

GRIFFON CORP  
Form 10-Q  
July 30, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2014

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 1-06620

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

DELAWARE  
(State or other jurisdiction of incorporation or organization)

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

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

10019  
(Zip Code)

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

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

Indicate by check mark whether the registrant has submitted electronically 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  No

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

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

The number of shares of common stock outstanding at June 30, 2014 was 53,708,690.

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Griffon Corporation and Subsidiaries

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## Part I – Financial Information

## Item 1 – Financial Statements

GRIFFON CORPORATION AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands)

|   | (Unaudited)      |                       |
|---|------------------|-----------------------|
|   | June 30,<br>2014 | September 30,<br>2013 |
| <b>CURRENT ASSETS</b>   |                  |                       |
| Cash and equivalents  | \$87,437         | \$178,130             |
| Accounts receivable, net of allowances of \$7,176 and \$6,136   | 269,669          | 256,215               |
| Contract costs and recognized income not yet billed, net of progress payments of \$16,985 and \$6,941 | 104,877          | 109,828               |
| Inventories, net  | 278,462          | 230,120               |
| Prepaid and other current assets  | 74,290           | 48,903                |
| Assets of discontinued operations   | 1,209            | 1,214                 |
| Total Current Assets  | 815,944          | 824,410               |
| PROPERTY, PLANT AND EQUIPMENT, net  | 365,376          | 353,593               |
| GOODWILL  | 381,315          | 357,730               |
| INTANGIBLE ASSETS, net  | 235,092          | 221,391               |
| OTHER ASSETS  | 30,491           | 28,580                |
| ASSETS OF DISCONTINUED OPERATIONS   | 3,032            | 3,075                 |
| Total Assets  | \$1,831,250      | \$1,788,779           |
| <b>CURRENT LIABILITIES</b>  |                  |                       |
| Notes payable and current portion of long-term debt   | \$11,886         | \$10,768              |
| Accounts payable  | 181,052          | 163,610               |
| Accrued liabilities   | 103,721          | 106,743               |
| Liabilities of discontinued operations  | 2,959            | 3,288                 |
| Total Current Liabilities   | 299,618          | 284,409               |
| LONG-TERM DEBT, net of debt discount of \$10,532 and \$13,246   | 797,180          | 678,487               |
| OTHER LIABILITIES   | 162,103          | 170,675               |
| LIABILITIES OF DISCONTINUED OPERATIONS  | 4,008            | 4,744                 |
| Total Liabilities   | 1,262,909        | 1,138,315             |
| COMMITMENTS AND CONTINGENCIES - See Note 19   |                  |                       |
| <b>SHAREHOLDERS' EQUITY</b>   |                  |                       |
| Total Shareholders' Equity  | 568,341          | 650,464               |
| Total Liabilities and Shareholders' Equity  | \$1,831,250      | \$1,788,779           |

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

| (in thousands)   | COMMON STOCK |           | CAPITAL IN EXCESS OF PAR VALUE | RETAINED EARNINGS | TREASURY SHARES |             | ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) | DEFERRED COMPENSATION | Total      |
|--|--------------|-----------|--------------------------------|-------------------|-----------------|-------------|---|-----------------------|------------|
|  | SHARES       | PAR VALUE | PAR VALUE                      |                   | SHARES          | COST        |   |                       |            |
| Balance at September 30, 2013                          | 77,616       | \$ 19,404 | \$ 494,412                     | \$ 434,363        | 18,527          | \$(274,602) | \$ (3,339 )                                   | \$ (19,774 )          | \$ 650,464 |
| Net loss   | —            | —         | —                              | (8,125 )          | —               | —           | —   | —                     | (8,125 )   |
| Dividend   | —            | —         | —                              | (4,841 )          | —               | —           | —   | —                     | (4,841 )   |
| Tax effect from exercise/vesting of equity awards, net | —            | —         | 273                            | —                 | —               | —           | —   | —                     | 273        |
| Amortization of deferred compensation                  | —            | —         | —                              | —                 | —               | —           | —   | 1,586                 | 1,586      |
| Common stock acquired                                  | —            | —         | —                              | —                 | 6,237           | (72,518 )   | —   | —                     | (72,518 )  |
| Stock grants and equity awards, net                    | 857          | 214       | 302                            | —                 | —               | —           | —   | —                     | 516        |
| ESOP purchase of common stock                          | —            | —         | —                              | —                 | —               | —           | —   | (10,000 )             | (10,000 )  |
| ESOP allocation of common stock                        | —            | —         | 225                            | —                 | —               | —           | —   | —                     | 225        |
| Stock-based compensation                               | —            | —         | 8,133                          | —                 | —               | —           | —   | —                     | 8,133      |
| Other comprehensive income, net of tax                 | —            | —         | —                              | —                 | —               | —           | 2,628   | —                     | 2,628      |
| Balance at June 30, 2014                               | 78,473       | \$ 19,618 | \$ 503,345                     | \$ 421,397        | 24,764          | \$(347,120) | \$ (711 )                                     | \$ (28,188 )          | \$ 568,341 |

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

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## GRIFFON CORPORATION AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

(in thousands, except per share data)

(Unaudited)

|   | Three Months Ended June 30, |           | Nine Months Ended June 30, |             |
|---|-----------------------------|-----------|----------------------------|-------------|
|   | 2014                        | 2013      | 2014                       | 2013        |
| Revenue   | \$505,039                   | \$509,826 | \$1,466,184                | \$1,422,318 |
| Cost of goods and services                            | 386,732                     | 401,515   | 1,132,387                  | 1,110,840   |
| Gross profit  | 118,307                     | 108,311   | 333,797                    | 311,478     |
| Selling, general and administrative expenses          | 96,135                      | 86,345    | 273,437                    | 254,623     |
| Restructuring and other related charges               | 358                         | 1,604     | 1,892                      | 12,048      |
| Total operating expenses                              | 96,493                      | 87,949    | 275,329                    | 266,671     |
| Income from operations                                | 21,814                      | 20,362    | 58,468                     | 44,807      |
| Other income (expense)                                |                             |           |                            |             |
| Interest expense                                      | (11,661                     | ) (13,279 | ) (37,184                  | ) (39,446   |
| Interest income                                       | 120                         | 142       | 181                        | 321         |
| Loss from debt extinguishment, net                    | —                           | —         | (38,890                    | ) —         |
| Other, net  | 2,621                       | 607       | 4,310                      | 1,515       |
| Total other expense, net                              | (8,920                      | ) (12,530 | ) (71,583                  | ) (37,610   |
| Income (loss) before taxes                            | 12,894                      | 7,832     | (13,115                    | ) 7,197     |
| Provision (benefit) for income taxes                  | (1,570                      | ) 4,229   | (4,990                     | ) 3,855     |
| Net income (loss)                                     | \$14,464                    | \$3,603   | \$(8,125                   | ) \$3,342   |
| Basic income (loss) per common share                  | \$0.30                      | \$0.07    | \$(0.16                    | ) \$0.06    |
| Weighted-average shares outstanding                   | 48,370                      | 54,265    | 50,038                     | 54,588      |
| Diluted income (loss) per common share                | \$0.29                      | \$0.06    | \$(0.16                    | ) \$0.06    |
| Weighted-average shares outstanding                   | 49,836                      | 56,204    | 50,038                     | 56,735      |
| Dividends paid per common share                       | \$0.03                      | \$0.025   | \$0.09                     | \$0.075     |
| Net income (loss)                                     | \$14,464                    | \$3,603   | \$(8,125                   | ) \$3,342   |
| Other comprehensive income (loss), net of taxes:      |                             |           |                            |             |
| Foreign currency translation adjustments              | 2,809                       | (7,884    | ) 896                      | (10,805     |
| Pension and other post retirement plans               | 317                         | 490       | 1,732                      | 4,839       |
| Gain (loss) on cash flow hedge                        | —                           | (158      | ) —                        | 13          |
| Total other comprehensive income (loss), net of taxes | 3,126                       | (7,552    | ) 2,628                    | (5,953      |
| Comprehensive income (loss), net                      | \$17,590                    | \$(3,949  | ) \$(5,497                 | ) \$(2,611  |

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



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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(Unaudited)

|  | Nine Months Ended June 30, |           |
|--|----------------------------|-----------|
|  | 2014                       | 2013      |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>   |                            |           |
| Net income (loss)  | \$(8,125                   | ) \$3,342 |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities:           |                            |           |
| Depreciation and amortization  | 50,027                     | 52,787    |
| Stock-based compensation   | 8,133                      | 9,327     |
| Asset impairment charges - restructuring   | 191                        | 3,122     |
| Provision for losses on accounts receivable  | 420                        | 824       |
| Amortization of deferred financing costs and debt discounts  | 4,789                      | 4,651     |
| Loss from debt extinguishment, net   | 38,890                     | —         |
| Deferred income taxes  | (314                       | ) (897    |
| (Gain) loss on sale/disposal of assets   | 78                         | (788      |
| 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 | 7,443                      | (81,381   |
| (Increase) decrease in inventories   | (33,195                    | ) 36,588  |
| (Increase) decrease in prepaid and other assets  | (3,439                     | ) 2,890   |
| Decrease in accounts payable, accrued liabilities and income taxes payable                         | (15,754                    | ) (28,767 |
| Other changes, net   | 712                        | 856       |
| Net cash provided by operating activities  | 49,856                     | 2,554     |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>   |                            |           |
| Acquisition of property, plant and equipment   | (54,859                    | ) (45,886 |
| Acquired businesses, net of cash acquired  | (62,306                    | ) —       |
| Proceeds from sale of assets   | 491                        | 1,326     |
| Investment purchases   | (8,402                     | ) —       |
| Net cash used in investing activities  | (125,076                   | ) (44,560 |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>   |                            |           |
| Proceeds from issuance of common stock   | 584                        | —         |
| Dividends paid   | (4,841                     | ) (4,384  |
| Purchase of shares for treasury  | (72,518                    | ) (25,689 |
| Proceeds from long-term debt   | 682,913                    | 303       |
| Payments of long-term debt   | (602,134                   | ) (12,842 |
| Change in short-term borrowings  | 3,138                      | 2,408     |
| Financing costs  | (10,928                    | ) (759    |
| Purchase of ESOP shares  | (10,000                    | ) —       |
| Tax benefit from exercise/vesting of equity awards, net  | 273                        | 150       |
| Other, net   | 194                        | 261       |
| Net cash used in financing activities  | (13,319                    | ) (40,552 |



CASH FLOWS FROM DISCONTINUED OPERATIONS:

|   |          |           |   |
|---|----------|-----------|---|
| Net cash used in operating activities                   | (1,018   | ) (486    | ) |
| Net cash used in discontinued operations                | (1,018   | ) (486    | ) |
| Effect of exchange rate changes on cash and equivalents | (1,136   | ) (506    | ) |
| NET DECREASE IN CASH AND EQUIVALENTS                    | (90,693  | ) (83,550 | ) |
| CASH AND EQUIVALENTS AT BEGINNING OF PERIOD             | 178,130  | 209,654   |   |
| CASH AND EQUIVALENTS AT END OF PERIOD                   | \$87,437 | \$126,104 |   |

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

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GRIFFON CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

(Unaudited)

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

NOTE 1 – DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

About Griffon Corporation

Griffon Corporation (the “Company” or “Griffon”) is a diversified management and holding company that conducts business through wholly-owned subsidiaries. Griffon oversees the operations of its subsidiaries, allocates resources among them and manages their capital structures. Griffon provides direction and assistance to its subsidiaries in connection with acquisition and growth opportunities as well as in connection with divestitures. Griffon, to further diversify, 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 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 that make work easier for homeowners and professionals.

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

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

Clopay Plastic Products Company, Inc. (“Plastics”) 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, 2013, 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, 2013 was derived from the audited financial statements included in Griffon's Annual Report on Form 10-K for the year ended September 30, 2013.

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

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GRIFFON CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

(Unaudited)

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

and the valuation of discontinued assets and liabilities, 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 debt approximate fair value due to either the short-term nature of such instruments or the fact that the interest rate of the revolving credit debt is based upon current market rates.

The fair values of Griffon's senior notes due 2022 and 2017 4% convertible notes approximated \$594,000 and \$113,400, respectively, on June 30, 2014. Fair values were based upon quoted market prices (level 1 inputs).

Items Measured at Fair Value on a Recurring Basis

Insurance contracts with values of \$3,594 (level 2 inputs) at June 30, 2014, are measured and recorded at fair value based upon quoted prices in active markets for similar assets. Trading securities with values of \$11,160 (level 1 inputs) at June 30, 2014, are measured and recorded at fair value based upon quoted prices in active markets for identical assets.

At June 30, 2014, Griffon had \$4,172 and \$1,750 of Australian dollar contracts and Canadian dollar contracts, respectively, at a weighted average rate of \$1.06 and \$1.07, respectively. The contracts, which protect Australia and Canada operations from currency fluctuations for U.S. dollar based purchases, do not qualify for hedge accounting and a fair value loss of \$192 and \$125 was recorded in Other assets and to Other income for the outstanding contracts, based on similar contract values (level 2 inputs), for the quarter and nine months ended June 30, 2014, respectively. All contracts expire in 24 to 114 days.

NOTE 3 – ACQUISITIONS

On May 21, 2014, Ames acquired the Australian Garden and Tools business of Illinois Tool Works, Inc. ("Cyclone") for approximately \$40,000, including a \$4,000 working capital adjustment. Cyclone, which was integrated with Ames, 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. Cyclone is expected to generate approximately \$65,000 of annualized revenue. Selling, General and Administrative ("SG&A") expenses in the current quarter included \$1,600 of acquisition costs.

On December 31, 2013, Ames acquired Northcote Pottery ("Northcote"), founded in 1897 and a leading brand in the Australian outdoor planter and decor market, for approximately \$22,000. Northcote complements Southern Patio, acquired in 2011, and adds to Ames' existing lawn and garden operations in Australia. Northcote, which was integrated with Ames, is expected to generate approximately \$28,000 of annualized revenue. First quarter 2014 SG&A expenses included \$798 of acquisition costs.

The accounts of the acquired companies, after adjustment to reflect fair market values (level 3 inputs) assigned to assets purchased, have been included in the consolidated financial statements from the date of acquisition; in each instance, acquired inventory was not significant. Griffon is in the process of finalizing the adjustments to the purchase price, if any, for Cyclone and Northcote, primarily related to working capital, and gathering data as of the closing date to complete the purchase price allocation; accordingly, management has used their best estimates in the initial purchase price allocation as of the date of these financial statements.

The following table summarizes the fair values of the Cyclone and Northcote assets and liabilities as of the date of acquisition:

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## GRIFFON CORPORATION AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

(Unaudited)

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

|                                      | Cyclone  | Northcote | Total    |
|--------------------------------------|----------|-----------|----------|
| Current Assets, net of cash acquired | \$23,936 | \$7,921   | \$31,857 |
| PP&E                                 | 491      | 1,376     | 1,867    |
| Goodwill                             | 10,072   | 11,617    | 21,689   |
| Amortizable intangible assets        | 9,844    | 6,023     | 15,867   |
| Indefinite life intangible assets    | 1,874    | 1,686     | 3,560    |
| Total assets acquired                | 46,217   | 28,623    | 74,840   |
| Total liabilities assumed            | (6,692)  | (6,842)   | (13,534) |
| Net assets acquired                  | \$39,525 | \$21,781  | \$61,306 |

The amounts assigned to major intangible asset classifications, none of which are tax deductible, for the Cyclone and Northcote acquisitions are as follows:

|                        | Cyclone  | Northcote | Total  | Amortization Period (Years) |
|------------------------|----------|-----------|--------|-----------------------------|
| Goodwill               | \$10,072 | \$11,617  | 21,689 | N/A                         |
| Tradenames             | 1,874    | 1,686     | 3,560  | Indefinite                  |
| Customer relationships | 9,844    | 6,023     | 15,867 | 25                          |
|                        | \$21,790 | \$19,326  | 41,116 |                             |

## 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,<br>2014 | At September 30,<br>2013 |
|----------------------------|---------------------|--------------------------|
| Raw materials and supplies | \$71,533            | \$65,560                 |
| Work in process            | 69,884              | 63,930                   |
| Finished goods             | 137,045             | 100,630                  |
| Total                      | \$278,462           | \$230,120                |

## NOTE 5 – PROPERTY, PLANT AND EQUIPMENT

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

|   | At June 30, 2014 | At September 30, 2013 |
|---|------------------|-----------------------|
| Land, building and building improvements  | \$131,270        | \$130,905             |
| Machinery and equipment                   | 715,805          | 661,094               |
| Leasehold improvements                    | 38,792           | 35,884                |
|   | 885,867          | 827,883               |
| Accumulated depreciation and amortization | (520,491)        | (474,290)             |
| Total                                     | \$365,376        | \$353,593             |

Depreciation and amortization expense for property, plant and equipment was \$14,766 and \$15,781 for the quarters ended June 30, 2014 and 2013, respectively, and \$44,163 and \$46,846 for the nine months ended June 30, 2014 and 2013, respectively. Depreciation included in SG&A expenses was \$2,507 and \$3,128 for the quarters ended June 30,

2014 and 2013, respectively,

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and \$7,743 and \$9,402 for the nine months ended June 30, 2014 and 2013, respectively. The 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 quarter ended June 30, 2014, which would require additional impairment testing of property, plant and equipment.



