at one of the Company's owned manufacturing locations.

Since inception of this initiative in fiscal 2020, total cumulative charges totaled \$35,087, comprised of cash charges of \$23,740 and non-cash, asset-related charges of \$11,347; the cash charges included \$8,810 for one-time termination benefits and other personnel-related costs and \$14,930 for facility exit costs. As a result of these transactions, headcount was reduced by 400.

A summary of the restructuring and other related charges included in Cost of goods and services and Selling, general and administrative expenses in the Company's Consolidated Statements of Operations were as follows:

	For the Year Ended	
	September 30, 2021	September 30, 2020
Cost of goods and services.....	\$ 7,923	\$ 4,159
Selling, general and administrative expenses .....	13,495	9,510
Total restructuring charges.....	\$21,418	\$13,669

	For the Year Ended	
	September 30, 2021	September 30, 2020
Personnel related costs .....	\$ 3,190	\$ 5,620
Facilities, exit costs and other .....	11,573	3,357
Non-cash facility and other .....	6,655	4,692
Total.....	\$21,418	\$13,669

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

	Cash Charges	Cash Charges	Non Cash Charges	Total
	Personnel related costs	Facilities & Exit Costs	Facility and Other Costs	
Accrued liability at September 30, 2019.....	\$ —	\$ —	\$ —	\$ —
Charges.....	5,620	3,357	4,692	13,669
Payments .....	(5,039)	(3,093)	—	(8,132)
Non-cash charges <sup>(1)</sup> .....	—	\$ —	(4,692)	(4,692)
Accrued liability at September 30, 2020.....	\$ 581	\$ 264	\$ —	\$ 845
Charges.....	3,190	11,573	6,655	21,418
Payments .....	(3,353)	(11,573)	—	(14,926)
Non-cash charges <sup>(1)</sup> .....	—	—	(6,655)	(6,655)
Accrued liability at September 30, 2021.....	\$ 418	\$ 264	\$ —	\$ 682

<sup>(1)</sup> Non-cash charges in Facility and Other Costs primarily represent the non-cash write-off of certain long-lived assets in connection with certain facility closures.

## GRIFFON CORPORATION

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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

#### NOTE 11—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 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 the 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:

	Years Ended September 30,	
	2021	2020
Balance, beginning of period .....	\$ 6,268	\$ 2,814
Warranties issued and changes in estimated pre-existing warranties .....	15,560	16,291
Actual warranty costs incurred .....	<u>(14,010)</u>	<u>(12,837)</u>
Balance, end of period .....	<u>\$ 7,818</u>	<u>\$ 6,268</u>

#### NOTE 12—LONG-TERM DEBT

Debt at September 30, 2021 and 2020 consisted of the following:

At September 30, 2021					
	Outstanding Balance	Original Issuer Premium	Capitalized Fees & Expenses	Balance Sheet	Coupon Interest Rate
Senior notes due 2028 .....	(a) \$1,000,000	\$315	\$(13,293)	\$ 987,022	5.75%
Revolver due 2025 .....	(b) 13,483	—	(1,718)	11,765	Variable
Finance lease—real estate .....	(c) 14,594	—	(4)	14,590	Variable
Non U.S. lines of credit .....	(d) 3,012	—	(17)	2,995	Variable
Non U.S. term loans .....	(d) 25,684	—	(91)	25,593	Variable
Other long term debt .....	(e) 3,733	—	(15)	3,718	Variable
Totals .....	1,060,506	315	(15,138)	1,045,683	
less: Current portion .....	<u>(12,486)</u>	<u>—</u>	<u>—</u>	<u>(12,486)</u>	
Long-term debt .....	<u>\$1,048,020</u>	<u>\$315</u>	<u>\$(15,138)</u>	<u>\$1,033,197</u>	

## GRIFFON CORPORATION

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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

At September 30, 2020						
		Outstanding Balance	Original Issuer Premium	Capitalized Fees & Expenses	Balance Sheet	Coupon Interest Rate
Senior notes due 2028 .....	(a)	\$1,000,000	\$363	\$(15,376)	\$ 984,987	5.75%
Revolver due 2025 .....	(b)	12,858	—	(2,209)	10,649	Variable
Finance lease—real estate .....	(c)	17,218	—	(30)	17,188	Variable
Non U.S. lines of credit .....	(d)	—	—	(30)	(30)	Variable
Non U.S. term loans .....	(f)	31,086	—	(160)	30,926	Variable
Other long term debt .....	(g)	3,260	—	(16)	3,244	Variable
Totals .....		1,064,422	363	(17,821)	1,046,964	
less: Current portion .....		(9,922)	—	—	(9,922)	
Long-term debt .....		\$1,054,500	\$363	\$(17,821)	\$1,037,042	

Interest expense consists of the following for 2021, 2020 and 2019.

Year Ended September 30, 2021						
		Effective Interest Rate	Cash Interest	Amort. Debt Premium	Amort. Deferred Cost & Other Fees	Total Interest Expense
Senior notes due 2028 .....	(a)	5.95%	\$57,500	\$(48)	\$2,084	\$59,536
Revolver due 2025 .....	(b)	Variable	1,078	—	491	1,569
Finance lease—real estate .....	(c)	5.65%	875	—	25	900
Non U.S. lines of credit .....	(d)	Variable	15	—	15	30
Non U.S. term loans .....	(d)	Variable	655	—	71	726
Other long term debt .....	(e)	Variable	443	—	2	445
Capitalized interest .....			(31)	—	—	(31)
Totals .....			\$60,535	\$(48)	\$2,688	\$63,175

Year Ended September 30, 2020						
		Effective Interest Rate	Cash Interest	Amort. Debt Discount	Amort. Deferred Cost & Other Fees	Total Interest Expense
Senior notes due 2028 .....	(a)	5.90%	\$32,511	\$ —	\$1,072	\$33,583
Senior notes due 2022 .....	(a)	5.67%	22,816	122	1,735	24,673
Revolver due 2025 .....	(b)	Variable	5,866	—	635	6,501
Finance lease—real estate .....	(c)	4.45%	386	—	25	411
Non U.S. lines of credit .....	(d)	Variable	12	—	15	27
Non U.S. term loans .....	(d)	Variable	975	—	55	1,030
Other long term debt .....	(e)	Variable	445	—	2	447
Capitalized interest .....			(128)	—	—	(128)
Totals .....			\$62,883	\$122	\$3,539	\$66,544

## GRIFFON CORPORATION

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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

		Year Ended September 30, 2019				
		Effective Interest Rate	Cash Interest	Amort. Debt Discount	Amort. Deferred Cost & Other Fees	Total Interest Expense
Senior notes due 2022 .....	(a)	5.66%	\$52,500	\$270	\$3,803	\$56,573
Revolver due 2025 .....	(b)	Variable	6,998	—	980	7,978
Finance lease—real estate .....	(c)	6.7%	372	—	25	397
Non U.S. lines of credit .....	(d)	Variable	19	—	15	34
Non U.S. term loans .....	(d)	Variable	1,592	—	109	1,701
Other long term debt .....	(e)	Variable	640	—	5	645
ESOP Loans .....	(f)	6.3%	937	—	186	1,123
Capitalized interest .....			(139)	—	—	(139)
Totals .....			\$62,919	\$270	\$5,123	\$68,312

Minimum payments under debt agreements for the next five years are as follows: \$16,724 in 2022, \$17,267 in 2023, \$1,888 in 2024, \$15,296 in 2025, \$1,892 in 2026 and \$1,007,439 thereafter.

- (a) On June 22, 2020, in an unregistered offering through a private placement, Griffon completed the add-on offering of \$150,000 principal amount of its 5.75% senior notes due 2028, at 100.25% of par, to Griffon’s previously issued \$850,000 principal amount of its 5.75% senior notes due 2028, at par, completed on February 19, 2020 (collectively, the “Senior Notes”). Proceeds from the Senior Notes were used to redeem the \$1,000,000 of 5.25% senior notes due 2022 (the “2022 Senior Notes”). As of September 30, 2021, outstanding Senior Notes due totaled \$1,000,000; interest is payable semi-annually on March 1 and September 1.

The Senior Notes are senior unsecured obligations of Griffon guaranteed by certain domestic subsidiaries, and subject to certain covenants, limitations and restrictions. On April 22, 2020 and August 3, 2020, Griffon exchanged substantially all of the Senior Notes for substantially identical Senior Notes registered under the Securities Act of 1933, as amended (the “Securities Act”), via an exchange offer. The fair value of the 2028 Senior Notes approximated \$1,060,000 on September 30, 2021 based upon quoted market prices (level 1 inputs).

In connection with these transactions, Griffon capitalized \$16,448 of underwriting fees and other expenses incurred related to the issuance and exchange of the Senior Notes, which will amortize over the term of such notes, and, at September 30, 2021, \$13,293 remained to be amortized. Furthermore, all of the obligations associated with the 2022 Senior Notes were discharged. Additionally, Griffon recognized a \$7,925 loss on the early extinguishment of debt of the 2022 Senior Notes, comprised primarily of the write-off of \$6,725 of remaining deferred financing fees, \$607 of tender offer net premium expense and \$593 of redemption interest expense.

- (b) On January 30, 2020, Griffon amended its Credit Agreement to increase the maximum borrowing availability from \$350,000 to \$400,000, extend its maturity from March 22, 2021 to March 22, 2025 and modify certain other provisions of the facility. The facility includes a letter of credit sub-facility with a limit of \$100,000; and a multi-currency sub-facility of \$200,000; and contains a customary accordion feature that permits the Company to request, subject to each lender’s consent, an increase in the maximum aggregate amount that can be borrowed up to an additional \$100,000.

Borrowings under the Credit Agreement may be repaid and re-borrowed at any time. Interest is payable on borrowings at either a LIBOR or base rate benchmark rate, plus an applicable margin, which adjusts based on financial performance. Current margins are 0.50% for base rate loans and 1.50% for LIBOR loans. The Credit Agreement has certain financial maintenance tests including a maximum total leverage ratio, a maximum senior secured leverage ratio and a minimum interest

## GRIFFON CORPORATION

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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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. 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 September 30, 2021, under the Credit Agreement, there were \$13,483 in outstanding borrowings; outstanding standby letters of credit were \$15,590; and \$370,927 was available, subject to certain loan covenants, for borrowing at that date.

