

P&F INDUSTRIES INC  
Form 10-Q  
August 14, 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 June 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)

**445 Broadhollow Road, Suite 100, Melville, New York 11747**

(Address of principal executive offices)

**11747**  
(Zip Code)

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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 August 12, 2015 there were 3,614,870 shares of the registrant's Class A Common Stock outstanding.

**P&F INDUSTRIES, INC.**

**FORM 10-Q**

**FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2015**

**TABLE OF CONTENTS**

|   | PAGE |
|---|------|
| <b><u>PART I — FINANCIAL INFORMATION</u></b>  |      |
| Item 1. <u>Financial Statements</u>   | 1    |
| <u>Consolidated Balance Sheets as of June 30, 2015 (unaudited) and December 31, 2014</u>  | 1    |
| <u>Consolidated Statements of Income and Comprehensive Income for the three and six months ended June 30, 2015 and 2014 (unaudited)</u> | 3    |
| <u>Consolidated Statement of Shareholders' Equity for the six months ended June 30, 2015 (unaudited)</u>                                | 4    |
| <u>Consolidated Statements of Cash Flows for the six months ended June 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>                                    | 16   |
| Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>   | 24   |
| Item 4. <u>Controls and Procedures</u>  | 25   |
| <b><u>PART II — OTHER INFORMATION</u></b>   |      |
| Item 1. <u>Legal Proceedings</u>  | 26   |
| Item 1A. <u>Risk Factors</u>  | 26   |
| Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>  | 26   |

|  |    |
|--|----|
| Item 3. <u>Defaults Upon Senior Securities</u> | 26 |
| Item 4. <u>Mine Safety Disclosures</u>         | 26 |
| Item 5. <u>Other Information</u>               | 26 |
| Item 6. <u>Exhibits</u>                        | 26 |
| <u>Signature</u>                               | 27 |
| <u>Exhibit Index</u>                           | 28 |

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

|  | June 30, 2015<br>(unaudited) | December 31, 2014<br>(See Note 1) |
|--|------------------------------|-----------------------------------|
| <b>ASSETS</b>                                  |                              |                                   |
| <b>CURRENT ASSETS</b>                          |                              |                                   |
| Cash   | \$ 865,000                   | \$ 1,011,000                      |
| Accounts receivable — net                      | 12,504,000                   | 9,547,000                         |
| Inventories                                    | 24,910,000                   | 24,335,000                        |
| Deferred income taxes — net                    | 1,149,000                    | 1,149,000                         |
| Prepaid expenses and other current assets      | 1,790,000                    | 1,529,000                         |
| <b>TOTAL CURRENT ASSETS</b>                    | <b>41,218,000</b>            | <b>37,571,000</b>                 |
| <b>PROPERTY AND EQUIPMENT</b>                  |                              |                                   |
| Land   | 1,550,000                    | 1,550,000                         |
| Buildings and improvements                     | 7,697,000                    | 7,683,000                         |
| Machinery and equipment                        | 20,799,000                   | 20,460,000                        |
|  | 30,046,000                   | 29,693,000                        |
| Less accumulated depreciation and amortization | 19,949,000                   | 19,101,000                        |
| <b>NET PROPERTY AND EQUIPMENT</b>              | <b>10,097,000</b>            | <b>10,592,000</b>                 |
| <b>GOODWILL</b>                                | <b>12,040,000</b>            | <b>11,980,000</b>                 |
| <b>OTHER INTANGIBLE ASSETS — net</b>           | <b>11,804,000</b>            | <b>12,437,000</b>                 |
| <b>OTHER ASSETS — net</b>                      | <b>408,000</b>               | <b>514,000</b>                    |
| <b>TOTAL ASSETS</b>                            | <b>\$ 75,567,000</b>         | <b>\$ 73,094,000</b>              |

See accompanying notes to consolidated financial statements (unaudited).