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## GRIFFON CORPORATION AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

(Unaudited)

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

## NOTE 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, 2014:

|                          | At<br>September 30,<br>2013 | Goodwill from<br>2014<br>acquisitions | Other<br>adjustments<br>including<br>currency<br>translations | At June 30,<br>2014 |
|--------------------------|-----------------------------|---------------------------------------|---|---------------------|
| Home & Building Products | \$269,802                   | \$21,689                              | \$948   | \$292,439           |
| Telephonics              | 18,545                      | —                                     | —   | 18,545              |
| Plastics                 | 69,383                      | —                                     | 948   | 70,331              |
| Total                    | \$357,730                   | \$21,689                              | \$1,896   | \$381,315           |

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

|                                     | At June 30, 2014         |                             | Average<br>Life<br>(Years) | At September 30, 2013    |                             |
|-------------------------------------|--------------------------|-----------------------------|----------------------------|--------------------------|-----------------------------|
|                                     | Gross Carrying<br>Amount | Accumulated<br>Amortization |                            | Gross Carrying<br>Amount | Accumulated<br>Amortization |
| Customer relationships              | \$183,152                | \$34,543                    | 25                         | \$166,985                | \$29,049                    |
| Unpatented technology               | 6,708                    | 3,290                       | 13                         | 6,804                    | 2,916                       |
| Total amortizable intangible assets | 189,860                  | 37,833                      |                            | 173,789                  | 31,965                      |
| Trademarks                          | 83,065                   | —                           |                            | 79,567                   | —                           |
| Total intangible assets             | \$272,925                | \$37,833                    |                            | \$253,356                | \$31,965                    |

Amortization expense for intangible assets was \$2,028 and \$1,969 for the quarters ended June 30, 2014 and 2013, respectively, and \$5,864 and \$5,941 for the nine months ended June 30, 2014 and 2013, respectively.

No event or indicator of impairment occurred during the quarter ended June 30, 2014, which would require impairment testing of long-lived intangible assets including goodwill.

## NOTE 7 – INCOME TAXES

The Company reported pretax income for the quarter and a pretax loss for the nine months ended June 30, 2014, compared to pretax income for the quarter and nine months ended June 30, 2013. The Company recognized tax benefits of 12.2% and 38.0% for the quarter and nine months ended June 30, 2014, respectively, compared to provisions of 54.0% and 53.6%, respectively, in the comparable prior year periods. The current and prior year tax rates reflect the impact of permanent differences not deductible in determining taxable income, mainly limited deductibility of restricted stock, tax reserves and changes in earnings mix between domestic and non-domestic operations, which are material relative to the level of pretax results and the impact of discrete items reported.

The quarter and nine months ended June 30, 2014 include \$1,860 and \$1,540, respectively, of benefits from discrete items resulting primarily from the conclusion of tax audits, the filing of tax returns in various jurisdictions, the release of previously established reserves for uncertain tax positions and the impact of tax law changes enacted in the second quarter of 2014. The comparable prior year periods included \$1,495 and \$1,859, respectively, of benefits from discrete items, primarily resulting from the release of previously established reserves for uncertain tax positions on conclusion of tax audits, benefits arising on the filing of tax returns in various jurisdictions and the retroactive extension of the federal R&D credit signed into law January 2, 2013.

Excluding discrete items, the effective tax rates for the quarter and nine months ended June 30, 2014 were a provision of 27.0% and a benefit of 26.3%, respectively, compared to provisions of 73.1% and 79.4% in the comparable prior year periods, respectively.

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## NOTE 8 – LONG-TERM DEBT

|                             | At June 30, 2014       |                                |                  |                                   | At September 30, 2013             |                        |                                |                  |                                   |                                   |
|-----------------------------|------------------------|--------------------------------|------------------|-----------------------------------|-----------------------------------|------------------------|--------------------------------|------------------|-----------------------------------|-----------------------------------|
|                             | Outstanding<br>Balance | Original<br>Issuer<br>Discount | Balance<br>Sheet | Capitalized<br>Fees &<br>Expenses | Coupon<br>Interest<br>Rate<br>(1) | Outstanding<br>Balance | Original<br>Issuer<br>Discount | Balance<br>Sheet | Capitalized<br>Fees &<br>Expenses | Coupon<br>Interest<br>Rate<br>(1) |
| Senior notes due 2018       | (a) \$—                | \$—                            | \$—              | \$—                               | n/a                               | \$550,000              | \$—                            | \$550,000        | \$7,328                           | 7.10 %                            |
| Senior notes due 2022       | (a) 600,000            | —                              | 600,000          | 9,529                             | 5.25 %                            | —                      | —                              | —                | —                                 | n/a                               |
| Revolver due 2019           | (a) 25,000             | —                              | 25,000           | 2,122                             | n/a                               | —                      | —                              | —                | 2,425                             | n/a                               |
| Convert. debt due 2017      | (b) 100,000            | (10,532 )                      | 89,468           | 1,145                             | 4.00 %                            | 100,000                | (13,246 )                      | 86,754           | 1,478                             | 4.00 %                            |
| Real estate mortgages       | (c) 16,603             | —                              | 16,603           | 612                               | n/a                               | 13,212                 | —                              | 13,212           | 185                               | n/a                               |
| ESOP Loans                  | (d) 29,583             | —                              | 29,583           | 233                               | n/a                               | 21,098                 | —                              | 21,098           | 24                                | n/a                               |
| Capital lease - real estate | (e) 8,798              | —                              | 8,798            | 188                               | 5.00 %                            | 9,529                  | —                              | 9,529            | 207                               | 5.00 %                            |
| Non U.S. lines of credit    | (f) 7,754              | —                              | 7,754            | —                                 | n/a                               | 4,606                  | —                              | 4,606            | —                                 | n/a                               |
| Non U.S. term loans         | (f) 30,612             | —                              | 30,612           | 189                               | n/a                               | 3,115                  | —                              | 3,115            | 27                                | n/a                               |
| Other long term debt        | (g) 1,248              | —                              | 1,248            | 27                                | n/a                               | 941                    | —                              | 941              | —                                 | n/a                               |
| Totals                      | 819,598                | (10,532 )                      | 809,066          | \$14,045                          |                                   | 702,501                | (13,246 )                      | 689,255          | \$11,674                          |                                   |
| less:                       |                        |                                |                  |                                   |                                   |                        |                                |                  |                                   |                                   |
| Current portion             | (11,886 )              | —                              | (11,886 )        |                                   |                                   | (10,768 )              | —                              | (10,768 )        |                                   |                                   |
| Long-term debt              | \$807,712              | \$(10,532)                     | \$797,180        |                                   |                                   | \$691,733              | \$(13,246)                     | \$678,487        |                                   |                                   |

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|                             | Three Months Ended June 30, 2014 |               |                      |                                   |                        | Three Months Ended June 30, 2013 |               |                      |                                   |                        |
|-----------------------------|----------------------------------|---------------|----------------------|-----------------------------------|------------------------|----------------------------------|---------------|----------------------|-----------------------------------|------------------------|
|                             | Effective Interest Rate (1)      | Cash Interest | Amort. Debt Discount | Amort. Deferred Cost & Other Fees | Total Interest Expense | Effective Interest Rate (1)      | Cash Interest | Amort. Debt Discount | Amort. Deferred Cost & Other Fees | Total Interest Expense |
| Senior notes due 2018       | (a) n/a                          | \$—           | \$—                  | \$—                               | \$—                    | 7.4 %                            | \$9,797       | \$—                  | \$406                             | \$10,203               |
| Senior notes due 2022       | (a) 5.5 %                        | 7,875         | —                    | 310                               | 8,185                  | n/a                              | —             | —                    | —                                 | —                      |
| Revolver due 2019           | (a) n/a                          | 309           | —                    | 144                               | 453                    | n/a                              | 179           | —                    | 131                               | 310                    |
| Convert. debt due 2017      | (b) 9.1 %                        | 1,000         | 921                  | 112                               | 2,033                  | 9.1 %                            | 1,000         | 846                  | 110                               | 1,956                  |
| Real estate mortgages       | (c) 3.8 %                        | 124           | —                    | 35                                | 159                    | 4.9 %                            | 133           | —                    | 22                                | 155                    |
| ESOP Loans                  | (d) 2.9 %                        | 192           | —                    | 25                                | 217                    | 2.8 %                            | 151           | —                    | 2                                 | 153                    |
| Capital lease - real estate | (e) 5.3 %                        | 112           | —                    | 5                                 | 117                    | 5.3 %                            | 125           | —                    | 6                                 | 131                    |
| Non U.S. lines of credit    | (f) n/a                          | 307           | —                    | 27                                | 334                    | n/a                              | 155           | —                    | —                                 | 155                    |
| Non U.S. term loans         | (f) n/a                          | 273           | —                    | 13                                | 286                    | n/a                              | 109           | —                    | 26                                | 135                    |
| Other long term debt        | (g) n/a                          | 6             | —                    | 9                                 | 15                     | n/a                              | 272           | —                    | —                                 | 272                    |
| Capitalized interest        |                                  | (138 )        | —                    | —                                 | (138 )                 |                                  | (191 )        | —                    | —                                 | (191 )                 |
| Totals                      |                                  | \$10,060      | \$921                | \$680                             | \$11,661               |                                  | \$11,730      | \$846                | \$703                             | \$13,279               |

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|                             | Nine Months Ended June 30, 2014 |               |                      |                                   |                        | Nine Months Ended June 30, 2013 |               |                      |                                   |                        |
|-----------------------------|---------------------------------|---------------|----------------------|-----------------------------------|------------------------|---------------------------------|---------------|----------------------|-----------------------------------|------------------------|
|                             | Effective Interest Rate (1)     | Cash Interest | Amort. Debt Discount | Amort. Deferred Cost & Other Fees | Total Interest Expense | Effective Interest Rate (1)     | Cash Interest | Amort. Debt Discount | Amort. Deferred Cost & Other Fees | Total Interest Expense |
| Senior notes due 2018       | (a) 7.4 %                       | \$ 15,930     | \$ —                 | \$ 667                            | \$ 16,597              | 7.4 %                           | \$ 29,391     | \$ —                 | \$ 1,217                          | \$ 30,608              |
| Senior notes due 2022       | (a) 5.5 %                       | 10,675        | —                    | 421                               | 11,096                 | n/a                             | —             | —                    | —                                 | —                      |
| Revolver due 2019           | (a) n/a                         | 782           | —                    | 422                               | 1,204                  | n/a                             | 603           | —                    | 444                               | 1,047                  |
| Convert. debt due 2017      | (b) 9.1 %                       | 3,000         | 2,713                | 333                               | 6,046                  | 9.2 %                           | 3,000         | 2,491                | 332                               | 5,823                  |
| Real estate mortgages       | (c) 4.0 %                       | 376           | —                    | 108                               | 484                    | 4.9 %                           | 407           | —                    | 65                                | 472                    |
| ESOP Loans                  | (d) 3.2 %                       | 524           | —                    | 32                                | 556                    | 2.9 %                           | 476           | —                    | 6                                 | 482                    |
| Capital lease - real estate | (e) 5.4 %                       | 345           | —                    | 19                                | 364                    | 5.3 %                           | 381           | —                    | 19                                | 400                    |
| Non U.S. lines of credit    | (f) n/a                         | 724           | —                    | 27                                | 751                    | n/a                             | 415           | —                    | —                                 | 415                    |
| Non U.S. term loans         | (f) n/a                         | 426           | —                    | 17                                | 443                    | n/a                             | 415           | —                    | 77                                | 492                    |
| Other long term debt        | (g) n/a                         | 17            | —                    | 30                                | 47                     | n/a                             | 523           | —                    | —                                 | 523                    |
| Capitalized interest        |                                 | (404 )        | —                    | —                                 | (404 )                 |                                 | (816 )        | —                    | —                                 | (816 )                 |
| Totals                      |                                 | \$ 32,395     | \$ 2,713             | \$ 2,076                          | \$ 37,184              |                                 | \$ 34,795     | \$ 2,491             | \$ 2,160                          | \$ 39,446              |

(1) not applicable = n/a

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On February 27, 2014, in an unregistered offering through a private placement under Rule 144A, Griffon issued, at par, \$600,000 of 5.25% Senior Notes due 2022 ("Senior Notes"); interest is payable semi-annually on March 1 and September 1, starting September 1, 2014. Proceeds from the Senior Notes were used to redeem \$550,000 of 7.125% senior notes due 2018, to pay a tender offer premium of \$31,530 and to make interest payments of \$16,716, with the balance used to pay a portion of the transaction fees and expenses. The Senior Notes are senior unsecured obligations of Griffon guaranteed by certain domestic subsidiaries, and subject to certain covenants, limitations and restrictions. On June 18, 2014, Griffon exchanged all of the Senior Notes for substantially identical Senior Notes registered under the Securities Act of 1933 via an exchange offer.

In connection with these transactions, Griffon capitalized \$9,950 of underwriting fees and other expenses incurred related to issuance of the Senior Notes, which will amortize over the term of such notes. Griffon recognized a loss on the early extinguishment of debt on the 7.125% senior notes aggregating \$38,890, comprised of the \$31,530 tender offer premium, the write-off of \$6,574 of remaining deferred financing fees and \$786 of prepaid interest on defeased notes.

On February 14, 2014, Griffon amended its \$225,000 Revolving Credit Facility ("Credit Agreement") to extend its maturity date from March 28, 2018 to March 28, 2019, and to revise certain financial maintenance and negative covenants to improve Griffon's financial and operating flexibility. The facility includes a letter of credit sub-facility with a limit of \$60,000, a multi-currency sub-facility of \$50,000 and a swing line sub-facility with a limit of \$30,000. 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 a default or 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. The 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 Credit Agreement also includes certain restrictions, such as limitations on the ability of Griffon to incur indebtedness and liens and to 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 assets of the Company and the guarantors and a pledge of not greater than 65% of the equity interest in each of Griffon's material, first-tier foreign subsidiaries (except that a lien on the assets of Griffon and its material domestic subsidiaries securing a limited amount of the debt under the ESOP credit agreement ranks pari passu with the lien granted on such assets under the Credit Agreement; see footnote (d) below).

At June 30, 2014, outstanding borrowings and standby letters of credit were \$25,000 and \$20,365, respectively; \$179,635 was available for borrowing at that date.

On December 21, 2009, Griffon issued \$100,000 principal of 4% convertible subordinated notes due 2017 (the "2017 Notes"). The current conversion rate of the 2017 Notes is 68.6238 shares of Griffon's common stock per \$1,000 principal amount of notes, corresponding to a conversion price of \$14.53 per share. When a cash dividend is declared that would result in an adjustment to the conversion ratio of less than 1%, any adjustment to the (b) 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%. As of June 30, 2014, aggregate dividends since the last conversion price adjustment of \$0.03 per share would have resulted in an adjustment to the conversion ratio of approximately .27%. At both June 30, 2014 and 2013, the 2017 Notes had a capital in excess of par component, net of tax, of \$15,720.

On October 21, 2013, Griffon refinanced two properties' real estate mortgages to secure loans totaling \$17,175. The (c) loans mature in October 2018, are collateralized by the related properties and are guaranteed by Griffon. The loans bear interest at a rate of LIBOR plus 2.75%. At June 30, 2014, \$16,603 was outstanding.

In December 2013, Griffon's Employee Stock Ownership Plan ("ESOP") entered into a credit agreement which refinanced the two existing ESOP loans into one new Term Loan in the amount of \$21,098. The agreement also provided a Line Note with \$10,000 available to purchase shares of Griffon common stock in the open market through September 29, 2014. As of June 30, 2014, 749,977 shares of Griffon common stock, for a total of \$10,000, (d) were purchased with proceeds from the Line Note. In March 2014, the Line Note was combined with the Term Loan to form one new term loan. The loan bears interest at a) LIBOR plus 2.25% or b) the lender's prime rate, at Griffon's option. The loan requires quarterly principal payments of \$505 through September 30, 2014 and \$419 per quarter thereafter, with a balloon payment of approximately \$22,400 due at maturity in December 2018. The loan is secured by shares purchased with the proceeds of the loan and with a lien on the assets of Griffon and its material domestic

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subsidiaries securing a limited amount of the loan (which lien ranks pari passu with the lien granted on such assets securing the debt under Griffon's revolving credit facility; see footnote (a) above), and Griffon guarantees repayment. As of June 30, 2014, \$29,583 was outstanding.

