Titan Machinery Inc.
Form 10-K
April 11, 2012

Use these links to rapidly review the document
Table of Contents
ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-K

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

FOR THE FISCAL YEAR ENDED JANUARY 31, 2012

Commission File No. 001-33866

TITAN MACHINERY INC.

(Exact name of registrant as specified in its charter)

Delaware	**No. 45-0357838**
(State or Other Jurisdiction of Incorporation or Organization)	(IRS Employer Identification No.)

644 East Beaton Drive
West Fargo, ND 58078-2648
(Address of Principal Executive Offices)

(701) 356-0130
(Registrant's telephone number, including area code)

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

Title of each class: **Common Stock, $0.00001 Par Value**

Name of each exchange on which registered: **The NASDAQ Stock Market LLC**

Securities registered pursuant to Section 12(g) of the Act: **None**

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

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

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

Indicate by check mark 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). Yes ý No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

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

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

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

The aggregate market value of our common stock held by non-affiliates as of July 29, 2011 was approximately $440.2 million (based on the last sale price of $26.41 per share on such date as reported on The NASDAQ Global Select Market).

The number of shares outstanding of the registrant's common stock as of March 31, 2012 was 20,911,278 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the proxy statement for the registrant's 2012 Annual Meeting of Stockholders are incorporated by reference into Items 10, 11, 12, 13 and 14 of Part III of this report.

Table of Contents

		Page No.
	PART I	
Item 1.	Business	1
Item 1A.	Risk Factors	17
Item 1B.	Unresolved Staff Comments	24
Item 2.	Properties	24
Item 3.	Legal Proceedings	26
Item 4.	Mine Safety Disclosures	27
	PART II	
Item 5.	Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	28
Item 6.	Selected Financial Data	30
Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	32
Item 7A.	Quantitative and Qualitative Disclosures About Market Risk	54
Item 8.	Financial Statements and Supplementary Data	55
Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	91
Item 9A.	Controls and Procedures	91
Item 9B.	Other Information	91
	PART III	
Item 10.	Directors, Executive Officers and Corporate Governance	92
Item 11.	Executive Compensation	92
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	92
Item 13.	Certain Relationships and Related Transactions, and Director Independence	92
Item 14.	Principal Accounting Fees and Services	92
	PART IV	
Item 15.	Exhibits, Financial Statement Schedules	93

We make available, free of charge, copies of our 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) or 15(d) of the Securities Exchange Act on our web site, *http://www.titanmachinery.com*, as soon as reasonably practicable after filing such material electronically or otherwise furnishing it to the SEC. We are not including the information on our web site as a part of, or incorporating it by reference into, our Form 10-K.

Table of Contents

ITEM 1. BUSINESS

Our Company

Overview

We own and operate a network of full service agricultural and construction equipment stores in the United States and Europe. Based upon information provided to us by CNH Global N.V. or its U.S. subsidiary CNH America, LLC, collectively referred to in this Form 10-K as CNH, we are the largest retail dealer of Case IH Agriculture equipment in the world, the largest retail dealer of Case Construction equipment in North America and a major retail dealer of New Holland Agriculture and New Holland Construction equipment in the U.S. We have two primary business segments, Agriculture and Construction, within each of which we sell and rent new and used equipment, sell parts, and service the equipment in the areas surrounding our stores.

The agricultural equipment we sell and service includes machinery and attachments for uses ranging from large-scale farming to home and garden use. The construction equipment we sell and service includes heavy construction and light industrial machinery for commercial and residential construction, road and highway construction and mining. Within each of our operating segments, we engage in four principal business activities:

- new and used equipment sales;
- parts sales;
- repair and maintenance services; and
- equipment rental and other activities.

The new equipment and parts we sell are supplied primarily by CNH. CNH is a leading manufacturer and supplier of agricultural and construction equipment, primarily through the Case IH Agriculture, New Holland Agriculture, Case Construction and New Holland Construction brands. We acquire used equipment for resale through trade-ins from our customers and selective purchases. We also sell parts and provide in-store and on-site repair and maintenance services. We also rent equipment and provide ancillary services such as equipment transportation, Global Positioning System ("GPS") signal subscriptions and finance and insurance products.

We offer our customers a one-stop solution by providing equipment and parts sales, repair and maintenance services and rental functions in each store. Our full service approach provides us with multiple points of customer contact and substantial cross-selling opportunities. We believe our mix of equipment and recurring parts and service sales enables us to operate effectively throughout economic cycles. We also believe our significant scale, superior customer service, diverse and stable customer base, proven management reporting system and experienced management team provide us with a competitive advantage in many of our local markets.

Throughout our 32-year operating history we have built an extensive, geographically contiguous network of 106 stores, including two outlet stores. Our agricultural equipment stores are located in highly productive farming regions, including the Red River valley in eastern North Dakota and northwestern Minnesota, the western portions of the corn belt in Iowa, eastern South Dakota and southern Minnesota, and along the Interstate-80 corridor in Nebraska, which sits on top of the Ogallala Aquifer. Our construction equipment stores are located in North Dakota, South Dakota, Iowa, Minnesota, Montana, Wyoming, Nebraska, Wisconsin and Colorado.

Our executives have extensive industry experience. David Meyer, our Chairman and Chief Executive Officer, founded our company in 1980. In 2002, we acquired two stores owned by C.I. Farm Power, Inc., a business owned by our President and Chief Operating Officer, Peter Christianson, which he co-founded in 1988. Based on our collective industry experience, we developed the Titan Operating

Table of Contents

Model, which combines management accountability and decision-making at the store level with centralized, back-office support. In addition, our executives work closely with our store managers to develop the managers' industry knowledge and ensure these managers achieve operational excellence in line with our management philosophy.

We have a history of successful growth through acquisitions. Since January 1, 2003, we have completed 45 acquisitions consisting of 99 stores operating in nine states and two European countries, including 30 acquisitions consisting of 68 stores completed since our initial public offering on December 11, 2007. We have a well-established track record of successfully integrating acquired stores through the Titan Operating Model, retaining acquired-store employees and maintaining acquired-store customer relationships. We expect that acquisitions will continue to be an important component of our consolidated and segment growth.

Industry Overview

Agricultural Equipment Industry

Agricultural equipment is purchased primarily for the production of food, fiber, feed grain and renewable energy. It is also purchased for home and garden applications and maintenance of commercial, residential and government properties. Deere & Company ("Deere"), CNH and AGCO Corporation are the largest global manufacturers and supply a full line of equipment and parts that address the primary machinery requirements of farmers. For the most recent fiscal year-ends for which information is currently available, revenue from agriculture operations was $24.1 billion for Deere, $14.2 billion for CNH and $8.8 billion for AGCO Corporation. In addition to the major manufacturers, several short-line manufacturers produce specialized equipment that addresses regional and niche requirements of farmers. Agricultural equipment manufacturers typically grant dealers in the U.S. authorized store locations, not exclusive territories, to distribute their products.

We believe there are many factors that influence demand for agricultural equipment, parts and repair and maintenance services, including commodity prices, interest rates, general economic conditions and weather. Conditions can fluctuate drastically in a short time period, creating volatility in demand, especially for equipment, in a given year. Government subsidies also influence demand for agricultural equipment. Legislation, most notably the U.S. Farm Bill and the Farm Security and Rural Investment Act of 2002, attempts to stabilize the agriculture industry through U.S. Department of Agriculture ("USDA") subsidies. USDA subsidies include (i) commodity programs consisting of direct, counter-cyclical and price support payments to farmers; (ii) conservation programs; and (iii) disaster relief programs. We believe USDA subsidies reduce financial volatility and help ensure that farmers operate their farms and equipment during economic down cycles, thus stabilizing demand for equipment, replacement parts and repair and maintenance services.

Construction Equipment Industry

Construction equipment is purchased primarily for commercial, residential and infrastructure construction, as well as for demolition, maintenance, mining, energy production and forestry operations. The market for construction equipment is segmented across multiple categories including earth moving, lifting, light industrial, asphalt and paving, and concrete and aggregate equipment. We believe Caterpillar, Inc., Komatsu Ltd., Deere, CNH and Ingersoll-Rand Co. Ltd. are the largest global manufacturers of construction equipment. These companies generated revenue from their construction operations of $57.4 billion for Caterpillar Inc., $22.2 billion for Komatsu Ltd., $5.4 billion for Deere, and $3.9 billion for CNH for the most recent fiscal year-ends for which information is currently available. As in the agricultural equipment market, distribution of construction equipment in the U.S. is executed primarily by manufacturer authorized dealers; however, manufacturers' dealership agreements in the construction industry typically assign exclusive distribution territories.

Table of Contents

Construction machinery is generally divided into heavy and light subgroups. Heavy machinery includes large wheel loaders, large tracked excavators, cranes, crawler dozers, motor graders and articulated haul trucks. Light machinery includes backhoe landscape tractors, forklifts, compact excavators and skid steers. Heavy machinery is generally purchased by construction companies, municipalities, local governments, rental fleet owners, quarrying and mining companies, waste management companies and forestry-related organizations. Typically, light machinery is purchased by contractors, rental fleet owners, landscapers, logistics companies, farmers and recreational users. Although demand for construction equipment is affected by weather and seasonal factors, it is usually less susceptible to seasonal changes than the agricultural equipment industry.

CNH and industry reports show demand for construction equipment in our markets is driven by several factors, one of which is public infrastructure spending, including roads and highways, sewer and water, as well as by public and private expenditures for the energy and mining industries. Demand for construction equipment is also driven by demand for fossil fuels, as well as metals and other commodities. We expect to benefit from the need for equipment to establish the infrastructure necessary to extract these natural resources, particularly in North Dakota, as consumer and wholesale consumption accelerates.

Titan Operating Model

We believe the Titan Operating Model is a key element to our continued success. Through the Titan Operating Model, we empower leadership and share best practices at the store level while realizing efficiencies at the corporate level. We believe exceptional customer service is most efficiently delivered through accountable store employees who are supported by centralized administrative, finance and marketing functions. By managing our business as a network of independent stores supported by a centralized, shared resources group, we ensure coordination of the entire enterprise while promoting local business relationships on a store-by-store basis. We have implemented the Titan Operating Model in each of our reporting segments.

Strong Stores

Each of our stores is run by a store manager who is reviewed and compensated based on the store's achievement of revenue, profitability, market share and balance sheet objectives. Also, each store is typically staffed by a parts manager, a service manager and field marketers, all of whom report directly to the store manager. Under our operating model, decision-making for customer-related issues is decentralized, with each store manager responsible for matters such as the type of equipment to stock, equipment pricing, staffing levels and customer satisfaction. This operating model enables each store manager to concentrate on customers' equipment, parts, service and rental needs, while our shared resources group manages the administrative functions of the store. We believe customers in our industry view store managers and sales and service personnel as important partners in operating their businesses. Therefore, we believe developing and supporting strong store managers enables us to grow same-store sales through fostering new relationships and further developing existing relationships with our customers. In addition, we believe that choosing to centralize customer-related decision making at the corporate level risks undermining the partnership many customers seek to build with their dealer.

Shared Resources

Our shared resources group provides a range of services to support our stores, including warranty and service administration, information technology support, administration, marketing campaigns, human resources management, finance and insurance, central purchasing, accounting, data administration and cash management. We believe these functions can be run more efficiently when combined and provide more sophisticated tools to our store managers than an independent dealership could support alone. We maintain accountability through our management reporting systems, which

provide data on certain key operational and financial metrics on a daily basis, as well as a comprehensive review of financial performance on a monthly basis. We believe the services provided by our shared resources group enables our stores to achieve a higher level of customer service by freeing them from certain general and administrative functions and a more competitive market presence at a lower cost than would be feasible if our stores operated independently. Furthermore, as we acquire new stores, we believe the shared services required to support these stores will grow at a lower rate than our overall growth in store count.

Management Development and Succession Planning

Our executives work closely with our regional and store managers and mid-level corporate managers to ensure the managers benefit from our executives' industry knowledge and execute operational excellence in line with our management philosophy. We also conduct formal meetings on a monthly basis with our store managers and regional managers to assess operational and financial objectives, develop near-term strategies and share best practices across the organization. We believe the relationships between our executives, regional managers, store managers and mid-level corporate managers will sustain our financial success through continued implementation of our effective operating model, by providing a strong pool of capable successors to our current team of executives, regional managers and store managers. Further, we seek to staff our stores with entrepreneurial individuals trained, including through our programs, and motivated to progress to higher level management positions. In addition, we sponsor programs with several technical colleges and community colleges that offer scholarships to students who will ultimately work for us in various capacities empowered with the basic knowledge and tools to succeed.

Business Strengths

In addition to the Titan Operating Model, we believe the following attributes of our business model and market position are important factors in our ability to compete effectively and achieve our long-term financial objectives:

Leading North American Equipment Provider with Significant Scale

According to CNH, we are the largest retail dealer of Case IH Agriculture equipment in the world, the largest retail dealer of Case Construction equipment in North America and a major retail dealer of New Holland Agriculture and New Holland Construction equipment in the U.S. We believe our size and large, contiguous geographic market provide us with several competitive advantages including:

- our ability to efficiently manage inventory by empowering each individual store with inventory management responsibility and access to our centralized inventory management system, thus allowing inventory exchanges among the stores, which permits us to maintain only the inventory deemed needed by each store while providing significant breadth of parts and equipment to our customers;

- our ability to use expanded sales channels, including used equipment listings hosted on our website, which enables us to offer our customers alternative purchasing options; and

- our ability to sell inventory to customers in a large geographic area covering North Dakota, South Dakota, Iowa, Minnesota, Montana, Wyoming, Nebraska, Wisconsin and Colorado, which enables us to capitalize on crop diversification and disparate weather throughout this area, as well as local trends in residential, infrastructure and commercial construction.

Table of Contents

Customer Focus at the Local Level

As part of the Titan Operating Model, we centralize general and administrative functions and finance resources. This strategy enables our store employees to focus exclusively on customers and eliminates redundant operating expenses. We also centralize our marketing resources to offer our stores and field marketers professional marketing support that includes targeted direct mailings, advertising with targeted local media outlets, participation in and sponsorship of trade shows and industry events, our Titan Trader monthly magazine, and our hosting of open houses, service clinics, equipment demonstrations, product showcases and customer appreciation outings. We believe this operating structure, which focuses on serving our customers on a local level, will allow us to increase market share.

Superior Customer Service to Attract and Retain Customers

We believe our ability to respond quickly to our customers' demands is a key to profitable growth. Our executives are committed to maintaining a customer-focused culture. We spend significant time and resources training our employees to effectively service our customers in each of our local markets, which we believe will increase our revenue. Our training program involves active participation in all manufacturer-sponsored training programs and the use of industry experts as consultants for customized training programs and a training team to assist in the integration of newly-acquired operations. We also partner with several technical colleges to sponsor students that we plan to ultimately employ. In particular, the following capabilities enable us to better service our customers:

- our ability to staff a large number of highly-trained service technicians across our network of stores, which makes it possible to schedule repair services on short notice without affecting our technician utilization rates;

- our ability to staff and leverage product and application specialists across our network of stores, which makes it possible to offer valuable pre-sale and aftermarket services, including equipment training, best practices education and precision farming technology support; and

- our ability to innovate and lead our industry through initiatives such as Rural Tower Network, our joint venture with certain local Caterpillar and Deere dealerships to deploy a GPS guidance system in support of precision farming in our core geographic market, which provides our customers with the latest advances in technology and operating practices.

Unique Entrepreneurial Culture to Attract and Retain Superior Employees

We created a unique entrepreneurial culture that empowers our employees to make decisions and act within the parameters of a proven operating process and system. We believe this culture and our size gives us a competitive advantage in attracting and retaining the best employees in our industry. We developed an operating system and process that provides our employees with defined objectives and frequent feedback of results within an entrepreneurial environment that allows them to work independently yet consistently throughout our company. Through this operating system and process we have established defined financial metrics on a balanced scorecard, which is used monthly with each store manager to assess performance. Each store manager is empowered to operate the individual store as appropriate within the guidelines set by the operating system and process. This balanced management philosophy enables our employees to understand clearly how they succeed in our organization and how to interact with customers who expect a level of autonomy from our employees. Our compensation system focuses on rewarding our employees for high performance, thus enabling us to retain most of those employees who perform at or above expectations. This system also enables us to attract talented individuals outside of our industry and train them to perform at a high level within a relatively short period of time.

Table of Contents

Diverse and Stable Customer Base to Avoid Market Volatility

We believe our large and diverse customer base limits our exposure to risks associated with customer concentration and fluctuations in local market conditions. We have long and stable relationships with many of our customers. During fiscal 2012, we conducted business with approximately 77,000 customers, none of whom accounted for more than 1.0% of our total revenue. Our top ten customers combined represented approximately 2.0% of our total revenue. During fiscal 2012, we did not derive material revenues from external customers located outside of the United States.

Proven Information Technology Systems

Our management reporting systems provide the data and reports that facilitate our ability to make informed decisions. We use these systems to actively manage our business and enable each store to access the available inventory of our other stores before ordering additional parts or equipment from our suppliers. As a result, we minimize our investment in inventory while promptly satisfying our customers' parts and equipment needs. Our customer relationship management system provides sales and customer information and other organizational tools to assist our field marketers, parts managers and service managers. In addition, our management reporting systems facilitate training and foster development of management personnel.

Experienced Management Team to Implement our Growth Strategy

Our executive team is led by David Meyer, our Chairman and Chief Executive Officer, and Peter Christianson, our President and Chief Operating Officer, who have approximately 37 and 33 years, respectively, of industry experience. Our regional managers, store managers and field marketers also have extensive knowledge and experience in our industry. In addition, we compensate, develop and review our regional managers and store managers based on an approach that aligns their incentives with the goals and objectives of our company, including achievement of revenue, profitability, market share and balance sheet objectives. We believe the strength of our management team will help our success in the marketplace.

Growth Strategy

We pursue the following growth strategies:

Increase Market Share and Same-Store Sales

We focus on increasing our share of the equipment sold in our markets because our market share impacts current period revenue and compounds our revenue over the life of the equipment sold through recurring parts and service business. We seek to generate same-store growth and increase market share through:

- employing significant marketing and advertising programs, including targeted direct mailings, advertising with targeted local media outlets, participation in and sponsorship of trade shows and industry events, our Titan Trader monthly magazine, and by hosting open houses, service clinics, equipment demonstrations, product showcases and customer appreciation outings;

- supporting and providing customers with training for evolving technologies, such as precision farming, that are difficult for single-store operators to support;

- maintaining state-of-the-art service facilities, mobile service trucks and trained service technicians to maximize our customers' equipment uptime through preventative maintenance programs and seasonal 24/7 service support; and

- utilizing our inventory system to maximize parts and equipment availability for our customers.

Table of Contents

Make Selective Acquisitions

The agricultural and construction equipment industries are fragmented and consist of many relatively small, independent businesses servicing discrete local markets. We believe a favorable climate for dealership consolidation exists due to several factors, including the competitiveness of our industry, growing dealer capitalization requirements and lack of succession alternatives. We intend to continue to evaluate and pursue acquisitions with the objectives of entering new markets, consolidating distribution within our established network and strengthening our competitive position.

We have a track record of completing and integrating acquisitions and have successfully used acquisitions to enter new markets. We look to add stores through acquisitions that offer attractive growth opportunities, high demand for the equipment we sell and services we offer, management strength, and contiguity with our existing geography. These factors have guided us to successful acquisition candidates. We believe our track record of successful acquisitions and expansion increases the probability that our future expansion will be profitable.

We believe that we are effectively able to identify attractive acquisition candidates due to our leadership position in the industry, our track record of completing and integrating acquisitions, and our contacts in and knowledge of our industry and geographic region. We regularly assess the acquisition landscape, evaluating potential acquisition candidates in terms of their availability and desirability to our long-term growth strategy. In addition, we believe acquisition economics in our industry have been and will continue to be conducive to executing our long-term growth strategy. Typically, we acquire only the fixed assets, working capital and selected inventory we believe are necessary to run an efficient store based on the Titan Operating Model and assume only the liabilities related to financing the inventory and working capital acquired, although we sometimes acquire all the stock of a company. We, therefore, typically calculate our net purchase price of an acquisition as the value paid for the assets acquired less the amount of any liabilities assumed. Upon completion of an acquisition we seek to re-finance the inventory acquired according to the parts and floorplan financing parameters of the Titan Operating Model. We believe our management team's experience in evaluating potential acquisition candidates helps them determine whether a particular dealership can be successfully integrated into our existing operations and enables them to structure mutually beneficial purchase terms.

The consent of CNH is required to acquire any CNH dealership, and the consent of the group of banks led by Wells Fargo Bank, National Association (the "Wells Fargo Bank Syndicate") is required for the acquisition of dealerships meeting certain thresholds or other criteria defined in our Senior Secured Credit Facility (the "Credit Agreement").

The table below summarizes our acquisition of 45 dealers, totaling 99 stores, since January 1, 2003. Certain stores (designated with an *) are included in the Agriculture segment but also sell some construction equipment. See Item 2 for a listing of our current store locations.

Agriculture Segment

Acquired Dealer	**Location of Stores**
Titan Machinery, LLC	Watertown, South Dakota
January 2003	Wahpeton, North Dakota
	Casselton, North Dakota
	Fargo, North Dakota
Consolidated Ag Service, Inc.	Graceville, Minnesota
February 2004	Marshall, Minnesota*
	Pipestone, Minnesota

Table of Contents

Acquired Dealer	Location of Stores
Smith International, Inc. *March 2005*	Waverly, Iowa
H.C. Clark Implement Co., Inc. *May 2005*	Aberdeen, South Dakota*
Vern Anderson, Inc. *November 2005*	Anthon, Iowa Cherokee, Iowa Kingsley, Iowa Le Mars, Iowa
Walterman Implement, Inc. *November 2005*	Dike, Iowa
Farm Power, Inc. of Minnesota and related entities *March 2006*	Elbow Lake, Minnesota Fergus Falls, Minnesota
Richland County Implement, Inc. *February 2007*	Wahpeton, North Dakota
Aberdeen Equipment Co., Huron Equipment Co. and Redfield Equipment Co. *April 2007*	Aberdeen, South Dakota* Huron, South Dakota Redfield, South Dakota
Red Power International, Inc. *August 2007*	Ada, Minnesota Crookston, Minnesota*
Twin City Implement, Inc. *November 2007*	Mandan, North Dakota*
Reiten & Young International, Inc. *December 2007*	Grand Forks, North Dakota*
Avoca Operations, Inc. and Greenfield Operations, Inc. *January 2008*	Avoca, Iowa Greenfield, Iowa
Ceres Equipment Inc. *February 2008*	Roseau, Minnesota
Quad County Implement, Inc. *May 2008*	Blairstown, Iowa
Wolf's Farm Equipment, Inc. *September 2008*	Kintyre, North Dakota
Pioneer Garage, Inc. *October 2008*	Pierre, South Dakota Highmore, South Dakota Miller, South Dakota
Anderson Power and Equipment, Inc. *December 2008*	Thief River Falls, Minnesota
Winger Implement, Inc. *May 2009*	Winger, Minnesota
Arthur Mercantile Company *May 2009*	Arthur, North Dakota

Table of Contents

Acquired Dealer	**Location of Stores**
Valley Equipment, Inc. *June 2009*	Mayville, North Dakota
Lickness Bros. Implement Co. *August 2009*	Britton, South Dakota
Oskaloosa Implement Co. *November 2009*	Pella, Iowa Oskaloosa, Iowa
Valley Farm Equipment, Inc. *November 2009*	Milbank, South Dakota
Hubbard Implement, Inc. *June 2010*	Iowa Falls, Iowa
Fairbanks International Inc. *December 2010*	Grand Island, Nebraska Kearney, Nebraska Lexington, Nebraska Holdrege, Nebraska Hastings, Nebraska North Platte, Nebraska
Tri-State Implement, Inc. *February 2011*	Sioux Falls, South Dakota
Schoffman's, Inc. *March 2011*	Redwood Falls, Minnesota
Virgl Implement Inc. *September 2011*	Wahoo, Nebraska
Victors Inc. *September 2011*	Fremont, Nebraska
Van Der Werff Implement, Inc. *November 2011*	Platte, South Dakota
Jewell Implement Company, Inc. *December 2011*	Jewell, Iowa
AgroExpert *December 2011*	Bucharest, Romania Timisoara, Romania
Rimex 1-Holding EAD *March 2012*	Sofia, Bulgaria Dobrich, Bulgaria Burgas, Bulgaria Pleven, Bulgaria Ruse, Bulgaria Montana, Bulgaria Stara Zagora, Bulgaria
Haberer's Implement, Inc. *March 2012*	Bowdle, South Dakota

Table of Contents

Construction Segment

Acquired Dealer	Location of Stores
Krider Equipment Co., Inc. *January 2003*	Fargo, North Dakota Bismarck, North Dakota
Fargo Tractor & Equipment, Inc. *January 2003*	West Fargo, North Dakota
Piorier Equipment Company, Inc. and related entities *June 2006*	Sioux City, Iowa Marshall, Minnesota Rapid City, South Dakota Sioux Falls, South Dakota
Mid-Land Equipment Company, L.C. *May 2008*	Des Moines, Iowa Davenport, Iowa Clear Lake, Iowa Cedar Rapids, Iowa Omaha, Nebraska Lincoln, Nebraska
Western Plains Machinery Co. and WP Rentals LLC *December 2008*	Billings, Montana (2 stores) Belgrade, Montana Great Falls, Montana Missoula, Montana Columbia Falls, Montana Cheyenne, Wyoming Casper, Wyoming Gillette, Wyoming
ABC Rental & Equipment Sales *April 2011*	Williston, North Dakota Bozeman, Montana Missoula, Montana Big Sky, Montana
Carlson Tractor *May 2011*	Rosemount, Minnesota Rogers, Minnesota
St. Joseph Equipment Inc. *May 2011*	Shakopee, Minnesota Hermantown, Minnesota Elk River, Minnesota La Crosse, Wisconsin
Adobe Truck & Equipment, LLC *February 2012*	Denver, Colorado Colorado Springs, Colorado Loveland, Colorado
East Helena Rental, LLC *April 2012*	Helena, Montana

Integrate New Dealers into the Titan Operating Model

We have developed the Titan Operating Model to optimize the performance and profitability of each of our stores. Upon consummation of each acquisition, we integrate acquired stores into our operations by implementing the Titan Operating Model to enhance each acquired store's performance within its target market. We generally complete integration of a store within 18 months, although it

Table of Contents

may take several years before acquired stores fully realize the benefits of the Titan Operating Model. We believe the Titan Operating Model provides us with multiple points of customer contact, creates cross-selling opportunities, fosters strong customer relationships and supports a culture of individual accountability that increases our revenue and provides a strong platform for future growth.

