P&F INDUSTRIES INC
Form 10-Q
November 13, 2006

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended September 30, 2006

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

For the transition period from to

Commission File Number 1 - 5332

P&F INDUSTRIES, INC.

(Exact name of registrant as specified in its charter)

Delaware	**22-1657413**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
445 Broadhollow Road, Suite 100, Melville, New York	**11747**
(Address of principal executive offices)	(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 x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer (see definition of accelerated filer and large accelerated filer in rule 12b-2 of the Exchange Act).

Large Accelerated Filer o Accelerated Filer o Non-Accelerated Filer x

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

As of November 10, 2006, there were 3,577,760 shares of the registrant s Class A Common Stock outstanding.

P&F INDUSTRIES, INC.

FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2006

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

P&F INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED CONDENSED BALANCE SHEETS

	September 30, 2006 (unaudited)	December 31, 2005 (derived from audited financial statements)
ASSETS		
CURRENT		
Cash and cash equivalents	$ 1,373,132	$ 1,771,624
Accounts receivable net	18,709,934	12,567,256
Notes and other receivables	837,256	2,727,393
Inventories net	27,346,342	26,173,990
Deferred income taxes net	1,496,000	1,496,000
Assets held for sale	575,519	623,519
Assets of discontinued operations	315,829	76,538
Prepaid expenses and other current assets	1,509,581	1,111,164
TOTAL CURRENT ASSETS	52,163,593	46,547,484
PROPERTY AND EQUIPMENT		
Land	1,174,773	1,174,773
Buildings and improvements	5,614,131	5,219,993
Machinery and equipment	9,200,484	8,087,469
	15,989,388	14,482,235
Less accumulated depreciation and amortization	8,301,001	7,620,626
NET PROPERTY AND EQUIPMENT	7,688,387	6,861,609
GOODWILL	24,763,793	23,821,240
OTHER INTANGIBLE ASSETS net	11,196,709	8,794,833
OTHER ASSETS net	506,953	808,381
TOTAL ASSETS	$ 96,319,435	$ 86,833,547

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

	September 30, 2006 (unaudited)	December 31, 2005 (derived from audited financial statements)
LIABILITIES AND SHAREHOLDERS EQUITY		
CURRENT LIABILITIES		
Short-term borrowings	$ 5,500,000	$ 3,000,000
Accounts payable	9,256,832	2,927,133
Income taxes payable	535,062	1,366,146
Accrued compensation	2,241,443	2,518,196
Other accrued liabilities	4,180,522	2,338,909
Current maturities of long-term debt	7,547,956	4,058,729
Liabilities of discontinued operations	1,737,824	2,357,573
TOTAL CURRENT LIABILITIES	30,999,639	18,566,686
LONG-TERM DEBT, less current maturities	13,074,586	19,572,651
DEFERRED INCOME TAXES net	978,000	978,000
TOTAL LIABILITIES	45,052,225	39,117,337
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS EQUITY		
Preferred stock - $10 par; authorized - 2,000,000 shares; no shares outstanding		
Common stock		
Class A - $1 par; authorized - 7,000,000 shares; issued - 3,850,367 and 3,814,367 shares at September 30, 2006 and December 31, 2005, respectively	3,850,367	3,814,367
Class B - $1 par; authorized - 2,000,000 shares; no shares issued		
Additional paid-in capital	9,173,807	8,947,855
Retained earnings	40,614,213	36,969,119
Treasury stock, at cost - 272,607 and 244,576 shares at September 30, 2006 and December 31, 2005, respectively	(2,371,177)	(2,015,131)
TOTAL SHAREHOLDERS EQUITY	51,267,210	47,716,210
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$ 96,319,435	$ 86,833,547

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

P & F INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED CONDENSED STATEMENTS OF EARNINGS (unaudited)

	Three months ended September 30, 2006	2005	Nine months ended September 30, 2006	2005
Net revenues	$ 32,318,961	$ 29,754,959	$ 88,028,825	$ 82,209,282
Cost of sales	22,617,245	20,682,189	60,671,557	56,288,976
Gross profit	9,701,716	9,072,770	27,357,268	25,920,306
Selling, general and administrative expenses	6,715,792	6,439,811	19,763,637	17,976,878
Operating income	2,985,924	2,632,959	7,593,631	7,943,428
Interest expense net	493,495	530,488	1,507,507	1,431,591
Earnings from continuing operations before income taxes	2,492,429	2,102,471	6,086,124	6,511,837
Income taxes	997,000	889,000	2,435,000	2,743,000
Earnings from continuing operations before discontinued operations	1,495,429	1,213,471	3,651,124	3,768,837
Discontinued operations (net of taxes):				
Loss from operation of discontinued operations (net of tax benefits of $34,000 and $3,000 for 2006 and $3,000 and $93,000 for 2005, respectively)	(51,491)	(33,164)	(6,030)	(211,434)
Gain on sale of discontinued operations (net of tax expense of $178,000 and $214,000 for 2005)		344,792		416,024
Earnings (loss) from discontinued operations	(51,491)	311,628	(6,030)	204,590
Net earnings	$ 1,443,938	$ 1,525,099	$ 3,645,094	$ 3,973,427
Basic earnings (loss) per common share:				
Continuing operations	$ .42	$ .34	$ 1.02	$ 1.06
Discontinued operations	(.02)	.09		.05
	$ .40	$ .43	$ 1.02	$ 1.11
Diluted earnings (loss) per common share:				
Continuing operations	$ .40	$ .31	$ .96	$ .97
Discontinued operations	(.01)	.08		.05
	$ .39	$ .39	$ .96	$ 1.02
Weighted average common shares outstanding:				
Basic	3,577,760	3,581,326	3,579,798	3,569,897
Diluted	3,741,052	3,890,138	3,799,522	3,881,970