In July 2014, Griffon's ESOP entered into an amendment to the existing agreement which provides for an additional \$10,000 Line Note available to purchase shares in the open market. The new Line Note will bear interest at a) LIBOR plus 2.75% or b) the lender's prime rate, at Griffon's option, through its expiration date on June 30, 2015. Upon expiration or at an earlier date, at Griffon's option, the new Line Note will be combined with the Term Loan and require quarterly principal payments based on the remaining amortization schedule at a weighted average interest rate of the combined loans, with a balloon payment due at the final maturity date of December 31, 2018, based on the new amortization schedule. The new Line Note and the Term Loan are secured by shares purchased with the proceeds of the loan and with a lien on the assets of Griffon and its material domestic subsidiaries securing a limited amount of the loan (which lien ranks pari passu with the lien granted on such assets securing the debt under Griffon's revolving credit facility; see footnote (a) above), and Griffon guarantees repayment.

In October 2006, CBP entered into a capital lease totaling \$14,290 for real estate in Troy, Ohio. The lease matures (e) 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, 2014, \$8,798 was outstanding.

In November 2010, Clopay Europe GmbH ("Clopay Europe") entered into a €10,000 revolving credit facility and a €20,000 term loan. The term loan was paid off in December 2013 and the revolver had borrowings of \$4,093 at (f) June 30, 2014. The revolving facility matures in November 2014, but is renewable upon mutual agreement with the bank. The revolving credit facility accrues interest at EURIBOR plus 2.20% per annum (2.41% at June 30, 2014).

Clopay Europe is required to maintain a certain minimum equity to assets ratio and keep leverage below a certain level, defined as the ratio of total debt to EBITDA.

Clopay do Brazil maintains lines of credit of approximately \$5,700. Interest on borrowings accrues at a rate of Brazilian CDI plus 6.0% (16.80% at June 30, 2014). At June 30, 2014 there was \$3,660 borrowed under the lines. Clopay Plastic Products Company, Inc. guarantees the loan and lines.

In November 2012, Garant G.P. ("Garant") entered into a CAD \$15,000 revolving credit facility. The facility accrues interest at LIBOR (USD) or the Bankers Acceptance Rate (CDN) plus 1.3% per annum (1.46% LIBOR USD and 2.51% Bankers Acceptance Rate CDN as of June 30, 2014). The revolving facility matures in November 2015. Garant is required to maintain a certain minimum equity. At June 30, 2014, there were no borrowings under the revolving credit facility with CAD \$15,000 available for borrowing.

In December 2013 and May 2014, Northcote Holdings Pty Ltd entered into two term loans in the outstanding amounts of AUD \$12,500 and AUD \$20,000, respectively. The AUD \$12,500 and AUD \$20,000 term loans are unsecured and require quarterly interest payments, with quarterly principal payments of \$625 beginning in August 2015 on the AUD \$20,000 term loan. Remaining principal is due at maturity in December 2016 and May 2017, respectively. The loans accrue interest at Bank Bill Swap Bid Rate "BBSY" plus 2.8% per annum (5.5% at June 30, 2014 for each loan). As of June 30, 2014, Griffon had an outstanding combined balance of \$30,612 on the term loans. Subsidiaries of Northcote Holdings Pty Ltd also maintain two lines of credit of AUD \$3,000 and AUD \$5,000 which accrue interest at BBSY plus 2.25% per annum (5.00% at June 30, 2014) and 2.50% per annum (5.25% at June 30, 2014), respectively. At June 30, 2014, there were no outstanding borrowings under the lines. Griffon Corporation guarantees the term loans and the AUD \$3,000 line of credit; the assets of a subsidiary of Northcote Holdings Pty Ltd secures the AUD \$5,000



line of credit.

(g) Other long-term debt primarily consists of capital leases.

At June 30, 2014, Griffon and its subsidiaries were in compliance with the terms and covenants of its credit and loan agreements.

#### NOTE 9 — SHAREHOLDERS' EQUITY

During 2013, the Company declared and paid quarterly dividends of \$0.025 per share, totaling \$0.10 per share for the year. During 2014, the Board of Directors approved and paid a quarterly cash dividend of \$0.03 per share in each quarter, totaling \$0.09 per share for the nine months ended June 30, 2014. Dividends paid on allocated shares in the ESOP were used to pay down the ESOP loan and recorded as a reduction in expense. A dividend payable was established for the holders of restricted shares; such dividends will be released upon vesting of the underlying restricted shares.

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On July 30, 2014, the Board of Directors declared a quarterly cash dividend of \$0.03 per share, payable on September 24, 2014 to shareholders of record as of the close of business on August 21, 2014.

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 is amortized using the straight-line attribution method.

In February 2011, shareholders approved the Griffon Corporation 2011 Equity Incentive Plan under which awards of performance shares, performance units, stock options, stock appreciation rights, restricted shares, deferred shares and other stock-based awards may be granted. On January 30, 2014, shareholders approved an amendment and restatement of the Incentive Plan (as amended, the "Incentive Plan"), which, among other things, added 1,200,000 shares to the Incentive Plan. 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 4,200,000 (600,000 of which may be issued as incentive stock options), plus any shares underlying awards outstanding on the effective date of the Incentive Plan under the 2006 Incentive Plan that are subsequently cancelled or forfeited. As of June 30, 2014, 989,895 shares were available for grant.

All grants outstanding under the Griffon Corporation 2001 Stock Option Plan, 2006 Equity Incentive Plan and Outside Director Stock Award Plan will continue under their terms; no additional awards will be granted under such plans.

During the first quarter of 2014, Griffon granted 599,328 restricted stock awards with vesting periods up to four years, 554,498 of which are also subject to certain performance conditions, with a total fair value of \$7,426, or a weighted average fair value of \$12.39 per share. During the second quarter of 2014, Griffon granted 518,490 restricted stock awards with vesting periods up to four years, 461,827 of which are also subject to certain performance conditions, with a total fair value of \$7,074, or a weighted average fair value of \$13.64 per share.

In connection with the Northcote acquisition, Griffon entered into certain retention arrangements with Northcote management. Under these arrangements, on January 10, 2014, Griffon issued 44,476 shares of common stock to Northcote management for an aggregate purchase price of \$584 or \$13.13 per share, and for each share of common stock purchased, Northcote management received one restricted stock unit (included in the detail in the prior paragraph), that vests in three equal installments over 3 years, subject to the attainment of specified performance criteria.

For the quarters ended June 30, 2014 and 2013, stock based compensation expense totaled \$3,137 and \$3,029, respectively. For the nine months ended June 30, 2014 and 2013, stock based compensation expenses totaled \$8,133 and \$9,327, respectively.

In each of August 2011 and May 2014, Griffon's Board of Directors authorized the repurchase of up to \$50,000 of Griffon's outstanding common stock for each program. Under both repurchase programs, the Company may purchase shares, depending upon market conditions, in open market or privately negotiated transactions, including pursuant to a

10b5-1 plan. During the quarter ended June 30, 2014, Griffon purchased 750,000 shares of common stock under these programs, for a total of \$8,784 or \$11.71 per share. In the nine months ended June 30, 2014, Griffon purchased 1,348,481 shares of common stock under these programs, for a total of \$16,285 or \$12.08 per share. Since the resumption of share repurchases in 2011 through the end of the third quarter of 2014, Griffon has repurchased 6,436,712 shares of common stock, for a total of \$65,315 or \$10.15 per share, under Board authorized repurchase programs (which repurchases included exhausting the remaining availability under a Board authorized repurchase program that was in existence prior to 2011). As of June 30, 2014, the August 2011 program was completed and \$45,742 remains under the May 2014 authorization.

During the quarter and nine months ended June 30, 2014, 33,046 shares, with a market value of \$364 or \$11.02 per share, and 444,110 shares, with a market value of \$5,631 or \$12.68 per share, respectively, were withheld to settle employee taxes due to the vesting of restricted stock and were added to treasury.

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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. The repurchase 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. The transaction was exclusive of the Company's August 2011 \$50,000 authorized share repurchase program. After closing the transaction, GS Direct continued to hold approximately 5.56 million shares (approximately 10%) of Griffon's common stock. GS Direct also agreed that, subject to certain exceptions, if it intends to sell its remaining shares of Griffon common stock at any time prior to December 31, 2014, it will first negotiate in good faith to sell such shares to the Company.

In December 2013, Griffon's Board of Directors authorized the ESOP to purchase up to \$10,000 of Griffon's outstanding common stock, depending upon market conditions, in open market or privately negotiated transactions, including pursuant to a 10b5-1 plan. During the first quarter of 2014, the ESOP purchased 120,000 shares of common stock, for a total of \$1,591 or \$13.26 per share. During the second quarter of 2014, the ESOP purchased 629,977 shares of common stock, for a total of \$8,409 or \$13.35 per share. In total, during the nine months ended June 30, 2014, the ESOP purchased 749,977 shares of common stock, for a total of \$10,000 or \$13.33 per share, exhausting the \$10,000 authorization. In July 2014, Griffon's ESOP entered into an amendment of the existing Agreement, which provides an additional \$10,000 Line Note available to purchase shares in the open market.

## NOTE 10 – EARNINGS PER SHARE (EPS)

Basic EPS (and diluted EPS in periods where 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. The 2017 Notes were anti-dilutive due to the conversion price being greater than the weighted-average stock price during the periods presented.

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, |        |
|--|-----------------------------|--------|----------------------------|--------|
|  | 2014                        | 2013   | 2014                       | 2013   |
| Weighted average shares outstanding - basic                          | 48,370                      | 54,265 | 50,038                     | 54,588 |
| Incremental shares from stock based compensation                     | 1,466                       | 1,939  | —                          | 2,147  |
| Weighted average shares outstanding - diluted                        | 49,836                      | 56,204 | 50,038                     | 56,735 |
| Anti-dilutive options excluded from diluted EPS computation          | 643                         | 715    | 643                        | 715    |
| Anti-dilutive restricted stock excluded from diluted EPS computation | —                           | —      | 1,609                      | —      |

Griffon has 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.

NOTE 11 – BUSINESS SEGMENTS

Griffon's reportable business segments are as follows:

HBP is a leading manufacturer and marketer of residential, commercial and industrial garage doors to professional installing dealers and major home center retail chains, as well as a global provider of non-powered landscaping products that make work easier for homeowners and professionals.

• Telephonics develops, designs and manufactures high-technology integrated information, communication and sensor system solutions to military and commercial markets worldwide.

• Plastics 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.

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(Unaudited)

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

Information on Griffon's business segments is as follows:

| REVENUE                      | For the Three Months Ended June 30, |            | For the Nine Months Ended June 30, |              |
|------------------------------|-------------------------------------|------------|------------------------------------|--------------|
|                              | 2014                                | 2013       | 2014                               | 2013         |
| Home & Building Products:    |                                     |            |                                    |              |
| Ames                         | \$ 132,179                          | \$ 128,332 | \$ 389,492                         | \$ 341,878   |
| CBP                          | 121,814                             | 112,285    | 334,494                            | 314,651      |
| Home & Building Products     | 253,993                             | 240,617    | 723,986                            | 656,529      |
| Telephonics                  | 102,446                             | 129,997    | 302,656                            | 347,678      |
| Plastics                     | 148,600                             | 139,212    | 439,542                            | 418,111      |
| Total consolidated net sales | \$ 505,039                          | \$ 509,826 | \$ 1,466,184                       | \$ 1,422,318 |

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

| INCOME (LOSS) BEFORE TAXES         | For the Three Months Ended June 30, |           | For the Nine Months Ended June 30, |           |
|------------------------------------|-------------------------------------|-----------|------------------------------------|-----------|
|                                    | 2014                                | 2013      | 2014                               | 2013      |
| Segment operating profit:          |                                     |           |                                    |           |
| Home & Building Products           | \$ 9,747                            | \$ 11,549 | \$ 27,958                          | \$ 22,655 |
| Telephonics                        | 13,134                              | 10,592    | 34,463                             | 38,990    |
| Plastics                           | 8,075                               | 5,401     | 23,252                             | 8,959     |
| Total segment operating profit     | 30,956                              | 27,542    | 85,673                             | 70,604    |
| Net interest expense               | (11,541 )                           | (13,137 ) | (37,003 )                          | (39,125 ) |
| Unallocated amounts                | (6,521 )                            | (6,573 )  | (22,895 )                          | (22,140 ) |
| Loss from debt extinguishment, net | —                                   | —         | (38,890 )                          | —         |
| Loss on pension settlement         | —                                   | —         | —                                  | (2,142 )  |
| Income (loss) before taxes         | \$ 12,894                           | \$ 7,832  | \$ (13,115 )                       | \$ 7,197  |

Griffon evaluates performance and allocates resources based on each segment's operating results before interest income and expense, income taxes, depreciation and amortization, unallocated amounts (mainly corporate overhead), restructuring charges, acquisition-related expenses, and gains (losses) from pension settlement and debt extinguishment, 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 (loss) before taxes:

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|                                       | For the Three Months Ended |           | For the Nine Months Ended |           |
|---------------------------------------|----------------------------|-----------|---------------------------|-----------|
|                                       | June 30,                   |           | June 30,                  |           |
|                                       | 2014                       | 2013      | 2014                      | 2013      |
| Segment adjusted EBITDA:              |                            |           |                           |           |
| Home & Building Products              | \$ 19,596                  | \$ 21,478 | \$ 55,787                 | \$ 56,272 |
| Telephonics                           | 15,087                     | 13,146    | 40,018                    | 45,015    |
| Plastics                              | 14,922                     | 12,161    | 43,881                    | 33,832    |
| Total Segment adjusted EBITDA         | 49,605                     | 46,785    | 139,686                   | 135,119   |
| Net interest expense                  | (11,541 )                  | (13,137 ) | (37,003 )                 | (39,125 ) |
| Segment depreciation and amortization | (16,691 )                  | (17,639 ) | (49,723 )                 | (52,467 ) |
| Unallocated amounts                   | (6,521 )                   | (6,573 )  | (22,895 )                 | (22,140 ) |
| Loss from debt extinguishment, net    | —                          | —         | (38,890 )                 | —         |
| Restructuring charges                 | (358 )                     | (1,604 )  | (1,892 )                  | (12,048 ) |
| Acquisition costs                     | (1,600 )                   | —         | (2,398 )                  | —         |
| Loss on pension settlement            | —                          | —         | —                         | (2,142 )  |
| Income (loss) before taxes            | \$ 12,894                  | \$ 7,832  | \$ (13,115 )              | \$ 7,197  |

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

|  | For the Three Months Ended |          | For the Nine Months Ended |          |
|--|----------------------------|----------|---------------------------|----------|
|  | June 30,<br>2014           | 2013     | June 30,<br>2014          | 2013     |
| DEPRECIATION and AMORTIZATION                    |                            |          |                           |          |
| Segment:   |                            |          |                           |          |
| Home & Building Products                         | \$7,891                    | \$9,075  | \$23,539                  | \$27,092 |
| Telephonics                                      | 1,953                      | 1,804    | 5,555                     | 5,275    |
| Plastics   | 6,847                      | 6,760    | 20,629                    | 20,100   |
| Total segment depreciation and amortization      | 16,691                     | 17,639   | 49,723                    | 52,467   |
| Corporate  | 104                        | 110      | 304                       | 320      |
| Total consolidated depreciation and amortization | \$16,795                   | \$17,749 | \$50,027                  | \$52,787 |

## CAPITAL EXPENDITURES

Segment:

|   |          |          |          |          |
|---|----------|----------|----------|----------|
| Home & Building Products                | \$8,194  | \$6,534  | \$23,384 | \$22,352 |
| Telephonics                             | 6,082    | 2,401    | 14,969   | 5,853    |
| Plastics                                | 5,063    | 5,947    | 15,213   | 17,648   |
| Total segment                           | 19,339   | 14,882   | 53,566   | 45,853   |
| Corporate                               | 675      | 9        | 1,293    | 33       |
| Total consolidated capital expenditures | \$20,014 | \$14,891 | \$54,859 | \$45,886 |

| ASSETS                            | At June 30, 2014 | At September 30, 2013 |
|-----------------------------------|------------------|-----------------------|
| Segment assets:                   |                  |                       |
| Home & Building Products          | \$1,020,849      | \$908,386             |
| Telephonics                       | 299,058          | 296,919               |
| Plastics                          | 421,892          | 422,730               |
| Total segment assets              | 1,741,799        | 1,628,035             |
| Corporate                         | 85,210           | 156,455               |
| Total continuing assets           | 1,827,009        | 1,784,490             |
| Assets of discontinued operations | 4,241            | 4,289                 |
| Consolidated total                | \$1,831,250      | \$1,788,779           |

## NOTE 12 – DEFINED BENEFIT PENSION EXPENSE

Defined benefit pension expense was as follows:

|                                | Three Months Ended June 30, |         | Nine Months Ended June 30, |         |
|--------------------------------|-----------------------------|---------|----------------------------|---------|
|                                | 2014                        | 2013    | 2014                       | 2013    |
| Service cost                   | \$—                         | \$51    | \$90                       | \$149   |
| Interest cost                  | 2,416                       | 2,427   | 7,415                      | 7,274   |
| Expected return on plan assets | (2,820)                     | (3,139) | (8,590)                    | (9,413) |
| Amortization:                  |                             |         |                            |         |
| Prior service cost             | 4                           | 5       | 11                         | 15      |



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|                            |      |       |       |         |
|----------------------------|------|-------|-------|---------|
| Recognized actuarial loss  | 485  | 840   | 1,463 | 2,520   |
| Loss on pension settlement | —    | —     | —     | 2,142   |
| Net periodic expense       | \$85 | \$184 | \$389 | \$2,687 |

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During the second quarter of 2014, the company contributed €1,300 (U.S. \$1,776), which equaled the net balance sheet liability, in settlement of all remaining obligations for a non U.S. Pension liability. There were no gains or losses recorded for this settlement.