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

|  | June 30, 2015<br>(unaudited) | December 31, 2014<br>(See Note 1) |
|--|------------------------------|-----------------------------------|
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>  |                              |                                   |
| <b>CURRENT LIABILITIES</b>   |                              |                                   |
| Short-term borrowings  | \$ 14,916,000                | \$ 11,817,000                     |
| Accounts payable   | 3,750,000                    | 3,160,000                         |
| Accrued liabilities  | 4,885,000                    | 5,500,000                         |
| Current maturities of long-term debt   | 498,000                      | 3,167,000                         |
| <b>TOTAL CURRENT LIABILITIES</b>   | <b>24,049,000</b>            | <b>23,644,000</b>                 |
| Long-term debt, less current maturities  | 6,246,000                    | 6,493,000                         |
| Deferred tax liabilities - net   | 2,766,000                    | 2,720,000                         |
| Other liabilities  | 237,000                      | 246,000                           |
| <b>TOTAL LIABILITIES</b>   | <b>33,298,000</b>            | <b>33,103,000</b>                 |
| <b>SHAREHOLDERS' EQUITY</b>  |                              |                                   |
| Preferred stock - \$10 par; authorized - 2,000,000 shares; no shares issued  | —                            | —                                 |
| Common stock   |                              |                                   |
| Class A - \$1 par; authorized - 7,000,000 shares; issued – 4,168,000 at June 30, 2015 and 4,139,000 at December 31, 2014 | 4,168,000                    | 4,139,000                         |
| Class B - \$1 par; authorized - 2,000,000 shares; no shares issued   | —                            | —                                 |
| Additional paid-in capital   | 12,807,000                   | 12,695,000                        |
| Retained earnings  | 30,044,000                   | 27,951,000                        |
| Treasury stock, at cost – 554,000 shares at June 30, 2015 and December 31, 2014  | (4,566,000 )                 | (4,566,000 )                      |
| Accumulated other comprehensive loss   | (184,000 )                   | (228,000 )                        |
| <b>TOTAL SHAREHOLDERS' EQUITY</b>  | <b>42,269,000</b>            | <b>39,991,000</b>                 |
| <b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>  | <b>\$ 75,567,000</b>         | <b>\$ 73,094,000</b>              |

See accompanying notes to consolidated financial statements (unaudited).

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

|  | <b>Three months<br/>ended June 30,</b> |              | <b>Six months<br/>ended June 30,</b> |              |
|--|--|--------------|--------------------------------------|--------------|
|  | <b>2015</b>                            | <b>2014</b>  | <b>2015</b>                          | <b>2014</b>  |
| Net revenue  | \$22,560,000                           | \$18,268,000 | \$42,386,000                         | \$34,200,000 |
| Cost of sales  | 14,141,000                             | 11,665,000   | 26,448,000                           | 21,562,000   |
| Gross profit   | 8,419,000                              | 6,603,000    | 15,938,000                           | 12,638,000   |
| Selling, general and administrative expenses                         | 6,452,000                              | 5,556,000    | 12,548,000                           | 10,783,000   |
| Operating income   | 1,967,000                              | 1,047,000    | 3,390,000                            | 1,855,000    |
| Other income   | (201,000 )                             | —            | (201,000 )                           | —            |
| Interest expense   | 201,000                                | 88,000       | 393,000                              | 177,000      |
| Income before income taxes   | 1,967,000                              | 959,000      | 3,198,000                            | 1,678,000    |
| Income tax expense   | 655,000                                | 387,000      | 1,105,000                            | 644,000      |
| Net income   | \$1,312,000                            | \$572,000    | \$2,093,000                          | \$1,034,000  |
| Basic earnings per share   | \$0.36                                 | \$0.15       | \$0.58                               | \$0.28       |
| Diluted earnings per share   | \$0.35                                 | \$0.15       | \$0.56                               | \$0.27       |
| Weighted average common shares outstanding:                          |  |              |                                      |              |
| Basic  | 3,606,000                              | 3,724,000    | 3,598,000                            | 3,709,000    |
| Diluted  | 3,754,000                              | 3,905,000    | 3,751,000                            | 3,891,000    |
| Net income   | \$1,312,000                            | \$572,000    | \$2,093,000                          | \$1,034,000  |
| Other comprehensive income - foreign currency translation adjustment | 152,000                                | —            | 44,000                               | —            |
| Total comprehensive income   | \$1,464,000                            | \$572,000    | \$2,137,000                          | \$1,034,000  |

See accompanying notes to consolidated financial statements (unaudited).



