

P&F INDUSTRIES INC  
Form 10-Q  
November 14, 2011

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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 September 30, 2011

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 - 5332

P&F INDUSTRIES, INC.  
(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

22-1657413  
(I.R.S. Employer Identification Number)

445 Broadhollow Road, Suite 100, Melville, New York  
(Address of principal executive offices)

11747  
(Zip Code)

Registrant's telephone number, including area code: (631) 694-9800

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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, 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 to its corporate Web site, 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 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):

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Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

As of November 11, 2011 there were 3,614,562 shares of the registrant's Class A Common Stock, par value \$1, outstanding.

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P&F INDUSTRIES, INC.

FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2011

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## PART I - FINANCIAL INFORMATION

## Item 1. Financial Statements

## P&amp;F INDUSTRIES, INC. AND SUBSIDIARIES

## CONSOLIDATED CONDENSED BALANCE SHEETS

|  | September 30, 2011<br>(unaudited) | December 31, 2010<br>(See Note 1) |
|--|-----------------------------------|-----------------------------------|
| <b>ASSETS</b>                                  |                                   |                                   |
| <b>CURRENT ASSETS</b>                          |                                   |                                   |
| Cash   | \$ 500,000                        | \$ 874,000                        |
| Accounts receivable — net                      | 8,819,000                         | 6,986,000                         |
| Inventories – net                              | 17,741,000                        | 18,430,000                        |
| Deferred income taxes — net                    | 233,000                           | 233,000                           |
| Prepaid expenses and other current assets      | 748,000                           | 417,000                           |
| Current assets of discontinued operations      | 23,000                            | 23,000                            |
| <b>TOTAL CURRENT ASSETS</b>                    | <b>28,064,000</b>                 | <b>26,963,000</b>                 |
| <b>PROPERTY AND EQUIPMENT</b>                  |                                   |                                   |
| Land   | 1,550,000                         | 1,550,000                         |
| Buildings and improvements                     | 7,497,000                         | 7,480,000                         |
| Machinery and equipment                        | 16,797,000                        | 16,340,000                        |
|  | 25,844,000                        | 25,370,000                        |
| Less accumulated depreciation and amortization | 14,708,000                        | 13,599,000                        |
| <b>NET PROPERTY AND EQUIPMENT</b>              | <b>11,136,000</b>                 | <b>11,771,000</b>                 |
| <b>GOODWILL</b>                                | <b>5,150,000</b>                  | <b>5,150,000</b>                  |
| <b>OTHER INTANGIBLE ASSETS — net</b>           | <b>2,037,000</b>                  | <b>2,300,000</b>                  |
| <b>DEFERRED INCOME TAXES — net</b>             | <b>1,874,000</b>                  | <b>1,874,000</b>                  |
| <b>OTHER ASSETS — net</b>                      | <b>618,000</b>                    | <b>837,000</b>                    |
| <b>TOTAL ASSETS</b>                            | <b>\$ 48,879,000</b>              | <b>\$ 48,895,000</b>              |

See accompanying notes to consolidated condensed financial statements (unaudited).

P&F INDUSTRIES, INC. AND SUBSIDIARIES  
CONSOLIDATED CONDENSED BALANCE SHEETS

|  | September 30, 2011<br>(unaudited) | December 31, 2010<br>(See Note 1) |
|--|-----------------------------------|-----------------------------------|
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>  |                                   |                                   |
| <b>CURRENT LIABILITIES</b>   |                                   |                                   |
| Short-term borrowings  | \$ 5,721,000                      | \$ 9,996,000                      |
| Accounts payable   | 3,168,000                         | 1,673,000                         |
| Accrued liabilities  | 3,923,000                         | 3,115,000                         |
| Current liabilities of discontinued operations   | 32,000                            | 27,000                            |
| Current maturities of long-term debt   | 979,000                           | 406,000                           |
| <b>TOTAL CURRENT LIABILITIES</b>   | <b>13,823,000</b>                 | <b>15,217,000</b>                 |
| Long-term debt, less current maturities  | 5,711,000                         | 6,973,000                         |
| Liabilities of discontinued operations   | 296,000                           | 306,000                           |
| <b>TOTAL LIABILITIES</b>   | <b>19,830,000</b>                 | <b>22,496,000</b>                 |
| <b>COMMITMENTS AND CONTINGENCIES</b>   |                                   |                                   |
| <b>SHAREHOLDERS' EQUITY</b>  |                                   |                                   |
| Preferred stock - \$10 par; authorized - 2,000,000 shares; no shares issued                                      | —                                 | —                                 |
| Common stock   |                                   |                                   |
| Class A - \$1 par; authorized - 7,000,000 shares; issued - 3,956,562 at September 30, 2011 and December 31, 2010 | 3,956,000                         | 3,956,000                         |
| Class B - \$1 par; authorized - 2,000,000 shares; no shares issued   | —                                 | —                                 |
| Additional paid-in capital   | 10,861,000                        | 10,718,000                        |
| Retained earnings  | 17,187,000                        | 14,680,000                        |
| Treasury stock, at cost – 342,000 shares at September 30, 2011 and December 31, 2010                             | (2,955,000)                       | (2,955,000)                       |
| <b>TOTAL SHAREHOLDERS' EQUITY</b>  | <b>29,049,000</b>                 | <b>26,399,000</b>                 |
| <b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>  | <b>\$ 48,879,000</b>              | <b>\$ 48,895,000</b>              |

See accompanying notes to consolidated condensed financial statements (unaudited).

P&F INDUSTRIES, INC. AND SUBSIDIARIES  
CONSOLIDATED CONDENSED STATEMENTS OF INCOME (unaudited)

|   | Three months<br>ended September 30, |               | Nine months<br>ended September 30, |               |
|---|-------------------------------------|---------------|------------------------------------|---------------|
|   | 2011                                | 2010          | 2011                               | 2010          |
| Net revenue   | \$ 15,050,000                       | \$ 14,267,000 | \$ 42,667,000                      | \$ 38,734,000 |
| Cost of sales   | 9,681,000                           | 9,526,000     | 26,695,000                         | 25,304,000    |
| Gross profit  | 5,369,000                           | 4,741,000     | 15,972,000                         | 13,430,000    |
| Selling, general and administrative expenses  | 4,581,000                           | 3,845,000     | 13,458,000                         | 12,246,000    |
| Operating income  | 788,000                             | 896,000       | 2,514,000                          | 1,184,000     |
| Interest expense  | 170,000                             | 264,000       | 589,000                            | 990,000       |
| Income from continuing operations before income taxes   | 618,000                             | 632,000       | 1,925,000                          | 194,000       |
| Income taxes  | 57,000                              | —             | 57,000                             | —             |
| Income from continuing operations   | 561,000                             | 632,000       | 1,868,000                          | 194,000       |
| Income (loss) from discontinued operations (net of tax expense of \$13,000 for the three and nine-month periods ended September 30, 2011; net of zero taxes for the three and nine month periods ended September 30, 2010.) | 667,000                             | (49,000)      | 639,000                            | 338,000       |
| Net income  | \$ 1,228,000                        | \$ 583,000    | \$ 2,507,000                       | \$ 532,000    |
| Basic earnings (loss) per share   |                                     |               |                                    |               |
| Continuing operations   | \$ 0.16                             | \$ 0.17       | \$ 0.52                            | \$ 0.05       |
| Discontinued operations   | 0.18                                | (0.01)        | 0.17                               | 0.09          |
| Net earnings per common share   | \$ 0.34                             | \$ 0.16       | \$ 0.69                            | \$ 0.14       |
| Diluted earnings (loss) per share   |                                     |               |                                    |               |
| Continuing operations   | \$ 0.15                             | \$ 0.17       | \$ 0.51                            | \$ 0.05       |
| Discontinued operations   | 0.18                                | (0.01)        | 0.17                               | 0.09          |
| Net earnings per common share   | \$ 0.33                             | \$ 0.16       | \$ 0.68                            | \$ 0.14       |
| Average common shares outstanding:  |                                     |               |                                    |               |
| Basic   | 3,615,000                           | 3,615,000     | 3,615,000                          | 3,615,000     |
| Diluted   | 3,723,000                           | 3,615,000     | 3,701,000                          | 3,615,000     |

See accompanying notes to consolidated condensed financial statements (unaudited).

## P&amp;F INDUSTRIES, INC. AND SUBSIDIARIES

## CONSOLIDATED CONDENSED STATEMENT OF SHAREHOLDERS' EQUITY (unaudited)

|                                   | Total         | Class A Common Stock,<br>\$1 Par |              | Additional<br>paid-in<br>capital | Retained<br>earnings | Treasury stock |               |
|-----------------------------------|---------------|----------------------------------|--------------|----------------------------------|----------------------|----------------|---------------|
|                                   |               | Shares                           | Amount       |                                  |                      | Shares         | Amount        |
| Balance,<br>January 1, 2011       | \$ 26,399,000 | 3,956,000                        | \$ 3,956,000 | \$ 10,718,000                    | \$ 14,680,000        | 342,000        | \$(2,955,000) |
| Net income                        | 2,507,000     |                                  |              |                                  | 2,507,000            |                |               |
| Stock-based<br>compensation       | 143,000       |                                  |              | 143,000                          |                      |                |               |
| Balance,<br>September 30,<br>2011 | \$ 29,049,000 | 3,956,000                        | \$ 3,956,000 | \$ 10,861,000                    | \$ 17,187,000        | 342,000        | \$(2,955,000) |

See accompanying notes to consolidated condensed financial statements (unaudited).