First quarter of 2013 SG&A expenses included a \$2,142 pension settlement loss resulting from the lump-sum buyout of certain participant's balances in the Company's defined benefit plan. The buyouts, funded by the pension plan, reduced the Company's net pension liability by \$3,472 and increased Accumulated Other Comprehensive Income by \$3,649.

NOTE 13 – RECENT ACCOUNTING PRONOUNCEMENTS

In February 2013, the FASB issued guidance requiring enhanced disclosures for items reclassified out of accumulated other comprehensive income (loss). The guidance does not amend any existing requirements for reporting net income (loss) or other comprehensive income (loss) in the financial statements. This guidance is effective prospectively for annual reporting periods beginning after December 15, 2012, with early adoption permitted. As this new guidance is related to presentation only, the implementation of this guidance in the first quarter of fiscal year 2014 did not have a material effect on the Company's financial condition or results of operations.

In April 2014, the FASB issued guidance changing the requirements for reporting discontinued operations where a disposal of a component of an entity or group of components of an entity is required to be reported in discontinued operations if the disposal represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results when either classified as held for sale, or disposed of by sale or otherwise disposed. The amendment also requires enhanced disclosures about the discontinued operation and disclosure information for other significant dispositions. This guidance is effective prospectively for annual reporting periods beginning after December 15, 2014, with early adoption permitted for disposals that have not been previously reported. The implementation of this guidance is not expected to have a material effect on the Company's financial condition or results of operations.

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 annual reporting periods beginning after December 15, 2016; early adoption is not permitted. 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.

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.



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## 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, 2014 | At September 30, 2013 |
|--|------------------|-----------------------|
| Assets of discontinued operations:           |                  |                       |
| Prepaid and other current assets             | \$ 1,209         | \$ 1,214              |
| Other long-term assets                       | 3,032            | 3,075                 |
| Total assets of discontinued operations      | \$ 4,241         | \$ 4,289              |
| Liabilities of discontinued operations:      |                  |                       |
| Accrued liabilities, current                 | \$ 2,959         | \$ 3,288              |
| Other long-term liabilities                  | 4,008            | 4,744                 |
| Total liabilities of discontinued operations | \$ 6,967         | \$ 8,032              |

There was no Installation Services revenue or income for the quarter or nine months ended June 30, 2014 or 2013.

## NOTE 15 – RESTRUCTURING AND OTHER RELATED CHARGES

In January 2013, Ames announced its intention to close certain manufacturing facilities, and to consolidate affected operations primarily into its Camp Hill and Carlisle, PA locations. The intended actions, to be completed by the end of calendar 2014, will improve manufacturing and distribution efficiencies, allow for in-sourcing of certain production currently performed by third party suppliers, and improve material flow and absorption of fixed costs.

Ames anticipates incurring pre-tax restructuring and related exit costs approximating \$8,000, comprised of cash charges of \$4,000 and non-cash, asset-related charges of \$4,000; the cash charges will include \$2,500 for one-time termination benefits and other personnel-related costs and \$1,500 for facility exit costs. Ames expects \$20,000 in capital expenditures in connection with this initiative and, to date, has incurred \$7,941 and \$15,712 in restructuring costs and capital expenditures, respectively.

HBP recognized \$358 and \$1,892, respectively, for the three and nine months ended June 30, 2014, and \$854 and \$6,525, respectively, for the three and nine months ended June 30, 2013 in restructuring and other related exit costs; such charges primarily related to one-time termination benefits, facility and other personnel costs, and asset impairment charges related to the Ames plant consolidation initiatives. The 2013 period also included charges related to a CBP plant consolidation.

In February 2013, Plastics undertook a restructuring project, primarily in Europe, to exit low margin business and to eliminate approximately 80 positions, resulting in restructuring charges of \$4,773, primarily related to one-time termination benefits and other personnel costs. The project was completed in 2013.

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:

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|                                 | Workforce<br>Reduction | Facilities &<br>Exit Costs | Other<br>Related<br>Costs | Non-cash<br>Facility and<br>Other | Total    |
|---------------------------------|------------------------|----------------------------|---------------------------|-----------------------------------|----------|
| Amounts incurred in:            |                        |                            |                           |                                   |          |
| Quarter ended December 31, 2012 | \$994                  | \$39                       | \$75                      | \$—                               | \$1,108  |
| Quarter ended March 31, 2013    | 3,635                  | 683                        | 1,517                     | 3,501                             | 9,336    |
| Quarter ended June 30, 2013     | \$641                  | \$926                      | \$37                      | \$—                               | \$1,604  |
| Nine Months Ended June 30, 2013 | \$5,270                | \$1,648                    | \$1,629                   | \$3,501                           | \$12,048 |
| Quarter ended December 31, 2013 | \$638                  | \$95                       | \$109                     | \$—                               | \$842    |
| Quarter ended March 31, 2014    | 495                    | 137                        | 60                        | —                                 | 692      |
| Quarter ended June 30, 2014     | \$289                  | \$47                       | \$22                      | \$—                               | \$358    |
| Nine Months Ended June 30, 2014 | \$1,422                | \$279                      | \$191                     | \$—                               | \$1,892  |

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

|   | Workforce<br>Reduction | Facilities &<br>Exit Costs | Other<br>Related | Total   |
|---|------------------------|----------------------------|------------------|---------|
| Accrued liability at September 30, 2013 | \$3,057                | \$393                      | \$407            | \$3,857 |
| Charges                                 | 1,422                  | 279                        | 191              | 1,892   |
| Payments                                | (3,151)                | (599)                      | (466)            | (4,216) |
| Accrued liability at June 30, 2014      | \$1,328                | \$73                       | \$132            | \$1,533 |

## NOTE 16 – OTHER EXPENSE

For the quarters ended June 30, 2014 and 2013, Other income (expense) included \$365 and \$168, 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 \$1,437 and \$12, respectively, of net investment income.

For the nine months ended June 30, 2014 and 2013, Other income (expense) included \$1,044 and (\$299), 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 \$1,563 and \$365, 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:

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|  | Three Months Ended June 30, |          | Nine Months Ended June 30, |          |
|--|-----------------------------|----------|----------------------------|----------|
|  | 2014                        | 2013     | 2014                       | 2013     |
| Balance, beginning of period                                       | \$7,111                     | \$7,424  | \$6,649                    | \$8,856  |
| Warranties issued and changes in estimated pre-existing warranties | 576                         | 1,309    | 2,677                      | 1,965    |
| Actual warranty costs incurred                                     | (1,199                      | ) (1,342 | ) (2,838                   | ) (3,430 |
| Balance, end of period   | \$6,488                     | \$7,391  | \$6,488                    | \$7,391  |

## NOTE 18 – OTHER COMPREHENSIVE INCOME (LOSS)

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

|  | Three Months Ended June 30, 2014 |        |            | Three Months Ended June 30, 2013 |          |            |
|--|----------------------------------|--------|------------|----------------------------------|----------|------------|
|  | Pre-tax                          | Tax    | Net of tax | Pre-tax                          | Tax      | Net of tax |
| Foreign currency translation adjustments | \$2,809                          | \$—    | \$2,809    | \$(7,884                         | ) \$—    | \$(7,884   |
| Pension and other defined benefit plans  | 491                              | (174   | ) 317      | 823                              | (333     | ) 490      |
| Gain on cash flow hedge                  | —                                | —      | —          | (158                             | ) —      | (158       |
| Total other comprehensive income (loss)  | \$3,300                          | \$(174 | ) \$3,126  | \$(7,219                         | ) \$(333 | ) \$(7,552 |

|  | Nine Months Ended June 30, 2014 |        |            | Nine Months Ended June 30, 2013 |            |            |
|--|---------------------------------|--------|------------|---------------------------------|------------|------------|
|  | Pre-tax                         | Tax    | Net of tax | Pre-tax                         | Tax        | Net of tax |
| Foreign currency translation adjustments | \$896                           | \$—    | \$896      | \$(10,805                       | ) \$—      | \$(10,805  |
| Pension and other defined benefit plans  | 2,682                           | (950   | ) 1,732    | 8,127                           | (3,288     | ) 4,839    |
| Gain on cash flow hedge                  | —                               | —      | —          | 13                              | —          | 13         |
| Total other comprehensive income (loss)  | \$3,578                         | \$(950 | ) \$2,628  | \$(2,665                        | ) \$(3,288 | ) \$(5,953 |

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

|                      | Three Months Ended |        | Nine Months Ended June |          |
|----------------------|--------------------|--------|------------------------|----------|
|                      | June 30,           | 2013   | 30,                    | 2013     |
| Pension amortization | \$489              | \$845  | \$1,474                | \$2,535  |
| Pension settlement   | —                  | —      | —                      | 2,142    |
| Total before tax     | 489                | 845    | 1,474                  | 4,677    |
| Tax                  | (167               | ) (296 | ) (516                 | ) (1,341 |
| Net of tax           | \$322              | \$549  | \$958                  | \$3,336  |





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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 conduct accordingly 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 medias, remediation alternatives having a current net capital cost value, in the aggregate, of approximately \$5,000. In February 2011, the 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, the 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 medias, 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 the 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 the 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 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.

Department of Environmental Conservation of New York State, regarding Frankfort, NY site. During fiscal 2009, an underground fuel tank with surrounding soil contamination was discovered at the Frankfort, N.Y. site, which is the result of historical facility operations prior to Ames' ownership. While Ames was actively working with the DEC and the New York State Department of Health to define remediation requirements relative to the underground fuel tank, the DEC took the position that Ames was responsible to remediate other types of contamination on the site. After negotiations with the DEC, on August 15, 2011, Ames executed an Order on Consent with the DEC. The Order is without admission or finding of liability or acknowledgement that there has been

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

a release of hazardous substances at the site. Importantly, the Order does not waive any rights that Ames has under a 1991 Consent Judgment entered into between the DEC and a predecessor of Ames relating to the site. The Order requires that Ames identify Areas of Concern at the site, and formulate a strategy to investigate and remedy both on and off site conditions in compliance with applicable environmental law. At the conclusion of the remedy phase of the remediation to the satisfaction of the DEC, the DEC will issue a Certificate of Completion. On August 1, 2012, a fire occurred during the course of demolition of certain structures at the Frankfort, NY site, requiring cleanup and additional remediation under the oversight of the DEC. Demolition of the structures on the property has been substantially completed. The DEC has inspected the progress of the work and is satisfied with the results thus far. On February 12, 2013, the DEC issued comments to the Remedial Investigation Work Plan previously submitted by Ames in October 2011, and in response, Ames issued a Revised Remedial Investigation Work Plan. Completion of the remedial investigation is dependent on timing of the DEC approval; no additional comments have been provided by the DEC to date. On October 21, 2013 Ames filed its revised Remedial Investigation Report ("RIR") with the DEC. On February 3, 2014, the DEC accepted Ames' RIR as a draft and requested certain revisions. Ames is currently reviewing the requested revisions and will either revise the RIR as requested or negotiate alternate action acceptable to the DEC. On March 31, 2014, the DEC approved Ames Preliminary Schedule for "Additional Remedial Investigation/Feasibility Study Activities" (RI/FS) that identifies remedial investigations and remedial actions through to a Record of Decision. In accordance with the approved RI/FS schedule, Ames filed its work plan for Supplemental Remedial Investigation Activities with the DEC on April 3, 2014. On May 12, 2014 Ames filed a final Soil Vapor Intrusion Work Plan with DEC, which has been approved by DEC. On June 2, 2014 Ames submitted a Draft IRM Construction Completion Report to DEC. To date, DEC has not responded with approvals or comments to the Draft IRM Construction Report.

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, pursuant to subpoenas Griffon is currently providing information to the U.S. Department of Defense Office of the Inspector General and the DOJ. No claim has been asserted against Griffon, and Griffon is unaware of any material financial exposure in connection with the inquiry.

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 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.

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NOTE 20 — RELATED PARTY

Goldman, Sachs & Co. acted as a co-manager and as an initial purchaser in connection with the Senior Notes offering and received a fee of \$825.

NOTE 21 — 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, each of which are 100%, indirectly, 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, 2014 and September 30, 2013 and for the quarter and nine months ended June 30, 2014 and 2013. The financial information may not necessarily be indicative of results of operations or financial position had the guarantor companies or non-guarantor companies 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.

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## CONDENSED CONSOLIDATING BALANCE SHEETS

At June 30, 2014

|  | Parent<br>Company | Guarantor<br>Companies | Non-Guarantor<br>Companies | Elimination   | Consolidation |
|--|-------------------|------------------------|----------------------------|---------------|---------------|
| <b>CURRENT ASSETS</b>  |                   |                        |                            |               |               |
| Cash and equivalents   | \$9,208           | \$19,500               | \$58,729                   | \$—           | \$87,437      |
| Accounts receivable, net of allowances   | —                 | 222,754                | 78,918                     | (32,003)      | 269,669       |
| Contract costs and recognized income<br>not yet billed, net of progress payments | —                 | 104,518                | 359                        | —             | 104,877       |
| Inventories, net   | —                 | 200,772                | 77,550                     | 140           | 278,462       |
| Prepaid and other current assets   | 21,180            | 23,835                 | 18,714                     | 10,561        | 74,290        |
| Assets of discontinued operations  | —                 | —                      | 1,209                      | —             | 1,209         |
| Total Current Assets   | 30,388            | 571,379                | 235,479                    | (21,302)      | 815,944       |
| <b>PROPERTY, PLANT AND<br/>EQUIPMENT, net</b>                                    | 1,392             | 261,632                | 102,352                    | —             | 365,376       |
| <b>GOODWILL</b>  | —                 | 288,147                | 93,168                     | —             | 381,315       |
| <b>INTANGIBLE ASSETS, net</b>  | —                 | 157,861                | 77,231                     | —             | 235,092       |
| <b>INTERCOMPANY RECEIVABLE</b>   | 547,665           | 877,793                | 122,932                    | (1,548,390)   | —             |
| <b>EQUITY INVESTMENTS IN<br/>SUBSIDIARIES</b>                                    | 802,548           | 682,810                | 1,916,521                  | (3,401,879)   | —             |
| <b>OTHER ASSETS</b>  | 46,687            | 51,205                 | 7,812                      | (75,213)      | 30,491        |
| <b>ASSETS OF DISCONTINUED<br/>OPERATIONS</b>                                     | —                 | —                      | 3,032                      | —             | 3,032         |
| Total Assets   | \$1,428,680       | \$2,890,827            | \$2,558,527                | \$(5,046,784) | \$1,831,250   |
| <b>CURRENT LIABILITIES</b>   |                   |                        |                            |               |               |
| Notes payable and current portion of<br>long-term debt                           | \$1,762           | \$1,129                | \$8,995                    | \$—           | \$11,886      |
| Accounts payable and accrued liabilities   | 33,353            | 187,496                | 84,571                     | (20,647)      | 284,773       |
| Liabilities of discontinued operations   | —                 | —                      | 2,959                      | —             | 2,959         |
| Total Current Liabilities  | 35,115            | 188,625                | 96,525                     | (20,647)      | 299,618       |
| <b>LONG-TERM DEBT, net of debt<br/>discounts</b>                                 | 742,289           | 8,096                  | 46,795                     | —             | 797,180       |
| <b>INTERCOMPANY PAYABLES</b>   | 21,450            | 746,378                | 733,551                    | (1,501,379)   | —             |
| <b>OTHER LIABILITIES</b>   | 61,485            | 149,029                | 25,921                     | (74,332)      | 162,103       |
| <b>LIABILITIES OF DISCONTINUED<br/>OPERATIONS</b>                                | —                 | —                      | 4,008                      | —             | 4,008         |
| Total Liabilities  | 860,339           | 1,092,128              | 906,800                    | (1,596,358)   | 1,262,909     |
| <b>SHAREHOLDERS' EQUITY</b>  | 568,341           | 1,798,699              | 1,651,727                  | (3,450,426)   | 568,341       |
| Total Liabilities and Shareholders' Equity                                       | \$1,428,680       | \$2,890,827            | \$2,558,527                | \$(5,046,784) | \$1,831,250   |





