

P&F INDUSTRIES INC
Form 10-Q
May 13, 2011

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 March 31, 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

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 ☐

Edgar Filing: P&F INDUSTRIES INC - Form 10-Q

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

Large accelerated filer ☐

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting company ☒

(Do not check if a smaller reporting company)

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 May 12, 2011 there were 3,614,562 shares of the registrant’s Class A Common Stock outstanding.

P&F INDUSTRIES, INC.
FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2011
TABLE OF CONTENTS

		PAGE
PART I — FINANCIAL INFORMATION		1
Item 1.	Financial Statements	1
	Consolidated Condensed Balance Sheets as of March 31, 2011 (unaudited) and December 31, 2010	1
	Consolidated Condensed Statements of Operations for the three months ended March 31, 2011 and 2010 (unaudited)	3
	Consolidated Condensed Statement of Shareholders' Equity for the three months ended March 31, 2011 (unaudited)	4
	Consolidated Condensed Statements of Cash Flows for the three months ended March 31, 2011 and 2010 (unaudited)	5
	Notes to Consolidated Condensed Financial Statements	7
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	14
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	19
Item 4	Controls and Procedures	19
PART II — OTHER INFORMATION		21
Item 1.	Legal Proceedings	21
Item 1A.	Risk Factors	21
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	21
Item 3.	Defaults Upon Senior Securities	21
Item 4.	RESERVED	21

Edgar Filing: P&F INDUSTRIES INC - Form 10-Q

Item 5.	Other Information	21
Item 6.	Exhibits	21
Signature		22
Exhibit Index		23

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

P&F INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED CONDENSED BALANCE SHEETS

	March 31, 2011 (unaudited)	December 31, 2010 (See Note 1)
ASSETS		
CURRENT ASSETS		
Cash	\$ 901,000	\$ 874,000
Accounts receivable — net	7,957,000	6,986,000
Inventories – net	17,730,000	18,430,000
Deferred income taxes — net	233,000	233,000
Prepaid expenses and other current assets	624,000	417,000
Current assets of discontinued operations	23,000	23,000
TOTAL CURRENT ASSETS	27,468,000	26,963,000
PROPERTY AND EQUIPMENT		
Land	1,550,000	1,550,000
Buildings and improvements	7,480,000	7,480,000
Machinery and equipment	16,493,000	16,340,000
	25,523,000	25,370,000
Less accumulated depreciation and amortization	13,968,000	13,599,000
NET PROPERTY AND EQUIPMENT	11,555,000	11,771,000
GOODWILL	5,150,000	5,150,000
OTHER INTANGIBLE ASSETS — net	2,213,000	2,300,000
DEFERRED INCOME TAXES — net	1,874,000	1,874,000
OTHER ASSETS — net	766,000	837,000
TOTAL ASSETS	\$ 49,026,000	\$ 48,895,000

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

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

	March 31, 2011 (unaudited)	December 31, 2010 (See Note 1)
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Short-term borrowings	\$ 10,203,000	\$ 9,996,000
Accounts payable	1,687,000	1,673,000
Accrued liabilities	2,627,000	3,115,000
Current liabilities of discontinued operations	32,000	27,000
Current maturities of long-term debt	406,000	406,000
TOTAL CURRENT LIABILITIES	14,955,000	15,217,000
Long-term debt, less current maturities	6,872,000	6,973,000
Liabilities of discontinued operations	303,000	306,000
TOTAL LIABILITIES	22,130,000	22,496,000
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY		
Preferred stock - \$10 par; authorized - 2,000,000 shares; no shares issued	—	—
Common stock		
Class A - \$1 par; authorized - 7,000,000 shares; issued - 3,956,000 at March 31, 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	10,753,000	10,718,000
Retained earnings	15,142,000	14,680,000
Treasury stock, at cost – 342,000 shares at March 31, 2011 and December 31, 2010	(2,955,000)	(2,955,000)
TOTAL SHAREHOLDERS' EQUITY	26,896,000	26,399,000
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 49,026,000	\$ 48,895,000