- (c) Two Griffon subsidiaries have finance leases outstanding for real estate located in Troy, Ohio and Ocala, Florida. The leases mature in November 2021 and 2025, respectively, and bear interest at fixed rates of approximately 5.0% and 5.6%, respectively. The Troy, Ohio lease is secured by a mortgage on the real estate, which is guaranteed by Griffon, and has a one dollar buyout at the end of the lease in the first fiscal quarter of 2022. The Ocala, Florida lease contains two five-year renewal options. As of September 30, 2021, \$14,590 was outstanding, net of issuance costs. Refer to Note 21—Leases for further details.
- (d) In November 2012, Garant G.P. ("Garant"), a Griffon subsidiary, entered into a CAD 15,000 (\$11,798 as of September 30, 2021) revolving credit facility. The facility accrues interest at LIBOR (USD) or the Bankers Acceptance Rate (CDN) plus 1.3% per annum (1.38% LIBOR USD and 1.51% Bankers Acceptance Rate CDN as of September 30, 2021 and September 29, 2021, respectively). The revolving facility matures in October 2022. Garant is required to maintain a certain minimum equity. As of September 30, 2021, there were no borrowings under the revolving credit facility with CAD 15,000 (\$11,798 as of September 30, 2021) available for borrowing.

In July 2016, Griffon Australia Holdings Pty Ltd and its Australian subsidiaries ("Griffon Australia") entered into an AUD 29,625 term loan, AUD 20,000 revolver and AUD 10,000 receivable purchase facility agreement. The term loan requires quarterly principal payments of AUD 1,250 plus interest with a balloon payment of AUD 9,625 due upon maturity in March 2022, and accrues interest at Bank Bill Swap Bid Rate "BBSY" plus 1.95% per annum (2.01% at September 30, 2021). During fiscal 2020, the term loan balance was reduced by AUD 5,000 from AUD 23,375 to AUD 18,375 with proceeds from an AUD 5,000 increase in the commitment of the receivables purchase line from AUD 10,000 to AUD 15,000. As of September 30, 2021, the term loan had an outstanding balance of AUD 10,875 (\$7,847 as of September 30, 2021). The revolving facility and receivable purchase facility mature in March 2022, but are renewable upon mutual agreement with the lender. The revolving facility and receivable purchase facility accrue interest at BBSY plus 1.9% and 1.35%, respectively, per annum (1.97% and 1.41%, respectively, at September 30, 2021). At September 30, 2021, there were no borrowings outstanding under the revolver and the receivable purchase facility. The revolver, receivable purchase facility and term loan are all secured by substantially all of the assets of Griffon Australia and its subsidiaries. Griffon Australia is required to maintain a certain minimum equity level and is subject to a maximum leverage ratio and a minimum fixed charges cover ratio.

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. The term loan and mortgage loan accrue interest at the GBP LIBOR Rate plus 1.8% (1.85% at September 30, 2021, respectively). The revolving facility matures in June 2022, but is renewable upon mutual agreement with the lender, and accrues interest at the Bank of England Base Rate plus 3.25% (3.35% as of September 30, 2021). As of September 30, 2021, the revolver had



## GRIFFON CORPORATION

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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an outstanding balance of GBP 2,234 (\$3,012 as of September 30, 2021), while the term and mortgage loan balances amounted to GBP 13,229 (\$17,837 as of September 30, 2021). The revolver and the term loan are both secured by substantially all of the assets of AMES UK and its subsidiaries. AMES UK is subject to a maximum leverage ratio and a minimum fixed charges cover ratio. An invoice discounting arrangement was canceled and replaced by the above loan facilities.

- (e) Other long-term debt primarily consists of a loan with the Pennsylvania Industrial Development Authority, with the balance consisting of financing leases.
- (f) In August 2016 and as amended on June 30, 2017, Griffon's ESOP entered into a Term Loan with a bank (the "ESOP Agreement"). The Term Loan interest rate was LIBOR plus 3.00%. The Term Loan required quarterly principal payments of \$569 with a balloon payment due at maturity. The Term Loan was secured by shares purchased with the proceeds of the loan and with a lien on a specific amount of Griffon assets (which ranked pari passu with the lien granted on such assets under the Credit Agreement) and was guaranteed by Griffon. On March 13, 2019, the ESOP Term Loan was refinanced with an internal loan from Griffon which was funded with cash and a draw under its Credit Agreement. The internal loan interest rate is fixed at 2.91%, matures in June 2033 and requires quarterly payments of principal, currently \$620, and interest. The internal loan is secured by shares purchased with the proceeds of the loan. The amount outstanding on the internal loan at September 30, 2021 was \$27,368.

At September 30, 2021, Griffon and its subsidiaries were in compliance with the terms and covenants of its credit and loan agreements.

#### NOTE 13—EMPLOYEE BENEFIT PLANS

Griffon offers defined contribution plans to most of its U.S. employees. In addition to employee contributions to the plans, Griffon makes contributions based upon various percentages of compensation and/or employee contributions, which were \$8,576 in 2021, \$6,855 in 2020 and \$7,097 in 2019.

The Company also provides healthcare and life insurance benefits for certain groups of retirees through several plans. For certain employees, the benefits are at fixed amounts per retiree and are partially contributory by the retiree. The post-retirement benefit obligation was \$1,678 and \$1,833 as of September 30, 2021 and 2020. The accumulated other comprehensive income (loss) for these plans was \$(118) and (\$196) as of September 30, 2021 and 2020, respectively, and the 2021 and 2020 benefit expense was \$35 and \$46, respectively. It is the Company's practice to fund these benefits as incurred.

Griffon also has qualified and non-qualified defined benefit plans covering certain employees with benefits based on years of service and employee compensation. Over time, these amounts will be recognized as part of net periodic pension costs in the Consolidated Statements of Operations and Comprehensive Income (Loss).

Griffon is responsible for overseeing the management of the investments of the qualified defined benefit plan and uses the services of an investment manager to manage these assets based on agreed upon risk profiles. The primary objective of the qualified defined benefit plan is to secure participant retirement benefits. As such, the key objective in this plan's financial management is to promote stability and, to the extent appropriate, growth in the funded status. Financial objectives are established in conjunction with a review of current and projected plan financial requirements. The fair values of a majority of the plan assets were determined by the plans' trustee using quoted market prices for identical instruments (level 1 inputs) as of September 30, 2021 and 2020. The fair value of various other investments was determined by the plan's trustee using direct observable market corroborated inputs,

## GRIFFON CORPORATION

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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

including quoted market prices for similar assets (level 2 inputs). A small amount of plan assets are invested in private equity which consist primarily of investments in private companies which are valued using the net asset values provided by the underlying private investment companies as a practical expedient (level 3 inputs).

The Clopay AMES Pension Plan and the AMES supplemental executive retirement plan are frozen to new entrants and participants in the plans no longer accrue benefits.

The Company's non-service cost components of net periodic benefit plan cost was a benefit of \$907, \$1,559 and \$3,148 during 2021, 2020, and 2019 respectively.

Griffon uses judgment to establish the assumptions used in determining the future liability of the plan, as well as the investment returns on the plan assets. The expected return on assets assumption used for pension expense was developed through analysis of historical market returns, current market conditions and past experience of plan investments. The long-term rate of return assumption represents the expected average rate of earnings on the funds invested, or to be invested, to provide for the benefits included in the benefit obligations. The assumption is based on several factors including historical market index returns, the anticipated long-term asset allocation of plan assets and the historical return. The discount rate assumption is determined by developing a yield curve based on high quality bonds with maturities matching the plans' expected benefit payment stream. The plans' expected cash flows are then discounted by the resulting year-by-year spot rates. A 10% change in the discount rate or return on assets would not have a material effect on the financial statements of Griffon.

Net periodic costs (benefits) were as follows:

	<b>Defined Benefits for the Years Ended September 30,</b>			<b>Supplemental Benefits for the Years Ended September 30,</b>		
	<b>2021</b>	<b>2020</b>	<b>2019</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>
Net periodic (benefits) costs:						
Interest cost .....	\$ 2,816	\$ 4,267	\$ 5,778	\$162	\$335	\$503
Expected return on plan assets .....	(10,177)	(10,343)	(10,331)	—	—	—
Amortization of:						
Prior service costs .....	—	—	—	—	14	14
Actuarial loss .....	<u>5,776</u>	<u>3,769</u>	<u>630</u>	<u>516</u>	<u>399</u>	<u>258</u>
Total net periodic (benefits) costs .....	<u>\$ (1,585)</u>	<u>\$ (2,307)</u>	<u>\$ (3,923)</u>	<u>\$678</u>	<u>\$748</u>	<u>\$775</u>

The tax benefits in 2021, 2020 and 2019 for the amortization of pension costs in Other comprehensive income (loss) were \$270, \$878 and \$221, respectively.

