GRIFFON CORP
Form 10-Q
August 02, 2018
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2018

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

For the transition period from to

Commission File Number: 1-06620

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

DELAWARE	11-1893410
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
712 Fifth Ave, 18th Floor, New York, New York	10019
(Address of principal executive offices)	(Zip Code)

(212) 957-5000
(Registrant’s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (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. ý Yes o No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, 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 shorter period that the registrant was required to submit and post such files). ý Yes o No

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

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

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. o

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

The number of shares of common stock outstanding at July 31, 2018 was 45,615,377.

Griffon Corporation and Subsidiaries

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Part I – Financial Information
Item 1 – Financial Statements

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

	(Unaudited) June 30, 2018	September 30, 2017
CURRENT ASSETS		
Cash and equivalents	$63,766	$ 47,681
Accounts receivable, net of allowances of $6,183 and $5,966	311,129	208,229
Contract costs and recognized income not yet billed, net of progress payments of $4,808 and $4,407	110,138	131,662
Inventories, net	395,813	299,437
Prepaid and other current assets	56,955	40,067
Assets of discontinued operations held for sale	—	370,724
Assets of discontinued operations not held for sale	326	329
Total Current Assets	938,127	1,098,129
PROPERTY, PLANT AND EQUIPMENT, net	325,078	232,135
GOODWILL	502,055	319,139
INTANGIBLE ASSETS, net	316,956	205,127
OTHER ASSETS	16,505	16,051
ASSETS OF DISCONTINUED OPERATIONS NOT HELD FOR SALE	2,930	2,960
Total Assets	$2,101,651	$ 1,873,541
CURRENT LIABILITIES		
Notes payable and current portion of long-term debt	$10,739	$ 11,078
Accounts payable	228,394	183,951
Accrued liabilities	150,602	83,258
Liabilities of discontinued operations held for sale	—	84,450
Liabilities of discontinued operations not held for sale	25,795	8,342
Total Current Liabilities	415,530	371,079
LONG-TERM DEBT, net	1,124,981	968,080
OTHER LIABILITIES	90,127	132,537
LIABILITIES OF DISCONTINUED OPERATIONS NOT HELD FOR SALE	4,926	3,037
Total Liabilities	1,635,564	1,474,733
COMMITMENTS AND CONTINGENCIES - See Note 18		
SHAREHOLDERS’ EQUITY		
Total Shareholders’ Equity	466,087	398,808
Total Liabilities and Shareholders’ Equity	$2,101,651	$ 1,873,541

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

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GRIFFON CORPORATION
CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
(Unaudited)

(in thousands)	COMMON STOCK SHARES	COMMON STOCK PAR VALUE	CAPITAL IN EXCESS OF PAR VALUE	RETAINED EARNINGS	TREASURY SHARES SHARES	TREASURY SHARES COST	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	DEFERRED COMPENSATION	TOTAL
Balance at September 30, 2017	80,663	$20,166	$487,077	$480,347	33,557	$(489,225)	$(60,481)	$(39,076)	$398,808
Net income	—	—	—	127,096	—	—	—	—	127,096
Dividend	—	—	—	(52,521)	—	—	—	—	(52,521)
Shares withheld on employee taxes on vested equity awards	—	—	—	—	199	(4,478)	—	—	(4,478)
Amortization of deferred compensation	—	—	—	—	—	—	—	6,088	6,088
Common stock acquired	—	—	—	—	2,089	(41,110)	—	—	(41,110)
Equity awards granted, net	797	199	(199)	—	—	—	—	—	—
ESOP allocation of common stock	—	—	3,906	—	—	—	—	—	3,906
Stock-based compensation	—	—	7,372	—	—	—	—	—	7,372
Stock-based consideration	—	—	972	—	—	—	—	—	972
Other comprehensive income, net of tax	—	—	—	—	—	—	19,954	—	19,954
Balance at June 30, 2018	81,460	$20,365	$499,128	$554,922	35,845	$(534,813)	$(40,527)	$(32,988)	$466,087

