

P&F INDUSTRIES INC
Form 10-Q
November 13, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended September 30, 2015

**..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)

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

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 (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate 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 that the registrant was required to submit and post such files). Yes No

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

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 6, 2015 there were 3,616,870 shares of the registrant's Class A Common Stock outstanding.

P&F INDUSTRIES, INC.

FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2015

TABLE OF CONTENTS

	PAGE
PART I — FINANCIAL INFORMATION	
Item 1. <u>Financial Statements</u>	1
<u>Consolidated Balance Sheets as of September 30, 2015 (unaudited) and December 31, 2014</u>	1
<u>Consolidated Statements of Income and Comprehensive Income for the three and nine months ended September 30, 2015 and 2014 (unaudited)</u>	3
<u>Consolidated Statement of Shareholders' Equity for the nine months ended September 30, 2015 (unaudited)</u>	4
<u>Consolidated Statements of Cash Flows for the nine months ended September 30, 2015 and 2014 (unaudited)</u>	5
<u>Notes to Consolidated Financial Statements (unaudited)</u>	7
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	18
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	30
Item 4. <u>Controls and Procedures</u>	30
PART II — OTHER INFORMATION	
Item 1. <u>Legal Proceedings</u>	31
Item 1A. <u>Risk Factors</u>	31

Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	31
Item 3. <u>Defaults Upon Senior Securities</u>	31
Item 4. <u>Mine Safety Disclosures</u>	31
Item 5. <u>Other Information</u>	31
Item 6. <u>Exhibits</u>	31
<u>Signature</u>	32
<u>Exhibit Index</u>	33

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

	September 30, 2015 (unaudited)	December 31, 2014 (See Note 1)
ASSETS		
CURRENT ASSETS		
Cash	\$ 1,682,000	\$ 1,011,000
Accounts receivable — net	11,061,000	9,547,000
Inventories	24,252,000	24,335,000
Deferred income taxes — net	1,149,000	1,149,000
Prepaid expenses and other current assets	1,452,000	1,529,000
TOTAL CURRENT ASSETS	39,596,000	37,571,000
PROPERTY AND EQUIPMENT		
Land	1,550,000	1,550,000
Buildings and improvements	7,724,000	7,683,000
Machinery and equipment	21,288,000	20,460,000
	30,562,000	29,693,000
Less accumulated depreciation and amortization	20,145,000	19,101,000
NET PROPERTY AND EQUIPMENT	10,417,000	10,592,000
GOODWILL	12,032,000	11,980,000
OTHER INTANGIBLE ASSETS — net	11,451,000	12,437,000
OTHER ASSETS — net	355,000	514,000
TOTAL ASSETS	\$ 73,851,000	\$ 73,094,000

See accompanying notes to consolidated financial statements (unaudited).

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

	September 30, 2015 (unaudited)	December 31, 2014 (See Note 1)
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Short-term borrowings	\$ 11,461,000	\$ 11,817,000
Accounts payable	4,218,000	3,160,000
Accrued liabilities	5,280,000	5,500,000
Current maturities of long-term debt	494,000	3,167,000
TOTAL CURRENT LIABILITIES	21,453,000	23,644,000
Long-term debt, less current maturities	6,122,000	6,493,000
Deferred tax liabilities - net	2,788,000	2,720,000
Other liabilities	233,000	246,000
TOTAL LIABILITIES	30,596,000	33,103,000
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 - 4,170,000 at September 30, 2015 and 4,139,000 at December 31, 2014	4,170,000	4,139,000
Class B - \$1 par; authorized - 2,000,000 shares; no shares issued	—	—
Additional paid-in capital	12,840,000	12,695,000
Retained earnings	31,094,000	27,951,000
Treasury stock, at cost - 554,000 shares at September 30, 2015 and December 31, 2014	(4,566,000)	(4,566,000)
Accumulated other comprehensive loss	(283,000)	(228,000)
TOTAL SHAREHOLDERS' EQUITY	43,255,000	39,991,000
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 73,851,000	\$ 73,094,000

See accompanying notes to consolidated financial statements (unaudited).

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

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Net revenue	\$21,678,000	\$22,932,000	\$64,064,000	\$57,132,000
Cost of sales	13,813,000	14,904,000	40,261,000	36,466,000
Gross profit	7,865,000	8,028,000	23,803,000	20,666,000
Selling, general and administrative expenses	5,962,000	6,438,000	18,510,000	17,221,000
Operating income	1,903,000	1,590,000	5,293,000	3,445,000
Other expense (income)	75,000	---	(126,000)	---
Interest expense	173,000	158,000	566,000	335,000
Income before income taxes	1,655,000	1,432,000	4,853,000	3,110,000
Income tax expense	605,000	616,000	1,710,000	1,260,000
Net income	\$1,050,000	\$816,000	\$3,143,000	\$1,850,000
Basic earnings per share	\$0.29	\$0.22	\$0.87	\$0.50
Diluted earnings per share	\$0.28	\$0.20	\$0.84	\$0.47
Weighted average common shares outstanding:				
Basic	3,616,000	3,792,000	3,604,000	3,737,000
Diluted	3,792,000	3,968,000	3,764,000	3,917,000
Net income	\$1,050,000	\$816,000	\$3,143,000	\$1,850,000
Other comprehensive loss-foreign currency translation adjustment	(99,000)	(63,000)	(55,000)	(63,000)
Total comprehensive income	\$951,000	\$753,000	\$3,088,000	\$1,787,000

See accompanying notes to consolidated financial statements (unaudited).

P&F INDUSTRIES, INC. AND SUBSIDIARIES**CONSOLIDATED 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, 2015	\$39,991,000	4,139,000	\$4,139,000	\$12,695,000	\$27,951,000	(554,000)	\$(4,566,000)
Net income	3,143,000	—	—	—	3,143,000	—	—
Exercise of stock options	73,500	23,500	23,500	50,000	—	—	—
Restricted common stock compensation	30,500	7,500	7,500	23,000	—	—	—
Stock-based compensation	72,000	—	—	72,000	—	—	—
Foreign currency translation adjustment	(55,000)	—	—	—	—	—	—
Balance, September 30, 2015	\$43,255,000	4,170,000	\$4,170,000	\$12,840,000	\$31,094,000	(554,000)	\$(4,566,000)

See accompanying notes to consolidated financial statements (unaudited).

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

	Nine months ended September 30,	
	2015	2014
Cash Flows from Operating Activities:		
Net income	\$3,143,000	\$1,850,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Non-cash charges:		
Depreciation and amortization	1,279,000	1,137,000
Amortization of other intangible assets	971,000	361,000
Amortization of debt issue costs	83,000	67,000
Provision for (recovery of) losses on accounts receivable - net	22,000	(107,000)
Stock-based compensation	72,000	182,000
Restricted stock-based compensation	30,000	21,000
Loss on sale of fixed assets	5,000	7,000
Deferred income taxes	72,000	1,079,000
Fair value reduction in contingent consideration	(126,000)	—
Changes in operating assets and liabilities:		
Accounts receivable	(1,548,000)	(3,824,000)
Inventories	(6,000)	1,671,000
Prepaid expenses and other current assets	76,000	(376,000)
Other assets	76,000	54,000
Accounts payable	1,064,000	1,212,000
Accrued liabilities	(86,000)	(214,000)
Other liabilities	(13,000)	(12,000)
Total adjustments	1,971,000	1,258,000
Net cash provided by operating activities	5,114,000	3,108,000

See accompanying notes to consolidated financial statements (unaudited).

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

	Nine months ended September 30,	
	2015	2014
Cash Flows from Investing Activities:		
Capital expenditures	(1,144,000)	(713,000)
Proceeds from disposal of assets	31,000	8,000
Purchase of net assets Air Tool Service Company	—	(7,559,000)
Purchase of Exhaust Technologies, Inc.	—	(10,377,000)
Purchase of Universal Air Tool Company Limited, net of cash acquired of \$14,000	—	(1,701,000)
Net cash used in investing activities	(1,113,000)	(20,342,000)
Cash Flows from Financing Activities:		
Proceeds from exercise of stock options	73,000	741,000
Proceeds from short-term borrowings	55,827,000	66,166,000
Repayments of short-term borrowings	(56,182,000)	(52,107,000)
Repayments of term loans	(3,012,000)	(428,000)
Proceeds from term loan	—	3,000,000
Bank financing costs	—	(65,000)
Repayments of notes payable	(30,000)	—
Net cash (used in) provided by financing activities	(3,324,000)	17,307,000
Effect of exchange rate changes on cash	(6,000)	18,000
Net increase in cash	671,000	91,000
Cash at beginning of period	1,011,000	413,000
Cash at end of period	\$1,682,000	\$504,000
Supplemental disclosures of cash flow information:		
Cash paid for:		
Interest	\$492,000	\$236,000
Income taxes	\$1,149,000	\$126,000
Supplemental disclosures of non-cash investing and financing activities:		
Contingent consideration on acquisition	\$—	\$425,000
Exchange of property and equipment	\$64,000	\$—

See accompanying notes to consolidated financial statements (unaudited).