**P&F INDUSTRIES, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY (unaudited)**

|  | Total        | Class A Common<br>Stock, \$1 Par |             | Additional<br>paid-in<br>capital | Retained<br>earnings | Treasury stock |               | Accumulated<br>other<br>comprehensive<br>loss |
|--|--------------|----------------------------------|-------------|----------------------------------|----------------------|----------------|---------------|---|
|  |              | Shares                           | Amount      |                                  |                      | Shares         | Amount        |   |
| Balance,<br>January 1,<br>2015                   | \$39,991,000 | 4,139,000                        | \$4,139,000 | \$12,695,000                     | \$27,951,000         | (554,000)      | \$(4,566,000) | \$(228,000)                                   |
| Net income                                       | 2,093,000    | —                                | —           | —                                | 2,093,000            | —              | —             | —   |
| Exercise of<br>stock options                     | 65,500       | 21,500                           | 21,500      | 44,000                           | —                    | —              | —             | —   |
| Restricted<br>common stock<br>compensation       | 16,500       | 7,500                            | 7,500       | 9,000                            | —                    | —              | —             | —   |
| Stock-based<br>compensation                      | 59,000       | —                                | —           | 59,000                           | —                    | —              | —             | —   |
| Foreign<br>currency<br>translation<br>adjustment | 44,000       | —                                | —           | —                                | —                    | —              | —             | 44,000  |
| Balance, June<br>30, 2015                        | \$42,269,000 | 4,168,000                        | \$4,168,000 | \$12,807,000                     | \$30,044,000         | (554,000)      | \$(4,566,000) | \$(184,000)                                   |

See accompanying notes to consolidated financial statements (unaudited).

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

|   | Six months<br>ended June 30, |             |
|---|------------------------------|-------------|
|   | 2015                         | 2014        |
| Cash Flows from Operating Activities:   |                              |             |
| Net income  | \$2,093,000                  | \$1,034,000 |
| Adjustments to reconcile net income to net cash (used in) provided by operating activities: |                              |             |
| Non-cash charges:   |                              |             |
| Depreciation and amortization   | 850,000                      | 740,000     |
| Amortization of other intangible assets   | 647,000                      | 116,000     |
| Amortization of debt issue costs  | 55,000                       | 43,000      |
| Provision for (recovery of) losses on accounts receivable - net                             | 13,000                       | (124,000 )  |
| Stock-based compensation  | 59,000                       | 144,000     |
| Restricted stock-based compensation   | 17,000                       | 14,000      |
| Loss on sale of fixed assets  | 4,000                        | —           |
| Deferred income taxes   | 44,000                       | 612,000     |
| Fair value reduction in contingent consideration  | (201,000 )                   | —           |
| Changes in operating assets and liabilities:  |                              |             |
| Accounts receivable   | (2,959,000)                  | (1,132,000) |
| Inventories   | (625,000 )                   | 2,017,000   |
| Prepaid expenses and other current assets   | (260,000 )                   | 100,000     |
| Other assets  | 51,000                       | 29,000      |
| Accounts payable  | 581,000                      | (650,000 )  |
| Accrued liabilities   | (414,000 )                   | (532,000 )  |
| Other liabilities   | (8,000 )                     | (8,000 )    |
| Total adjustments   | (2,146,000)                  | 1,369,000   |
| Net cash (used in) provided by operating activities   | (53,000 )                    | 2,403,000   |

See accompanying notes to consolidated financial statements (unaudited).

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

|   | Six months<br>ended June 30, |              |
|---|------------------------------|--------------|
|   | 2015                         | 2014         |
| Cash Flows from Investing Activities:     |                              |              |
| Capital expenditures                      | (372,000 )                   | (446,000 )   |
| Proceeds from disposal of assets          | 12,000                       | —            |
| Net cash used in investing activities     | (360,000 )                   | (446,000 )   |
| Cash Flows from Financing Activities:     |                              |              |
| Proceeds from exercise of stock options   | 66,000                       | 710,000      |
| Proceeds from short-term borrowings       | 38,501,000                   | 38,274,000   |
| Repayments of short-term borrowings       | (35,402,000)                 | (30,215,000) |
| Repayments of term loans                  | (2,897,000 )                 | (230,000 )   |
| Repayments of notes payable               | (20,000 )                    | —            |
| Net cash provided by financing activities | 248,000                      | 8,539,000    |
| Effect of exchange rate changes on cash   | 19,000                       | —            |
| Net (decrease) increase in cash           | (146,000 )                   | 10,496,000   |
| Cash at beginning of period               | 1,011,000                    | 413,000      |
| Cash at end of period                     | \$865,000                    | \$10,909,000 |

## Supplemental disclosures of cash flow information:

|                |           |           |
|----------------|-----------|-----------|
| Cash paid for: |           |           |
| Interest       | \$336,000 | \$139,000 |
| Income taxes   | \$716,000 | \$41,000  |

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 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 unaudited 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 financial statements have been reclassified to conform to classifications used in the current

year.

