

P&F INDUSTRIES INC
Form 10-Q
November 13, 2013

**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, 2013

**.. 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

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):

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

As of November 13, 2013 there were 3,693,969 shares of the registrant's Class A Common Stock outstanding.

P&F INDUSTRIES, INC.

FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2013

TABLE OF CONTENTS

	PAGE	
PART I FINANCIAL INFORMATION		
Item 1.	Financial Statements	1
	Consolidated Condensed Balance Sheets as of September 30, 2013 (unaudited) and December 31, 2012	1
	Consolidated Condensed Statements of Income for the three and nine-month periods ended September 30, 2013 and 2012 (unaudited)	3
	Consolidated Condensed Statement of Shareholders' Equity for the nine months ended September 30, 2013 (unaudited)	4
	Consolidated Condensed Statements of Cash Flows for the nine months ended September 30, 2013 and 2012 (unaudited)	5
	Notes to Consolidated Condensed Financial Statements (unaudited)	7
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	15
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	25
Item 4	Controls and Procedures	25
PART II OTHER INFORMATION		
Item 1.	Legal Proceedings	26
Item 1A.	Risk Factors	26
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	26
Item 3.	Defaults Upon Senior Securities	26
Item 4.	Mine Safety Disclosures	26
Item 5.	Other Information	26
Item 6.	Exhibits	26

Signature	27
Exhibit Index	28

PART I - FINANCIAL INFORMATION**Item 1. Financial Statements****P&F INDUSTRIES, INC. AND SUBSIDIARIES****CONSOLIDATED CONDENSED BALANCE SHEETS**

	September 30, 2013 (unaudited)	December 31, 2012 (See Note 1)
ASSETS		
CURRENT ASSETS		
Cash	\$ 475,000	\$ 695,000
Accounts receivable - net	12,055,000	6,675,000
Inventories - net	23,146,000	24,073,000
Deferred income taxes - net	1,139,000	1,139,000
Prepaid expenses and other current assets	839,000	547,000
TOTAL CURRENT ASSETS	37,654,000	33,129,000
PROPERTY AND EQUIPMENT		
Land	1,550,000	1,550,000
Buildings and improvements	7,608,000	7,536,000
Machinery and equipment	18,366,000	18,010,000
	27,524,000	27,096,000
Less accumulated depreciation and amortization	17,170,000	15,994,000
NET PROPERTY AND EQUIPMENT	10,354,000	11,102,000
GOODWILL	5,150,000	5,150,000
OTHER INTANGIBLE ASSETS - net	1,560,000	1,752,000
DEFERRED INCOME TAXES - net	2,113,000	3,211,000
OTHER ASSETS - net	694,000	813,000
TOTAL ASSETS	\$ 57,525,000	\$ 55,157,000

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

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

	September 30, 2013 (unaudited)	December 31, 2012 (See Note 1)
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Short-term borrowings	\$ 2,290,000	\$ 2,793,000
Accounts payable	4,934,000	4,843,000
Accrued liabilities	4,847,000	4,332,000
Current maturities of long-term debt	460,000	460,000
TOTAL CURRENT LIABILITIES	12,531,000	12,428,000
Long term debt, less current maturities	7,018,000	7,363,000
Other liabilities	266,000	278,000
TOTAL LIABILITIES	19,815,000	20,069,000
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 4,038,000 at September 30, 2013 and 4,013,000 at December 31, 2012	4,038,000	4,013,000
Class B - \$1 par; authorized - 2,000,000 shares; no shares issued		
Additional paid-in capital	11,697,000	11,384,000
Retained earnings	24,952,000	22,646,000
Treasury stock, at cost 344,000 shares at September 30, 2013 and 342,000 shares at December 31, 2012	(2,977,000)	(2,955,000)
TOTAL SHAREHOLDERS' EQUITY	37,710,000	35,088,000
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 57,525,000	\$ 55,157,000

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

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

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
Net revenue	\$ 20,483,000	\$ 17,622,000	\$ 60,668,000	\$ 47,180,000
Cost of sales	13,428,000	11,585,000	38,777,000	29,855,000
Gross profit	7,055,000	6,037,000	21,891,000	17,325,000
Selling, general and administrative expenses	5,680,000	4,646,000	17,892,000	14,107,000
Operating income	1,375,000	1,391,000	3,999,000	3,218,000
Interest expense	94,000	126,000	321,000	401,000
Income before income taxes	1,281,000	1,265,000	3,678,000	2,817,000
Income tax expense (benefit)	471,000	(2,302,000)	1,372,000	(2,252,000)
Net income	\$ 810,000	\$ 3,567,000	\$ 2,306,000	\$ 5,069,000
Basic earnings per share	\$ 0.22	\$ 0.98	\$ 0.63	\$ 1.40
Diluted earnings per share	\$ 0.20	\$ 0.95	\$ 0.59	\$ 1.36
Average common shares outstanding:				
Basic	3,694,000	3,662,000	3,684,000	3,632,000
Diluted	3,912,000	3,804,000	3,888,000	3,727,000

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, 2013	\$ 35,088,000	4,013,000	\$ 4,013,000	\$ 11,384,000	\$ 22,646,000	(342,000)	\$ (2,955,000)
Net income	2,306,000				2,306,000		
Exercise of stock options	62,000	22,000	22,000	62,000		(2,000)	(22,000)
Restricted stock issuance	9,000	3,000	3,000	6,000			
Stock-based compensation	245,000			245,000			
Balance, September 30, 2013	\$ 37,710,000	4,038,000	\$ 4,038,000	\$ 11,697,000	\$ 24,952,000	(344,000)	\$ (2,977,000)

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,	
	2013	2012
Cash Flows from Operating Activities:		
Net income	\$ 2,306,000	\$ 5,069,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Non-cash charges:		
Depreciation and amortization	1,176,000	1,235,000
Amortization of other intangible assets	192,000	298,000
Amortization of other assets	75,000	214,000
Provision for losses on accounts receivable	46,000	12,000
Stock-based compensation	245,000	139,000
Restricted stock-based compensation	30,000	
Loss on sale of fixed assets		2,000
Deferred income taxes-net	1,098,000	(2,358,000)
Changes in operating assets and liabilities:		
Accounts receivable	(5,426,000)	(4,724,000)
Inventories	927,000	(164,000)
Prepaid expenses and other current assets	(313,000)	(180,000)
Other assets	44,000	(60,000)
Accounts payable	91,000	1,398,000
Accrued liabilities	515,000	987,000
Other liabilities	(12,000)	(10,000)
Total adjustments	(1,312,000)	(3,211,000)
Net cash provided by operating activities	994,000	1,858,000