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## CONDENSED CONSOLIDATING BALANCE SHEETS

At September 30, 2013

|   | Parent<br>Company | Guarantor<br>Companies | Non-Guarantor<br>Companies | Elimination    | Consolidation |
|---|-------------------|------------------------|----------------------------|----------------|---------------|
| <b>CURRENT ASSETS</b>   |                   |                        |                            |                |               |
| Cash and equivalents  | \$68,994          | \$25,343               | \$ 83,793                  | \$—            | \$178,130     |
| Accounts receivable, net of allowances  | —                 | 213,506                | 76,241                     | (33,532 )      | 256,215       |
| Contract costs and recognized income not yet billed, net of progress payments | —                 | 109,683                | 145                        | —              | 109,828       |
| Inventories, net  | —                 | 173,406                | 56,723                     | (9 )           | 230,120       |
| Prepaid and other current assets  | (712 )            | 21,854                 | 17,330                     | 10,431         | 48,903        |
| Assets of discontinued operations   | —                 | —                      | 1,214                      | —              | 1,214         |
| Total Current Assets  | 68,282            | 543,792                | 235,446                    | (23,110 )      | 824,410       |
| <b>PROPERTY, PLANT AND EQUIPMENT, net</b>                                     |                   |                        |                            |                |               |
|   | 972               | 248,973                | 103,648                    | —              | 353,593       |
| <b>GOODWILL</b>   |                   |                        |                            |                |               |
|   | —                 | 288,146                | 69,584                     | —              | 357,730       |
| <b>INTANGIBLE ASSETS, net</b>   |                   |                        |                            |                |               |
|   | —                 | 160,349                | 61,042                     | —              | 221,391       |
| INTERCOMPANY RECEIVABLE   | 547,903           | 911,632                | 573,269                    | (2,032,804 )   | —             |
| EQUITY INVESTMENTS IN SUBSIDIARIES  | 772,374           | 533,742                | 2,718,956                  | (4,025,072 )   | —             |
| OTHER ASSETS  | 45,968            | 50,423                 | 7,423                      | (75,234 )      | 28,580        |
| ASSETS OF DISCONTINUED OPERATIONS   | —                 | —                      | 3,075                      | —              | 3,075         |
| Total Assets  | \$1,435,499       | \$2,737,057            | \$ 3,772,443               | \$(6,156,220 ) | \$1,788,779   |
| <b>CURRENT LIABILITIES</b>  |                   |                        |                            |                |               |
| Notes payable and current portion of long-term debt                           | \$1,000           | \$1,079                | \$ 8,689                   | \$—            | \$10,768      |
| Accounts payable and accrued liabilities                                      | 41,121            | 183,665                | 70,427                     | (24,860 )      | 270,353       |
| Liabilities of discontinued operations  | —                 | —                      | 3,288                      | —              | 3,288         |
| Total Current Liabilities   | 42,121            | 184,744                | 82,404                     | (24,860 )      | 284,409       |
| LONG-TERM DEBT, net of debt discounts   | 656,852           | 9,006                  | 12,629                     | —              | 678,487       |
| INTERCOMPANY PAYABLES   | 20,607            | 796,741                | 1,188,017                  | (2,005,365 )   | —             |
| OTHER LIABILITIES   | 65,455            | 153,970                | 25,578                     | (74,328 )      | 170,675       |
| LIABILITIES OF DISCONTINUED OPERATIONS  | —                 | —                      | 4,744                      | —              | 4,744         |
| Total Liabilities   | 785,035           | 1,144,461              | 1,313,372                  | (2,104,553 )   | 1,138,315     |
| SHAREHOLDERS' EQUITY  | 650,464           | 1,592,596              | 2,459,071                  | (4,051,667 )   | 650,464       |
| Total Liabilities and Shareholders' Equity                                    | \$1,435,499       | \$2,737,057            | \$ 3,772,443               | \$(6,156,220 ) | \$1,788,779   |



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CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME  
(LOSS)

For the Three Months Ended June 30, 2014

| (\$ in thousands)   | Parent<br>Company | Guarantor<br>Companies | Non-Guarantor<br>Companies | Elimination | Consolidation |
|---|-------------------|------------------------|----------------------------|-------------|---------------|
| Revenue   | \$—               | \$392,361              | \$126,343                  | \$(13,665)  | ) \$505,039   |
| Cost of goods and services                                | —                 | 295,148                | 103,938                    | (12,354)    | ) 386,732     |
| Gross profit  | —                 | 97,213                 | 22,405                     | (1,311)     | ) 118,307     |
| Selling, general and administrative expenses              | 7,034             | 71,110                 | 19,617                     | (1,626)     | ) 96,135      |
| Restructuring and other related charges                   | —                 | 349                    | 9                          | —           | ) 358         |
| Total operating expenses                                  | 7,034             | 71,459                 | 19,626                     | (1,626)     | ) 96,493      |
| Income (loss) from operations                             | (7,034)           | ) 25,754               | 2,779                      | 315         | ) 21,814      |
| Other income (expense)                                    |                   |                        |                            |             |               |
| Interest income (expense), net                            | (1,750)           | ) (7,367)              | ) (2,424)                  | ) —         | ) (11,541)    |
| Loss from debt extinguishment, net                        | —                 | —                      | —                          | —           | —             |
| Other, net  | 1,436             | 2,497                  | (997)                      | ) (315)     | ) 2,621       |
| Total other income (expense)                              | (314)             | ) (4,870)              | ) (3,421)                  | ) (315)     | ) (8,920)     |
| Income (loss) before taxes                                | (7,348)           | ) 20,884               | (642)                      | ) —         | ) 12,894      |
| Provision (benefit) for income taxes                      | (9,322)           | ) 7,322                | 430                        | —           | ) (1,570)     |
| Income (loss) before equity in net income of subsidiaries | 1,974             | 13,562                 | (1,072)                    | ) —         | ) 14,464      |
| Equity in net income (loss) of subsidiaries               | 12,490            | (1,161)                | ) 13,562                   | (24,891)    | ) —           |
| Net income (loss)   | \$14,464          | \$12,401               | \$12,490                   | \$(24,891)  | ) \$14,464    |
| Net Income (loss)   | \$14,464          | \$12,401               | \$12,490                   | \$(24,891)  | ) \$14,464    |
| Other comprehensive income (loss), net of taxes           | 171               | (592)                  | ) 3,547                    | —           | ) 3,126       |
| Comprehensive income (loss)                               | \$14,635          | \$11,809               | \$16,037                   | \$(24,891)  | ) \$17,590    |

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CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME  
(LOSS)

For the Three Months Ended June 30, 2013

| (\$ in thousands)   | Parent<br>Company | Guarantor<br>Companies | Non-Guarantor<br>Companies | Elimination | Consolidation |
|---|-------------------|------------------------|----------------------------|-------------|---------------|
| Revenue   | \$—               | \$408,371              | \$ 114,004                 | \$(12,549 ) | \$509,826     |
| Cost of goods and services                                | —                 | 317,156                | 95,461                     | (11,102 )   | 401,515       |
| Gross profit  | —                 | 91,215                 | 18,543                     | (1,447 )    | 108,311       |
| Selling, general and administrative expenses              | 4,141             | 69,015                 | 14,793                     | (1,604 )    | 86,345        |
| Restructuring and other related charges                   | —                 | 1,565                  | 39                         | —           | 1,604         |
| Total operating expenses                                  | 4,141             | 70,580                 | 14,832                     | (1,604 )    | 87,949        |
| Income (loss) from operations                             | (4,141 )          | 20,635                 | 3,711                      | 157         | 20,362        |
| Other income (expense)                                    |                   |                        |                            |             |               |
| Interest income (expense), net                            | (3,559 )          | (6,982 )               | (2,596 )                   | —           | (13,137 )     |
| Other, net  | 12                | 2,462                  | (1,710 )                   | (157 )      | 607           |
| Total other income (expense)                              | (3,547 )          | (4,520 )               | (4,306 )                   | (157 )      | (12,530 )     |
| Income (loss) before taxes                                | (7,688 )          | 16,115                 | (595 )                     | —           | 7,832         |
| Provision (benefit) for income taxes                      | (2,913 )          | 6,745                  | 397                        | —           | 4,229         |
| Income (loss) before equity in net income of subsidiaries | (4,775 )          | 9,370                  | (992 )                     | —           | 3,603         |
| Equity in net income (loss) of subsidiaries               | 8,378             | (969 )                 | 9,370                      | (16,779 )   | —             |
| Net income (loss)   | \$3,603           | \$8,401                | \$ 8,378                   | \$(16,779 ) | \$3,603       |
| Net Income (loss)   | \$3,603           | \$8,401                | \$ 8,378                   | \$(16,779 ) | \$3,603       |
| Other comprehensive income (loss), net of taxes           | 211               | 836                    | (8,599 )                   | —           | (7,552 )      |
| Comprehensive income (loss)                               | \$3,814           | \$9,237                | \$(221 )                   | \$(16,779 ) | \$(3,949 )    |

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CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME  
(LOSS)

For the Nine Months Ended June 30, 2014

|  | Parent<br>Company | Guarantor<br>Companies | Non-Guarantor<br>Companies | Elimination | Consolidation |
|--|-------------------|------------------------|----------------------------|-------------|---------------|
| Revenue  | \$—               | \$1,133,510            | \$375,877                  | \$(43,203)  | ) \$1,466,184 |
| Cost of goods and services                                   | —                 | 860,322                | 310,887                    | (38,822)    | ) 1,132,387   |
| Gross profit   | —                 | 273,188                | 64,990                     | (4,381)     | ) 333,797     |
| Selling, general and administrative<br>expenses              | 20,525            | 207,725                | 50,025                     | (4,838)     | ) 273,437     |
| Restructuring and other related charges                      | —                 | 1,841                  | 51                         | —           | ) 1,892       |
| Total operating expenses                                     | 20,525            | 209,566                | 50,076                     | (4,838)     | ) 275,329     |
| Income (loss) from operations                                | (20,525)          | ) 63,622               | 14,914                     | 457         | ) 58,468      |
| Other income (expense)                                       |                   |                        |                            |             |               |
| Interest income (expense), net                               | (8,240)           | ) (21,946)             | ) (6,817)                  | ) —         | ) (37,003)    |
| Loss from debt extinguishment, net                           | (38,890)          | ) —                    | ) —                        | ) —         | ) (38,890)    |
| Other, net   | 1,563             | ) 5,569                | ) (2,365)                  | ) (457)     | ) 4,310       |
| Total other income (expense)                                 | (45,567)          | ) (16,377)             | ) (9,182)                  | ) (457)     | ) (71,583)    |
| Income (loss) before taxes                                   | (66,092)          | ) 47,245               | 5,732                      | —           | ) (13,115)    |
| Provision (benefit) for income taxes                         | (24,901)          | ) 19,014               | 897                        | —           | ) (4,990)     |
| Income (loss) before equity in net<br>income of subsidiaries | (41,191)          | ) 28,231               | 4,835                      | —           | ) (8,125)     |
| Equity in net income (loss) of<br>subsidiaries               | 33,066            | 4,587                  | 28,231                     | (65,884)    | ) —           |
| Net income (loss)  | \$(8,125)         | ) \$32,818             | \$33,066                   | \$(65,884)  | ) \$(8,125)   |
| Net Income (loss)  | \$(8,125)         | ) \$32,818             | \$33,066                   | \$(65,884)  | ) \$(8,125)   |
| Other comprehensive income (loss), net<br>of taxes           | 511               | ) 1,277                | 840                        | —           | ) 2,628       |
| Comprehensive income (loss)                                  | \$(7,614)         | ) \$34,095             | \$33,906                   | \$(65,884)  | ) \$(5,497)   |

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CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME  
(LOSS)

For the Nine Months Ended June 30, 2013

|  | Parent<br>Company | Guarantor<br>Companies | Non-Guarantor<br>Companies | Elimination | Consolidation |
|--|-------------------|------------------------|----------------------------|-------------|---------------|
| Revenue  | \$—               | \$1,109,275            | \$352,514                  | \$(39,471)  | ) \$1,422,318 |
| Cost of goods and services                                   | —                 | 848,342                | 297,826                    | (35,328)    | ) 1,110,840   |
| Gross profit   | —                 | 260,933                | 54,688                     | (4,143)     | ) 311,478     |
| Selling, general and administrative<br>expenses              | 15,419            | 198,601                | 45,327                     | (4,724)     | ) 254,623     |
| Restructuring and other related charges                      | —                 | 8,045                  | 4,003                      | —           | ) 12,048      |
| Total operating expenses                                     | 15,419            | 206,646                | 49,330                     | (4,724)     | ) 266,671     |
| Income (loss) from operations                                | (15,419)          | ) 54,287               | 5,358                      | 581         | ) 44,807      |
| Other income (expense)                                       |                   |                        |                            |             |               |
| Interest income (expense), net                               | (10,781)          | ) (20,685)             | ) (7,659)                  | ) —         | ) (39,125)    |
| Other, net   | 367               | 6,227                  | (4,498)                    | ) (581)     | ) 1,515       |
| Total other income (expense)                                 | (10,414)          | ) (14,458)             | ) (12,157)                 | ) (581)     | ) (37,610)    |
| Income (loss) before taxes                                   | (25,833)          | ) 39,829               | (6,799)                    | ) —         | ) 7,197       |
| Provision (benefit) for income taxes                         | (12,672)          | ) 15,693               | 834                        | —           | ) 3,855       |
| Income (loss) before equity in net<br>income of subsidiaries | (13,161)          | ) 24,136               | (7,633)                    | ) —         | ) 3,342       |
| Equity in net income (loss) of<br>subsidiaries               | 16,503            | (7,565)                | ) 24,136                   | (33,074)    | ) —           |
| Net income (loss)  | \$3,342           | \$16,571               | \$16,503                   | \$(33,074)  | ) \$3,342     |
| Net Income (loss)  | \$3,342           | \$16,571               | \$16,503                   | \$(33,074)  | ) \$3,342     |
| Foreign currency translation adjustments                     | —                 | 330                    | (11,135)                   | ) —         | ) (10,805)    |
| Other comprehensive income (loss), net<br>of taxes           | 633               | 3,963                  | 256                        | —           | ) 4,852       |
| Comprehensive income (loss)                                  | \$3,975           | \$20,864               | \$5,624                    | \$(33,074)  | ) \$(2,611)   |

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(Unaudited)