## P&amp;F INDUSTRIES, INC. AND SUBSIDIARIES

## CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS (unaudited)

|  | Nine months<br>ended September 30, |             |
|--|------------------------------------|-------------|
|  | 2011                               | 2010        |
| <b>Cash Flows from Operating Activities</b>  |                                    |             |
| Net income   | \$ 2,507,000                       | \$ 532,000  |
| Adjustments to reconcile net income to net cash provided by operating activities of continuing operations: |                                    |             |
| Income from discontinued operations  | (639,000)                          | (338,000)   |
| Non-cash charges:  |                                    |             |
| Depreciation and amortization  | 1,204,000                          | 1,239,000   |
| Amortization of other intangible assets  | 263,000                            | 263,000     |
| Amortization of other assets   | 214,000                            | 57,000      |
| Provision for bad debt (recovery) losses on accounts receivable  | (16,000)                           | 32,000      |
| Stock-based compensation   | 143,000                            | 87,000      |
| Loss on sale of fixed assets   | —                                  | 2,000       |
| Changes in operating assets and liabilities:   |                                    |             |
| Accounts receivable  | (1,817,000)                        | (1,475,000) |
| Inventories  | 689,000                            | 1,040,000   |
| Income tax refund receivable   | —                                  | 3,270,000   |
| Prepaid expenses and other current assets  | (331,000)                          | (347,000)   |
| Other assets   | 5,000                              | (28,000)    |
| Accounts payable   | 1,495,000                          | 2,349,000   |
| Income taxes payable   | 90,000                             | —           |
| Accrued liabilities  | 718,000                            | 1,396,000   |
| Total adjustments  | 2,018,000                          | 7,547,000   |
| Net cash provided by operating activities of continuing operations   | 4,525,000                          | 8,079,000   |

See accompanying notes to consolidated condensed financial statements (unaudited).

## P&amp;F INDUSTRIES, INC. AND SUBSIDIARIES

## CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS (unaudited)

|   | Nine months<br>ended September 30, |              |
|---|------------------------------------|--------------|
|   | 2011                               | 2010         |
| <b>Cash Flows from Investing Activities:</b>              |                                    |              |
| Capital expenditures                                      | \$ (570,000)                       | \$ (154,000) |
| Proceeds from disposal of fixed assets                    | 1,000                              | —            |
| Net cash used in investing activities                     | (569,000)                          | (154,000)    |
| <b>Cash Flows from Financing Activities:</b>              |                                    |              |
| Proceeds from short-term borrowings                       | 27,255,000                         | —            |
| Repayments of short-term borrowings                       | (31,530,000)                       | (5,000,000)  |
| Term loan advances  | —                                  | 957,000      |
| Repayments of term loan                                   | (304,000)                          | (4,280,000)  |
| Principal payments on long-term debt                      | —                                  | (604,000)    |
| (Repayments of) proceeds from notes payable               | (385,000)                          | 750,000      |
| Bank financing costs                                      | —                                  | (300,000)    |
| Net cash used in financing activities                     | (4,964,000)                        | (8,477,000)  |
| <b>Cash Flows from Discontinued Operations:</b>           |                                    |              |
| Operating activities                                      | 634,000                            | 436,000      |
| Investing activities                                      | —                                  | —            |
| Financing activities                                      | —                                  | —            |
| Net cash provided by Discontinued Operations              | 634,000                            | 436,000      |
| Net decrease in cash                                      | (374,000)                          | (116,000)    |
| Cash at beginning of period                               | 874,000                            | 546,000      |
| Cash at end of period                                     | \$ 500,000                         | \$ 430,000   |
| <b>Supplemental disclosures of cash flow information:</b> |                                    |              |
| <b>Cash paid for:</b>                                     |                                    |              |
| Interest  | \$ 615,000                         | \$ 914,000   |
| Income taxes  | \$ 8,000                           | \$ 27,000    |

See accompanying notes to consolidated condensed financial statements (unaudited).

P&F INDUSTRIES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (unaudited)

## NOTE 1 - SUMMARY OF ACCOUNTING POLICIES

## Basis of Financial Statement Presentation

The accompanying unaudited consolidated condensed financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information, and with the rules and regulations of the Securities and Exchange Commission regarding interim financial reporting. Accordingly, these interim financial statements do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of the Company, these unaudited consolidated condensed financial statements include all adjustments necessary to present fairly the information set forth therein. All such adjustments are of a normal recurring nature. Results for interim periods are not necessarily indicative of results to be expected for a full year.

The unaudited consolidated condensed balance sheet information as of December 31, 2010 was derived from the audited consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2010. The interim financial statements contained herein should be read in conjunction with that Report.

On May 13, 2011, the Company filed a Quarterly Report on Form 10-Q/A, for the three month period ended September 30, 2010, which amended Items 1, 2, and 4 of Part I and Item 6 of Part II of the Company's Quarterly Report on Form 10-Q previously filed for such period. This restatement resulted in the following adjustments:

Consolidated condensed balance sheet  
As at September 30, 2010

|  | Adjustments     |
|--|-----------------|
| Total current assets                       | \$ (105,000)    |
| Total assets                               | \$ 155,000      |
| Total current liabilities                  | \$ (12,612,000) |
| Total liabilities                          | \$ (12,612,000) |
| Retained earnings                          | \$ 12,767,000   |
| Total shareholders' equity                 | \$ 12,767,000   |
| Total liabilities and shareholders' equity | \$ 155,000      |

Consolidated condensed statement of operations  
For the three and nine month periods ended September 30, 2010

|  | Three-month period | Nine-month period |
|--|--------------------|-------------------|
| (Loss) income from discontinued operations (no tax benefits for the three and nine-month periods ended September 30, 2010) | \$ (249,000)       | \$ 12,767,000     |
| Net (loss) income  | \$ (249,000)       | \$ 12,767,000     |
| Basic and diluted (loss) earnings per share  |                    |                   |
| Discontinued operations  | \$ (0.07)          | \$ 3.53           |
| Net (loss) income  | \$ (0.07)          | \$ 3.53           |

Consolidated condensed statement of shareholders' equity  
As at September 30, 2010

|                             |    | Adjustments |
|-----------------------------|----|-------------|
| Net Income                  | \$ | 12,767,000  |
| Balance, September 30, 2010 | \$ | 12,767,000  |

## Principles of Consolidation

The unaudited consolidated condensed financial statements contained herein include the accounts of P&F Industries, Inc. and its subsidiaries, other than as discussed in Note 2 (“P&F” or the “Company”). The words “we”, “our” and “us” also refer to the Company. All significant intercompany balances and transactions have been eliminated.

P&F conducts its business operations through two of its wholly-owned subsidiaries: Continental Tool Group, Inc. (“Continental”) and Countrywide Hardware, Inc. (“Countrywide”). P&F operates in two primary lines of business, or segments: (i) tools and other products (“Tools”) and (ii) hardware and accessories (“Hardware”).

## The Company

### Tools

The Company conducts its Tools business through Continental, which in turn currently operates through its wholly-owned subsidiaries, Florida Pneumatic Manufacturing Corporation (“Florida Pneumatic”) and Hy-Tech Machine, Inc. (“Hy-Tech”).

Florida Pneumatic is engaged in the importation and sale of pneumatic hand tools, primarily for the retail, industrial and automotive markets, and the importation and sale of compressor air filters. Florida Pneumatic also markets, through its Berkley Tool division (“Berkley”), a line of pipe cutting and threading tools, wrenches and replacement electrical components for a widely-used brand of pipe cutting and threading machines.

Hy-Tech manufactures and distributes pneumatic tools and parts for industrial applications. Hy-Tech manufactures approximately sixty types of industrial pneumatic tools, most of which are sold at prices ranging from \$300 to \$7,000, under the names “ATP”, “Thaxton”, “THOR” and “Eureka”, as well as under the trade names or trademarks of other private label customers. This line of products includes grinders, drills, saws, impact wrenches and pavement breakers. Hy-Tech’s products are sold to distributors and private label customers through in-house sales personnel and manufacturers’ representatives. Users of Hy-Tech’s tools include refineries, chemical plants, power generation facilities, heavy construction industry, oil and mining companies and other large scale industrial applications. Hy-Tech’s products are sold off the shelf, and are also produced to customer’s orders. The business is not seasonal, but it may be subject to significant periodic changes resulting from scheduled shutdowns in refineries, power generation facilities and chemical plants.

### Hardware

The Company conducts its Hardware business through Countrywide. Countrywide conducts its business operations through its wholly-owned subsidiary, Nationwide Industries, Inc. (“Nationwide”).

Nationwide is an importer and manufacturer of door, window and fencing hardware, and accessories including rollers, hinges, window operators, sash locks, custom zinc castings and door closers. Nationwide’s products are sold through in-house sales personnel and manufacturers’ representatives to distributors, retailers and OEM customers. End users of Nationwide’s products include contractors, home builders, pool and patio distributors, OEM/private label customers and general consumers. Additionally, Nationwide also markets a kitchen and bath product line. Most of Nationwide’s sales are of products imported from Taiwan and China. Nationwide currently out-sources the manufacturing of approximately 90% of its products with several overseas factories, while retaining design, quality control, and patent and trademark control. There are redundant sources for most products. Nationwide manufactures approximately 10% of its products sold including rollers, hinges and pool enclosure products at its facility in Tampa, Florida.

Countrywide also conducted a stair parts business until June 7, 2010, through an indirect wholly-owned subsidiary, WM Coffman, LLC (now known as Old Stairs Co LLC) (“WMC”). See Note 2 below for further discussion.

#### Management Estimates

The preparation of financial statements and related disclosures in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses in those financial statements. Certain significant accounting policies that contain subjective management estimates and assumptions include those related to revenue recognition, accounts receivable, inventory, goodwill, intangible assets, other long-lived assets, income taxes, deferred taxes, warranty liability and judgments on the Company’s variable interest entity (“VIE”) reporting requirements. Descriptions of these policies are discussed in the Company’s Annual Report on Form 10-K for the year ended December 31, 2010. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment, and makes adjustments when facts and circumstances dictate. Illiquid credit markets and declines in consumer spending have, among other things, combined to increase the uncertainty inherent in many of such estimates and assumptions. As future events and their effects cannot be determined with precision, actual results could differ significantly from those estimates and assumptions. Significant changes, if any, in those estimates resulting from continuing changes in the economic environment will be reflected in the consolidated financial statements in future periods.