Suppliers

CNH Case IH Agriculture, Case Construction, New Holland Agriculture and New Holland Construction

We have a longstanding relationship with CNH and, according to CNH, are the largest retail dealer of Case IH Agriculture equipment in the world and the largest retail dealer of Case Construction equipment in North America. We have been an authorized dealer of Case agricultural equipment since our inception in 1980 and added the other CNH brands as Case grew, acquired other brands and merged with New Holland in 1999 to form CNH. CNH supplied, through CNH America, LLC, CNH's U.S. manufacturing entity, approximately 81.9% of the new agricultural equipment and 56.3% of the new construction equipment we sold in fiscal 2011.

CNH is a global leader in the agricultural and construction equipment industries based on the number of units sold. In 2011, CNH had $19.2 billion in worldwide revenue, with agricultural equipment accounting for approximately 74% and construction equipment accounting for approximately 20% of CNH's total revenue. In addition, CNH provides financing and insurance products and services to its end-user customers and authorized dealers through its CNH Capital America, LLC ("CNH Capital") business unit. CNH is a publicly-traded company and a majority-owned subsidiary of Fiat Industrial S.p.A.

CNH is the world's second largest manufacturer of agricultural equipment. CNH owns and operates the Case IH Agriculture and New Holland Agriculture brands. Case IH Agriculture, recognized by the red color of its equipment, possesses over 160 years of farm equipment heritage. New Holland Agriculture, recognized by the blue color of its tractors and the yellow color of its harvesting and hay equipment, has over 100 years of farm equipment industry experience. CNH's agricultural equipment dealers are assigned authorized store locations but do not have exclusive territories.

CNH is one of the world's largest manufacturers of construction equipment in terms of market share, owning and operating the Case Construction, New Holland Construction and Kobelco brands. CNH's construction equipment dealers are assigned a specific geographic area of responsibility, which typically includes an entire state, within which the dealers have the right to sell new Case Construction, New Holland Construction and/or Kobelco equipment.

We have entered into separate dealership agreements with certain CNH entities to sell the Case IH Agriculture, New Holland Agriculture, Case Construction and New Holland Construction brands. These dealer agreements authorize us to sell CNH equipment and parts and entitle us to use CNH trademarks and trade names, with certain restrictions. The CNH entities have the right to terminate their dealer agreements with us immediately in certain circumstances, including if a person acquires 20% or more of our common stock without CNH's consent, and, in some cases, for any reason 90 days following written notice. The dealership agreements and industry practices generally provide that payment on equipment and parts purchased from CNH entities is due within 30 days and is typically subject to floorplan financing as discussed below. With respect to sales of equipment, payments from customers, which are typically financed by a third party, are due upon sale. Payments from customers for parts and services are due within 30 days. CNH makes available to us any floorplans, parts return programs, sales or incentive programs or similar plans or programs it offers to other dealers, and provides us with promotional items and marketing materials.

Table of Contents

Based upon information provided to us by CNH, we are the largest retail dealer of Case IH Agriculture equipment in the world, the largest retail dealer of Case Construction equipment in North America and a major retail dealer of New Holland Agriculture and New Holland Construction equipment in the U.S. Thus, our relationship with CNH entities is more than a typical supply relationship; it is strategic for both our company and CNH. In that regard, it is in our mutual interests to maintain the strong longstanding relationship we share.

Other Suppliers

In addition to products supplied by CNH, we sell a variety of new equipment, parts and attachments from other manufacturers. These products tend to address specialized niche markets and complement the CNH products we sell by filling gaps in the CNH line of products. We believe our offering of products for specialized niche markets supports our goal of being a one-stop solution for equipment needs at each of our stores. Approximately 21.7% of our total new equipment sales in fiscal 2012 resulted from sales of products manufactured by companies other than CNH, with our single largest manufacturer other than CNH representing less than 2.3% of our total new equipment sales. The terms of our arrangements with these other suppliers vary, but most of the dealership agreements contain termination provisions allowing the supplier to terminate the agreement after a specified notice period, which is typically 30 days. Payment and financing practices with these other suppliers are similar to those practices described above with respect to CNH entities.

Operating Segments, Products and Services

We operate our business in two reportable segments, Agriculture and Construction. Within each of our Agriculture and Construction segments, we have four principal sources of revenue: new and used equipment sales, parts sales, repair and maintenance service and equipment rental and other business activities. See Note 16 to our consolidated financial statements included elsewhere in this annual report for additional information regarding our segments and our international operations.

Equipment Sales

We sell new agricultural and construction equipment manufactured under the CNH family of brands as well as equipment from a variety of other manufacturers. The used equipment we sell is primarily from inventory acquired through trade-ins from our customers and selective purchases. The agricultural equipment we sell and service includes application equipment and sprayers, combines and attachments, hay and forage equipment, planting and seeding equipment, precision farming technology, tillage equipment, and tractors. The construction equipment we sell and service includes articulated trucks, compact track loaders, compaction equipment, cranes, crawler dozers, excavators, forklifts, loader/backhoes, loader/tool carriers, motor graders, skid steer loaders, telehandlers and wheel loaders. We sell new and used equipment through our professional, in-house retail sales force, which is organized by geography and operating segment. We also sell used equipment through our outlet stores. We believe this organizational structure improves the effectiveness of our sales force, better serves our customers and helps us negotiate advantageous trade-in purchase terms. Equipment sales generate cross-selling opportunities for us by populating our markets with equipment we repair and maintain and for which we sell parts. For the year ended January 31, 2012, equipment revenue was $1.3 billion, representing 78.6% of total revenue for the period.

Parts Sales

We sell a broad range of maintenance and replacement parts on equipment that we sell, as well as other types of equipment. We maintain an extensive in-house parts inventory to provide timely parts and repair and maintenance support to our customers. We generally are able to acquire out-of-stock parts directly from manufacturers within two business days. Our parts sales provide us with a relatively

Table of Contents

stable revenue stream that is less sensitive to economic cycles than our equipment sales. For the year ended January 31, 2012, parts revenue was $201.4 million, representing 12.2% of total revenue for the period.

Repair and Maintenance Services

We provide repair and maintenance services, including warranty repairs, for our customers' equipment. Each of our stores includes service bays staffed by trained service technicians. Our technicians are also available to make on-site repairs. In addition, we provide proactive and comprehensive customer service by maintaining service histories for each piece of equipment owned by our customers, maintaining 24/7 service hours in times of peak service usage, providing on-site repair services, scheduling off-season maintenance activities with customers, notifying customers of periodic service requirements and providing training programs to customers to educate them as to standard maintenance requirements. At the time equipment is purchased, we also offer customers the option of purchasing extended warranty protection provided by our suppliers. Our after-market services have historically provided us with a high-margin, relatively stable source of revenue through changing economic cycles. For the year ended January 31, 2012, service revenue was $103.5 million, representing 6.2% of total revenue for the period.

Equipment Rental and Other Business Activities

We rent equipment to our customers on a short-term basis for periods ranging from a few days to a few months. We actively manage the size, quality, age and composition of our rental fleet and use our information technology systems to closely monitor and analyze customer demand and rate trends. We maintain the quality of our fleet through our on-site parts and services support and dispose of rental equipment through our retail sales force. Our rental activities create cross-selling opportunities for us in equipment sales. In addition, we provide ancillary equipment support activities such as equipment transportation, GPS signal subscriptions in connection with precision farming and reselling CNH Capital finance and insurance products. For the year ended January 31, 2012, rental and other revenue was $50.2 million, representing 3.0% of total revenue for the period.

Customers

We serve over 55,000 Agriculture customers in the U.S., primarily in North Dakota, South Dakota, Minnesota, Iowa and Nebraska. Our customers vary from small, single machine owners to large farming operations. In fiscal 2012, no single customer accounted for more than 1.0% of our Agriculture revenue and our top ten customers combined accounted for approximately 2.3% of our total Agriculture revenue.

We serve over 21,000 Construction customers in the U.S., primarily in North Dakota, South Dakota, Iowa, Minnesota, Montana, Wyoming, Nebraska, Wisconsin and Colorado. Our customers include a wide range of construction contractors, public utilities, municipalities and maintenance contractors. They vary from small, single machine owners to large contracting firms. In fiscal 2012, no single customer accounted for more than 1.0% of our Construction revenue and our top ten customers combined accounted for approximately 7.1% of our total Construction revenue.

Our stores enable us to closely service local and regional customers. We believe the Titan Operating Model enables us to satisfy customer requirements and increase revenue through cross-selling opportunities presented by the various products and services that we offer. In addition to our U.S. customers, we sell equipment on a limited basis to international customers, primarily in Eastern Europe. Our U.S. customers primarily finance their equipment purchases through CNH Capital.

Table of Contents

Floorplan Financing

We attempt to maintain at each store, or have readily available at other stores in our network, sufficient inventory to satisfy customer needs. Inventory levels fluctuate throughout the year and tend to increase before the primary sales seasons for agricultural equipment. The cost of financing our inventory is an important factor affecting our financial results.

CNH Capital

CNH Capital offers floorplan financing to CNH dealers for extended periods to finance products from both CNH and other suppliers. CNH Capital provides this financing in part to enable dealers to carry representative inventories of equipment and encourage the purchase of goods by dealers in advance of seasonal retail demand. CNH Capital charges variable market rates of interest based on the prime rate on balances outstanding after any interest-free periods and retains a security interest in all of our assets, including inventories, which it inspects periodically. The interest-free periods, which CNH offers periodically in the form of additional incentives or special offers, typically average four months for new and used agriculture equipment and new construction equipment. CNH Capital also provides financing for used equipment accepted in trade, repossessed equipment and approved equipment from other suppliers, and receives a security interest in such equipment.

Other Financing Sources for Equipment

In addition to the financing provided by CNH Capital, financing also may be available through floorplan financing programs provided by the suppliers, which may be financed by such suppliers themselves or through third party lenders.

Other Financing

We have a Credit Agreement with the Wells Fargo Bank Syndicate, which includes a $200.0 million wholesale floorplan line of credit to finance equipment inventory purchases. This Credit Agreement was amended on March 30, 2012, increasing the wholesale floorplan line of credit to $300.0 million.

Sales and Marketing

As part of the Titan Operating Model, we have centralized sales support and marketing management. All of our stores benefit from our centralized media buys, strategic planning, sales support and training, and we provide our store managers and their sales teams with flexibility to localize sales and marketing.

We currently market our products and services through:

- field marketers, our direct sales representatives who operate out of our network of local stores and call on customers in the markets surrounding each store;

- parts and service managers, who provide our customers with comprehensive after-market support;

- local and national advertising efforts, including broadcast, cable, print and web-based media; and

- our remarketing division, which trades and sells used equipment through our outlet store and website.

Field Marketers

Our field marketers perform a variety of functions, such as servicing customers at our stores, calling on existing customers and soliciting new business at farming, construction and industrial sites.

Table of Contents

These field marketers target customers in specific areas, and we develop customized marketing programs for our sales force by analyzing each customer group for profitability, buying behavior and product selection. All members of our sales force are required to attend frequent in-house training sessions to develop product and application knowledge, sales techniques and financial acumen. Our sales force is supported by our corporate marketing department.

Parts and Service Managers

Our parts and service managers are involved in our uptime service efforts, taking advantage of our seasonal marketing campaigns in parts and service sales. As a group, they have won multiple awards from our suppliers for their efforts benefiting both our customers and our key strategic partners.

Print, Broadcast and Web-Based Advertising Campaigns

Each year we initiate several targeted direct mail, print and broadcast advertising and marketing campaigns. CNH and other suppliers periodically provide us with advertising funds, which we primarily use to promote new equipment, parts and financing programs. We will continue to explore and launch additional sales channels as appropriate, including, for example, new internet-based efforts.

Remarketing Division

Our remarketing division capitalizes on sales opportunities for aged used agricultural and construction equipment transferred out of our retail stores. We have opened two outlet stores that sell used equipment. In addition, we are actively engaged in marketing equipment through our website.

Competition

The agricultural and construction equipment sales and distribution industries are highly competitive and fragmented, with large numbers of companies operating on a regional or local scale. Our competitors range from multi-location, regional operators to single-location, local dealers and include dealers and distributors of competing equipment brands, including Deere, Caterpillar and the AGCO family of brands, as well as other dealers and distributors of the CNH family of brands. Competition among equipment dealers, whether they offer agricultural or construction products or both, is primarily based on the price, value, reputation, quality and design of the products offered by the dealer, the customer service and repair and maintenance service provided by the dealer, the availability of equipment and parts and the accessibility of stores. While we believe we compete favorably on each of the identified competitive factors, our sales and margins may be impacted depending on (i) the extent of aggressive pricing competition through manufacturer discount programs or other competitive pricing tactics, (ii) our ability to obtain higher service gross margins based on our service quality and reputation and (iii) our ability to attract new and maintain existing customers based on the availability and quality of the products we offer and our local relationship and reputation.

The number of agricultural and construction equipment dealers operating on a regional scale is limited and we are one of the principal regional-scale agricultural and construction equipment dealers in the U.S. The primary regional-scale equipment dealers with whom we compete in the U.S. include RDO Equipment Co., Butler Machinery, Ziegler Inc. and Brandt Holdings Co. RDO Equipment Co. is a Deere and Vermeer agricultural and construction equipment dealer with 60 dealerships in nine states, including North Dakota, South Dakota, Minnesota and Montana. Butler Machinery is a Caterpillar construction and agriculture equipment dealer with 12 locations in North Dakota and South Dakota. Ziegler Inc. is a Caterpillar construction and AGCO agriculture equipment dealer with 20 locations in three states, including Minnesota, Iowa and Wisconsin. Brandt Holdings owns Deere, Vermeer and Bobcat construction and agricultural equipment dealers with 24 locations in eight states including Iowa, Minnesota, Nebraska, North Dakota, and South Dakota.

Table of Contents

Information Technology Systems

We currently use an integrated management reporting system developed and supported by Dealer Information Systems Corporation to manage our operating information. We are in the process of implementing a new enterprise resource planning ("ERP") system that will replace our current management reporting system. Our information system enables us to closely monitor our performance and actively manage our business on a consolidated and segment basis and includes features that were enhanced to support the Titan Operating Model, including detailed store-based financial reporting, inventory management and customer relationship management.

Through our information system we maintain a complete database on inventory of parts and equipment and a centralized inventory control system for each segment. Our system enables each store to access the available inventory of our other stores before ordering additional parts or equipment from our suppliers. We are also able to monitor inventory levels and mix at each store and make adjustments in accordance with our operating plan. Finally, our system is externally connected to CNH, enabling us to locate CNH equipment and parts inventories, and communicate with other CNH dealers.

Our customer relationship management system provides sales and customer information and other organizational tools to assist our sales force. We maintain an extensive customer database that allows us to monitor the status and maintenance history of our customers' equipment and enables us to more effectively provide parts and services to meet their needs. We also use our relationship management information system and customer database to monitor sales information and customer demand.

The data we store in our information system is backed-up on a daily basis and stored at an off-site location. Thus, if our system were to become inoperable, we would be able to continue operations through an off-site data center. Further, we own the software and hardware necessary to operate this system and have employees trained to manage and maintain the software without reliance on external support.

Corporate Information

We were incorporated as a North Dakota corporation in 1980 and reincorporated in Delaware in December 2007 prior to our initial public offering. Our executive offices are located at 644 East Beaton Drive, West Fargo, ND 58078-2648. Our telephone number is (701) 356-0130. We maintain a web site at *www.titanmachinery.com*.

Intellectual Property

We have registered trademarks for certain names and designs used in our business and have trademark applications pending for certain others. We generally operate each of our stores under the Titan Machinery name. Case IH, Case and New Holland are registered trademarks of CNH, which we use in connection with advertisements and sales as authorized under our dealership agreements. We license trademarks and trade names of new equipment obtained from suppliers other than CNH from their respective owners.

Product Warranties

Product warranties for new equipment and parts are provided by our suppliers. The term and scope of these warranties vary greatly by supplier and by product. At the time equipment is purchased, we also offer customers the option of purchasing extended warranty protection provided by our suppliers. Suppliers pay us for repairs we perform to equipment under warranty. We generally sell used equipment "as is" and without manufacturer's warranty, although manufacturers sometimes provide limited warranties if the supplier's original warranty is transferable and has not expired. Typically, we provide no additional warranties on used equipment.

Table of Contents

Seasonality

Our quarterly operating results are subject to fluctuation due to varying weather patterns, which may impact the timing and amount of equipment purchases, rentals, and after-sales parts and service purchases by our Agriculture and Construction customers.

Employees

As of April 1, 2012, we employed 2,036 full-time and 360 part-time employees. None of our employees is covered by a collective bargaining agreement. We believe our relations with our employees are good.

Governmental Regulation

We are subject to numerous federal, state, and local rules and regulations, including regulations promulgated by the Environmental Protection Agency and similar state agencies, with respect to storing, shipping, disposing, discharging and manufacturing hazardous materials and hazardous and non-hazardous waste. These activities are associated with the repair and maintenance of equipment at our stores. Currently, none of our stores or operations exceeds small quantity generation status. Compliance with these rules and regulations has not had any material effect on our operations, nor do we expect it to in the future. Further, we have not made, and do not anticipate making, any material capital expenditures related to compliance with environmental regulations. However, there can be no assurance that these expectations are accurate, particularly if regulations change, unforeseen incidents occur or unknown past contamination or non-compliance is discovered, among other similar events.

ITEM 1A. RISK FACTORS

We are substantially dependent upon our relationship with CNH.

We are an authorized dealer of CNH agricultural and construction equipment and parts. In fiscal 2012, CNH supplied approximately 81.9% of the new agricultural equipment and 56.3% of the new construction equipment we sold and represented a significant portion of our parts revenue. Our acquisition strategy contemplates the acquisition of additional CNH geographic areas of responsibility and store locations in both the Agricultural and Construction equipment segments. We depend on CNH Capital for floorplan financing to purchase a substantial portion of our inventory. In addition, CNH Capital provides a significant percentage of the financing used by our customers to purchase CNH equipment from us. CNH also provides incentive programs and discount programs from time to time that enable us to price our products more competitively. In addition, CNH conducts promotional and marketing activities on national, regional and local levels. Due to our substantial dependence on CNH, our success depends, in significant part, on (i) the overall reputation and success of CNH; (ii) the availability and terms of floorplan financing and customer financing from CNH Capital; (iii) the incentive and discount programs provided by CNH and its promotional and marketing efforts for its agricultural and construction products; (iv) the goodwill associated with CNH trademarks; (v) the introduction of new and innovative products by CNH; (vi) the manufacture and delivery of competitively-priced, high quality equipment and parts by CNH in quantities sufficient to meet our customers' requirements on a timely basis; (vii) the quality, consistency and management of the overall CNH dealership system; and (viii) the ability of CNH to manage its risks and costs, including those associated with being a multinational company. If CNH does not provide, maintain or improve any of the foregoing, or if CNH were sold or reduced or ceased operations, there could be a material adverse effect on our financial condition and results of operations.

CNH may terminate its dealership agreements with us or change the terms of those agreements, which could adversely affect our business.

Under our dealership agreements with CNH through CNH America, LLC, CNH's U.S. manufacturing entity, CNH entities have the right to terminate these agreements immediately in certain

circumstances, and, in some cases, for any reason 90 days following written notice. Furthermore, CNH entities may change the terms of their agreements with us, among other things, to change our sales and service areas and/or the product, pricing or delivery terms. CNH routinely conducts evaluations of dealership standards, customer satisfaction surveys and market share studies, the results of which can impact the relationships with its dealers. CNH uses the evaluation results to increase or decrease the monetary rewards to dealers, or limit or expand the availability of financing, warranty reimbursements or other marketing incentives. If CNH were to change the terms of any or all of these agreements in a manner that adversely affects us, our business may be harmed, and if CNH were to terminate all or any of its dealer agreements with us, our business would be severely harmed.

Restrictions in our CNH dealership agreements may significantly affect our operations and growth and prevent a change in control of our company.

We operate our stores pursuant to CNH's customary dealership agreements. These agreements impose a number of restrictions and obligations on us with respect to our operations, including our obligations to actively promote the sale of CNH equipment within our designated geographic areas of responsibility, fulfill the warranty obligations of CNH, provide services to our customers, maintain sufficient parts inventory to service the needs of our customers, maintain inventory in proportion to the sales potential in each sales and service geographic area of responsibility, maintain adequate working capital and maintain stores only in authorized locations. Prior consent of CNH is required for the acquisition by another party of 20% or more of our outstanding stock and for our acquisition of other CNH dealerships; otherwise, CNH may terminate our dealership agreements. There can be no assurances that CNH will give its consent. The restrictions and obligations in our CNH dealership agreements limit our flexibility in operating our current stores and acquiring new stores, which could have an adverse effect on our operations and growth. Furthermore, the requirement that CNH consent to the acquisition by any party of 20% or more of our outstanding stock may have the effect of discouraging transactions involving a change in our control, including transactions that stockholders might deem to be in their best interests.

Our equipment dealer appointments are not exclusive to the geographic areas we serve, which could adversely affect our operations and financial condition.

CNH could appoint other equipment dealers in close proximity to our existing stores. The sales and service geographic areas of responsibility assigned to our stores can be enlarged or reduced by CNH upon 30 days' prior written notice. CNH and other equipment dealers can also sell in our sales and service geographic areas of responsibility. To the extent CNH appoints other equipment dealers within our markets, enlarges or reduces the sales and service geographic areas of responsibility relating to our stores, amends the dealership agreements or imposes new or different terms or conditions under the dealer agreements, our operations and financial condition could be adversely affected.