## **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”), and competitively. 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 April 2015, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“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.

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 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 less a post-closing working capital adjustment. As part of this transaction there was the possibility that the Company 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 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). Further, the Company projected that for the twelve-month period ended July 29, 2015, a disproportionate amount of UAT’s adjusted net income would likely be attained primarily during the period beginning late first quarter 2015 through July 29, 2015. However, the Company now estimates that the adjusted net income for the year ending July 29, 2015 will result in the contingent consideration payable to the Sellers to be approximately \$224,000 which is subject to further revision based on final results. As such, the Company has adjusted its estimate of the payment of this contingent consideration payable to the Sellers and has recorded \$201,000 as Other Income in the accompanying statements of income and comprehensive income for the three and six months ended June 30, 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.

All three acquisitions are included as a part of the Company's Tool Business Segment.

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<br>June 30, 2014<br>(Unaudited) | Six months ended<br>June 30, 2014<br>(Unaudited) |
|------------------------------|--|--|
| Revenue                      | \$ 22,105,000                                      | \$ 41,959,000                                    |
| Net income                   | \$ 990,000   | \$ 2,067,000                                     |
| Earnings per share - basic   | \$ 0.27  | \$ 0.56  |
| Earnings per share - diluted | \$ 0.25  | \$ 0.53  |

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.

**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.

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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:

|   | <b>Three months ended<br/>June 30,</b> |             | <b>Six months ended<br/>June 30,</b> |             |
|---|--|-------------|--------------------------------------|-------------|
|   | <b>2015</b>                            | <b>2014</b> | <b>2015</b>                          | <b>2014</b> |
| Numerator for basic and diluted earnings per common share:                  |  |             |                                      |             |
| Net income  | \$1,312,000                            | \$572,000   | \$2,093,000                          | \$1,034,000 |
| Denominator:  |  |             |                                      |             |
| For basic earnings per share - weighted average common shares outstanding   | 3,606,000                              | 3,724,000   | 3,598,000                            | 3,709,000   |
| Dilutive securities (1)   | 148,000                                | 181,000     | 153,000                              | 182,000     |
| For diluted earnings per share - weighted average common shares outstanding | 3,754,000                              | 3,905,000   | 3,751,000                            | 3,891,000   |
| (1) Dilutive securities consist of "in the money" stock options.            |  |             |                                      |             |

At June 30, 2015 and 2014 and during the six-month periods ended June 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:

|   | <b>Three months ended<br/>June 30,</b> |             | <b>Six months ended<br/>June 30,</b> |             |
|---|--|-------------|--------------------------------------|-------------|
|   | <b>2015</b>                            | <b>2014</b> | <b>2015</b>                          | <b>2014</b> |
| Weighted average antidilutive stock options outstanding | 182,000                                | 214,000     | 182,000                              | 257,000     |

#### **NOTE 4 - STOCK-BASED COMPENSATION**

During the three and six month periods ended June 30, 2015, the Company did not grant any Common Stock options.

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

|                              | Option Shares | Weighted<br>Average<br>Exercise<br>Price | Weighted Average<br>Remaining<br>Contractual Life<br>(Years) | Aggregate<br>Intrinsic<br>Value |
|------------------------------|---------------|--|--|---------------------------------|
| Outstanding, January 1, 2015 | 505,000       | \$ 6.51                                  | 4.8  | \$1,232,000                     |
| Granted                      | —             | —  |  | —                               |
| Exercised                    | (21,500 )     | 3.05                                     |  |                                 |
| Forfeited                    | —             | —  |  |                                 |
| Expired                      | —             | —  |  |                                 |
| Outstanding, June 30, 2015   | 483,500       | \$ 6.67                                  | 4.2  | \$1,366,000                     |
| Vested, June 30, 2015        | 459,660       | \$ 6.59                                  | 4.1  | \$1,356,000                     |

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

|                                     | Option Shares | Weighted<br>Average Grant-<br>Date Fair Value |
|-------------------------------------|---------------|---|
| Non-vested options, January 1, 2015 | 61,006        | \$ 6.14                                       |
| Granted                             | —             |   |

|                                   |         |    |      |
|-----------------------------------|---------|----|------|
| Vested                            | (37,166 | )  | 5.76 |
| Forfeited                         | —       |    |      |
| Non-vested options, June 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 June 30, 2015 was 183,267. At June 30, 2015, there were 113,500 options outstanding issued under the 2012 Stock Incentive Plan and 370,000 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.