### Recently Adopted Accounting Standards

During the three-month period ended September 30, 2011, the Company did not adopt any new accounting standards.

### NOTE 2 — VARIABLE INTEREST ENTITY

The Company's overall methodology for evaluating transactions and relationships under the VIE requirements includes the following: (i) determining whether the entity meets the criteria to qualify as a VIE; and (ii) determining whether the Company is the primary beneficiary of the VIE.

If the Company identifies a VIE based on the requirements within Accounting Standards Codification ("ASC"), ASC 810, it then performs the second step to determine whether it is the primary beneficiary of the VIE by considering the following significant factors and judgments, both of which must be met:

- Whether the Company has the power to direct the activities of the VIE that most significantly impact the entity's economic performance; and
- Whether the Company has the obligation to absorb losses of the entity that could potentially be significant to the VIE or the right to receive benefits from the entity that could potentially be significant to the VIE.

The Company determined that at September 30, 2011, WMC met the criteria to qualify as a VIE under ASC 810. The Company then examined the facts and circumstances pertaining to WMC to determine if it is the primary beneficiary, by considering whether or not it has the power to direct the most significant activities of the entity. The Company has concluded that it does not direct the most significant activities at WMC, nor does it have an obligation to absorb losses or the right to receive benefits from WMC and, therefore, is not considered the primary beneficiary. Accordingly, the Company did not consolidate WMC.

The Company will perform an ongoing reassessment of the facts and circumstances pertaining to WMC to determine whether or not WMC continues to be a VIE and if so, whether or not the Company may have become the primary beneficiary.

### NOTE 3 — EARNINGS (LOSS) PER SHARE

Basic earnings (loss) per common share is based only on the weighted average number of shares of common stock outstanding for the periods. Diluted earnings (loss) per common share reflect the effect of shares of weighted common stock issuable upon the exercise of options, unless the effect on earnings is antidilutive.

Diluted earnings (loss) per common share is computed using the treasury stock method. Under this method, the aggregate number of shares of common stock outstanding reflects the assumed use of proceeds from the hypothetical exercise of any outstanding options to purchase shares of the Company's Class A Common Stock. The average market value for the period is used as the assumed purchase price.

The following table sets forth the computation of basic and diluted earnings (loss) per common share:

|  | Three months ended<br>September 30, |            | Nine months ended<br>September 30, |            |
|--|-------------------------------------|------------|------------------------------------|------------|
|  | 2011                                | 2010       | 2011                               | 2010       |
| <b>Numerator:</b>  |                                     |            |                                    |            |
| For basic and diluted earnings (loss) per common share:                                      |                                     |            |                                    |            |
| Income from continuing operations  | \$ 561,000                          | \$ 632,000 | \$ 1,868,000                       | \$ 194,000 |
| Income (loss) from discontinued operations   | 667,000                             | (49,000)   | 639,000                            | 338,000    |
| Net income for basic and diluted earnings per share  | \$ 1,228,000                        | \$ 583,000 | \$ 2,507,000                       | \$ 532,000 |
| <b>Denominator:</b>  |                                     |            |                                    |            |
| For basic earnings (loss) per share weighted average common shares outstanding               |                                     |            |                                    |            |
|  | 3,615,000                           | 3,615,000  | 3,615,000                          | 3,615,000  |
| Dilutive securities (1)  | 108,000                             | —          | 86,000                             | —          |
| Denominator for diluted earnings (loss) per share weighted average common shares outstanding | 3,723,000                           | 3,615,000  | 3,701,000                          | 3,615,000  |

(1) Dilutive securities consist of “in the money options”.

During the three and nine-month periods ended September 30, 2011 and 2010, there were outstanding stock options whose exercise prices were higher than the average market values of the underlying Class A Common Stock for the period. These options are antidilutive and are excluded from the computation of earnings (loss) per share. The weighted average antidilutive stock options outstanding were as follows:

|   | Three months ended<br>September 30, |         | Nine months ended<br>September 30, |         |
|---|-------------------------------------|---------|------------------------------------|---------|
|   | 2011                                | 2010    | 2011                               | 2010    |
| Weighted average antidilutive stock options outstanding | 340,000                             | 517,000 | 421,000                            | 515,000 |

#### NOTE 4 - STOCK-BASED COMPENSATION

##### Stock-based Compensation

Total stock-based compensation expense is attributable to the granting of, and the remaining requisite service periods of, stock options. Compensation expense attributable to stock-based compensation was \$57,000 and \$18,000 during the three-month periods ended September 30, 2011 and 2010, respectively, and was \$143,000 and \$87,000 for the nine-month periods ended September 30, 2011 and 2010, respectively. The compensation expense is recognized in selling, general and administrative expenses on the Company’s statements of income on a straight-line basis over the vesting periods. The Company recognizes compensation cost over the requisite service period. However, the exercisability of the respective non-vested options, which are at pre-determined dates on a calendar year, do not necessarily correspond to the period(s) in which straight-line amortization of compensation cost is recorded. As of September 30, 2011, the Company had approximately \$259,000 of total unrecognized compensation cost related to non-vested awards granted under our stock-based plans, which we expect to recognize over a weighted-average period of 1.3 years.

The expected term was based on historical exercises and terminations. The volatility for the periods with the expected term of the options is determined using historical volatilities based on historical stock prices. The dividend yield is 0% as the Company has historically not declared dividends and does not expect to declare any in the near future.



## Stock Option Plan

The Company's 2002 Incentive Stock Option Plan (the "Current Plan") authorizes the issuance, to employees and directors, of options to purchase a maximum of 1,100,000 shares of Class A Common Stock. These options must be issued within ten years of the effective date of the Current Plan and are exercisable for a ten year period from the date of grant, at prices not less than 100% of the market value of the Class A Common Stock on the date the option is granted. Incentive stock options granted to any 10% stockholder are exercisable for a five year period from the date of grant, at prices not less than 110% of the market value of the Class A Common Stock on the date the option is granted. Pursuant to the Current Plan, the Stock Option Committee has the discretion to award non-qualified stock option grants with various vesting parameters. Options have vesting periods of immediate to five years. In the event options granted contain a vesting schedule over a period of years, the Company recognizes compensation cost for these awards over the requisite service period. The Current Plan, which terminates in 2012, is the successor to the Company's 1992 Incentive Stock Option Plan (the "Prior Plan").

The Company estimated the fair value of the 70,000 common stock options granted during the nine-month period ended September 30, 2011 using the following assumptions:

|  |           |
|--|-----------|
| Risk-free interest rate                        | 3.20%     |
| Expected term (in years)                       | 6.5 years |
| Volatility                                     | 61.99%    |
| Dividend yield                                 | 0%        |
| Weighted-average fair value of options granted | \$ 2.80   |

The following is a summary of the changes in outstanding options during the nine month period ended September 30, 2011:

|                                 | Option Shares | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life (Years) | Aggregate Intrinsic Value |
|---------------------------------|---------------|---------------------------------|---|---------------------------|
| Outstanding, January 1, 2011    | 585,624       | \$6.73                          | 5.6   | —                         |
| Granted                         | 70,000        | 4.56                            | 9.6   | —                         |
| Exercised                       | —             | —                               | —   | —                         |
| Forfeited                       | —             | —                               | —   | —                         |
| Expired                         | —             | —                               | —   | —                         |
| Outstanding, September 30, 2011 | 655,624       | \$6.50                          | 5.4   | \$86,000                  |
| Vested, September 30, 2011      | 457,624       | \$7.62                          | 4.0   | \$6,000                   |

The following is a summary of changes in non-vested shares for the nine months ended September 30, 2011, which the Company expects will vest in the future.

|                                       | Option Shares | Weighted Average Grant-Date Fair Value |
|---------------------------------------|---------------|--|
| Non-vested shares, January 1, 2011    | 165,333       | \$ 2.19                                |
| Granted                               | 70,000        | 2.80                                   |
| Vested                                | (37,333)      | 2.44                                   |
| Forfeited                             | —             | —                                      |
| Non-vested shares, September 30, 2011 | 198,000       | \$ 2.36                                |

The number of shares of Class A common stock reserved for stock options available for issuance under the Current Plan as of September 30, 2011 was 302,212. All of the options outstanding at September 30, 2011 were issued under the Current Plan.

#### NOTE 5 — RECENT ACCOUNTING PRONOUNCEMENTS

In September 2011, The Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2011-08, Intangibles—Goodwill and Other (Topic 350): Testing Goodwill for Impairment. ASU 2011-08 is intended to simplify how entities, both public and nonpublic, test goodwill for impairment. ASU 2011-08 permits an entity to first assess qualitative factors to determine whether it is “more likely than not” that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test described in Topic 350, Intangibles-Goodwill and Other. The more-likely-than-not threshold is defined as having a likelihood of more than 50%. ASU 2011-08 is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted, including for annual and interim goodwill impairment tests performed as of a date before September 15, 2011, if an entity’s financial statements for the most recent annual or interim period have not yet been issued. The Company is currently evaluating the impact of the adoption of this ASU on its consolidated condensed financial statements.

#### NOTE 6 - ACCOUNTS RECEIVABLE AND ALLOWANCE FOR DOUBTFUL ACCOUNTS

Accounts receivable - net consists of:

September 30, 2011 | December 31, 2010

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|                                 |    |           |    |           |
|---------------------------------|----|-----------|----|-----------|
| Accounts receivable             | \$ | 9,028,000 | \$ | 7,211,000 |
| Allowance for doubtful accounts |    | (209,000) |    | (225,000) |
|                                 | \$ | 8,819,000 | \$ | 6,986,000 |

NOTE 7 — INVENTORIES

Inventories - net consist of:

|  |    | September<br>30, 2011 | December 31, 2010 |
|--|----|-----------------------|-------------------|
| Raw material                                     | \$ | 2,286,000             | \$ 1,932,000      |
| Work in process                                  |    | 866,000               | 561,000           |
| Finished goods                                   |    | 16,051,000            | 17,302,000        |
|  |    | 19,203,000            | 19,795,000        |
| Reserve for obsolete and slow-moving inventories |    | (1,462,000)           | (1,365,000)       |
|  | \$ | 17,741,000            | \$ 18,430,000     |

## NOTE 8 - GOODWILL AND OTHER INTANGIBLE ASSETS

During the nine month period ended September 30, 2011, there was no change to the carrying value of goodwill.