Our operating results may be adversely impacted by an under-supply or over-supply of equipment.

If our suppliers cannot continue to provide us a reliable supply of new equipment, we may not be able to meet our customers' demand and our operating results could be negatively impacted. In times of heightened global demand for equipment, which is often driven by other factors (e.g., net farm income often drives demand for agricultural equipment and infrastructure development often drives construction equipment demand), equipment suppliers may experience difficulty providing all dealerships a reliable supply of new agricultural equipment, which could adversely impact our results of operations. Further, an under-supply of equipment may cause prices for such equipment to increase. To the extent we cannot pass on any increased costs of equipment to our customers, our operating results may suffer. Conversely, an industry over-supply of equipment may also adversely affect our operations. Though manufacturers typically manage production of new equipment in response to demand, there may be short-term under-supplies or over-supplies of new equipment as manufacturers adjust to

Table of Contents

industry demand fluctuations. For used and rental equipment, short-term lease programs and commercial rental agencies for construction and agricultural equipment have expanded significantly in North America. Nationwide rental conglomerates have become sizeable purchasers of new equipment and can have a significant impact on industry sales and margins. When equipment comes off of lease or is replaced with newer equipment by rental agencies, there may be a significant increase in the availability of late-model used equipment. An over-supply of used equipment could adversely affect demand for, or the market prices of, new and used equipment. In addition, a decline in used equipment prices could have an adverse effect on residual values for rental equipment, which could adversely affect our financial performance.

If our acquisition plans are unsuccessful, we may not achieve our planned revenue growth.

We believe a significant portion of our future growth will depend on our ability to acquire additional dealerships. Our ability to continue to grow through the acquisition of additional CNH geographic areas of responsibility and store locations or other businesses will be dependent upon the availability of suitable acquisition candidates at acceptable costs, our ability to compete effectively for available acquisition candidates and the availability of capital to complete the acquisitions. We may not successfully identify suitable targets, or if we do, we may not be able to close the transactions, or if we close the transactions, they may not be profitable. In addition, CNH's consent is required for the acquisition of any CNH dealership, and the consent of the Wells Fargo Bank Syndicate is required for the acquisition of dealerships meeting certain thresholds or other criteria defined in the Senior Secured Credit Facility. CNH typically evaluates management, performance and capitalization of a prospective acquirer in determining whether to consent to the sale of a CNH dealership. There can be no assurance that CNH or the Wells Fargo Bank Syndicate will consent to any or all acquisitions of dealerships that we may propose.

Our potential inability to successfully integrate newly-acquired dealerships may adversely affect our financial results.

Once an acquisition is completed, we face many other risks commonly encountered with growth through acquisitions. These risks include incurring significantly higher than anticipated capital expenditures and operating expenses; failing to assimilate the operations and personnel of the acquired dealerships; disrupting our ongoing business; dissipating our management resources; failing to maintain uniform standards, controls and policies; and impairing relationships with employees and customers as a result of changes in management. Fully integrating an acquired dealership into our operations and realization of the full benefit of our strategies, operating model and systems may take several years. We may not be successful in overcoming these risks or any other problems encountered with such acquisitions. To the extent we do not successfully avoid or overcome the risks or problems related to acquisitions, our results of operations and financial condition could be adversely affected. Future acquisitions also will have a significant impact on our financial position and capital needs, and could cause substantial fluctuations in our quarterly and yearly results of operations. Acquisitions could include significant goodwill and intangible assets, which may result in future impairment charges that would reduce our stated earnings.

We have grown significantly through acquisitions in recent years and expect to continue to grow through acquisitions. Management has expended, and expects to continue to expend, significant time and effort in evaluating, completing and integrating acquisitions and opening new stores. Our systems, procedures and controls may not be adequate to support our expanding operations. Any future growth will also impose significant added responsibilities on our executives, including the need to identify, recruit and integrate new senior level managers and executives. We may not be able to identify and retain such additional management. If we are unable to manage growth efficiently and effectively, or are unable to attract and retain additional qualified management, there could be a material adverse effect on our financial condition and results of operations.

Table of Contents

International operations expose us to additional risks.

Operations in countries outside the U.S. are accompanied by certain risks and potential costs, including:

- difficulties implementing our business model in foreign markets;
- costs and diversion of management attention related to oversight of international operations;
- fluctuations in foreign currency exchange rates;
- tariffs, quotas, and other regulations of international trade;
- import and export licensing requirements;
- compliance with multiple, and potentially conflicting, foreign laws, regulations and policies that are subject to change;
- compliance with the Foreign Corrupt Practices Act and other U.S. laws that apply to the international operations of U.S. companies;
- lesser intellectual property protection in some foreign countries than exists in the U.S.;
- changing economic conditions in the international markets in which we operate;
- labor practices that differ from those in the U.S.; and
- political and economic instability, including occasional disruption in foreign financial markets.

These factors, in addition to others that we have not anticipated, may negatively impact our business, results of operations and financial condition.

We lease many of our store locations from related parties, and if we are unable to obtain commercially reasonable terms and conditions from these related parties or unrelated third parties in the future, our growth and financial condition may be adversely affected.

As of January 31, 2012, we leased 47 of our 93 store locations from entities affiliated with David Meyer, our Chairman and Chief Executive Officer, Tony Christianson, one of our directors, or Peter Christianson, our President and Chief Operating Officer. We expect that we may lease future store locations we acquire from parties related to our affiliates. There is no guarantee that related parties will offer us commercially reasonable terms and conditions or that unrelated third parties will provide alternate store locations on commercially reasonable terms and conditions. If we cannot obtain commercially reasonable terms and conditions on leases for our current or future store locations from entities related to Messrs. Meyer, Tony Christianson or Peter Christianson, or from unrelated third parties, our growth and financial condition may be adversely affected.

Substantial inventory financing required for the equipment we sell may not be available, which could adversely affect our growth and results of operations.

The sale of agricultural and construction equipment requires substantial inventories of equipment and parts to be maintained at each store to facilitate sales to customers on a timely basis. We generally purchase our inventories of equipment with the assistance of floorplan financing programs through CNH Capital and other lenders. As we grow, whether internally or through acquisitions, our inventory requirements will increase and, as a result, our financing requirements also will increase. In the event that our available financing sources are not maintained or are insufficient to satisfy our future requirements, we would be required to obtain financing from other sources. There can be no assurance that additional or alternative financing could be obtained on commercially reasonable terms. To the extent additional financing cannot be obtained on commercially reasonable terms, our growth and results of operations could be adversely affected.

Table of Contents

Failure to properly manage our equipment inventory, our largest asset, would have a significant adverse effect on our operations.

Our equipment inventory has traditionally represented 50% or more of our total assets. Thus, our success is significantly dependent upon our ability to manage the supply and cost of new and used equipment. The pricing of equipment can be highly volatile and subject to negotiation, particularly in the used equipment market. Pricing for and sales of used equipment can be significantly affected by the limited market for such equipment. Further, liquidation prices of used agricultural and construction equipment can have significant fluctuations due to economic cycles, utilization trends and degree of specialization. We are dependent upon the ability of our management and buyers to negotiate acceptable purchase prices, to affect a proper balance of new and used equipment and to manage the amount of equipment in inventory to assure quick turnover. Our failure to manage our inventory and equipment costs could materially adversely affect our results of operations and financial condition.

Adverse changes in governmental policies, including decreases in tax incentives or farm subsidies, may reduce demand for agricultural and construction equipment and cause our revenue to decline.

Customers in our Agriculture and Construction segments currently benefit from various tax incentives related to equipment purchases. To the extent that changes in these and other tax incentives are reduced or eliminated, our customers may correspondingly delay or reduce future equipment purchases, and our revenue and profitability would be harmed. Changes in governmental agricultural policy could adversely affect sales of agricultural equipment. Government subsidies influence demand for agricultural equipment. Future farm bills and USDA budgets may reduce the amount of payments to individual farmers. We cannot predict the outcome of such governmental funding, and to the extent that future funding to individual farmers is reduced, these reductions in funding could reduce demand for agricultural equipment and we could experience a decline in revenue.

Economic events, particularly in the credit markets, may adversely affect our business and results of operations.

The agricultural and construction equipment industries are affected by macroeconomic factors, including changes in international, national, regional, and local economic conditions. Current global economic conditions pose a risk to our business as customers may postpone spending in response to tighter credit, negative financial news, downturns in agricultural commodity prices and the housing market and/or declines in income or asset values, which could have a material negative effect on the demand for our products and services. Our business is also particularly dependent on our access to the capital and credit markets to finance acquisitions and manage inventory. Tight credit markets, a low level of liquidity in many financial markets, and extreme volatility in fixed income, credit, currency and equity markets have the potential to adversely affect our business. Such disruptions in the overall economy and financial markets and the related reduction in consumer confidence in the economy, slow activity in the capital markets, negatively affect access to credit on commercially acceptable terms, and may adversely impact the access of us or our customers to credit and the terms of any such credit. Further, any decreased collectability of accounts receivable or increase in customer insolvencies could negatively impact our results of operations. The nature of the agricultural and construction equipment industries is such that a downturn in demand can occur suddenly, due to tightening credit markets, decreasing commodity prices or demand, decreasing infrastructure and housing development, adverse weather conditions or other circumstances, resulting in excess inventory, un-utilized production capacity and reduced prices for equipment, which would harm our revenue and profitability. Uncertainty about current global economic conditions, agricultural commodity prices and demand and the housing market could also continue to increase the volatility of our stock price.

Table of Contents

Adverse changes in the agricultural industries could result in decreases in purchases of agricultural equipment and harm our revenue and profitability.

Our business depends to a great extent upon general activity levels in the agricultural industries. Changes in net farm income and farmland value, the level of worldwide farm output and demand for farm products, commodity prices, animal diseases and crop pests, and limits on agricultural imports are all material factors that could adversely affect the agricultural industries and result in a decrease in the amount of agricultural equipment that our customers purchase. The nature of the agricultural equipment industries is such that a downturn in demand can occur suddenly, resulting in excess inventories, un-utilized production capacity and reduced prices for new and used equipment. These downturns may be prolonged and our revenue and profitability would be harmed.

Adverse changes in the construction industry could result in decreased demand for construction equipment and harm our revenue.

General economic conditions in markets in which we do business can impact the demand for our construction equipment. The construction industry in our geographical areas has experienced a prolonged economic down cycle as a result of the macroeconomic environment, which negatively impacts sales of light construction equipment. Decreased demand for our products can have a negative impact on our financial performance and cash flow. Our business and earnings are impacted by changes in the construction industry. The ability of consumers to obtain mortgages for the purchase of newly constructed homes or commercial properties impacts the overall demand for new home construction. The uncertainties created by events in the sub-prime mortgage market and their impact on the overall mortgage market, including the tightening of credit standards, could adversely affect the ability of consumers to obtain financing, thus reducing demand for new construction and in turn reducing our customers' demand for our construction equipment. Reduced demand for our construction equipment could negatively affect our financial performance and cash flow.

Climate fluctuations may negatively impact the agricultural and construction equipment markets and harm our sales.

Weather conditions, particularly severe floods and droughts, can have a significant impact on the success of regional agricultural and construction markets and, therefore, the economic conditions of the regions in which we operate stores. Accordingly, our financial condition and results of operations may be materially and adversely affected by any adverse cyclical trends or weather conditions. Our quarterly operating results are subject to fluctuation due to varying weather patterns, which may impact the timing and amount of equipment, parts and service purchases by our customers. A significant increase in the severity of weather cycles could increase the volatility of our results of operations and impact our financial condition. If we acquire businesses in geographic areas other than where we currently have operations, we may be affected more by the above-mentioned or other seasonal and equipment buying trends.

Our results of operations may fluctuate from period to period due to interest rate adjustments.

The ability to finance affordable purchases, of which the interest rate charged is a significant component, is an important part of a customer's decision to purchase agricultural or construction equipment. Volatility in the credit markets may have a negative impact on our business by making it more difficult for certain of our customers to obtain financing to purchase agricultural or construction equipment. Interest rate increases may make equipment purchases less affordable for customers and, as a result, our revenue and profitability may decrease as we manage excess inventory and reduce prices for equipment. To the extent we cannot pass on our increased costs of inventory to our customers, our net income may decrease. Conversely, any decrease in interest rates may positively affect a customer's decision to purchase agricultural or construction equipment. Partially as a result of the foregoing, our results of operations have in the past and in the future are expected to continue to fluctuate from

Table of Contents

quarter to quarter and year to year. We are unable to anticipate the timing and impact of interest rate adjustments.

Aggressive pricing competition could adversely affect our results of operation and growth.

The agricultural and construction equipment sales and distribution industries are highly competitive and fragmented, with large numbers of companies operating on a regional or local scale. Historically, our competitors have competed aggressively on the basis of pricing or inventory availability, resulting in decreased margins on our sales to the extent we choose to match our competitors' downward pricing. To the extent we choose not to match or remain within a reasonable competitive distance from our competitors' pricing, it could also have an adverse impact on our results of operations, as we may lose sales volume. In addition, to the extent CNH's competitors provide their dealers with more innovative or higher quality products, better customer financing, or have more effective marketing efforts, our ability to compete and financial condition and results of operations could be adversely affected.

We are substantially dependent on our Chief Executive Officer and President/Chief Operating Officer, the loss of either of whom could have a material adverse effect on our business.

We believe our success will depend to a significant extent upon the efforts and abilities of David Meyer, our Chairman and Chief Executive Officer, and Peter Christianson, our President and Chief Operating Officer. The employment relationships with both Mr. Meyer and Mr. Christianson are terminable by us or each of them at any time for any reason. The loss of the services of one or both of these persons and other key employees could have a material adverse effect on our operating results.

Selling and renting agricultural and construction equipment and selling parts subjects us to product liability risks that could adversely affect our financial condition and reputation.

Products sold, rented or serviced by us may expose us to potential liabilities for personal injury or property damage claims relating to the use of such products. Our product liability insurance may not be adequate to cover product liability claims. Such insurance may not continue to be available on economically reasonable terms. An uninsured or partially insured claim for which indemnification is not provided could have a material adverse effect on our financial condition. Furthermore, if any significant claims are made against us or against CNH or any of our other suppliers, our business may be adversely affected by any resulting negative publicity.

Being a public company has substantially increased our legal and financial compliance costs, which could harm our business, financial condition and results of operations.

Compliance with publicly-traded company regulations adversely impacts our resources. As a publicly-traded company, we are subject to rules and regulations that increase our legal and financial compliance costs, make some activities more time-consuming and costly, and divert our management's attention away from the operation of our business. These rules and regulations may make it more difficult and more expensive for us to maintain director and officer liability insurance and we may be required to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. As a result, we may experience more difficulty attracting and retaining qualified individuals to serve on our board of directors or as executive officers. We cannot predict or estimate the amount of additional costs we may incur as a result of these requirements or the timing of these costs. The costs of being a publicly-traded company and the attendant diversion of management's time and attention may have a material adverse effect on our business, financial condition and results of operations.

Table of Contents

Our internal control over financial reporting may not be effective and our independent registered public accounting firm may not be able to certify as to its effectiveness, which could have a significant and adverse effect on our business and reputation.

We are required to comply with the requirements of Section 404 of the Sarbanes-Oxley Act of 2002 and rules and regulations of the SEC thereunder. If we fail to maintain the adequacy of our internal control over financial reporting, as such standards are modified, supplemented or amended from time to time, we may not be able to ensure that we can conclude on an ongoing basis that we have effective internal control over financial reporting in accordance with Section 404. We cannot be certain as to the timing of completion of our evaluation, testing and any remedial actions or their impact on our operations. If we are not able to comply with the requirements of Section 404, our independent registered public accounting firm may not be able to certify as to the effectiveness of our internal control over financial reporting, we may be unable to report our financial results accurately or in a timely manner and we may be subject to sanctions or investigation by regulatory authorities, such as the SEC. As a result, there could be a negative reaction in the financial markets due to a loss of confidence in the reliability of our financial statements. In fiscal 2010, we began implementing a new ERP system. Unforeseen problems with or any difficulties encountered integrating the new ERP system could result in internal control deficiencies.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Equipment Stores

We currently operate 106 agricultural and construction equipment stores in the United States and Europe, including two outlet stores, in the following locations. Certain stores (those designated with an *) are included in the Agriculture segment but also sell some construction equipment.

Agriculture Segment (64 in United States, 10 in Europe)

North Dakota (14 stores)		Iowa (15 stores, including 1 outlet)	
Arthur	Lidgerwood	Anthon	Iowa Falls
Casselton	Lisbon	Avoca	Jewell
Grand Forks*	Mandan*	Blairstown	Kingsley
Jamestown	Mayville	Center Point*	Le Mars
Kintyre	Wahpeton (2 stores)	Cherokee	Oskaloosa
Kulm	Wishek	Cherokee (outlet)	Pella
Lamoure		Greenfield	Waverly
		Grundy Center	

Minnesota (14 stores, including 1 outlet)		South Dakota (13 stores)	
Ada	Moorhead	Aberdeen (2 stores)*	Miller
Albert Lea	Moorhead (outlet)	Bowdle	Pierre
Crookston*	Pipestone	Britton	Platte
Elbow Lake	Redwood Falls	Highmore	Sioux Falls
Fergus Falls	Roseau	Huron	Redfield
Graceville	Thief River Falls	Milbank	Watertown
Marshall*	Winger		

Table of Contents

Nebraska (8 stores)		Europe (10 stores)	
Fremont	Kearney	Bucharest, Romania	Montana, Bulgaria
Grand Island	Lexington	Timisoara, Romania	Pleven, Bulgaria
Hastings	North Platte	Oradea, Romania	Ruse, Bulgaria
Holdrege	Wahoo	Burgas, Bulgaria	Sofia, Bulgaria
		Dobrich, Bulgaria	Stara Zagora, Bulgaria

Construction Segment (32 in United States)

North Dakota (6 stores)		Iowa (4 stores)	
Bismarck	Minot	Clear Lake	Des Moines
Dickinson	Williston	Davenport	Sioux City
Fargo (2 stores)			

Nebraska (2 stores)		South Dakota (2 stores)	
Lincoln	Omaha	Rapid City	Sioux Falls

Montana (7 stores)		Wyoming (3 stores)	
Big Sky	Great Falls	Casper	Gillette
Billings (2 stores)	Helena	Cheyenne	
Bozeman	Missoula		

Minnesota (4 stores)		Colorado (3 stores)	
Hermantown	Rogers	Colorado Springs	Loveland
Shakopee	Rosemount	Denver	

Wisconsin (1 store)
La Crosse

Our Agriculture stores are generally located in rural areas on property zoned for commercial use and typically range from 10,000 to 60,000 square feet with three to 14 acres of land. Our Construction stores are generally located within city limits in designated industrial parks or areas of similar use and typically range from 10,000 to 25,000 square feet with three to ten acres of land. We fully utilize the leased space for each of our stores and believe the respective square footage and related acreage is adequate to meet our current and anticipated needs.

Store Lease Arrangements

As of January 31, 2012, we leased real estate for 47 of our stores from entities affiliated with David Meyer, our Chairman and Chief Executive Officer, Tony Christianson, one of our directors, or Peter Christianson, our President and Chief Operating Officer. Of these 47 stores, we leased 46 store locations from Dealer Sites, LLC, an entity owned in part by Messrs. Meyer, Tony Christianson and Peter Christianson or their affiliates, and one store location from C.I. Farm Power, Inc., an entity owned by Mr. Peter Christianson. We leased 59 additional properties for stores and storage facilities under operating lease agreements with unrelated parties as of January 31, 2012. The leases for our store locations generally expire between 2012 and 2027, other than those leases which are currently automatically renewed on a year-to-year-basis until either we or the lessor terminate them. We do not intend to own significant amounts of real estate. Therefore, we anticipate that when we need real estate, including as part of acquiring dealerships, we will lease such real estate from third parties, which may include affiliates of our investors, directors or management. We intend for the terms of all of our leases to be commercially reasonable. We do not believe the terms of our leases with entities affiliated

Table of Contents

with Messrs. Meyer, Tony Christianson and Peter Christianson are any less favorable to us than could be obtained in an arm's length transaction with an unrelated party.

Our store lease agreements with entities affiliated with David Meyer, Peter Christianson and Tony Christianson all contain substantially similar terms. The leases with Dealer Sites, LLC and C.I. Farm Power, Inc. provide for fixed lease periods ranging from three to 15 years. All of the leases provide for fixed monthly rental payments and require us to pay the real estate taxes on the properties for the lease periods. The leases require that we maintain public liability and personal property insurance on each of the leased premises, and require us to indemnify the lessor in connection with any claims arising from the leased premises during our occupation of the property. The leases generally prohibit us from assigning the lease agreements or subletting the leased premises without the prior written consent of the lessor. The lease agreements with Dealer Sites, LLC provide that in the event Dealer Sites, LLC and Titan Machinery Inc. agree to sell the leased premises to a party other than us or our affiliates during the term of the lease, then we shall share in half of any surplus or deficit resulting to Dealer Sites, LLC from that sale.

Our store lease agreements with unrelated parties contain terms comparable to the agreements with entities affiliated with our directors and officers described above. The lease periods range from automatically renewable month-to-month terms to 15 years in length. Many of the lease agreements either give us the option to renew or extend the lease for an additional period at the conclusion of the original lease term or automatically renew the lease term at the conclusion of the original lease period on a month-to-month or year-to-year basis. A majority of the leases provide for fixed monthly rental payments and require us to pay the real estate taxes on the properties for the lease periods. All of the leases require that we maintain public liability and personal property insurance on each of the leased premises, and a majority of the leases require us to indemnify the lessor in connection with any claims arising from the leased premises during our occupation of the property. Most of the leases prohibit us from assigning the lease agreements or subletting the leased premises without the prior written consent of the lessor. We have been granted a right of first refusal to purchase the Watertown, Fremont, Wahoo and one of the Aberdeen properties during the applicable lease terms. The lease agreements for the West Fargo, Kingsley, Le Mars, Watertown, Mayville, Rogers, Davenport and Redfield properties grant us the option to purchase the leased premises during or at the conclusion of the lease term. The lease agreements for the Milbank and Albert Lea properties grant Dealer Sites, LLC the option to purchase the leased premises during or at the conclusion of the lease term. The Kingsley, Le Mars and Redfield lease agreements grant the lessor the right to require Dealer Sites, LLC to purchase the leased premises during or at the conclusion of the lease term.

As part of our due diligence review prior to a dealership acquisition, we evaluate the adequacy, suitability and condition of the related real estate. Our evaluation typically includes a Phase I environmental study, and if deemed necessary, a Phase II environmental study, of the real property to determine whether there are any environmental concerns. If any environmental concerns exist, we generally require that such concerns be addressed prior to acquisition of the dealership.

Headquarters

We currently lease and occupy approximately 48,000 square feet in West Fargo, North Dakota for our headquarters, which lease expires on May 31, 2020. We continually review our location needs, including the adequacy of our headquarters space, to ensure our space is sufficient to support our operations. We believe there is ample opportunity for expansion in the West Fargo area if necessary.

ITEM 3. LEGAL PROCEEDINGS

We are, from time to time, subject to claims and suits arising in the ordinary course of business. Such claims have, in the past, generally been covered by insurance. Management believes the resolution of other legal matters will not have a material effect on our financial condition or results of operation, although no assurance can be given with respect to the ultimate outcome of any such actions. Furthermore, there can be no assurance that our insurance will be adequate to cover all liabilities that may arise out of claims brought against us. We are not currently a party to any material litigation.