P&F INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

NOTE 1 - BUSINESS AND SUMMARY OF ACCOUNTING POLICIES

Basis of Financial Statement Presentation

The accompanying unaudited consolidated 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 (“SEC”) 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 management of the Company, as defined below, these unaudited consolidated 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 consolidated balance sheet information as of December 31, 2014 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, 2014 (“2014 Form 10-K”). The interim financial statements contained herein should be read in conjunction with the 2014 Form 10-K.

The consolidated financial statements have been reported in U.S. dollars by translating asset and liability amounts of a foreign wholly-owned subsidiary at the closing exchange rate, equity amounts at historical rates and the results of operations and cash flow at the average of the prevailing exchange rates during the periods reported. As a result, the Company is exposed to foreign currency translation gains or losses. These gains or losses are presented in the Company’s consolidated financial statements as “Other comprehensive income (loss) - foreign currency translation adjustments”.

Principles of Consolidation

The unaudited consolidated 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 consolidated financial statements have been reclassified to conform to classifications used in the current period.

The Company

P&F is a Delaware corporation incorporated on April 19, 1963, that 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 operates through its wholly-owned subsidiaries, Florida Pneumatic Manufacturing Corporation (“Florida Pneumatic”) and Hy-Tech Machine, Inc. (“Hy-Tech”). During the third quarter of 2014, the Company acquired Exhaust Technologies Inc. (“ETI”) and Universal Air Tool Company Limited (“UAT”). Both ETI and UAT are wholly-owned subsidiaries of Florida Pneumatic, and unless otherwise indicated, the operations and results of operations of Florida Pneumatic herein include ETI and UAT as of the respective dates such companies were acquired. Additionally, during the third quarter of 2014, the Company acquired substantially all the assets of Air Tool Service Company (“ATSCO”), which business operates through a wholly-owned subsidiary of Hy-Tech. Unless otherwise indicated, the results of operations of Hy-Tech herein include ATSCO from the date the business was acquired.

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 product line which includes pipe and bolt dies, pipe taps, wrenches, vises and stands, pipe and tubing cutting equipment, hydrostatic test pumps, 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 and markets impact wrenches, grinders, drills, and motors. Further, it also manufactures tools to customer specifications. Its customers include refineries, chemical plants, power generation facilities, heavy construction enterprises, oil and gas and mining companies. In addition, Hy-Tech manufactures an extensive line of pneumatic tool replacement parts that are sold to original equipment manufacturers (“OEMs”). It also manufactures and distributes high pressure stoppers for hydrostatic testing fabricated pipe, gears, sprockets, splines and racks and 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 an importer and manufacturer of door, window and fencing hardware and accessories, including rollers, hinges, window operators, sash locks, custom zinc castings and door closers. Nationwide’s products are sold through in-house sales personnel and manufacturers’ representatives to distributors, retailers and OEM customers. End users of Nationwide’s products include contractors, home builders, pool and patio distributors, OEM/private label customers and general consumers.

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 as of 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 2014 Form 10-K. 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.

Recently issued Accounting Pronouncements

In September 2015, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2015-16, “Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments”

(“ASU 2015-16”). ASU 2015-16 requires an acquirer in a business combination to recognize adjustments to the provisional amounts identified during the measurement period in the reporting period in which the adjustment amounts are determined. The acquirer is also required to either present separately on the face of the income statement or disclose in the notes to the financial statements the portion of the amounts recorded in the current-period earnings by line item that would have been recorded in previous periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. Under current U.S. GAAP, the acquirer is required to retrospectively adjust provisional amounts recognized at the acquisition date with a corresponding adjustment to goodwill. ASU 2015-16 is effective for annual periods beginning after December 31, 2015, with early application permitted, and shall apply to adjustments to provisional amounts that occur after the effective date. The Company is currently assessing the impact the adoption of ASU 2015-16 will have on future financial statements and related disclosures.

In July 2015, the FASB issued ASU 2015-11, "Inventory (Topic 330): Simplifying the Measurement of Inventory," which applies to inventory that is measured using first-in, first-out ("FIFO") or average cost. Under the updated guidance, an entity should measure inventory that is within scope at the lower of cost or net realizable value, which is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. Subsequent measurement is unchanged for inventory that is measured using last-in, last-out ("LIFO"). This ASU is effective for annual and interim periods beginning after December 15, 2016, and should be applied prospectively with early adoption permitted at the beginning of an interim or annual reporting period. The Company is currently evaluating the impact of adopting this guidance.

In April 2015, the FASB issued ASU 2015-03, Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs ("ASU 2015-03"), in order to simplify the presentation of debt issuance costs. The ASU requires debt issuance costs to be presented on the balance sheet as a direct deduction from the related debt liability rather than an asset. ASU 2015-03 is effective for public companies for annual periods beginning after December 15, 2015, and interim periods thereafter, with early adoption permitted. The guidance also requires retrospective application to all prior periods presented. The adoption of this new guidance is not expected to have a material impact on the Company's consolidated financial statements. However, in August 2015, the FASB issued Accounting Standards Update 2015-15, Interest—Imputation of Interest (Subtopic 835-30) "Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit" ("ASU 2015-15"). ASU 2015-15 clarifies that the SEC Staff would not object to an entity deferring and presenting debt issuance costs as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement.

In May 2014, the FASB issued ASU Update No. 2014-09 ("ASU 2014-09"), Revenue from Contracts with Customers (Topic 606), which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. ASU 2014-09 will replace most existing revenue recognition guidance in GAAP when it becomes effective. The new standard was to become effective for annual and interim periods in fiscal years beginning after December 15, 2016. In April 2015, the FASB proposed deferring the effective date of ASU 2014-09 for one year, and proposed some modifications to the original provisions. On July 9, 2015, the one year deferral of the effective date was approved, and as such ASU 2014-09 is effective for our first quarter of fiscal year 2018 using either the retrospective or cumulative effect transition method. We are evaluating the effect that ASU 2014-09 will have on our consolidated financial statements and related disclosures. We have not yet selected a transition method nor have we determined the effect of the standard on our ongoing financial reporting.

NOTE 2 – ACQUISITIONS

Exhaust Technologies Inc.

On July 1, 2014, the Company acquired ETI, a developer and distributor of pneumatic tools, through a merger between a newly formed wholly-owned subsidiary of Florida Pneumatic and ETI. ETI markets its AIRCAT and NITROCAT brand pneumatic tools primarily to the automotive market. ETI's business operates through Florida Pneumatic. The purchase price for this acquisition consisted of \$10,377,000 in cash plus the assumption of certain payables.

Universal Air Tool Company Limited

On July 29, 2014, the Company acquired all of the outstanding shares of UAT, a distributor of pneumatic tools. UAT, which is located in High Wycombe, England, markets pneumatic tools to the automotive market sector primarily in the United Kingdom and Ireland. The purchase price for this acquisition consisted of approximately \$1,947,000 in cash, net of a post-closing working capital adjustment. As part of this transaction, there was the possibility that the Company could pay as additional consideration ("contingent consideration"), to the former shareholders of UAT (the "Sellers") up to a maximum of £250,000 should UAT's net earnings during the period from date of acquisition through the first anniversary date, July 29, 2015, after adjusting for among other things, interest, taxes, depreciation and amortization ("adjusted net income") exceed a minimum threshold. At the time of the acquisition, the Company believed, based on a range of possible outcomes, that it was more likely than not that UAT would achieve the amount of adjusted net income that would entitle the Sellers to the maximum amount, and accordingly recorded a \$425,000 obligation as contingent consideration (£250,000 at the then foreign exchange rate). Based upon projected results, at June 30, 2015, the Company adjusted the estimated contingent consideration payable to the Sellers to \$224,000. Subsequently, the Company and the Sellers agreed that the contingent consideration payable to the Sellers shall be £193,435, or approximately \$299,000. As a result, the Company adjusted the contingent consideration payable to \$299,000, and recognized \$75,000 as Other Expense in the three-month period ended September 30, 2015. The \$299,000 agreed upon amount was paid to the Sellers in October 2015.