Other intangible assets were as follows:

|                                       | September 30, 2011  |                          |                     | December 31, 2010   |                          |                     |
|---------------------------------------|---------------------|--------------------------|---------------------|---------------------|--------------------------|---------------------|
|                                       | Cost                | Accumulated amortization | Net book value      | Cost                | Accumulated amortization | Net book value      |
| <b>Other intangible assets:</b>       |                     |                          |                     |                     |                          |                     |
| Customer relationships                | \$ 5,070,000        | \$ 3,499,000             | \$ 1,571,000        | \$ 5,070,000        | \$ 3,255,000             | \$ 1,815,000        |
| Non-compete and employment agreements | 760,000             | 760,000                  | —                   | 760,000             | 760,000                  | —                   |
| Trademarks                            | 199,000             | —                        | 199,000             | 199,000             | —                        | 199,000             |
| Drawings                              | 290,000             | 67,000                   | 223,000             | 290,000             | 56,000                   | 234,000             |
| Licensing                             | 105,000             | 61,000                   | 44,000              | 105,000             | 53,000                   | 52,000              |
| <b>Totals</b>                         | <b>\$ 6,424,000</b> | <b>\$ 4,387,000</b>      | <b>\$ 2,037,000</b> | <b>\$ 6,424,000</b> | <b>\$ 4,124,000</b>      | <b>\$ 2,300,000</b> |

Amortization expense for intangible assets subject to amortization was as follows:

| Three months ended September 30, |           | Nine months ended September 30, |            |
|----------------------------------|-----------|---------------------------------|------------|
| 2011                             | 2010      | 2011                            | 2010       |
| \$ 88,000                        | \$ 88,000 | \$ 263,000                      | \$ 263,000 |

Amortization expense for each of the twelve-month periods ending September 30, 2012 through September 30, 2016 is estimated to be as follows: 2012 - \$350,000 ; 2013 - \$248,000 ; 2014 - \$185,000; 2015 - \$186,000 and 2016 - \$177,000. The weighted average amortization period for intangible assets was 8.3 years at September 30, 2011 and 8.6 years at December 31, 2010.

## NOTE 9 - WARRANTY LIABILITY

The Company offers to its customers warranties against product defects for periods primarily ranging from one to three years. Certain products carry limited lifetime warranties. The Company's typical warranties require it to repair or replace the defective products during the warranty period at no cost to the customer. At the time the product revenue is recognized, the Company records a liability for estimated costs under its warranties, which are estimated based on historical experience. The Company periodically assesses the adequacy of its recorded warranty liability and adjusts the amounts as necessary. While the Company believes that its estimated liability for product warranties is adequate, the estimated liability for the product warranties could differ materially from future actual warranty costs.

Changes in the Company's warranty liability, included in other accrued liabilities, were as follows:

|  | Nine months ended September 30, |            |
|--|---------------------------------|------------|
|  | 2011                            | 2010       |
| Balance, beginning of period                                       | \$ 250,000                      | \$ 183,000 |
| Warranties issued and changes in estimated pre-existing warranties | 397,000                         | 261,000    |
| Actual warranty costs incurred                                     | (387,000)                       | (188,000)  |
| Balance, end of period   | \$ 260,000                      | \$ 256,000 |

## NOTE 10 — DEBT

## SHORT-TERM BORROWINGS

P&F along with Florida Pneumatic, Hy-Tech and Nationwide, entered into a Credit Agreement, (“Credit Agreement”) with Capital One Leverage Finance Corporation, as agent (“COLF”). The Credit Agreement, entered into in October 2010, has a three-year term, with maximum borrowings of \$22,000,000. The Credit Agreement provides for a Revolving Credit Facility (“Revolver”) with a maximum borrowing of \$15,910,000. At September 30, 2011 and December 31, 2010, the balances owing on the Revolver were \$5,721,000 and \$9,996,000, respectively. Direct borrowings under the Revolver are secured by the Company’s accounts receivable, mortgages on the Company’s real property located in Cranberry, PA, Jupiter, FL and Tampa, FL, inventory and equipment and are cross-guaranteed by certain of the Company’s subsidiaries (the “Subsidiary Guarantors”). Revolver borrowings bear interest at LIBOR (London InterBank Offered Rate) or the Base Rate, as defined in the Credit Agreement, plus the currently applicable margin rates. Beginning April 1, 2011, the loan margins applicable to borrowings on the Revolver are determined based upon the computation of total debt divided by earnings before interest, taxes, depreciation and amortization (“EBITDA”). Applicable loan margins will range from 3.25% to 4.00% for LIBOR borrowings and from 2.25% to 3.00% for borrowings at the Base Rate. Loan margins added to Revolver borrowings at September 30, 2011 were 3.25% and 2.25%, respectively, for borrowings at LIBOR and the Base Rate. Loan margins added to Revolver borrowings at December 31, 2010 were 3.75% and 2.75%, respectively, for borrowings at LIBOR and the Base Rate.

The Company incurs an unused line fee ranging from one-half percent (0.50%) to three-quarters percent (0.75%), depending on the percentage of the Revolver to the Credit Facility. Should the Company terminate the Credit Facility prior to maturity, the Credit Agreement provides for a prepayment fee of one percent (1.00%) of the total Credit Facility if terminated during the first year, and one-half percent (0.50%) if terminated during the second year. The Company is also required to provide, among other things, monthly financial statements and monthly borrowing base certificates. The Company is subject to various financial covenants, with which the Company remains in compliance. If an event of default occurs under this Credit Agreement, the interest rate would increase by two percent per annum until such event of default has been cured.

#### LONG-TERM DEBT

The Credit Agreement also contains a \$6,090,000 term loan (the "Term Loan"), which is secured by the Company's accounts receivable, mortgages on the Company's real property located in Cranberry, PA, Jupiter, FL and Tampa, FL, inventory and equipment and are cross-guaranteed by the Subsidiary Guarantors. The Term Loan amortizes \$33,833 each month with a balloon payment at maturity of the Credit Agreement. The balance due on the Term Loan at September 30, 2011 and December 31, 2010 was \$5,752,000 and \$6,056,000, respectively. With respect to the Term Loan, the Credit Agreement requires the Company to make prepayments of 25% of annual excess cash flow, as defined in the Credit Agreement, plus any net proceeds in the event of a sale of any real estate assets. Term Loan borrowings bear interest at LIBOR or the Base Rate plus the currently applicable margin rates, were 5.75% and 4.75%, which at September 30, 2011 and December 31, 2010, respectively.

In April 2010, as part of an amendment to the Company's prior credit agreement, the Company was required to obtain subordinated loans of \$750,000, the ("Subordinated Loans"). The Subordinated Loans were, provided by the Company's Chief Executive Officer, President and Chairman of the Board of Directors, ("CEO"), in the amount of \$250,000, and an unrelated party, in the amount of \$500,000 and are due October 25, 2013. These Subordinated Loans bear interest at 8% per annum. For the three and nine-month periods ended September 30, 2011, the Company paid interest of \$4,000 and \$14,000, respectively, to the CEO. As of the date of this filing, all interest earned through September 30, 2011 has been paid. Pursuant to a subordination agreement with COLF, the principal amount owed to the unrelated third party may be repaid from excess cash flows, as defined in such subordination agreement. In August 2011, the Company paid \$206,000 of principal to the unrelated third party. As a result, the remaining balance due on the Subordinated Loan from the unrelated third party was \$115,000.

Under the terms of the Credit Agreement with COLF, the Company, in October 2010, paid \$685,000 to the sellers of Hy-Tech, representing 50% of the outstanding loan amount plus accrued interest. Pursuant to a subordination agreement with COLF, the balance of \$573,000 owed to the sellers of Hy-Tech as of September 30, 2011 may be repaid from excess cash flows, as defined in such subordination agreement. This obligation incurs interest at 8% per annum. See Note 14 below for further discussion.

At September 30, 2011, there were no foreign currency forward contracts outstanding.

#### NOTE 11—RELATED PARTY TRANSACTIONS

The president of one of our subsidiaries is part owner of one of the subsidiary's vendors. During the three and nine-month periods ended September 30, 2011, we purchased approximately \$253,000 and \$928,000, respectively, of product from this vendor. During the three and nine-month periods ended September 30, 2010, we purchased approximately \$156,000 and \$582,000, respectively, of product from this vendor. Amounts owing to this related party at September 30, 2011 and 2010 were \$130,000 and \$109,000, respectively.