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 Shares	Amount	Additional Paid-in Capital	Retained Earnings	Treasury Stock Shares	Amount
Balance, January 1, 2006	$ 47,716,210	3,814,367	$ 3,814,367	$ 8,947,855	$ 36,969,119	(244,576)	$ (2,015,131)
Net earnings	3,645,094				3,645,094		
Issuance of Class A common stock upon exercise of stock options	208,580	36,000	36,000	172,580			
Share-based compensation	53,372			53,372			
Shares surrendered as payment for exercise of stock options	(61,850)					(5,000)	(61,850)
Purchase of Class A common stock	(294,196)					(23,031)	(294,196)
Balance, September 30, 2006	$ 51,267,210	3,850,367	$ 3,850,367	$ 9,173,807	$ 40,614,213	(272,607)	$ (2,371,177)

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

P&F INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS (unaudited)

	Nine months ended September 30, 2006	2005
Cash Flows from Operating Activities of Continuing Operations:		
Net earnings	$ 3,645,094	$ 3,973,427
(Earnings) loss from discontinued operations net of taxes	6,030	(204,590)
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities of continuing operations:		
Non-cash charges and credits:		
Depreciation and amortization	680,375	602,665
Amortization of other intangible assets	898,124	828,750
Amortization of other assets	3,000	4,500
Provision for losses on accounts receivable - net	3,051	7,367
Share-based compensation	53,372	
Deferred income taxes net		924,000
Changes in operating assets and liabilities, net of assets and liabilities acquired:		
Accounts receivable	(5,568,735)	(5,363,046)
Notes and other receivables	1,890,137	665,039
Inventories	(837,541)	(4,442,834)
Prepaid expenses and other current assets	(398,417)	(437,250)
Other assets	298,428	(26,335)
Accounts payable	6,327,559	401,759
Accruals and other	733,776	(1,361,538)
Total adjustments	4,089,159	(8,401,513)
Net cash provided by (used in) operating activities of continuing operations	$ 7,734,253	$ (4,428,086)

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

	Nine months ended September 30, 2006	2005
Cash Flows from Investing Activities of Continuing Operations:		
Capital expenditures	$ (1,257,153)	$ (404,238)
Purchase of certain assets, net of certain liabilities, of Pacific Stair Products	(5,232,916)	
Additional payments for acquisition-related expenses	(206,915)	
Additional purchase price adjustment	37,613	
Proceeds from sale of certain assets of Green s Access Division		880,069
Proceeds from sale of certain assets of Green s Agricultural Division		225,000
Additional payments for purchase of Nationwide Industries, Inc.		(944,219)
Net cash used in investing activities of continuing operations	(6,659,371)	(243,388)
Cash Flows from Financing Activities of Continuing Operations:		
Proceeds from short-term borrowings	11,000,000	13,500,000
Repayments of short-term borrowings	(8,500,000)	(6,000,000)
Repayments of term loan	(2,850,000)	(4,200,000)
Principal payments on long-term debt	(158,838)	(158,483)
Proceeds from exercise of stock options	146,730	147,074
Purchase of Class A common stock	(294,196)	
Net cash (used in) provided by financing activities of continuing operations	(656,304)	3,288,591
Cash Flows from Discontinued Operations:		
Net cash (used in) provided by operating activities	(732,205)	2,641,822
Net cash used in investing activities		(1,201,617)
Net cash used in financing activities	(84,865)	(84,865)
Net cash (used in) provided by discontinued operations	(817,070)	1,355,340
NET DECREASE IN CASH AND CASH EQUIVALENTS	(398,492)	(27,543)
Cash and cash equivalents at beginning of period	1,771,624	1,189,869
Cash and cash equivalents at end of period	$ 1,373,132	$ 1,162,326

Supplemental disclosures of cash flow information:

Cash paid for:

Interest	$1,367,000	$1,388,000
Income taxes	$3,645,000	$3,501,000

Non-cash investing and financing activities were as follows:

During the nine months ended September 30, 2006, the Company received 5,000 shares of Class A Common Stock in connection with the exercise of options to purchase 15,000 shares of Class A Common Stock. The value of these shares was recorded at $61,850.