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

## CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS

For the Nine Months Ended June 30, 2014

|   | Parent<br>Company | Guarantor<br>Companies | Non-Guarantor<br>Companies | Elimination  | Consolidation    |
|---|-------------------|------------------------|----------------------------|--------------|------------------|
| <b>CASH FLOWS FROM OPERATING<br/>ACTIVITIES:</b>        |                   |                        |                            |              |                  |
| Net income (loss)                                       | \$ (8,125 )       | \$ 32,818              | \$ 33,066                  | \$ (65,884 ) | \$ (8,125 )      |
| Net cash provided by (used in) operating activities     | (10,966 )         | (8,300 )               | 69,122                     | —            | 49,856           |
| <b>CASH FLOWS FROM INVESTING<br/>ACTIVITIES:</b>        |                   |                        |                            |              |                  |
| Acquisition of property, plant and equipment            | (672 )            | (45,749 )              | (8,438 )                   | —            | (54,859 )        |
| Acquired businesses, net of cash acquired               | —                 | (1,000 )               | (61,306 )                  | —            | (62,306 )        |
| Intercompany distributions                              | 10,000            | (10,000 )              | —                          | —            | —                |
| Investment purchases                                    | (8,402 )          | —                      | —                          | —            | (8,402 )         |
| Proceeds from sale of assets                            | —                 | 298                    | 193                        | —            | 491              |
| Net cash provided by (used in) investing activities     | 926               | (56,451 )              | (69,551 )                  | —            | (125,076 )       |
| <b>CASH FLOWS FROM FINANCING<br/>ACTIVITIES:</b>        |                   |                        |                            |              |                  |
| Proceeds from issuance of common stock                  | 584               | —                      | —                          | —            | 584              |
| Purchase of shares for treasury                         | (72,518 )         | —                      | —                          | —            | (72,518 )        |
| Proceeds from long-term debt                            | 649,568           | (253 )                 | 33,598                     | —            | 682,913          |
| Payments of long-term debt                              | (597,613 )        | (708 )                 | (3,813 )                   | —            | (602,134 )       |
| Change in short-term borrowings                         | —                 | —                      | 3,138                      | —            | 3,138            |
| Financing costs   | (10,393 )         | —                      | (535 )                     | —            | (10,928 )        |
| Purchase of ESOP shares                                 | (10,000 )         | —                      | —                          | —            | (10,000 )        |
| Tax effect from exercise/vesting of equity awards, net  | 273               | —                      | —                          | —            | 273              |
| Dividend  | (9,841 )          | 5,000                  | —                          | —            | (4,841 )         |
| Other, net  | 194               | 54,869                 | (54,869 )                  | —            | 194              |
| Net cash provided by (used in) financing activities     | (49,746 )         | 58,908                 | (22,481 )                  | —            | (13,319 )        |
| <b>CASH FLOWS FROM<br/>DISCONTINUED OPERATIONS:</b>     |                   |                        |                            |              |                  |
| Net cash used in discontinued operations                | —                 | —                      | (1,018 )                   | —            | (1,018 )         |
| Effect of exchange rate changes on cash and equivalents | —                 | —                      | (1,136 )                   | —            | (1,136 )         |
| <b>NET DECREASE IN CASH AND<br/>EQUIVALENTS</b>         | <b>(59,786 )</b>  | <b>(5,843 )</b>        | <b>(25,064 )</b>           | <b>—</b>     | <b>(90,693 )</b> |

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|  |         |          |          |     |          |
|--|---------|----------|----------|-----|----------|
| CASH AND EQUIVALENTS AT<br>BEGINNING OF PERIOD | 68,994  | 25,343   | 83,793   | —   | 178,130  |
| CASH AND EQUIVALENTS AT END<br>OF PERIOD       | \$9,208 | \$19,500 | \$58,729 | \$— | \$87,437 |

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## GRIFFON CORPORATION AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

(Unaudited)

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

## CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS

For the Nine Months Ended June 30, 2013

|  | Parent<br>Company | Guarantor<br>Companies | Non-Guarantor<br>Companies | Elimination | Consolidation    |
|--|-------------------|------------------------|----------------------------|-------------|------------------|
| <b>CASH FLOWS FROM OPERATING<br/>ACTIVITIES:</b>           |                   |                        |                            |             |                  |
| Net income (loss)  | \$3,342           | \$16,571               | \$16,503                   | \$(33,074)  | ) \$3,342        |
| Net cash provided by (used in) operating<br>activities     | (67,628           | ) 23,214               | 46,968                     | —           | 2,554            |
| <b>CASH FLOWS FROM INVESTING<br/>ACTIVITIES:</b>           |                   |                        |                            |             |                  |
| Acquisition of property, plant and<br>equipment            | (33               | ) (40,324              | ) (5,529                   | ) —         | (45,886          |
| Intercompany distributions                                 | 10,000            | (10,000                | ) —                        | —           | —                |
| Proceeds from sale of assets                               | —                 | 1,172                  | 154                        | —           | 1,326            |
| Net cash provided by (used in) investing<br>activities     | 9,967             | (49,152                | ) (5,375                   | ) —         | (44,560          |
| <b>CASH FLOWS FROM FINANCING<br/>ACTIVITIES:</b>           |                   |                        |                            |             |                  |
| Purchase of shares for treasury                            | (25,689           | ) —                    | —                          | —           | (25,689          |
| Proceeds from long-term debt                               | —                 | 303                    | —                          | —           | 303              |
| Payments of long-term debt                                 | (1,751            | ) (772                 | ) (10,319                  | ) —         | (12,842          |
| Change in short-term borrowings                            | —                 | —                      | 2,408                      | —           | 2,408            |
| Financing costs  | (759              | ) —                    | —                          | —           | (759             |
| Tax effect from exercise/vesting of<br>equity awards, net  | 150               | —                      | —                          | —           | 150              |
| Dividend   | (4,384            | ) —                    | —                          | —           | (4,384           |
| Other, net   | 261               | 14,661                 | (14,661                    | ) —         | 261              |
| Net cash provided by (used in) financing<br>activities     | (32,172           | ) 14,192               | (22,572                    | ) —         | (40,552          |
| <b>CASH FLOWS FROM<br/>DISCONTINUED OPERATIONS:</b>        |                   |                        |                            |             |                  |
| Net cash used in discontinued operations                   | —                 | —                      | (486                       | ) —         | (486             |
| Effect of exchange rate changes on cash<br>and equivalents | —                 | —                      | (506                       | ) —         | (506             |
| <b>NET INCREASE (DECREASE) IN<br/>CASH AND EQUIVALENTS</b> | <b>(89,833</b>    | <b>) (11,746</b>       | <b>) 18,029</b>            | <b>—</b>    | <b>(83,550</b>   |
| <b>CASH AND EQUIVALENTS AT<br/>BEGINNING OF PERIOD</b>     | <b>125,093</b>    | <b>34,782</b>          | <b>49,779</b>              | <b>—</b>    | <b>209,654</b>   |
| <b>CASH AND EQUIVALENTS AT END<br/>OF PERIOD</b>           | <b>\$35,260</b>   | <b>\$23,036</b>        | <b>\$67,808</b>            | <b>\$—</b>  | <b>\$126,104</b> |



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(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 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. Griffon, to further diversify, 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 businesses: Home & Building Products ("HBP"), Telephonics Corporation ("Telephonics") and Clopay Plastic Products Company ("Plastics").

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 that make work easier for homeowners and professionals.

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

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

Plastics 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.

On May 21, 2014, Ames acquired the Australian Garden and Tools division of Illinois Tool Works, Inc. ("Cyclone") for approximately \$40,000, including a \$4,000 working capital adjustment. 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. Cyclone is expected to generate approximately \$65,000 of annualized revenue. Current quarter Selling, general and administrative ("SG&A") expenses included \$1,600 of acquisition costs.

On May 1, 2014, Griffon's Board of Directors authorized the repurchase of up to \$50,000 of Griffon's outstanding common stock. Under this repurchase program, the Company may purchase shares, depending upon market conditions, in open market or privately negotiated transactions, including pursuant to a 10b5-1 plan.

On February 27, 2014, in an unregistered offering through a private placement under Rule 144A, Griffon issued, at par, \$600,000 of 5.25% Senior Notes due 2022 ("Senior Notes"); interest is payable semi-annually on March 1 and September 1, starting September 1, 2014. Proceeds from the Senior Notes were used to redeem \$550,000 of 7.125% senior notes due 2018, to pay a tender offer premium of \$31,530 and to make interest payments of \$16,716, with the balance used to pay a portion of the transaction fees and expenses. The Senior Notes are senior unsecured obligations of Griffon guaranteed by certain domestic subsidiaries, and subject to certain covenants, limitations and restrictions. On June 18, 2014, Griffon exchanged all of the Senior Notes for substantially identical Senior Notes registered under the Securities Act of 1933 via an exchange offer.

In connection with these transactions, Griffon capitalized \$9,950 of underwriting fees and other expenses incurred related to issuance of the Senior Notes, which will amortize over the term of such notes. Griffon recognized a loss on the early extinguishment of debt on the 7.125% senior notes aggregating \$38,890, comprised of the \$31,530 tender offer premium, the write-off of \$6,574 of remaining deferred financing fees and \$786 of prepaid interest on defeased notes.

On February 14, 2014, Griffon amended its \$225,000 Revolving Credit Facility (“Credit Agreement”) to extend its maturity date from March 28, 2018 to March 28, 2019, and to revise certain financial maintenance and negative covenants to improve Griffon's financial and operating flexibility.

On December 31, 2013, Ames acquired Northcote Pottery (“Northcote”), founded in 1897 and a leading brand in the Australian outdoor planter and decor market, for approximately \$22,000. Northcote complements Southern Patio, acquired in 2011, and adds

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to Ames' existing lawn and garden operations in Australia. Northcote is expected to generate approximately \$28,000 of annualized revenue. First quarter 2014 SG&A expenses included \$798 of acquisition costs.

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. The repurchase 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. The transaction was exclusive of the Company's August 2011, \$50,000 authorized share repurchase program. After closing the transaction, GS Direct continued to hold approximately 5.56 million shares (approximately 10%) of Griffon's common stock. GS Direct also agreed that, subject to certain exceptions, if it intends to sell its remaining shares of Griffon common stock at any time prior to December 31, 2014, it will first negotiate in good faith to sell such shares to the Company.

In January 2013, Ames announced its intention to close certain manufacturing facilities and consolidate affected operations primarily into its Camp Hill and Carlisle, PA locations. The intended actions, to be completed by the end of calendar 2014, will improve manufacturing and distribution efficiencies, allow for in-sourcing of certain production currently performed by third party suppliers, and improve material flow and absorption of fixed costs. Management estimates that, upon completion, these actions will result in annual cash savings exceeding \$10,000, based on current operating levels; these savings are consistent with those anticipated at the onset of the initiative.

Ames anticipates incurring pre-tax restructuring and related exit costs approximating \$8,000, comprised of cash charges of \$4,000 and non-cash, asset-related charges of \$4,000; the cash charges will include \$2,500 for one-time termination benefits and other personnel-related costs and \$1,500 for facility exit costs. Ames expects \$20,000 in capital expenditures in connection with this initiative and, to date, has incurred \$7,941 and \$15,712 in restructuring costs and capital expenditures, respectively.

First quarter 2013, SG&A expenses included a \$2,142 pension settlement loss resulting from the lump-sum buyout of certain participant's balances in the Company's defined benefit plan. The buyouts, funded by the pension plan, reduced the Company's net pension liability by \$3,472.

OVERVIEW

Revenue for the quarter ended June 30, 2014 was \$505,039 compared to \$509,826 in the prior year quarter. Net income was \$14,464 or \$0.29 per share, compared to \$3,603 or \$0.06 per share, in the prior year quarter.

The current quarter included:

- Restructuring charges of \$358 (\$222, net of tax or \$0.00 per share);
- Acquisition costs of \$1,600 (\$992, net of tax or \$0.02 per share);
- Discrete tax benefits, net, of \$1,860 or \$0.04 per share; and
- Change in impact of debt extinguishment on full year effective tax rate of \$(4,357) or \$(0.09) per share.

The prior year quarter included:

- Restructuring charges of \$1,604 (\$994, net of tax or \$0.02 per share); and
- Discrete tax benefits, net, of \$1,495 or \$0.03 per share.

Excluding these items from the respective quarterly results, net income would have been \$9,461 or \$0.19 per share in the current quarter compared to \$3,102 or \$0.06 per share in the prior year quarter.

Revenue for the nine months ended June 30, 2014 was \$1,466,184 compared to \$1,422,318 in the prior year period. Net loss was \$8,125 or \$0.16 per share, compared to net income of \$3,342 or \$0.06 per share, in the prior year period.

Results for the nine months ended June 30, 2014 included:

- Restructuring charges of \$1,892 (\$1,173, net of tax or \$0.02 per share);
- Loss from debt extinguishment of \$38,890 (\$24,964, net of tax or \$0.50 per share);
- Acquisition costs of \$2,398 (\$1,487, net of tax or \$0.03 per share);
- Discrete tax benefits, net, of \$1,540 or \$0.03 per share; and
- Impact of debt extinguishment on full year effective tax rate of \$1,491 or 0.03 per share.

Results for the nine months ended June 30, 2013 included:

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Restructuring charges of \$12,048 (\$7,502, net of tax or \$0.13 per share);  
 Loss on pension settlement of \$2,142 (\$1,392, net of tax or \$0.02 per share); and  
 Discrete tax benefits, net, of \$1,859 or \$0.03 per share.

Excluding these items from the respective periods, net income would have been \$19,450 or \$0.39 per share in the nine months ended June 30, 2014 compared to \$10,377 or \$0.18 per share in the nine months ended June 30, 2013.

Griffon evaluates performance based on Earnings (loss) per share and Net income (loss) excluding restructuring charges, acquisition-related expenses, gains (losses) from pension settlement and debt extinguishment and discrete tax items, as applicable. Griffon believes this information is useful to investors. The following table provides a reconciliation of Net income (loss) to adjusted net income and Earnings (loss) per share to Adjusted earnings per share:

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

|  | For the Three Months Ended |          | For the Nine Months Ended |           |
|--|----------------------------|----------|---------------------------|-----------|
|  | June 30,                   |          | June 30,                  |           |
|  | 2014                       | 2013     | 2014                      | 2013      |
| Net income (loss)                                  | \$14,464                   | \$3,603  | \$(8,125                  | ) \$3,342 |
| Adjusting items, net of tax:                       |                            |          |                           |           |
| Loss from debt extinguishment, net                 | —                          | —        | 24,964                    | —         |
| Restructuring charges                              | 222                        | 994      | 1,173                     | 7,502     |
| Acquisition costs                                  | 992                        | —        | 1,487                     | —         |
| Loss on pension settlement                         | —                          | —        | —                         | 1,392     |
| Extinguishment impact on period tax rate (a)       | (4,357                     | ) —      | 1,491                     | —         |
| Discrete tax benefits                              | (1,860                     | ) (1,495 | ) (1,540                  | ) (1,859  |
| Adjusted net income                                | \$9,461                    | \$3,102  | \$19,450                  | \$10,377  |
| Diluted income (loss) per common share             | \$0.29                     | \$0.06   | \$(0.16                   | ) \$0.06  |
| Adjusting items, net of tax:                       |                            |          |                           |           |
| Loss from debt extinguishment, net                 | —                          | —        | 0.50                      | —         |
| Restructuring charges                              | —                          | 0.02     | 0.02                      | 0.13      |
| Acquisition costs                                  | 0.02                       | —        | 0.03                      | —         |
| Loss on pension settlement                         | —                          | —        | —                         | 0.02      |
| Extinguishment impact on period tax rate (a)       | (0.09                      | ) —      | 0.03                      | —         |
| Discrete tax benefits                              | (0.04                      | ) (0.03  | ) (0.03                   | ) (0.03   |
| Adjusted earnings per common share                 | \$0.19                     | \$0.06   | \$0.39                    | \$0.18    |
| Weighted-average shares outstanding (in thousands) | 49,836                     | 56,204   | 50,038                    | 56,735    |

a) Prior to refinancing the debt and resultant loss on debt extinguishment, the Company anticipated its full year 2014 effective tax rate to approximate 40%. As a result of the loss from debt extinguishment, the Company anticipates it will now incur a pretax loss for the full year 2014, and recognize a corresponding tax benefit at an effective rate approximating 23.1%. In the current quarter, the impact of debt extinguishment on the full year effective tax rate was estimated to be a benefit of \$4,357 or \$0.09 per share, and for the nine months ending June 30, 2014 a provision of \$1,491 or \$0.03 per share.

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.