The weighted-average assumptions used in determining the net periodic (benefits) costs were as follows:

	<b>Defined Benefits for the Years Ended September 30,</b>			<b>Supplemental Benefits for the Years Ended September 30,</b>		
	<b>2021</b>	<b>2020</b>	<b>2019</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>
Discount rate .....	2.30%	2.92%	4.10%	1.69%	2.64%	3.99%
Expected return on assets .....	6.75%	7.00%	7.00%	—%	—%	—%

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### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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Plan assets and benefit obligation of the defined and supplemental benefit plans were as follows:

	Defined Benefits at September 30,		Supplemental Benefits at September 30,	
	2021	2020	2021	2020
<b>Change in benefit obligation:</b>				
Benefit obligation at beginning of fiscal year .....	\$183,003	\$177,797	\$ 16,070	\$ 16,180
Interest cost .....	2,816	4,267	162	335
Benefits paid .....	(10,743)	(10,747)	(1,936)	(1,939)
Actuarial (gain) loss .....	(4,571)	11,686	479	1,494
Benefit obligation at end of fiscal year .....	<u>170,505</u>	<u>183,003</u>	<u>14,775</u>	<u>16,070</u>
<b>Change in plan assets:</b>				
Fair value of plan assets at beginning of fiscal year.....	147,145	145,610	—	—
Actual return on plan assets .....	23,199	4,261	—	—
Company contributions .....	922	8,021	1,936	1,939
Benefits paid .....	(10,743)	(10,747)	(1,936)	(1,939)
Fair value of plan assets at end of fiscal year.....	<u>160,523</u>	<u>147,145</u>	<u>—</u>	<u>—</u>
<b>Projected benefit obligation in excess of plan assets .....</b>	<b><u>\$ (9,982)</u></b>	<b><u>\$(35,858)</u></b>	<b><u>\$(14,775)</u></b>	<b><u>\$(16,070)</u></b>
<b>Amounts recognized in the statement of financial position consist of:</b>				
Accrued liabilities .....	\$ —	\$ —	\$ (1,884)	\$ (1,891)
Other liabilities (long-term) .....	(9,982)	(35,858)	(12,890)	(14,179)
Total Liabilities .....	<u>(9,982)</u>	<u>(35,858)</u>	<u>(14,774)</u>	<u>(16,070)</u>
Net actuarial losses .....	38,296	61,666	7,662	7,700
Prior service cost .....	—	—	—	—
Deferred taxes .....	(8,042)	(12,950)	(1,609)	(1,617)
Total Accumulated other comprehensive loss, net of tax ..	<u>30,254</u>	<u>48,716</u>	<u>6,053</u>	<u>6,083</u>
<b>Net amount recognized at September 30, .....</b>	<b><u>\$ 20,272</u></b>	<b><u>\$ 12,858</u></b>	<b><u>\$ (8,721)</u></b>	<b><u>\$ (9,987)</u></b>
<b>Accumulated benefit obligations .....</b>	<b><u>\$170,505</u></b>	<b><u>\$183,003</u></b>	<b><u>\$ 14,775</u></b>	<b><u>\$ 16,070</u></b>
<b>Information for plans with accumulated benefit obligations in excess of plan assets:</b>				
ABO .....	\$170,505	\$183,003	\$ 14,775	\$ 16,070
PBO .....	170,505	183,003	14,775	16,070
Fair value of plan assets .....	160,523	147,145	—	—

Actuarial gains as of September 30, 2021 were primarily the result of the actual return on assets versus the expected return on assets. Actuarial gains also resulted from the increase in the discount rate and the change in the mortality assumption for valuing the Projected Benefit Obligation. Actuarial losses as of September 30, 2020 were primarily the result of the decrease in the discount rate.

The weighted-average assumptions used in determining the benefit obligations were as follows:

	Defined Benefits at September 30,		Supplemental Benefits at September 30,	
	2021	2020	2021	2020
Weighted average discount rate.....	2.58%	2.30%	1.94%	1.69%

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### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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Estimated future benefit payments to retirees, which reflect expected future service, are as follows:

<u>For the years ending September 30,</u>	<u>Defined Benefits</u>	<u>Supplemental Benefits</u>
2022 .....	\$10,909	\$1,884
2023 .....	10,902	1,765
2024 .....	10,876	1,641
2025 .....	10,803	1,513
2026 .....	10,789	1,383
2027 through 2031 .....	51,669	4,965

During 2022, Griffon expects to contribute \$1,884 in payments related to Supplemental Benefits that will be funded from the general assets of Griffon. Griffon expects to contribute \$953 to the Defined Benefit plan in 2022.

The Clopay AMES Plan is covered by the Pension Protection Act of 2006. The Adjusted Funding Target Attainment Percent for the plan as of January 1, 2021 was 98.7%. Since the plan was in excess of the 80% funding threshold there were no plan restrictions. The expected level of 2022 catch up contributions is \$198.

The actual and weighted-average asset allocation for qualified benefit plans were as follows:

	<u>At September 30,</u>		
	<u>2021</u>	<u>2020</u>	<u>Target</u>
Cash and equivalents .....	1.2%	0.4%	—%
Equity securities .....	52.5%	48.5%	63.0%
Fixed income .....	26.9%	31.9%	37.0%
Other .....	<u>19.4%</u>	<u>19.2%</u>	<u>—%</u>
Total .....	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

The following is a description of the valuation methodologies used for plan assets measured at fair value:

*Government and agency securities*—When quoted market prices are available in an active market, the investments are classified as Level 1. When quoted market prices are not available in an active market, the investments are classified as Level 2.

*Equity securities*—The fair values reflect the closing price reported on a major market where the individual mutual fund securities are traded in equity securities. These investments are classified within Level 1 of the valuation hierarchy.

*Debt securities*—The fair values are based on a compilation of primarily observable market information or a broker quote in a non-active market where the individual mutual fund securities are invested in debt securities. These investments are classified within Level 1 and Level 2 of the valuation hierarchy.

*Commingled funds*—The fair values are determined using NAV provided by the administrator of the fund. The NAV is based on the value of the underlying assets owned by the trust/entity, minus its liabilities, and then divided by the number of shares outstanding. These investments are generally classified within Level 2 or 3, as appropriate, of the valuation hierarchy and can be liquidated on demand.

*Interest in limited partnerships and hedge funds*—One limited partnership investment is a private equity fund and the fair value is determined by the fund managers based on the net asset values provided by

## GRIFFON CORPORATION

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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the underlying private investment companies as a practical expedient. These investments are classified within Level 2 of the valuation hierarchy.

The following table presents the fair values of Griffon's pension and post-retirement plan assets by asset category:

<u>At September 30, 2021</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>	<u>Total</u>
Cash and equivalents .....	\$ 1,867	\$ —	\$ —	\$ 1,867
Government agency securities .....	32,217	4,608	—	36,825
Debt instruments .....	1,063	2,706	—	3,769
Equity securities .....	84,129	—	—	84,129
Commingled funds.....	—	—	11,286	11,286
Limited partnerships and hedge fund investments.....	—	19,823	—	19,823
Other Securities .....	<u>2,379</u>	<u>160</u>	<u>—</u>	<u>2,539</u>
Subtotal .....	<u>\$121,655</u>	<u>\$27,297</u>	<u>\$11,286</u>	<u>\$160,238</u>
Accrued income and plan receivables.....				<u>285</u>
Total .....				<u>\$160,523</u>

<u>At September 30, 2020</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>	<u>Total</u>
Cash and equivalents .....	\$ 600	\$ —	\$ —	\$ 600
Government and agency securities.....	33,675	6,136	—	39,811
Debt instruments .....	179	2,722	—	2,901
Equity securities .....	68,987	—	—	68,987
Commingled funds.....	—	—	9,362	9,362
Limited partnerships and hedge fund investments.....	—	17,867	—	17,867
Other Securities .....	<u>2,488</u>	<u>163</u>	<u>—</u>	<u>2,651</u>
Subtotal .....	<u>\$105,929</u>	<u>\$26,888</u>	<u>\$9,362</u>	<u>\$142,179</u>
Accrued income and plan receivables.....				<u>4,966</u>
Total .....				<u>\$147,145</u>

The following table represents level 3 significant unobservable inputs for the years ended September 30, 2021 and 2020:

	<u>Significant Unobservable Inputs (Level 3)</u>
As of October 1, 2020 .....	\$ 8,776
Purchases, issuances and settlements.....	—
Gains and losses.....	<u>586</u>
As of September 30, 2020 .....	9,362
Purchases, issuances and settlements.....	—
Gains and losses.....	<u>1,924</u>
As of September 30, 2021 .....	<u>\$11,286</u>

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Griffon has an ESOP that covers substantially all domestic employees. All U.S. employees of Griffon, who are not members of a collective bargaining unit, automatically become eligible to participate in the plan on the October 1<sup>st</sup> following completion of one qualifying year of service (as defined in the plan). Securities are allocated to participants' individual accounts based on the proportion of each participant's aggregate compensation (not to exceed \$290 for the plan year ended September 30, 2021), to the total of all participants' compensation. Shares of the ESOP which have been allocated to employee accounts are charged to expense based on the fair value of the shares transferred and are treated as outstanding in determining earnings per share. Dividends paid on shares held by the ESOP are used to offset debt service on ESOP Loans. Dividends paid on shares held in participant accounts are utilized to allocate shares from the aggregate number of shares to be released, equal in value to those dividends, based on the closing price of Griffon common stock on the dividend payment date. Compensation expense under the ESOP was \$3,678 in 2021, \$2,878 in 2020 and \$2,629 in 2019. The cost of the shares held by the ESOP and not yet allocated to employees is reported as a reduction of Shareholders' Equity. The fair value of the unallocated ESOP shares as of September 30, 2021 and 2020 based on the closing stock price of Griffon's stock was \$45,571 and \$40,217, respectively. The ESOP shares were as follows:

	<b>At September 30,</b>	
	<b>2021</b>	<b>2020</b>
Allocated shares .....	3,322,355	3,301,448
Unallocated shares.....	1,852,492	2,058,187
Total.....	5,174,847	5,359,635

#### NOTE 14—INCOME TAXES

Income taxes have been based on the following components of Income before taxes from continuing operations:

	<b>For the Years Ended September 30,</b>		
	<b>2021</b>	<b>2020</b>	<b>2019</b>
Domestic .....	\$ 57,059	\$28,530	\$23,437
Non-U.S.....	54,120	40,175	22,786
	\$111,179	\$68,705	\$46,223

Provision (benefit) for income taxes on income was comprised of the following from continuing operations:

	<b>For the Years Ended September 30,</b>		
	<b>2021</b>	<b>2020</b>	<b>2019</b>
Current .....	\$26,177	\$24,140	\$26,218
Deferred .....	13,763	2,122	(5,465)
Total .....	\$39,940	\$26,262	\$20,753
U.S. Federal .....	\$14,577	\$ 7,897	\$ 8,973
State and local.....	7,132	7,223	5,499
Non-U.S.....	18,231	11,142	6,281
Total provision .....	\$39,940	\$26,262	\$20,753