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

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

	Three Months Ended March 31,	
	2011	2010
Net revenue	\$ 13,453,000	\$ 11,147,000
Cost of sales	8,330,000	7,148,000
Gross profit	5,123,000	3,999,000
Selling, general and administrative expenses	4,423,000	4,317,000
Operating income (loss)	700,000	(318,000)
Interest expense	221,000	389,000
Income (loss) from continuing operations before income taxes	479,000	(707,000)
Income tax expense	—	—
Net income (loss) from continuing operations	479,000	(707,000)
Loss from discontinued operations (no tax benefits for the three month periods ended March 31, 2011 and 2010)	(17,000)	(1,744,000)
Net income (loss)	\$ 462,000	\$ (2,451,000)
Basic and diluted earnings (loss) per share		
Continuing operations	\$ 0.13	\$ (0.20)
Discontinued operations	—	(0.48)
Net income (loss)	\$ 0.13	\$ (0.68)
Weighted average common shares outstanding:		
Basic	3,615,000	3,615,000
Diluted	3,678,000	3,615,000

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

P&F INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED CONDENSED STATEMENT OF SHAREHOLDERS' EQUITY (unaudited)

	Total	Class A Common Stock, \$1 Par		Additional paid-in capital	Retained earnings	Treasury stock	
		Shares	Amount			Shares	Amount
Balance, 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	462,000				462,000		
Stock-based compensation	35,000			35,000			
Balance, March 31, 2011	\$ 26,896,000	3,956,000	\$ 3,956,000	\$ 10,753,000	\$ 15,142,000	(342,000)	\$ (2,955,000)

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

P&F INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS (unaudited)

	Three months ended March 31,	
	2011	2010
Cash Flows from Operating Activities		
Net income (loss)	\$462,000	\$(2,451,000)
Adjustments to reconcile net income (loss) to net cash provided by operating activities of continuing operations:		
Loss from discontinued operations	17,000	1,744,000
Non-cash charges:		
Depreciation and amortization	398,000	413,000
Amortization of other intangible assets	87,000	87,000
Amortization of other assets	71,000	3,000
Provision for losses on accounts receivable	19,000	8,000
Stock-based compensation	35,000	35,000
Loss on sale of fixed assets	—	2,000
Changes in operating assets and liabilities:		
Accounts receivable	(990,000)	283,000
Notes and other receivables	45,000	(88,000)
Inventories	700,000	945,000
Income tax refund receivable	—	(5,000)
Prepaid expenses and other current assets	(252,000)	175,000
Other assets	—	(226,000)
Accounts payable	14,000	1,273,000
Accrued liabilities	(488,000)	975,000
Total adjustments	(344,000)	5,624,000
Net cash provided by operating activities of continuing operations	118,000	3,173,000

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

P&F INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS (unaudited)

	Three months ended March 31,	
	2011	2010
Cash Flows from Investing Activities:		
Capital expenditures	\$(183,000)	\$(46,000)
Proceeds from disposal of fixed assets	1,000	—
Net cash used in investing activities	(182,000)	(46,000)
Cash Flows from Financing Activities:		
Proceeds from short-term borrowings	7,525,000	—
Repayments of short-term borrowings	(7,318,000)	(2,400,000)
Repayments of term loan	(101,000)	(1,253,000)
Repayments of equipment lease financing	—	(106,000)
Principal payments on long-term debt	—	(49,000)
Net cash provided by (used in) financing activities	106,000	(3,808,000)
Cash Flows from Discontinued Operations:		
Operating activities	(15,000)	(154,000)
Investing activities	—	245,000
Financing activities	—	44,000
Net cash (used in) provided by Discontinued Operations	(15,000)	135,000
Net Increase (decrease) in cash	27,000	(546,000)
Cash at beginning of period	874,000	546,000
Cash at end of period	\$901,000	\$—
Supplemental disclosures of cash flow information:		
Cash paid for:		
Interest	\$200,000	\$347,000
Income taxes	\$—	\$16,000

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.