## NOTE 12 - BUSINESS SEGMENTS

P&F operates in two primary lines of business, or segments: (i) tools and other products (“Tools”) and (ii) hardware and accessories (“Hardware”). For reporting purposes, Florida Pneumatic and Hy-Tech are combined in the Tools segment, while Nationwide is currently the only subsidiary in the Hardware segment. The Company evaluates segment performance based primarily on segment operating income. The accounting policies of each of the segments are the same as those described in Note 1.

| Three months ended September 30, 2011                 | Consolidated  | Tools         | Hardware      |
|---|---------------|---------------|---------------|
| Revenues  | \$ 15,050,000 | \$ 11,182,000 | \$ 3,868,000  |
| Segment operating income                              | \$ 2,242,000  | \$ 1,730,000  | \$ 512,000    |
| General corporate expense                             | (1,454,000)   |               |               |
| Interest expense – net                                | (170,000)     |               |               |
| Income from continuing operations before income taxes | \$ 618,000    |               |               |
| Segment assets  | \$ 45,758,000 | \$ 35,284,000 | \$ 10,474,000 |
| Corporate assets                                      | 3,121,000     |               |               |
| Total assets  | \$ 48,879,000 |               |               |
| Long-lived assets, including \$238,000 at corporate   | \$ 18,323,000 | \$ 13,610,000 | \$ 4,475,000  |
| Three months ended September 30, 2010                 | Consolidated  | Tools         | Hardware      |
| Revenues  | \$ 14,267,000 | \$ 10,609,000 | \$ 3,658,000  |
| Segment operating income                              | \$ 1,978,000  | \$ 1,593,000  | \$ 385,000    |
| General corporate expense                             | (1,082,000)   |               |               |
| Interest expense – net                                | (264,000)     |               |               |
| Income from continuing operations before income taxes | \$ 632,000    |               |               |
| Segment assets  | \$ 47,254,000 | \$ 36,516,000 | \$ 10,738,000 |
| Corporate assets                                      | 3,597,000     |               |               |
| Total assets  | \$ 50,851,000 |               |               |
| Long-lived assets, including \$355,000 at corporate   | \$ 19,617,000 | \$ 14,673,000 | \$ 4,589,000  |



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| Nine months ended September 30, 2011                  | Consolidated  | Tools         | Hardware      |
|---|---------------|---------------|---------------|
| Revenues  | \$ 42,667,000 | \$ 30,361,000 | \$ 12,306,000 |
| Segment operating income                              | \$ 6,692,000  | \$ 4,824,000  | \$ 1,868,000  |
| General corporate expense                             | (4,178,000)   |               |               |
| Interest expense – net                                | (589,000)     |               |               |
| Income from continuing operations before income taxes | \$ 1,925,000  |               |               |
| Segment assets  | \$ 45,758,000 | \$ 35,284,000 | \$ 10,474,000 |
| Corporate assets                                      | 3,121,000     |               |               |
| Total assets  | \$ 48,879,000 |               |               |
| Long-lived assets, including \$238,000 at corporate   | \$ 18,323,000 | \$ 13,610,000 | \$ 4,475,000  |
| Nine months ended September 30, 2010                  | Consolidated  | Tools         | Hardware      |
| Revenues  | \$ 38,734,000 | \$ 27,124,000 | \$ 11,610,000 |
| Segment operating income                              | \$ 5,187,000  | \$ 3,541,000  | \$ 1,646,000  |
| General corporate expense                             | (4,003,000)   |               |               |
| Interest expense – net                                | (990,000)     |               |               |
| Income from continuing operations before income taxes | \$ 194,000    |               |               |
| Segment assets  | \$ 47,254,000 | \$ 36,516,000 | \$ 10,738,000 |
| Corporate assets                                      | 3,597,000     |               |               |
| Total assets  | \$ 50,851,000 |               |               |
| Long-lived assets, including \$355,000 at corporate   | \$ 19,617,000 | \$ 14,673,000 | \$ 4,589,000  |

NOTE 13 – DISCONTINUED OPERATIONS

On August 23, 2011, Embassy Industries, Inc. (“Embassy”), a wholly owned subsidiary of P&F, received a payment of approximately \$702,000 (the “Payment”) relating to a dispute over the sale by Embassy of certain real property arising under the Contract of Sales (the “Agreement”) between Embassy and J. D’Addario & Company, Inc. (“D’Addario”), dated January 13, 2006, as amended. The Payment was made pursuant to the Amended Judgment of the Supreme Court of the State of New York, Suffolk County, dated August 2, 2011 and entered August 4, 2011. Accordingly, the Company has reported the receipt of these funds less related legal fees and other expenses as Income from discontinued operations.

Embassy is also seeking to appeal such decision insofar as it did not include an additional payment by D’Addario of pre-judgment interest at the New York statutory rate of nine percent, which would have aggregated approximately \$225,000. Neither the P&F nor Embassy can predict whether such appeal will be granted and if such appeal is granted, what the outcome of such appeal would be. As such, the Company has not accounted for this amount in these consolidated condensed financial statements.

NOTE 14 – SUBSEQUENT EVENT

With the approval of COLF, the Company and the sellers of Hy-Tech entered into a Termination of Promissory Note and Mutual Releases dated October 31, 2011 (the “Subordinated Debt Termination Agreement”), which was effective as of November 1, 2011. Pursuant to the Subordinated Debt Termination Agreement, the Company paid \$550,000 plus approximately \$4,000 in accrued interest to sellers of Hy-Tech in full satisfaction of the approximately \$573,000 in subordinated debt and accrual interest owed to the Hy-Tech Sellers and the parties terminated the related subordinated promissory note and exchanged releases. The Company will report a gain of \$23,000 during the fourth quarter of 2011. At September 30, 2011, this obligation has been reclassified to current maturities of long-term debt.

P&F INDUSTRIES, INC. AND SUBSIDIARIES

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

General

The Private Securities Litigation Reform Act of 1995 (the "Reform Act") provides a safe harbor for forward-looking statements made by or on behalf of P&F Industries, Inc. and subsidiaries ("P&F", or the "Company"). P&F and its representatives may, from time to time, make written or verbal forward-looking statements, including statements contained in the Company's filings with the Securities and Exchange Commission and in its reports to stockholders. Generally, the inclusion of the words "believe," "expect," "intend," "estimate," "anticipate," "will," and their opposites and similar expressions identify statements that constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 and that are intended to come within the safe harbor protection provided by those sections. Any forward-looking statements contained herein, including those related to the Company's future performance, are based upon the Company's historical performance and on current plans, estimates and expectations. All forward-looking statements involve risks and uncertainties. These risks and uncertainties could cause the Company's actual results for the 2011 fiscal year and beyond to differ materially from those expressed in any forward-looking statement made by or on behalf of the Company for a number of reasons, including those previously disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2010. Forward-looking statements speak only as of the date on which they are made. The Company undertakes no obligation to update publicly or revise any forward-looking statement, whether as a result of new information, future developments or otherwise.

Business

The unaudited consolidated condensed financial statements contained herein include the accounts of P&F Industries, Inc. and its subsidiaries, other than as discussed in Note 2 to the consolidated condensed financial statements ("P&F", or the "Company"). The words "we", "our" and "us" also refer to the Company. All significant intercompany balances and transactions have been eliminated.

P&F conducts its business operations through two of its wholly-owned subsidiaries: Continental Tool Group, Inc. ("Continental") and Countrywide Hardware, Inc. ("Countrywide"). P&F operates in two primary lines of business, or segments: (i) tools and other products ("Tools") and (ii) hardware and accessories ("Hardware").

Tools

We conduct our Tools business through Continental, which in turn currently operates through its wholly-owned subsidiaries, Florida Pneumatic Manufacturing Corporation ("Florida Pneumatic") and Hy-Tech Machine, Inc. ("Hy-Tech").

Florida Pneumatic is engaged in the importation and sale of pneumatic hand tools, primarily for the retail, industrial and automotive markets, and the importation and sale of compressor air filters. Florida Pneumatic also markets, through its Berkley Tool division ("Berkley"), a line of pipe cutting and threading tools, wrenches and replacement electrical components for a widely-used brand of pipe cutting and threading machines.

Hy-Tech manufactures and distributes pneumatic tools and parts for industrial applications. Hy-Tech manufactures approximately sixty types of industrial pneumatic tools, most of which are sold at prices ranging from \$300 to \$7,000, under the names "ATP", "Thaxton", "THOR" and "Eureka", as well as under the trade names or trademarks of other private label customers. This line of products includes grinders, drills, saws, impact wrenches and pavement breakers.

Hy-Tech's products are sold to distributors and private label customers through in-house sales personnel and manufacturers' representatives. Users of Hy-Tech's tools include refineries, chemical plants, power generation facilities, heavy construction industry, oil and mining companies and other large scale industrial applications. Hy-Tech's products are sold off the shelf, and are also produced to customer's orders. The business is not seasonal, but it may be subject to significant periodic changes resulting from scheduled shutdowns in refineries, power generation facilities and chemical plants.

#### Hardware

We conduct our Hardware business through a wholly-owned subsidiary, Countrywide. Countrywide conducts its business operations through its wholly-owned subsidiary, Nationwide Industries, Inc. ("Nationwide").

Nationwide is an importer and manufacturer of door, window and fencing hardware, and accessories including rollers, hinges, window operators, sash locks, custom zinc castings and door closers. Nationwide's products are sold through in-house sales personnel and manufacturers' representatives to distributors, retailers and OEM customers. End users of Nationwide's products include contractors, home builders, pool and patio distributors, OEM/private label customers and general consumers. Additionally, Nationwide also markets a kitchen and bath product line. Nationwide currently out-sources the manufacturing of approximately 90% of its product with several overseas factories, while retaining design, quality control, and patent and trademark control. There are redundant sources for most products. Nationwide manufactures approximately 10% of its products sold including rollers, hinges and pool enclosure products at its facility in Tampa, Florida.

## Overview

Our business continued to perform solidly in the third quarter of 2011. Revenue increased over 5% in both the Tool and the Hardware segments. In addition, our consolidated gross margins improved by 2.5% overall as we saw improved facility utilization due to volume increases, a better product mix and a reduction of in-bound freight and other costs, most notably at Nationwide. However, we chose to apportion a part of the aforementioned improvement in gross profit to the restoration of the pay-rate reduction, and cancellation of certain employee benefits that went into effect in early 2009 and remained throughout 2010, as well as reinstate the performance-based bonus. Thus, the resulting pre-tax profit of \$618,000 for the third quarter of 2011 was similar to the \$632,000 reported in the third quarter of 2010. Finally, during the third quarter of 2011 we received approximately \$702,000 less legal fees relating to a judgment in favor of Embassy Industries, Inc., a non-operating wholly-owned subsidiary. This amount less legal fees is reported in discontinued operations.