In connection with the sale of certain assets of Green s Access Division in February 2005, the Company received interest-bearing promissory notes of approximately $877,000, as adjusted.

During the nine months ended September 30, 2005, the Company received 6,418 shares of Class A Common Stock in connection with the exercise of options to purchase 14,000 shares of Class A Common Stock. The value of these shares was recorded at $107,241.

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

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: Florida Pneumatic Manufacturing Corporation (Florida Pneumatic) 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.

Florida Pneumatic is engaged in the importation, manufacture and sale of pneumatic hand tools, primarily for the industrial, retail 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. In addition, through its Franklin Manufacturing (Franklin) division, Florida Pneumatic imports a line of door and window hardware. Countrywide conducts its business operations through Nationwide Industries, Inc. (Nationwide), through Woodmark International, L.P. (Woodmark), a limited partnership between Countrywide and WILP Holdings, Inc., a subsidiary of Countrywide, and through Pacific Stair Products, Inc. (Pacific Stair). Nationwide is an importer and manufacturer of door, window and fencing hardware. Woodmark is an importer of builders hardware, including staircase components and kitchen and bath hardware and accessories. In January 2006, Countrywide acquired substantially all of the operating assets of Pacific Stair, a manufacturer of premium stair rail products and a distributor of Woodmark s staircase components to the building industry, primarily in southern California and the southwestern region of the United States (see Note 6).

The Company s wholly-owned subsidiary, Embassy Industries, Inc. (Embassy), was engaged in the manufacture and sale of baseboard heating products and the importation and sale of radiant heating systems until it exited that business in October 2005 (see Note 7) through the sale of substantially all of its non-real estate assets. The Company s wholly-owned subsidiary, Green Manufacturing, Inc. (Green), was primarily engaged in the manufacture, development and sale of heavy-duty welded custom designed hydraulic cylinders until it exited that business in December 2004 through the sale of certain assets. Green also manufactured a line of access equipment for the petro-chemical industry until it exited that business in February 2005 through the sale of certain assets and a line of post hole digging equipment for the agricultural industry until it exited that business in July 2005 through the sale of certain assets. Green has effectively ceased all operating activities (see Note 7). Note 12 presents financial information for the segments of the Company s business.

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 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 accounting principles generally accepted in the United States of

America 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 results of operations for Embassy and Green have been segregated from continuing operations and are reflected on the consolidated condensed statements of earnings as discontinued operations.

The unaudited consolidated condensed balance sheet information as of December 31, 2005 was derived from the audited financial statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2005. The interim financial statements contained herein should be read in conjunction with that Report.

In preparing its unaudited consolidated condensed financial statements in conformity with accounting principles generally accepted in the United States of America, the Company is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an ongoing basis, the Company evaluates estimates, including those related to bad debts, inventory reserves, goodwill and intangible assets. The Company bases its 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 could differ from those estimates.

NOTE 2 EARNINGS PER SHARE

Basic earnings (loss) per common share is based only on the average number of shares of common stock outstanding for the periods. Diluted earnings (loss) 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 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 or warrants 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 September 30, 2006	2005	Nine months ended September 30, 2006	2005
Numerator:				
Numerator for basic and diluted earnings (loss) per common share:				
Earnings from continuing operations	$ 1,495,000	$ 1,213,000	$ 3,651,000	$ 3,769,000
Discontinued operations, net of taxes	(51,000)	312,000	(6,000)	204,000
Net earnings	$ 1,444,000	$ 1,525,000	$ 3,645,000	$ 3,973,000
Denominator:				
Denominator for basic earnings per share weighted average common shares outstanding	3,577,760	3,581,326	3,579,798	3,569,897
Effect of dilutive securities:				
Stock options	163,292	308,812	219,724	312,073
Denominator for diluted earnings per share adjusted weighted average common shares and assumed conversions	3,741,052	3,890,138	3,799,522	3,881,970

At September 30, 2006 and during the three-month and nine-month periods ended September 30, 2006, 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 anti-dilutive and are excluded from the computation of earnings per share. The weighted average anti-dilutive stock options outstanding were as follows:

	Three months ended September 30, 2006	2005	Nine months ended September 30, 2006	2005
Weighted average anti-dilutive stock options outstanding	29,500	27,500	29,500	9,167

NOTE 3 STOCK-BASED COMPENSATION

<u>Stock-based Compensation</u>

On January 1, 2006, the Company adopted the provisions of Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 123(R), Share-Based Payment (Statement 123(R)), which revises FASB SFAS No. 123, Accounting for Stock-Based Compensation , and supersedes APB Opinion 25, Accounting for Stock Issued to Employees . Statement 123(R) requires the Company to recognize expense related to the fair value of our stock-based compensation awards, including employee stock options.

Prior to the adoption of Statement 123(R), the Company accounted for stock-based compensation awards using the intrinsic value method of APB Opinion 25. Accordingly, the Company did not recognize compensation expense in its statement of earnings for options granted that had an exercise price equal to the market value of the underlying common stock on the date of grant. As required by Statement 123, the Company also provided certain pro forma disclosures for stock-based awards as if the fair-value-based approach of Statement 123 had been applied.