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,	
	2013	2012
Cash Flows from Investing Activities:		
Capital expenditures	\$ (428,000)	\$ (1,736,000)
Purchase of product license		(200,000)
Proceeds from disposal of assets		8,000
Net cash used in investing activities	(428,000)	(1,928,000)
Cash Flows from Financing Activities:		
Proceeds from exercise of stock options	62,000	304,000
Proceeds from short-term borrowings	49,408,000	40,043,000
Repayments of short-term borrowings	(49,911,000)	(40,088,000)
Repayment of notes payable		(250,000)
Proceeds from term loan		900,000
Repayments of term loan	(345,000)	(970,000)
Net cash used in financing activities	(786,000)	(61,000)
Net decrease in cash	(220,000)	(131,000)
Cash at beginning of period	695,000	443,000
Cash at end of period	\$ 475,000	\$ 312,000
Supplemental disclosures of cash flow information:		
Cash paid for:		
Interest	\$ 329,000	\$ 414,000
Income taxes	\$ 46,000	\$ 161,000

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, as defined below, 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, 2012 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, 2012. 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” or the “Company”). All significant intercompany balances and transactions have been eliminated. Certain amounts in the financial statements and related footnotes have been reclassified to conform to classifications used in the current year.

The Company

The Company operates in two primary lines of business, or segments: (i) tools and other products (“Tools”) and (ii) hardware and accessories (“Hardware”).

Tools

The Company conducts its Tools business through a wholly-owned subsidiary, Continental Tool Group, Inc. (“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 its own line of industrial pneumatic tools. Hy-Tech also produces over ninety types of tools, which includes impact wrenches, grinders, drills, and motors. Further, it also manufactures tools to customer unique specifications. Its customers include refineries, chemical plants and power generation facilities, as well as, heavy construction, oil and mining companies. In addition, Hy-Tech manufactures an extensive line of pneumatic tool replacement parts that are sold competitively to the original equipment manufacturer. It also manufactures and distributes high pressure stoppers for hydrostatic testing of fabricated pipe, as well as produces a

line of siphons.

Hardware

The Company conducts its Hardware business through a wholly-owned subsidiary, Countrywide Hardware Inc. (“Countrywide”). Countrywide conducts its business operations through its wholly-owned subsidiary, Nationwide Industries, Inc. (“Nationwide”). Nationwide is a developer, importer, and manufacturer of fencing hardware, patio products, and door and window accessories including rollers, hinges, window operators, sash locks, custom zinc castings and door closers. Additionally, Nationwide also markets a line of kitchen and bath fixtures.

Former Stair Parts Business

In September 2010, PNC National Association, the primary lender and source of credit to WM Coffman LLC (now known as Old Stairs Co (“WMC”)) foreclosed upon the assets of WMC, a subsidiary of Countrywide that formerly operated as a stair parts business. As a result of PNC’s foreclosure, WMC ceased operations. The Company no longer includes WMC in its consolidated financial statements. 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, 2012. 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. 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.

NOTE 2 VARIABLE INTEREST ENTITY - DECONSOLIDATION

The Company examined the facts and circumstances pertaining to WMC to determine if it is the primary beneficiary. The Company determined that it no longer had the obligation to absorb losses that might be significant to WMC nor did it possess the right to receive benefits from WMC that could potentially be significant to WMC. As the Company no longer had a controlling financial interest in WMC and was no longer the primary beneficiary of WMC, in accordance with Accounting Standards Codification 810, it deconsolidated WMC.

The Company continues not to direct any activities at WMC, and continues to have no obligation to absorb any losses or the right to receive any benefits from WMC. Accordingly, the Company continues to deconsolidate WMC. The Company will perform an ongoing reassessment of the facts and circumstances pertaining to WMC to determine whether or not the Company may become the primary beneficiary.

NOTE 3 EARNINGS PER SHARE

Basic 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 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 elements of basic and diluted earnings per common share:

	Three months ended		Nine months ended	
	September 30, 2013	2012	September 30, 2013	2012
Numerator for basic and diluted earnings per common share:				
Net income	\$ 810,000	\$ 3,567,000	\$ 2,306,000	\$ 5,069,000
Denominator:				
For basic earnings per share - weighted average common shares outstanding	3,694,000	3,662,000	3,684,000	3,632,000
Dilutive securities (1)	218,000	142,000	204,000	95,000
For diluted earnings per share - weighted average common shares outstanding	3,912,000	3,804,000	3,888,000	3,727,000

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

At September 30, 2013 and 2012 and during the nine-month periods then ended, there were outstanding stock options whose exercise prices were higher than the average market values of the underlying Class A Common Stock for the period. These options are antidilutive and are excluded from the computation of earnings per share. The weighted average antidilutive stock options outstanding were as follows:

	Three months ended		Nine months ended	
	September 30, 2013	2012	September 30, 2013	2012
Weighted average antidilutive stock options outstanding	296,000	230,000	236,000	421,000

NOTE 4 STOCK-BASED COMPENSATION

Stock-option compensation

The Company accounts for stock-based compensation, including options and non-vested shares, according to the provisions of Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 718, “Share Based Payment.”

Stock-option compensation expense is attributable to the granting of, and the remaining requisite service periods of, stock options. Compensation expense attributable to stock-options was approximately \$94,000 and \$52,000, respectively, during the three-month periods ended September 30, 2013 and 2012. Compensation expense attributable to stock-options was approximately \$245,000 and \$139,000, respectively, during the nine-month periods ended September 30, 2013 and 2012. The compensation expense is recognized in selling, general and administrative expenses on the Company’s statements of income on a straight-line basis over the vesting periods. The exercisability of the respective non-vested options, which are at pre-determined dates on a calendar year, does not necessarily correspond to the period(s) in which straight-line amortization of compensation cost is recorded. As of September 30, 2013, the Company had approximately \$415,000 of total unrecognized compensation cost related to non-vested

awards granted under its stock-based plans, which it expects to recognize over a weighted-average period of 1.2 years.

The expected term of stock options is based on historical exercises and terminations. The volatility 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 have any current plans to declare any in the future.