## KEY INDICATORS

### Economic Measure

Much of our business is driven by the ebbs and flows of the general economic conditions in both the United States and, to a lesser extent, abroad. Our Tools segment focuses on a wide array of customer types; it does not rely as much on specific economic measures or indicators. The Tools segment tends to track the general economic conditions of the United States, industrial production and general retail sales, all of which have, for the most part, indicated minimal improvement during the first nine months of fiscal 2011, compared to the same time-frame in 2010. The key economic measures for the Hardware group, which consist of Nationwide only, is new housing starts and the home remodeling market, both of which continue to show little sign of improvement

Another key economic measure relevant to us is the cost of the raw materials in our products. Key materials include metals, especially various types of steel and aluminum. Also important is the value of the dollar in relation to the Taiwan dollar (“TWD”), as we purchase a significant portion of our products from Taiwan. Purchases from Chinese sources are made in U.S. dollars. However, if the Chinese currency, the Renminbi (“RMB”), was to be revalued against the dollar, there could be a significant negative impact on the cost of our products.

### Operating Measures

Key operating measures we use to manage our operating segments are: future sales orders; shipments; development of new products; controlling customer retention; inventory levels and productivity. These measures are recorded and monitored at various intervals, including daily, weekly and monthly. To the extent these measures are relevant; they are discussed in the detailed sections for each operating segment.

### Financial Measures

Key financial measures we use to evaluate the results of our business include: revenue; gross margin; selling, general and administrative expenses; earnings before interest, taxes, depreciation, amortization (“EBITDA”), operating cash flows, capital expenditures; return on sales; return on assets; days sales outstanding and inventory turns. These measures are reviewed at monthly, quarterly and annual intervals and are compared to historical periods as well as established objectives. To the extent that these measures are relevant, they are discussed in the detailed sections for each operating segment below.

### Critical Accounting Policies and Estimates

We prepare our consolidated condensed financial statements in accordance with accounting principles generally accepted in the United States of America, (“GAAP”). Certain of these accounting policies require us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and the related disclosure of contingent assets and liabilities, revenues and expenses. On an ongoing basis, we evaluate estimates, including those related to bad debts, inventory reserves, goodwill and intangible assets, deferred tax assets, warranty reserves and judgments on the Company’s variable interest entity (“VIE”) reporting requirements . We base our estimates on historical data and experience when available, and on various other assumptions that are believed to be reasonable under the circumstances, the combined results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

There have been no material changes in our critical accounting policies and estimates from those discussed in Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2010.

## RESULTS OF OPERATIONS

The table below provides an analysis of our net revenue for the three and nine-month periods ended September 30, 2011 and 2010:

## Net Revenue

|                   | Three months<br>Ended September 30, |               | Variance<br>\$ | Variance<br>% |
|-------------------|-------------------------------------|---------------|----------------|---------------|
|                   | 2011                                | 2010          |                |               |
| <b>Tools</b>      |                                     |               |                |               |
| Florida Pneumatic | \$ 7,172,000                        | \$ 7,241,000  | \$ (69,000)    | (1.0)%        |
| Hy-Tech           | 4,010,000                           | 3,368,000     | 642,000        | 19.1          |
| Tools Total       | 11,182,000                          | 10,609,000    | 573,000        | 5.4           |
| <b>Hardware</b>   |                                     |               |                |               |
| Nationwide        | 3,868,000                           | 3,658,000     | 210,000        | 5.7           |
| Hardware Total    | 3,868,000                           | 3,658,000     | 210,000        | 5.7           |
| Consolidated      | \$ 15,050,000                       | \$ 14,267,000 | \$ 783,000     | 5.5%          |
|                   | Nine months<br>Ended September 30,  |               | Variance<br>\$ | Variance<br>% |
|                   | 2011                                | 2010          |                |               |
| <b>Tools</b>      |                                     |               |                |               |
| Florida Pneumatic | \$ 17,863,000                       | \$ 16,902,000 | \$ 961,000     | 5.7%          |
| Hy-Tech           | 12,498,000                          | 10,222,000    | 2,276,000      | 22.3          |
| Tools Total       | 30,361,000                          | 27,124,000    | 3,237,000      | 11.9          |
| <b>Hardware</b>   |                                     |               |                |               |
| Nationwide        | 12,306,000                          | 11,610,000    | 696,000        | 6.0           |
| Hardware Total    | 12,306,000                          | 11,610,000    | 696,000        | 6.0           |
| Consolidated      | \$ 42,667,000                       | \$ 38,734,000 | \$ 3,933,000   | 10.2%         |

All revenues are generated in U.S. dollars and are not impacted by changes in foreign currency exchange rates.

## Tools

Revenue reported by our Tools segment during the three-month period ended September 30, 2011 increased \$573,000, when compared to the same period in 2010. Specifically, Hy-Tech, which focuses on the industrial sector of the pneumatic tools market, increased revenue \$642,000 during the third quarter of 2011 compared to the same period in 2010. This improvement is due primarily to increased product demand within its distribution channels. Of note, Hy-Tech's ATP product lines (parts, tools and sockets), which accounted for approximately 70% of its revenue during the third quarter of 2011, improved 17%, when compared to the same three month period in 2010. Additionally, revenue generated from its sale of products that focus on mining, construction and industrial manufacturing markets, which accounted for approximately 13% of third quarter of 2011 revenue, increased approximately 26% over the same

period in 2010. Further, revenue from a major customer of Hy-Tech, which for the three-month period ended September 30, 2011 accounted for approximately 16% of its revenue, increased 37% when compared to the same period a year ago. Revenue from its Thaxton product line decreased approximately 23% however, Thaxton accounted for only 2% of Hy-Tech's revenue during this quarter. We believe that Hy-Tech's relationships with its key customers, given the current economic conditions remain good.

Florida Pneumatic's revenue declined \$69,000, or less than 1.0% when comparing the three-month periods ended September 30, 2011 and 2010. Revenue from its major retail customer decreased \$748,000, due mostly to promotional product orders not being placed in 2011, which were ordered during the third fiscal quarter of 2010. However, the decline was partially offset by an increase in revenue of \$501,000, generated through its on-going expansion of its higher margin, industrial/catalog product lines. Additionally, revenue from its automotive product line increased \$103,000. Lastly, the aggregate revenue from Berkley, filters and OEM product lines improved during the third quarter of 2011 compared to the same period in 2010 by \$74,000. We believe that Florida Pneumatic's relationships with its key customers, given the current economic conditions, remain good.



Revenue for the Tools group increased to \$30,361,000 during the nine-month period ended September 30, 2011, compared to \$27,124,000 for the same nine-month period in 2010. Hy-Tech's revenue during the nine-month period ended September 30, 2011 increased \$2,276,000, or 22.3%, of which ATP revenue increased 21%. As noted above, this increase during the nine-month period ended September 30, 2011 has been due primarily to the strong demand for the ATP products within the distribution channels. Revenue also increased at one of its major customers 38% over the nine-month period in 2010. This improved year-to-date revenue attributable to this customer is due in part to their need to increase their product offerings and service level to their global business partners. Additionally, revenue generated from the sale of products for the mining, construction and industrial manufacturing markets increased approximately 27%. However, revenue from the sale of its Thaxton products, which for the nine-month period ended September 30, 2011 accounted for approximately 2% of its revenue, declined 29%, when compared to the nine-month period ended September 30, 2010.

During the first nine months of 2011, revenue at Florida Pneumatic increased over the same period in 2010 by \$961,000 or 5.7%. This improvement is primarily the result of an increase of \$1,272,000 or 33% at its higher margin industrial/catalog sector, which, for the nine-month period ended September 30, 2011 accounted for approximately 29% of Florida Pneumatics' revenue, compared to approximately 23% during the same nine-month period in the prior year. Additionally, revenue increased by 40% at Florida Pneumatic's automotive product line for the nine-month period ended September 30, 2011 compared to the same period a year ago. Further, revenue also improved at its Berkley, filters and OEM product lines by an aggregate of 12%. However, revenue from its major customer during the nine-month period ended September 30, 2011 decreased 7%, due mostly to reduced levels of orders for promotional and specialty items compared to the same period in 2010. However, there was an increase in the number of orders for basic items from this customer. This customer accounts for approximately 57% of Florida Pneumatic's total revenue.

#### Hardware

Our Hardware revenue is comprised of the sales of fencing and gate hardware, kitchen and bath accessories, OEM products and patio hardware.

|                         | Three months Ended September 30, |              |                |               |
|-------------------------|----------------------------------|--------------|----------------|---------------|
|                         | 2011                             | 2010         | Variance<br>\$ | Variance<br>% |
| Hardware                |                                  |              |                |               |
| Fence and gate hardware | \$ 2,545,000                     | \$ 2,348,000 | \$ 197,000     | 8.4%          |
| Kitchen & bath          | 685,000                          | 606,000      | 79,000         | 13.0          |
| OEM                     | 420,000                          | 517,000      | (97,000)       | (18.8)        |
| Patio                   | 218,000                          | 187,000      | 31,000         | 16.6          |
| Total Hardware          | \$ 3,868,000                     | \$ 3,658,000 | \$ 210,000     | 5.7%          |

|                         | Nine months Ended September 30, |               |                |               |
|-------------------------|---------------------------------|---------------|----------------|---------------|
|                         | 2011                            | 2010          | Variance<br>\$ | Variance<br>% |
| Hardware                |                                 |               |                |               |
| Fence and gate hardware | \$ 8,270,000                    | \$ 7,312,000  | \$ 958,000     | 13.1%         |
| Kitchen & bath          | 2,056,000                       | 2,129,000     | (73,000)       | (3.4)         |
| OEM                     | 1,295,000                       | 1,523,000     | (228,000)      | (15.0)        |
| Patio                   | 685,000                         | 646,000       | 39,000         | 6.0           |
| Total Hardware          | \$ 12,306,000                   | \$ 11,610,000 | \$ 696,000     | 6.0%          |

When comparing the three-month periods ended September 30, 2011 and 2010, fence and gate hardware continues to show improvement, posting an 8.4% increase, due primarily to increase in its customer base and new product releases during 2011. However, Nationwide continues to encounter weak market conditions for its kitchen & bath faucet line, particularly in the recreational vehicle and modular home markets, as well as its OEM line. Much of these declines are due to the ongoing weakness in new home construction as well as sluggish recreation vehicle sales across the country. As a result of the aforementioned weak sectors, Nationwide's intends to continue focus its new product development and market growth efforts on fence and gate hardware. We believe that Nationwide's relationships with its key customers, given the current economic conditions, remain good.