Air Tool Service Company

On August 13, 2014, a newly formed wholly owned subsidiary of Hy-Tech, acquired substantially all of the assets comprising the business of ATSCO, an Ohio based corporation engaged in the design, manufacture and distribution of pneumatic tools and parts. The purchase price consisted of approximately \$7,659,000 in cash and the assumption of certain liabilities, and is subject to a post-closing working capital adjustment. The Company is still seeking to reach agreement with the seller of the ATSCO assets on the matter of the post-closing working capital adjustment, among other things.

All three acquisitions are included as a part of the Company's Tool segment. ETI and UAT have been integrated into the business operations of Florida Pneumatic, and ATSCO has been integrated into the business operations of Hy-Tech since their respective dates of acquisition. As such, it is impracticable to determine the specific revenue and earnings directly attributable to any of the acquired businesses.

The following unaudited pro-forma combined financial information gives effect to the acquisition of ETI, UAT and ATSCO as if they were consummated January 1, 2014. This unaudited pro-forma financial information is presented for information purposes only, and is not intended to present actual results that would have been attained had the acquisitions been completed as of January 1, 2014 (the beginning of the earliest period presented) or to project potential operating results as of any future date or for any future periods.

	Three months ended September 30, 2014 (Unaudited)	Nine months ended September 30, 2014 (Unaudited)
Revenue	\$23,500,000	\$65,452,000
Net income	\$805,000	\$2,845,000
Earnings per share - basic	\$0.21	\$0.76
Earnings per share - diluted	\$0.20	\$0.73

NOTE 3 — EARNINGS PER SHARE

Basic earnings per common share is based on the average number of shares of the Company's Class A Common Stock ("Common Stock") outstanding for the periods presented. Diluted earnings per common share reflects the effect of shares of the 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 the common stock outstanding reflects the assumed use of proceeds from the hypothetical exercise of any outstanding options to purchase shares of the 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,		September 30,	
	2015	2014	2015	2014
Numerator for basic and diluted earnings per common share:				
Net income	\$1,050,000	\$816,000	\$3,143,000	\$1,850,000
Denominator:				
For basic earnings per share - weighted average common shares outstanding	3,616,000	3,792,000	3,604,000	3,737,000
Dilutive securities (1)	176,000	176,000	160,000	180,000
For diluted earnings per share - weighted average common shares outstanding	3,792,000	3,968,000	3,764,000	3,917,000

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

At September 30, 2015 and 2014 and during the nine-month periods ended September 30, 2015 and 2014, there were outstanding stock options whose exercise prices were higher than the average market values of the underlying common stock for the period. These options are anti-dilutive and are excluded from the computation of diluted earnings per share. The weighted average of anti-dilutive stock options outstanding was as follows:

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2015	2014	2015	2014
Weighted average antidilutive stock options outstanding	88,000	184,000	150,000	232,000

NOTE 4 - STOCK-BASED COMPENSATION

During the three and nine-month periods ended September 30, 2015, the Company did not grant any Common Stock options.

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

The following is a summary of the changes in outstanding options during the nine-month period ended September 30, 2015:

	Option Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Outstanding, January 1, 2015	505,000	\$ 6.51	4.8	\$1,232,000
Granted	—	—		—
Exercised	(23,500)	3.11		
Forfeited	—	—		
Expired	(22,500)	16.68		
Outstanding, September 30, 2015	459,000	\$ 6.19	4.2	\$1,720,000
Vested, September 30, 2015	435,160	\$ 6.08	4.0	\$1,687,000

The following is a summary of changes in non-vested options for the nine months ended September 30, 2015:

	Option Shares	Weighted Average Grant-Date Fair Value
Non-vested options, January 1, 2015	61,006	\$ 6.14
Granted	---	
Vested	(37,166)	\$ 5.76
Forfeited	---	
Non-vested options, September 30, 2015	23,840	\$ 6.72

The number of shares of Common Stock available for issuance under the 2012 Stock Incentive Plan (the “2012 Plan”) as of September 30, 2015 was 183,267. At September 30, 2015, there were 113,500 options outstanding issued under the 2012 Stock Incentive Plan and 345,500 options outstanding issued under the 2002 Stock Incentive Plan.

Restricted Stock

Pursuant to the 2012 Plan, the Company, on May 20, 2015, issued 1,000 restricted shares of its Common Stock to each non-employee member of its Board of Directors, totaling 5,000 restricted shares. The Company determined the fair value of these shares to be \$8.63, which was the closing price of the Company’s Common Stock on the date of the grant. These shares cannot be traded earlier than the first anniversary of the grant date. The Company will ratably amortize the total non-cash compensation expense of approximately \$43,000 in its selling, general and administrative expenses through May 2016.

The Company issued 2,500 restricted shares of its common stock to Joseph A. Molino, Jr., the Company’s Chief Financial Officer, in accordance with an Employment Agreement dated April 2, 2015. The Company determined the fair value of these shares to be \$6.86, which was the closing price of the Company’s Common Stock on the date of the grant. These shares shall vest as to 833 shares on April 2, 2016, 833 shares on April 2, 2017, and 834 shares on April 2, 2018; provided, however, that 100% of the then unvested portion of the shares shall vest in the event of Mr. Molino’s death or termination due to disability or upon a Change in Control (as defined in the 2012 Plan). These shares cannot be traded earlier than the first anniversary of the grant date. The Company will ratably amortize the total non-cash value of approximately \$17,000 as compensation expense in its selling, general and administrative expenses through April 2018.

NOTE 5 - ACCOUNTS RECEIVABLE AND ALLOWANCE FOR DOUBTFUL ACCOUNTS

Accounts receivable - net consists of:

	September 30, 2015	December 31, 2014
Accounts receivable	\$ 11,229,000	\$ 9,693,000
Allowance for doubtful accounts	(168,000)	(146,000)
	\$ 11,061,000	\$ 9,547,000

NOTE 6 - INVENTORIES

Inventories consist of:

	September 30, 2015	December 31, 2014
Raw material	\$ 2,354,000	\$ 2,014,000
Work in process	1,450,000	1,433,000
Finished goods	20,448,000	20,888,000
	\$ 24,252,000	\$ 24,335,000

NOTE 7 - GOODWILL AND OTHER INTANGIBLE ASSETS

The changes in the carrying amount of goodwill by segment are as follows:

	Consolidated	Tools	Hardware
Balance, January 1, 2015	\$ 11,980,000	\$ 10,107,000	\$ 1,873,000
Adjustment to Acquisition of ATSCO	62,000	62,000	—
Currency translation adjustments	(10,000)	(10,000)	—
Balance, September 30, 2015	\$ 12,032,000	\$ 10,159,000	\$ 1,873,000

Other intangible assets were as follows:

	September 30, 2015			December 31, 2014		
	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
Other intangible assets:						
Customer relationships (1)	\$ 13,192,000	\$ 5,178,000	\$ 8,014,000	\$ 13,194,000	\$ 4,551,000	\$ 8,643,000
Trademarks and trade names (1)	2,025,000	—	2,025,000	2,035,000	—	2,035,000
Engineering drawings	410,000	149,000	261,000	410,000	120,000	290,000
Licensing	305,000	279,000	26,000	305,000	235,000	70,000
Non-compete agreements (1)	365,000	112,000	253,000	368,000	41,000	327,000
Patents	1,205,000	333,000	872,000	1,205,000	133,000	1,072,000
Totals	\$ 17,502,000	\$ 6,051,000	\$ 11,451,000	\$ 17,517,000	\$ 5,080,000	\$ 12,437,000

(1) A portion of these intangibles are maintained in a foreign currency, and are therefore subject to foreign exchange rate fluctuations.