Table of Contents

ITEM 4. MINE SAFETY DISCLOSURES

None

EXECUTIVE OFFICERS OF THE REGISTRANT

The names, ages and positions of our executive officers are as follows:

Name	Age	Position
David Meyer	58	Chairman and Chief Executive Officer
Peter Christianson	55	President, Chief Operating Officer and Director
Mark Kalvoda	40	Chief Financial Officer

David Meyer is our Chairman and Chief Executive Officer. Mr. Meyer was a founder of our Company in 1980 and has been a director of our Company since its creation. From 1976 to 1980, Mr. Meyer was a partner in a Case and New Holland dealership with locations in Lisbon and Wahpeton, North Dakota.

Peter Christianson has been our President and a director since January 2003, became our Chief Operating Officer in April 2011, and was our Chief Financial Officer from August 2007 to April 2011. Prior to joining us and since 1988, he was a partner and owner of C.I. Farm Power, Inc., the operator of two of the dealership locations acquired by Titan Machinery LLC in 2002. Peter Christianson and Tony Christianson, one of our directors, are brothers.

Mark Kalvoda became our Chief Financial Officer in April 2011 and previously served as our Chief Accounting Officer since September 2007. Prior to joining us, he held various positions between 2004 and 2007 at American Crystal Sugar Co., including Corporate Controller, Assistant Secretary and Assistant Treasurer. Prior to working for American Crystal Sugar Co., he served in various financial positions within Hormel Foods Corporation.

Table of Contents

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

Our common stock began trading on December 6, 2007 on the Nasdaq Global Market under the symbol "TITN" in connection with our initial public offering and began trading on the Nasdaq Global Select Market in January 2009. The following table sets forth, for the periods indicated, the high and low sale prices of our common stock as reported by the Nasdaq Global Select Market.

	High	Low
Fiscal 2012		
First Quarter	$ 32.03	$ 23.39
Second Quarter	$ 31.97	$ 24.30
Third Quarter	$ 27.69	$ 15.58
Fourth Quarter	$ 26.54	$ 18.50
Fiscal 2011		
First Quarter	$ 15.44	$ 10.70
Second Quarter	$ 15.19	$ 11.93
Third Quarter	$ 20.77	$ 14.00
Fourth Quarter	$ 24.74	$ 18.67

As of April 1, 2012, there were approximately 680 record holders of our common stock, excluding holders whose stock is held either in nominee name and/or street name brokerage accounts.

DIVIDENDS

We have not historically paid any dividends on our common stock and do not expect to pay cash dividends on our common stock in the foreseeable future. Payment of future cash dividends, if any, will be at the discretion of our board of directors after taking into account various factors, including our financial condition, operating results, current and anticipated cash needs, outstanding indebtedness and plans for expansion and restrictions imposed by lenders, if any. Currently, our Credit Agreement with the Wells Fargo Bank Syndicate restricts our ability to make certain cash payments, including cash dividends, except that we are permitted to pay cash dividends in an amount not to exceed 50% of consolidated net income for the then trailing four quarters, so long as no default or event of default exists prior to or immediately following such action or otherwise results from such action.

UNREGISTERED SALES OF EQUITY SECURITIES

We did not have any unregistered sales of equity securities during the fiscal quarter ended January 31, 2012.

SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

For information on our equity compensation plans, refer to Item 12, "Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters."

REPURCHASES

We did not engage in any repurchases of our Common Stock during the fiscal quarter ended January 31, 2012.

Table of Contents

STOCK PERFORMANCE GRAPH

The following graph compares the cumulative total return for the last trading day of the Company's last five fiscal years following commencement of trading on December 6, 2007 in conjunction with the Company's initial public offering on a $100 investment (assuming dividend reinvestment) in each of the Common Stock of the Company, the Russell 2000 Stock Index and the S&P 500 Retail Index.

	December 6,	January 31,				
	2007	2008	2009	2010	2011	2012
Titan Machinery Inc.	$ 100.00	$ 173.84	$ 107.07	$ 116.24	$ 255.59	$ 260.97
Russell 2000 Index	100.00	90.64	56.36	76.50	99.28	100.75
S&P 500 Retail Index	100.00	96.10	58.98	90.20	113.02	125.83

Table of Contents

ITEM 6. SELECTED FINANCIAL DATA

The data given below as of and for each of the five years in the period ended January 31, 2012, has been derived from the Company's Audited Consolidated Financial Statements. In order to understand the effect of accounting policies and material uncertainties that could affect our presentation of financial information, such data should be read in conjunction with the Company's Consolidated Financial Statements and Notes thereto included under Item 8 to this Form 10-K and in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operation included under Item 7 to this Form 10-K.

	Year Ended January 31,				
	2012	2011	2010	2009	2008
	(in thousands, except per share data)				
Statement of Operations Data:					

Provision for losses on accounts receivable
350

121

Amortization of debt discounts and issuance costs
5,271

4,894

Deferred income taxes
1,249

1,111

Gain on sale of assets and investments
(240
)

(317
)
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
(18,437
)

14,977

(Increase) decrease in inventories

14,632

(36,483
)
(Increase) decrease in prepaid and other assets
1,866

(596
)
Decrease in accounts payable, accrued liabilities and income taxes payable
(32,827
)

(39,864
)
Other changes, net
3,093

2,053

Net cash provided by operating activities
57,555

29,586

CASH FLOWS FROM INVESTING ACTIVITIES:

Acquisition of property, plant and equipment
(63,247
)

(55,365
)
Acquired businesses, net of cash acquired
(4,470
)

(2,225
)
Proceeds from sale of assets
914

275

Investment sales
715

8,891

Net cash used in investing activities
(66,088
)

(48,424
)
CASH FLOWS FROM FINANCING ACTIVITIES:

Proceeds from issuance of common stock
—

371

Dividends paid
(6,686
)

(5,807
)
Purchase of shares for treasury
(50,771
)

(58,218
)
Proceeds from long-term debt
263,249

121,523

Payments of long-term debt
(177,973
)

(80,495
)
Change in short-term borrowings

(45
)

(81
)
Financing costs
(4,135
)

(592
)
Tax benefit from exercise/vesting of equity awards, net
2,291

345

Other, net
(86
)

206

Net cash provided by (used in) financing activities
25,844

(22,748
)
CASH FLOWS FROM DISCONTINUED OPERATIONS:

Net cash used in operating activities
(1,152
)

(830
)
Net cash used in discontinued operations
(1,152
)

(830
)
Effect of exchange rate changes on cash and equivalents
456

(4,034
)
NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS
16,615

(46,450
)
CASH AND EQUIVALENTS AT BEGINNING OF PERIOD
52,001

92,405

CASH AND EQUIVALENTS AT END OF PERIOD
$
68,616

$
45,955

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

4

Table of Contents
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.

Griffon currently conducts its operations through three reportable segments:

- Home & Building Products ("HBP") consists of two companies, The AMES Companies, Inc. ("AMES") and Clopay Building Products Company, Inc. ("CBP"):

  - AMES is a global provider of non-powered landscaping products for homeowners and professionals.

  - CBP is a leading manufacturer and marketer of residential, commercial and industrial garage doors to professional dealers and major home center retail chains.

- Telephonics Corporation ("Telephonics") designs, develops and manufactures high-technology integrated information, communication and sensor system solutions for military and commercial markets worldwide.

- Clopay Plastic Products Company, Inc. ("PPC") is an international leader in the development and production of embossed, laminated and printed specialty plastic films used in a variety of hygienic, health-care and industrial applications.

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 ("U.S. GAAP") for interim financial information and with 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 U.S. GAAP for complete financial statements. As such, they should be read with reference to Griffon's Annual Report on Form 10-K for the year ended September 30, 2015, 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, 2015 was derived from the audited financial statements included in Griffon's Annual Report on Form 10-K for the year ended September 30, 2015.

The 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 U.S. 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 intangible and fixed 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.

The fair values of Griffon's 2022 senior notes and 2017 4% convertible notes approximated $703,250 and $121,438, respectively, on June 30, 2016. Fair values were based upon quoted market prices (level 1 inputs).

Insurance contracts with values of $3,229 at June 30, 2016, are measured and recorded at fair value based upon quoted prices in active markets for similar assets (level 2 inputs) and are included in Prepaid and other current assets on the Consolidated Balance Sheets.

Items Measured at Fair Value on a Recurring Basis

At June 30, 2016, trading securities, measured at fair value based on quoted prices in active markets for similar assets (level 2 inputs), with a fair value of $1,259 ($1,000 cost basis) were included in Prepaid and other current assets on the Consolidated Balance Sheets. During the first quarter of 2016, the Company settled trading securities with proceeds totaling $715 and recognized a loss of $13 in Other income (expense). During the second quarter of the prior year, the Company settled all outstanding available-for-sale securities with proceeds totaling $8,891 and recognized a gain of $489 in Other income (expense) and, accordingly, a gain of $870, net of tax, on available-for-sale securities was reclassified out of Accumulated other comprehensive income (loss) ("AOCI"). Realized and unrealized gains and losses on trading securities, and realized gains and losses on available-for-sale securities are included in Other income in the Consolidated Statements of Operations and Comprehensive Income (Loss).

In the normal course of business, Griffon's operations are exposed to the effects of changes in foreign currency exchange rates. To manage these risks, Griffon may enter into various derivative contracts such as foreign currency exchange contracts, including forwards and options. During 2016, 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 US dollars.

At June 30, 2016, Griffon had $32,000 of Australian dollar contracts at a weighted average rate of $1.35, 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 AOCI and Prepaid and other current assets, or Accrued liabilities, until settlement. Upon settlement, gains

6

and losses are recognized in the Consolidated Statements of Operations and Comprehensive Income (Loss) in Cost of goods and services ("COGS"). AOCI included deferred losses of $952 ($695, net of tax) at June 30, 2016 and gains (losses) of $(465) and $120 were recorded in COGS during the quarter and nine months ended June 30, 2016, respectively, for all settled contracts. All contracts expire in 28 to 270 days.

At June 30, 2016, Griffon had $3,383 of Canadian dollar contracts at a weighted average rate of $1.30. The contracts, which protect Canada operations from currency fluctuations for U.S. dollar based purchases, do not qualify for hedge accounting. For the quarter and nine months ended June 30, 2016, a fair value gain (loss) of $42 and $(242), respectively, were recorded to Other liabilities and to Other income for the outstanding contracts, based on similar contract values (level 2 inputs). Realized gains (losses) of $(70) and $107 were recorded in Other income during the quarter and nine months ended June 30, 2016, respectively, for all settled contracts. All contracts expire in 29 to 339 days.

NOTE 3 – ACQUISITIONS AND INVESTMENTS

On February 14, 2016, AMES Australia acquired substantially all of the Intellectual Property (IP) assets of Australia-based Nylex Plastics Pty Ltd. for approximately $1,700. Through this acquisition, AMES and Griffon secured the ownership of the trademark “Nylex” for certain categories of AMES products, principally in the country of Australia. Previously, the Nylex name was licensed. The acquisition of the Nylex IP was contemplated as a post-closing activity of the Cyclone acquisition and supports AMES' Australian watering products strategy. The purchase price was allocated to indefinite lived trademarks and is not deductible for income taxes.

In December 2015, Telephonics invested an additional $2,726 increasing its equity stake from 26% to 49% in Mahindra Telephonics Integrated Systems ("MTIS"), a joint venture with Mahindra Defence Systems, a Mahindra Group Company. MTIS is an aerospace and defense manufacturing and development facility in Prithla, India. This investment is accounted for using the equity method.

On April 16, 2015, AMES acquired the assets of an operational wood mill in Champion, PA from the Babcock Lumber Company for $2,225. The purchase price was allocated to property, plant and equipment. The wood mill secures wood supplies, lowers overall production costs and mitigates risk associated with manufacturing handles for wheelbarrows and long-handled tools.

NOTE 4 – INVENTORIES

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

The following table details the components of inventory:

	At June 30, 2016	At September 30, 2015
Raw materials and supplies	$83,147	$ 91,973
Work in process	73,986	70,811
Finished goods	156,919	163,025
Total	$314,052	$ 325,809

NOTE 5 – PROPERTY, PLANT AND EQUIPMENT

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

	At June 30, 2016	At September 30, 2015
Land, building and building improvements	$136,986	$ 131,546
Machinery and equipment	789,379	747,194
Leasehold improvements	47,997	47,465
	974,362	926,205
Accumulated depreciation and amortization	(586,213)	(546,233)
Total	$388,149	$ 379,972

7

Depreciation and amortization expense for property, plant and equipment was $15,780 and $15,541 for the quarters ended June 30, 2016 and 2015, respectively, and $46,236 and $46,099 for the nine months ended June 30, 2016 and 2015, respectively. Depreciation included in SG&A expenses was $3,327 and $3,257 for the quarters ended June 30, 2016 and 2015, respectively, and $9,735 and $9,688 for the nine months ended June 30, 2016 and 2015, respectively. Remaining components of depreciation, attributable to manufacturing operations, are included in Cost of goods and services.

No event or indicator of impairment occurred during the nine months ended June 30, 2016, which would require additional impairment testing of property, plant and equipment.

NOTE 6 – GOODWILL AND OTHER INTANGIBLES

The following table provides changes in the carrying value of goodwill by segment during the nine months ended June 30, 2016:

	At September 30, 2015	Other adjustments including currency translations	At June 30, 2016
Home & Building Products	$ 285,825	$ 1,102	$286,927
Telephonics	18,545	—	18,545
PPC	51,871	2,912	54,783
Total	$ 356,241	$ 4,014	$360,255

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

	At June 30, 2016			At September 30, 2015	
	Gross Carrying Amount	Accumulated Amortization	Average Life (Years)	Gross Carrying Amount	Accumulated Amortization
Customer relationships	$169,909	$ 45,235	25	$168,560	$ 39,755
Unpatented technology	6,092	3,934	12.5	6,107	3,525
Total amortizable intangible assets	176,001	49,169		174,667	43,280
Trademarks	84,849	—		82,450	—
Total intangible assets	$260,850	$ 49,169		$257,117	$ 43,280

Amortization expense for intangible assets was $1,898 and $1,907 for the quarters ended June 30, 2016 and 2015, respectively and $5,643 and $5,801 for the nine months ended June 30, 2016 and 2015, respectively.

No event or indicator of impairment occurred during the nine months ended June 30, 2016 which would require impairment testing of long-lived intangible assets including goodwill.

NOTE 7 – INCOME TAXES

In both the quarter and nine months ended June 30, 2016 and 2015, the Company reported pretax income, and recognized tax provisions of 35.4% and 36.2% for the quarter and nine months ended June 30, 2016, respectively, compared to 34.7% and 36.3%, respectively, in the comparable prior year periods.

The quarter and nine months ended June 30, 2016 included $775 and $1,132, of discrete tax benefits, respectively, resulting primarily from the release of unrecognized tax benefits and the retroactive extension of the federal R&D credit signed into law December 18, 2015. The comparable prior year periods ended June 30, 2015 included a $250 discrete tax benefit and $244 discrete provision, respectively, primarily resulting from taxes on repatriation of foreign earnings, partially offset by the benefit of the retroactive extension of the federal R&D credit signed into law December 19, 2014 and release of a valuation allowance. Excluding restructuring and discrete items, the effective tax rates for the quarter and nine months ended June 30, 2016 were 37.5% and 37.9%, respectively, compared to 36.3% and 35.7%, respectively, in the comparable prior year periods.

8

NOTE 8 – LONG-TERM DEBT

		At June 30, 2016					At September 30, 2015				
		Outstanding Balance	Original Issuer Discount	Capitalized Fees & Expenses	Balance Sheet	Coupon Interest Rate (1)	Outstanding Balance	Original Issuer Discount	Capitalized Fees & Expenses	Balance Sheet	Coupon Interest Rate (1)
Senior notes due 2022	(a)	$725,000	$(1,514)	$(10,252)	$713,234	5.25%	$600,000	$—	$(8,264)	$591,736	5.25%
Revolver due 2021	(b)	—	—	(2,583)	(2,583)	n/a	35,000	—	(2,049)	32,951	n/a
Convert. debt due 2017	(c)	100,000	(2,374)	(238)	97,388	4.00%	100,000	(5,594)	(571)	93,835	4.00%
Real estate mortgages	(d)	38,533	—	(622)	37,911	n/a	32,280	—	(470)	31,810	n/a
ESOP Loans	(e)	35,092	—	(171)	34,921	n/a	36,744	—	(224)	36,520	n/a
Capital lease - real estate	(f)	6,722	—	(137)	6,585	5.00%	7,524	—	(156)	7,368	5.00%
Non U.S. lines of credit	(g)	6,078	—	(5)	6,073	n/a	8,934	—	(3)	8,931	n/a
Non U.S. term loans	(g)	34,723	—	(166)	34,557	n/a	39,142	—	(299)	38,843	n/a
Other long term debt	(h)	3,550	—	(22)	3,528	n/a	1,575	—	—	1,575	n/a
Totals		949,698	(3,888)	(14,196)	931,614		861,199	(5,594)	(12,036)	843,569	
less: Current portion		(17,776)	—	—	(17,776)		(16,593)	—	—	(16,593)	
Long-term debt		$931,922	$(3,888)	$(14,196)	$913,838		$844,606	$(5,594)	$(12,036)	$826,976	

(1) n/a = not applicable

		Three Months Ended June 30, 2016					Three Months Ended June 30, 2015				
		Effective Interest Rate (1)	Cash Interest	Amort. Debt Discount	Amort. Debt Issuance Costs & Other Fees	Total Interest Expense	Effective Interest Rate (1)	Cash Interest	Amort. Debt Discount	Amort. Debt Issuance Costs & Other Fees	Total Interest Expense
Senior notes due 2022	(a)	5.5%	8,641	36	383	9,060	5.5%	7,875	—	323	8,198
Revolver due 2021	(b)	n/a	660	—	137	797	n/a	761	—	116	877
Convert. debt due 2017	(c)	9.1%	1,000	1,093	111	2,204	9.1 %	1,000	1,004	111	2,115
Real estate mortgages	(d)	2.3%	194	—	26	220	3.8 %	117	—	36	153
ESOP Loans	(e)	3.3%	274	—	18	292	2.9 %	255	—	17	272
Capital lease - real estate	(f)	5.4%	87	—	6	93	5.3 %	100	—	6	106
Non U.S. lines of credit	(g)	n/a	367	—	23	390	n/a	195	—	—	195
Non U.S. term loans	(g)	n/a	276	—	53	329	n/a	324	—	14	338
Other long term debt	(h)	n/a	97	—	—	97	n/a	12	—	1	13
Capitalized interest			(443)	—	—	(443)		(98)	—	—	(98)
Totals			$11,153	$ 1,129	$ 757	$13,039		$10,541	$ 1,004	$ 624	$12,169

(1) n/a = not applicable

10

		Nine Months Ended June 30, 2016					Nine Months Ended June 30, 2015				
		Effective Interest Rate (1)	Cash Interest	Amort. Debt Discount	Amort. Debt Issuance Costs & Other Fees	Total Interest Expense	Effective Interest Rate (1)	Cash Interest	Amort. Debt Discount	Amort. Debt Issuance Costs & Other Fees	Total Interest Expense
Senior notes due 2022	(a)	5.5%	24,391	36	1,028	25,455	5.5%	23,625	—	967	24,592
Revolver due 2021	(b)	n/a	2,185	—	374	2,559	n/a	1,758	—	407	2,165
Convert. debt due 2017	(c)	9.0%	3,000	3,220	333	6,553	9.2%	3,000	2,956	332	6,288
Real estate mortgages	(d)	2.2%	499	—	55	554	3.8%	357	—	108	465
ESOP Loans	(e)	3.2%	805	—	53	858	2.9%	769	—	52	821
Capital lease - real estate	(f)	5.4%	270	—	19	289	5.3%	308	—	19	327
Non U.S. lines of credit	(g)	n/a	723	—	69	792	n/a	445	—	—	445
Non U.S. term loans	(g)	n/a	832	—	79	911	n/a	1,049	—	44	1,093
Other long term debt	(h)	n/a	195	—	—	195	n/a	65	—	9	74
Capitalized interest			(717)	—	5	(712)		(335)	—	—	(335)
Totals			$32,183	$ 3,256	$ 2,015	$37,454		$31,041	$ 2,956	$ 1,938	$35,935

(1) n/a = not applicable

(a) On May 18, 2016, in an unregistered offering through a private placement under Rule 144A, Griffon completed the add-on offering of $125,000 principal amount of its 5.25% senior notes due 2022, at 98.76% of par, to Griffon's previous issuance of $600,000 5.25% senior notes due 2022, at par, which was completed on February 27, 2014 (collectively the “Senior Notes”). As of May 18, 2016, outstanding Senior Notes due totaled $725,000; interest is payable semi-annually on March 1 and September 1. The net proceeds of the add-on offering were used to pay down outstanding borrowings under Griffon's Revolving Credit Facility (the "Credit Agreement"). In connection with the issuance and exchange of the $125,000 senior notes, Griffon capitalized $3,016 of underwriting fees and other expenses in the quarter, which will amortize over the term of such notes; Griffon capitalized $10,313 in connection with the previously issued $600,000 senior notes.

The Senior Notes are senior unsecured obligations of Griffon guaranteed by certain domestic subsidiaries, and subject to certain covenants, limitations and restrictions. On July 20, 2016 and June 18, 2014, Griffon exchanged all of the $125,000, and $600,000 Senior Notes, respectively, for substantially identical Senior Notes registered under the Securities Act of 1933 via an exchange offer. The fair value of the Senior Notes approximated $703,250 on June 30, 2016 based upon quoted market prices (level 1 inputs).

(b) On March 22, 2016, Griffon amended the Credit Agreement to increase the maximum borrowing availability from $250,000 to $350,000, extend its maturity date from March 13, 2020 to March 22, 2021 and modified certain other provisions of the facility. The facility includes a letter of credit sub-facility with a limit of $50,000 and a multi-currency sub-facility of $50,000. The Credit Agreement provides for same day borrowings of base rate loans. Borrowings under the Credit Agreement may be repaid and re-borrowed at any time, subject to final maturity of the facility or the occurrence of an event of default under the Credit Agreement. Interest is payable on borrowings at either a LIBOR or base rate benchmark rate, in each case without a floor, plus an applicable margin, which adjusts based on financial performance. Current margins are 1.25% for base rate loans and 2.25% 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 (except that a lien on the assets of Griffon's material domestic subsidiaries securing a limited amount of the debt under the credit agreement relating to Griffon's Employee Stock Ownership Plan ("ESOP") ranks pari passu with the lien granted on such assets under the Credit Agreement; see footnote (e) below). At June 30, 2016, there were no outstanding borrowings and standby letters of credit were $15,794 under the Credit Agreement; $334,206 was available, subject to certain loan covenants, for borrowing at that date.

(c) On December 21, 2009, Griffon issued $100,000 principal amount of 4% convertible subordinated notes due 2017 (the “2017 Notes”). The current conversion rate of the 2017 Notes is 70.1632 shares of Griffon’s common stock per $1 principal amount of notes, corresponding to a conversion price of $14.25 per share. Since July 15, 2016, any holder has had the option to convert such holder's notes. Under the terms of the 2017 Notes, Griffon has the right to settle the conversion of the 2017 Notes in cash, stock or a combination of cash and stock. On July 14, 2016, Griffon announced that it will settle, upon conversion, up to $125,000 of the conversion value of the 2017 Notes in cash, with amounts in excess of $125,000, if any, to be settled in shares of Griffon common stock. When a cash dividend is declared that would result in an adjustment to the conversion ratio of less than 1%, any adjustment to the conversion ratio is deferred until the first to occur of (i) actual conversion; (ii) the 42nd trading day prior to maturity of the notes; and (iii) such time as the cumulative adjustment equals or exceeds 1%. At both June 30, 2016 and 2015, the 2017 Notes had a capital in excess of par component, net of tax, of $15,720. The fair value of the 2017 Notes approximated $121,438 on June 30, 2016 based upon quoted market prices (level 1 inputs). These

notes are classified as long term debt as Griffon has the intent and ability to refinance the principal amount of the notes, including with borrowings under the Credit Agreement.