Principles of Consolidation

The unaudited consolidated condensed financial statements contained herein include the accounts of P&F Industries, Inc. and its subsidiaries ("P&F"). 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 and its subsidiaries are herein referred to collectively as the "Company." In addition, the words "we", "our" and "us" refer to the Company. 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, the heavy construction industry, oil and mining companies and heavy industry. 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 its wholly-owned subsidiary, WM Coffman, LLC (now known as Old Stairs Co LLC) (“WMC”). WMC was primarily engaged in the manufacturing and importing of stair parts and related accessories. In an effort to improve the overall results of the Company’s existing stair parts operation, the Company entered into the WMC transactions. These transactions were executed in an attempt to take advantage of the synergies available by combining two large players in an industry at the bottom of its economic cycle with complementary distribution channels and operations. WMC was not able to achieve the revenue levels anticipated prior to the WMC transactions and, as a result, never produced positive cash flows. This caused, among other things, defaults on the WMC loan agreement. As the result of a decision reached by the Company’s board of directors in March 2010, that it was in the best interest of the Company and its shareholders that the Company sell, liquidate or otherwise dispose of its membership interests in WMC, the Company reported WMC as a discontinued operation effective January 1, 2010.

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, inventory, goodwill, intangible assets and other long-lived assets, income taxes and deferred taxes. 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 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 March 31, 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 variable interest entity (“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 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 (loss) earnings per common share is based only on the average number of shares of common stock outstanding for the periods. Diluted earnings per common share reflects the effect of shares of common stock issuable upon the exercise of options, unless the effect on earnings is antidilutive.

Diluted (loss) earnings 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 (loss) earnings per common share:

	Three months ended March 31,	
	2011	2010
Numerator:		
Numerator for basic and diluted earnings (loss) per common share:		
Earnings (loss) from continuing operations	\$ 479,000	\$ (707,000)
(Loss) from discontinued operations	(17,000)	(1,744,000)
Net earnings (loss)	\$ 462,000	\$ (2,451,000)
Denominator:		
Denominator for basic earnings per share-weighted average common shares outstanding	3,615,000	3,615,000
Dilutive securities	63,000	—
Denominator for diluted earnings per share-weighted average common shares outstanding	3,678,000	3,615,000

At March 31, 2011 and 2010 and during the three month periods ended March 31, 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 (loss) earnings per share. The weighted average antidilutive stock options outstanding were as follows:

	Three months ended March 31,	
	2011	2010
Weighted average antidilutive stock options outstanding	514,000	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 and warrants. Compensation expense attributable to stock-based compensation was approximately \$35,000 during each of the three month periods ended March 31, 2011 and 2010. The compensation expense is recognized in selling, general and administrative expenses on the Company's statements of operations 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 March 31, 2011, the Company had approximately \$171,000 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 2.8 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 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 three years. In the event options granted contain a vesting schedule over a period of years, the Company recognizes compensation cost for these awards on a straight-line basis 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 following is a summary of the changes in outstanding options during the three month period ended March 31, 2011:

	Option Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Outstanding, January 1, 2011	585,624	\$6.73		—
Granted				—
Exercised	—	—		
Forfeited	—	—		
Expired	—	—		
Outstanding, March 31, 2011	585,624	\$6.73	5.4	41,000
Vested, March 31, 2011	420,291	\$7.93	4.2	3,000

The following is a summary of changes in non-vested shares for the three months ended March 31, 2011:

	Option Shares	Weighted Average Grant-Date Fair Value
Non-vested shares, January 1, 2011	165,333	\$ 2.19
Granted	—	—
Vested	—	—
Forfeited	—	—
Non-vested shares, March 31, 2011	165,333	\$ 2.19

The number of shares of Class A common stock reserved for stock options available for issuance under the Current Plan as of March 31, 2011 was 372,212. All of the options outstanding at March 31, 2011 were issued under the Current Plan.

NOTE 5 — RECENT ACCOUNTING PRONOUNCEMENTS

Management does not believe that any other recently issued, but not yet effective accounting standards, if currently adopted would have a material effect on our consolidated condensed financial statements.