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## RESULTS OF OPERATIONS

Three and nine months ended June 30, 2014 and 2013

Griffon evaluates performance and allocates resources based on each segment's operating results before interest income and expense, income taxes, depreciation and amortization, unallocated amounts (mainly corporate overhead), restructuring charges, acquisition-related expenses and gains (losses) from pension settlement and debt extinguishment, 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 operating profit to Income (loss) before taxes:

|                                    | For the Three Months Ended |          | For the Nine Months Ended |          |
|------------------------------------|----------------------------|----------|---------------------------|----------|
|                                    | June 30,                   |          | June 30,                  |          |
|                                    | 2014                       | 2013     | 2014                      | 2013     |
| Segment operating profit:          |                            |          |                           |          |
| Home & Building Products           | \$9,747                    | \$11,549 | \$27,958                  | \$22,655 |
| Telephonics                        | 13,134                     | 10,592   | 34,463                    | 38,990   |
| Plastics                           | 8,075                      | 5,401    | 23,252                    | 8,959    |
| Total segment operating profit     | 30,956                     | 27,542   | 85,673                    | 70,604   |
| Net interest expense               | (11,541)                   | (13,137) | (37,003)                  | (39,125) |
| Unallocated amounts                | (6,521)                    | (6,573)  | (22,895)                  | (22,140) |
| Loss from debt extinguishment, net | —                          | —        | (38,890)                  | —        |
| Loss on pension settlement         | —                          | —        | —                         | (2,142)  |
| Income (loss) before taxes         | \$12,894                   | \$7,832  | \$(13,115)                | \$7,197  |

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

|                                       | For the Three Months Ended |          | For the Nine Months Ended |          |
|---------------------------------------|----------------------------|----------|---------------------------|----------|
|                                       | June 30,                   |          | June 30,                  |          |
|                                       | 2014                       | 2013     | 2014                      | 2013     |
| Segment adjusted EBITDA:              |                            |          |                           |          |
| Home & Building Products              | \$19,596                   | \$21,478 | \$55,787                  | \$56,272 |
| Telephonics                           | 15,087                     | 13,146   | 40,018                    | 45,015   |
| Plastics                              | 14,922                     | 12,161   | 43,881                    | 33,832   |
| Total Segment adjusted EBITDA         | 49,605                     | 46,785   | 139,686                   | 135,119  |
| Net interest expense                  | (11,541)                   | (13,137) | (37,003)                  | (39,125) |
| Segment depreciation and amortization | (16,691)                   | (17,639) | (49,723)                  | (52,467) |
| Unallocated amounts                   | (6,521)                    | (6,573)  | (22,895)                  | (22,140) |
| Loss from debt extinguishment, net    | —                          | —        | (38,890)                  | —        |
| Restructuring charges                 | (358)                      | (1,604)  | (1,892)                   | (12,048) |
| Acquisition costs                     | (1,600)                    | —        | (2,398)                   | —        |
| Loss on pension settlement            | —                          | —        | —                         | (2,142)  |
| Income (loss) before taxes            | \$12,894                   | \$7,832  | \$(13,115)                | \$7,197  |

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## Home &amp; Building Products

|                               | For the Three Months Ended June 30, |           |          | For the Nine Months Ended June 30, |           |       |          |       |
|-------------------------------|-------------------------------------|-----------|----------|------------------------------------|-----------|-------|----------|-------|
|                               | 2014                                | 2013      |          | 2014                               | 2013      |       |          |       |
| Revenue:                      |                                     |           |          |                                    |           |       |          |       |
| Ames                          | \$132,179                           | \$128,332 |          | \$389,492                          | \$341,878 |       |          |       |
| CBP                           | 121,814                             | 112,285   |          | 334,494                            | 314,651   |       |          |       |
| Home & Building Products      | \$253,993                           | \$240,617 |          | \$723,986                          | \$656,529 |       |          |       |
| Segment operating profit      | \$9,747                             | 3.8 %     | \$11,549 | 4.8 %                              | \$27,958  | 3.9 % | \$22,655 | 3.5 % |
| Depreciation and amortization | 7,891                               | 9,075     |          | 23,539                             | 27,092    |       |          |       |
| Restructuring charges         | 358                                 | 854       |          | 1,892                              | 6,525     |       |          |       |
| Acquisition costs             | 1,600                               | —         |          | 2,398                              | —         |       |          |       |
| Segment adjusted EBITDA       | \$19,596                            | 7.7 %     | \$21,478 | 8.9 %                              | \$55,787  | 7.7 % | \$56,272 | 8.6 % |

For the quarter ended June 30, 2014, revenue increased \$13,376 or 6%, compared to the prior year quarter. Ames revenue increased 3% compared to the prior year quarter primarily due to the inclusion of Northcote and Cyclone results, partially offset by decreased North American lawn and hose reel sales due to cold and wet weather conditions. CBP revenue increased 8%, primarily due to increased volume and favorable product mix.

For the quarter ended June 30, 2014, Segment operating profit was \$9,747 compared to \$11,549 in the prior year quarter. Excluding restructuring charges primarily related to the consolidation initiative at Ames, and acquisition costs related to the Cyclone transaction, current and prior year Segment operating profit was \$11,705 and \$12,403, respectively. Excluding restructuring and acquisition costs, the decrease resulted primarily from unfavorable sales mix and manufacturing inefficiencies along with increased distribution and freight costs at Ames and, for both Ames and CBP, the unfavorable impact of foreign currency translation of a weaker Canadian dollar, partially offset by the benefit of increased volume and favorable product mix at CBP. Ames continued to experience manufacturing inefficiencies in connection with its plant consolidation initiative, which are expected to continue until the initiative is complete. The contributions from Northcote and Cyclone were not significant in the quarter. Segment depreciation and amortization decreased \$1,184 from the prior year period.

For the nine months ended June 30, 2014, revenue increased \$67,457 or 10%, compared to the prior year period. Ames revenue increased 14% mainly driven by the inclusion of Northcote and Cyclone results and increased snow tool sales. CBP revenue increased 6% due to increased volume and favorable product mix.

For the nine months ended June 30, 2014, Segment operating profit was \$27,958 compared to \$22,655 in the prior year period. Excluding restructuring charges, primarily related to the consolidation initiative at Ames, and acquisition costs related to the Northcote and Cyclone transactions, current and prior year Segment operating profit was \$32,248 and \$29,180, respectively. Excluding restructuring and acquisition costs, the increase was primarily due to increased volume and favorable product mix at CBP, partially offset by the impact of increased Ames distribution and freight costs and manufacturing inefficiencies and, for both Ames and CBP, the unfavorable impact of foreign currency translation of a weaker Canadian dollar. Ames continued to experience manufacturing inefficiencies in connection with its plant consolidation initiative, which are expected to continue until the initiative is complete. The contributions from Northcote and Cyclone were not significant. The prior year period benefitted from \$1,000 in Byrd Amendment receipts (anti-dumping compensation from the government); current period Byrd Amendment receipts were not significant. Segment depreciation and amortization decreased \$3,553 from the prior year period.

On May 21, 2014, Ames acquired Cyclone for approximately \$40,000, including a \$4,000 working capital adjustment. 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. Cyclone is expected to generate approximately \$65,000 of annualized revenue. Current quarter SG&A expenses included \$1,600 of acquisition costs.

On December 31, 2013, Ames acquired Northcote, a leading brand in the Australian outdoor planter and decor market, for approximately \$22,000. Northcote complements Southern Patio, acquired in 2011, and adds to Ames' existing lawn and garden

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operations in Australia. Northcote is expected to generate approximately \$28,000 of annualized revenue. First quarter 2014 SG&A expenses included \$798 of acquisition costs.

In January 2013, Ames announced its intention to close certain manufacturing facilities and consolidate affected operations primarily into its Camp Hill and Carlisle, PA locations. The intended actions, to be completed by the end of calendar 2014, will improve manufacturing and distribution efficiencies, allow for in-sourcing of certain production currently performed by third party suppliers, and improve material flow and absorption of fixed costs. Management estimates that, upon completion, these actions will result in annual cash savings exceeding \$10,000, based on current operating levels; these savings are consistent with those anticipated at the onset of the initiative.

Ames anticipates incurring pre-tax restructuring and related exit costs approximating \$8,000, comprised of cash charges of \$4,000 and non-cash, asset-related charges of \$4,000; the cash charges will include \$2,500 for one-time termination benefits and other personnel-related costs and \$1,500 for facility exit costs. Ames expects \$20,000 in capital expenditures in connection with this initiative and, to date, has incurred \$7,941 and \$15,712 in restructuring costs and capital expenditures, respectively.

HBP recognized \$358 and \$1,892, respectively, for the three and nine months ended June 30, 2014, and \$854 and \$6,525, respectively, for the three and nine months ended June 30, 2013 in restructuring and other related exit costs; such charges primarily related to one-time termination benefits, facility and other personnel costs, and asset impairment charges related to the Ames plant consolidation initiatives. The 2013 period also included charges related to a CBP plant consolidation.

## Telephonics

|                               | For the Three Months Ended June 30, |        |           |        | For the Nine Months Ended June 30, |        |           |       |
|-------------------------------|-------------------------------------|--------|-----------|--------|------------------------------------|--------|-----------|-------|
|                               | 2014                                |        | 2013      |        | 2014                               |        | 2013      |       |
| Revenue                       | \$102,446                           |        | \$129,997 |        | \$302,656                          |        | \$347,678 |       |
| Segment operating profit      | \$13,134                            | 12.8 % | \$10,592  | 8.1 %  | \$34,463                           | 11.4 % | \$38,990  | 11.2% |
| Depreciation and amortization | 1,953                               |        | 1,804     |        | 5,555                              |        | 5,275     |       |
| Restructuring charges         | —                                   |        | \$750     |        | —                                  |        | 750       |       |
| Segment adjusted EBITDA       | \$15,087                            | 14.7 % | \$13,146  | 10.1 % | \$40,018                           | 13.2 % | \$45,015  | 12.9% |

For the quarter ended June 30, 2014, revenue decreased \$27,551 or 21% compared to the prior year quarter. The 2013 quarter included \$20,033 of electronic warfare program ("ICREW") revenue where Telephonics served as a contract manufacturer; there was no such revenue in the current quarter. Excluding revenue from these programs, current quarter revenue decreased 7% from the 2013 quarter, primarily due to reduced airborne and wireless intercommunication systems sales.

For the quarter ended June 30, 2014, Segment operating profit increased \$2,542 or 24%, and operating profit margin increased 470 basis points compared to the prior year quarter. Excluding prior year restructuring charges, Segment operating profit increased \$1,792 or 16% and operating margin increased 410 basis points compared to the prior year quarter, primarily attributable to the benefit of favorable program mix, the effect of which more than offset the impact of the ICREW revenue decline, as well as lower expenditures associated with research and development and proposal efforts.

For the nine months ended June 30, 2014, revenue decreased \$45,022 or 13%, compared to the prior year period. The prior year period included \$33,257 of electronic warfare program revenue in which Telephonics served as a contract manufacturer; there was no such revenue in the current year. Excluding revenue from these programs, revenue

decreased 4% primarily due to decreased airborne and wireless intercommunication systems sales, partially offset by increased Identification Friend or Foe sales.

For the nine months ended June 30, 2014, Segment operating profit decreased \$4,527 or 12%, while operating margin increased 20 basis points compared to the prior year period. Excluding restructuring charges, Segment operating profit decreased \$5,277 or 13%, while operating profit margin remained consistent compared to the prior year period. The decrease in Segment operating profit was mainly the result of reduced gross profit driven by the decline in sales volume; the prior year period reflected revenue from the electronic warfare programs, which, while profitable, typically generate lower operating margins than Telephonics' core products.

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During the third quarter of 2013, Telephonics recognized \$750 in restructuring costs in connection with the termination of a facility lease. The facility was vacated as a result of the headcount reductions and changes in organizational structure Telephonics had undertaken in the preceding two years.

During the nine months ended June 30, 2014, Telephonics was awarded several new contracts and incremental funding on existing contracts approximating \$315,600. Contract backlog was \$457,000 at June 30, 2014, with 67% expected to be fulfilled in the next 12 months. Backlog was \$444,000 at September 30, 2013 and \$486,000 at March 31, 2014. 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.

## Plastics

|                               | For the Three Months Ended June 30, |        |            |       | For the Nine Months Ended June 30, |        |            |       |
|-------------------------------|-------------------------------------|--------|------------|-------|------------------------------------|--------|------------|-------|
|                               | 2014                                |        | 2013       |       | 2014                               |        | 2013       |       |
| Revenue                       | \$ 148,600                          |        | \$ 139,212 |       | \$ 439,542                         |        | \$ 418,111 |       |
| Segment operating profit      | \$ 8,075                            | 5.4 %  | \$ 5,401   | 3.9 % | \$ 23,252                          | 5.3 %  | \$ 8,959   | 2.1 % |
| Depreciation and amortization | 6,847                               |        | 6,760      |       | 20,629                             |        | 20,100     |       |
| Restructuring charges         | —                                   |        | —          |       | —                                  |        | 4,773      |       |
| Segment adjusted EBITDA       | \$ 14,922                           | 10.0 % | \$ 12,161  | 8.7 % | \$ 43,881                          | 10.0 % | \$ 33,832  | 8.1 % |

For the quarter ended June 30, 2014, revenue increased \$9,388, or 7%, compared to the prior year quarter. The increase reflected the benefit of increased volume (5%), the pass through of increased resin costs in customer selling prices (3%) and favorable foreign exchange translation (1%), partially offset by the impact of unfavorable product mix (2%). Plastics adjusts selling prices based on underlying resin costs on a delayed basis.

For the quarter ended June 30, 2014, Segment operating profit increased \$2,674 or 50% compared to the prior year quarter mainly due to increased volume and continued operating efficiency improvements.. Resin had no material impact on profit for the quarter.

For the nine months ended June 30, 2014, revenue increased \$21,431, or 5%, compared to the prior year period. The increase reflected the benefit of favorable mix (3%) and the pass through of higher resin costs in customer selling prices (2%).

For the nine months ended June 30, 2014, Segment operating profit increased \$14,293 compared to the prior year period; the prior year period included restructuring charges of \$4,773. Excluding such charges, Segment operating profit increased \$9,520 or 69% primarily due to continued efficiency improvements, favorable product mix and an approximate \$1,100 resin benefit.

In February 2013, Plastics undertook a restructuring project, primarily in Europe, to exit low margin business and to eliminate approximately 80 positions, resulting in restructuring charges of \$4,773, primarily related to one-time termination benefits and other personnel costs. The project was completed in 2013.

## Unallocated

For the quarter ended June 30, 2014, unallocated amounts totaled \$6,521 compared to \$6,573 in the prior year; for the nine months ended June 30, 2014, unallocated amounts totaled \$22,895 compared to \$22,140 in the prior year. The increase in the current nine month period compared to the respective prior year period related primarily to increased compensation and incentive costs.

Segment Depreciation and Amortization

Segment depreciation and amortization decreased \$948 and \$2,744, respectively, for the quarter and nine months ended June 30, 2014 compared to the prior year periods, primarily due to assets fully amortizing, partially offset by the onset of depreciation for new assets placed in service.

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Other Expense

For the quarters ended June 30, 2014 and 2013, Other income (expense) included \$365 and \$168, 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 \$1,437 and \$12, respectively, of net investment income.

For the nine months ended June 30, 2014 and 2013, Other income (expense) included \$1,044 and (\$299), 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 \$1,563 and \$365, respectively, of net investment income.

Provision (benefit) for income taxes

The Company reported pretax income for the current quarter and a pretax loss for the nine months ended June 30, 2014, compared to pretax income for the quarter and nine months ended June 30, 2013. The Company recognized tax benefits of 12.2% and 38.0% for the quarter and nine months ended June 30, 2014, respectively, compared to provisions of 54.0% and 53.6%, respectively, in the comparable prior year periods. The current and prior year tax rates reflect the impact of permanent differences not deductible in determining taxable income, mainly limited deductibility of restricted stock, tax reserves and changes in earnings mix between domestic and non-domestic operations, which are material relative to the level of pretax results and the impact of discrete items reported.

The quarter and nine months ended June 30, 2014 include \$1,860 and \$1,540, respectively, of benefits for discrete items resulting primarily from the conclusion of tax audits, filing of tax returns in various jurisdictions, release of previously established reserves for uncertain tax positions and the impact of tax law changes enacted in the second quarter of 2014. The comparable prior year periods included \$1,495 and \$1,859, respectively, of benefits from discrete items primarily resulting from release of previously established reserves for uncertain tax positions on conclusion of tax audits, benefits arising on the filing of tax returns in various jurisdictions and the retroactive extension of the federal R&D credit signed into law January 2, 2013.

Excluding discrete items, the effective tax rates for the quarter and nine months ended June 30, 2014 were a provision of 27.0% and benefit of 26.3%, respectively, compared to provisions of 73.1% and 79.4% in the comparable prior year periods, respectively.

Prior to the debt refinancing and resultant loss on debt extinguishment, the Company anticipated its full year 2014 effective tax rate to approximate 40%. As a result of the loss from debt extinguishment, the Company anticipates it will now incur a pretax loss for the full year 2014, and recognize a corresponding tax benefit at an effective rate approximating 23%. In the current quarter, the impact of debt extinguishment on the full year effective tax rate was estimated to be a benefit of \$4,357 or \$0.09 per share, and for the nine months ended June 30, 2014, a provision of \$1,491 or \$0.03 per share, as detailed in the Company's Reconciliation of Net (loss) Income to Adjusted Net Income.