(d) In September 2015 and March 2016, Griffon entered into mortgage loans in the amounts of $32,280 and $8,000, respectively. The mortgage loans are secured by four properties occupied by Griffon's subsidiaries. The loans mature in September 2025 and April 2018, respectively, are collateralized by the specific properties financed and are guaranteed by Griffon. The loans bear interest at a rate of LIBOR plus 1.50%. At June 30, 2016, $37,913 was outstanding, net of issuance costs.

(e) In December 2013, Griffon’s ESOP entered into an agreement that refinanced the two existing ESOP loans into one new Term Loan in the amount of $21,098 (the "Agreement"). The Agreement also provided for a Line Note with $10,000 available to purchase shares of Griffon common stock in the open market. In July 2014, Griffon's ESOP entered into an amendment to the existing Agreement which provided an additional $10,000 Line Note available to purchase shares in the open market. During 2014, the Line Notes were combined with the Term Loan to form one new Term Loan. The Term Loan bears interest

12

at LIBOR plus 2.38% or the lender's prime rate, at Griffon's option. The Term Loan requires quarterly principal payments of $551, with a balloon payment of approximately $30,137 due at maturity on December 31, 2018. During 2014, 1,591,117 shares of Griffon common stock, for a total of $20,000 or $12.57 per share, were purchased with proceeds from the Line Notes. As of June 30, 2016, $34,921, net of issuance costs, was outstanding under the Term Loan. The Term Loan is secured by shares purchased with the proceeds of the loan and with a lien on a specific amount of Griffon assets (which lien ranks pari passu with the lien granted on such assets under the Credit Agreement) and is guaranteed by Griffon.

(f) In October 2006, CBP entered into a capital lease totaling $14,290 for real estate in Troy, Ohio. The lease matures in 2022, bears interest at a fixed rate of 5.0%, is secured by a mortgage on the real estate and is guaranteed by Griffon. At June 30, 2016, $6,585 was outstanding, net of issuance costs.

(g) In September 2015, Clopay Europe GmbH ("Clopay Europe") entered into a EUR 5,000 ($5,541 as of June 30, 2016) revolving credit facility and EUR 15,000 term loan. The term loan is payable in twelve quarterly installments of EUR 1,250, bears interest at a fixed rate of 2.5% and matures in September 2018. The revolving facility matures in September 2016, but is renewable upon mutual agreement with the bank. The revolving credit facility accrues interest at EURIBOR plus 1.75% per annum (1.75% at June 30, 2016). The revolver and the term loan are both secured by substantially all of the assets of Clopay Europe and its subsidiaries. Griffon guarantees the revolving facility and term loan. The term loan has an outstanding balance of EUR 11,250 ($12,469 at June 30, 2016) and the revolver had no borrowings outstanding at June 30, 2016. Clopay Europe is required to maintain a certain minimum equity to assets ratio and is subject to a maximum debt leverage ratio (defined as the ratio of total debt to EBITDA).

Clopay do Brazil maintains lines of credit of R$12,800 ($3,738 as of June 30, 2016). Interest on borrowings accrues at a rate of Brazilian CDI plus 6.0% (20.13% at June 30, 2016). At June 30, 2016 there was approximately R$7,175($2,235 as of June 30, 2016) borrowed under the lines. PPC guarantees the lines.

In November 2012, Garant G.P. ("Garant") entered into a CAD $15,000 ($11,534 as of June 30, 2016) revolving credit facility. The facility accrues interest at LIBOR (USD) or the Bankers Acceptance Rate (CDN) plus 1.3% per annum (1.95% LIBOR USD and 2.10% Bankers Acceptance Rate CDN as of June 30, 2016). The revolving facility matures in October 2016. This facility is classified as long term debt as Griffon has the intent and ability to refinance the borrowings. Garant is required to maintain a certain minimum equity. At June 30, 2016, there was CAD $3,068 ($2,359 as of June 30, 2016) borrowed under the revolving credit facility with CAD $11,932 ($9,175 as of June 30, 2016) available for borrowing.

In December 2013 and May 2014, Griffon Australia Holdings Pty Ltd ("Griffon Australia"; formerly known as Northcote Holdings Australia Pty Ltd) entered into two unsecured term loans in the outstanding amounts of AUD 12,500 and AUD 20,000, respectively. The AUD 12,500 term loan required quarterly interest payments with principal due upon maturity in December 2016. As of June 30, 2016, this loan was classified as long term debt as Griffon had the intent and ability to refinance the principal amount. The AUD 20,000 term loan required quarterly principal payments of AUD 625, with a balloon payment due upon maturity in May 2017. The loans accrued interest at Bank Bill Swap Bid Rate "BBSY" plus 2.8% per annum (4.79% at June 30, 2016 for each loan). As of June 30, 2016, Griffon had an outstanding combined balance of AUD $30,000 ($22,254 as of June 30, 2016) on the term loans.

A subsidiary of Northcote Holdings Pty Ltd also maintains a line of credit of AUD 5,000 ($3,709 as of June 30, 2016), which accrues interest at BBSY plus 2.50% per annum (4.49% at June 30, 2016). At June 30, 2016, there were AUD 2,000 ($1,484 as of June 30, 2016) outstanding under the line. The assets of a subsidiary of Northcote Holdings Pty Ltd secures the AUD 5,000 line of credit.

In July 2016, Griffon Australia and its Australian subsidiaries entered into an AUD 10,000 revolver and an AUD 30,000 term loan. The term loan refinanced the two existing term loans referred to above. The term loan requires quarterly principal payments of AUD 750 plus interest with a balloon payment of AUD 21,000 due upon maturity in

June 2019, and accrues interest at Bank Bill Swap Bid Rate "BBSY" plus 2.25% per annum. The revolving facility matures in June 2017 but is renewable upon mutual agreement with the bank, and accrues interest at BBSY plus 2.0% per annum. The revolver and the term loan are both secured by substantially all of the assets of Griffon Australia and its subsidiaries. Griffon guarantees the term loan. 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.

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

At June 30, 2016, Griffon and its subsidiaries were in compliance with the terms and covenants of all credit and loan agreements.

13

NOTE 9 — SHAREHOLDERS' EQUITY

During 2016, the Company paid a quarterly cash dividend of $0.05 per share in each quarter, totaling $0.15 per share for the nine months ended June 30, 2016. During 2015, the Company paid quarterly cash dividends of $0.04 per share, totaling $0.16 per share for the year. Dividends paid on allocated shares in the ESOP were used to pay down the ESOP loan 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.

On August 3, 2016 the Board of Directors declared a quarterly cash dividend of $0.05 per share, payable on September 22, 2016 to shareholders of record as of the close of business on August 25, 2016.

Compensation expense for restricted stock is recognized ratably over the required service period based on the fair value of the grant, calculated as the number of shares granted multiplied by the stock price on the date of grant and, for performance shares, the likelihood of achieving the performance criteria. Compensation cost related to stock-based awards with graded vesting, generally over a period of three to four years, is recognized using the straight-line attribution method and recorded within SG&A expenses.

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 awards may be granted. Options granted under the Incentive Plan may be either "incentive stock options" or nonqualified stock options, generally expire ten years after the date of grant and are granted at an exercise price of not less than 100% of the fair market value at the date of grant. The maximum number of shares of common stock available for award under the Incentive Plan is 2,350,000 (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 underlying awards outstanding on such effective date under the 2011 Incentive Plan that are canceled or forfeited. As of June 30, 2016, there were 1,807,343 shares available for grant.

All grants outstanding under former equity plans will continue under their terms; no additional awards will be granted under such plans.

During the first quarter of 2016, Griffon granted 372,243 shares of restricted stock, subject to certain performance conditions, with vesting periods of three years, with a total fair value of $6,425, or a weighted average fair value of $17.26 per share. During the second quarter of 2016, Griffon granted 677,461 shares of restricted stock consisting of 605,000 shares to two senior executives with a vesting period of four years and a two year post-vesting holding period, and 31,761 shares of restricted stock, subject to certain performance conditions, with a vesting period of three years and a fair value of $473, or a weighted average fair value of $14.90 per share. Griffon also granted 40,700 shares with a vesting period of three years and a fair value of $618, or a weighted average fair value of $15.18 per share. The grants issued to two senior executive are 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 220,000 to 605,000. The total fair value of these restricted shares is approximately $4,247, or a weighted average fair value of $7.02. During the third quarter of 2016, no shares of restricted stock were granted.

For the quarters ended June 30, 2016 and 2015, stock based compensation expense totaled $2,877 and $2,931, respectively. For the nine months ended June 30, 2016 and 2015, stock based compensation expense totaled $8,432 and $8,303, respectively.

During the quarter and nine months ended June 30, 2016, 300,399 shares, with a market value of $4,834 or $16.09 per share, and 488,621 shares, with a market value of $8,410 or $17.21 per share, respectively, were withheld to settle employee taxes due to the vesting of restricted stock, and were added to treasury.

On each of March 20, 2015 and July 29, 2015, 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 the quarter ended June 30, 2016, Griffon purchased 764,738 shares of common stock under the July 2015 program, for a total of $12,297 or $16.08 per share. During the nine months ended June 30, 2016, Griffon purchased 2,714,076 shares of common stock under both the March 2015 and July 2015 programs, for a total of $42,232 or $15.56 per share. As of June 30, 2016, $15,693 remains under the July 2015 Board authorization.

On August 3, 2016, Griffon's Board of Directors authorized the repurchase of an additional $50,000 of Griffon's outstanding common stock. During the fourth quarter, through and including August 2, 2016, the Company purchased 64,706 shares for a

total of $1,078. Accordingly, Griffon now has $14,615 available under the July 2015 authorization and a total of $64,615 available for the purchase of its shares of common stock inclusive of the August 3, 2016 authorization.

From August 2011 to June 30, 2016, Griffon repurchased 15,020,853 shares of common stock, for a total of $195,364 or $13.01 per share, under Board authorized repurchase programs. In addition to repurchases under Board authorized programs, on December 10, 2013, Griffon repurchased 4,444,444 shares of its common stock for $50,000 from GS Direct, L.L.C. ("GS Direct"), an affiliate of The Goldman Sachs Group, Inc. Subject to certain exceptions, if GS Direct intends to sell its remaining 5,555,556 shares of Griffon common stock at any time prior to December 31, 2016, it will first negotiate in good faith to sell such shares to the Company.

NOTE 10 – EARNINGS PER SHARE (EPS)

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 and upon the settlement of the 2017 convertible notes.

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

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2016	2015	2016	2015
Weighted average shares outstanding - basic	40,558	44,025	41,318	45,228
Incremental shares from stock based compensation	1,876	2,056	2,047	1,929
Convertible debt due 2017	846	899	878	128
Weighted average shares outstanding - diluted	43,280	46,980	44,243	47,285
Anti-dilutive options excluded from diluted EPS computation	377	480	404	514

As of June 30, 2016, Griffon had the intent and ability to settle the principal amount of the 2017 Notes in cash, and as such, the potential issuance of shares related to the principal amount of the 2017 Notes does not affect diluted shares. On July 14, 2016, Griffon announced that it will settle, upon conversion, up to $125,000 of the conversion value in cash, with the incremental amount, if any, to be settled in shares of Griffon common stock.

NOTE 11 – BUSINESS SEGMENTS

Griffon's reportable segments are as follows:

- HBP is a leading manufacturer and marketer of residential, commercial and industrial garage doors to professional dealers and major home center retail chains, as well as a global provider of non-powered landscaping products for homeowners and professionals.
- Telephonics develops, designs and manufactures high-technology integrated information, communication and sensor system solutions for military and commercial markets worldwide.
- PPC is an international leader in the development and production of embossed, laminated and printed specialty plastic films used in a variety of hygienic, health-care and industrial applications.

15

Information on Griffon's reportable segments is as follows:

REVENUE	For the Three Months Ended June 30, 2016	2015	For the Nine Months Ended June 30, 2016	2015
Home & Building Products:				
AMES	$122,198	$140,614	$406,335	$432,816
CBP	133,362	131,577	389,657	374,690
Home & Building Products	255,560	272,191	795,992	807,506
Telephonics	91,767	115,340	306,678	304,685
PPC	114,873	124,163	353,786	401,683
Total consolidated net sales	$462,200	$511,694	$1,456,456	$1,513,874

The following table reconciles segment operating profit to income before taxes:

INCOME BEFORE TAXES	For the Three Months Ended June 30, 2016	2015	For the Nine Months Ended June 30, 2016	2015
Segment operating profit:				
Home & Building Products	$23,201	$16,268	$62,170	$41,288
Telephonics	9,471	13,284	25,159	29,915
PPC	1,672	8,299	13,569	26,186
Total segment operating profit	34,344	37,851	100,898	97,389
Net interest expense	(12,960)	(12,150)	(37,320)	(35,644)
Unallocated amounts	(9,625)	(9,008)	(28,632)	(24,852)
Income before taxes	$11,759	$16,693	$34,946	$36,893

Griffon evaluates performance and allocates resources based on each segment's operating results before interest income and expense, income taxes, depreciation and amortization, unallocated amounts (mainly corporate overhead) and restructuring charges, as applicable ("Segment adjusted EBITDA"). Griffon believes this information is useful to investors for the same reason.

The following table provides a reconciliation of Segment adjusted EBITDA to Income before taxes:

	For the Three Months Ended June 30, 2016	2015	For the Nine Months Ended June 30, 2016	2015
Segment adjusted EBITDA:				
Home & Building Products	$32,082	$25,386	$88,249	$67,186
Telephonics	12,125	15,712	32,913	37,360
PPC	13,588	14,084	37,154	44,399
Total Segment adjusted EBITDA	57,795	55,182	158,316	148,945
Net interest expense	(12,960)	(12,150)	(37,320)	(35,644)
Segment depreciation and amortization	(17,551)	(17,331)	(51,518)	(51,556)
Unallocated amounts	(9,625)	(9,008)	(28,632)	(24,852)
Restructuring charges	(5,900)	—	(5,900)	—
Income before taxes	$11,759	$16,693	$34,946	$36,893

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

DEPRECIATION and AMORTIZATION	For the Three Months Ended June 30, 2016	2015	For the Nine Months Ended June 30, 2016	2015
Segment:				
Home & Building Products	$8,881	$9,118	$26,079	$25,898
Telephonics	2,654	2,428	7,754	7,445
PPC	6,016	5,785	17,685	18,213
Total segment depreciation and amortization	17,551	17,331	51,518	51,556
Corporate	126	117	361	345
Total consolidated depreciation and amortization	$17,677	$17,448	$51,879	$51,901
CAPITAL EXPENDITURES				
Segment:				
Home & Building Products	$9,148	$8,644	$37,263	$30,019
Telephonics	2,360	1,644	5,598	3,952
PPC	5,648	4,820	19,008	19,985
Total segment	17,156	15,108	61,869	53,956
Corporate	139	544	1,378	1,409
Total consolidated capital expenditures	$17,295	$15,652	$63,247	$55,365

ASSETS	At June 30, 2016	At September 30, 2015
Segment assets:		
Home & Building Products	$1,018,530	$ 1,034,032
Telephonics	318,654	302,560
PPC	347,096	343,519
Total segment assets	1,684,280	1,680,111
Corporate	92,013	47,831
Total continuing assets	1,776,293	1,727,942
Assets of discontinued operations	3,348	3,491
Consolidated total	$1,779,641	$ 1,731,433

NOTE 12 – DEFINED BENEFIT PENSION EXPENSE

Defined benefit pension expense (income) was as follows:

	Three Months Ended June 30, 2016	2015	Nine Months Ended June 30, 2016	2015
Interest cost	$1,065	$2,207	$5,225	$6,621
Expected return on plan assets	(2,489)	(2,932)	(8,321)	(8,796)
Amortization:				
Prior service cost	3	4	11	12
Recognized actuarial loss	590	541	1,771	1,623
Net periodic expense (income)	$(831)	$(180)	$(1,314)	$(540)

In 2016, the Company changed the method used to estimate the service and interest components of net periodic benefit cost for pension and other post-retirement benefits from the single weighted-average discount rate to the spot rate method. There was no impact on the total benefit obligation.

17

NOTE 13 – RECENT ACCOUNTING PRONOUNCEMENTS

In May 2014, the FASB issued guidance on revenue from contracts with customers. The underlying principle is that an entity will recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of time value of money in the transaction price, and allowing estimates of variable consideration to be recognized before contingencies are resolved, in certain circumstances. The guidance also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. This guidance permits the use of either the retrospective or cumulative effect transition method and is effective for the Company beginning in 2019; early adoption is permitted beginning in 2018. We have not yet selected a transition method and are currently evaluating the impact of the guidance on the Company's financial condition, results of operations and related disclosures.

In August 2014, the FASB issued guidance on management's responsibility in evaluating whether there is substantial doubt about a company's ability to continue as a going concern and related footnote disclosures. Management will be required to evaluate, at each reporting period, whether there are conditions or events that raise substantial doubt about a company's ability to continue as a going concern within one year from the date the financial statements are issued. This guidance is effective prospectively for annual and interim reporting periods beginning in 2017; implementation of this guidance is not expected to have a material effect on the Company's financial condition or results of operations.

In November 2015, the FASB issued guidance on simplifying the presentation of deferred income taxes, requiring deferred income tax liabilities and assets to be classified as non-current in the statement of financial position. This guidance may be applied retrospectively or prospectively to all annual and interim periods presented and is effective for the Company beginning in fiscal 2018; implementation of this guidance is not expected to have a material effect on the Company's financial condition or results of operations.

In February 2016, the FASB issued guidance on lease accounting requiring lessees to recognize a right-of-use asset and a lease liability for long-term leases. The liability will be equal to the present value of lease payments. This guidance must be applied using a modified retrospective transition approach to all annual and interim periods presented and is effective for the company beginning in fiscal 2019. We are currently evaluating the impact of the guidance on the Company's financial condition, results of operations and related disclosures.

In March 2016, the FASB issued guidance on simplifying several aspects of accounting for share-based payment award transactions, including income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. This guidance requires a mix of prospective, modified retrospective, and retrospective transition to all annual and interim periods presented and is effective for the Company beginning in fiscal 2018. We are currently evaluating the impact of the guidance on the Company's financial condition, results of operations and 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.

NOTE 14 – DISCONTINUED OPERATIONS

The following amounts related to the Installation Services segment, discontinued in 2008, and other businesses discontinued several years ago, which have been segregated from Griffon's continuing operations, and are reported as assets and liabilities of discontinued operations in the condensed consolidated balance sheets:

	At June 30, 2016	At September 30, 2015
Assets of discontinued operations:		
Prepaid and other current assets	$ 1,301	$ 1,316
Other long-term assets	2,047	2,175
Total assets of discontinued operations	$ 3,348	$ 3,491
Liabilities of discontinued operations:		
Accrued liabilities, current	$ 1,600	$ 2,229
Other long-term liabilities	2,715	3,379
Total liabilities of discontinued operations	$ 4,315	$ 5,608

There was no Installation Services revenue or income for the nine months ended June 30, 2016 or 2015.

NOTE 15 – RESTRUCTURING AND OTHER RELATED CHARGES

During the third quarter of 2016, PPC incurred pre-tax restructuring and related exit costs approximating $5,900 primarily related to headcount reductions at PPC's Dombuhl, Germany facility, other location headcount reductions and for costs related to the shut down of PPC's Turkey facility. These actions resulted in the elimination of approximately 83 positions. The Dombuhl charges are related to an optimization plan that will drive innovation and enhance our industry leading position in printed breathable back sheet. The facility will be transformed into a state of the art hygiene products facility focused on breathable printed film and siliconized products. In conjunction with this effort, our customer base will be streamlined, and we will dispose of old assets and reduce overhead costs, allowing for gains in efficiencies.

A summary of the restructuring and other related charges included in the line item "Restructuring and other related charges" in the Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) were recognized as follows:

	Workforce Reduction	Facilities & Exit Costs	Other Related Costs	Non-cash Facility and Other	Total
Amounts incurred in:					
Quarter ended June 30, 2016	$ 3,337	$ 659	$ 1,073	$ 831	$ 5,900
Nine Months Ended June 30, 2016	$ 3,337	$ 659	$ 1,073	$ 831	$ 5,900

The activity in the restructuring accrual recorded in accrued liabilities consisted of the following:

	Workforce Reduction	Facilities & Exit Costs	Other Related	Total
Accrued liability at September 30, 2015	$ —	$ —	$ —	$—

Charges	3,337	659	1,073	5,069
Payments	(530)	(28)	(217)	(775)
Accrued liability at June 30, 2016	$ 2,807	$ 631	$ 856	$4,294

NOTE 16 – OTHER EXPENSE

For the quarters ended June 30, 2016 and 2015, Other income (expense) included $192 and $722, respectively, of net currency exchange losses in connection with the translation of receivables and payables denominated in currencies other than the functional currencies of Griffon and its subsidiaries as well as $58 and $(36), respectively, of net investment income (loss).

For the nine months ended June 30, 2016 and 2015, Other income (expense) included $301 and $(803), respectively, of net currency exchange gains (losses) in connection with the translation of receivables and payables denominated in currencies other than the functional currencies of Griffon and its subsidiaries as well as $260 and $527, respectively, of net investment income.

NOTE 17 – WARRANTY LIABILITY

Telephonics offers warranties against product defects for periods generally ranging from one to two years, depending on the specific product and terms of the customer purchase agreement. Typical warranties require Telephonics 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. AMES offers an express limited warranty for a period of ninety days on all products from the date of original purchase unless otherwise stated on the product or packaging.

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

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2016	2015	2016	2015
Balance, beginning of period	$5,185	$5,675	$4,756	$4,935
Warranties issued and changes in estimated pre-existing warranties	1,293	1,057	3,489	3,848
Actual warranty costs incurred	(1,494)	(1,803)	(3,261)	(3,854)
Balance, end of period	$4,984	$4,929	$4,984	$4,929

NOTE 18 – OTHER COMPREHENSIVE INCOME (LOSS)

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

	Three Months Ended June 30, 2016			Three Months Ended June 30, 2015		
	Pre-tax	Tax	Net of tax	Pre-tax	Tax	Net of tax
Foreign currency translation adjustments	$796	$—	$796	$4,801	$—	$4,801
Pension and other defined benefit plans	593	(207)	386	545	(192)	353
Cash flow hedges	1,838	(551)	1,287	278	(69)	209
Total other comprehensive income (loss)	$3,227	$(758)	$2,469	$5,624	$(261)	$5,363

	Nine Months Ended June 30, 2016			Nine Months Ended June 30, 2015		
	Pre-tax	Tax	Net of tax	Pre-tax	Tax	Net of tax
Foreign currency translation adjustments	$11,130	$—	$11,130	$(41,083)	$—	$(41,083)
Pension and other defined benefit plans	1,782	(624)	1,158	1,635	(576)	1,059

Cash flow hedges	(1,967)	590	(1,377)	74	(19)	55
Available-for-sale securities	—	—	—	(1,370)	500	(870)
Total other comprehensive income (loss)	$10,945	$(34)	$10,911	$(40,744)	$(95)	$(40,839)

20

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

	June 30, 2016	September 30, 2015
Foreign currency translation adjustments	$(49,048)	$ (60,178)
Pension and other defined benefit plans	(30,534)	(31,692)
Change in Cash flow hedges	(695)	682
	$(80,277)	$ (91,188)

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

	For the Three Months Ended June 30,		For the Nine Months Ended June 30,	
Gain (Loss)	2016	2015	2016	2015
Pension amortization	$(593)	$(545)	$(1,782)	$(1,635)
Cash flow hedges	(764)	100	324	520
Available-for-sale securities	—	—	—	1,370
Total gain (loss)	(1,357)	(445)	(1,458)	255
Tax benefit (expense)	407	162	438	(80)
Total	$(950)	$(283)	$(1,020)	$175

NOTE 19 — COMMITMENTS AND CONTINGENCIES

Legal and environmental

Department of Environmental Conservation of New York State ("DEC"), with ISC Properties, Inc. Lightron Corporation ("Lightron"), a wholly-owned subsidiary of Griffon, once conducted operations at a location in Peekskill in the Town of Cortlandt, New York (the "Peekskill Site") owned by ISC Properties, Inc. ("ISC"), a wholly-owned subsidiary of Griffon. ISC sold the Peekskill Site in November 1982.