NOTE 6 - ACCOUNTS RECEIVABLE AND ALLOWANCE FOR DOUBTFUL ACCOUNTS

Accounts receivable - net consists of:

	March 31, 2011	December 31, 2010
Accounts receivable	\$ 8,201,000	\$ 7,211,000
Allowance for doubtful accounts	(244,000)	(225,000)
	\$ 7,957,000	\$ 6,986,000

NOTE 7 — INVENTORIES

Inventories - net consist of:

	March 31, 2011	December 31, 2010
Raw material	\$ 1,999,000	\$ 1,932,000
Work in process	645,000	561,000

Finished goods	16,521,000	17,302,000
	19,165,000	19,795,000
Reserve for obsolete and slow-moving inventories	(1,435,000)	(1,365,000)
	\$ 17,730,000	\$ 18,430,000

NOTE 8 - GOODWILL AND OTHER INTANGIBLE ASSETS

During the three month period ended March 31, 2011, there was no change to the carrying value of goodwill. Other intangible assets were as follows:

	March 31, 2011			December 31, 2010		
	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
Other intangible assets:						
Customer relationships	\$ 5,070,000	\$ 3,336,000	\$ 1,734,000	\$ 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	60,000	230,000	290,000	56,000	234,000
Licensing	105,000	55,000	50,000	105,000	53,000	52,000
Totals	\$ 6,424,000	\$ 4,211,000	\$ 2,213,000	\$ 6,424,000	\$ 4,124,000	\$ 2,300,000

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

Three months ended March 31,

2011	2010
\$ 87,000	\$ 88,000

Amortization expense for each of the twelve-month periods ending March 31, 2012 through March 31, 2016 is estimated to be as follows: 2012 - \$350,000 ; 2013 - \$330,000 ; 2014 - \$186,000; 2015 - \$185,000 and 2016 - \$183,000. The weighted average amortization period for intangible assets was 8.63 years at March 31, 2011 and 8.5 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:

	Three months ended March 31,	
	2011	2010
Balance, beginning of period	\$ 250,000	\$ 183,000
Warranties issued and changes in estimated pre-existing warranties	114,000	112,000
Actual warranty costs incurred	(152,000)	(88,000)
Balance, end of period	\$ 212,000	\$ 207,000

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 March 31, 2011 and December 31, 2010, the balances owing on the Revolver were \$10,203,000 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, which at March 31, 2011 and December 31, 2010 were 3.75% and 2.75%, respectively. Beginning April 1, 2011, the loan margins applicable to borrowings on the Revolver shall be determined based upon the computation of total funded borrowings from COLF divided by earnings before interest, taxes, depreciation and amortization (“EBITDA”). These new applicable loan margins will range from 3.25% to 4.00% for LIBOR borrowings and from 2.25% to 3.00% for borrowings at prime rate.

The Company incurs an annual 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. If an event of default occurs under this Credit Agreement, the interest rate would increase by two percent per annum. Once cured, the two percent premium would be suspended.

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 Credit Agreement requires the Company 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 prime interest rate plus the currently applicable margin rates, which at March 31, 2011 and December 31, 2010 were 5.75% and 4.75%, respectively.

In April 2010, as part of an amendment to the Company’s prior credit agreement, the Company was required to obtain a subordinated loan of \$750,000. This subordinated loan was, in the aggregate, provided by the Company’s Chief Executive Officer, President and Chairman of the Board of Directors, (“CEO”), in the amount of \$250,000, and another unrelated party, in the amount of \$500,000. This subordinated loan remains outstanding and bears interest at 8% per annum. These loans payable are due October 25, 2013. Pursuant to a 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.

Under the terms of the Credit Agreement with COLF, the Company in October 2010 paid \$685,000 to the Hy-Tech Sellers representing 50% of the outstanding loan amount, plus accrued interest. Pursuant to a subordination agreement with COLF, the balance of \$573,000 owed may be repaid from excess cash flows, as defined in such subordination agreement. Interest is accruing at a rate of 6% per annum.

At March 31, 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 month periods ended March 31, 2011 and 2010, we purchased approximately \$231,000 and \$204,000, respectively of product from this vendor.