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

Three months ended September 30,		Nine months ended September 30,	
2015	2014	2015	2014
\$ 324,000	\$ 245,000	\$ 971,000	\$ 361,000

The weighted average amortization period for intangible assets was as follows:

	September 30, 2015	December 31, 2014
Customer relationships	10.2	10.9
Engineering drawings	8.7	9.2
Licensing	0.5	1.2
Non-compete agreements	2.9	3.6
Patents	5.8	6.1

Amortization expense for each of the next five years and thereafter is estimated to be as follows:

2016	\$ 1,263,000
2017	1,178,000
2018	981,000
2019	954,000
2020	809,000
Thereafter	4,241,000
Total	\$9,426,000

NOTE 8 - DEBT

SHORT-TERM LOANS

The Company entered into a Loan and Security Agreement in October 2010, as amended (“Credit Agreement”), with Capital One Business Credit Corp., formerly known as Capital One Leverage Finance Corporation, as agent and lender (“COBC”). The Credit Agreement expires December 19, 2017 (the “Maturity Date”). The Credit Agreement provides for a Revolver Loan (“Revolver”), borrowings which 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. P&F and certain of its subsidiaries are borrowers under the Credit Agreement, and their obligations are cross-guaranteed by certain other subsidiaries. Revolver borrowings bear interest at either LIBOR (London InterBank Offered Rate) or the Base Rate, as defined in the Credit Agreement (“Base Rate”), or a combination of the two, plus the Applicable Margin (the “Applicable Margin”), as defined in the Credit Agreement. 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.

In August 2014, the Company entered into an Amended and Restated Loan and Security Agreement (the “Restated Loan Agreement”) with COBC. The Restated Loan Agreement, among other things, amended the Credit Agreement by: (1) increasing the total amount of the credit facility from \$29,423,000 to \$33,657,000, (2) increasing the Revolver from \$20,000,000 to \$22,000,000, (3) creating a new \$3,000,000 Term Loan, as defined in the Restated Loan Agreement (“Term Loan B”), and (4) re-designating as “Term Loan A”, the previously existing outstanding Term Loan, which relates primarily to the Company’s real property. In addition, the Restated Loan Agreement also reset certain financial covenants.

The balance of Revolver borrowings outstanding was \$11,461,000 and \$11,817,000, at September 30, 2015 and December 31, 2014, respectively. Applicable Margins added to Revolver borrowings at LIBOR and the Base Rate at

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

September 30, 2015 and December 31, 2014 were 2.25% and 1.25%, respectively. During the nine-month period ended September 30, 2015, the Applicable Margin rates for LIBOR borrowings and Base Rate borrowings ranged from 2.25% to 2.50% and 1.25% and 1.50%, respectively, compared to 1.50% to 2.00% and 0.50% to 1.00%, respectively, for the same nine-month period in 2014.

LONG-TERM

The Restated Loan Agreement provides for Term Loan A, which is secured by mortgages on the Real Property, accounts receivable, inventory and equipment. Term Loan A borrowings can be at either LIBOR, or at the Base Rate, as defined in the Restated Loan Agreement, or a combination of the two plus the Applicable Margins, which for LIBOR and Base Rate borrowings at September 30, 2015 and December 31, 2014 were 3.0% and 2.0%, respectively.

Additionally, the Restated Loan Agreement provided for a Term Loan B, pursuant to which the Company borrowed the maximum principal amount of \$3,000,000 in connection with the ATSCO acquisition. Term Loan B borrowings incurred interest at LIBOR or the Base Rate or a combination, plus the Applicable Margins, which was 3.25% and 2.25% at December 31, 2014. This Term Loan B was scheduled to be repaid in 36 consecutive monthly payments of \$83,000, with additional mandatory repayments each year equal to 50% of the Company's Excess Cash Flow (as defined in the Restated Loan Agreement) for such year, if any. As the result of the Company's Excess Cash Flow for the year ended December 31, 2014, on April 2, 2015 the Company repaid \$2,417,000, which was the balance of the Term Loan B, with funds available from its Revolver.

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"). Applicable Margins added to these Capex Term Loans at September 30, 2015 and December 31, 2014 were 3.00% and 2.00%, for borrowings at LIBOR and the Base Rate, respectively.

Long-term debt:

	September 30, 2015	December 31, 2014
Term Loan A - \$23,000 payable monthly January 2013 through December 2017, balance due December 19, 2017.	\$ 6,230,000	\$ 6,440,000
Term Loan B - \$83,000 payable monthly September 2014 through March 2015.	—	2,667,000
Capex Term Loan - \$6,000 payable monthly May 2012 through April 2017.	121,000	178,000
Capex Term Loan - \$9,000 payable monthly October 2012 through September 2017.	208,000	285,000
Other	57,000	90,000
	6,616,000	9,660,000
Less: current maturities	494,000	3,167,000
	\$ 6,122,000	\$ 6,493,000

The Company is required to provide COBC with, among other things, monthly financial statements, monthly borrowing base certificates and certificates of compliance with various financial covenants. The Company believes it is in compliance with all covenants under the Restated Loan Agreement. As part of the Restated Loan Agreement, if an event of default occurs, the interest rate would increase by 2% per annum during the period of default, in addition to other remedies provided to COBC.

NOTE 9 - RELATED PARTY TRANSACTIONS

The president of one of the Company's subsidiaries is part owner of one of the subsidiary's vendors. During the three and nine-month periods ended September 30, 2015; the Company purchased approximately \$154,000 and \$477,000, respectively, of product from this vendor. During the three and nine-month periods ended September 30, 2014, the Company purchased approximately \$254,000 and \$672,000, respectively, of product from this vendor. At September 30, 2015 and December 31, 2014, the Company had trade payables to this vendor of \$67,000 and \$103,000, respectively. Additionally, during the three and nine-month periods ended September 30, 2015 the Company recorded sales to this vendor of \$2,000 and \$7,000, respectively, compared to \$11,000 and \$22,000 for the three and nine-month periods ended September 30, 2014.

NOTE 10 - BUSINESS SEGMENTS

P&F operates in two primary lines of business, or segments: 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.

As of and for the three months ended September 30, 2015	Consolidated	Tools	Hardware
Revenues from unaffiliated customers	\$21,678,000	\$15,924,000	\$5,754,000
Segment operating income	\$3,060,000	\$1,947,000	\$1,113,000
General corporate expense	(1,157,000)		
Other expense	(75,000)		
Interest expense	(173,000)		
Income before income taxes	\$1,655,000		
Segment assets	\$71,608,000	\$60,688,000	\$10,920,000
Corporate assets	2,243,000		
Total assets	\$73,851,000		
Long-lived assets, including \$52,000 at corporate	\$33,900,000	\$29,338,000	\$4,510,000
As of and for the three months ended September 30, 2014	Consolidated	Tools	Hardware
Revenues from unaffiliated customers	\$22,932,000	\$17,865,000	\$5,067,000
Segment operating income	\$3,217,000	\$2,201,000	\$1,016,000
General corporate expense	(1,627,000)		
Interest expense	(158,000)		
Income before income taxes	\$1,432,000		
Segment assets	\$77,023,000	\$65,054,000	\$11,969,000
Corporate assets	2,344,000		
Total assets	\$79,367,000		
Long-lived assets, including \$55,000 at corporate	\$35,470,000	\$30,815,000	\$4,600,000

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

As of and for the nine months ended September 30, 2015	Consolidated	Tools	Hardware
Revenues from unaffiliated customers	\$64,064,000	\$46,541,000	\$17,523,000
Segment operating income	\$9,352,000	\$5,888,000	\$3,464,000
General corporate expense	(4,059,000)		
Other income	126,000		
Interest expense	(566,000)		
Income before income taxes	\$4,853,000		

As of and for the nine months ended September 30, 2014	Consolidated	Tools	Hardware
Revenues from unaffiliated customers	\$57,132,000	\$41,749,000	\$15,383,000
Segment operating income	\$8,112,000	\$4,887,000	\$3,225,000
General corporate expense	(4,667,000)		
Interest expense	(335,000)		
Income before income taxes	\$3,110,000		

Revenue and long-lived assets by geographic region were as follows:

	Three months ended		Nine months ended	
	September 30, 2015	2014	September 30, 2015	2014
Revenue:				
North America	\$20,508,000	\$22,132,000	\$60,554,000	\$55,785,000
Europe	900,000	690,000	2,712,000	843,000
All Other	270,000	110,000	798,000	504,000
Total Revenue	\$21,678,000	\$22,932,000	\$64,064,000	\$57,132,000
Long-Lived Assets:				
North America			\$32,802,000	\$34,094,000
Europe			1,098,000	1,376,000
Total Long-Lived Assets			\$33,900,000	\$35,470,000

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 shareholders. Generally, the inclusion of the words “believe,” “expect,” “intend,” “estimate,” “anticipate,” “will,” “may,” “would,” “could” and 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 2015 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, 2014 (“2014 Form 10-K”). 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

P&F and each of its subsidiaries are herein referred to collectively as the “Company.” In addition, the words “we”, “our” and “us” refer to 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”). During the third quarter of 2014, the Company acquired Exhaust Technologies Inc. (“ETI”) and Universal Air Tool Company Limited (“UAT”). Both ETI and UAT are wholly-owned subsidiaries of Florida Pneumatic, and unless otherwise indicated, the operations and results of operations of Florida Pneumatic herein include ETI and UAT as of the respective dates such companies were acquired. Additionally, during the third quarter of 2014, the Company acquired substantially all of the assets of Air Tool Service Company (“ATSCO”), which business operates through a wholly-owned subsidiary of Hy-Tech. Unless otherwise indicated, the results of operations of Hy-Tech herein include ATSCO from the date the business was acquired.