The following is a summary of the changes in outstanding options during the nine-month period ended September 30, 2013:

	Option Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Outstanding, January 1, 2013	584,688	\$ 6.48	5.4	\$ 758,000
Granted	71,500	8.21		
Exercised	(22,000)	3.80		
Forfeited				
Expired				
Outstanding, September 30, 2013	634,188	\$ 6.77	5.1	\$ 1,181,900
Vested, September 30, 2013	489,355	\$ 6.94	4.1	\$ 929,002

The following is a summary of changes in non-vested shares for the nine months ended September 30, 2013:

	Option Shares	Weighted Average Grant-Date Fair Value
Non-vested shares, January 1, 2013	141,000	\$ 2.94
Granted	71,500	6.72
Vested	(67,667)	2.92
Forfeited		
Non-vested shares and expected to vest, September 30, 2013	144,833	\$ 4.81

The number of shares of Common Stock available for issuance under the 2012 Stock Incentive Plan as of September 30, 2013 was 199,512. At September 30, 2013, there were 113,500 options outstanding issued under the 2012 Stock Incentive Plan and 520,688 options outstanding issued under the 2002 Stock Incentive Plan.

Restricted Stock

On May 28, 2013, the Company granted 666 restricted shares of its common stock to each non-employee member of its Board of Directors totaling 3,330 restricted shares. These restricted shares cannot be traded earlier than the first anniversary of the grant date. The Company determined the fair value of these shares to be \$ 8.95, which was the closing price of the Company's Common Stock on the date of the grant. The Company will recognize non-cash compensation expense of approximately \$ 2,500 per month in its selling, general and administrative expenses through May 2014.

Treasury Stock

On January 31, 2013, the Company received 2,585 shares of its Class A Common Stock, tendered as payment for the exercise by an employee of options to purchase 5,500 shares of Class A Common Stock. The value of this stock, based on the then-current stock price, was approximately \$22,000, and the Company recorded the transaction as an increase in Treasury Stock.

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:

	September 30, 2013	December 31, 2012
Accounts receivable	\$ 12,379,000	\$ 6,953,000
Allowance for doubtful accounts	(324,000)	(278,000)
	\$ 12,055,000	\$ 6,675,000

NOTE 7 INVENTORIES

Inventories - net consists of:

	September 30, 2013	December 31, 2012
Raw materials	\$ 1,979,000	\$ 2,093,000
Work in process	556,000	888,000
Finished goods	23,045,000	23,357,000
	25,580,000	26,338,000
Reserve for obsolete and slow-moving inventories	(2,434,000)	(2,265,000)
	\$ 23,146,000	\$ 24,073,000

NOTE 8 GOODWILL AND OTHER INTANGIBLE ASSETS

During the nine-month period ended September 30, 2013 there was no change to the carrying value of goodwill.

Other intangible assets were as follows:

	September 30, 2013			December 31, 2012		
	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
Other intangible assets:						
Customer relationships	\$ 5,070,000	\$ 4,047,000	\$ 1,023,000	\$ 5,070,000	\$ 3,906,000	\$ 1,164,000
Trademarks	199,000		199,000	199,000		199,000
Drawings	290,000	93,000	197,000	290,000	85,000	205,000
Licensing	305,000	164,000	141,000	305,000	121,000	184,000
Totals	\$ 5,864,000	\$ 4,304,000	\$ 1,560,000	\$ 5,864,000	\$ 4,112,000	\$ 1,752,000

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

Three months ended September 30,			Nine months ended September 30,		
2013	2012		2013	2012	
\$ 58,000	\$ 99,000		\$ 192,000	\$ 298,000	

Amortization expense for each of the twelve-month periods ending September 30, 2014 through September 30, 2018 is estimated to be as follows: 2014 - \$233,000; 2015 - \$233,000; 2016 - \$201,000; 2017 - \$175,000 and 2018 - \$175,000. The weighted average amortization period for intangible assets was 7.0 years at September 30, 2013 and 7.5 years at December 31, 2012.

NOTE 9 DEBT

P&F, along with Florida Pneumatic, Hy-Tech and Nationwide, as borrowers, entered into a Loan and Security Agreement in October 2010, as amended (“Credit Agreement”), with Capital One Leverage Finance Corporation, as agent (“COLF”). The Credit Agreement expires December 19, 2017, (the “Maturity Date”), and has a maximum borrowing limit of \$29,453,000. The Credit Agreement provides for a Revolver Loan (“Revolver”) with a maximum borrowing of \$ 20,000,000. Direct borrowings under the Revolver are secured by the Company’s accounts receivable, mortgages on its real property located in Cranberry, PA, Jupiter, FL and Tampa, FL (“Real Property”), inventory and equipment, and are cross-guaranteed by certain of our subsidiaries (the “Subsidiary Guarantors”). Revolver borrowings bear interest at either LIBOR (London InterBank Offered Rate) or the Base Rate, as defined in the Credit Agreement (“Base Rate”), plus the Applicable Margin (the “Applicable Margin”), as defined in the Credit Agreement. The Applicable Margin on Revolver borrowings is determined based upon the computation of total debt divided by earnings before interest, taxes, depreciation and amortization (“EBITDA”). The interest rate, either LIBOR or Base Rate, which is added to the Applicable Margin, is at the option of the Company, subject to limitations on the number of LIBOR borrowings.

The balance of Revolver borrowings outstanding was \$2,290,000 at September 30, 2013 and \$2,793,000 at December 31, 2012. Applicable Margins added to Revolver borrowings at LIBOR and the Base Rate at September 30, 2013 were 2.25 % and 1.25 %, respectively, and 2.00 % and 1.00 %, respectively, at December 31, 2012.

The Company is required to provide, among other things, monthly financial statements, monthly borrowing base certificates and certificates of compliance with various financial covenants. The Company is in compliance with all covenants. As part of the Credit Agreement, if an event of default occurs, the interest rate would increase by two percent per annum during the period of default.

The Credit Agreement also provides for a \$7,000,000 Term Loan (the “Term Loan”), which is secured by mortgages on the Real Property, accounts receivable, inventory and equipment. The balance due on the Term Loan at September 30, 2013 and December 31, 2012 was \$6,790,000 and \$7,000,000, respectively. The Term Loan is repaid \$23,000 each month, with the remaining balance due at the Maturity Date. Term Loan borrowings incur interest at LIBOR or the Base Rate plus the Applicable Margins, which were 3.00 % and 2.00 %, respectively, at September 30, 2013 and December 31, 2012.

Additionally, the Company borrowed \$380,000 and \$519,000 in March 2012 and September 2012, respectively, as loans primarily for machinery and equipment (“Capex Term Loans”). The repayment of these two loans is based on sixty-month amortization periods, resulting in repayments of \$6,000 and \$9,000, respectively. Applicable Margins added to these Capex Term Loans at both September 30, 2013 and December 31, 2012 were 3.00 % and 2.00 %, for borrowings at LIBOR and the Base Rate, respectively.