The Company has elected to use the modified prospective transition method as permitted by Statement 123(R) and therefore has not restated its financial results for prior periods. Under this transition method, the Company applied the provisions of Statement 123(R) to new awards and to awards modified, repurchased, or cancelled after January 1, 2006. Additionally, the Company will recognize compensation cost for the portion of the awards for which the requisite service has not been rendered (unvested awards) that are outstanding as of January 1, 2006, as the remaining service is rendered. The compensation cost the Company records for these awards will be based on their grant-date fair value as calculated for the pro forma disclosures required by Statement 123.

No stock-based compensation cost related to stock options was recognized in the statements of earnings for the years ended December 31, 2005 and 2004, as all options granted in these periods had an exercise price equal to the market price at the date of grant. As a result of adopting Statement 123(R), the Company s earnings before income taxes and net earnings for the three-month period ended September 30, 2006 were approximately $17,000 and $11,000 lower, and for the nine-month period ended September 30, 2006 were approximately $53,000 and $32,000 lower, than if we had continued to account for stock-based compensation under APB Opinion 25. Compensation expense is recognized in the general and administrative expenses line item of the Company s statements of earnings on a straight-line basis over the vesting periods. There are no capitalized stock-based compensation costs at September 30, 2006 and 2005. The adoption of Statement 123(R) had no material impact on our basic and dilutive earnings per common share for the three-month and nine-month periods ended September 30, 2006.

The following table illustrates the effect on net earnings after tax and net earnings per common share as if we had applied the fair value recognition provisions of Statement 123 to stock-based compensation for the three-month and nine-month periods ended September 30, 2005:

	Three months ended September 30, 2005	**Nine months ended September 30, 2005**
Net earnings as reported	$ 1,525,000	$ 3,973,000
Deduct: Total stock-based employee compensation expense determined under fair value method, net of related tax effects	(46,000)	(58,000)
Pro forma net earnings	$ 1,479,000	$ 3,915,000
Basic earnings per common share		
As reported	$ .43	$ 1.11
Pro forma	$ .41	$ 1.10
Diluted earnings per common share		
As reported	$ .39	$ 1.02
Pro forma	$ .38	$ 1.01

The fair value of options granted is estimated on the date of grant using the Black-Scholes option pricing model.

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 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. 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. Options typically vest immediately. 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 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 for the nine months ended September 30, 2006:

	Option Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Outstanding, January 1, 2006	596,900	$ 7.58	4.7	
Granted				
Exercised	(36,000)	5.79		
Forfeited				
Expired				
Outstanding, September 30, 2006	560,900	$ 7.69	3.9	$ 1,137,000
Vested, September 30, 2006	511,412	$ 7.53	4.0	$ 1,120,000

There were no stock options granted during the nine months ended September 30, 2006 and 27,500 options were granted during the nine months ended September 30, 2005. The total intrinsic value of stock options exercised during the nine months ended September 30, 2006 and 2005 was $223,000 and $311,000, respectively.

The following is a summary of changes in non-vested shares for the nine months ended September 30, 2006:

	Option Shares	Weighted Average Grant-Date Fair Value
Non-vested shares, January 1, 2006	49,488	$ 3.77
Granted		
Vested		
Forfeited		
Non-vested shares, September 30, 2006	49,488	$ 3.77

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.

Other Information

As of September 30, 2006, the Company had approximately $48,000 of total unrecognized compensation cost related to non-vested awards granted under our share-based plans, which we expect to recognize over a weighted-average period of 2.3 years.

The Company received cash from options exercised during the nine-months ended September 30, 2006 of approximately $147,000. The impact of these cash receipts is included in financing activities in the accompanying consolidated condensed statements of cash flows. Statement 123(R) requires that cash flows from tax benefits attributable to tax deductions in excess of the compensation cost recognized for those options (excess tax benefits) be classified as financing cash flows.

The number of shares of Class A common stock reserved for stock options available for issuance under the Current Plan as of September 30, 2006 was 683,400. Of the options outstanding at September 30, 2006, 348,100 were issued under the Current Plan and 212,800 were issued under the Prior Plan.

NOTE 4 FOREIGN CURRENCY TRANSACTIONS

Derivative Financial Instruments

The Company uses derivatives to reduce its exposure to fluctuations in foreign currencies, principally Japanese yen. Derivative products, specifically foreign currency forward contracts, are used to hedge the foreign currency market exposures underlying certain debt and forecasted transactions with foreign vendors. The Company does not enter into such contracts for speculative purposes.