Subsequently, Griffon was advised by the DEC that random sampling at the Peekskill Site and in a creek near the Peekskill Site indicated concentrations of solvents and other chemicals common to Lightron's prior plating operations. ISC then entered into a consent order with the DEC in 1996 (the "Consent Order") to perform a remedial investigation and prepare a feasibility study. After completing the initial remedial investigation pursuant to the Consent Order, ISC was required by the DEC, and did accordingly conduct over the next several years, supplemental remedial investigations, including soil vapor investigations, under the Consent Order.

In April 2009, the DEC advised ISC's representatives that both the DEC and the New York State Department of Health had reviewed and accepted an August 2007 Remedial Investigation Report and an Additional Data Collection Summary Report dated January 30, 2009. With the acceptance of these reports, ISC completed the remedial investigation required under the Consent Order and was authorized, accordingly, by the DEC to conduct the Feasibility Study required by the Consent Order. Pursuant to the requirements of the Consent Order and its obligations thereunder, ISC, without acknowledging any responsibility to perform any remediation at the Site, submitted to the DEC in August 2009, a draft feasibility study which recommended for the soil, groundwater and sediment media, remediation alternatives having a current net capital cost value, in the aggregate, of approximately $5,000. In February 2011, DEC advised ISC it has accepted and approved the feasibility study. Accordingly, ISC has no further obligations under the consent order.

Upon acceptance of the feasibility study, DEC issued a Proposed Remedial Action Plan ("PRAP") that sets forth the proposed remedy for the site. The PRAP accepted the recommendation contained in the feasibility study for

remediation of the soil and groundwater media, but selected a different remediation alternative for the sediment medium. The approximate cost and the current net capital cost value of the remedy proposed by DEC in the PRAP is approximately $10,000. After receiving public comments on the PRAP, the DEC issued a Record of Decision (“ROD”) that set forth the specific remedies selected and responded to public comments. The remedies selected by the DEC in the ROD are the same remedies as those set forth in the PRAP.

It is now expected that DEC will enter into negotiations with potentially responsible parties to request they undertake performance of the remedies selected in the ROD, and if such parties do not agree to implement such remedies, then the State of New York may use State Superfund money to remediate the Peekskill site and seek recovery of costs from such parties. Griffon does not acknowledge any responsibility to perform any remediation at the Peekskill Site.

Improper Advertisement Claim involving Union Tools® Products. Since December 2004, a customer of AMES has been named in various litigation matters relating to certain Union Tools products. The plaintiffs in those litigation matters have asserted causes of action against the customer of AMES for improper advertisement to end consumers. The allegations suggest that advertisements led the consumers to believe that Union Tools' hand tools were wholly manufactured within boundaries of the United States. The complaints assert various causes of action against the customer of AMES under federal and state law, including common law fraud. At some point, likely once the litigation against the customer of AMES ends, the customer may seek indemnity (including recovery of its legal fees and costs) against AMES for an unspecified amount. Presently, AMES cannot estimate the amount of loss, if any, if the customer were to seek legal recourse against AMES.

Union Fork and Hoe, Frankfort, NY site. The former Union Fork and Hoe property in Frankfort, NY 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 has entered into an Order on Consent with the New York State Department of Environmental Conservation. While the Order is without admission or finding of liability or acknowledgment that there has been a release of hazardous substances at the site, AMES is required to perform a remedial investigation of certain portions of the property and to recommend a remediation option. At the conclusion of the remediation phase to the satisfaction of the DEC, the DEC will issue a Certificate of Completion. AMES has performed significant investigative and remedial activities in the last few years under work plans approved by the DEC, and the DEC recently approved the final remedial investigation report. In May 2016, AMES submitted a Feasibility Study, evaluating a number of remedial options, and recommending excavation and offsite disposal of lead contaminated soils and capping of other areas of the site impacted by other metals. The DEC is evaluating the Feasibility Study and is expected to issue a Record of Decision approving the selection of a remedial alternative in late 2016 or early 2017. Implementation of the selected remedial alternative is expected to occur in 2017. AMES has a number of defenses to liability in this matter, including its rights under a Consent Judgment entered into between the DEC and a predecessor of AMES relating to the site.

U.S. Government investigations and claims

Defense contracts and subcontracts, including Griffon's contracts and subcontracts, are subject to audit and review by various agencies and instrumentalities of the United States government, including among others, the Defense Contract Audit Agency ("DCAA"), the Defense Criminal Investigative Service ("DCIS"), and the Department of Justice ("DOJ") which has responsibility for asserting claims on behalf of the U.S. government. In addition to ongoing audits, Griffon is currently in discussions with the civil division of the U.S. Department of Justice regarding certain amounts the civil division has indicated it believes it is owed from Griffon with respect to certain U.S. government contracts in which Griffon acted as a subcontractor. No claim has been asserted against Griffon in connection with this matter, and Griffon believes that it does not have a material financial exposure in connection with this matter.

In general, departments and agencies of the U.S. Government have the authority to investigate various transactions and operations of Griffon, and the results of such investigations may lead to administrative, civil or criminal proceedings, the ultimate outcome of which could be fines, penalties, repayments or compensatory or treble damages. U.S. Government regulations provide that certain findings against a contractor may lead to suspension or debarment from future U.S. Government contracts or the loss of export privileges for a company or an operating division or subdivision. Suspension or debarment could have a material adverse effect on Telephonics because of its reliance on government contracts.

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.

Operating Leases

Griffon rents property and equipment under operating leases expiring at various dates. Most of the real property leases have escalation clauses related to increases in real property taxes. Rent expense for all operating leases totaled approximately $7,141 and $7,757 for the three months ended June 30, 2016 and 2015, respectively and totaled approximately $21,778 and $15,400 for the nine months ended June 30, 2016 and 2015, respectively. Aggregate future annual minimum lease payments for operating leases are $26,655 in 2016, $21,710 in 2017, $17,815 in 2018, $14,704 in 2019, $10,036 in 2020 and $9,294 thereafter.

NOTE 20 — CONSOLIDATING GUARANTOR AND NON-GUARANTOR FINANCIAL INFORMATION

Griffon's Senior Notes are fully and unconditionally guaranteed, jointly and severally, on a senior secured basis by the domestic assets of Clopay Building Products Company, Inc., Clopay Plastic Products Company, Inc., Telephonics Corporation, The AMES Companies, Inc., ATT Southern, Inc. and Clopay Ames True Temper Holding Corp., all of which are indirectly 100% owned by Griffon. In accordance with Rule 3-10 of Regulation S-X promulgated under the Securities Act of 1933, presented below are condensed consolidating financial information as of June 30, 2016 and September 30, 2015 and for the three and nine months ended June 30, 2016 and 2015. 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 indenture relating to the Senior Notes (the "Indenture") contains 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 Indenture; (ii) a public equity offering of a subsidiary guarantor that qualifies as a "Minority Business" as defined in the Indenture (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 Indenture; (iii) the designation of a guarantor as an "unrestricted subsidiary" as defined in the Indenture, in compliance with the terms of the Indenture; (iv) Griffon exercising its right to defease the Senior Notes, or to otherwise discharge its obligations under the Indenture, in each case in accordance with the terms of the Indenture; and (v) upon obtaining the requisite consent of the holders of the Senior Notes.

CONDENSED CONSOLIDATING BALANCE SHEETS
At June 30, 2016

	Parent Company	Guarantor Companies	Non-Guarantor Companies	Elimination	Consolidation
CURRENT ASSETS					
Cash and equivalents	$22,699	$8,691	$ 37,226	$—	$ 68,616
Accounts receivable, net of allowances	—	195,787	56,022	(29,041)	222,768
Contract costs and recognized income not yet billed, net of progress payments	—	121,352	239	—	121,591
Inventories, net	—	240,544	73,508	—	314,052
Prepaid and other current assets	34,652	30,343	14,408	(15,441)	63,962
Assets of discontinued operations	—	—	1,301	—	1,301
Total Current Assets	57,351	596,717	182,704	(44,482)	792,290
PROPERTY, PLANT AND EQUIPMENT, net	1,026	289,928	97,195	—	388,149
GOODWILL	—	284,875	75,380	—	360,255
INTANGIBLE ASSETS, net	—	149,073	62,608	—	211,681
INTERCOMPANY RECEIVABLE	553,059	799,370	292,743	(1,645,172)	—
EQUITY INVESTMENTS IN SUBSIDIARIES	808,951	661,936	1,805,573	(3,276,460)	—
OTHER ASSETS	6,854	8,999	24,312	(14,946)	25,219
ASSETS OF DISCONTINUED OPERATIONS	—	—	2,047	—	2,047
Total Assets	$1,427,241	$2,790,898	$ 2,542,562	$(4,981,060)	$ 1,779,641
CURRENT LIABILITIES					
Notes payable and current portion of long-term debt	$2,735	$2,304	$ 12,737	$—	$ 17,776
Accounts payable and accrued liabilities	53,989	177,862	83,597	(44,817)	270,631
Liabilities of discontinued operations	—	—	1,600	—	1,600
Total Current Liabilities	56,724	180,166	97,934	(44,817)	290,007
LONG-TERM DEBT, net	848,004	19,424	46,410	—	913,838
INTERCOMPANY PAYABLES	68,957	743,810	815,214	(1,627,981)	—
OTHER LIABILITIES	33,529	105,679	22,224	(8,378)	153,054
LIABILITIES OF DISCONTINUED OPERATIONS	—	—	2,715	—	2,715
Total Liabilities	1,007,214	1,049,079	984,497	(1,681,176)	1,359,614
SHAREHOLDERS' EQUITY	420,027	1,741,819	1,558,065	(3,299,884)	420,027
Total Liabilities and Shareholders' Equity	$1,427,241	$2,790,898	$ 2,542,562	$(4,981,060)	$ 1,779,641

CONDENSED CONSOLIDATING BALANCE SHEETS
At September 30, 2015

	Parent Company	Guarantor Companies	Non-Guarantor Companies	Elimination	Consolidation
CURRENT ASSETS					
Cash and equivalents	$2,440	$10,671	$ 38,890	$—	$ 52,001
Accounts receivable, net of allowances	—	178,830	61,772	(21,847)	218,755
Contract costs and recognized income not yet billed, net of progress payments	—	103,879	16	—	103,895
Inventories, net	—	257,929	67,880	—	325,809
Prepaid and other current assets	23,493	27,584	12,488	(8,479)	55,086
Assets of discontinued operations	—	—	1,316	—	1,316
Total Current Assets	25,933	578,893	182,362	(30,326)	756,862
PROPERTY, PLANT AND EQUIPMENT, net	1,108	286,854	92,010	—	379,972
GOODWILL	—	284,875	71,366	—	356,241
INTANGIBLE ASSETS, net	—	152,412	61,425	—	213,837
INTERCOMPANY RECEIVABLE	542,297	904,840	263,480	(1,710,617)	—
EQUITY INVESTMENTS IN SUBSIDIARIES	745,262	644,577	1,740,889	(3,130,728)	—
OTHER ASSETS	41,774	30,203	9,959	(59,590)	22,346
ASSETS OF DISCONTINUED OPERATIONS	—	—	2,175	—	2,175
Total Assets	$1,356,374	$2,882,654	$ 2,423,666	$(4,931,261)	$ 1,731,433
CURRENT LIABILITIES					
Notes payable and current portion of long-term debt	$2,202	$3,842	$ 10,549	$—	$ 16,593
Accounts payable and accrued liabilities	30,158	222,758	72,843	(20,951)	304,808
Liabilities of discontinued operations	—	—	2,229	—	2,229
Total Current Liabilities	32,360	226,600	85,621	(20,951)	323,630
LONG-TERM DEBT, net	752,839	17,116	57,021	—	826,976
INTERCOMPANY PAYABLES	76,477	831,345	775,120	(1,682,942)	—
OTHER LIABILITIES	64,173	126,956	28,428	(72,634)	146,923
LIABILITIES OF DISCONTINUED OPERATIONS	—	—	3,379	—	3,379
Total Liabilities	925,849	1,202,017	949,569	(1,776,527)	1,300,908
SHAREHOLDERS’ EQUITY	430,525	1,680,637	1,474,097	(3,154,734)	430,525
Total Liabilities and Shareholders’ Equity	$1,356,374	$2,882,654	$ 2,423,666	$(4,931,261)	$ 1,731,433

CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)
For the Three Months Ended June 30, 2016

($ in thousands)	Parent Company	Guarantor Companies	Non-Guarantor Companies	Elimination	Consolidation
Revenue	$—	$369,235	$100,420	$(7,455)	$462,200
Cost of goods and services	—	267,804	82,914	(7,875)	342,843
Gross profit	—	101,431	17,506	420	119,357
Selling, general and administrative expenses	6,646	64,735	17,591	(92)	88,880
Restructuring and other related charges	—	1,299	4,601	—	5,900
Total operating expenses	6,646	66,034	22,192	(92)	94,780
Income (loss) from operations	(6,646)	35,397	(4,686)	512	24,577
Other income (expense)					
Interest income (expense), net	(3,347)	(7,656)	(1,957)	—	(12,960)
Other, net	67	714	(127)	(512)	142
Total other income (expense)	(3,280)	(6,942)	(2,084)	(512)	(12,818)
Income (loss) before taxes	(9,926)	28,455	(6,770)	—	11,759
Provision (benefit) for income taxes	12,946	7,167	(15,950)	—	4,163
Income (loss) before equity in net income of subsidiaries	(22,872)	21,288	9,180	—	7,596
Equity in net income (loss) of subsidiaries	30,468	7,454	21,288	(59,210)	—
Net income (loss)	$7,596	$28,742	$30,468	$(59,210)	$7,596
Net Income (loss)	$7,596	$28,742	$30,468	$(59,210)	$7,596
Other comprehensive income (loss), net of taxes	2,469	(2,652)	4,920	(2,268)	2,469
Comprehensive income (loss)	$10,065	$26,090	$35,388	$(61,478)	$10,065

CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)
For the Three Months Ended June 30, 2015

($ in thousands)	Parent Company	Guarantor Companies	Non-Guarantor Companies	Elimination	Consolidation
Revenue	$—	$416,433	$ 110,204	$(14,943)	$ 511,694
Cost of goods and services	—	310,578	85,841	(8,214)	388,205
Gross profit	—	105,855	24,363	(6,729)	123,489
Selling, general and administrative expenses	5,978	73,190	24,286	(7,879)	95,575
Income (loss) from operations	(5,978)	32,665	77	1,150	27,914
Other income (expense)					
Interest income (expense), net	(2,402)	(7,770)	(1,978)	—	(12,150)
Other, net	(26)	2,075	30	(1,150)	929
Total other income (expense)	(2,428)	(5,695)	(1,948)	(1,150)	(11,221)
Income (loss) before taxes	(8,406)	26,970	(1,871)	—	16,693
Provision (benefit) for income taxes	(3,194)	9,726	(732)	—	5,800
Income (loss) before equity in net income of subsidiaries	(5,212)	17,244	(1,139)	—	10,893
Equity in net income (loss) of subsidiaries	16,105	(1,206)	17,244	(32,143)	—
Net income (loss)	$10,893	$16,038	$ 16,105	$(32,143)	$ 10,893
Net Income (loss)	$10,893	$16,038	$ 16,105	$(32,143)	$ 10,893
Other comprehensive income (loss), net of taxes	5,363	2,077	3,258	(5,335)	5,363
Comprehensive income (loss)	$16,256	$18,115	$ 19,363	$(37,478)	$ 16,256

CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)
For the Nine Months Ended June 30, 2016

	Parent Company	Guarantor Companies	Non-Guarantor Companies	Elimination	Consolidation
Revenue	$—	$1,165,484	$ 313,766	$(22,794)	$1,456,456
Cost of goods and services	—	879,391	251,303	(23,857)	1,106,837
Gross profit	—	286,093	62,463	1,063	349,619
Selling, general and administrative expenses	19,574	196,879	55,589	(277)	271,765
Restructuring and other related charges	—	1,299	4,601	—	5,900
Total operating expenses	19,574	198,178	60,190	(277)	277,665
Income (loss) from operations	(19,574)	87,915	2,273	1,340	71,954
Other income (expense)					
Interest income (expense), net	(8,299)	(23,197)	(5,824)	—	(37,320)
Other, net	278	2,634	(1,260)	(1,340)	312
Total other income (expense)	(8,021)	(20,563)	(7,084)	(1,340)	(37,008)
Income (loss) before taxes	(27,595)	67,352	(4,811)	—	34,946
Provision (benefit) for income taxes	3,499	23,996	(14,836)	—	12,659
Income (loss) before equity in net income of subsidiaries	(31,094)	43,356	10,025	—	22,287
Equity in net income (loss) of subsidiaries	53,381	8,275	43,356	(105,012)	—
Net income (loss)	$22,287	$51,631	$ 53,381	$(105,012)	$22,287
Net Income (loss)	$22,287	$51,631	$ 53,381	$(105,012)	$22,287
Other comprehensive income (loss), net of taxes	10,911	(451)	11,161	(10,710)	10,911
Comprehensive income (loss)	$33,198	$51,180	$ 64,542	$(115,722)	$33,198

CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)
For the Nine Months Ended June 30, 2015

	Parent Company	Guarantor Companies	Non-Guarantor Companies	Elimination	Consolidation
Revenue	$—	$1,194,589	$ 362,291	$(43,006)	$1,513,874
Cost of goods and services	—	906,573	285,435	(33,987)	1,158,021
Gross profit	—	288,016	76,856	(9,019)	355,853
Selling, general and administrative expenses	16,799	214,717	61,734	(10,213)	283,037
Total operating expenses	16,799	214,717	61,734	(10,213)	283,037
Income (loss) from operations	(16,799)	73,299	15,122	1,194	72,816
Other income (expense)					
Interest income (expense), net	(6,530)	(22,895)	(6,219)	—	(35,644)
Loss from debt extinguishment, net	—	—	—	—	—
Other, net	541	4,985	(4,611)	(1,194)	(279)
Total other income (expense)	(5,989)	(17,910)	(10,830)	(1,194)	(35,923)
Income (loss) before taxes	(22,788)	55,389	4,292	—	36,893
Provision (benefit) for income taxes	(8,659)	20,525	1,541	—	13,407
Income (loss) before equity in net income of subsidiaries	(14,129)	34,864	2,751	—	23,486
Equity in net income (loss) of subsidiaries	37,615	4,095	34,864	(76,574)	—
Net income (loss)	$23,486	$38,959	$ 37,615	$(76,574)	$23,486
Net Income (loss)	$23,486	$38,959	$ 37,615	$(76,574)	$23,486
Other comprehensive income (loss), net of taxes	(40,839)	(14,578)	(25,962)	40,540	(40,839)
Comprehensive income (loss)	$(17,353)	$24,381	$ 11,653	$(36,034)	$(17,353)

CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS
For the Nine Months Ended June 30, 2016

	Parent Company	Guarantor Companies	Non-Guarantor Companies	Elimination	Consolidation
CASH FLOWS FROM OPERATING ACTIVITIES:					
Net income (loss)	$22,287	$51,631	$53,381	$(105,012)	$22,287
Net cash provided by (used in) operating activities:	(15,620)	54,730	18,445	—	57,555
CASH FLOWS FROM INVESTING ACTIVITIES:					
Acquisition of property, plant and equipment	(221)	(51,494)	(11,532)	—	(63,247)
Acquired businesses, net of cash acquired	—	(2,726)	(1,744)	—	(4,470)
Proceeds from sale of investments	715	—		—	715
Proceeds from sale of assets	—	757	157	—	914
Net cash provided by (used in) investing activities	494	(53,463)	(13,119)	—	(66,088)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Purchase of shares for treasury	(50,771)	—	—	—	(50,771)
Proceeds from long-term debt	238,450	2,336	22,463	—	263,249
Payments of long-term debt	(143,785)	(1,599)	(32,589)	—	(177,973)
Change in short-term borrowings	—	—	(45)	—	(45)
Financing costs	(4,028)	—	(107)	—	(4,135)
Tax benefit from exercise/vesting of equity awards, net	2,291	—	—	—	2,291
Dividends paid	(6,686)	—	—	—	(6,686)
Other, net	(86)	(3,984)	3,984	—	(86)
Net cash provided by (used in) financing activities	35,385	(3,247)	(6,294)	—	25,844
CASH FLOWS FROM DISCONTINUED OPERATIONS:					
Net cash used in discontinued operations	—	—	(1,152)	—	(1,152)
Effect of exchange rate changes on cash and equivalents	—	—	456	—	456
NET DECREASE IN CASH AND EQUIVALENTS	20,259	(1,980)	(1,664)	—	16,615
CASH AND EQUIVALENTS AT BEGINNING OF PERIOD	2,440	10,671	38,890	—	52,001
CASH AND EQUIVALENTS AT END OF PERIOD	$22,699	$8,691	$37,226	$—	$68,616

CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS
For the Nine Months Ended June 30, 2015

	Parent Company	Guarantor Companies	Non-Guarantor Companies	Elimination	Consolidation
CASH FLOWS FROM OPERATING ACTIVITIES:					
Net income (loss)	$23,486	$ 38,959	$ 37,615	$(76,574)	$ 23,486
Net cash provided by (used in) operating activities:	4,582	16,063	8,941	—	29,586
CASH FLOWS FROM INVESTING ACTIVITIES:					
Acquisition of property, plant and equipment	(203)	(40,918)	(14,244)	—	(55,365)
Acquired businesses, net of cash acquired	—	(2,225)	—	—	(2,225)
Intercompany distributions	10,000	(10,000)	—	—	—
Investment purchases	8,891	—	—	—	8,891
Proceeds from sale of assets	—	90	185	—	275
Net cash provided by (used in) investing activities	18,688	(53,053)	(14,059)	—	(48,424)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Proceeds from issuance of common stock	371	—	—	—	371
Purchase of shares for treasury	(58,218)	—	—	—	(58,218)
Proceeds from long-term debt	112,000	116	9,407	—	121,523
Payments of long-term debt	(73,652)	(1,009)	(5,834)	—	(80,495)
Change in short-term borrowings	—	—	(81)	—	(81)
Financing costs	(592)	—	—	—	(592)
Tax benefit from exercise/vesting of equity awards, net	345	—	—	—	345
Dividends paid	(5,807)	—	—	—	(5,807)
Other, net	206	19,254	(19,254)	—	206
Net cash provided by (used in) financing activities	(25,347)	18,361	(15,762)	—	(22,748)
CASH FLOWS FROM DISCONTINUED OPERATIONS:					
Net cash used in discontinued operations	—	—	(830)	—	(830)
Effect of exchange rate changes on cash and equivalents	—	—	(4,034)	—	(4,034)
NET DECREASE IN CASH AND EQUIVALENTS	(2,077)	(18,629)	(25,744)	—	(46,450)
CASH AND EQUIVALENTS AT BEGINNING OF PERIOD	6,813	31,522	54,070	—	92,405
CASH AND EQUIVALENTS AT END OF PERIOD	$4,736	$ 12,893	$ 28,326	$—	$ 45,955

31

Table of Contents

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

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

BUSINESS OVERVIEW

Griffon Corporation (the “Company” or “Griffon”) is a diversified management and holding company conducting 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.

Griffon currently conducts its operations through three reportable segments:

- Home & Building Products ("HBP") consists of two companies, The AMES Companies, Inc. (“AMES”) and Clopay Building Products Company, Inc. (“CBP”):

    - AMES is a global provider of non-powered landscaping products for homeowners and professionals.

    - CBP is a leading manufacturer and marketer of residential, commercial and industrial garage doors to professional dealers and major home center retail chains.

- Telephonics Corporation ("Telephonics") designs, develops and manufactures high-technology integrated information, communication and sensor system solutions for military and commercial markets worldwide.

- Clopay Plastic Products Company, Inc. ("PPC") is an international leader in the development and production of embossed, laminated and printed specialty plastic films used in a variety of hygienic, health-care and industrial applications.

We are focused on acquiring, owning and operating businesses in a variety of industries. We are long-term investors that have substantial experience in a variety of industries. Our intent is to continue the growth of our existing segments and diversify further through investments and acquisitions.