Long-term debt consists of:

	September 30, 2013	December 31, 2012
Term loan - \$23,000 payable monthly January 1, 2013 through December 1, 2017, balance due December 19, 2017. (NOTE: in 2012, monthly payment was \$34,000.)	\$ 6,790,000	\$ 7,000,000
Capex Term Loan - \$6,000 payable monthly May 1, 2012 through April 1, 2017.	273,000	330,000
Capex Term Loan - \$9,000 payable monthly October 1, 2012 through September 1, 2017.	415,000	493,000
	7,478,000	7,823,000
Less current maturities	460,000	460,000

\$ 7,018,000 \$ 7,363,000

NOTE 10 RELATED PARTY TRANSACTIONS

The president of one of the Company's subsidiaries is part owner of one of that subsidiary's vendors. During the three and nine-month periods ended September 30, 2013, the Company purchased approximately \$120,000 and \$622,000, respectively, of product from this vendor. During the three and nine-month periods ended September 30, 2012, the Company purchased approximately \$265,000 and \$735,000, respectively, of product from this vendor. At September 30, 2013 and 2012, the Company owed this vendor \$49,000 and \$48,000, respectively. All such purchases were made at arms-length.

NOTE 11 BUSINESS SEGMENTS

P&F operates in two primary lines of business, Tools and 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 referred to in Note 1.

Three months ended September 30, 2013	Consolidated	Tools	Hardware
Revenues from unaffiliated customers	\$ 20,483,000	\$ 14,776,000	\$ 5,707,000
Segment operating income	\$ 2,903,000	\$ 1,938,000	\$ 965,000
General corporate expense	(1,528,000)		
Interest expense net	(94,000)		
Earnings before income taxes	\$ 1,281,000		
Segment assets	\$ 53,647,000	\$ 42,080,000	\$ 11,567,000
Corporate assets	3,878,000		
Total assets	\$ 57,525,000		
Long-lived assets, including \$11,000 at corporate	\$ 17,064,000	\$ 12,604,000	\$ 4,449,000
Three months ended September 30, 2012	Consolidated	Tools	Hardware
Revenues from unaffiliated customers	\$ 17,622,000	\$ 13,327,000	\$ 4,295,000
Segment operating income	\$ 2,701,000	\$ 1,995,000	\$ 706,000
General corporate expense	(1,310,000)		
Interest expense net	(126,000)		
Earnings before income taxes	\$ 1,265,000		
Segment assets	\$ 49,167,000	\$ 37,700,000	\$ 11,467,000
Corporate assets	4,941,000		
Total assets	\$ 54,108,000		
Long-lived assets, including \$34,000 at corporate	\$ 18,258,000	\$ 13,631,000	\$ 4,593,000

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

Nine months ended September 30, 2013	Consolidated	Tools	Hardware
Revenues from unaffiliated customers	\$ 60,668,000	\$ 43,625,000	\$ 17,043,000
Segment operating income	\$ 8,395,000	\$ 5,392,000	\$ 3,003,000
General corporate expense	(4,396,000)		
Interest expense net	(321,000)		
Earnings before income taxes	\$ 3,678,000		
Nine months ended September 30, 2012	Consolidated	Tools	Hardware
Revenues from unaffiliated customers	\$ 47,180,000	\$ 32,672,000	\$ 14,508,000
Segment operating income	\$ 7,543,000	\$ 5,027,000	\$ 2,516,000
General corporate expense	(4,325,000)		
Interest expense net	(401,000)		
Earnings before income taxes	\$ 2,817,000		

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 2013 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 public filings, including in its Annual Report on Form 10-K for the year ended December 31, 2012, and subsequent filings. 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 or the "Company"). In addition, the words "we", "our" and "us" refer to the Company. All significant intercompany balances and transactions have been eliminated.

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

Tools

We conduct our Tools business through Continental, which in turn, 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 ninety 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, as well as 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 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 original equipment manufacturer ("OEM") customers. End users of Nationwide's products include contractors, home builders, pool and patio distributors, OEM/private label customers and general consumers. Additionally, Nationwide also markets a kitchen and bath product line. Nationwide currently out-sources the manufacturing of approximately 90% of its product with several overseas factories, while retaining design, quality control, and patent and trademark control. There are redundant sources for most products. Nationwide manufactures approximately 10% of its products sold including rollers, hinges and pool enclosure products at its facility in Tampa, Florida.

Overview

During the third quarter of 2013 we:

Increased our consolidated revenue \$2,861,000 over the same three-month period in 2012, due primarily to Florida Pneumatic's increase in its Retail revenue, as well as quarter over quarter increase in Nationwide's revenue, as it continues to successfully penetrate the fence and gate market across the United States;

Increased consolidated gross profit by \$1,018,000, or 16.9%; with gross margin increasing 0.1 percentage points.

KEY INDICATORS

Economic Measures

We do not track any specific economic measures per se; however, as a major portion of our revenue is consumer driven, we tend to track the general economic conditions of the United States. Accordingly, we note that general retail sales in our sectors have, for the most part, been flat to slightly improved during the first nine months of fiscal 2013 compared to 2012. Further, our Hardware segment, to a lesser extent, is impacted by the general housing market.

Another factor 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, 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, were to be revalued against the dollar, there could be a significant negative impact on the cost of our products.

While not measurable, the cost and availability of a quality labor pool in the countries where products and components are manufactured, both overseas as well as in the United States, could materially affect our overall results.

Operating Measures

Key operating measures we use to manage our operating segments are: orders; shipments; development of new products; 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: various revenue metrics; gross margin; selling, general and administrative expenses; earnings before interest and taxes; operating cash flows and 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 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.

Critical Accounting Policies and Estimates

We prepare our consolidated 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, warranty reserves and taxes. 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. Our critical accounting policies are further described below.

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, 2012.