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 product line which includes pipe and bolt dies, pipe taps, wrenches, vises and stands, pipe and tubing cutting equipment, hydrostatic test pumps, 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 and markets impact wrenches, grinders, drills, and motors. Further, it also manufactures tools to customer specifications. Its customers include refineries, chemical plants, power generation facilities, heavy construction enterprises, oil and gas and mining companies. In addition, Hy-Tech manufactures an extensive line of pneumatic tool replacement parts that are sold to original equipment manufacturers (“OEMs”). It also manufactures and distributes high pressure stoppers for hydrostatic testing fabricated pipe, gears, sprockets, splines and racks and 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 an importer and manufacturer of door, window and fencing hardware and accessories, including rollers, hinges, window operators, sash locks, custom zinc castings and door closers. Nationwide’s products are sold through in-house sales personnel and manufacturers’ representatives to distributors, retailers and OEM customers. End users of Nationwide’s products include contractors, home builders, pool and patio distributors, OEM/private label customers and general consumers.

Overview

During the third quarter of 2015, our results of operations were impacted by a number of factors, some of which were:

· the positive impact on revenue and earnings provided by the three acquisitions completed during the third quarter of 2014;

· the on-going slow-down in oil and gas exploration and extraction continues to negatively impact our Tools segment;

· Nationwide’s continued benefit from increased activity in residential construction and the renovation and remodeling markets; and

· Final adjustment and settlement of contingent consideration payable to the former shareholders of UAT, resulting in Other expense of \$75,000.

KEY INDICATORS

Economic Measures

Much of our business is driven by the ebbs and flows of the general economic conditions in both the United States and, to a lesser extent, abroad. Our Tools segment focuses on a wide array of customer types including, but not

limited to large retailers, aerospace, large and small resellers of pneumatic tools and parts; and automotive related customers. The Tools segment tends to track the general economic conditions of the United States, industrial production and general retail sales. The key economic measures for our Hardware group are housing starts and remodeling spending activity.

A key economic measure relevant to us is the cost of the raw materials in our products. Key materials include metals, especially various types of steel and aluminum. Also important is the value of the United States dollar (“USD”) in relation to the Taiwanese dollar (“TWD”), as we purchase a significant portion of our products from Taiwan. Purchases from Chinese sources are made in USDs. However, if the Chinese currency, (“RMB”), were to be revalued against the USD, there could be a significant negative impact on the cost of our products. As the result of the UAT acquisition, we closely monitor the fluctuation in the Great British Pound (“GBP”) to the USD, and the GBP to TWD, both of which can have an impact on the consolidated results.

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 below 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 below 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”). Descriptions of these policies are discussed in the 2014 Form 10-K. 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, but not limited to those related to bad debts, inventory reserves, goodwill and intangible assets, warranty reserves and taxes and deferred 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. 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.

There have been no material changes in our critical accounting policies and estimates from those discussed in Item 7 of our 2014 Form 10-K.

RESULTS OF OPERATIONS

Unless otherwise discussed elsewhere in the Management’s Discussion and Analysis (“MD&A”) section, we believe that our relationships with our key customers remain satisfactory. For 2015, we have elected not to sell certain promotional-type products to Sears, which we did sell to Sears during 2014. Revenue from Sears is included in Florida Pneumatic’s Retail category. This decision will result in a reduction of approximately \$3 million of Sears’ revenue during 2015. Other than the aforementioned, there were no major trends or uncertainties that had, or we could reasonably expect could have, a material impact on our revenue. Further, other than the three acquisitions that

occurred during the third quarter of 2014, there was no unusual or infrequent event, transaction or any significant economic change that materially affected our results of operations. However, we believe that the on-going slowdown in the global oil and gas extraction and exploration sector continues to negatively impact our results for the three and nine-month periods ended September 30, 2015.

The table below provides an analysis of our net revenue for the three and nine-month periods ended September 30, 2015 and 2014:

Revenue

	Three months ended September 30,		Increase (decrease)	
	2015	2014	\$	%
Tools				
Florida Pneumatic	\$ 11,729,000	\$ 13,973,000	\$ (2,244,000)	(16.1)%
Hy-Tech	4,195,000	3,892,000	303,000	7.8
Tools Total	15,924,000	17,865,000	(1,941,000)	(10.9)
Hardware				
Hardware Total	5,754,000	5,067,000	687,000	13.6
Consolidated	\$ 21,678,000	\$ 22,932,000	\$ (1,254,000)	(5.5)%

	Nine months ended September 30,		Increase (decrease)	
	2015	2014	\$	%
Tools				
Florida Pneumatic	\$ 33,986,000	\$ 30,335,000	\$ 3,651,000	12.0%
Hy-Tech	12,555,000	11,414,000	1,141,000	10.0
Tools Total	46,541,000	41,749,000	4,792,000	11.5
Hardware				
Hardware Total	17,523,000	15,383,000	2,140,000	13.9
Consolidated	\$ 64,064,000	\$ 57,132,000	\$ 6,932,000	12.1%

Tools

Florida Pneumatic markets its air tool products to three primary sectors within the pneumatic tool market; retail, Industrial/catalog and 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”).

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

	Three months ended September 30, 2015		2014		Increase (decrease)	
	Revenue	Percent of revenue	Revenue	Percent of revenue	\$	%
Retail customers	\$7,035,000	60.0	% \$9,339,000	66.8	% \$(2,304,000)	(24.7)%
Automotive	2,982,000	25.4	2,652,000	19.0	330,000	12.4
Industrial/catalog	1,412,000	12.0	1,591,000	11.4	(179,000)	(11.3)
Other	300,000	2.6	391,000	2.8	(91,000)	(23.3)
Total	\$11,729,000	100.0	% \$13,973,000	100.0	% \$(2,244,000)	(16.1)%

	Nine months ended September 30, 2015		2014		Increase (decrease)	
	Revenue	Percent of revenue	Revenue	Percent of revenue	\$	%
Retail customers	\$19,352,000	56.9	% \$21,277,000	70.1	% \$(1,925,000)	(9.0)%
Automotive	9,122,000	26.8	3,262,000	10.8	5,860,000	179.6
Industrial/catalog	4,679,000	13.8	4,679,000	15.4	---	---
Other	833,000	2.5	1,117,000	3.7	(284,000)	(25.4)
Total	\$33,986,000	100.0	% \$30,335,000	100.0	% \$3,651,000	12.0 %

As noted earlier in this MD&A, we elected not to sell certain promotional-type products to Sears, which we did sell to Sears during 2014. This decision was a primary factor in the reduction in our Retail revenue. Additionally, certain promotional-type sales to The Home Depot that occurred during the third quarter of 2014 did not occur during the third quarter of 2015. These reductions were partially offset by increases in higher margin base products. As a result of the ETI acquisition, Florida Pneumatic now markets the AIRCAT and NITROCAT line of pneumatic air tools, which are primarily targeted to the automotive markets. UAT, located in the United Kingdom, currently enables Florida Pneumatic the opportunity to expand its automotive air tools product line into Europe. Currently, UAT continues to focus its sales efforts primarily in the United Kingdom and Ireland. Florida Pneumatic intends to expand UAT to other European countries; however, at this time no timetable has been established. Both ETI and UAT have been absorbed into Florida Pneumatic's overall operations. The Industrial/catalog market remains sluggish, most notably in aerospace, oil and gas exploration/production channels. We believe this weakness may continue. Florida Pneumatic's Other revenue declined when compared to the same period in 2014, primarily due to its decision to place greater emphasis on expanding its other product lines.