As a result of the decline in the U.S. housing market, in May 2008, we announced the divestiture of our Installation Services business, which was consummated by September 2008. In September 2008, Griffon strengthened its balance sheet by raising $248,600 in equity through a common stock rights offering and a related investment by GS Direct L.L.C., an affiliate of The Goldman Sachs Group, Inc. Since that time, Griffon has continued to refine and enhance the strategic direction and operating performance of its companies, while strengthening its balance sheet. During this period, Griffon has grown revenue and earnings through organic growth, cost containment and acquisitions, while returning capital to its shareholders through dividends and stock buybacks.

On September 30, 2010, Griffon purchased AMES for $542,000 in cash. Subsequently, Griffon acquired three businesses complementary to AMES: the pots and planters business of Southern Sales & Marketing ("Southern Patio"), Northcote Pottery™ ("Northcote") and the Australian Garden and Tools division of Illinois Tool Works, Inc. ("Cyclone").

On October 17, 2011, AMES acquired Southern Patio for approximately $23,000. Southern Patio is a leading designer, manufacturer and marketer of landscape accessories.

In January 2013, AMES announced its intention to close certain U.S. manufacturing facilities and consolidate affected operations primarily into its Camp Hill and Carlisle, PA locations. These actions, which were completed at the end of the first quarter of 2015, improve manufacturing and distribution efficiencies, allow for in-sourcing of certain production previously performed by third party suppliers, and improve material flow and absorption of fixed costs. Management estimates that the AMES' initiative resulted in annualized cash savings exceeding $10,000. Realization of savings began in the 2015 second quarter.

On December 31, 2013, AMES acquired Northcote, founded in 1897 and a leading brand in the Australian outdoor planter and decor market, for approximately $22,000.

On May 21, 2014, AMES acquired Cyclone for approximately $40,000. Cyclone offers a full range of quality garden and hand tool products sold under various leading brand names including Cyclone®, Nylex® and Trojan®, designed to meet the requirements

of both the Do-it-Yourself and professional trade segments. The Northcote and Cyclone acquisitions complement Southern Patio and add to AMES' existing lawn and garden operations in Australia.

From August 2011 through June 30, 2016, Griffon repurchased 19,465,297 shares of its common stock, for a total of $245,364 or $12.61 per share. This included the repurchase of 15,020,853 shares on the open market, as well as the December 10, 2013 repurchase of 4,444,444 shares from GS Direct for $50,000, or $11.25 per share. In each of August 2011, May 2014, March 2015, and July 2015, Griffon's Board of Directors authorized the repurchase of up to $50,000 of Griffon's outstanding common stock. Under these programs, the Company may purchase shares in the open market, including pursuant to a 10b5-1 plan, or in privately negotiated transactions. At June 30, 2016, $15,693 in the aggregate remains under the July 2015 Board authorization. On August 3, 2016, Griffon's Board of Directors authorized the repurchase of an additional $50,000 of Griffon's outstanding common stock.

Since September 2008, Griffon's Employee Stock Ownership Plan ("ESOP") has purchased 4,013,459 shares of Griffon's common stock, for a total of $44,973 or $11.21 per share. At June 30, 2016, the ESOP holds allocated and unallocated shares totaling 5,418,744, or 12% of Griffon's outstanding shares, with a related loan balance of $34,921, net of issuance costs.

On November 17, 2011, the Company began declaring quarterly dividends. During the first nine months of 2016, and during 2015, 2014 and 2013, the Company declared and paid dividends per share of $0.15, $0.16, $0.12 and $0.10, respectively, for a total of $26,438 of dividends paid during this period.

During 2014, Griffon issued $600,000 of 5.25% Senior Notes due 2022 the proceeds of which were used to redeem $550,000 of 7.125% senior notes due 2018. On May 18, 2016, the Company completed an add-on offering of $125,000 principal amount of 5.25% Senior Notes due 2022; as of that date, outstanding Senior Notes due 2022 totaled $725,000. The net proceeds of the add-on offering were used to pay down outstanding Revolving Credit Facility borrowings.

In January 2016, Griffon launched its new website: www.griffon.com.

On March 22, 2016, Griffon amended its Revolving Credit Facility to increase the credit facility from $250,000 to $350,000, extend its maturity date from March 13, 2020 to March 22, 2021 and modify certain other provisions of the facility.

Griffon also has outstanding $100,000 principal amount of 4% Convertible Subordinated Notes due 2017, with a current conversion rate of 70.1632 shares of Griffon's common stock per $1 principal amount of notes, which corresponds to a conversion price of $14.25 per share. On July 14, 2016, Griffon announced that it will settle, upon conversion, up to $125,000 of the conversion value in cash, with amounts in excess of $125,000, if any, to be settled in shares of Griffon common stock.

OVERVIEW

Revenue for the quarter ended June 30, 2016 was $462,200 compared to $511,694 in the prior year quarter, a decrease of 10%. Excluding the unfavorable impact of foreign currency, revenue decreased 9%, primarily from the timing of work performed at Telephonics, the impact of adverse weather conditions at AMES and reduced volume at PPC, partially offset by growth at CBP. Net income was $7,596 or $0.18 per share, compared to $10,893 or $0.23 per share, in the prior year quarter.

The current quarter included:
- Restructuring charges of $5,900 ($4,223, net of tax or $0.10 per share);

• Discrete tax benefits, net, of $775 or $0.02 per share.

The prior year quarter included discrete tax benefits, net, of $250 or $0.01 per share.

Excluding these items from the respective quarterly results, net income would have been $11,044 or $0.26 per share in the current quarter compared to $10,643 or $0.23 per share in the prior year quarter; foreign currency was not material in the quarter.

Revenue for the nine months ended June 30, 2016 was $1,456,456 compared to $1,513,874 in the prior year period, a decrease of 4%. Excluding the unfavorable impact of foreign currency, revenue decreased 1%, primarily from reduced volume at PPC and the impact of adverse weather conditions at AMES, partially offset by growth at CBP and Telephonics. Net income was $22,287 or $0.50 per share, compared to a net income of $23,486 or $0.50 per share, in the prior year period.

Results for the nine months ended June 30, 2016 included:

• Restructuring charges of $5,900 ($4,223, net of tax or $0.10 per share);

Table of Contents

- Discrete tax benefits, net, of $1,132 or $0.03 per share,

Results for the nine months ended June 30, 2015 included discrete tax provisions of $244, or $0.01 per share.

Excluding these items from the respective periods, Net income would have been $25,378 or $0.57 per share in the nine months ended June 30, 2016 compared to $23,730 or $0.50 per share in the nine months ended June 30, 2015. Excluding the impact of foreign currency, restructuring charges and discrete tax items, current year-to-date Net income would have been $27,331 or $0.62 per share in the nine months ended June 30, 2016.

Griffon evaluates performance based on Earnings per share and Net income excluding, as applicable, restructuring charges, and discrete tax items. Griffon believes this information is useful to investors. The following table provides a reconciliation of Net income to adjusted net income and Earnings per share to Adjusted earnings per share:

GRIFFON CORPORATION AND SUBSIDIARIES
RECONCILIATION OF NET INCOME
TO ADJUSTED NET INCOME
(Unaudited)

	For the Three Months Ended June 30,		For the Nine Months Ended June 30,	
	2016	2015	2016	2015
Net income	$7,596	$10,893	$22,287	$23,486
Adjusting items, net of tax:				
Restructuring charges	4,223	—	4,223	—
Discrete tax provisions (benefits)	(775)	(250)	(1,132)	244
Adjusted net income	$11,044	$10,643	$25,378	$23,730
Diluted income per common share	$0.18	$0.23	$0.50	$0.50
Adjusting items, net of tax:				
Restructuring charges	0.10	—	0.10	—
Discrete tax provisions (benefits)	(0.02)	(0.01)	(0.03)	0.01
Adjusted earnings per common share	$0.26	$0.23	$0.57	$0.50
Weighted-average shares outstanding (in thousands)	43,280	46,980	44,243	47,285

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.

Table of Contents

RESULTS OF OPERATIONS

Three and nine months ended June 30, 2016 and 2015

Griffon evaluates performance and allocates resources based on each segment's operating results before interest income and expense, income taxes, depreciation and amortization, and unallocated amounts (mainly corporate overhead) and restructuring charges, as applicable ("Segment adjusted EBITDA"). Griffon believes this information is useful to investors. The following table provides a reconciliation of Segment operating profit to Income before taxes:

	For the Three Months Ended June 30,		For the Nine Months Ended June 30,	
	2016	2015	2016	2015
Segment operating profit:				
Home & Building Products	$23,201	$16,268	$62,170	$41,288
Telephonics	9,471	13,284	25,159	29,915
PPC	1,672	8,299	13,569	26,186
Total segment operating profit	34,344	37,851	100,898	97,389
Net interest expense	(12,960)	(12,150)	(37,320)	(35,644)
Unallocated amounts	(9,625)	(9,008)	(28,632)	(24,852)
Income before taxes	$11,759	$16,693	$34,946	$36,893

The following table provides a reconciliation of Segment adjusted EBITDA to Income before taxes:

	For the Three Months Ended June 30,		For the Nine Months Ended June 30,	
	2016	2015	2016	2015
Segment adjusted EBITDA:				
Home & Building Products	$32,082	$25,386	$88,249	$67,186
Telephonics	12,125	15,712	32,913	37,360
PPC	13,588	14,084	37,154	44,399
Total Segment adjusted EBITDA	57,795	55,182	158,316	148,945
Net interest expense	(12,960)	(12,150)	(37,320)	(35,644)
Segment depreciation and amortization	(17,551)	(17,331)	(51,518)	(51,556)
Unallocated amounts	(9,625)	(9,008)	(28,632)	(24,852)
Restructuring charges	(5,900)	—	(5,900)	—
Income before taxes	$11,759	$16,693	$34,946	$36,893

Table of Contents

Home & Building Products

	For the Three Months Ended June 30,				For the Nine Months Ended June 30,			
	2016		2015		2016		2015	
Revenue:								
AMES	$122,198		$140,614		$406,335		$432,816	
CBP	133,362		131,577		389,657		374,690	
Home & Building Products	$255,560		$272,191		$795,992		$807,506	
Segment operating profit	$23,201	9.1 %	$16,268	6.0%	$62,170	7.8 %	$41,288	5.1%
Depreciation and amortization	8,881		9,118		26,079		25,898	
Segment adjusted EBITDA	$32,082	12.6%	$25,386	9.3%	$88,249	11.1%	$67,186	8.3%

For the quarter ended June 30, 2016, revenue decreased $16,631 or 6%, compared to the prior year quarter. Excluding a $1,800 or 1% unfavorable foreign currency impact, revenue decreased 5% compared to the prior year quarter. AMES revenue decreased 13% due to reduced garden tool, wheelbarrow, and pot and planter sales driven by cold and wet weather conditions in both Canada and the U.S.; foreign currency was 1% unfavorable. CBP revenue increased 1% due to favorable product mix; foreign currency did not have a material impact on CBP revenue.
For the quarter ended June 30, 2016, Segment operating profit increased 43% to $23,201 compared to $16,268 in the prior year quarter, driven by operational efficiency improvements and cost control measures at AMES, favorable product mix at CBP and decreased material costs, which more than offset the impact of reduced revenue at AMES; foreign currency was 1% unfavorable. Segment depreciation and amortization decreased $237 from the prior year quarter.

For the nine months ended June 30, 2016, revenue decreased $11,514 or 1%, compared to the prior year period. Excluding a $16,100 or 2% unfavorable foreign currency impact, revenue increased 1% compared to the prior year period. AMES revenue decreased 6%, mainly driven by a combination of warmer winter seasonal weather conditions, and cold and wet spring weather conditions in both Canada and the U.S., resulting in reduced snow tool and spring tool category sales, respectively; foreign currency was 3% unfavorable. CBP revenue increased 4% due to increased volume and favorable product mix; foreign currency was 1% unfavorable.

For the nine months ended June 30, 2016, Segment operating profit increased 51% to $62,170 compared to $41,288 in the prior year period, driven by AMES operational efficiency improvements, cost control measures and decreased material costs and at CBP, increased volume, favorable mix and decreased material costs, which more than offset the impact of reduced revenue at AMES; foreign currency was 7% unfavorable. Segment depreciation and amortization increased $181 from the prior year period.

On February 14, 2016, AMES Australia acquired substantially all of the Intellectual Property (IP) assets of Australia-based Nylex Plastics Pty Ltd. for approximately $1,700. Through this acquisition, AMES and Griffon secured the ownership of the trademark “Nylex” for certain categories of AMES products, principally in the country of Australia. Previously, the Nylex name was licensed. The acquisition of the Nylex IP was contemplated as a post-closing activity of the Cyclone acquisition and supports AMES' Australian watering products strategy.

Telephonics

	For the Three Months Ended June 30,				For the Nine Months Ended June 30,			
	2016		2015		2016		2015	
Revenue	$91,767		$115,340		$306,678		$304,685	
Segment operating profit	$9,471	10.3%	$13,284	11.5%	$25,159	8.2 %	$29,915	9.8%
Depreciation and amortization	2,654		2,428		7,754		7,445	

Segment adjusted EBITDA	$12,125	13.2%	$15,712	13.6%	$32,913	10.7%	$37,360	12.3%

For the quarter ended June 30, 2016, revenue decreased $23,573 or 20% compared to the prior year quarter, due to timing of work performed on multi-mode, identification friend or foe and airborne maritime and ground surveillance radar systems.

Table of Contents

For the quarter ended June 30, 2016, Segment operating profit decreased $3,813 or 29%, and operating profit margin decreased 120 basis points, compared to the prior year quarter, driven by the decreased revenue noted above and the timing of work performed on research and development initiatives.

For the nine months ended June 30, 2016, revenue increased $1,993 or 1%, compared to the prior year period, due to mobile ground surveillance systems and contract manufacturing of dismounted Electronic Countermeasure systems, partially offset by airborne maritime and ground surveillance and identification friend or foe radar systems, as well as cost growth recognized on certain components for airport surveillance radar systems.

For the nine months ended June 30, 2016, Segment operating profit decreased $4,756 or 16%, and operating margin decreased 160 basis points compared to the prior year period, driven by unfavorable program mix within the multi-mode radar systems program and the cost growth on certain components for airport surveillance radar systems.

During the nine months ended June 30, 2016, Telephonics was awarded several new contracts and incremental funding on existing contracts approximating $279,000. Contract backlog was $415,000 at June 30, 2016, with 71% expected to be fulfilled in the next 12 months. Backlog was $442,000 at September 30, 2015 and $439,000 at June 30, 2015. 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 the U.S. government agencies.
In December 2015, Telephonics invested an additional $2,726, increasing its equity stake from 26% to 49% in Mahindra Telephonics Integrated Systems (MTIS), a joint venture with Mahindra Defence Systems, a Mahindra Group Company. MTIS is an aerospace and defense manufacturing and development facility in Prithla, India.

PPC

	For the Three Months Ended June 30,				For the Nine Months Ended June 30,			
	2016		2015		2016		2015	
Revenue	$114,873		$124,163		$353,786		$401,683	
Segment operating profit	$1,672	1.5 %	$8,299	6.7 %	$13,569	3.8 %	$26,186	6.5 %
Depreciation and amortization	6,016		5,785		17,685		18,213	
Restructuring charges	5,900		—		5,900		—	
Segment adjusted EBITDA	$13,588	11.8%	$14,084	11.3%	$37,154	10.5%	$44,399	11.1%

For the quarter ended June 30, 2016, revenue decreased $9,290, or 7%, compared to the prior year quarter, due to decreased volume of 3% driven by reduced North America and Europe baby care orders, unfavorable mix of 3% and a $1,500 or 1% unfavorable foreign currency impact. Resin pricing had no material impact on revenue in the quarter; PPC adjusts selling prices based on underlying resin costs on a delayed basis.

For the quarter ended June 30, 2016, Segment operating profit decreased $6,627 or 80% compared to the prior year quarter. During the third quarter of 2016, PPC recorded restructuring charges of $5,900 primarily related to headcount reductions at PPC’s Dombuhl, Germany facility, other location headcount reductions and for costs related to the shut down of PPC's Turkey facility. Excluding these charges, current Segment operating profit was $7,572, a decrease of $727 or 9%, compared to the prior year quarter, driven by reduced volume, unfavorable mix, partially offset by decreased SG&A spending. Resin pricing and foreign currency did not have a material impact on Segment operating profit for the quarter. Segment depreciation increased $231 from the prior year period.

For the nine months ended June 30, 2016, revenue decreased $47,897, or 12%, compared to the prior year period, due to the unfavorable impact of foreign currency of $18,600 or 5%, the decreased volume from reduced baby care orders of 5% and unfavorable product mix of 2%. Resin pricing had no material impact on revenue in the period.

For the nine months ended June 30, 2016, Segment operating profit decreased $12,617 or 48% compared to the prior year period. Excluding restructuring charges, current Segment operating profit was $19,469, a decrease of $6,717 or 26%, compared to the prior year period, due to reduced volume and unfavorable mix, partially offset by decreased SG&A spending. Resin and foreign currency had no material impact on Segment operating profit for the year. Segment depreciation decreased $528 from the prior year period.

Table of Contents

During April 2016, PPC announced a Sof-flex® breathable film investment which will expand breathable film capacity in North America, Europe and Brazil, increase our extrusion and print capacity, and enhance our innovation and technology capabilities. We expect the project to be completed in fiscal 2018.
These investments will allow PPC to maintain and extend its technological advantage and allow us to differentiate ourselves from competitors, while meeting increasing customer demand for lighter, softer, more cost effective and more environmentally friendly products.
During the third quarter of 2016, PPC recorded $5,900 in restructuring charges, primarily related to headcount reductions at PPC's Dombuhl, Germany facility, other location headcount reductions and for costs related to the shut down of PPC's Turkey facility. The Dombuhl charges are related to an optimization plan that will drive innovation and enhance our industry leading position in printed breathable backsheet. The facility will be transformed into a state of the art hygiene products facility focused on breathable printed film and siliconized products. In conjunction with this effort, our customer base will be streamlined, and we will dispose of old assets and reduce overhead costs, allowing for gains in efficiencies. Management estimates that these actions will result in annual cash savings of $4,000 based on current operating levels.

Unallocated

For the quarter ended June 30, 2016, unallocated amounts totaled $9,625 compared to $9,008 in the prior year; for the nine months ended June 30, 2016, unallocated amounts totaled $28,632 compared to $24,852 in the prior year. The increase in the current quarter and nine months compared to the respective prior year periods primarily relates to compensation and incentive costs.

Segment Depreciation and Amortization

Segment depreciation and amortization increased $220 for the quarter ended June 30, 2016 compared to the prior year quarter primarily due to the onset of depreciation for new assets placed in service. Segment depreciation and amortization for the nine month period ended June 30, 2016 remained consistent with the prior year period.

Other Expense

For the quarters ended June 30, 2016 and 2015, Other income (expense) included $192 and $722, respectively, of net currency exchange losses in connection with the translation of receivables and payables denominated in currencies other than the functional currencies of Griffon and its subsidiaries as well as $58 and $(36), respectively, of net investment income (loss).

For the nine months ended June 30, 2016 and 2015, Other income (expense) included $301 and $(803), respectively, of net currency exchange gains (losses) in connection with the translation of receivables and payables denominated in currencies other than the functional currencies of Griffon and its subsidiaries as well as $260 and $527, respectively, of net investment income.

Provision for income taxes

In both the quarter and nine months ended June 30, 2016 and 2015, the Company reported pretax income, and recognized tax provisions of 35.4% and 36.2% for the quarter and nine months ended June 30, 2016, respectively, compared to 34.7% and 36.3%, respectively, in the comparable prior year periods.

The quarter and nine months ended June 30, 2016 included $775 and $1,132, respectively, of discrete tax benefits primarily resulting from the release of unrecognized tax benefits and the retroactive extension of the federal R&D

credit signed into law December 18, 2015. The comparable prior year periods ended June 30, 2015 included a $250 discrete tax benefit and $244, discrete provision, respectively, primarily resulting from taxes on repatriation of foreign earnings, partially offset by the benefit of the retroactive extension of the federal R&D credit signed into law December 19, 2014 and release of a valuation allowance. Excluding restructuring and discrete items, the effective tax rates for the quarter and nine months ended June 30, 2016 were 37.5% and 37.9%, respectively, compared to 36.3% and 35.7%, respectively, in the comparable prior year periods.

Stock based compensation

For the quarters ended June 30, 2016 and 2015, stock based compensation expense totaled $2,877 and $2,931, respectively. For the nine months ended June 30, 2016 and 2015, such expense totaled $8,432 and $8,303, respectively.

38

Table of Contents

Comprehensive income (loss)

For the quarter ended June 30, 2016, total other comprehensive income, net of taxes, of $2,469, included a $796 gain from foreign currency translation adjustments primarily due to the strengthening of the Brazilian currency, offset by the weakening of the Euro, Canadian and Australian currencies, all in comparison to the U.S. Dollar, a $386 benefit from pension amortization of actuarial losses and a $1,287 gain on cash flow hedges.

For the quarter ended June 30, 2015, total other comprehensive income, net of taxes, of $5,363, included a $4,801 gain from foreign currency translation adjustments primarily due to the strengthening of the Euro, Canadian and Brazilian currencies, all in comparison to the U.S. Dollar, a $353 benefit from pension amortization of actuarial losses, and a $209 gain on cash flow hedges.

For the nine months ended June 30, 2016, total other comprehensive income, net of taxes, of $10,911 included a $11,130 gain from foreign currency translation adjustments primarily due to the strengthening of the Australian, Brazilian and Canadian currencies, partially offset by the weakening of the Euro, all in comparison to the U.S. Dollar, and a $1,158 benefit from pension amortization of actuarial losses and $1,377 loss on cash flow hedges.

For the nine months ended June 30, 2015, total other comprehensive loss, net of taxes, of $40,839 included a $41,083 loss from foreign currency translation adjustments primarily due to the weakening of the Euro, Canadian, Australian and Brazilian currencies, all in comparison to the U.S. Dollar, and a $1,059 benefit from pension amortization of actuarial losses, a $55 gain on cash flow hedges and $870 settlement of available-for-sale securities.

Discontinued operations – Installation Services

There was no revenue or income from the Installation Services' business for the quarters and nine months ended June 30, 2016 and 2015.

Table of Contents

LIQUIDITY AND CAPITAL RESOURCES

Management assesses Griffon's liquidity in terms of its ability to generate cash to fund its operating, investing and financing activities. Significant factors impacting 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 its existing businesses and execute strategic acquisitions, while managing its capital structure on both a short-term and long-term basis.

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

Cash Flows from Continuing Operations	For the Nine months ended June 30,	
(in thousands)	2016	2015
Net Cash Flows Provided by (Used In):		
Operating activities	$57,555	$29,586
Investing activities	(66,088)	(48,424)
Financing activities	25,844	(22,748)

Cash provided by continuing operations for the nine months ended June 30, 2016 was $57,555 compared to $29,586 in the prior year period. Current assets net of current liabilities, excluding short-term debt and cash, increased to $451,443 at June 30, 2016 compared to $397,824 at September 30, 2015, primarily due to decreased collections of accounts receivable and contract costs and recognized income not yet billed, and increased settlement of accounts payable and accrued expenses, partially offset by a decrease in inventory.

During the nine months ended June 30, 2016, Griffon used cash for investing activities of $66,088 compared to $48,424 in the prior year; the prior year included proceeds received of $8,891 from the sale of securities. Capital expenditures for the nine months ended June 30, 2016 totaled $63,247, an increase of $7,882 from the prior year. In December 2015, Telephonics invested an additional $2,726 increasing its equity stake from 26% to 49% in Mahindra Telephonics Integrated Systems (MTIS), a joint venture with Mahindra Defence Systems, a Mahindra Group Company. MTIS is an aerospace and defense manufacturing and development facility in Prithla, India. This investment is accounted for using the equity method. On February 14, 2016, AMES Australia acquired substantially all of the Intellectual Property (IP) assets of Australia-based Nylex Plastics Pty Ltd. for approximately $1,700. Through this acquisition, AMES and Griffon secured the ownership of the trademark Nylex for certain categories of AMES products, principally in the country of Australia. Previously, the Nylex name was licensed. The acquisition of the Nylex IP was contemplated as a post-closing activity of the Cyclone acquisition and supports AMES' Australian watering products strategy. The purchase price was allocated to indefinite lived trademarks and is not deductible for income taxes.