RESULTS OF OPERATIONS

The tables below provide an analysis of our net revenue for the three and nine-month periods ended September 30, 2013 and 2012:

Revenue

	Three months ended September 30,		Variance	Variance	
	2013	2012	\$	%	
Tools					
Florida Pneumatic	\$ 10,767,000	\$ 9,264,000	\$ 1,503,000	16.2	%
Hy-Tech	4,009,000	4,063,000	(54,000)	(1.3)	
Tools Total	14,776,000	13,327,000	1,449,000	10.9	
Hardware					
Hardware Total	5,707,000	4,295,000	1,412,000	32.9	
Consolidated	\$ 20,483,000	\$ 17,622,000	\$ 2,861,000	16.2	%
	Nine months ended September 30,		Variance	Variance	
	2013	2012	\$	%	
Tools					
Florida Pneumatic	\$ 31,485,000	\$ 20,087,000	\$ 11,398,000	56.7	%
Hy-Tech	12,140,000	12,585,000	(445,000)	(3.5)	

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

Tools Total	43,625,000	32,672,000	10,953,000	33.5	
Hardware					
Hardware Total	17,043,000	14,508,000	2,535,000	17.5	
Consolidated	\$ 60,668,000	\$ 47,180,000	\$ 13,488,000	28.6	%

All revenues are generated in U.S. dollars and are not impacted by changes in foreign currency exchange rates. Unless otherwise stated below, we believe that our relationships with all our key customers remain good. Other than the addition of The Home Depot (“THD”) to Florida Pneumatic’s revenue, there are no known major trends or uncertainties that had, or could reasonably be expected to have a material impact on our revenue. There was no unusual or infrequent event, transaction or significant economic change that materially affected our results of operations.

Tools

Florida Pneumatic markets its air tool products to two primary sectors within the pneumatic tool market; retail and industrial/catalog. Additionally, Florida Pneumatic also markets, to a much lesser degree, air tools to the automotive market. It also generates revenue from its Berkley products line as well as a line of air filters and other OEM parts (“Other”).

An analysis of Florida Pneumatic’s revenue for 2013 and 2012 is as follows:

	Three months ended September 30,				Increase (decrease)	
	2013	2012			\$	%
	Revenue	Percent of revenue	Revenue	Percent of revenue		
Retail customers	\$ 8,467,000	78.7 %	\$ 6,465,000	69.8 %	\$ 2,002,000	31.0 %
Industrial/catalog	1,639,000	15.2	2,094,000	22.6	(455,000)	(21.7)
Automotive	302,000	2.8	260,000	2.8	42,000	16.2
Other	359,000	3.3	445,000	4.8	(86,000)	(19.3)
Total	\$ 10,767,000	100.0 %	\$ 9,264,000	100.0 %	\$ 1,503,000	16.2 %

	Nine months ended September 30,				Increase (decrease)	
	2013	2012			\$	%
	Revenue	Percent of revenue	Revenue	Percent of revenue		
Retail customers	\$ 24,134,000	76.6 %	\$ 11,520,000	57.4 %	\$ 12,614,000	109.5 %
Industrial/catalog	5,341,000	17.0	6,059,000	30.1	(718,000)	(11.9)
Automotive	890,000	2.8	838,000	4.2	52,000	6.2
Other	1,120,000	3.6	1,670,000	8.3	(550,000)	(32.9)
Total	\$ 31,485,000	100.0 %	\$ 20,087,000	100.0 %	\$ 11,398,000	56.7 %

When comparing the three-month periods ended September 30, 2013 and 2012, THD accounted for the improvement in Florida Pneumatic’s Retail revenue growth. Industrial/catalog revenue declined due primarily to ongoing softening within the foundries and metal-working manufacturing sectors. The improvement in Florida Pneumatic’s Automotive products revenue is due in large part to the release of new products into the marketplace. Other revenue during the third quarter of 2013 declined when compared to the same period in 2012, due to the loss of a large, low gross margin air filter customer. Florida Pneumatic’s decision to place greater emphasis on expanding its Retail products and Industrial/catalog lines is likely to continue to negatively impact its other product lines.

When comparing the nine-month periods ended September 30, 2013 and 2012, the most significant factor contributing to the increase in Florida Pneumatic’s revenue has been the addition of THD, which has accounted for the increase to its Retail category. Industrial/catalog revenue during the first nine months of 2013 has declined due in large part to a weakness with the specialty distributors, who service various general industries, such as foundries and metal-working manufacturers, which use abrasive/finishing tools such as grinders and cutting tools. The decline in revenue during the first nine months of 2013 of Florida Pneumatic’s Other product lines is due to the loss of a large, low margin air filter customer. Florida Pneumatic will continue to focus on developing and expanding its presence in the retail sector, as

well as its on-going effort to expand its position in the Industrial/catalog sector.

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

Hy-Tech focuses primarily on the industrial sector of the pneumatic tools market. Hy-Tech manufactures and markets its own value-added line of air tools and parts, as well as distributes a complementary line of sockets, in the aggregate, (“ATP”).

An analysis of Hy-Tech’s revenue for 2013 and 2012 is as follows:

	Three months ended September 30, 2013			2012			Increase (decrease)		
	Revenue	Percent of revenue	%	Revenue	Percent of revenue	%	\$	%	%
ATP	\$ 2,932,000	73.1	%	\$ 2,709,000	66.7	%	\$ 223,000	8.2	%
Hy-Tech Machine	371,000	9.3		433,000	10.7		(62,000)	(14.3)	
Major customer	602,000	15.0		871,000	21.4		(269,000)	(30.9)	
Other	104,000	2.6		50,000	1.2		54,000	108.0	
Total	\$ 4,009,000	100.0	%	\$ 4,063,000	100.0	%	\$ (54,000)	(1.3)	%

	Nine months ended September 30, 2013			2012			Increase (decrease)		
	Revenue	Percent of revenue	%	Revenue	Percent of revenue	%	\$	%	%
ATP	\$ 8,360,000	68.8	%	\$ 8,248,000	65.5	%	\$ 112,000	1.4	%
Hy-Tech Machine	1,501,000	12.4		1,267,000	10.1		234,000	18.5	
Major customer	1,991,000	16.4		2,773,000	22.0		(782,000)	(28.2)	
Other	288,000	2.4		297,000	2.4		(9,000)	(3.0)	
Total	\$ 12,140,000	100.0	%	\$ 12,585,000	100.0	%	\$ (445,000)	(3.5)	%

Third quarter of 2013 ATP revenue increased over the same period in 2012, due primarily to a significant order shipped to an existing customer this during the third quarter of 2013. Despite the increase over the same period in the prior year, we believe economic uncertainty at both a national and global level may impact ATP revenue at least through the end of 2013. Hy-Tech Machine products (“Hy-Tech Machine”), which are primarily marketed to the mining, construction and industrial manufacturing sectors, encountered a sluggish third quarter of 2013, compared to the third quarter of 2012. Revenue from its Major customer continues to decline, from what we believe to be the result of this customer’s continuing effort to reduce its world-wide inventory levels, compounded further by the impact of a weak global economy.