Pursuant to the 2012 Plan, the Company, in May 2014, issued 666 restricted shares of its common stock to each non-employee member of its Board of Directors, totaling 3,330 restricted shares. The Company determined the fair value of these shares to be \$7.43, 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 ratably amortized the total non-cash compensation expense of approximately \$25,000 in its selling, general and administrative expenses through May 2015.

**NOTE 5 - ACCOUNTS RECEIVABLE AND ALLOWANCE FOR DOUBTFUL ACCOUNTS**

Accounts receivable - net consists of:

|                                 | June 30, 2015 | December 31, 2014 |
|---------------------------------|---------------|-------------------|
| Accounts receivable             | \$ 12,663,000 | \$ 9,693,000      |
| Allowance for doubtful accounts | (159,000 )    | (146,000 )        |
|                                 | \$ 12,504,000 | \$ 9,547,000      |

**NOTE 6 - INVENTORIES**

Inventories consist of:

|                 | June 30, 2015 | December 31, 2014 |
|-----------------|---------------|-------------------|
| Raw material    | \$ 2,302,000  | \$ 2,014,000      |
| Work in process | 1,687,000     | 1,433,000         |
| Finished goods  | 20,921,000    | 20,888,000        |
|                 | \$ 24,910,000 | \$ 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 |

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|                                    |               |               |              |
|------------------------------------|---------------|---------------|--------------|
| Adjustment to Acquisition of ATSCO | 62,000        | 62,000        | —            |
| Currency translation adjustments   | (2,000 )      | (2,000 )      | —            |
| Balance, June 30, 2015             | \$ 12,040,000 | \$ 10,167,000 | \$ 1,873,000 |

Other intangible assets were as follows:

|                                | June 30, 2015 |                          |                | December 31, 2014 |                          |                |
|--------------------------------|---------------|--------------------------|----------------|-------------------|--------------------------|----------------|
|                                | Cost          | Accumulated amortization | Net book value | Cost              | Accumulated amortization | Net book value |
| Other intangible assets:       |               |                          |                |                   |                          |                |
| Customer relationships (1)     | \$ 13,203,000 | \$ 4,969,000             | \$ 8,234,000   | \$ 13,194,000     | \$ 4,551,000             | \$ 8,643,000   |
| Trademarks and trade names (1) | 2,041,000     | —                        | 2,041,000      | 2,035,000         | —                        | 2,035,000      |
| Engineering drawings           | 410,000       | 139,000                  | 271,000        | 410,000           | 120,000                  | 290,000        |
| Licensing                      | 305,000       | 264,000                  | 41,000         | 305,000           | 235,000                  | 70,000         |
| Non-compete agreements (1)     | 369,000       | 90,000                   | 279,000        | 368,000           | 41,000                   | 327,000        |
| Patents                        | 1,205,000     | 267,000                  | 938,000        | 1,205,000         | 133,000                  | 1,072,000      |
| Totals                         | \$ 17,533,000 | \$ 5,729,000             | \$ 11,804,000  | \$ 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:

| <b>Three months ended June 30,</b> |             | <b>Six months ended June 30,</b> |             |
|------------------------------------|-------------|----------------------------------|-------------|
| <b>2015</b>                        | <b>2014</b> | <b>2015</b>                      | <b>2014</b> |
| \$ 323,000                         | \$ 58,000   | \$ 647,000                       | \$ 116,000  |

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

|                        | <b>June 30,<br/>2015</b> | <b>December 31, 2014</b> |
|------------------------|--------------------------|--------------------------|
| Customer relationships | 10.5                     | 10.9                     |
| Engineering drawings   | 8.9                      | 9.2                      |
| Licensing              | 0.7                      | 1.2                      |
| Non-compete agreements | 3.1                      | 3.6                      |
| Patents                | 5.9                      | 6.1                      |

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

|            |              |
|------------|--------------|
| 2016       | \$ 1,280,000 |
| 2017       | 1,239,000    |
| 2018       | 993,000      |
| 2019       | 961,000      |
| 2020       | 857,000      |
| Thereafter | 4,433,000    |
|            | \$9,763,000  |

## **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.

At June 30, 2015 and December 31, 2014, the balance of Revolver borrowings outstanding was \$14,916,000 and \$11,817,000, respectively. Applicable Margins added to Revolver borrowings at LIBOR and the Base Rate were 2.50% and 1.50%, respectively, at June 30, 2015 and were 2.25% and 1.25%, respectively at December 31, 2014.