When comparing the nine-month periods ended September 30, 2015 and 2014, the most significant factor contributing to Florida Pneumatic's overall revenue increase is the result of its two acquisitions made during the third quarter of 2014. As discussed previously, both ETI and UAT focus their marketing efforts to the automotive sector. As a result, Florida Pneumatic's Automotive revenue improved by more than \$5.8 million, when comparing the nine-month periods ended September 30, 2015 and 2014. The decline in Florida Pneumatic's nine-month Retail revenue is due primarily to its decision in 2015 to not sell certain promotional-type products to Sears. It should be noted that during the nine-month period ended September 30, 2015, sales to its Retail customers of primary or basic stock pneumatic tools and accessories has increased when compared to the same period a year ago, which partially offset the decline in Retail revenue.

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, including the ATSCO products, as well as distributes a complementary line of sockets, in the aggregate, ("ATP"). Hy-Tech Machine products ("Hy-Tech Machine") are primarily marketed to the mining, construction and industrial manufacturing sectors.

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

An analysis of Hy-Tech's revenue for the three and nine-month periods ended September 30, 2015 and 2014 is as follows:

	Three months ended September 30,				Increase (decrease)	
	2015		2014		\$	%
	Revenue	Percent of revenue	Revenue	Percent of revenue		
ATP	\$3,248,000	77.4 %	\$2,967,000	76.2 %	\$281,000	9.5 %
Hy-Tech Machine	524,000	12.5	392,000	10.1	132,000	33.7
Major customer	303,000	7.2	453,000	11.6	(150,000)	(33.1)
Other	120,000	2.9	80,000	2.1	40,000	50.0
Total	\$4,195,000	100.0 %	\$3,892,000	100.0 %	\$303,000	7.8 %

	Nine months ended September 30, 2015		2014		Increase (decrease)	
	Revenue	Percent of revenue	Revenue	Percent of revenue	\$	%
ATP	\$9,290,000	74.0	% \$8,131,000	71.2	% \$1,159,000	14.3 %
Hy-Tech Machine	1,576,000	12.5	1,128,000	9.9	448,000	39.7
Major customer	1,391,000	11.1	1,941,000	17.0	(550,000)	(28.3)
Other	298,000	2.4	214,000	1.9	84,000	39.3
Total	\$12,555,000	100.0	% \$11,414,000	100.0	% \$1,141,000	10.0 %

The increase in Hy-Tech's ATP third quarter of 2015 revenue was driven by the new product line attained through the ATSCO acquisition, which occurred mid-third quarter of 2014. Despite the increase, Hy-Tech's ATP business in particular, continues to be negatively impacted by the sluggish trends in the oil and gas industry world-wide. According to the October 2015 Compressed Air & Gas Institute report, new orders for mining machinery in the United States, during the twelve-month period ended August 31, 2015, are down more than 34% compared to the same twelve-month period ended August 31, 2014. Further, according to this report, the United States rotary rig count average, which is one of the measures of exploration and extraction activities, was, for the month of September 2015, 56.1% below the number for September 2014. We believe the reduced level of oil and gas exploration and extraction has resulted in, among other things, a decline in the sale of drilling motors and related parts and sockets. With respect to Hy-Tech's Major customer, orders continue to be erratic and unpredictable. We believe the above-mentioned market factors also negatively impact sales to this Major customer. Further, we also believe that the reduction in orders from this customer is due to a decline in its international market. Additionally, we believe this Major customer may be exploring overseas sources for certain products we currently provide them. Hy-Tech's Other revenue category, which focuses on specialty products manufactured for the mining, construction and industrial markets, improved primarily due to an increase in products shipped to power generation customers.

Hy-Tech's ATP revenue for the nine-month period ended September 30, 2015 improved when compared to the same period in 2014. The growth in ATP revenue attributable to ATSCO product sales were partially offset by declines in revenue of sockets and drilling motors and parts, as well as a net decline in non-ATSCO tools and parts revenue. As stated above we believe, among other factors, that the reduction in oil and gas exploration and extraction has throughout 2015 to date, negatively impacted Hy-Tech's overall revenue, most notably its ATP product line. Until such time when major exploration and related activity levels return to recent historic levels, it is difficult to predict when this sector of the ATP category will improve. As such, Hy-Tech will continue to pursue alternate markets and customers with added focus on its ATSCO products releases. In line with the aforementioned, its Hy-Tech Machine's 2015 nine-month revenue improved nearly 40%, when compared to the same nine-month period a year ago. Lastly, revenue from Hy-Tech's Major customer during the nine-month period ended September 30, 2015 declined when compared to the same period in 2014. As previously stated, we believe that this decline in orders from this customer is due to a slow-down in its international market, which services similar sectors, such as oil and gas exploration. If the current sales trend continues, it is likely this customer, in future reporting periods, may no longer merit specific discussion in our MD&A.

Hardware

Our Hardware segment, which currently consists of only Nationwide, generates revenue from the sale of Fence and gate hardware, OEM products and Patio hardware.

	Three months ended September 30, 2015		2014		Increase (decrease)	
	Revenue	Percent of revenue	Revenue	Percent of revenue	\$	%
Fence and gate hardware	\$4,686,000	81.5	% \$4,199,000	82.9	% \$ 487,000	11.6 %
OEM	617,000	10.7	467,000	9.2	150,000	32.1
Patio	451,000	7.8	401,000	7.9	50,000	12.5
Total	\$5,754,000	100.0	% \$5,067,000	100.0	% \$ 687,000	13.6 %

	Nine months ended September 30,		2014		Increase (decrease)	
	2015	Percent of	Revenue	Percent of	\$	%
	Revenue	revenue	Revenue	revenue		
Fence and gate hardware	\$ 14,331,000	81.8	% \$ 12,785,000	83.1	% \$ 1,546,000	12.1 %
OEM	1,826,000	10.4	1,339,000	8.7	487,000	36.4
Patio	1,366,000	7.8	1,259,000	8.2	107,000	8.5
Total	\$ 17,523,000	100.0	% \$ 15,383,000	100.0	% \$ 2,140,000	13.9 %

Fence and gate hardware continues to be Nationwide's primary product line, accounting for 81.5% of its third quarter of 2015 revenue. Key drivers that impact Nationwide's revenue are: (i) housing starts and (ii) renovation and remodeling. Both these drivers continue to improve in 2015, compared to 2014. As a result, Nationwide intends to continue its growth strategy in its Fence and gate hardware sector which is to focus on developing new, innovative fence and gate hardware products and related product accessories. In addition, Nationwide intends to continue its marketing efforts outside the United States. This strategy could however, in future periods, impact the performance of Nationwide's other product lines. The increase in Nationwide's OEM products revenue is driven primarily by the addition of a new, lower margin customer that purchases pneumatic storm door closure kits. We expect the buying pattern of this new OEM customer to be sporadic throughout the year. The increase in Patio revenue is due primarily to increased activity in the sale of foreclosed home units occurring principally in Florida.

Nationwide believes its increase in total revenue during the nine-month period ended September 30, 2015, compared to the same period in 2014, is due primarily to an increase in both the number of housing starts and consumer spending in the remodeling and renovation sectors during the respective nine-month periods. As Fence and gate hardware remains the primary product line marketed by Nationwide, its current business strategy is to focus on the development and marketing of its Fence and gate hardware business. The 36.4% increase in its OEM product line revenue is primarily due to Nationwide obtaining a new, low margin customer that purchases pneumatic storm door closing kits. Its year to date 2015 Patio revenue continues to be driven by new home construction, renovation and the foreclosure market, primarily in Florida.