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

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

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2018	2017	2018	2017
Revenue	$516,550	$358,114	$1,432,413	$1,094,198
Cost of goods and services	377,758	260,130	1,051,304	800,601
Gross profit	138,792	97,984	381,109	293,597
Selling, general and administrative expenses	114,294	80,555	323,776	241,372
Income from operations	24,498	17,429	57,333	52,225
Other income (expense)				
Interest expense	(16,328)	(12,679)	(49,973)	(38,694)
Interest income	532	17	1,491	38
Other, net	300	(220)	1,266	(422)
Total other expense, net	(15,496)	(12,882)	(47,216)	(39,078)
Income before taxes from continuing operations	9,002	4,547	10,117	13,147
Provision (benefit) from income taxes	1,560	95	(22,107)	(299)
Income from continuing operations	$7,442	$4,452	$32,224	$13,446
Discontinued operations:				
Income (loss) from operations of discontinued operations (including a gain on sale of $117,625 in 2018)	$(200)	$7,024	124,642	21,639
Provision for income taxes (including tax on gain on sale of $31,268 in 2018)	1,415	1,922	29,770	8,222
Income (loss) from discontinued operations (including a gain on sale, net of tax of $86,357 in 2018)	$(1,615)	$5,102	94,872	13,417
Net income	$5,827	$9,554	$127,096	$26,863
Income from continuing operations	$0.18	$0.11	$0.78	$0.33
Income (loss) from discontinued operations	(0.04)	0.12	2.30	0.33
Basic earnings per common share	$0.14	$0.23	$3.08	$0.66
Weighted-average shares outstanding	40,295	41,683	41,232	40,765
Income from continuing operations	$0.18	$0.10	$0.76	$0.31
Income (loss) from discontinued operations	(0.04)	0.12	2.23	0.31
Diluted earnings per common share	$0.14	$0.22	$2.98	$0.63
Weighted-average shares outstanding	41,742	43,255	42,620	42,934
Dividends paid per common share	$1.07	$0.06	$1.21	$0.18
Net income	$5,827	$9,554	$127,096	$26,863

Other comprehensive income (loss), net of taxes:				
Foreign currency translation adjustments	(9,136)	6,414	9,289	1,344
Pension and other post retirement plans	247	544	10,053	1,632
Change in cash flow hedges	84	198	612	801
Total other comprehensive income (loss), net of taxes	(8,805)	7,156	19,954	3,777
Comprehensive income (loss), net	$(2,978)	$16,710	$147,050	$30,640

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

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

	Nine Months Ended June 30, 2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES - CONTINUING OPERATIONS:		
Net income	$127,096	$26,863
Net (income) from discontinued operations	(94,872)	(13,417)
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	40,318	36,356
Stock-based compensation	7,372	7,200
Provision (recovery) for losses on accounts receivable	49	(70)
Amortization of debt discounts and issuance costs	3,981	3,705
Deferred income taxes	(24,612)	1,675
(Gain) loss on sale of assets and investments	136	(98)
Change in assets and liabilities, net of assets and liabilities acquired:		
(Increase) decrease in accounts receivable and contract costs and recognized income not yet billed	(16,290)	7,555
Increase in inventories	(49,474)	(29,400)
Decrease in prepaid and other assets	5,777	543
Decrease in accounts payable, accrued liabilities and income taxes payable	(4,088)	(18,215)
Other changes, net	7,398	2,705
Net cash provided by operating activities - continuing operations	2,791	25,402
CASH FLOWS FROM INVESTING ACTIVITIES - CONTINUING OPERATIONS:		
Acquisition of property, plant and equipment	(33,148)	(22,575)
Acquired businesses, net of cash acquired	(429,545)	(6,051)
Proceeds from sale of business	473,977	—
Proceeds from sale of assets	482	146
Net cash provided by (used in) investing activities - continuing operations	11,766	(28,480)
CASH FLOWS FROM FINANCING ACTIVITIES - CONTINUING OPERATIONS:		
Dividends paid	(46,816)	(7,766)
Purchase of shares for treasury	(45,588)	(15,796)
Proceeds from long-term debt	419,645	211,097
Payments of long-term debt	(262,031)	(147,729)
Share premium payment on settled debt	—	(24,997)
Financing costs	(7,671)	(363)
Purchase of ESOP shares	—	(10,908)
Other, net	139	(112)
Net cash provided by financing activities - continuing operations	57,678	3,426
CASH FLOWS FROM DISCONTINUED OPERATIONS:		
Net cash provided by (used in) operating activities	(28,970)	38,867
Net cash used in investing activities	(10,762)	(36,559)
Net cash used in financing activities	(22,541)	(5,689)
Net cash used in discontinued operations	(62,273)	(3,381)
Effect of exchange rate changes on cash and equivalents	6,123	(72)
NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS	16,085	(3,105)

CASH AND EQUIVALENTS AT BEGINNING OF PERIOD	47,681	72,553
CASH AND EQUIVALENTS AT END OF PERIOD	$63,766	$69,448

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

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GRIFFON CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(US dollars and non US currencies in thousands, except per share data)
(Unaudited)
(Unless otherwise indicated, references to years or year-end refer to Griffon's fiscal period ending September 30)

NOTE 1 – DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

About Griffon Corporation

Griffon Corporation (the "Company" or "Griffon") 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.

Headquartered in New York, N.Y., the Company was founded in 1959 and is incorporated in Delaware. Griffon is listed on the New York Stock Exchange and trades under the symbol GFF.