When comparing the nine-month periods ended September 30, 2013 and 2012, ATP revenue improved slightly, due to current quarter performance. Revenue from its Hy-Tech Machine products have increased during the nine-month period ended September 30, 2013 compared to the same period in 2012, primarily due to a special order shipped in the second quarter of 2013. Lastly, revenue from Hy-Tech’s Major customer during the nine-month period ended September 30, 2013 declined 28.2%, compared to the same period in 2012, as we believe this customer is continuing to reduce its world-wide inventory levels.

Hardware

Our Hardware segment, which currently consists of Nationwide, generates revenue from the sale of Fencing and gate hardware, Kitchen and Bath accessories, OEM products and Patio hardware.

	Three months ended September 30, 2013	2012	Increase (decrease)
--	------------------------------------------	------	---------------------

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

	Revenue	Percent of revenue		Revenue	Percent of revenue	\$		%	
Fence and gate hardware	\$ 4,012,000	70.3	%	\$ 3,005,000	70.0	%	\$ 1,007,000	33.5	%
Kitchen and Bath	739,000	12.9		638,000	14.8		101,000	15.8	
OEM	542,000	9.5		396,000	9.2		146,000	36.9	
Patio	414,000	7.3		256,000	6.0		158,000	61.7	
Total	\$ 5,707,000	100.0	%	\$ 4,295,000	100.0	%	\$ 1,412,000	32.9	%

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

	Nine months ended September 30, 2013		2012		Increase (decrease)	
	Revenue	Percent of revenue	Revenue	Percent of revenue	\$	%
Fence and gate hardware	\$ 12,267,000	72.0 %	\$ 10,204,000	70.4 %	\$ 2,063,000	20.2 %
Kitchen and Bath	2,197,000	12.9	2,181,000	15.0	16,000	0.7
OEM	1,404,000	8.2	1,235,000	8.5	169,000	13.7
Patio	1,175,000	6.9	888,000	6.1	287,000	32.3
Total	\$ 17,043,000	100.0 %	\$ 14,508,000	100.0 %	\$ 2,535,000	17.5 %

An expanded customer base, new product releases, as well as an increase in housing starts continue to be the significant factors in Nationwide's improvement in their Fence and gate hardware revenue. Two significant factors contributed to the 36.9% increase in OEM revenue. Firstly, our major OEM customer increased their orders during the third quarter in an effort to refill their respective pipeline, and secondly, improvement in the housing market has driven sales of our window and door accessories. Increased activity in the sale of foreclosed homes occurring primarily in Florida is the most significant factor contributing to the increase in Patio revenue. Nationwide intends to continue its current growth strategy, which is to develop new products and accessories in the Fence and gate hardware line as well as to continue to expand its national market campaign. This action may, impact its other product line performance.

Further, on November 12, 2013, Nationwide sold to an unrelated third party, all inventory, intangibles and certain fixed assets attributable to its Kitchen and Bath product line. Factors considered in reaching this decision included, but were not limited to: (i) tax incentives (See Liquidity and Capital resources for further discussion.), (ii) dwindling net contribution margins, (iii) high levels of inventory necessary to properly serve the marketplace, (iv) narrow market penetration, and (v) required changes in product construction necessary to comply with various regulations.

Nationwide's revenue for the nine-month period ended September 30, 2013 reflects an increase of \$2,535,000 when compared to the same period in 2012. More than 81% of this revenue growth was generated from their Fence and gate hardware product line. As noted above, this improvement is due primarily to the introduction of new products, growth in new housing starts along with expanded marketing efforts. The first nine months' revenue from Nationwide's OEM product line improved almost 14% compared to the same period a year ago. This increase in revenue, occurring mostly in the third quarter of 2013 is essentially due to an increase in purchasing from a major customer within this product offering along with an increase in housing starts, which is a driver for these products. An increase in the sale of foreclosed homes, which tend to require repair / replacement of patio enclosures, along with an increase in housing starts, have been the key factors contributing to the increase in Patio revenue for the first nine months of 2013, compared to the same period in 2012.

Gross Margins / Profits

	Three months ended September 30, 2013		2012		Increase (decrease)	
	Amount	%	Amount	%	Amount	%
Tools	\$ 4,930,000		\$ 4,355,000		\$ 575,000	13.2 %
As percent of respective revenue	33.4	%	32.7	%	0.7	% pts.
Hardware	\$ 2,125,000		\$ 1,682,000		\$ 443,000	26.3 %
As percent of respective revenue	37.2	%	39.2	%	(2.0)	% pts.
Consolidated	\$ 7,055,000		\$ 6,037,000		\$ 1,018,000	16.9 %
As percent of respective revenue	34.4	%	34.3	%	0.1	% pts.

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

	Nine months ended September 30,		Increase (decrease)			
	2013	2012	Amount		%	
Tools	\$ 15,492,000	\$ 11,753,000	\$ 3,739,000		31.8	%
As percent of respective revenue	35.5 %	36.0 %	(0.5) % pts.			
Hardware	\$ 6,399,000	\$ 5,572,000	\$ 827,000		14.8	%
As percent of respective revenue	37.5 %	38.4 %	(0.9) % pts.			
Consolidated	\$ 21,891,000	\$ 17,325,000	\$ 4,566,000		26.4	%
As percent of respective revenue	36.1 %	36.7 %	(0.6) % pts.			

Tools

	Three months ended September 30,		Increase (decrease)			
	2013	2012	Amount		%	
Florida Pneumatic	\$ 3,289,000	\$ 2,660,000	\$ 629,000		23.6	%
As percent of respective revenue	30.5	28.7	1.8	% pts.		
Hy-Tech	\$ 1,641,000	\$ 1,695,000	\$ (54,000)		(3.2)	%
As percent of respective revenue	40.9	41.7	(0.8)	% pts.		
Total Tools	\$ 4,930,000	\$ 4,355,000	\$ 575,000		13.2	%
As percent of respective revenue	33.4	32.7	0.7	% pts.		
	Nine months ended September 30,		Increase (decrease)			
	2013	2012	Amount		%	
Florida Pneumatic	\$ 10,370,000	\$ 6,463,000	\$ 3,907,000		60.5	%
As percent of respective revenue	32.9	32.2	0.7	% pts.		
Hy-Tech	\$ 5,122,000	\$ 5,290,000	\$ (168,000)		(3.2)	%
As percent of respective revenue	42.2	42.0	0.2	% pts.		
Total Tools	\$ 15,492,000	\$ 11,753,000	\$ 3,739,000		31.8	%
As percent of respective revenue	35.5	36.0	(0.5)	% pts.		