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.



**LONG-TERM**

The Restated Loan Agreement also 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 June 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 June 30, 2015 and December 31, 2014 were 3.00% and 2.00%, for borrowings at LIBOR and the Base Rate, respectively.

*Long-term debt:*

|   | <b>June 30, 2015</b> | <b>December 31, 2014</b> |
|---|----------------------|--------------------------|
| Term Loan A - \$23,000 payable monthly January 2013 through December 2017, balance due December 19, 2017. | \$ 6,300,000         | \$ 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.                                    | 140,000              | 178,000                  |
| Capex Term Loan - \$9,000 payable monthly October 2012 through September 2017.                            | 234,000              | 285,000                  |
| Other   | 70,000               | 90,000                   |
|   | 6,744,000            | 9,660,000                |
| Less: current maturities  | 498,000              | 3,167,000                |
|   | <b>\$ 6,246,000</b>  | <b>\$ 6,493,000</b>      |

**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 six-month periods ended June 30, 2015, the Company purchased approximately \$142,000 and \$323,000, respectively, of product from this vendor. During the three and six-month periods ended June 30, 2014, the Company purchased approximately \$154,000 and \$417,000, respectively, of product from this vendor. At June 30, 2015 and December 31, 2014, the Company had trade payables to this vendor of \$57,000 and \$103,000, respectively. Additionally, during the three and six-month periods ended June 30, 2015 the Company recorded sales to this vendor of \$3,000 and \$5,000, respectively. During the three and six-month periods ended June 30, 2014 this subsidiary had sales to this vendor of \$7,000 and \$11,000, respectively.

**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.

| <b>As of and for the three months ended June 30, 2015</b> | <b>Consolidated</b> | <b>Tools</b>  | <b>Hardware</b> |
|---|---------------------|---------------|-----------------|
| Revenues from unaffiliated customers                      | \$ 22,560,000       | \$ 16,058,000 | \$ 6,502,000    |
| Segment operating income                                  | \$ 3,426,000        | \$ 2,031,000  | \$ 1,395,000    |
| General corporate expense                                 | (1,459,000 )        |               |                 |
| Other income  | 201,000             |               |                 |
| Interest expense  | (201,000 )          |               |                 |
| Earnings before income taxes                              | \$ 1,967,000        |               |                 |
| Segment assets  | \$ 73,904,000       | \$ 61,859,000 | \$ 12,045,000   |
| Corporate assets  | 1,663,000           |               |                 |
| Total assets  | \$ 75,567,000       |               |                 |
| Long-lived assets, including \$46,000 at corporate        | \$ 33,941,000       | \$ 29,363,000 | \$ 4,532,000    |
| <b>As of and for the three months ended June 30, 2014</b> | <b>Consolidated</b> | <b>Tools</b>  | <b>Hardware</b> |
| Revenues from unaffiliated customers                      | \$ 18,268,000       | \$ 12,693,000 | \$ 5,575,000    |
| Segment operating income                                  | \$ 2,676,000        | \$ 1,358,000  | \$ 1,318,000    |
| General corporate expense                                 | (1,629,000 )        |               |                 |
| Interest expense  | (88,000 )           |               |                 |
| Income before income taxes                                | \$ 959,000          |               |                 |
| Segment assets  | \$ 48,573,000       | \$ 35,728,000 | \$ 12,845,000   |
| Corporate assets  | 13,261,000          |               |                 |
| Total assets  | \$ 61,834,000       |               |                 |
| Long-lived assets, including \$33,000 at corporate        | \$ 16,471,000       | \$ 11,836,000 | \$ 4,602,000    |