On June 4, 2018, Clopay Building Products Company, Inc. ("CBP") acquired CornellCookson, Inc. ("CornellCookson"), a leading US manufacturer and marketer of rolling steel door and grille products designed for commercial, industrial, institutional and retail use, for $180,000, subject to certain post-closing adjustments and excluding the present value of net tax benefits under current tax law resulting from the transaction. The accounts, affected for preliminary adjustments to reflect fair market values assigned to assets purchased and liabilities assumed, and results of operations of CornellCookson, are included in the Company's consolidated financial statements from the date of acquisition of June 4, 2018. See Note 3, Acquisitions.

On November 16, 2017, Griffon announced it entered into a definitive agreement to sell Clopay Plastic Products Company, Inc. ("PPC") and on February 6, 2018, completed the sale to Berry Global, Inc. (NYSE:BERY) ("Berry") for $475,000 in cash, subject to certain post-closing adjustments. As a result, Griffon classified the results of operations of the PPC business as discontinued operations in the Consolidated Statements of Operations for all periods presented and classified the related assets and liabilities associated with the discontinued operations in the consolidated balance sheets. All results and information presented exclude PPC unless otherwise noted. See Note 14, Discontinued Operations.

On October 2, 2017, Griffon acquired ClosetMaid LLC ("ClosetMaid") for approximately $185,700, subject to certain post-closing adjustments and excluding the present value of net tax benefits under current tax law resulting from the transaction. ClosetMaid, founded in 1965, is a leading North American manufacturer and marketer of closet organization, home storage, and 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. The accounts, affected for preliminary adjustments to reflect fair market values assigned to assets purchased and liabilities assumed, and results of operations of ClosetMaid are included in the Company's consolidated financial statements from the date of acquisition of October 2, 2017. See Note 3, Acquisitions.

Griffon currently conducts its operations through two reportable segments:

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Home & Building Products ("HBP") segment consists of three companies, The AMES Companies, Inc. ("AMES"), ClosetMaid and CBP:

- AMES, founded in 1774, is the leading U.S. manufacturer and a global provider of long-handled tools and landscaping products for homeowners and professionals.

- ClosetMaid, founded in 1965, is a leading North American manufacturer and marketer of closet organization, home storage, and garage storage products, and sells to some of the largest home center retail chains, mass merchandisers, and direct-to-builder professional installers.

- CBP, since 1964, is a leading manufacturer and marketer of residential and commercial garage doors and sells to professional dealers and some of the largest home center retail chains in North America and, under the CornellCookson brand, is a leading U.S. manufacturer and marketer of rolling steel door and grille products designed for commercial, industrial, institutional, and retail use.

• Defense Electronics segment consists of 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.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP") for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, these financial statements do not include all the information and footnotes required by US GAAP for complete financial statements. As such, they should be read together with Griffon's Annual Report on Form 10-K for the year ended September 30, 2017, which provides a more complete explanation of Griffon's accounting policies, financial position, operating results, business properties and other matters. In the opinion of management, these financial statements reflect all adjustments considered necessary for a fair statement of interim results. Griffon's HBP operations are seasonal; for this and other reasons, the financial results of the Company for any interim period are not necessarily indicative of the results for the full year.

The condensed consolidated balance sheet information at September 30, 2017 was derived from the audited financial statements included in Griffon's Annual Report on Form 10-K for the year ended September 30, 2017.

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

The preparation of financial statements in conformity with US GAAP 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 allowances for doubtful accounts receivable and returns, net realizable value of inventories, restructuring reserves, valuation of goodwill and intangible assets, percentage of completion method of accounting, pension assumptions, useful lives associated with depreciation and amortization of fixed and intangible assets, warranty reserves, sales incentive accruals, stock based compensation assumptions, income taxes and tax valuation reserves, environmental reserves, legal reserves, insurance reserves and the valuation of assets and liabilities of discontinued operations, acquisition assumptions used and the accompanying disclosures. These estimates are based on management's best knowledge of current events and actions Griffon may undertake in the future. Actual results may ultimately differ from these estimates.

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

NOTE 2 – FAIR VALUE MEASUREMENTS

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

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

- Level 1 inputs are measured and recorded at fair value based upon quoted prices in active markets for identical assets.

- Level 2 inputs include inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices in active markets for similar assets and liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of assets or liabilities.

- Level 3 inputs are unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

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The fair values of Griffon’s 2022 senior notes approximated $972,500 on June 30, 2018. Fair values were based upon quoted market prices (level 1 inputs).

On January 17, 2017, Griffon's 4% convertible subordinated notes settled for a total of $173,855. The total settlement value for the convertible notes was based on the sum of the daily Volume Weighted Average Price multiplied by the conversion rate over a 40-day observation period (level 1 inputs). The settlement value was split between $125,000 in cash and