Product mix and greater overhead absorption were the key contributing factors to the slight increase in Florida Pneumatic's third quarter of 2013 margins, compared to the same period a year ago. The increase in Retail revenue was the key factor in the increase in gross profit. Hy-tech's gross margin decrease was due largely to less overhead absorption.

Florida Pneumatic's gross margin for the first nine months of 2013 increased slightly, when compared to the same period in 2012. As with the quarterly results, the year-to-date up-tick in gross margin is due largely to product mix and greater warehouse efficiencies. However, it was the increase in Florida Pneumatic's total revenue of nearly \$11.4 million that drove the \$3.9 million, year-over-year improvement in gross profit. For the nine-month period ended September 30, 2013, Hy-Tech was able to improve its gross margin primarily through product mix, as well as through improved cost of manufacturing. However, lower revenue caused its gross profit to decline.

Hardware

The decline in gross margin at Nationwide during the third quarter of 2013, compared to the same period in 2012 is primarily due to: (i) certain product cost increases for which Nationwide is unable to pass through to its customers, and (ii) incremental air-freight costs incurred to meet higher customer demand. However, as the result of increased revenue, gross profit increased \$443,000 or 26.3%, during the third quarter of 2013, compared to the same period in 2012.

Similar to the three-month results, Nationwide's gross margin declined during the nine-month period ended September 30, 2013, compared to the same period in the prior year. Overall product mix, cost increases, additional freight costs, and competitive pricing pressure were contributing factors to the decline. However, as Nationwide was able to improve its revenue during the nine-month period ended September 30, 2013, over the same period in 2012, it increased its total gross profit \$827,000 or 14.8%.

Selling and 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, general corporate overhead and certain engineering expenses.

During the third quarter of 2013, our SG&A was \$5,680,000, or 27.7% as a percentage of revenue, compared to \$4,646,000, or 26.4% of revenue during the same three-month period in 2012. The most significant items contributing to the increase are variable costs, which aggregate to \$752,000. Variable costs include among other things, commissions, warranty costs, freight out and advertising/promotional fees. Most of this increase is associated with the additional Retail revenue generated at Florida Pneumatic. Compensation, which is comprised of base salaries and wages, associated payroll taxes, employee benefits and accrued performance-based bonus incentives, increased \$143,000, when compared to the three-month periods ended September 30, 2013 and 2012. Further, part of the increase in our SG&A this quarter compared to the same quarter in 2012, is non-cash stock based compensation expense, which increased \$53,000. Additionally, professional fees, including legal, accounting and other services increased by \$115,000, the majority of which relates to expenses incurred in connection with a potential acquisition. However, we do not expect this activity will result in a transaction. The aforementioned increases were partially offset by reductions in depreciation and amortization expenses of \$95,000.

Our SG&A for the nine-month period ended September 30, 2013 was \$17,892,000, compared to \$14,107,000 incurred during the same period in 2012. Stated as a percentage of revenue, our SG&A for the first nine months of 2013 was 29.5%, down from 29.9%, during the same period in the prior year. As noted earlier in the discussion, primarily the result of increased Retail revenue at Florida Pneumatic from sales to THD, our variable expenses, which include commissions, warranty costs, freight out and advertising and promotional expenses, increased an aggregate amount of \$2,892,000. Additionally, included in our first quarter 2013 SG&A, was a one-time marketing fee of \$700,000 incurred by Florida Pneumatic in connection with the initial roll-out to THD. Compensation includes wages, associated payroll taxes and employee benefits and performance-based bonus incentives, which are driven primarily by net earnings, increased \$505,000. Partially offsetting the increases were reductions in our depreciation and amortization costs of \$405,000. Further, during the second quarter of 2012, we recorded a charge of \$167,000 for estimated potential penalties and related fees and expenses in connection with unpaid import duty relating to certain products imported by Florida Pneumatic during the period from January 1, 2009 through September 19, 2012, which did not occur in 2013.

Interest

Our net interest expense during the third quarter of 2013 was \$94,000, compared to \$126,000 for the same period in the prior year. A significant factor affecting interest expense was our average balance of short-term borrowings during the third quarter of 2013, which was \$4,290,000, compared to \$5,438,000, during the same three-month period in 2012. Additionally, there was a reduction in the applicable loan margins that are added to both our LIBOR (London InterBank Offered Rate) and Base Rate borrowings, as defined in the Credit Agreement. See Liquidity and Capital Resources and Note 9 Debt to the Condensed Consolidated Financial Statements for further discussion on the applicable margin rate reductions.

Interest expense for the nine-month period ended September 30, 2013 was \$321,000, compared to \$401,000 for the same period in 2012. The reduction in our nine-month interest expense is due to lower applicable loan margins, which more than offset the increase in our average balance of our short-term borrowings during the first nine months of 2013, which was \$6,740,000 compared to \$6,065,000, during the same period in 2012.

Income Taxes

At the end of each interim reporting period, we estimate our effective tax rate expected to be applied for the full year. This estimate is used to determine the income tax provision on a year-to-date basis and may change in subsequent interim periods. Our effective tax rate for the three and nine-months ended September 30, 2013 were 36.8% and 37.3%, respectively.

During the third quarter of 2012 we eliminated the valuation allowance on our federal deferred tax assets. Prior to this elimination, in lieu of recording a tax expense, we adjusted the then in place valuation allowance, thus creating minimal effective tax rates that would have been applied to our pretax income. With the valuation allowance removed, future tax provisions will significantly impact after-tax earnings, as well as earnings per share. The elimination of the valuation allowance at September 30, 2012, gave rise to income tax benefits of \$2,302,000 and \$2,252,000, for the three and nine-month periods ended September 30, 2012, respectively. As a result, our effective tax rates for the three and nine-month period ended September 30, 2012 were not directly correlated to the amount of our pretax income and are not comparable to the effective tax rate for the same periods in 2013. We still maintain a full valuation allowance on certain state deferred tax assets.

LIQUIDITY AND CAPITAL RESOURCES

Our cash flows from operations can be somewhat cyclical, typically with the greatest demand for cash in the first and third quarters. We monitor various financial metrics, such as average days sales outstanding, inventory turns, estimated future purchasing requirements and capital expenditures, to project liquidity needs and evaluate return on assets employed.