Gross Margins / Profits

	Three months ended September 30,		Increase (decrease)	
	2015	2014	Amount	%
Florida Pneumatic	\$4,007,000	\$4,428,000	\$(421,000)	(9.5)%
As percent of respective revenue	34.2%	31.7%	2.5% pts	
Hy-Tech	1,623,000	1,543,000	80,000	5.2
As percent of respective revenue	38.7%	39.6%	(0.9)% pts	
Total Tools	5,630,000	5,971,000	(341,000)	(5.7)
As percent of respective revenue	35.4%	33.4%	2.0% pts	
Total Hardware	2,235,000	2,057,000	178,000	8.7
As percent of respective revenue	38.8%	40.6%	(1.8)% pts	
Consolidated	\$7,865,000	\$8,028,000	\$(163,000)	(2.0)%
As percent of respective revenue	36.3%	35.0%	1.3% pts	

	Nine months ended September 30,		Increase (decrease)	
	2015	2014	Amount	%
Florida Pneumatic	\$12,059,000	\$9,990,000	\$2,069,000	20.7%
As percent of respective revenue	35.5%	32.9%	2.6% pts	
Hy-Tech	4,902,000	4,574,000	328,000	7.2
As percent of respective revenue	39.0%	40.1%	(1.1)% pts	
Total Tools	16,961,000	14,564,000	2,397,000	16.5
As percent of respective revenue	36.4%	34.9%	1.5% pts	
Total Hardware	6,842,000	6,102,000	740,000	12.1
As percent of respective revenue	39.0%	39.7%	(0.7)% pts	
Consolidated	\$23,803,000	\$20,666,000	\$3,137,000	15.2%
As percent of respective revenue	37.2%	36.2%	1.0% pts	

Tools

Florida Pneumatic's expanded automotive product line, which now includes the AIRCAT and NITROCAT suite of pneumatic power tools, plus slightly higher gross margins generated at its overseas UAT subsidiary are the significant factors contributing to Florida Pneumatic's third quarter of 2015 gross margin improvement over the same period a year ago. However, its Retail gross margin for the third quarter of 2015 compared to the same period in 2014 declined slightly, due primarily to product mix. Further, due to a lower margin special order, our Industrial/catalog gross margin during the third quarter of 2015 was down from the same period in the prior year. Hy-Tech's gross margin this quarter is the same as in the third quarter last year. We continue the process of incorporating the ATSCO suite of products into Hy-Tech's Cranberry, PA manufacturing facility; however, it is difficult to predict exactly when the

entire suite can be produced. During this process we anticipate gross margins should improve as Hy-Tech's overhead absorption should increase.

Florida Pneumatic's gross margin during the nine-month period ended September 30, 2015 improved 2.6 percentage points over the same period in the prior year due primarily to the additional \$5.8 million of Automotive sales, which generate slightly higher gross margins than Florida Pneumatic's historical average. However, this improvement was somewhat offset by slight gross margin declines from its Retail and Industrial/catalog product lines, due primarily to product and or customer mix. Hy-Tech's gross margin during the first nine months of 2015, compared to the same period a year ago, is down slightly, due in large part to the non-productive labor used to close and relocate ATSCO's manufacturing equipment and inventory from Mentor, Ohio into Hy-Tech's existing facility in Cranberry, PA during the first quarter of 2015. However, as the manufacturing of the acquired ATSCO product line becomes more efficient, we anticipate that gross margins will improve.

Hardware

Competitive pricing pressure in its Fence and gate hardware, and Patio product lines, as well as a servicing a new, low margin OEM customer, resulted in a decline in Nationwide's third quarter 2015 gross margin, compared to the third quarter of 2014. Fence and gate hardware generate the highest gross margins, followed by OEM, then Patio. As Nationwide has decided to service the lower margin OEM customer, its OEM gross margins will be less when compared to the same period in prior years, which in turn could negatively affect its overall gross margin.

Significant factors contributing to Nationwide's slight decline (0.7 percentage points) in its year to date 2015 gross margins, compared to the same period in the prior year are new, lower gross margin OEM revenue and increased competitive pricing pressure. However, introduction of new products have partially mitigated this pressure. Nationwide intends to continue its current strategy, which is to expand the development of new products for its Fence and gate hardware product line and to continue its growth into new or expanded locations.

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 as well as general corporate overhead and certain engineering expenses.

During the third quarter of 2015, our SG&A was \$5,962,000 or 27.5% of revenue, compared to \$6,438,000, or 28.1% of revenue during the same three-month period in 2014. Significant items contributing to the change in SG&A include: (i) with the three acquisitions occurring during the third quarter of 2014, our professional fees and transaction expenses are lower by \$410,000; (ii) our incremental variable costs and expenses, which includes such things as commissions, warranty costs, freight out and advertising/promotional fees, decreased by \$172,000 during the third quarter of 2015, compared to the same period in the prior year; due primarily to lower revenue and (iii) depreciation and amortization increased by \$75,000, when comparing the three-month periods ended September 30, 2015 and 2014, most of which is attributable to the three acquisitions completed during the third quarter of 2014.

During the nine-month period ended September 30, 2015 our SG&A was \$18,510,000, or 28.9% of revenue, compared to \$17,221,000, or 30.1% of revenue during the same period in 2014. Significant elements of this change are: (i) depreciation and amortization increased by \$629,000, most of which being attributable to the three acquisitions occurring during the third quarter of 2014; (ii) incremental variable costs and expenses increased \$292,000, due in large part to the added revenue in 2015; (iii) compensation expenses increased \$558,000, due mostly to additional

staffing resulting from the three acquisitions plus slightly higher, performance-based bonus incentives; (iv) bad debt expenses increased \$148,000, due primarily to adjustments made during the second quarter of 2014, which lowered our 2014 bad debt expense, and (v) a decline in our professional fees and transaction expenses, in the aggregate of \$457,000.

Interest

Our interest expense during the third quarter of 2015 was \$173,000, compared to \$158,000 for the same period in the prior year. Impacting our interest expense during the third quarter of 2015 was the financing of the three acquisitions completed during the third quarter of 2014. Interest expense incurred on our Revolver borrowings during the third quarter of 2015 was \$89,000, compared to \$61,000 during the third quarter of 2014. The average balance of our Revolver borrowings during the third quarter of 2015 was \$13,550,000, compared to \$11,852,000 during the same three-month period in 2014. Interest expense on our Long-term borrowings was \$55,000, compared to \$72,000 during the same three-month period in 2014. Included in our interest expense for the three-month periods ended September 30, 2015 and 2014 is amortization expense of debt financing costs of \$28,000 and \$23,000, respectively. The applicable loan margins as defined in the Credit Agreement borrowings that are added to our LIBOR (London InterBank Offered Rate) and Base Rate borrowing also impact our interest expense. (See Liquidity and Capital Resources for further discussion.)

Our interest expense during the nine-month period ended September 30, 2015 was \$566,000, compared to \$335,000 for the same period in the prior year. The most significant factor affecting interest expense was the financing of the three acquisitions completed during the third quarter of 2014. As a result, interest expense on our short term, or Revolver borrowings during the first nine months of 2015 was \$291,000, compared to \$78,000, recorded during the first nine months of 2014. The average balance of short-term borrowings during the first three quarters of 2015 was \$14,807,000, compared to \$4,862,000 during the same period in 2014. Interest expense incurred during both nine-month periods ended September 30, 2015 and 2014 on our Long-term borrowings was \$188,000. Lastly, included in the nine-month interest expense is amortization expense of debt financing costs of \$83,000 in 2015 and \$67,000 in 2014. An increase in the applicable loan margins that are added to both our LIBOR or Base Rate, may also impact our interest expense.

Other expense (income)

In connection with the UAT acquisition, there was the possibility that we could pay as additional consideration to the former shareholders of UAT (the “Sellers”) up to a maximum of £250,000 (“contingent consideration”), should UAT’s net earnings, during the period from date of acquisition, July 29, 2014 through the first anniversary date, July 29, 2015, after adjusting for among other things, interest, taxes, depreciation and amortization (“adjusted net income”) exceed a minimum threshold. At the time of the acquisition we believed, based on a range of possible outcomes that it was more likely than not that UAT would achieve the amount of adjusted net income that would entitle the Sellers to the maximum amount, and accordingly recorded a \$425,000 obligation as contingent consideration (£250,000 at the then foreign exchange rate). Based upon projected results, at June 30, 2015, we adjusted the estimated contingent consideration payable to the Sellers to \$224,000. Subsequently, we and the Sellers have agreed that the contingent consideration payable to the Sellers shall be £193,435, or approximately \$299,000. As a result of finalizing the contingent consideration payable to the Sellers we recognized \$75,000 as Other expense in the three-month period ended September 30, 2015. The \$299,000 agreed upon amount was paid to the Sellers in October 2015.