For derivative instruments that are designated and qualify as fair value hedges (i.e., hedging the exposure to changes in the fair value of an asset or a liability or an identified portion thereof that is attributable to a particular risk), the gain or loss on the derivative instrument as well as the offsetting gain or loss on the hedge item attributable to the hedged risk are recognized in earnings in the current period. For derivative instruments that are designated and qualify as a cash flow hedge (i.e., hedging the exposure of variability in the expected future cash flows that would be attributable to a particular risk), the effective portion of the gain or loss on the derivative instrument is reported as a component of accumulated comprehensive loss (a component of shareholders equity) and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. The remaining gain or loss on the derivative instrument, if any (i.e., the ineffective portion and any portion of the derivative instrument excluded from the assessment of effectiveness), is recognized in earnings in the current period. For derivative instruments not designated as hedging instruments, changes in the fair market values are recognized in earnings as a component of cost of sales.

The Company accounts for changes in the fair value of its foreign currency contracts by marking them to market and recognizing any resulting gains or losses through its statement of earnings. The Company also marks its yen-denominated payables to market, recognizing any resulting gains or losses in its statement of earnings. At September 30, 2006, the Company had foreign currency forward contracts, maturing in 2006, to purchase Japanese yen at contracted forward rates. The value of these contracts at September 30, 2006, based on that day s closing spot rate, was approximately $1,157,000, which was the approximate value of the Company s yen-denominated accounts payable. During the three-month periods ended September 30, 2006 and 2005, the Company recorded in its cost of sales net realized losses of approximately $13,000 and $29,000, respectively, on foreign currency transactions. During the nine-month periods ended September 30, 2006 and 2005, the Company recorded in its cost of sales net realized losses of approximately $6,000 and $119,000, respectively, on foreign currency transactions. At September 30, 2006 and 2005, the Company had no unrealized gains or losses in foreign currency transactions.

NOTE 5 NEW ACCOUNTING PRONOUNCEMENTS

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 157, Fair Value Measurements (SFAS No. 157) to eliminate the diversity in practice that exists due to the different definitions of fair value. SFAS No. 157 retains the exchange price notion in earlier definitions of fair value, but clarifies that the exchange price is the price in an orderly transaction between market

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participants to sell an asset or liability in the principal or most advantageous market for the asset or liability. SFAS No. 157 states that the transaction is hypothetical at the measurement date, considered from the perspective of the market participant who holds the asset or liability. As such, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price), as opposed to the price that would be paid to acquire the asset or received to assume the liability at the measurement date (an entry price).

SFAS No. 157 also stipulates that, as a market-based measurement, fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability, and establishes a fair value hierarchy that distinguishes between (a) market participant assumptions developed based on market data obtained from sources independent of the reporting entity (observable inputs) and (b) the reporting entity s own assumptions about market participant assumptions developed based on the best information available in the circumstances (unobservable inputs). SFAS No. 157 expands disclosures about the use of fair value to measure assets and liabilities in interim and annual periods subsequent to initial recognition.

SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years, although earlier application is encouraged. Additionally, prospective application of the provisions of SFAS No. 157 is required as of the beginning of the fiscal year in which it is initially applied, except when certain circumstances require retrospective application. The Company is currently evaluating the impact of SFAS No. 157 on its consolidated financial statements.

In September 2006, the SEC staff issued Staff Accounting Bulletin No. 108, Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements. SAB 108 was issued to provide consistency between how registrants quantify financial statement misstatements.

Historically, there have been two widely-used methods for quantifying the effects of financial statement misstatements. These methods are referred to as the roll-over and iron curtain method. The roll-over method quantifies the amount by which the current year income statement is misstated. Exclusive reliance on an income statement approach can result in the accumulation of errors on the balance sheet that may not have been material to any individual income statement, but which may misstate one or more balance sheet accounts. The iron curtain method quantifies the error as the cumulative amount by which the current year balance sheet is misstated. Exclusive reliance on a balance sheet approach can result in disregarding the effects of errors in the current year income statement that results from the correction of an error existing in previously issued financial statements. The Company currently uses the roll-over method for quantifying identified financial statement misstatements.

SAB 108 established an approach that requires quantification of financial statement misstatements based on the effects of the misstatement on each of the company s financial statements and the related financial statement disclosures. This approach is commonly referred to as the dual approach because it requires quantification of errors under both the roll-over and iron curtain methods.

SAB 108 allows registrants to initially apply the dual approach either by (1) retroactively adjusting prior financial statements as if the dual approach had always been used or by (2) recording the cumulative effect of initially applying the dual approach as adjustments to the carrying values of assets and liabilities as of January 1, 2006 with an offsetting adjustment recorded to the opening balance of retained earnings. Use of this cumulative effect transition method requires detailed disclosure of the nature and amount of each individual error being corrected through the cumulative adjustment and how and when it arose.

The Company will initially apply SAB 108 using the cumulative effect transition method in connection with the preparation of our annual financial statements for the year ending December 31, 2006. When the Company initially applies the provisions of SAB 108, the Company does not expect to record any adjustments.