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### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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

Differences between the effective income tax rate applied to Income before taxes from continuing operations and the U.S. Federal income statutory rate were as follows:

	<u>For the Years Ended September 30,</u>		
	<u>2021</u>	<u>2020</u>	<u>2019</u>
U.S. Federal income tax provision rate.....	21.0%	21.0%	21.0%
State and local taxes, net of Federal benefit .....	4.7%	7.8%	9.1%
Non-U.S. taxes - foreign permanent items and taxes .....	3.0%	4.2%	3.1%
Change in tax contingency reserves .....	0.2%	0.2%	(1.1)%
Impact of foreign rate change on deferred tax balances.....	2.8%	—%	—%
Tax Reform-Repatriation of Foreign Earnings and GILTI.....	0.4%	0.3%	1.6%
Change in valuation allowance .....	0.4%	(2.6)%	5.0%
Other non-deductible/non-taxable items, net .....	0.4%	1.3%	5.9%
Non-deductible officer's compensation .....	4.0%	5.4%	8.2%
Research and U.S. foreign tax credits.....	(0.1)%	1.4%	(6.4)%
Share based compensation .....	(2.0)%	—%	0.6%
Other .....	1.1%	(0.8)%	(2.1)%
Effective tax provision (benefit) rate .....	<u>35.9%</u>	<u>38.2%</u>	<u>44.9%</u>

The tax effect of temporary differences that give rise to future deferred tax assets and liabilities are as follows:

	<u>At September 30,</u>	
	<u>2021</u>	<u>2020</u>
Deferred tax assets:		
Bad debt reserves .....	\$ 2,066	\$ 3,980
Inventory reserves .....	11,298	9,371
Deferred compensation (equity compensation and defined benefit plans) .....	10,598	18,904
Compensation benefits.....	5,269	5,499
Insurance reserve .....	2,183	1,918
Warranty reserve .....	3,761	3,981
Lease liabilities .....	39,378	43,045
Net operating loss .....	10,706	9,618
Tax credits .....	7,198	7,031
Capital loss carryback .....	2,533	2,205
Other reserves and accruals .....	7,474	6,094
	<u>102,464</u>	<u>111,646</u>
Valuation allowance .....	<u>(10,425)</u>	<u>(9,824)</u>
Total deferred tax assets .....	92,039	101,822
Deferred tax liabilities:		
Goodwill and intangibles .....	(46,585)	(44,051)
Property, plant and equipment .....	(53,817)	(48,172)
Right-of-use assets.....	(38,511)	(41,747)
Other.....	(1,232)	(634)
	<u>(140,145)</u>	<u>(134,604)</u>
Total deferred tax liabilities.....	<u>(140,145)</u>	<u>(134,604)</u>
Net deferred tax liabilities .....	<u>\$ (48,106)</u>	<u>\$ (32,782)</u>

## GRIFFON CORPORATION

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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

The components of the net deferred tax liability, by balance sheet account, were as follows:

	At September 30,	
	2021	2020
Other assets .....	\$ 323	\$ 614
Other liabilities.....	(49,289)	(34,356)
Liabilities of discontinued operations.....	860	960
Net deferred liability.....	\$(48,106)	\$(32,782)

In 2021, the increase in the valuation allowance of \$601 is primarily the result of foreign net operating losses and generation of state tax credits which will not be recognized, partially offset by the expiration of foreign tax credits during the year. In 2020, the decrease in valuation allowance of \$999 is primarily due to the expiration of foreign tax credits during the year.

At both September 30, 2021 and 2020, Griffon has a policy election to indefinitely reinvest the undistributed earnings of foreign subsidiaries with operations outside the U.S. As of September 30, 2021, we have approximately \$143,058 of unremitted earnings of non-U.S. subsidiaries. The Company generates substantial cash flow in the U.S. and does not have a current need for the cash to be returned to the U.S. from the foreign entities. The Company continues to reinvest the undistributed earnings of its foreign subsidiaries and may be subject to additional foreign withholding taxes and U.S. state income taxes if it reverses its indefinite reinvestment assertion in the future. Outside basis differences were impractical to account for at this time and are currently considered as being permanent in duration.

At September 30, 2021, Griffon had no loss carryforwards for U.S. tax purposes and \$8,332 for non-U.S. tax purposes. At September 30, 2020, Griffon had no loss carryforwards for U.S. tax purposes and \$9,671 for non-U.S. tax purposes. The non-U.S. loss carryforwards expire in varying amounts beginning in 2027 to indefinite carryforward.

At September 30, 2021 and 2020, Griffon had state and local loss carryforwards of \$139,894 and \$124,191, respectively, which expire in varying amounts through 2040.

At September 30, 2021 and 2020, Griffon had federal tax credit carryforwards of \$5,933 and \$5,954, respectively, which expire in varying amounts through 2035.

At September 30, 2021 and 2020, Griffon had capital loss carryovers for U.S. tax purposes of \$10,327 and \$10,500, respectively, which expire in varying amounts through 2026. The losses were generated in September 30, 2021 and September 30, 2019 tax years. The carryovers are available for three-year carryback or five-year carryforward periods.

We believe it is more likely than not that the benefit from certain federal and state tax attributes will not be realized. In recognition of this risk, we have provided a valuation allowance as of September 30, 2021 and 2020 of \$10,425 and \$9,824, respectively, on the deferred tax assets. As it becomes probable that the benefits of these attributes will be realized, the reversal of valuation allowance will be recognized as a reduction of income tax expense.

If certain substantial changes in Griffon's ownership occur, there would be an annual limitation on the amount of carryforward(s) that can be utilized.

Griffon files U.S. Federal, state and local tax returns, as well as applicable returns in Canada, Australia, U.K. and other non-U.S. jurisdictions. Griffon's U.S. Federal income tax returns are no longer subject to income tax examination for years before 2015. Griffon's major U.S. state and other non-U.S. jurisdictions are no longer subject to income tax examinations for years before 2013. Various U.S. state and statutory tax audits are currently underway.



**GRIFFON CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
(US dollars and non-US currencies in thousands, except per share data)

The following is a roll forward of unrecognized tax benefits:

Balance at September 30, 2019 .....	\$4,061
Additions based on tax positions related to the current year .....	125
Additions based on tax positions related to prior years.....	20
Reductions based on tax positions related to prior years .....	(3)
Lapse of Statutes .....	<u>(23)</u>
Balance at September 30, 2020 .....	\$4,180
Additions based on tax positions related to the current year .....	180
Additions based on tax positions related to prior years.....	24
Lapse of Statutes .....	(7)
Settlements .....	<u>—</u>
Balance at September 30, 2021 .....	<u>\$4,377</u>

If recognized, the amount of potential tax benefits that would impact Griffon’s effective tax rate is \$1,106. Griffon recognizes potential accrued interest and penalties related to unrecognized tax benefits in income tax expense. At September 30, 2021 and 2020, the combined amount of accrued interest and penalties related to tax positions taken or to be taken on Griffon’s tax returns and recorded as part of the reserves for uncertain tax positions was \$100 and \$77, respectively. Griffon cannot reasonably estimate the extent to which existing liabilities for uncertain tax positions may increase or decrease within the next twelve months as a result of the progression of ongoing tax audits or other events. Griffon believes that it has adequately provided for all open tax years by tax jurisdiction.

**NOTE 15—STOCKHOLDERS’ EQUITY AND EQUITY COMPENSATION**

During 2021, 2020 and 2019, the Company declared and paid cash dividends totaling \$0.32 per share, \$0.30 per share and \$0.29 per share, respectively. 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. Dividends paid on shares in the ESOP were used to offset ESOP loan payments and recorded as a reduction of debt service payments and compensation expense. A dividend payable was established for the holders of restricted shares; such dividends will be released upon vesting of the underlying restricted shares. At September, 30, 2021, accrued dividends were \$2,920.

On November 15, 2021, the Board of Directors declared a cash dividend of \$0.09 per share, payable on December 16, 2021 to shareholders of record as of the close of business on November 29, 2021.

On August 18, 2020, the Company sold 8,000,000 shares of our common stock at a price of \$21.50 per share through a public equity offering, for a total net proceeds of \$163,830, net of underwriting discounts, commissions and offering expenses. In addition, on August 21, 2020, pursuant to the exercise by the underwriters of their overallotment option, the underwriters purchased an additional 700,000 shares of common stock from the Company at a price of \$21.50, resulting in additional net proceeds to the Company of \$14,335. In total, the Company sold 8,700,000 shares of common stock at a price of \$21.50 for a total net proceeds of \$178,165. The Company used a portion of the net proceeds to temporarily repay outstanding borrowings under its Credit Agreement. The Company intends to use the remainder of the proceeds for working capital and general corporate purposes, including to expand its current business through acquisitions of, or investments in, other businesses or products.

On January 29, 2016, shareholders approved the Griffon Corporation 2016 Equity Incentive Plan (“Incentive Plan”) under which awards of performance shares, performance units, stock options, stock appreciation rights, restricted shares, restricted stock units, deferred shares and other stock-based

## GRIFFON CORPORATION

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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

awards may be granted. On January 31, 2018, shareholders approved Amendment No. 1 to the Incentive Plan pursuant to which, among other things, 1,000,000 shares were added to the Incentive Plan; and on January 30, 2020, shareholders approved Amendment No. 2 to the Incentive Plan, pursuant to which 1,700,000 shares were added to the Incentive Plan. Options granted under the Incentive Plan may be either “incentive stock options” or nonqualified stock options, which 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. As of September 30, 2021, there are no stock options outstanding. The maximum number of shares of common stock available for award under the Incentive Plan is 5,050,000 (600,000 of which may be issued as incentive stock options), plus (i) any shares reserved for issuance under the 2011 Equity Incentive Plan as of the effective date of the Incentive Plan, and (ii) any shares of underlying awards outstanding on such effective date under the 2011 Incentive Plan that are canceled or forfeited. As of September 30, 2021, 488,376 shares were available for grant.

Compensation expense for restricted stock, including 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 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 Selling, general and administrative expenses.