Overall Hardware revenue for the nine-month period ended September 30, 2011 improved 6.0% when compared to the same period in 2010, primarily driven by a 13.1% increase in Nationwide's fence and gate hardware product line. As noted above, Nationwide has been able to increase revenue in the fence and gate hardware line, through its efforts to expand both its customer base as well as its product line. Despite strong marketing efforts put forth in the kitchen and bath and OEM product lines, Nationwide has encountered year-to-date declines of 3.4% and 15.0%, respectively. Until such time when the overall general economy, in particular home construction and renovation materially improve and lower fuel prices return, which we believe could energize the recreational vehicle market, it is likely we will continue to see weak results in these two product lines.

#### Gross Margins / Profits

Gross profits for the three and nine month periods ended September 30, 2011 and 2010:

| Three months ended September 30, |              | Consolidated | Tools        | Hardware     |
|----------------------------------|--------------|--------------|--------------|--------------|
| 2011                             | Gross Profit | \$ 5,369,000 | \$ 3,901,000 | \$ 1,468,000 |
|                                  | Gross Margin | 35.7 %       | 34.9 %       | 38.0 %       |
| 2010                             | Gross Profit | \$ 4,741,000 | \$ 3,452,000 | \$ 1,289,000 |
|                                  | Gross Margin | 33.2 %       | 32.5 %       | 35.2 %       |
| Variance                         | Gross Profit | \$ 628,000   | \$ 449,000   | \$ 179,000   |
|                                  | Gross Margin | 2.5          | 2.4          | 2.8          |

| Nine months ended September 30, |              | Consolidated  | Tools         | Hardware     |
|---------------------------------|--------------|---------------|---------------|--------------|
| 2011                            | Gross Profit | \$ 15,972,000 | \$ 11,149,000 | \$ 4,823,000 |
|                                 | Gross Margin | 37.4 %        | 36.7 %        | 39.2 %       |
| 2010                            | Gross Profit | \$ 13,430,000 | \$ 9,096,000  | \$ 4,334,000 |
|                                 | Gross Margin | 34.7 %        | 33.5 %        | 37.3 %       |
| Variance                        | Gross Profit | \$ 2,542,000  | \$ 2,053,000  | \$ 489,000   |
|                                 | Gross Margin | 2.7           | 3.2           | 1.9          |

#### Tools

When comparing the three-month periods ended September 30, 2011 and 2010, Florida Pneumatic's gross margin increased 0.4 percentage points, and its gross profit increased \$11,000. Hy-Tech's gross margin improved 5.1 percentage points to 41.6%, with gross margin increasing \$438,000. The improvement in gross margin at Hy-Tech is the result of product mix as well as improved cost of manufacturing.

When comparing the nine-month periods ended September 30, 2011 and 2010, gross margins at Florida Pneumatic improved 1.6 percentage points to 33.8%, with gross profit increasing \$599,000. The increase in the gross margin during the first nine months of 2011 compared to the same period in 2010 is due primarily to Florida Pneumatic's increase in revenue of its higher margin, industrial/catalog product lines. For the nine-month period ended September 30, 2011, Hy-Tech increased its gross margin and gross profit 5.1 percentage points and \$1,454,000, respectively, when compared to the same nine-month period in 2010 primarily through product mix as well as improved cost of manufacturing.



## Hardware

During the three-month period ended September 30, 2010, as a result of banking issues with the lenders under our previous credit facility, Nationwide had to, among other things, delay certain inventory purchases, which in turn caused Nationwide to incur excessive in-bound air and sea freight in order to meet its customers commitments. As a result, Nationwide's cost of goods sold during the third quarter of 2010 was adversely affected. These improvements were partially offset by rising product costs.

During the nine-month period ended September 30, 2011, key factors contributing to the gross profit and gross margin increases at Nationwide were, as discussed above, lower overall in-bound freight in costs in 2011, compared to 2010, being partially offset by higher product cost in 2011.

## Selling, General and Administrative Expenses

Selling, general and administrative expenses ("SG&A") include salaries and related costs, commissions, travel, administrative facilities, communications costs and promotional expenses for our direct sales and marketing staff, administrative and executive salaries and related benefits, legal, accounting and other professional fees as well as general corporate overhead and certain engineering expenses.

For the three-month period ended September 30, 2011, our SG&A were \$4,581,000, compared to \$3,845,000 for the three-month period ended September 30, 2010. As a percentage of revenue, our SG&A was 30.4% for the three-month period ended September 30, 2011, compared to 27.0% for the same period in the prior year. Significant line items contributing to the change were expenses such as commissions, freight out, travel and entertainment, advertising and warranty costs aggregating \$186,000, which increased primarily due to higher revenue. Additionally, compensation, which includes wages, accrued performance-based bonus incentives, associated payroll taxes and employee benefits increased \$463,000, due in part to the reinstatement in January 2011 of wage and benefit reductions that were put in effect in April 2009. Depreciation and amortization costs also increased \$46,000, due primarily to amortizing certain costs incurred in connection with the credit agreement entered into with COLF in October 2010. Amortization of non-cash stock-based compensation expense increased by \$39,000, when comparing the three-month periods ended September 30, 2011 and 2010.

Our SG&A for the nine-month period ended September 30, 2011 were \$13,458,000, compared to \$12,246,000 incurred during the same period in 2010. As a percentage of revenue SG&A for the nine-month period ended September 30, 2011 was 31.5% compared to 31.6% during the same period in 2010. As the result of revenue increasing our variable expenses, which includes commissions, freight out, travel and entertainment, advertising and warranty costs increased an aggregate amount of \$379,000. Additionally, compensation, which includes wages, accrued performance-based bonus incentives, associated payroll taxes and employee benefits increased \$1,248,000, due in part to the reinstatement in January 2011 of wage and benefit reductions that were put in effect in April 2009, as well as improved net earnings, which drives the accrued performance-based bonus. Depreciation and amortization costs also increased \$131,000, due primarily to amortizing certain costs incurred in connection with the credit agreement entered into with COLF in October 2010. Amortization of non-cash stock-based compensation expense increased by \$56,000, when comparing the nine-month periods ended September 30, 2011 and 2010. These increases were partially offset by decreases in legal and other professional fees we incurred in connection with resolving conflicts with our former banks, resulting in an aggregate reduction of \$672,000.

## Interest

Our net interest expense of \$170,000 for the three-month period ended September 30, 2011 reflects a decrease of \$94,000 or 35.6%, when compared to net interest expense of \$264,000 incurred for the same period in the prior year.

The most significant item included in interest expense this quarter was a reduction in our short term revolver borrowings during the comparative three-month periods. The average balance of short-term borrowings during the three-month periods ended September 30, 2011 and 2010 were \$6,702,000 and \$11,300,000, respectively. This reduction in borrowings along with lower interest rates resulted in interest expense attributable to short term borrowing decreasing \$92,000 to \$61,000 during the three-month period ended September 30, 2011, from \$153,000 incurred during the same period in 2010. Additionally, during the three-month period ended September 30, 2011 we paid \$89,000 in interest applicable to the term loan obligation to COLF. This reflects an increase of \$50,000 when compared to the interest paid on the term loan to our former banks during the same three-month period in 2010. During the second quarter of 2010, we received a tax refund of \$3,455,000, of which \$1,989,000 was used to pay down this term loan with our former bank. Additionally, in connection with our entering into the Credit Agreement in October 2010 with COLF, we paid, in their entirety, the two mortgages with Wachovia Bank, pertaining to the premises in Jupiter and Tampa Florida. Thus, there was no mortgage interest expense incurred during the three-month period ended September 30, 2011, compared to \$20,000 in the same period in 2010. Other items included in our interest expense during the three-month period ended September 30, 2011 are approximately \$11,000 of interest attributable to the balance owed to the sellers of Hy-Tech, \$5,000 of interest on the loan from our Chief Executive Officer and \$5,000 of interest to an unrelated third party.

Interest expense for the nine-month period ended September 30, 2011 was \$589,000, compared to \$990,000 for the same period in 2010. Interest on our short term borrowings during the nine-month periods ended September 30, 2011 and 2010 was \$249,000 and \$585,000, respectively. This reduction of \$336,000 is due to lower interest rates in 2011 compared to interest rates in effect during the same period in 2010, as well as lower average short term borrowings. Additionally, as noted above, we paid in their entirety, two mortgages in October 2010. As a result, there was no interest expense in 2011 attributable to these mortgages, whereas we incurred \$63,000 during the nine-month period ended September 30, 2010. Interest expense on our term loan was \$269,000, compared to \$200,000 in the same period in 2010. Other items included in our interest expense during the nine-month period ended September 30, 2011 included approximately \$34,000 of interest attributable to the balance owed to the sellers of Hy-Tech, and \$15,000 of interest on the loan from our Chief Executive Officer and \$23,000 of interest to an unrelated third party.

#### Income Taxes

During the three and nine-month periods ended September 30, 2011 P&F recorded \$57,000 income tax provision for federal alternative minimum tax and various state taxes. Additionally, the Company has provided a partial valuation allowance on its net deferred tax assets.

#### LIQUIDITY AND CAPITAL RESOURCES

Our cash flows from operations can be somewhat cyclical, typically with the greatest demand in the second and third quarters followed by positive cash flows in the first and fourth quarter as receivables and inventories trend down. We monitor average days sales outstanding, inventory turns, estimated future purchasing requirements and capital expenditures to project liquidity needs and evaluate return on assets employed.