Stock based compensation

For the quarters ended June 30, 2014 and 2013, stock based compensation expense totaled \$3,137 and \$3,029, respectively. For the nine months ended June 30, 2014 and 2013, stock based compensation expense totaled \$8,133 and \$9,327, respectively.

Comprehensive income (loss)



For the quarter ended June 30, 2014, total other comprehensive income, net of taxes, of \$3,126, included a \$2,809 gain from Foreign currency translation adjustments primarily due to the strengthening of the Canadian, Australian and Brazilian currencies, partially offset by the weakening of the Euro, all in comparison to the U.S. Dollar, and a \$317 benefit from pension and other post retirement plans, primarily due to settling a non U.S. pension plan and amortization of actuarial losses.

For the nine months ended June 30, 2014, total other comprehensive income, net of taxes, of \$2,628, included a \$896 gain from Foreign currency translation adjustments primarily due to the strengthening of the Euro, Australian and Brazilian currencies, partially offset by the weakening of the Canadian currency, all in comparison to the U.S. Dollar, and a \$1,732 benefit from Pension and other post retirement plans, primarily due to amortization of actuarial losses and settling a non U.S. pension plan.

#### Discontinued operations – Installation Services

There was no revenue or income from the Installation Services' business for the quarters and nine month periods ended June 30, 2014 and 2013.

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## 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 affecting liquidity include: cash flows from operating activities, capital expenditures, acquisitions, dispositions, bank lines of credit and the ability to attract long-term capital under satisfactory terms. Griffon remains in a strong financial position with sufficient liquidity available for reinvestment in existing businesses and 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<br>(in thousands) | For the Nine Months Ended<br>June 30, 2014 |           |
|---|--|-----------|
|   | 2014                                       | 2013      |
| Net Cash Flows Provided by (Used In):                   |  |           |
| Operating activities                                    | \$49,856                                   | \$2,554   |
| Investing activities                                    | (125,076 )                                 | (44,560 ) |
| Financing activities                                    | (13,319 )                                  | (40,552 ) |

Cash provided by continuing operations for the nine months ended June 30, 2014 was \$49,856 compared to \$2,554 in the prior year period. Current assets net of current liabilities, excluding short-term debt and cash, increased to \$440,775 at June 30, 2014 compared to \$372,639 at September 30, 2013, primarily due to an increase in inventory and a decrease in income taxes payable, net, partially offset by a decrease in accounts receivable, all excluding increases from acquired assets and liabilities.

During the nine months ended June 30, 2014, Griffon used cash for investing activities of \$125,076 compared to \$44,560 in the prior year; the acquisitions of Northcote and Cyclone for approximately \$22,000 and \$40,000, respectively, impacted the current year. During the quarter, Griffon purchased \$8,400 of marketable securities. Current year capital expenditures totaled \$54,859, an increase of \$8,973 from the comparable prior year period.

During the nine months ended June 30, 2014, cash used in financing activities totaled \$13,319 compared to \$40,552 in the prior year. On May 1, 2014, Griffon's Board of Directors authorized the repurchase of up to \$50,000 of Griffon's outstanding common stock. Under this repurchase program, the Company may purchase shares, depending upon market conditions, in open market or privately negotiated transactions, including pursuant to a 10b5-1 plan. During the nine months ended June 30, 2014, the Board of Directors approved three quarterly cash dividends each for \$0.03 per share. 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., in a private transaction. This purchase was exclusive of the Company's August 2011 \$50,000 authorized share repurchase program, which has been completed at June 30, 2014. During the quarter ended June 30, 2014, Griffon purchased 750,000 shares of common stock under Board authorized programs, for a total of \$8,784 or \$11.71 per share. In the nine months ended June 30, 2014, Griffon purchased 1,348,481 shares of common stock under Board authorized programs, for a total of \$16,285 or \$12.08 per shares. Since the resumption of share repurchases in 2011 through the end of the third quarter of 2014, Griffon has repurchased 6,436,712 shares of common stock, for a total of \$65,315 or \$10.15 per share under Board share repurchase authorizations (which repurchases included exhausting the remaining availability under a Board authorized repurchase program that was in existence prior to 2011). In December 2013, Griffon's Employee Stock Ownership Plan ("ESOP") entered into an agreement, which refinanced the two existing ESOP loans into one new Term Loan in the amount of \$21,098. The Agreement also provided a Line Note with \$10,000 available to purchase shares of Griffon common stock in the open market through September 29, 2014. In the nine months ended June 30, 2014, 749,977 shares of Griffon common stock, for a total of \$10,000, were purchased with proceeds from the Line Note. In July 2014, Griffon's ESOP entered into an amendment of the existing Agreement which provides an additional \$10,000

Line Note available to purchase shares in the open market. The new Line Note will bear interest at a) LIBOR plus 2.75% or b) the lender's prime rate, at Griffon's option through its expiration date on June 30, 2015. Upon expiration or at an earlier date, at Griffon's option, the new Line Note will be combined with the Term Loan and require quarterly principal payments based on the remaining amortization schedule at a weighted average interest rate of the combined loans, with a balloon payment due at the final maturity date of December 31, 2018, based on the new amortization schedule. The new Line Note and subsequent Term Loan are secured by shares purchased with the proceeds of the loan and with a lien on the assets of Griffon and its material domestic subsidiaries securing a limited amount of the loan (which lien ranks pari passu with the lien granted on such assets securing the debt under Griffon's revolving credit facility), and Griffon guarantees repayment. In the nine months ended June 30, 2014, 444,110 shares, with a market value of \$5,631 or \$12.68 per share, were withheld to settle employee taxes due upon the vesting of restricted stock and were added to treasury stock.

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On July 30, 2014, the Board of Directors declared a quarterly cash dividend of \$0.03 per share, payable on September 24, 2014 to shareholders of record as of the close of business on August 21, 2014.

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. Plastics' customers are generally substantial industrial companies whose payments have been steady, reliable and made in accordance with the terms governing such sales. Plastics' sales satisfy orders that are received in advance of production, and where 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, 2014:

• The United States Government and its agencies, through either prime or subcontractor relationships, represented 15% of Griffon's consolidated revenue and 71% of Telephonics' revenue.

• Procter & Gamble Co. represented 16% of Griffon's consolidated revenue and 45% of Plastics' revenue.

• The Home Depot represented 12% of Griffon's consolidated revenue and 24% of HBP's revenue.

No other customer exceeded 8% 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<br>(in thousands)      | June 30,<br>2014 | September 30,<br>2013 |
|--|------------------|-----------------------|
| Cash and equivalents                                 | \$87,437         | \$178,130             |
| Notes payables and current portion of long-term debt | 11,886           | 10,768                |
| Long-term debt, net of current maturities            | 797,180          | 678,487               |
| Debt discount  | 10,532           | 13,246                |
| Total debt   | 819,598          | 702,501               |
| Debt, net of cash and equivalents                    | \$732,161        | \$524,371             |

On February 27, 2014, in an unregistered offering through a private placement under Rule 144A, Griffon issued, at par, \$600,000 of 5.25% Senior Notes due 2022 ("Senior Notes"); interest is payable semi-annually on March 1 and September 1, starting September 1, 2014. Proceeds from the Senior Notes were used to redeem \$550,000 of 7.125% senior notes due 2018, to pay a tender offer premium of \$31,530 and to make interest payments of \$16,716, with the balance used to pay a portion of the transaction fees and expenses. The Senior Notes are senior unsecured obligations of Griffon guaranteed by certain domestic subsidiaries, and subject to certain covenants, limitations and restrictions. On June 18, 2014, Griffon exchanged all of the Senior Notes for substantially identical Senior Notes registered under the Securities Act of 1933 via an exchange offer. The fair value of the Senior Notes approximated \$594,000 on June 30, 2014 based upon quoted market prices (level 1 inputs).

In connection with these transactions, Griffon capitalized \$9,950 of underwriting fees and other expenses incurred related to issuance of the Senior Notes, which will amortize over the term of such notes. Griffon recognized a loss on the early extinguishment of debt on the 7.125% senior notes aggregating \$38,890, comprised of the \$31,530 tender offer premium, the write-off of \$6,574 of remaining deferred financing fees and \$786 of prepaid interest on defeased notes.

On February 14, 2014, Griffon amended its \$225,000 Credit Agreement to extend its maturity date from March 28, 2018 to March 28, 2019, and to revise certain financial maintenance and negative covenants to improve Griffon's financial and operating flexibility. The facility includes a letter of credit sub-facility with a limit of \$60,000, a multi-currency sub-facility of \$50,000 and a swing line sub-facility with a limit of \$30,000. 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 a default or 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. The 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 Credit Agreement also includes certain restrictions, such as limitations on the ability of Griffon to incur indebtedness and liens and to make restricted payments and investments. Borrowings under the Credit Agreement are guaranteed by Griffon's

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material domestic subsidiaries and are secured, on a first priority basis, by substantially all assets of the Company and the guarantors and a pledge of not greater than 65% of the equity interest in each of 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 ESOP credit agreement ranks pari passu with the lien granted on such assets under the Credit Agreement).

At June 30, 2014, outstanding borrowings and standby letters of credit were \$25,000 and \$20,365, respectively; \$179,635 was available for borrowing at that date.

On December 21, 2009, Griffon issued \$100,000 principal of 4% convertible subordinated notes due 2017 (the "2017 Notes"). The current conversion rate of the 2017 Notes is 68.6238 shares of Griffon's common stock per \$1,000 principal amount of notes, corresponding to a conversion price of \$14.53 per share. 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%. As of June 30, 2014, aggregate dividends since the last conversion price adjustment of \$0.03 per share would have resulted in an adjustment to the conversion ratio of approximately .27%. At both June 30, 2014 and 2013, 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 \$113,400 on June 30, 2014 based upon quoted market prices (level 1 inputs).

On October 21, 2013, Griffon refinanced two properties' real estate mortgages to secure loans totaling \$17,175. The loans mature in October 2018, are collateralized by the related properties and are guaranteed by Griffon. The loans bear interest at a rate of LIBOR plus 2.75%. At June 30, 2014, \$16,603 was outstanding.

In December 2013, Griffon's ESOP entered into a credit agreement which refinanced the two existing ESOP loans into one new Term Loan in the amount of \$21,098. The Agreement also provided a Line Note with \$10,000 available to purchase shares of Griffon common stock in the open market through September 29, 2014. As of June 30, 2014, 749,977 shares of Griffon common stock, for a total of \$10,000, were purchased with proceeds from the Line Note. In March 2014, the Line Note was combined with the Term Loan to form one new term loan. The loan bears interest at a) LIBOR plus 2.25% or b) the lender's prime rate, at Griffon's option. The loan requires quarterly principal payments of \$505 through September 30, 2014 and \$419 per quarter thereafter, with a balloon payment of approximately \$22,400 due at maturity in December 2018. The loan is secured by shares purchased with the proceeds of the loan and with a lien on the assets of Griffon and its material domestic subsidiaries securing a limited amount of the loan (which lien ranks pari passu with the lien granted on such assets securing the debt under Griffon's revolving credit facility), and Griffon guarantees repayment. At June 30, 2014, \$29,583 was outstanding. In July 2014, Griffon's ESOP entered into an amendment to the existing agreement which provides for additional \$10,000 Line Note available to purchase shares in the open market. The new Line Note will bear interest at a) LIBOR plus 2.75% or b) the lender's prime rate, at Griffon's option through its expiration date on June 30, 2015. Upon expiration or at an earlier date, at Griffon's option, the new Line Note will be combined with the Term Loan and require quarterly principal payments based on the remaining amortization schedule at a weighted average interest rate of the combined loans, with a balloon payment due at the final maturity date of December 31, 2018, based on the new amortization schedule. The new Line Note and the Term Loan are secured by shares purchased with the proceeds of the loan and with a lien on the assets of Griffon and its material domestic subsidiaries securing a limited amount of the loan (which lien ranks pari passu with the lien granted on such assets under Griffon's revolving credit facility), and Griffon guarantees repayment.

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, 2014, \$8,798 was outstanding.

In November 2010, Clopay Europe GmbH (“Clopay Europe”) entered into a €10,000 revolving credit facility and a €20,000 term loan. The term loan was paid off in December 2013 and the revolver had borrowings of \$4,093 at June 30, 2014. The revolving facility matures in November 2014, but is renewable upon mutual agreement with the bank. The revolving credit facility accrues interest at EURIBOR plus 2.20% per annum. Clopay Europe is required to maintain a certain minimum equity to assets ratio and keep leverage below a certain level, defined as the ratio of total debt to EBITDA.

Clopay do Brazil maintains lines of credit of \$5,700. Interest on borrowings accrues at a rate of Brazilian CDI plus 6.0% (16.80% at June 30, 2014 ). At June 30, 2014 there was approximately \$3,660 borrowed under the lines. Clopay Plastic Products Company, Inc. guarantees the loan and lines.

In November 2012, Garant G.P. (“Garant”) entered into a CAD \$15,000 revolving credit facility. The facility accrues interest at LIBOR (USD) or the Bankers Acceptance Rate (CDN) plus 1.3% per annum (1.46% LIBOR USD and 2.51% Bankers Acceptance

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Rate CDN as of June 30, 2014). The revolving facility matures in November 2015. Garant is required to maintain a certain minimum equity. At June 30, 2014, there were no borrowings under the revolving credit facility with CAD \$15,000 available.

In December 2013 and May 2014, Northcote Holdings Pty Ltd entered into two term loans in the outstanding amounts of AUD \$12,500 and AUD \$20,000, respectively. The AUD \$12,500 and AUD \$20,000 term loans are unsecured and require quarterly interest payments, with quarterly principal payments of \$625 beginning in August 2015 on the AUD \$20,000 term loan. Remaining principal is due at maturity in December 2016 and May 2017, respectively. The loans accrue interest at Bank Bill Swap Bid Rate "BBSY" plus 2.8% per annum (5.5% at June 30, 2014 for each loan). As of June 30, 2014, Griffon had an outstanding combined balance of \$30,612 on the term loans. Subsidiaries of Northcote Holdings Pty Ltd also maintain two lines of credit of AUD\$3,000 and AUD \$5,000 which accrue interest at BBSY plus 2.25% per annum (5.00% at June 30, 2014) and 2.50% per annum (5.25% at June 30, 2014), respectively. At June 30, 2014, there were no outstanding borrowings under the line. Griffon Corporation guarantees the term loans and the AUD \$3,000 line of credit; the assets of a subsidiary of Northcote Holdings Pty Ltd secures the AUD \$5,000 line of credit.

At June 30, 2014, Griffon and its subsidiaries were in compliance with the terms and covenants of its credit and loan agreements.

During the nine months ended June 30, 2014 and 2013, Griffon used cash for discontinued operations of \$1,018 and \$486, 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, 2013.

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, 2013. 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.





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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 sequestration at such time as the budgetary cuts mandated by sequestration begin to take effect; 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; 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, 2013. 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, United Kingdom, Turkey, China, Sweden, Australia and Mexico; 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.

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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.

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## 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, 2013, which could materially affect Griffon's business, financial condition or future results. The risks described in Griffon's Annual Report on Form 10-K are not the only risks facing Griffon. Additional risks and uncertainties not currently known to Griffon or that Griffon currently deems to be immaterial also may materially adversely affect Griffon's business, financial condition and/or operating results.

## Item 2 Unregistered Sales of Equity Securities and Use of Proceeds

## (a) Recent sales of unregistered securities.

None

(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, 2014 | —   | \$—  | —   |  |
| May 1 - 31, 2014   | 363,046   | (2) 11.30                                  | 330,000   |  |
| June 1 - 30, 2014  | 420,000   | 12.04                                      | 420,000   |  |
| Total              | 783,046   | \$11.71                                    | 750,000   | \$45,742   |

1. On each of August 2, 2011 and May 1, 2014, the Company's Board of Directors authorized the repurchase of up to an additional \$50,000 of Griffon common stock ; as of June 30, 2014, the August 2011 \$50,000 Board repurchase authorization has been completed and \$45,742 remained available for the purchase of Griffon common stock under the May 1, 2014 \$50,000 board authorized program.

2. Includes 33,046 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

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|---------|---|
| Item 6  | Exhibits  |
| 10.1    | Griffon Corporation Director Compensation Program, dated May 1, 2014.   |
| 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”.

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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/ Douglas J. Wetmore  
Douglas J. Wetmore  
Executive Vice President and Chief Financial Officer  
(Principal Financial Officer)

/s/ Brian G. Harris  
Brian G. Harris  
Vice President, Controller and Chief Accounting Officer  
(Principal Accounting Officer)

Date: July 30, 2014



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|         |   |
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