In June 2006, the FASB issued Interpretation, or FIN, No. 48, Accounting for Uncertainty in Income Taxes . FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements in accordance with Statement of Financial Accounting Standards (SFAS) No. 109, Accounting for Income Taxes . FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. Earlier application of the provisions of this Interpretation is encouraged if the enterprise has not yet issued financial statements, including interim statements, in the period this Interpretation is adopted. The Company is presently evaluating the effect of the adoption of this interpretation on its results of operations or financial position.

In March 2006, the FASB issued SFAS No. 156, Accounting for Servicing of Financial Assets an amendment of FASB Statement No. 140. SFAS No. 156 requires the recognition of a servicing asset or liability each time a company undertakes an obligation to service a financial asset in certain situations. It requires all separately recognized servicing assets and liabilities to be initially measured at fair value, if practical. SFAS No. 156 is effective as of the beginning of a company s first fiscal year that begins after September 15, 2006. The Company does not expect adoption of SFAS No. 156 to have a material effect on its results of operations or financial position.

In February 2006, FASB issued SFAS No. 155, Accounting for Certain Hybrid Financial Instruments an amendment of FASB Statements No. 133 and 140. SFAS No. 155 allows companies to elect to measure at fair value entire financial instruments containing embedded derivatives that would otherwise have to be accounted for separately. It also requires companies to identify interests in securitized financial assets that are freestanding derivatives or contain embedded derivatives that would have to be accounted for separately, clarifies which interest- and principal-only strips are subject to SFAS No. 133, and amends SFAS No. 140 to revise the conditions of a qualifying special purpose entity due to the new requirement to identify whether interests in securitized financial assets are freestanding derivatives or contain embedded derivatives. SFAS No. 155 is effective for all financial instruments acquired, issued or subject to a remeasurement event after the beginning of a company s first fiscal year that begins after September 15, 2006. The Company does not expect adoption of SFAS No. 155 to have a material effect on its results of operations or financial position.

NOTE 6 ACQUISITION

Pacific Stair Products, Inc.

Pursuant to an Asset Purchase Agreement (the PSP APA), dated December 20, 2005, between Pacific Stair Products, a California corporation (Old PSP), and Pacific Stair Products, Inc., a newly-formed Delaware corporation (Pacific Stair) and a wholly-owned subsidiary of Countrywide, effective

January 3, 2006, Pacific Stair purchased substantially all of the operating assets of Old PSP. The total purchase price for the assets was approximately $5,233,000, subject to adjustments, plus the assumption of certain liabilities and obligations by Pacific Stair. The assets purchased pursuant to the PSP APA include, among others, accounts receivable, inventory, machinery and equipment and certain intangibles. Certain assets were retained by Old PSP including cash and title to any real property. The purchase price, including direct acquisition costs, represents a premium over the fair value of the assets purchased of approximately $4,243,000, which has been allocated among goodwill and other intangible assets. Pacific Stair is a manufacturer of premium stair rail products and a distributor of staircase components to the building industry, primarily in southern California and the southwestern region of the United States. As a result of this transaction, Countrywide has increased its purchasing power and geographic distribution. The acquisition was financed through the Company s credit facility with Citibank. The consolidated condensed financial statements presented herein include the results of operations for Pacific Stair for the period from January 3, 2006 to September 30, 2006.

The purchase price for this acquisition, negotiated on the basis of Pacific Stair s historical financial performance, was as follows:

Cash paid at closing from short-term borrowings	$ 5,233,000
Purchase price reduction for working capital adjustment	(38,000)
Direct acquisition costs	207,000
Total purchase price	$ 5,402,000

The following table presents the estimated fair values of the net assets acquired and the amount allocated to goodwill:

Accounts receivable		$ 576,000
Inventories		335,000
Property and equipment		250,000
Identifiable intangible assets:		
Customer relationships	$ 1,800,000	
Tradename	1,450,000	
Non-compete and employment agreements	50,000	3,300,000
		4,461,000
Less: liabilities assumed		2,000
Total fair value of net assets acquired		4,459,000
Goodwill		943,000
Total purchase price		$ 5,402,000

The Company obtained an independent third-party valuation of the identifiable intangible assets. The excess of the total purchase price over the fair value of the net assets acquired, including the value of the identifiable intangible assets, has been allocated to goodwill. Goodwill will be amortized, for fifteen years, for tax purposes but not for financial reporting purposes. The fair values of the identifiable intangible assets are based on current information and are subject to change. The intangible assets subject to amortization will be amortized over fifteen years for tax purposes and for financial reporting purposes and have been assigned useful lives as follows:

Customer relationships	25 years
Tradename	Indefinite
Non-compete and employment agreements	5 years

The following unaudited pro forma financial information presents the combined results of operations of the Company and its Pacific Stair acquisition as if it had occurred at the beginning of the periods presented. The pro forma financial information reflects appropriate adjustments for amortization of intangible assets, additional compensation related to an employment agreement, interest expense and income taxes. The pro forma financial information presented is not necessarily indicative of either the actual consolidated operating results had the acquisition been completed at the beginning of each period or future operating results of the consolidated entities.