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 March 31, 2011	Consolidated	Tools	Hardware
Revenues from unaffiliated customers	\$ 13,453,000	\$ 9,720,000	\$ 3,733,000
Segment operating income	\$ 2,054,000	\$ 1,617,000	\$ 437,000
General corporate expense	(1,354,000)		
Interest expense – net	(221,000)		
Earnings before income taxes	\$ 479,000		
Segment assets	\$ 45,682,000	\$ 33,705,000	\$ 11,977,000
Corporate assets	3,344,000		
Total assets	\$ 49,026,000		

Edgar Filing: P&F INDUSTRIES INC - Form 10-Q

Long-lived assets, including \$331,000 at corporate	\$	18,918,000	\$	14,079,000	\$	4,508,000
---	----	------------	----	------------	----	-----------

Edgar Filing: P&F INDUSTRIES INC - Form 10-Q

Three months ended March 31, 2010	Consolidated	Tools	Hardware
Revenues from unaffiliated customers	\$ 11,147,000	\$ 7,820,000	\$ 3,327,000
Segment operating income	\$ 1,268,000	\$ 853,000	\$ 415,000
General corporate expense	(1,586,000)		
Interest expense – net	(389,000)		
Loss before income taxes	\$ (707,000)		
Segment assets	\$ 46,349,000	\$ 36,889,000	\$ 9,460,000
Corporate assets	6,251,000		
Total assets	\$ 52,600,000		
Long-lived assets, including \$435,000 at corporate	\$ 20,510,000	\$ 15,408,000	\$ 4,667,000

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, as 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 ("P&F"). 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 and its subsidiaries are herein referred to collectively as the "Company." In addition, the words "we", "our" and "us" refer to the Company. 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, the heavy construction industry, oil and mining companies and heavy industry. 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.

Countrywide also conducted a stair parts business until June 7, 2010, through its wholly-owned subsidiary, WM Coffman, LLC, now known as Old Stairs Co LLC (“WMC”).

Overview

Our business continues to track the general United States economy, showing improvement in 2011 compared to 2010. All three operating subsidiaries during the three-month period ended March 31, 2011 outperformed their respective results achieved in the same period in 2010. In the aggregate, our sales increased more than \$2.3 million. Further, as a percentage of sales, we were able to lower of selling, general and administrative expenses 5.8 percent. While we do not see any specific or unusual trends arising from our first quarter of 2011 results, we remain cautiously optimistic for the near term, however, events and circumstances beyond our control could adversely impact future results.

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 three months of fiscal 2011 compared to the same time-frame in 2010. The key economic measures for Hardware group, which consist of Nationwide only, were the general economic conditions of the United States and to a lesser extent the housing market.

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, 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 and warranty reserves. 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 month periods ended March 31, 2011 and 2010:

Revenue

	Three-months Ended March 31,		Variance	Variance	
	2011	2010	\$	%	
Tools					
Florida Pneumatic	\$ 5,574,000	\$ 4,546,000	\$ 1,028,000	22.6	%
Hy-Tech	4,146,000	3,274,000	872,000	26.6	
Tools Total	9,720,000	7,820,000	1,900,000	24.3	
Hardware					
Hardware Total	3,733,000	3,327,000	406,000	12.2	
Consolidated	\$ 13,453,000	\$ 11,147,000	\$ 2,306,000	20.7	%

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

Tools

When comparing the three-month periods ended March 31, 2011 and 2010, revenue reported by our Tools segment increased \$1,900,000 or 24.3%. Specifically, Florida Pneumatic increased its revenue from its major retail customer by \$535,000, when comparing the three-month periods ended March 31, 2011 and 2010. A key factor contributing to this increase was an initial roll-out of a small group of products during the first quarter of 2011 to a new retail partner to this major customer. It is difficult to predict the impact of this arrangement for the remainder of 2011. Florida Pneumatic continues to expand its product offering and marketing efforts in the higher margin, industrial / catalog sector. As such, it was able to increase industrial/catalog revenue \$352,000 when comparing the three-month period ended March 31, 2011 to the same period in the prior year. Further, Florida Pneumatic improved its revenue from its automotive and filters products by \$68,000 and \$64,000, respectively. We believe that Florida Pneumatic's relationships with its key customers, given the current economic conditions remain good.