| <b>Six months ended June 30, 2015</b> | <b>Consolidated</b> | <b>Tools</b>  | <b>Hardware</b> |
|---------------------------------------|---------------------|---------------|-----------------|
| Revenues from unaffiliated customers  | \$ 42,386,000       | \$ 30,617,000 | \$ 11,769,000   |
| Segment operating income              | \$ 6,291,000        | \$ 3,939,000  | \$ 2,352,000    |
| General corporate expense             | (2,901,000 )        |               |                 |
| Other income                          | 201,000             |               |                 |
| Interest expense                      | (393,000 )          |               |                 |
| Income before income taxes            | \$ 3,198,000        |               |                 |

| <b>Six months ended June 30, 2014</b> | <b>Consolidated</b> | <b>Tools</b>  | <b>Hardware</b> |
|---------------------------------------|---------------------|---------------|-----------------|
| Revenues from unaffiliated customers  | \$ 34,200,000       | \$ 23,884,000 | \$ 10,316,000   |
| Segment operating income              | \$ 4,895,000        | \$ 2,686,000  | \$ 2,209,000    |
| General corporate expense             | (3,040,000 )        |               |                 |
| Interest expense                      | (177,000 )          |               |                 |
| Income before income taxes            | \$ 1,678,000        |               |                 |

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

|                         | <b>Three months ended<br/>June 30,</b> |               | <b>Six months ended<br/>June 30,</b> |               |
|-------------------------|--|---------------|--------------------------------------|---------------|
|                         | <b>2015</b>                            | <b>2014</b>   | <b>2015</b>                          | <b>2014</b>   |
| Revenue:                |  |               |                                      |               |
| North America           | \$ 21,242,000                          | \$ 18,023,000 | \$ 39,971,000                        | \$ 33,723,000 |
| Europe                  | 1,000,000                              | 109,000       | 1,886,000                            | 153,000       |
| All Other               | 318,000                                | 136,000       | 529,000                              | 324,000       |
| Total Revenue           | \$ 22,560,000                          | \$ 18,268,000 | \$ 42,386,000                        | \$ 34,200,000 |
| Long-Lived Assets:      |  |               |                                      |               |
| North America           |  |               | \$ 32,766,000                        | \$ 16,471,000 |
| Europe                  |  |               | 1,175,000                            | —             |
| Total Long-Lived Assets |  |               | \$ 33,941,000                        | \$ 16,471,000 |

## **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”), and competitively. 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 second quarter of 2015, our results of operations were impacted by a number of factors, some of which were:

- ∅ The most significant factor continues to be the positive impact on revenue and earnings provided by the three acquisitions completed during the third quarter of 2014;
- ∅ Nationwide continues to benefit from increased activity in residential construction and the renovation and remodeling markets;
- ∅ We revised the estimate of the contingent consideration payable to the former shareholders of UAT resulting in Other income of \$201,000.

## 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 section, we believe that our relationships with our key customers remain satisfactory. For 2015, we have elected not to sell certain promotional products to Sears, which we did sell in 2014. This decision will result in a reduction of approximately \$3 million of Sears's revenue during 2015, compared to the prior year. 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 prolonged, inclement weather during the first quarter of 2015 and the year to date slowdown in the global oil extraction and exploration sector negatively impacted our results for the six-month period ended June 30, 2015.

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

**Revenue**

|                   | <b>Three months ended June 30,</b> |              | <b>Increase (decrease)</b> |          |
|-------------------|------------------------------------|--------------|----------------------------|----------|
|                   | <b>2015</b>                        | <b>2014</b>  | <b>\$</b>                  | <b>%</b> |
| Tools             |                                    |              |                            |          |
| Florida Pneumatic | \$12,003,000                       | \$8,887,000  | \$3,116,000                | 35.1 %   |
| Hy-Tech           | 4,055,000                          | 3,806,000    | 249,000                    | 6.5      |
| Tools Total       | 16,058,000                         | 12,693,000   | 3,365,000                  | 26.5     |
| Hardware          |                                    |              |                            |          |
| Hardware Total    | 6,502,000                          | 5,575,000    | 927,000                    | 16.6     |
| Consolidated      | \$22,560,000                       | \$18,268,000 | \$4,292,000                | 23.5 %   |
|                   |                                    |              |                            |          |
|                   | <b>Six months ended June 30,</b>   |              | <b>Increase (decrease)</b> |          |
|                   | <b>2015</b>                        | <b>2014</b>  | <b>\$</b>                  | <b>%</b> |
| Tools             |                                    |              |                            |          |
| Florida Pneumatic | \$22,257,000                       | \$16,362,000 | \$5,895,000                | 36.0 %   |
| Hy-Tech           | 8,360,000                          | 7,522,000    | 838,000                    | 11.1     |
| Tools Total       | 30,617,000                         | 23,884,000   | 6,733,000                  | 28.2     |
| Hardware          |                                    |              |                            |          |