During the nine months ended June 30, 2016, cash provided by financing activities totaled $25,844 compared to a use of $22,748 in the prior year. On May 18, 2016, in an unregistered offering through a private placement, Griffon completed an add-on offering of $125,000 principal amount of its 5.25% Senior Notes due 2022, at 98.76% of par, to Griffon's previously issued $600,000 principal amount of its 5.25% Senior Notes due 2022, at par. The net proceeds were used to pay down outstanding borrowings on the Revolving Credit Facility (the "Credit Agreement") as of that date; at June 30, 2016, outstanding Senior Notes due 2022 totaled $725,000. At June 30, 2016, there were no outstanding borrowings under the Credit Agreement compared to $65,000 outstanding borrowings at the same date in the prior year.

On March 20, 2015 Griffon's Board of Directors authorized the repurchase of up to $50,000 of Griffon's outstanding common stock; on July 29, 2015, an additional $50,000 was authorized. Under these programs, the Company may

purchase shares in the open market, including pursuant to a 10b5-1 plan, or in privately negotiated transactions. During the nine months ended June 30, 2016, Griffon purchased 2,714,076 shares of common stock under both the March 2015 and July 2015 programs, for a total of $42,232 or $15.56 per share. In addition, during the nine months ended June 30, 2016, 488,621 shares, with a market value of $8,410, or $17.21 per share, were withheld to settle employee taxes due upon the vesting of restricted stock, and were added to treasury stock. On August 3, 2016, Griffon's Board of Directors authorized the repurchase of an additional $50,000 of Griffon's outstanding common stock. During the fourth quarter, through and including August 2, 2016, the Company purchased 64,706 shares for a total of $1,078. Accordingly, Griffon now has $14,615 available under the July 2015 authorization and a total of $64,615 available for the purchase of its shares of common stock inclusive of the August 3, 2016 authorization.

During the nine months ended June 30, 2016, the Board of Directors approved three quarterly cash dividends of $0.05 per share each. On August 3, 2016 the Board of Directors declared a quarterly cash dividend of $0.05 per share, payable on September 22, 2016 to shareholders of record as of the close of business on August 25, 2016.

Table of Contents

Payments related to Telephonics revenue are received in accordance with the terms of development and production subcontracts; certain of such receipts are progress or performance based payments. PPC customers are generally substantial industrial companies whose payments have been steady, reliable and made in accordance with the terms governing such sales. PPC sales satisfy orders that are received in advance of production, in which payment terms are established in advance. With respect to HBP, there have been no material adverse impacts on payment for sales.

A small number of customers account for, and are expected to continue to account for, a substantial portion of Griffon's consolidated revenue. For the nine months ended June 30, 2016:

- The United States Government and its agencies, through either prime or subcontractor relationships, represented 15% of Griffon's consolidated revenue and 73% of Telephonics' revenue.
- Procter & Gamble Co. represented 12% of Griffon's consolidated revenue and 51% of PPC revenue.
- The Home Depot represented 13% of Griffon's consolidated revenue and 24% of HBP's revenue.

No other customer exceeded 10% of consolidated revenue. Future operating results will continue to substantially depend on the success of Griffon's largest customers and our ongoing relationships with them. Orders from these customers are subject to fluctuation and may be reduced 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.

Cash and Equivalents and Debt (in thousands)	June 30, 2016	September 30, 2015
Cash and equivalents	$68,616	$ 52,001
Notes payables and current portion of long-term debt	17,776	16,593
Long-term debt, net of current maturities	913,838	826,976
Debt discount and issuance costs	18,084	17,630
Total debt	949,698	861,199
Debt, net of cash and equivalents	$881,082	$ 809,198

On May 18, 2016, in an unregistered offering through a private placement under Rule 144A, Griffon completed an add-on offering of $125,000 principal amount of its 5.25% senior notes due 2022, at 98.76% of par, to Griffon's previously issued $600,000 principal amount of its 5.25% senior notes due 2022, at par, which was completed on February 27, 2014 (collectively the "Senior Notes"). As of May 18, 2016, outstanding Senior Notes due totaled $725,000; interest is payable semi-annually on March 1 and September 1. The net proceeds of the add-on offering were used to pay down outstanding borrowings under Griffon's Credit Agreement. In connection with the issuance and exchange of the $125,000 senior notes, Griffon capitalized $3,016 of underwriting fees and other expenses in the quarter, which will amortize over the term of such notes; Griffon capitalized $10,313 in connection with the previously issued $600,000 senior notes.

The Senior Notes are senior unsecured obligations of Griffon guaranteed by certain domestic subsidiaries, and subject to certain covenants, limitations and restrictions. On July 20, 2016 and June 18, 2014, Griffon exchanged all of the $125,000, and $600,000 Senior Notes, respectively, for substantially identical Senior Notes registered under the Securities Act of 1933 via an exchange offer. The fair value of the Senior Notes approximated $703,250 on June 30, 2016 based upon quoted market prices (level 1 inputs).

On March 22, 2016, Griffon amended the Credit Agreement to increase the maximum borrowing availability from $250,000 to $350,000, extend its maturity date from March 13, 2020 to March 22, 2021, and modified certain other provisions of the facility. The facility includes a letter of credit sub-facility with a limit of $50,000 and a multi-currency sub-facility of $50,000. The Credit Agreement provides for same day borrowings of base rate loans. Borrowings under the Credit Agreement may be repaid and re-borrowed at any time, subject to final maturity of the

facility, or the occurrence of an event of default under the Credit Agreement. Interest is payable on borrowings at either a LIBOR or base rate benchmark rate, in each case without a floor, plus an applicable margin, which adjusts based on financial performance. Current margins are 1.25% for base rate loans and 2.25% 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 (except that a lien on

41

Table of Contents

the assets of Griffon's material domestic subsidiaries securing a limited amount of the debt under the credit agreement relating to Griffon's Employee Stock Ownership Plan ("ESOP") ranks pari passu with the lien granted on such assets under the Credit Agreement). At June 30, 2016, there were no outstanding borrowings and standby letters of credit were $15,794 under the Credit Agreement; $334,206 was available, subject to certain loan covenants, for borrowing at that date.

On December 21, 2009, Griffon issued $100,000 principal amount of 4% convertible subordinated notes due 2017 (the “2017 Notes”). The current conversion rate of the 2017 Notes is 70.1632 shares of Griffon’s common stock per $1 principal amount of notes, corresponding to a conversion price of $14.25 per share. Since July 15, 2016, any holder has had the option to convert such holder's notes. Under the terms of the 2017 Notes, Griffon has the right to settle the conversion of the 2017 Notes in cash, stock or a combination of cash and stock. On July 14, 2016, Griffon announced that it will settle, upon conversion, up to $125,000 of the conversion value of the 2017 Notes in cash, with amounts in excess of $125,000, if any, to be settled in shares of Griffon common stock. When a cash dividend is declared that would result in an adjustment to the conversion ratio of less than 1%, any adjustment to the conversion ratio is deferred until the first to occur of (i) actual conversion; (ii) the 42nd trading day prior to maturity of the notes; and (iii) such time as the cumulative adjustment equals or exceeds 1%. At both June 30, 2016 and 2015, the 2017 Notes had a capital in excess of par component, net of tax, of $15,720. The fair value of the 2017 Notes approximated $121,438 on June 30, 2016 based upon quoted market prices (level 1 inputs). These notes are classified as long term debt as Griffon has the intent and ability to refinance the principal amount of the notes, including with borrowings under the Credit Agreement.

In September 2015 and March 2016, Griffon entered into mortgage loans in the amounts of $32,280 and $8,000, respectively. The mortgage loans are secured by four properties occupied by Griffon's subsidiaries. The loans mature in September 2025 and April 2018, respectively, are collateralized by the specific properties financed and are guaranteed by Griffon. The loans bear interest at a rate of LIBOR plus 1.50%. At June 30, 2016, $37,911 was outstanding under the mortgages, net of issuance costs.

In December 2013, Griffon’s ESOP entered into an agreement that refinanced the two existing ESOP loans into one new Term Loan in the amount of $21,098 (the "Agreement"). The Agreement also provided for a Line Note with $10,000 available to purchase shares of Griffon common stock in the open market. In July 2014, Griffon's ESOP entered into an amendment to the existing Agreement which provided an additional $10,000 Line Note available to purchase shares in the open market. During 2014, the Line Notes were combined with the Term Loan to form one new Term Loan. The Term Loan bears interest at LIBOR plus 2.38% or the lender’s prime rate, at Griffon’s option. The Term Loan requires quarterly principal payments of $551, with a balloon payment of approximately $30,137 due at maturity on December 31, 2018. During 2014, 1,591,117 shares of Griffon common stock, for a total of $20,000 or $12.57 per share, were purchased with proceeds from the Line Notes. As of June 30, 2016, $34,921, net of issuance costs, was outstanding under the Term Loan. The Term Loan is secured by shares purchased with the proceeds of the loan and with a lien on a specific amount of Griffon assets (which lien ranks pari passu with the lien granted on such assets under the Credit Agreement) and is guaranteed by Griffon.

In October 2006, CBP entered into a capital lease totaling $14,290 for real estate in Troy, Ohio. The lease matures in 2022, bears interest at a fixed rate of 5.0%, is secured by a mortgage on the real estate and is guaranteed by Griffon. At June 30, 2016, $6,585 was outstanding, net of issuance costs.

In September 2015, Clopay Europe GmbH (“Clopay Europe”) entered into a EUR 5,000 ($5,541 as of June 30, 2016) revolving credit facility and a EUR 15,000 term loan. The term loan is payable in twelve quarterly installments of EUR 1,250, bears interest at a fixed rate of 2.5% and matures in September 2018. The revolving facility matures in September 2016, but is renewable upon mutual agreement with the bank. The revolving credit facility accrues interest at EURIBOR plus 1.75% per annum (1.75% at June 30, 2016). The revolver and the term loan are both secured by

substantially all of the assets of Clopay Europe and its subsidiaries. Griffon guarantees the revolving facility and term loan. The term loan has an outstanding balance of EUR 11,250 ($12,469 at June 30, 2016) and the revolver had no borrowings outstanding at June 30, 2016. Clopay Europe is required to maintain a certain minimum equity to assets ratio and is subject to a maximum debt leverage ratio (defined as the ratio of total debt to EBITDA).

Clopay do Brazil maintains lines of credit of R$12,800 ($3,738 as of June 30, 2016). Interest on borrowings accrues at a rate of Brazilian CDI plus 6.0% (20.13% at June 30, 2016). At June 30, 2016 there was approximately R$7,175 ($2,235 as of June 30, 2016) borrowed under the lines. PPC guarantees the lines.

In November 2012, Garant G.P. ("Garant") entered into a CAD $15,000 ($11,534 as of June 30, 2016) revolving credit facility. The facility accrues interest at LIBOR (USD) or the Bankers Acceptance Rate (CDN) plus 1.3% per annum (1.95% LIBOR USD and 2.10% Bankers Acceptance Rate CDN as of June 30, 2016). The revolving facility matures in October 2016. This facility is classified as long term debt as Griffon has the intent and ability to refinance the borrowings. Garant is required to maintain a certain minimum equity. At June 30, 2016, there was CAD $3,068 ($2,359 as of June 30, 2016) borrowed under the revolving credit facility with CAD $11,932 ($9,175 as of June 30, 2016) available for borrowing.

Table of Contents

In December 2013 and May 2014, Griffon Australia Holdings Pty Ltd ("Griffon Australia" formerly known as Northcote Holdings Australia Pty Ltd) entered into two unsecured term loans in the outstanding amounts of AUD 12,500 and AUD 20,000, respectively. The AUD 12,500 term loan required quarterly interest payments with principal due upon maturity in December 2016. As of June 30, 2016, this loan was classified as long term debt as Griffon had the intent and ability to refinance the principal amount. The AUD 20,000 term loan required quarterly principal payments of AUD 625, with a balloon payment due upon maturity in May 2017. The loans accrued interest at Bank Bill Swap Bid Rate “BBSY” plus 2.8% per annum (4.79% at June 30, 2016 for each loan). As of June 30, 2016, Griffon had an outstanding combined balance of AUD $30,000 ($22,254 as of June 30, 2016) on the term loans.

A subsidiary of Northcote Holdings Pty Ltd also maintains a line of credit of AUD 5,000 ($3,709 as of June 30, 2016), which accrues interest at BBSY plus 2.50% per annum (4.49% at June 30, 2016). At June 30, 2016, there were AUD 2,000 ($1,484 as of June 30, 2016) outstanding under the lines. The assets of a subsidiary of Northcote Holdings Pty Ltd secures the AUD 5,000 line of credit.

In July 2016, Griffon Australia and its Australian subsidiaries entered into an AUD 10,000 revolver and an AUD 30,000 term loan. The term loan refinanced the two existing term loans referred to above. The term loan requires quarterly principal payments of AUD 750 plus interest with a balloon payment of AUD 21,000 due upon maturity in June 2019, and accrues interest at Bank Bill Swap Bid Rate “BBSY” plus 2.25% per annum. The revolving facility matures in June 2017 but is renewable upon mutual agreement with the bank, and accrues interest at BBSY plus 2.0% per annum. The revolver and the term loan are both secured by substantially all of the assets of Griffon Australia and its subsidiaries. Griffon guarantees the term loan. 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.

At June 30, 2016, Griffon and its subsidiaries were in compliance with the terms and covenants of its credit and loan agreements.

In each of March 2015 and July 2015, Griffon’s Board of Directors authorized the repurchase of up to $50,000 of Griffon’s outstanding common stock. Under both programs, the Company may, from time to time, purchase shares of its common stock in the open market, including pursuant to a 10b5-1 plan, or in privately negotiated transactions. During the quarter ended June 30, 2016, Griffon purchased 764,738 shares of common stock under the July 2015 program, for a total of $12,297 or $16.08 per share. During the nine month period ended June 30, 2016, Griffon purchased 2,714,076 shares of common stock under both the March 2015 and July 2015 programs for a total of $42,232 or $15.56 per share. Additionally, in the nine months ended June 30, 2016, 488,621 shares, with a market value of $8,410 or $17.21 per share, were withheld to settle employee taxes due upon the vesting of restricted stock and were added to treasury stock.

The December 10, 2013 repurchase of 4,444,444 shares from GS Direct for $50,000 was effected in a private transaction at a per share price of $11.25, an approximate 9.2% discount to the stock’s closing price on November 12, 2013, the day before announcement of the transaction. This transaction was exclusive of the Company’s authorized share repurchase programs. After closing the transaction, GS Direct continued to hold approximately 5.56 million shares (approximately 10% of the shares outstanding at such time) of Griffon’s common stock. Subject to certain exceptions, if GS Direct intends to sell its remaining 5,555,556 shares of Griffon common stock at any time prior to December 31, 2016, it will first negotiate in good faith to sell such shares to the Company.

From August 2011 through June 30, 2016, Griffon repurchased 19,465,297 shares of its common stock, for a total of $245,364 or $12.61 per share, inclusive of the December 10, 2013 repurchase of 4,444,444 shares of its common stock for $50,000 from GS Direct. As of June 30, 2016, $15,693 remains under the July 2015 Board authorization. On August 3, 2016, Griffon's Board of Directors authorized the repurchase of an additional $50,000 of Griffon's outstanding common stock.

On November 17, 2011, the Company began declaring quarterly cash dividends. During 2015, the Company declared and paid dividends totaling $0.16 per share. During the nine months ended June 30, 2016, the Board of Directors approved three quarterly cash dividends of $0.05 per share. The Company currently intends to pay dividends each quarter; however, payment of dividends is determined by the Board of Directors at its discretion based on various factors, and no assurance can be provided as to the payment of future dividends.

On August 3, 2016 the Board of Directors declared a quarterly cash dividend of $0.05 per share, payable on September 22, 2016 to shareholders of record as of the close of business on August 25, 2016.

During the nine months ended June 30, 2016 and 2015, Griffon used cash for discontinued operations of $1,152 and $830, respectively, primarily related to settling remaining Installation Services liabilities and environmental costs.

CRITICAL ACCOUNTING POLICIES

The preparation of Griffon's consolidated financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires the use of estimates, assumptions, judgments and subjective interpretations of accounting principles that have an impact on assets, liabilities, revenue and expenses. These estimates can also affect supplemental information contained in public disclosures of Griffon, including information regarding contingencies, risk and its financial condition. These estimates, assumptions and judgments are evaluated on an ongoing basis and based on historical experience, current conditions and various other assumptions, and form the basis for estimating the carrying values of assets and liabilities, as well as identifying and assessing the accounting treatment for commitments and contingencies. Actual results may materially differ from these estimates. There have been no changes in Griffon's critical accounting policies from September 30, 2015.

Griffon's significant accounting policies and procedures are explained in the Management Discussion and Analysis section in the Annual Report on Form 10-K for the year ended September 30, 2015. In the selection of the critical accounting policies, the objective is to properly reflect the financial position and results of operations for each reporting period in a consistent manner that can be understood by the reader of the financial statements. Griffon considers an estimate to be critical if it is subjective and if changes in the estimate using different assumptions would result in a material impact on the financial position or results of operations of Griffon.

RECENT ACCOUNTING PRONOUNCEMENTS

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

Table of Contents

FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q, especially “Management’s Discussion and Analysis”, contains certain “forward-looking statements” within the meaning of the Securities Act 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-Q that are not historical are hereby identified as “forward-looking statements” and may be indicated by words or phrases such as “anticipates,” “supports,” “plans,” “projects,” “expects,” “believes,” “should,” “would,” “hope,” “forecast,” “management is of the opinion,” “may,” “will,” “estimates,” “intends,” “explores,” “opportunities,” the neg 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, 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 continuing budgetary cuts resulting from sequestration and other government actions; the ability of the federal government to fund and conduct its operations; increases in the cost of raw materials such as resin and steel; 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 and environmental matters; unfavorable results of government agency contract audits of 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. Additional important factors that could cause the statements made in this Quarterly Report on Form 10-Q or the actual results of operations or financial condition of Griffon to differ are discussed under the caption “Item 1A. Risk Factors” and “Special Notes Regarding Forward-Looking Statements” in Griffon’s Annual Report on Form 10-K for the year ended September 30, 2015, and under the caption "Forward-Looking Statements" in the Prospectus filed pursuant to Rule 424(b)(3) with the SEC on June 20, 2016. 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.

Item 3 - Quantitative and Qualitative Disclosure About Market Risk

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

Interest Rates

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

The revolving credit facility and certain other of Griffon's credit facilities have a LIBOR-based variable interest rate. Due to the current and expected level of borrowings under these facilities, a 100 basis point change in LIBOR 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, Germany, Brazil, China and Australia; 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.

Table of Contents

Item 4 - Controls and Procedures

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

During the period covered by this report, there were no changes in Griffon's internal control over financial reporting which materially affected, or are reasonably likely to materially affect, Griffon's internal control over financial reporting.

Limitations on the Effectiveness of Controls

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

Table of Contents

PART II - OTHER INFORMATION

Item 1 Legal Proceedings
None

Item 1A Risk Factors
In addition to the other information set forth in this report, carefully consider the factors discussed in Item 1A to Part I in Griffon's Annual Report on Form 10-K for the year ended September 30, 2015, as well as those factors discussed in the "Risk Factors" section contained in the Prospectus filed pursuant to Rule 424(b)(3) with the SEC on June 20, 2016, which could materially affect Griffon's business, financial condition or future results. The risks described in Griffon's Annual Report on Form 10-K and in the Prospectus described above are not the only risks facing Griffon. Additional risks and uncertainties not currently known to Griffon or that Griffon currently deems to be immaterial may also materially adversely affect Griffon's business, financial condition and/or operating results.

Item 2 Unregistered Sales of Equity Securities and Use of Proceeds

(c)

ISSUER PURCHASES OF EQUITY SECURITIES

Period	(a) Total Number of Shares (or Units) Purchased		(b) Average Price Paid Per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs (1)	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) That May Yet Be Purchased Under the Plans or Programs(1)
April 1 - 30, 2016	600,218	(2)	$ 15.80	300,886	
May 1 - 31, 2016	257,665	(2)	16.25	256,944	
June 1 - 30, 2016	207,254	(2)	16.71	206,908	
Total	1,065,137		$ 16.08	764,738	$ 15,693

1. On July 30, 2015, the Company's Board of Directors authorized the repurchase of up to $50,000 of Griffon common stock; as of June 30, 2016, an aggregate of $15,693 remained available for the purchase of Griffon common stock under the $50,000 Board authorization.
2. Includes (a) 764,738 shares purchased by the Company in open market purchases pursuant to a stock buyback plan authorized by the Company's Board of Directors; and (b) 300,399 shares acquired by the Company from holders of restricted stock upon vesting of the restricted stock, to satisfy tax-withholding obligations of the holders.

Item 3 Defaults Upon Senior Securities

None

Item 4 Mine Safety Disclosures

None

Item 5 Other Information

None

Table of Contents

Item 6 Exhibits

4.1	Registration Rights Agreement, dated as of May 18, 2016, by and among Griffon Corporation, the Guarantors party thereto and Deutsche Bank Securities Inc., as the Initial Purchaser (incorporated by reference to Exhibit 4.1 to Griffon's Current Report on Form 8-K filed May 18, 2016 (Commission File No. 1-06620)).
10.1	Purchase Agreement, dated as of May 13, 2016, by and among Griffon Corporation, the Guarantors named therein and Deutsche Bank Securities Inc., as the Initial Purchaser (incorporated by reference to Exhibit 99.1 to Griffon's Current Report on Form 8-K filed May 13, 2016 (Commission File No. 1-06620)).
31.1	Certification pursuant to Rule 13a-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification pursuant to Rule 13a-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certifications pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document*
101.SCH	XBRL Taxonomy Extension Schema Document*
101.CAL	XBRL Taxonomy Extension Calculation Document*
101.DEF	XBRL Taxonomy Extension Definitions Document*
101.LAB	XBRL Taxonomy Extension Labels Document*
101.PRE	XBRL Taxonomy Extension Presentations Document*
*	In accordance with Regulation S-T, the XBRL-related information in Exhibit 101 to this Quarterly Report on Form 10-Q shall be deemed to be "furnished" and not "filed".

Table of Contents

SIGNATURES

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

GRIFFON CORPORATION

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

Date: August 3, 2016

Table of Contents

EXHIBIT INDEX

4.1	Registration Rights Agreement, dated as of May 18, 2016, by and among Griffon Corporation, the Guarantors party thereto and Deutsche Bank Securities Inc., as the Initial Purchaser (incorporated by reference to Exhibit 4.1 to Griffon’s Current Report on Form 8-K filed May 18, 2016 (Commission File No. 1-06620)).
10.1	Purchase Agreement, dated as of May 13, 2016, by and among Griffon Corporation, the Guarantors named therein and Deutsche Bank Securities Inc., as the Initial Purchaser (incorporated by reference to Exhibit 99.1 to Griffon’s Current Report on Form 8-K filed May 13, 2016 (Commission File No. 1-06620)).
31.1	Certification pursuant to Rule 13a-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification pursuant to Rule 13a-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certifications pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document*
101.SCH	XBRL Taxonomy Extension Schema Document*
101.CAL	XBRL Taxonomy Extension Calculation Document*
101.DEF	XBRL Taxonomy Extension Definitions Document*
101.LAB	XBRL Taxonomy Extension Labels Document*
101.PRE	XBRL Taxonomy Extension Presentations Document*
*	In accordance with Regulation S-T, the XBRL-related information in Exhibit 101 to this Quarterly Report on Form 10-Q shall be deemed to be “furnished” and not “filed”.