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

	<b>For the Years Ended September 30,</b>		
	<b>2021</b>	<b>2020</b>	<b>2019</b>
Restricted stock.....	\$16,410	\$14,702	\$13,285
ESOP.....	3,678	2,878	2,629
Total stock based compensation.....	<u>\$20,088</u>	<u>\$17,580</u>	<u>\$15,914</u>

A summary of restricted stock activity, inclusive of restricted stock units, for 2021 is as follows:

	<b>Shares</b>	<b>Weighted Average Grant-Date Fair Value</b>
<b>Unvested at September 30, 2020</b> .....	3,685,590	\$14.30
Granted.....	1,287,330	19.61
Vested.....	(498,333)	21.33
Forfeited.....	<u>(608,534)</u>	16.40
<b>Unvested at September 30, 2021</b> .....	<u>3,866,053</u>	15.32

The fair value of restricted stock which vested during 2021, 2020, and 2019 was \$10,627, \$17,889 and \$4,748, respectively.

Unrecognized compensation expense related to non-vested shares of restricted stock was \$29,686 at September 30, 2021 and will be recognized over a weighted average vesting period of 2.5 years.

At September 30, 2021, a total of approximately 4,354,429 shares of Griffon’s authorized Common Stock were reserved for issuance in connection with stock compensation plans.

## GRIFFON CORPORATION

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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

During 2021, Griffon granted 1,242,906 shares of restricted stock and restricted stock units to its employees. This included 226,811 restricted stock and restricted stock units, subject to certain performance conditions, with vesting periods of three years, with a total fair value of \$5,500, or a weighted average fair value of \$24.25 per share. Furthermore, this included 488,095 restricted stock awards granted to six executives, with vesting periods ranging from 34 months to 60 months, with a total fair value of \$10,836, or a weighted average fair value of \$22.20 per share. This also included 528,000 shares of restricted stock granted to two senior executives with a vesting period of four years and a two year post-vesting holding period, subject to the achievement of certain absolute and relative performance conditions relating to the price of Griffon's common stock. So long as the minimum performance condition is attained, the amount of shares that can vest will range from 384,000 to 528,000. The total fair value of these restricted shares using the Monte Carlo Simulation model is approximately \$7,824, or a weighted average fair value of \$14.82 per share. Additionally, Griffon granted 44,424 restricted shares to the non-employee directors of Griffon with a vesting period of three years and a fair value of \$1,080, or a weighted average fair value of \$24.31 per share.

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 these share repurchase programs, the Company may purchase shares of its common stock, depending upon market conditions, in open market or privately negotiated transactions, including pursuant to a 10b5-1 plan. Shares repurchased are recorded at cost. During 2020, Griffon did not purchase shares of common stock under these repurchase programs. At September 30, 2021 an aggregate of \$57,955 remains under Griffon's Board authorized repurchase authorizations.

During the year ended September 30, 2021, 152,435 shares, with a market value of \$3,222, or \$21.14 per share, were withheld to settle employee taxes due upon the vesting of restricted stock, and were added to treasury stock. Furthermore, during 2021, an additional 6,507 shares, with a market value of \$135, or \$20.75 per share, were withheld from common stock issued upon the vesting of restricted stock units to settle employee taxes due upon vesting.

#### NOTE 16—COMMITMENTS AND CONTINGENT LIABILITIES

##### Purchase Commitments

Purchase obligations are generally for the purchase of goods and services in the ordinary course of business. Griffon uses blanket purchase orders to communicate expected requirements to certain vendors. Purchase obligations reflect those purchase orders where the commitment is considered to be firm. Amounts purchased under such commitments were \$235,148, \$142,044 and \$143,523 for the years ended September 30, 2021, 2020 and 2019, respectively. Aggregate future minimum purchase obligations at September 30, 2021 are \$255,661 in 2021, \$38,581 in 2022, \$0 in 2023, \$0 in 2024 and \$0 in 2025.

##### Legal and environmental

Peekskill Site. Lightron Corporation ("Lightron"), a wholly-owned subsidiary of Griffon, once conducted 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.

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 announced that it is performing a

## GRIFFON CORPORATION

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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

Remedial Investigation/Feasibility Study (“RI/FS”). On August 25, 2020, the EPA sent a letter to several parties, including Lightron and ISCP, requesting that each such party inform the EPA as to whether it would be willing to enter into discussions regarding implementation of the RI/FS. The EPA also sent a request for information under Section 104(e) of CERCLA to each party. Lightron and ISCP have informed the EPA that they are willing to participate in discussions regarding implementation of the RI/FS. Lightron and ISCP have also submitted responses to certain items contained in the Section 104(e) information request, with additional responses to follow. The current owner of the property, which acquired the Peekskill Site from ISCP in 1982 and has no relationship with Lightron or ISCP, has also informed the EPA that it is willing to discuss implementation of the RI/FS, and has also received, and submitted certain information in response to, a Section 104(e) information request. The EPA may decide to implement the RI/FS, on its own or through the use of consultants, may reach agreement with one or more parties to perform the RI/FS, or may offer to negotiate with one or more parties to accept a settlement addressing the potential liability of such parties for investigation and/or remediation at the Peekskill Site. Should the EPA implement the RI/FS, or perform further studies and/or subsequently remediate the site, without first reaching agreement with one or more relevant parties, the EPA would likely seek reimbursement for the costs incurred from such parties.

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.

*Union Fork and Hoe, Frankfort, NY site.* The former Union Fork and Hoe property in Frankfort, New York was acquired by AMES in 2006 as part of a larger acquisition, and has historic site contamination involving chlorinated solvents, petroleum hydrocarbons and metals. AMES entered into an Order on Consent with the New York State Department of Environmental Conservation (“DEC”). While the Order is without admission or finding of liability or acknowledgment that there has been a release of hazardous substances at the site, the Order required AMES to perform a remedial investigation of certain portions of the property and to recommend a remediation option. In 2011, remediation of chlorinated solvents in the groundwater was completed to the satisfaction of DEC. In June 2020, AMES completed the remediation required by the Record of Decision issued by DEC in 2019 (“ROD”) and filed a Construction Completion Report, a Site Management Plan and an environmental easement with DEC. While AMES was implementing the remediation required by the ROD, DEC requested additional investigation of a small area on the site and of an area adjacent to the site perimeter. AMES investigated the on-site area and has completed remediation of that small area under a workplan approved by DEC. AMES also completed a workplan approved by DEC to investigate the areas adjacent to the site perimeter. AMES has a number of defenses to liability in this matter, including its rights under a previous Consent Judgment entered into between DEC and a predecessor of AMES relating to the site. AMES’ insurer has accepted AMES’ claim for a substantial portion of the costs incurred and to be incurred for both the on-site and off-site activities.

#### 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.

# GRIFFON CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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

### NOTE 17—EARNINGS PER SHARE

Basic EPS (and diluted EPS in periods when a loss exists) 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. In August 2020, Griffon Corporation completed the Public Offering of 8,700,000 shares of our common stock at a price of \$21.50 per share. Total proceeds, net of fees, were \$178,165.

The following table is a reconciliation of the share amounts (in thousands) used in computing basic and diluted EPS for 2021, 2020 and 2019:

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Common shares outstanding.....	56,613	56,130	46,806
Unallocated ESOP shares .....	(1,852)	(2,058)	(2,259)
Non-vested restricted stock.....	(3,601)	(3,556)	(3,420)
Impact of weighted average shares .....	<u>(330)</u>	<u>(7,928)</u>	<u>(193)</u>
Weighted average shares outstanding—basic.....	50,830	42,588	40,934
Incremental shares from stock based compensation.....	<u>2,539</u>	<u>2,427</u>	<u>1,954</u>
Weighted average shares outstanding—diluted.....	<u>53,369</u>	<u>45,015</u>	<u>42,888</u>

Anti-dilutive shares were not material. Shares of the ESOP that have been allocated to employee accounts are treated as outstanding in determining earnings per share.

### NOTE 18—REPORTABLE SEGMENTS

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

- Consumer and Professional Products (“CPP”) conducts its operations through AMES. Founded in 1774, AMES is the leading North American manufacturer and a global provider of branded consumer and professional tools and products for home storage and organization, landscaping, and enhancing outdoor lifestyles. CPP sells products globally through a portfolio of leading brands including True Temper, AMES, 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 CornellCookson brand.

On September 27, 2021, Griffon announced it is exploring strategic alternatives, including a sale, for its Defense Electronics segment, which conducts its operations through Telephonics Corporation (“Telephonics”). As a result, 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 as held for sale in the Consolidated Balance Sheets. Accordingly, all references made to results and information in this Annual Report on Form 10-K are to Griffon’s continuing operations, unless specifically noted. Telephonics, founded in 1933, is a globally recognized leading provider of highly sophisticated intelligence, surveillance and communications solutions that are deployed across a wide range of land,

**GRIFFON CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
(US dollars and non-US currencies in thousands, except per share data)

sea and air applications. Telephonics designs, develops, manufactures and provides logistical support and lifecycle sustainment services to defense, aerospace and commercial customers worldwide.

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

	<b>For the Years Ended September 30,</b>		
	<b>2021</b>	<b>2020</b>	<b>2019</b>
<b>Revenue</b>			
Consumer and Professional Products.....	\$1,229,518	\$1,139,233	\$1,000,608
Home and Building Products .....	1,041,108	927,313	873,640
Defense Electronics.....	<u>271,060</u>	<u>340,976</u>	<u>335,041</u>
Subtotal .....	\$2,541,686	\$2,407,522	\$2,209,289
Less: Defense Electronics.....	<u>(271,060)</u>	<u>(340,976)</u>	<u>(335,041)</u>
Total revenue .....	<u>\$2,270,626</u>	<u>\$2,066,546</u>	<u>\$1,874,248</u>

Griffon evaluates performance and allocates resources based on each segment’s operating results from continuing operations 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 (“Segment Adjusted EBITDA”).