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

	September 30, 2013	December 31, 2012
Working Capital	\$ 25,123,000	\$ 20,701,000
Current Ratio	3.00 to 1.0	2.67 to 1.0
Shareholders' Equity	\$ 37,710,000	\$ 35,088,000

Credit Facility

We entered into a Loan and Security Agreement in October 2010, as amended ("Credit Agreement"), with Capital One Leverage Finance Corporation, as agent ("COLF"). The Credit Agreement expires December 19, 2017, (the "Maturity Date"), and has a maximum borrowing limit of \$29,453,000. The Credit Agreement provides for a Revolver Loan ("Revolver") with a maximum borrowing of \$20,000,000. Direct borrowings under the Revolver are secured by the Company's accounts receivable, mortgages on its real property located in Cranberry, PA, Jupiter, FL and Tampa, FL ("Real Property"), inventory and equipment, and are cross-guaranteed by certain of our subsidiaries (the "Subsidiary Guarantors"). Revolver borrowings bear interest at either LIBOR (London InterBank Offered Rate) or the Base Rate, as defined in the Credit Agreement ("Base Rate"), plus the Applicable Margin (the "Applicable Margin"), as defined in the Credit Agreement. The Applicable Margin on Revolver borrowings is determined based upon the computation of total debt divided by earnings before interest, taxes, depreciation and amortization ("EBITDA"). The interest rate, either LIBOR or Base Rate, which is added to the Applicable Margin, is at the option of the Company, subject to limitations on the number of LIBOR borrowings.

The Credit Agreement also provides for a \$7,000,000 Term Loan (the "Term Loan"), which is secured by mortgages on the Real Property, accounts receivable, inventory and equipment. The balance due on the Term Loan at September 30, 2013 and December 31, 2012 was \$6,790,000 and \$7,000,000, respectively. The Term Loan is repaid \$23,000

each month, with the remaining balance due at the Maturity Date. Term Loan borrowings incur interest at LIBOR or the Base Rate plus the Applicable Margins, which were 3.00 % and 2.00 %, respectively, at September 30, 2013 and December 31, 2012.

Additionally, we borrowed \$380,000 and \$519,000 in March 2012 and September 2012, respectively, primarily for the purchase of machinery and equipment (“Capex Term Loans”). The repayment of these two loans is based on sixty-month amortization periods, resulting in repayments of \$6,000 and \$9,000, respectively. Applicable Margins added to these Capex Term Loans at September 30, 2013 and December 31, 2012 were 3.00% and 2.00%, for borrowings at LIBOR and the Base Rate, respectively.

Cash Flows

During the nine-month period ended September 30, 2013, our net cash balance decreased \$220,000 to \$475,000 from \$695,000 at December 31, 2012. Our total bank debt at September 30, 2013 was \$9,768,000, compared to \$10,616,000 at December 31, 2012; with our short-term borrowings declining \$503,000 and long-term debt reduced by \$345,000. The aforementioned also contributed to the reduction in the percent of the total debt to total book capitalization (total debt divided by total debt plus equity), which at September 30, 2013 was 20.6%, compared to 23.2% at December 31, 2012. We anticipate generating cash from operations during the remainder of 2013. Capital spending was \$428,000 for the nine-month period ended September 30, 2013, compared to \$1,736,000 during the same period in the prior year. Capital expenditures for the balance of 2013 are expected to be less than \$200,000, some of which may be financed through our credit facilities or financed through independent third party financial institutions. The remaining 2013 capital expenditures will primarily be for tooling for expansion of existing product lines, replacement of equipment and other capital improvements.

Customer concentration

Within our Tools segment we have two retail customers, one of which we commenced shipments to in late December 2012, that in the aggregate, as of September 30, 2013, account for 61.2% of our consolidated accounts receivable. To date, these customers, with few exceptions, are current in their payments.

Other matter

The exiting of Nationwide’s Kitchen and Bath product line will enable us to accelerate and deduct, for income tax purposes, the balance of the unamortized intangible assets of approximately \$7,900,000, which arose from the acquisition of Woodmark International, L.P., in 2004. As a result of the acceleration of this \$7,900,000 tax deduction, and further assuming an effective tax rate of 34.0%, we believe our cash tax payments will be reduced by approximately \$2,680,000, as tax liabilities become due.

OFF-BALANCE SHEET ARRANGEMENTS

As the result of the facts and circumstances relating to WM Coffman LLC (now known as Old Stairs Co (“WMC”)), including the foreclosure and subsequent disposal and sale of all of the tangible and intangible assets by PNC in September 2010, we determined that we no longer were the primary beneficiary of WMC, as we were unable to direct the activities of this entity, no longer had the obligation to absorb losses that might be significant to WMC and no longer possessed the right to receive benefits from WMC that could potentially be significant to WMC. We believe that neither the Company nor any of its subsidiaries, other than WMC, are legally responsible for any of the liabilities belonging to WMC as neither the Company nor any of its subsidiaries were parties to or guarantors of any of its obligations. As such, in accordance with Accounting Standards Codification 810-10-40, we continue to deconsolidate WMC.

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

Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure. As required by Exchange Act Rule 13a-15(b), as of the end of the period covered by this Quarterly Report, with the participation of our principal executive officer and principal financial officer, we evaluated the effectiveness of our disclosure controls and procedures. Based on this evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective at a reasonable assurance level as of September 30, 2013.

Changes in Internal Control over Financial Reporting

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

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

There have been no material changes to the legal proceedings disclosure described in our Annual Report on Form 10-K for the year ended December 31, 2012.

Item 1A. Risk Factors

There were no material changes to the risk factors previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2012.

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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

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: November 13, 2013

EXHIBIT INDEX

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

Exhibit Number	Description of Exhibit
31.1	Certification of Richard A. Horowitz, Principal Executive Officer of the Registrant, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Joseph A. Molino, Jr., Principal Financial Officer of the Registrant, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Richard A. Horowitz, Principal Executive Officer of the Registrant, Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Joseph A. Molino, Jr., Principal Financial Officer of the Registrant, Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	** Interactive Data

** Attached as Exhibit 101 are the following, each formatted in Extensible Business Reporting Language (“XBRL”): (i) Consolidated Condensed Balance Sheets; (ii) Consolidated Condensed Statements of Income; (iii) Consolidated Condensed Statements of Shareholders’ Equity; (iv) Consolidated Condensed Statements of Cash Flows; and (v) Notes to Consolidated Condensed Financial Statements.

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.