Income Taxes

At the end of each interim reporting period, we estimate the 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 rates for the three and nine-months ended September 30, 2015 were 36.6% and 35.2%, respectively, compared to 43.0% and 40.5%, respectively, for the three and nine-month periods ended September 30, 2014. Expenses incurred in connection with the three acquisitions completed during the third quarter of 2014, were included in our selling and general and administrative expenses during the third quarter of 2014, however these expenses are not deductible for income tax purposes. As a result, our effective tax rates for the three and nine-month periods ended September 30, 2014, were higher than the statutory rate of 34.0%. Further, with regard to our 2015 effective tax rates, the non-taxable income on a year to date basis related to the contingent consideration payment of approximately \$126,000 is an additional factor for a lower effective tax rate for the nine-month period ended September 30, 2015, compared to the same periods in 2014. Lastly, state taxes and other non-deductible expenses cause our effective tax rates to differ from the U.S. federal statutory rate of 34.0%.

LIQUIDITY AND CAPITAL RESOURCES

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

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

	September 30, 2015	December 31, 2014
Working Capital	\$ 18,143,000	\$ 13,927,000
Current Ratio	1.85 to 1	1.59 to 1
Shareholders' Equity	\$ 43,255,000	\$ 39,991,000

Credit Facility

We entered into a Loan and Security Agreement in October 2010, as amended (“Credit Agreement”) with COBC, as agent and lender. The Credit Agreement expires December 19, 2017 (the “Maturity Date”). The Credit Agreement

provides for Revolver borrowings, which 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. P&F and certain of its subsidiaries are borrowers under the Credit Agreement, and their obligations are cross-guaranteed by certain other subsidiaries. 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 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.

On August 13, 2014, we entered into an Amended and Restated Loan and Security Agreement (the "Restated Loan Agreement") with COBC. The Restated Loan Agreement, among other things, amended the Credit Agreement by: (1) increasing the total amount of the credit facility from \$29,423,000 to \$33,657,000, (2) increasing the Revolver from \$20,000,000 to \$22,000,000, (3) creating a new \$3,000,000 Term Loan, as defined in the Restated Loan Agreement ("Term Loan B"), and (4) re-designating as "Term Loan A", the previously existing outstanding Term Loan, which relates primarily to the Company's real property.

The balance of Revolver borrowings outstanding was \$11,461,000 and \$11,817,000, at September 30, 2015 and December 31, 2014, respectively. Applicable Margins added to Revolver borrowings at LIBOR and the Base Rate at September 30, 2015 and December 31, 2014 were 2.25% and 1.25%, respectively. During the nine-month period ended September 30, 2015, the Applicable Margin rates for LIBOR borrowings and Base rate borrowings ranged from 2.25% to 2.50% and 1.25% and 1.50%, respectively, compared to 1.50% to 2.00% and 0.50% to 1.00%, respectively, for the same nine-month period in 2014.

The Restated Loan Agreement provided for a Term Loan B, pursuant to which we borrowed the maximum principal amount of \$3,000,000, which funds were used in connection with the ATSCO acquisition. This Term Loan B was to be repaid in 36 consecutive monthly payments of \$83,000, with an additional mandatory repayment each year equal to 50% of the Company's Excess Cash Flow (as defined in the Restated Loan Agreement) for such year, if any. As the result, of our determination of the Excess Cash Flow for the year ended December 31, 2014, in April 2015, we repaid \$2,417,000, which was the balance of the Term Loan B at March 31, 2015, with funds available from our Revolver. In accordance with the terms set forth in the Restated Loan Agreement, funds cannot be re-borrowed from this Term Loan B.

Additionally, we borrowed \$380,000 and \$519,000 in March 2012 and September 2012, respectively, as loans primarily for machinery and equipment ("Capex Term Loans"). Currently, the maximum amount we can borrow as a Capex Term Loan is \$2,123,000. As such, if necessary, we could borrow an additional \$1,224,000, under the terms of the current credit facility. Repayment of the two Capex Term Loans is based on sixty-month amortization periods, resulting in repayments of approximately \$6,000 and \$9,000, respectively. Applicable Margins added to these Capex Term Loans at September 30, 2015 and December 31, 2014 were 3.0% and 2.0%, respectively, for borrowings at LIBOR and the Base Rate. Once repaid, funds cannot be re-borrowed from this portion of the Restated Loan Agreement.

Cash flows

Our net cash at September 30, 2015 was \$1,682,000, compared to \$1,011,000 at December 31, 2014. Our total bank debt at September 30, 2015 was \$18,019,000, compared to \$21,387,000 at December 31, 2014. During the third quarter of 2015 we were able to reduce our revolver borrowings approximately \$3.5 million from the June 30, 2015 balance of \$14,916,000, due primarily to positive cash flows. Additionally, during the nine-month period ended September 30, 2015, we made the final payment of \$2,417,000 in settlement of the Term Loan B, which was discussed above. We lowered the total debt to total book capitalization (total debt divided by total debt plus equity), which was 29.5% at September 30, 2015, from 34.9%, at December 31, 2014. During the remainder of 2015, as we generate cash from operations, barring unexpected events, we believe that our short-term borrowings should decline to amounts below December 31, 2014 levels.

Our capital spending was \$1,144,000 during the nine-month period ended September 30, 2015, compared to \$713,000 during the same period in the prior year. Capital expenditures for the balance of 2015 are expected to be approximately \$200,000, some of which may be financed through our credit facilities or financed through independent third party financial institutions. The remaining 2015 capital expenditures will primarily be for expansion of existing product lines and replacement of equipment.

Customer concentration

Within our Tools segment we have two retail customers that, in the aggregate account for 41.0% and 56.1% of our consolidated accounts receivable at September 30, 2015 and 2014. To date, these customers, with minor exceptions, are current in their payments. Further, these two customers in the aggregate, accounted for 32.5% and 30.2%, of our consolidated revenue for the three and nine-month periods ended September 30, 2015, compared to 40.7% and 37.2% during the same three and nine-month periods in 2014.

We believe that the loss of one or both of these customers would negatively impact our financial condition, but would not affect our ability to remain a going concern.

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 financial statements.

Item 3. Quantitative And Qualitative Disclosures About Market Risk

Not required.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

The Company's management, with the participation of the Company's CEO and CFO, evaluated, as of September 30, 2015, the effectiveness of the Company's disclosure controls and procedures, which were designed to be effective at the reasonable assurance level. The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of the Company's disclosure controls and procedures as of September 30, 2015, the Company's management, including its CEO and CFO, concluded that the Company's disclosure controls and procedures were effective at the reasonable assurance level at that date.

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 2014 Form 10-K.

Item 1A. Risk Factors

Set out below is risk factor to be considered in addition to the risk factors previously disclosed in our 2014 Form 10-K. Other than this additional risk factor, there were no material changes to such previously disclosed risk factors.

Exposure to fluctuations in energy prices. Fluctuations in energy prices, including crude oil and gas prices, could negatively impact the activities of those of our customers involved in extracting, refining or exploring crude oil and gas, resulting in a corresponding adverse effect on the demand for the products that they purchase from us. Prices for oil and gas are subject to large fluctuations in response to relatively minor changes in the supply of, and demand for, oil and gas, market uncertainty and a variety of other economic factors that are beyond our control. Worldwide economic, political and military events, including war, terrorist activity, events in the Middle East and initiatives by the Organization of the Petroleum Exporting Countries (OPEC), have contributed, and are likely to continue to contribute, to price and volume volatility.

Crude oil prices have declined significantly in the past year. We believe this in large part due to increasing global supply of oil due to factors such as weakening demand from slowing economic growth in Europe and Asia and trends towards increased fuel-efficiency. The resulting negative shift in demand of our products by our customers has negatively impacted us, and could in the future have a material adverse effect on our business, results of operations or financial position.

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.

31

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)

/s/ JOSEPH A. MOLINO, Jr.
Joseph A. Molino, Jr.
Chief Financial Officer

Dated: November 13, 2015 (Principal Financial and Chief Accounting Officer)

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 Balance Sheets; (ii) Consolidated Statements of Income and Comprehensive Income; (iii) Consolidated Statement of Shareholders’ Equity; (iv) Consolidated Statements of Cash Flows; and (v) Notes to Consolidated 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.