The following table provides a reconciliation of Segment Adjusted EBITDA to Income before taxes from continuing operations:

	<b>For the Years Ended September 30,</b>		
	<b>2021</b>	<b>2020</b>	<b>2019</b>
Segment Adjusted EBITDA:			
Consumer and Professional Products.....	\$115,673	\$104,053	\$ 90,677
Home and Building Products.....	181,015	153,631	120,161
Defense Electronics.....	<u>20,486</u>	<u>25,228</u>	<u>35,104</u>
Subtotal .....	317,174	282,912	245,942
Less: Defense Electronics.....	<u>(20,486)</u>	<u>(25,228)</u>	<u>(35,104)</u>
Segment Adjusted EBITDA.....	296,688	257,684	210,838
Unallocated amounts, excluding depreciation .....	<u>(49,054)</u>	<u>(48,262)</u>	<u>(47,231)</u>
Adjusted EBITDA .....	247,634	209,422	163,607
Net interest expense .....	(62,735)	(65,795)	(67,513)
Depreciation and amortization.....	(52,302)	(52,100)	(51,517)
Restructuring charges.....	(21,418)	(13,670)	—
Loss from debt extinguishment .....	—	(7,925)	—
Acquisition contingent consideration.....	—	1,733	1,646
Acquisition costs.....	<u>—</u>	<u>(2,960)</u>	<u>—</u>
Income before taxes from continuing operations...	<u>\$111,179</u>	<u>\$ 68,705</u>	<u>\$ 46,223</u>

# GRIFFON CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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

	<b>For the Years Ended September 30,</b>		
	<b>2021</b>	<b>2020</b>	<b>2019</b>
<b><u>Depreciation and Amortization</u></b>			
Segment:			
Consumer and Professional Products.....	\$ 34,433	\$ 32,788	\$ 32,289
Home and Building Products .....	17,370	18,361	18,334
Defense Electronics.....	10,762	10,645	10,667
Subtotal .....	62,565	61,794	61,290
Less: Defense Electronics .....	(10,762)	(10,645)	(10,667)
Total segment depreciation and amortization.....	51,803	51,149	50,623
Corporate .....	499	951	894
Total consolidated depreciation and amortization ..	\$ 52,302	\$ 52,100	\$ 51,517
<b><u>Capital Expenditures</u></b>			
Segment:			
Consumer and Professional Products.....	\$ 28,265	\$ 23,321	\$ 17,828
Home and Building Products .....	8,648	17,499	16,498
Defense Electronics.....	10,343	7,830	10,492
Subtotal .....	47,256	48,650	44,818
Less: Defense Electronics .....	(10,343)	(7,830)	(10,492)
Total segment .....	36,913	40,820	34,326
Corporate .....	38	348	543
Total consolidated capital expenditures.....	\$ 36,951	\$ 41,168	\$ 34,869
	<b>At September 30,</b>	<b>At September 30,</b>	
	<b>2021</b>	<b>2020</b>	
<b><u>Assets</u></b>			
Segment assets:			
Consumer and Professional Products .....	\$1,377,618	\$1,255,127	
Home and Building Products.....	666,422	606,785	
Total segment assets .....	2,044,040	1,861,912	
Corporate .....	283,202	252,506	
Total continuing assets.....	2,327,242	2,114,418	
Discontinued operations—held for sale .....	273,414	325,678	
Other discontinued operations .....	4,029	8,497	
Consolidated total.....	\$2,604,685	\$2,448,593	

### 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.

## GRIFFON CORPORATION

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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

	For the Year Ended September 30, 2021	For the Year Ended September 30, 2020	For the Year Ended September 30, 2019
Residential repair and remodel.....	\$ 185,896	\$ 173,859	\$ 140,369
Retail.....	577,839	575,947	528,279
Residential new construction.....	50,437	59,907	58,709
Industrial.....	43,411	40,285	45,129
International excluding North America.....	371,935	289,235	228,122
<b>Total Consumer and Professional Products..</b>	<b>1,229,518</b>	<b>1,139,233</b>	<b>1,000,608</b>
Residential repair and remodel.....	516,995	467,112	439,287
Commercial construction.....	407,585	354,916	335,339
Residential new construction.....	116,528	105,285	99,014
<b>Total Home and Building Products.....</b>	<b>1,041,108</b>	<b>927,313</b>	<b>873,640</b>
<b>Total Revenue.....</b>	<b>\$2,270,626</b>	<b>\$2,066,546</b>	<b>\$1,874,248</b>

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

	For the Year Ended September 30, 2021		
	Consumer and Professional Products	Home and Building Products	Total
<b>Revenue by Geographic Area—Destination</b>			
United States.....	\$ 766,150	\$ 986,925	\$1,753,075
Europe.....	123,607	72	123,679
Canada.....	85,676	44,661	130,337
Australia.....	244,674	—	244,674
All other countries.....	9,411	9,450	18,861
Total Revenue.....	<b>\$1,229,518</b>	<b>\$1,041,108</b>	<b>\$2,270,626</b>

	For the Year Ended September 30, 2020		
	Consumer and Professional Products	Home and Building Products	Total
<b>Revenue by Geographic Area—Destination</b>			
United States.....	\$ 769,100	\$877,115	\$1,646,215
Europe.....	85,339	130	85,469
Canada.....	74,072	38,662	112,734
Australia.....	203,012	—	203,012
All other countries.....	7,710	11,406	19,116
Total Revenue.....	<b>\$1,139,233</b>	<b>\$927,313</b>	<b>\$2,066,546</b>

	For the Year Ended September 30, 2019		
	Consumer and Professional Products	Home and Building Products	Total
<b>Revenue by Geographic Area—Destination</b>			
United States.....	\$ 690,772	\$820,396	\$1,511,168
Europe.....	63,284	109	63,393
Canada.....	72,327	39,472	111,799
Australia.....	165,291	16	165,307
All other countries.....	8,934	13,647	22,581
Total Revenue.....	<b>\$1,000,608</b>	<b>\$873,640</b>	<b>\$1,874,248</b>



## GRIFFON CORPORATION

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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

As a percentage of segment revenue, CPP sales to The Home Depot approximated 26%, 27% and 28% in 2021, 2020 and 2019, respectively; HBP sales to The Home Depot approximated 10%, 12% and 13% in 2021, 2020 and 2019, respectively.

As a percentage of Griffon's consolidated revenue, CPP sales to The Home Depot approximated 14% in 2021, and approximated 13% in both 2020 and 2019; HBP sales to The Home Depot approximated 5% in 2021, 2020 and 2019.

#### NOTE 19—OTHER INCOME (EXPENSE)

For the year ended September 30, 2021, 2020 and 2019, Other income (expense) from continuing operations of \$3,331, \$2,885 and \$5,230, respectively, includes \$81, \$915 and \$438, respectively, of net currency exchange transaction losses from receivables and payables held in non-functional currencies, \$283, \$184 and \$(40), respectively, of net gains or (losses) on investments, and \$907 and \$1,559 and \$3,148, respectively, of net periodic benefit plan income. Other income (expense) also includes rental income of \$1,848 in 2021, 2020 and 2019.

#### NOTE 20—OTHER COMPREHENSIVE INCOME (LOSS)

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

	Years Ended September 30,								
	2021			2020			2019		
	Pre-tax	Tax	Net of tax	Pre-tax	Tax	Net of tax	Pre-tax	Tax	Net of tax
Foreign currency translation adjustments.....	\$ 6,433	\$ —	\$ 6,433	\$ 5,601	\$ —	\$ 5,601	\$ (8,460)	\$ —	\$ (8,460)
Pension and other defined benefit plans .....	22,583	(4,787)	17,796	(14,955)	3,171	(11,784)	(30,581)	7,526	(23,055)
Cash flow hedge ...	<u>2,694</u>	<u>(808)</u>	<u>1,886</u>	<u>10</u>	<u>(3)</u>	<u>7</u>	<u>(413)</u>	<u>124</u>	<u>(289)</u>
Total other comprehensive income (loss)....	<u>\$31,710</u>	<u>\$(5,595)</u>	<u>\$26,115</u>	<u>\$ (9,344)</u>	<u>\$3,168</u>	<u>\$(6,176)</u>	<u>\$(39,454)</u>	<u>\$7,650</u>	<u>\$(31,804)</u>

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

	At September 30,	
	2021	2020
Foreign currency translation.....	\$(19,250)	\$(25,683)
Pension and other defined benefit plans.....	(28,802)	(46,598)
Cash flow hedge.....	<u>2,075</u>	<u>189</u>
Total .....	<u>\$(45,977)</u>	<u>\$(72,092)</u>

## GRIFFON CORPORATION

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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

Total comprehensive income (loss) were as follows:

	<u>For the Years Ended September 30,</u>		
	<u>2021</u>	<u>2020</u>	<u>2019</u>
Net income .....	\$ 79,211	\$53,429	\$ 37,287
Other comprehensive income (loss), net of taxes....	<u>26,115</u>	<u>(6,176)</u>	<u>(31,804)</u>
Comprehensive income (loss) .....	<u>\$105,326</u>	<u>\$47,253</u>	<u>\$ 5,483</u>

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

	<u>For the Years Ended September 30,</u>		
	<u>2021</u>	<u>2020</u>	<u>2019</u>
Gain (Loss)			
Pension amortization .....	\$(6,292)	\$(4,182)	\$ (902)
Cash flow hedges.....	<u>(2,204)</u>	<u>(2,163)</u>	<u>1,361</u>
Total before tax .....	(8,496)	(6,345)	459
Tax .....	<u>1,784</u>	<u>1,332</u>	<u>(96)</u>
Net of tax .....	<u>\$(6,712)</u>	<u>\$(5,013)</u>	<u>\$ 363</u>

#### NOTE 21—LEASES

In February 2016, the FASB issued an Accounting Standards Update (ASU 2016-02) related to the accounting and financial statement presentation for leases. This new guidance requires a lessee to recognize right-of-use (“ROU”) assets and lease liabilities on the balance sheet, with an election to exempt leases with a term of twelve months or less. The Company adopted the requirements of the new standard as of October 1, 2019 and applied the modified retrospective approach, whereby the cumulative effect of adoption is recognized as of the date of adoption and comparative prior periods are not retrospectively adjusted. As a result, upon adoption, we recognized ROU assets of \$163,552 and lease liabilities of \$163,676 associated with our operating leases. The standard had no material impact to retained earnings or on our Consolidated Statements of Income or Consolidated Statements of Cash Flows. The Company has elected the package of practical expedients permitted under the transition guidance within the new standard, which among other things, allows us to carry forward the historical lease classification. We also elected a practical expedient to determine the reasonably certain lease term.