During the first quarter of 2011 Hy-Tech, which focuses on the industrial sector of the pneumatic tools market, increased its revenue \$872,000 or 26.6% this quarter compared to the same period in the prior year. This improvement is due primarily to increased product demand within its distribution channels. Hy-Tech's ATP product lines accounted for more than 60% of the increase. Additionally, revenue from one of its major customers accounted for approximately 21% of Hy-Tech's improved revenue. The remaining portion of the increase is due in part to improvement in the mining, construction and industrial manufacturing markets. We believe that Hy-Tech's relationships with its key customers, given the current economic conditions remain good.

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 March 31,		Variance	Variance	
	2011	2010	\$	%	

Hardware					
Fence and gate hardware	\$	2,402,000	\$	1,849,000	\$ 553,000 30.0 %
Kitchen & Bath		760,000		820,000	(60,000) (7.3)
OEM		367,000		448,000	(81,000) (18.1)
Patio		204,000		210,000	(6,000) (2.9)
Total Hardware	\$	3,733,000	\$	3,327,000	\$ 406,000 12.2

The increase in fence and gate hardware during the three-month period ended March 31, 2011 compared to the same three-month period in the prior year is due primarily to increased customer base and new product releases. Nationwide continues to encounter weak market conditions for its kitchen & bath faucet line, particularly in the recreational vehicle and modular home markets. Much of the decline in OEM revenue was due to the ongoing weakness in new home construction and sluggish recreation vehicle sales. With fence and gate hardware being the primary contributor to Nationwide's increase in revenues, we will continue to focus more attention on new product development and market expansion to this product. We believe that Nationwide's relationships with its key customers, given the current economic conditions remain good.

Gross Margins / Profits

Gross profits for the three month periods ended March 31, 2011 and 2010:

Three months ended March 31,		Consolidated		Tools		Hardware	
2011	Gross Profit	\$ 5,123,000		\$ 3,711,000		\$ 1,412,000	
	Gross Margin	38.1	%	38.2	%	37.8	%
2010	Gross Profit	\$ 3,999,000		\$ 2,707,000		\$ 1,292,000	
	Gross Margin	35.9	%	34.6	%	38.8	%

Tools

Gross margins in the Tools segment for the three-month period ended March 31, 2011 increased 3.6 percentage points to 38.2% from 34.6% for the three-month period ended March 31, 2010. Gross profit for this segment increased \$1,004,000 or 37.1%. Specifically, when comparing the three-month periods ended March 31, 2011 and 2010, Florida Pneumatic's gross margin increased 1.5 percentage points, with gross profit improving \$434,000, and Hy-Tech's gross margin improved 5.9% percentage points to 41.4% with gross margin increasing \$570,000. The improvement in gross margin at Florida Pneumatic is primarily due to greater revenue during the first quarter of 2011 in its higher margin industrial and catalog product lines, compared to the same period in 2010. The improvement in gross margin at Hy-Tech is also the result of product mix as well as improved cost of manufacturing.

Hardware

Gross margin attributable to the Hardware segment for the three-month period ended March 31, 2011 decreased to 37.8% from 38.8% during the same period in the prior year. The 1.0 percentage point decrease in gross margin was due primarily to freight costs and slightly higher product costs. However, as the result of increased revenue during the first quarter of 2011, gross profit increased \$120,000 or 9.3% compared to 2010.

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 March 31, 2011, our SG&A was \$4,423,000, reflecting an increase of \$106,000 or 2.5% when compared to \$4,317,000 for the three-month period ended March 31, 2010. However, more importantly, as a percentage of revenue, our SG&A was 32.9% for the three-month period ended March 31, 2011, reflecting a decrease of 5.8 percentage points compared to 38.7% for the same period in the prior year. Significant line items contributing to the net change were increases in commissions, freight out, travel and entertainment and advertising costs aggregating \$127,000, primarily the result of increased revenue. Additionally, compensation, which includes accrued performance-based bonus incentives, associated payroll taxes and employee benefits increased \$351,000. These increases were partially offset by decreases in legal and other professional fees aggregating \$450,000. As discussed in previous filings, primarily during the first six months of 2010, we incurred significant legal and other professional fees in an effort to resolve a matter which resulted from actions taken in early 2010 by our former banks. Depreciation and information technology costs also increased an aggregate of \$64,000, due to the installation of new software.