We gauge our liquidity and financial stability by various measurements, some of which are shown in the following table:

|  | September     |                   |
|--|---------------|-------------------|
|  | 30, 2011      | December 31, 2010 |
| Working capital of continuing operations | \$ 14,250,000 | \$ 11,750,000     |
| Current ratio of continuing operations   | 2.03 to 1.0   | 1.77 to 1.0       |
| Shareholders' equity                     | \$ 29,049,000 | \$ 26,399,000     |

#### SHORT-TERM BORROWINGS

P&F along with Florida Pneumatic, Hy-Tech and Nationwide, entered into a Credit Agreement with COLF. The Credit Agreement, entered into in October 2010, has a three-year term, with maximum borrowings of \$22,000,000. The Credit Agreement provides for a Revolver with a maximum borrowing of \$15,910,000. At September 30, 2011 and December 31, 2010, the balances owing on the Revolver were \$5,721,000 and \$9,996,000, respectively. Direct borrowings under the Revolver are secured by the Company's accounts receivable, mortgages on the Company's real property located in Cranberry, PA, Jupiter, FL and Tampa, FL, inventory and equipment and are cross-guaranteed by certain of the Company's subsidiaries (the "Subsidiary Guarantors"). Revolver borrowings bear interest at LIBOR or the Base Rate, as defined in the Credit Agreement, plus the currently applicable margin rates. Beginning April 1, 2011, the loan margins applicable to borrowings on the Revolver are determined based upon the computation of total debt divided by EBITDA. Applicable loan margins will range from 3.25% to 4.00% for LIBOR borrowings and from 2.25% to 3.00% for borrowings at the Base Rate. Loan margins added to Revolver borrowings at September 30, 2011 were 3.25% and 2.25%, respectively, for borrowings at LIBOR and the Base Rate. Loan margins added to Revolver borrowings at December 31, 2010 were 3.75% and 2.75%, respectively, for borrowings at LIBOR and the Base Rate.

We incur an unused line fee which can range from one-half percent (0.50%) to three-quarters percent (0.75%), depending on the percentage of the Revolver to the total Credit Facility. Should we terminate the Credit Facility prior to maturity, the Credit Agreement provides for a prepayment fee of one percent (1.00%) of the total Credit Facility if terminated during the first year, and one-half percent (0.50%) if terminated during the second year. We are also required to provide, among other things, monthly financial statements and monthly borrowing base certificates. Additionally, we are subject to various financial covenants, of which we continue to be in compliance with. If an event of default occurs under this Credit Agreement, the interest rate would increase by two percent per annum until such event of the default is cured.

#### LONG-TERM DEBT

The Credit Agreement also contains a \$6,090,000 term loan (the "Term Loan"), which is secured by our accounts receivable, mortgages on the Company's real property located in Cranberry, PA, Jupiter, FL and Tampa, FL, inventory and equipment and are cross-guaranteed by the Subsidiary Guarantors. The Term Loan amortizes \$33,833 each month with a balloon payment at maturity of the Credit Agreement. The balance due on the Term Loan at September 30, 2011 and December 31, 2010 was \$5,752,000 and \$6,056,000, respectively. The Credit Agreement requires us to make prepayments of 25% of excess annual cash flow, as defined in the Credit Agreement, or in the event of a sale of any real estate assets. Term Loan borrowings bear interest at LIBOR or the Base Rate plus the currently applicable margin rates, which at September 30, 2011 and December 31, 2010 were 5.75% and 4.75%, respectively.



In April 2010, as part of an amendment to a prior credit agreement with different banks, we were required to obtain subordinated loans of \$750,000. These subordinated loans were, in the aggregate, provided by our Chief Executive Officer, in the amount of \$250,000, and another unrelated party, in the amount of \$500,000 and are due October 25, 2013. These subordinated loans bear interest at 8% per annum and as of the date of this filing all interest earned through September 30, 2011 has been paid. Further, pursuant to the subordination agreement with COLF, the amount owed to the unrelated third party may be repaid from excess cash flows, as defined in such subordination agreement. In August 2011 we paid \$206,000 of principal to the unrelated third party. As a result, the remaining balance due on this subordinated loan to the unrelated third party is \$115,000.

Under the terms of the Credit Agreement with COLF, in October 2010, we paid \$685,000 to the Hy-Tech sellers representing 50% of the outstanding loan amount, plus accrued interest. Pursuant to the subordination agreement with COLF, the balance of \$573,000 plus interest owed may be repaid from excess cash flows, as is defined in such subordination agreement. Interest accrues at a rate of 8% per annum.

With the approval of COLF, the Company and the Hy-Tech sellers entered into a Termination of Promissory Note and Mutual Releases dated October 31, 2011 (the "Subordinated Debt Termination Agreement"), which was effective as of November 1, 2011. Pursuant to the Subordinated Debt Termination Agreement, the Company paid \$550,000 plus approximately \$4,000 in accrued interest to the Hy-Tech sellers in full satisfaction of the approximately \$573,000 in subordinated debt obligation due the Hy-Tech sellers and the exchange of mutual releases amount the parties. The Company will report a gain of \$23,000 during the fourth quarter of 2011. At September 30, 2011, this obligation has been reclassified to current maturities of long-term debt.

At September 30, 2011, there were no foreign currency forward contracts outstanding.

Our total bank debt at September 30, 2011 was \$11,473,000, compared to \$16,052,000 at December 31, 2010. The percent of total debt to total book capitalization (total bank and other debt divided by total bank and other debt plus equity) was 29.9% at September 30, 2011, compared to 39.7% at December 31, 2010.

We had net cash of \$4,525,000 provided by operating activities of continuing operations for the nine-month period ended September 30, 2011, compared to \$8,079,000 during the same period in the prior year. We note that during the nine-month period ended September 30, 2010 we received approximately \$3,455,000 in income tax refunds.

We incurred \$570,000 for capital expenditures during the nine-month period ended September 30, 2011, compared to \$154,000 during the nine-month period ended September 30, 2010. Capital expenditures for the balance of 2011 relating to new products, expansion of existing product lines and replacement of equipment are expected to be approximately \$700,000, a portion of which may be financed through our credit facilities or financed through independent third party financial institutions.

We believe that cash derived from operations and cash available through borrowings, if necessary, allowable under the terms of the Credit Agreement will be sufficient to allow us to meet our working capital needs through December 31, 2011.

#### OFF-BALANCE SHEET ARRANGEMENTS

In accordance with ASC 810, as of September 30, 2010, we deconsolidated WMC and therefore do not include its financial position in the Company's consolidated condensed financial statements. We believe neither the Company nor any of its subsidiaries other than WMC are legally responsible for any of the liabilities belonging to WMC. Until such time when these obligations have been resolved, either directly with the creditors, discharged by a court of law, or otherwise eliminated, WMC is required to maintain these obligations on its books, which at September 30, 2011 and

December 31, 2010 were approximately \$2.4 million and \$12.1 million, respectively. We will, as required by ASC 810, re-evaluate the facts and circumstances regarding whether or not we should consolidate WMC at each reporting period.

#### RECENT ACCOUNTING PRONOUNCEMENTS

In September 2011, The Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2011-08, Intangibles—Goodwill and Other (Topic 350): Testing Goodwill for Impairment. ASU 2011-08 is intended to simplify how entities, both public and nonpublic, test goodwill for impairment. ASU 2011-08 permits an entity to first assess qualitative factors to determine whether it is “more likely than not” that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test described in Topic 350, Intangibles-Goodwill and Other. The more-likely-than-not threshold is defined as having a likelihood of more than 50%. ASU 2011-08 is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted, including for annual and interim goodwill impairment tests performed as of a date before September 15, 2011, if an entity’s financial statements for the most recent annual or interim period have not yet been issued. The Company is currently evaluating the impact of the adoption of this ASU on its consolidated condensed financial statements.

Item 3. Quantitative And Qualitative Disclosures About Market Risk

Not required.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure. As required by Exchange Act Rule 13a-15(b), as of the end of the period covered by this Quarterly Report, with the participation of our principal executive officer and principal financial officer, we evaluated the effectiveness of our disclosure controls and procedures. Based on this evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective at a reasonable assurance level as of September 30, 2011.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting, identified in connection with the evaluation required by paragraph (d) of Rule 13a-15 of the Exchange Act, that occurred during our most recently completed fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 6. Exhibits

See “Exhibit Index” immediately following the signature page.

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SIGNATURE

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.

P&F INDUSTRIES, INC.  
(Registrant)

By

/s/ Joseph A. Molino, Jr.  
Joseph A. Molino, Jr.  
Chief Financial Officer  
(Principal Financial and Chief Accounting  
Officer)

Dated: November 14, 2011

EXHIBIT INDEX

The following exhibits are either included in this report or incorporated herein by reference as indicated below:

| Exhibit Number | Description of Exhibit  |
|----------------|---|
| 10.1           | Settlement of Claims and Mutual General Releases, dated August 3, 2011, by and between Old Stairs Co LLC, the Registrant and AGNL Coffman, LLC.   |
| 10.2.          | First Amendment to Loan and Security Agreement, dated as of September 21, 2011, among the Registrant, Florida Pneumatic Manufacturing Corporation, Hy-Tech Machine Inc., Nationwide Industries, Inc., Continental Tool Group, Inc., Countrywide Hardware, Inc., Embassy Industries, Inc., Green Manufacturing, Inc., Pacific Stair Products, Inc., WILP Holdings, Inc., Woodmark International, L.P., and Capital One Leverage Finance Corporation, as Lenders and Agent (Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated September 21, 2011). |
| 31.1           | Certification of Richard A. Horowitz, Principal Executive Officer of the Registrant, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.   |
| 31.2           | Certification of Joseph A. Molino, Jr., Principal Financial Officer of the Registrant, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.   |
| 32.1           | Certification of Richard A. Horowitz, Principal Executive Officer of the Registrant, Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002   |
| 32.2           | Certification of Joseph A. Molino, Jr., Principal Financial Officer of the Registrant, Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.  |
| 101            | XBRL Interactive Data.  |

A copy of any of the foregoing exhibits to this Quarterly Report on Form 10-Q may be obtained, upon payment of the Registrant's reasonable expenses in furnishing such exhibit, by writing to P&F Industries, Inc., 445 Broadhollow Road, Suite 100, Melville New York 11747, Attention: Corporate Secretary.