	Three months ended September 30, 2005		Nine months ended September 30, 2005	
Net revenues	$	31,169,000	$	86,204,000
Net earnings from continuing operations	$	1,362,000	4,259,000	
Earnings per common share from continuing operations:				
Basic	$	.47	$	1.25
Diluted	$	.43	$	1.15

NOTE 7 DISCONTINUED OPERATIONS

Embassy Industries, Inc.

Pursuant to an Asset Purchase Agreement (the Embassy APA), dated as of October 11, 2005, among P&F, Embassy, Mestek, Inc. (Mestek) and Embassy Manufacturing, Inc., a wholly-owned subsidiary of Mestek (EMI), Embassy sold substantially all of its operating assets to EMI. The assets sold pursuant to the Embassy APA include, among others, machinery and equipment, inventory, accounts receivable and certain intangibles. Certain assets were retained by Embassy, including, but not limited to, cash and title to any real property owned by Embassy at the consummation of the sale to EMI. The consideration paid by EMI for the assets acquired pursuant to the Embassy APA was approximately $8,433,000 plus the assumption of certain liabilities and obligations of Embassy by EMI.

Pursuant to a Lease, dated as of October 11, 2005, between Embassy, as landlord and EMI, as tenant (the EMI Lease), Embassy agreed to lease certain space (approximately 60,000 rentable square feet) in the building located at 300 Smith Street, Farmingdale, New York to EMI in connection with the operation of EMI s business, at an annual rental rate of $480,000, payable in monthly installments of $40,000 each. The term of the EMI Lease was for a period of six (6) months commencing October 11, 2005 and terminating April 10, 2006; provided however, that, in the event EMI served notice on Embassy by December 31, 2005, the EMI Lease could be extended on a month to month basis to, and including, September 30, 2006. EMI served notice on Embassy to extend the EMI Lease through May 31, 2006.

Embassy has effectively ceased all operating activities. The Company recognized a gain on the sale of these assets of approximately $1,467,000, net of taxes, during the fourth quarter of fiscal 2005.

On July 24, 2006, Embassy received a letter (the Purchaser Letter) from counsel to J. D Addario & Company, Inc., a New York corporation (Purchaser), purporting to terminate that certain contract entered into by Embassy and Purchaser on January 13, 2006 (the Agreement , and as amended, the Contract of Sale). Pursuant to the Contract of Sale, Embassy agreed to sell its Farmingdale, New York premises (the Farmingdale Premises) to Purchaser for a purchase price of $6,403,000.

The sale of the Farmingdale Premises was contingent upon completion of due diligence and other conditions set forth in the Contract of Sale, including, without limitation, that upon the expiration of the Investigation Period (as defined in the Contract of Sale), Embassy was to proceed with certain environmental remediation at the Farmingdale Premises (the Required Environmental Remediation) to the satisfaction of the Suffolk County Department of Health Services (SCDHS), to obtain a No Further Action letter from SCDHS, and to provide a copy of said letter to Purchaser upon Embassy s receipt thereof.

Upon the expiration of the Investigation Period, Embassy completed the Required Environmental Remediation. On May 30, 2006, SCDHS issued a letter (the SCDHS Letter) stating that no further remediation will be required by SCDHS at such time with respect to the Required Environmental Remediation. The SCDHS Letter also noted that laboratory data provided for the upgradient groundwater sample (the Sample) indicated that groundwater contamination exists, and that, due to the significant exceedences noted, this information was reported to the New York State Department of Environmental Conservation (NYSDEC) Spills Unit, and a NYSDEC Spill Number (the DEC Spill Number) was assigned. Embassy delivered a copy of the SCDHS Letter to Purchaser pursuant to the terms of the Contract of Sale.

The Sample was contaminated with petroleum, and, to the Company s knowledge, no petroleum products were used, stored or handled by Embassy at the Farmingdale Premises at or near the location where the Sample was collected. The Sample was collected from an upgradient location near the northern border of the Farmingdale Premises, which is in close proximity to a neighboring property that experienced a petroleum release. Shortly following receipt of the SCDHS Letter, NYSDEC verbally advised Embassy that it approved an investigation work-plan submitted by Embassy; the purpose of the investigation was to confirm that the contamination does not originate at the Farmingdale Premises. The investigation was completed on August 2, 2006 and the investigation results, which confirmed that the source of the petroleum contamination is not the Farmingdale Premises, were submitted to the NYSDEC on August 7, 2006. On August 11, 2006, the NYSDEC advised Embassy that, based on the results of the investigation, it is apparent that the Farmingdale Premises is not the source of groundwater contamination that was discovered based on the Sample, and that therefore the NYSDEC database has been modified to remove the Farmingdale Premises as the source of the contamination.

The Purchaser Letter purports to terminate the Contract of Sale based upon Purchaser s assertion that the SCDHS Letter does not constitute a No Further Action letter as required by the Contract of Sale, and demands that the escrow agent return the downpayment with accrued interest, and that Purchaser be reimbursed for the costs of survey and title examination.