Interest

Our net interest expense of \$221,000 for the three-month period ended March 31, 2011, reflects a decrease of \$168,000 or 43.2%, when compared to net interest expense of \$389,000 incurred for the same period in the prior year. The most significant item affecting 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 first quarter of fiscal 2011 was \$9,996,000 compared to \$14,728,000 during the same three-month period in 2010. As a result, interest expense attributable to short term borrowing decreased \$136,000 to \$104,000 from \$240,000 incurred in the first quarter of 2010. 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 is no mortgage interest expense incurred during the first quarter of 2011 compared to \$22,000 in the same period in 2010. Other items included in our interest expense include approximately \$11,000 of interest attributable to the sellers of Hy-Tech and \$15,000 of accrued interest on the loan from our CEO and an unrelated third party.

Income Taxes

We had an effective tax rate of zero applied to our income from continuing operations for the three-month period ended March 31, 2011 due to the utilization of net operations loss carry-forwards that can be applied to current year income. We currently believe that the zero effective tax rate will be applied for the remainder of 2011.

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:

	March 31, 2011	December 31, 2010
Working Capital of continuing operations	\$ 12,522,000	\$ 11,750,000
Current Ratio of continuing operations	1.84 to 1.0	1.77 to 1.0
Shareholders' Equity	\$ 26,896,000	\$ 26,399,000

SHORT-TERM BORROWINGS

In October 2010 we entered into a three-year Credit Agreement with COLF. The Credit Agreement set the maximum borrowings at \$22,000,000. The Credit Agreement provides for a Revolver with a maximum borrowing of \$15,910,000. At March 31, 2011 and December 31, 2010, the balances owing on the Revolver were \$10,203,000 and \$9,996,000, respectively. Direct borrowings under the Revolver are secured by our total assets, including mortgages on our real property located in Cranberry, PA, Jupiter, FL and Tampa, FL, and are cross-guaranteed by 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, which at March 31, 2011 and December 31, 2010 were 3.75% and 2.75%, respectively. Beginning April 1, 2011, the loan margins applicable to borrowings on the Revolver shall be determined based upon the computation of total funded borrowings from COLF divided by EBITDA. These new applicable loan margins will range from 3.25% to 4.00% for LIBOR borrowings and from 2.25% to 3.00% for borrowings at prime rate.

The Company incurs an annual 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 Agreement. Should the Company terminate the Credit Agreement prior to maturity, the Credit Agreement provides for a prepayment fee of one percent (1.00%) of the total Credit Agreement 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. If an event of default occurs under this Credit Agreement, the interest rate would increase by two percent per annum. Once cured, the two percent premium would be suspended.

LONG TERM DEBT

The Credit Agreement with COLF also contains a \$6,090,000 Term Loan, which is also secured by our total assets as well as mortgages on our real property located in Cranberry, PA, Jupiter, FL and Tampa, FL and is 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 Credit Agreement requires the Company 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 prime interest rate plus the currently applicable margin rates, which at March 31, 2011 and December 31, 2010 were 5.75% and 4.75%, respectively.

In April 2010, as part of an amendment to the Company's prior credit agreement, the Company was required to obtain a subordinated loan of \$750,000. This subordinated loan was, in the aggregate, provided by our CEO, in the amount of \$250,000, and another unrelated party, in the amount of \$500,000. This subordinated loan remains outstanding and bears interest at 8% per annum. The loan payable to the CEO is due October 25, 2013. Pursuant to a subordination agreement with COLF, the amount owing to the unrelated third party may be repaid from excess cash flows, as defined in such subordination agreement.

Under the terms of the Credit Agreement with COLF, the Company in October 2010 paid \$685,000 to the Hy-Tech Sellers representing 50% of the outstanding loan amount, plus accrued interest. Pursuant to a subordination agreement with COLF, the balance of \$573,000 owed may be repaid from excess cash flows, as defined in such subordination agreement. Interest is accruing at a rate of 6% per annum.