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. ROU assets, along with any other related long-lived assets, are periodically evaluated for impairment. In connection with the Company’s restructuring activities, during the year ended September 30, 2020, a \$1,968 impairment charge was recorded related to a facility’s operating lease as well as \$671 and of leasehold improvements made to the leased facility that have no recoverable value. See Note 10, Restructuring Charges.

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. 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

## GRIFFON CORPORATION

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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

lease payments. We use the implicit rate when readily determinable. For leases existing as of October 1, 2019, we have elected to use the remaining lease term as of the adoption date in determining the incremental borrowing rate. 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. The Company has lease agreements that contain both lease and non-lease components. For real estate leases, we account for lease components together with non-lease components (e.g., common-area maintenance). Components of operating lease costs are as follows:

	For the Year Ended	
	September 30, 2021	September 30, 2020
Fixed <sup>(a)</sup> .....	\$38,362	\$36,155
Variable <sup>(a), (b)</sup> .....	7,573	7,178
Short-term <sup>(b)</sup> .....	4,210	5,470
<b>Total</b> .....	<b>\$50,145</b>	<b>\$48,803</b>

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

(b) Not recorded on the balance sheet.

Fixed rent expense for all operating leases totaled approximately \$34,816 in 2019.

Supplemental cash flow information were as follows:

	For the Year Ended	
	September 30, 2021	September 30, 2020
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases .....	\$43,444	\$48,141
Financing cash flows from finance leases .....	3,815	4,122
<b>Total</b> .....	<b>\$47,259</b>	<b>\$52,263</b>

**GRIFFON CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
(US dollars and non-US currencies in thousands, except per share data)

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

	<u>At September 30, 2021</u>	<u>At September 30, 2020</u>
<b>Operating Leases:</b>		
Right of use assets:		
Operating right-of-use assets.....	\$144,598	\$154,349
Lease Liabilities:		
Current portion of operating lease liabilities .....	\$ 29,881	\$ 29,672
Long-term operating lease liabilities.....	<u>119,315</u>	<u>130,588</u>
Total operating lease liabilities.....	<u>\$149,196</u>	<u>\$160,260</u>
<b>Finance Leases:</b>		
Right of use assets:		
Property, plant and equipment, net <sup>(1)</sup> .....	\$ 16,466	\$ 18,774
Lease Liabilities:		
Notes payable and current portion of long-term debt.....	\$ 2,347	\$ 3,352
Long-term debt, net .....	<u>14,120</u>	<u>15,339</u>
Total financing lease liabilities .....	<u>\$ 16,467</u>	<u>\$ 18,691</u>

<sup>(1)</sup> For the years ended September 30, 2021 and 2020, finance lease assets are recorded net of accumulated depreciation of \$6,136 and \$2,383, respectively.

Two Griffon subsidiaries have finance leases outstanding for real estate located in Troy, Ohio and Ocala, Florida. The leases mature in November 2021 and 2025, respectively, and bear interest at fixed rates of approximately 5.0% and 5.6%, respectively. The Troy, Ohio lease is secured by a mortgage on the real estate, which is guaranteed by Griffon, and has a one dollar buyout at the end of the lease. The Ocala, Florida lease contains two five-year renewal options. As of September 30, 2021 and 2020, \$14,590 and \$17,188, respectively, was outstanding, net of issuance costs. 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 September 30, 2021 are as follows (in thousands):

	<u>Operating Leases</u>	<u>Finance Leases</u>
2022.....	\$ 36,109	\$ 3,174
2023.....	28,715	2,850
2024.....	21,545	2,281
2025.....	19,274	2,119
2026.....	13,165	2,106
2027.....	<u>63,921</u>	<u>7,777</u>
Total lease payments.....	182,729	20,307
Less: Imputed Interest .....	<u>(33,533)</u>	<u>(3,840)</u>
Present value of lease liabilities.....	<u>\$149,196</u>	<u>\$16,467</u>

**GRIFFON CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
(US dollars and non-US currencies in thousands, except per share data)

Average lease terms and discount rates were as follows:

	<u>September 30, 2021</u>	<u>September 30, 2020</u>
Weighted-average remaining lease term (years)		
Operating Leases.....	8.0	8.4
Finance Leases.....	8.1	8.5
Weighted-average discount rate		
Operating Leases.....	4.48%	4.36%
Finance Leases.....	5.48%	5.51%

**NOTE 22—SUBSEQUENT EVENTS**

On November 15, 2021, the Board of Directors declared a cash dividend of \$0.09 per share, payable on December 16, 2021 to shareholders of record as of the close of business on November 29, 2021. Griffon 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.

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SCHEDULE II

**GRIFFON CORPORATION**  
**VALUATION AND QUALIFYING ACCOUNTS**  
For the Years Ended September 30, 2021, 2020 and 2019  
(in thousands)

<u>Description</u>	<u>Balance at Beginning of Year</u>	<u>Additions</u>	<u>Reductions</u>	<u>Other</u>	<u>Balance at End of Year</u>
<b>FOR THE YEAR ENDED SEPTEMBER 30, 2021</b>					
Allowance for Doubtful Accounts .....	\$ 8,178	\$ 795	\$ (393)	\$207	\$ 8,787
Inventory valuation .....	\$18,903	\$24,400	\$(12,099)	\$401	\$31,605
Deferred tax valuation allowance .....	\$ 9,824	\$ 601	\$ —	\$ —	\$10,425
<b>FOR THE YEAR ENDED SEPTEMBER 30, 2020</b>					
Allowance for Doubtful Accounts .....	\$ 7,588	\$ 5,175	\$ (4,584)	\$ (1)	\$ 8,178
Inventory valuation .....	\$15,218	\$ 6,771	\$ (3,412)	\$326	\$18,903
Deferred tax valuation allowance .....	\$10,823	\$ —	\$ (999)	\$ —	\$ 9,824
<b>FOR THE YEAR ENDED SEPTEMBER 30, 2019</b>					
<b><u>Allowance for Doubtful Accounts</u></b>					
Allowance for Doubtful Accounts .....	\$ 6,115	\$ 6,253	\$ (4,799)	\$ 19	\$ 7,588
Inventory valuation .....	\$15,940	\$ 1,947	\$ (2,614)	\$(55)	\$15,218
Deferred tax valuation allowance .....	\$ 8,520	\$ 2,303	\$ —	\$ —	\$10,823

## **Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

Not applicable.

## **Item 9A. Controls and Procedures**

### **Evaluation and Disclosure Controls and Procedures**

Griffon's management, with the participation of its Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of the design and operation of Griffon's disclosure controls and procedures, as defined by Exchange Act Rule 13a-15(e). Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this report, Griffon's disclosure controls and procedures were effective to ensure that information required to be disclosed by Griffon in the reports that it files or submits under the Exchange Act are recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms and such information is accumulated and communicated to management as appropriate to allow timely decisions regarding required disclosures.

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.

### **Management's Report on Internal Control over Financial Reporting**

Griffon's management is responsible for establishing and maintaining adequate internal control over financial reporting. Griffon's internal control over financial reporting is a process designed under the supervision of its Chief Executive Officer and Chief Financial Officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of Griffon's financial statements for external reporting in accordance with accounting principles generally accepted in the United States of America. Management evaluates the effectiveness of Griffon's internal control over financial reporting using the criteria set forth by the 2013 Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control—Integrated Framework. Management, under the supervision and with the participation of Griffon's Chief Executive Officer and Chief Financial Officer, assessed the effectiveness of Griffon's internal control over financial reporting as of September 30, 2021 and concluded that it is effective.

Griffon's independent registered public accounting firm, Grant Thornton LLP, has audited the effectiveness of Griffon's internal control over financial reporting as of September 30, 2021, and has expressed an unqualified opinion in their report which appears in this Annual Report on Form 10-K.

### **Changes in Internal Controls**

There were no changes in Griffon's internal control over financial reporting identified in connection with the evaluation referred to above that occurred during the fourth quarter of the year ended September 30, 2021 that have materially affected, or are reasonably likely to materially affect, the registrant's internal control over financial reporting.

### **Inherent Limitations on the Effectiveness of Controls**

Griffon's internal control over financial reporting is designed 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. Griffon's internal control over financial reporting includes those policies and procedures that:

- (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of Griffon's assets;
- (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that Griffon's receipts and expenditures are being made only in accordance with authorizations of Griffon's management and directors; and
- (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of Griffon's assets that could have a material effect on the financial statements.

Management, including Griffon's Chief Executive Officer and Chief Financial Officer, does not expect that Griffon's internal controls will prevent or detect all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of internal controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. Also, any evaluation of the effectiveness of controls in future periods is subject to the risk that those internal controls may become inadequate because of changes in business conditions, or that the degree of compliance with the policies or procedures may deteriorate.

#### **Item 9B. Other Information**

**None.**

### **PART III**

The information required by **Part III: Item 10, Directors, Executive Officers and Corporate Governance** (with respect to directors and corporate governance); **Item 11, Executive Compensation; Item 12, Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters; Item 13, Certain Relationships and Related Transactions, and Director Independence; and Item 14, Principal Accountant Fees and Services**, is included in and incorporated by reference to Griffon's definitive proxy statement in connection with its Annual Meeting of Stockholders scheduled to be held in January, 2022, to be filed with the Securities and Exchange Commission within 120 days following the end of Griffon's fiscal year ended September 30, 2021. Information required by Part III, Item 10, relating to the executive officers of the Registrant, appears under Item 1 of this report.



Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, Griffon has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on the 16th day of November 2021.