Embassy has informed Purchaser that, in light of the contents of the SCDHS Letter, Purchaser s purported termination of the Contract of Sale is without effect, and that Purchaser is in default of its obligation to consummate the purchase of the Farmingdale Premises under the terms of the Contract of Sale. On August 2, 2006, Purchaser instituted an action against Embassy in the Supreme Court of the State of New York, County of Suffolk, for breach of contract and return of downpayment, seeking $650,000, together with costs of title and survey and interest thereon, and the cost of the action. Embassy believes the action is without merit and intends to vigorously defend it.

Green Manufacturing, Inc. Agricultural Products Division

Pursuant to an Asset Purchase Agreement (the Agricultural APA), dated as of July 14, 2005, between Green and Benko Products, Inc. (Benko), Green sold certain of its assets comprising its Agricultural Products Division (the Agricultural Division) to Benko. The assets sold pursuant to the Agricultural APA include, among others, certain machinery and equipment. Certain assets of the Agricultural Division were retained by Green, including, but not limited to, certain of the Agricultural Division s accounts receivable and inventories existing at the consummation of the sale to Benko (the

Agricultural Closing).

The purchase price paid by Benko in consideration for the assets acquired pursuant to the Agricultural APA was $530,000, consisting of (a) a payment to Green at Agricultural Closing of $225,000; (b) $25,000 payable pursuant to the terms of a Promissory Note (Agricultural Note 1), dated July 14, 2005, payable in equal monthly amounts over a five (5) month period commencing as of the Agricultural Closing; and (c) $280,000 payable pursuant to the terms of a Promissory Note (collectively with Agricultural Note 1, the Agricultural Notes), dated July 14, 2005, payable in equal monthly amounts over a four (4) year period commencing as of the Agricultural Closing. In addition, Benko assumed certain of Green s contractual obligations. The obligations of Benko under the Agricultural APA and the Agricultural Notes were guaranteed by each of a principal shareholder and an affiliate of Benko, and partially secured by certain collateral.

In connection with the transaction, Green and Benko entered into an agreement which provided for Benko to purchase from Green 100% of Benko s requirements for products of the type that constitute part of Green s inventory of raw materials and finished goods as of the acquisition date with all purchases by Benko being binding and non-cancelable at pre-established prices. The term was for a period of one year from the acquisition date. All of Green s inventory was purchased by Benko.

The Company recognized a gain on the sale of these assets of approximately $312,000, net of taxes, in fiscal 2005.

Green Manufacturing, Inc. Access Division

Pursuant to an Asset Purchase Agreement (the Access APA), dated as of February 2, 2005, between Green and Benko Products, Inc. (Benko), Green sold certain of its assets comprising its Access Division (the Access Division) to Benko. The assets sold pursuant to the Access APA include, among others, certain machinery and equipment, accounts receivable (Purchased Receivables), inventory, intellectual property and other intangibles. Certain assets of the Access Division were retained by Green, including, but not limited to, certain of the Access Division s accounts receivable existing at the consummation of the sale to Benko (the Access Closing).

The purchase price agreed to by Benko in consideration for the assets acquired pursuant to the Access APA, giving effect to certain adjustments, was approximately $1,756,655, consisting of (a) a payment to Green at the Access Closing of approximately $880,069; (b) $755,724 payable pursuant to the terms of a Promissory Note (Access Note 1), dated February 2, 2005, payable in various amounts over a twenty-one (21) month period commencing as of the Access Closing; and (c) $120,862 payable pursuant to the terms of a Promissory Note (collectively with Access Note 1, the Access Notes), dated February 2, 2005, payable in various amounts over a four (4) month period commencing as of the Access Closing. Benko agreed to pay additional consideration on an annual basis for the two (2) successive twelve (12) month periods commencing as of the Access Closing, dependent on certain sales by Benko, subject to certain other conditions. In addition, Benko assumed certain of Green s contractual obligations. The obligations of Benko under the Access APA and the Access Notes were guaranteed by each of a principal shareholder and an affiliate of Benko, and partially secured by certain collateral.

Benko had withheld certain payments regarding its outstanding Access Note as a result of a disagreement regarding certain representations made by the Company in the Access APA. As such, the Company recorded a reserve of $150,000 at December 31, 2005. In August 2006, the Company and Benko negotiated a settlement under both the Access Note and the outstanding Agricultural Note and received a payment of approximately $477,000 to resolve the matter.

The Company recognized a gain on the sale of these assets of approximately $71,000, net of taxes, in fiscal 2005.

The following amounts related to Embassy and Green have been segregated from the Company s continuing operations and are reported as assets held for sale and assets and liabilities of discontinued operations in the consolidated condensed balance sheets:

	September 30, 2006		December 31, 2005	
Assets held for sale and assets of discontinued operations:				
Prepaid expenses	$	316,000	$	77,000
Assets held for sale	575,000		623,000	
Total assets held for sale and assets of discontinued operations	$	891,000	$	700,000
Liabilities of discontinued operations:				
Accounts payable and accrued expenses	$	456,000	$	991,000