During the three-month period ended March 31, 2011, our cash increased \$27,000 to \$901,000 from \$874,000 at December 31, 2010. Our total bank debt at March 31, 2011 was \$16,159,000, compared to \$16,052,000 at December 31, 2010. The percent of total debt to total book capitalization (total debt divided by total bank debt plus equity) was 51.4% at March 31, 2011, compared to 53.0% at December 31, 2010.

We had net cash generated of \$118,000 provided by operating activities of continuing operations for the three-month period ended March 31, 2011, compared to \$3,173,000 during the same period in the prior year. We wish to note that during the first fiscal quarter of 2010, we had increases in accounts payable and accrued expenses payable aggregating \$2,248,000 due primarily to issues we were attempting to resolve with our banks at that time. Additionally during the first quarter of 2010 our inventory decreased \$945,000.

Capital spending was approximately \$183,000 for the three-month period ended March 31, 2010, compared to \$46,000 during the three-month period ended March 31, 2010. Capital expenditures for the balance of 2011 are expected to be approximately \$350,000, some of which may be financed through our credit facilities or financed through independent third party financial institutions. Included in the expected total for 2011 are capital expenditures relating to new products, expansion of existing product lines and replacement of equipment.

OFF-BALANCE SHEET ARRANGEMENTS

In accordance with ASC 810, in June 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 March 31, 2011 and December 31, 2010 were approximately \$7.5 million and \$12.1 million, respectively. We will, as required by ASC 810, reevaluate the facts and circumstances regarding whether or not we should continue not to consolidate WMC at each reporting period.

RECENT ACCOUNTING PRONOUNCEMENTS

Management does not believe that any other recently issued, but not yet effective accounting standards, if currently adopted would have a material effect on our condensed consolidated financial statements.

Item 3. Quantitative And Qualitative Disclosures About Market Risk

Not required.

Item 4. Controls and Procedures

Evaluation of disclosure controls and procedures

An evaluation was performed, under the supervision of, and with the participation of, our management including the Principal Executive Officer and Principal Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) to the Securities and Exchange Act of 1934). Based on that evaluation, our management, including the Principal Executive Officer and Principal Financial Officer, concluded that our disclosure controls and procedures were effective at a reasonable assurance level as of March 31, 2011. Accordingly, management believes that the consolidated condensed financial statements included in this Quarterly Report on Form 10-Q fairly present, in all material respects, our financial condition, results of operations and cash flows for the periods presented.

P&F management is responsible for establishing and maintaining effective internal controls. Because of our inherent limitations, internal controls may not prevent or detect misstatements. A control system, no matter how well designed and operated, can only provide reasonable, not absolute, assurance that the control system's objectives will be met. Also, projections of any evaluation of effectiveness as to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with policies and procedures may deteriorate.

The Certifications of our Principal Executive Officer and Principal Financial Officer included as Exhibits 31.1 and 31.2 to this Quarterly Report on Form 10-Q include, in paragraph 4 of such certifications, information concerning our disclosure controls and procedures and internal control over financial reporting. Such certifications should be read in conjunction with the information contained in this Item 4 - Controls and Procedures for a more complete understanding of the matters covered by such certifications.

Changes in Internal Control Over Financial Reporting

There have been no significant changes in our internal control over financial reporting during the three-month period ended March 31, 2011, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

There have been no material changes to the legal proceedings described in our Annual Report on Form 10-K for the year ended December 31, 2010.

Item 1A. Risk Factors

There were no material changes from risk factors previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2010.

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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. [RESERVED]

Item 5. Other Information

None.

Item 6. Exhibits

See "Exhibit Index" immediately following the signature page.

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: May 13, 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	Termination of Agreements, Settlement of Claim and Mutual General Releases, dated March 3, 2011, among the Registrant, Old Stairs Co LLC, CS Divestiture LLC and Visador Holdings, LLC (Incorporated by reference to Exhibit 10.56 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2010).
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.

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.