GRIFFON CORPORATION

By: /s/ RONALD J. KRAMER

Ronald J. Kramer,  
*Chief Executive Officer*

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below on November 16, 2021 by the following persons on behalf of the Registrant in the capacities indicated:

<u>/s/ RONALD J. KRAMER</u> Ronald J. Kramer	Chairman of the Board and Chief Executive Officer (Principal Executive Officer)
<u>/s/ ROBERT F. MEHMEL</u> Robert F. Mehmel	President, Chief Operating Officer and Director
<u>/s/ BRIAN G. HARRIS</u> Brian G. Harris	Senior Vice President and Chief Financial Officer (Principal Financial Officer)
<u>/s/ W. CHRISTOPHER DURBOROW</u> W. Christopher Durborow	Vice President and Chief Accounting Officer (Principal Accounting Officer)
<u>/s/ HENRY A. ALPERT</u> Henry A. Alpert	Director
<u>/s/ JEROME L. COBEN</u> Jerome L. Coben	Director
<u>/s/ THOMAS J. BROSIG</u> Thomas J. Brosig	Director
<u>/s/ LOUIS J. GRABOWSKY</u> Louis J. Grabowsky	Director
<u>/s/ ROBERT G. HARRISON</u> Robert G. Harrison	Director
<u>/s/ LACY M. JOHNSON</u> Lacy M. Johnson	Director
<u>/s/ VICTOR EUGENE RENUART</u> Victor Eugene Renuart	Director
<u>/s/ JAMES W. SIGHT</u> James W. Sight	Director
<u>/s/ KEVIN F. SULLIVAN</u> Kevin F. Sullivan	Director
<u>/s/ SAMANTA HEGEDUS STEWART</u> Samanta Hegedus Stewart	Director
<u>/s/ CHERYL L. TURNBULL</u> Cheryl L. Turnbull	Director
<u>/s/ WILLIAM H. WALDORF</u> William H. Waldorf	Director

**Certification**

I, Ronald J. Kramer, certify that:

1. I have reviewed this annual report on Form 10-K of Griffon Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) 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: November 16, 2021

/s/ RONALD J. KRAMER

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

**Certification**

I, Brian G. Harris, certify that:

1. I have reviewed this annual report on Form 10-K of Griffon Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) 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: November 16, 2021

/s/ BRIAN G. HARRIS

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Brian G. Harris  
Chief Financial Officer  
(Principal Financial Officer)

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

In connection with the annual report on Form 10-K of Griffon Corporation (the “Company”) for the period ended September 30, 2021 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), Ronald J. Kramer, as Chief Executive Officer of Griffon, and Brian G. Harris, as Chief Financial Officer of Griffon, each hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of their knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Griffon.

/s/ RONALD J. KRAMER

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Name: Ronald J. Kramer  
Title: Chief Executive Officer  
(Principal Executive Officer)  
Date: November 16, 2021

/s/ BRIAN G. HARRIS

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Name: Brian G. Harris  
Title: Chief Financial Officer  
(Principal Financial Officer)  
Date: November 16, 2021

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.

## GAAP TO NON-GAAP RECONCILIATION

	For the Years Ended September 30,			
	2021	2020	2019	2018
Earnings per share.....	\$ 1.48	\$ 1.19	\$ 0.87	\$ 2.96
Adjusting items, net of tax:				
Restructuring charges .....	0.41	0.26	—	—
Loss from debt extinguishment.....	—	0.14	—	—
Acquisition costs .....	—	0.05	—	0.12
Acquisition contingent consideration .....	—	(0.03)	(0.03)	—
Special dividend ESOP charges .....	—	—	—	0.05
Secondary equity offering costs .....	—	—	—	0.02
Cost of life insurance benefit.....	—	—	—	0.01
Contract settlement charges.....	—	—	—	—
Gain adjustment on sale of SEG business.....	(0.10)	—	—	—
Sale of Plastics business and other .....	—	—	0.19	(2.18)
Discrete and certain other tax provisions (benefits) .....	0.06	0.01	0.05	(0.22)
Adjusted earnings per share .....	\$ 1.86	\$ 1.62	\$ 1.08	\$ 0.76

Note: Due to rounding, the sum of earnings per share and adjusting items may not equal adjusted earnings per share.

	For the Years Ended September 30,			
	2021	2020	2019	2018
	(in thousands)			
Segment Adjusted EBITDA				
Consumer and Professional Products.....	\$115,673	\$104,053	\$ 90,677	\$ 77,061
Home and Building Products .....	181,015	153,631	120,161	100,339
Defense Electronics .....	20,486	25,228	35,104	36,063
Subtotal .....	317,174	282,912	245,942	213,463
Less: Defense Electronics.....	(20,486)	(25,228)	(35,104)	(36,063)
Segment Adjusted EBITDA.....	296,688	257,684	210,838	177,400
Unallocated amounts* .....	(49,054)	(48,262)	(47,231)	(45,654)
Adjusted EBITDA .....	247,634	209,422	163,607	131,746
Net interest expense.....	(62,735)	(65,795)	(67,513)	(63,872)
Depreciation and amortization.....	(52,302)	(52,100)	(51,517)	(45,338)
Loss from debt extinguishment .....	—	(7,925)	—	—
Restructuring charges.....	(21,418)	(13,670)	—	—
Acquisition costs.....	—	(2,960)	—	(7,597)
Special dividend ESOP charges.....	—	—	—	(3,220)
Secondary equity offering costs.....	—	—	—	(1,205)
Cost of life insurance benefits .....	—	—	—	(2,614)
Acquisition contingent consideration.....	—	1,733	1,646	—
Income before taxes from continuing operations .....	<u>\$111,179</u>	<u>\$ 68,705</u>	<u>\$ 46,223</u>	<u>\$ 7,900</u>

	3 Year Free Cash Flow	For the Years Ended September 30,		
		2021	2020	2019
		(in thousands)		
Net cash provided by (used in) operating activities - continuing operations.....	\$ 269,181	\$ 71,032	\$107,803	\$ 90,346
Acquisition of property, plant and equipment .....	(112,988)	(36,951)	(41,168)	(34,869)
Proceeds from the sale of property, plant and equipment .....	869	237	352	280
Free cash flow provided by Defense Electronics.....	66,676	32,159	21,397	13,120
Free cash flow .....	<u>\$ 223,738</u>	<u>\$ 66,477</u>	<u>\$ 88,384</u>	<u>\$ 68,877</u>



## COMPANY PROFILE

### CONSUMER AND PROFESSIONAL PRODUCTS

**The AMES Companies**, founded in 1774, is the leading North American manufacturer and a global provider of branded consumer and professional tools and products for home storage and organization, landscaping, and enhancing outdoor lifestyles.

AMES sells products globally through a portfolio of leading brands including True Temper, AMES, and ClosetMaid. More information is available at [www.ames.com](http://www.ames.com) and [www.closetmaid.com](http://www.closetmaid.com).

### HOME AND BUILDING PRODUCTS

**Clopay Corporation**, since 1964, 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 CornellCookson brand. More information is available at

[www.clopay.com](http://www.clopay.com) and [www.cornellcookson.com](http://www.cornellcookson.com).

### DEFENSE ELECTRONICS

**Telephonics**, founded in 1933, is a globally recognized leading provider of highly sophisticated intelligence, surveillance and communications solutions for defense, aerospace and commercial customers.

More information is available at [www.telephonics.com](http://www.telephonics.com).

### DIRECTORS

Henry A. Alpert  
President, Spartan Petroleum Corp.  
(petroleum distributor/real estate)

Thomas J. Brosig  
Retired Executive

Jerome L. Coben  
Partner (Ret.)  
Skadden, Arps, Slate, Meagher and Flom LLP

Louis J. Grabowsky  
Co-Founder and Principal, Juniper Capital  
Management

Rear Admiral Robert G. Harrison  
USN (Ret.)

Lacy M. Johnson  
Partner  
Taft Stettinius & Hollister LLP

Ronald J. Kramer  
Chairman of the Board and  
Chief Executive Officer

Robert F. Mehmel  
President and Chief Operating Officer

General Victor Eugene Renuart  
USAF (Ret.)  
President, The Renuart Group, LLC  
(defense consulting firm)

James W. Sight  
Private Investor

Samanta Hegedus Stewart  
Senior Vice President and  
Head of Investor Relations,  
Endeavor

Kevin F. Sullivan  
Managing Director  
MidOcean Credit Partners

Cheryl L. Turnbull  
Senior Director — New Ventures and Venture  
Capital, The Ohio State University

William H. Waldorf  
President, Landmark Capital, LLC  
(investments)

### OFFICERS

Ronald J. Kramer  
Chairman of the Board and  
Chief Executive Officer

Robert F. Mehmel  
President and  
Chief Operating Officer

Brian G. Harris  
Senior Vice President and  
Chief Financial Officer

Seth L. Kaplan  
Senior Vice President,  
General Counsel and Secretary

Michael A. Sarrica  
Senior Vice President, Operations

W. Christopher Durborow  
Vice President and  
Chief Accounting Officer

Michael W. Hansen  
Vice President, Corporate Strategy  
and Development

Denise A. Lueders  
Vice President, Taxation

Thomas D. Gibbons  
Vice President and Treasurer

Tracy J.I. Fitzgerald  
Vice President, Internal Audit

### Independent Registered Public Accountants

Grant Thornton LLP

### Stock Listing

The company's Common Stock is listed on the New York Stock Exchange (NYSE) under the symbol GFF.

### Registrar and Transfer Agent

American Stock Transfer &  
Trust Company

Additional copies of this report will be furnished to shareholders upon written request to the company at:

Griffon Corporation  
Attn. Secretary  
712 Fifth Avenue, 18th Floor  
New York, New York 10019

### Website

[www.griffon.com](http://www.griffon.com)

Griffon Corporation has included as exhibits to its Annual Report on Form 10-K for fiscal year 2021 filed with the SEC certifications of Griffon's Chief Executive Officer and Chief Financial Officer certifying the quality of the company's public disclosures. Griffon's Chief Executive Officer has also submitted to the NYSE a certification that he is not aware of any violations by Griffon of the NYSE corporate governance listing standards.

*Griffon* 

[www.griffon.com](http://www.griffon.com)