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|                |              |              |             |        |
|----------------|--------------|--------------|-------------|--------|
| Hardware Total | 11,769,000   | 10,316,000   | 1,453,000   | 14.1   |
| Consolidated   | \$42,386,000 | \$34,200,000 | \$8,186,000 | 23.9 % |

**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”).

|                    | Three months ended June 30, |            |               |            | Increase (decrease) |         |
|--------------------|-----------------------------|------------|---------------|------------|---------------------|---------|
|                    | 2015                        | Percent of | 2014          | Percent of | \$                  | %       |
|                    | Revenue                     | revenue    | Revenue       | revenue    |                     |         |
| Retail customers   | \$7,039,000                 | 58.6       | % \$6,647,000 | 74.8       | % \$392,000         | 5.9 %   |
| Automotive         | 3,041,000                   | 25.3       | 314,000       | 3.5        | 2,727,000           | 868.5   |
| Industrial/catalog | 1,689,000                   | 14.1       | 1,584,000     | 17.8       | 105,000             | 6.6     |
| Other              | 234,000                     | 2.0        | 342,000       | 3.9        | (108,000 )          | (31.6 ) |
| Total              | \$12,003,000                | 100.0      | % \$8,887,000 | 100.0      | % \$3,116,000       | 35.1 %  |

|                    | <b>Six months ended June 30,</b> |                           | <b>2014</b>    |                           | <b>Increase (decrease)</b> |          |   |
|--------------------|----------------------------------|---------------------------|----------------|---------------------------|----------------------------|----------|---|
|                    | <b>2015</b>                      |                           |                |                           |                            |          |   |
|                    | <b>Revenue</b>                   | <b>Percent of revenue</b> | <b>Revenue</b> | <b>Percent of revenue</b> | <b>\$</b>                  | <b>%</b> |   |
| Retail customers   | \$12,316,000                     | 55.3                      | % \$11,938,000 | 73.0                      | % \$378,000                | 3.2      | % |
| Automotive         | 6,137,000                        | 27.6                      | 610,000        | 3.7                       | 5,527,000                  | 906.1    |   |
| Industrial/catalog | 3,270,000                        | 14.7                      | 3,089,000      | 18.9                      | 181,000                    | 5.9      |   |
| Other              | 534,000                          | 2.4                       | 725,000        | 4.4                       | (191,000 )                 | (26.3 )  |   |
| Total              | \$22,257,000                     | 100.0                     | % \$16,362,000 | 100.0                     | % \$5,895,000              | 36.0     | % |

As illustrated in the table above, when comparing the three-month period ended June 30, 2015 to the same period in the prior year, the most significant factor contributing to Florida Pneumatic's overall growth is the incremental automotive revenue generated by the ETI and UAT acquisitions consummated in July 2014. 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 line of air tools product line into Europe. Currently UAT focuses its sales efforts primarily in the United Kingdom and Ireland. Florida Pneumatic intends to expand UAT to other European countries; however no timetable has been established. With respect to Florida Pneumatic's Retail customers, during the second quarter of 2015, there was a modest increase, when compared to the same period last year. Industrial/catalog revenue during the second quarter of 2015, was up slightly, compared to the same period in 2014. This increase was due to the sale of a specialty kit, which is not part of Florida Pneumatic's core suite of products, without which Industrial/catalog revenue would have been down slightly. The Industrial/catalog market remains sluggish, most notably in aerospace and oil and gas exploration and 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 Florida Pneumatic's decision to place greater emphasis on expanding its other product lines.

When comparing the six-month periods ended June 30, 2015 and 2014, again 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 \$5.5 million during the first half of fiscal 2015, compared to the same period a year ago. When comparing the six-month periods ended June 30, 2015 and 2014, its Retail revenue improved a modest 3.2%, due in large part to greater sales to The Home Depot. Industrial/catalog revenue increased during the first six months of 2015, compared to the same period in 2014. This increase was due to the sale of a specialty kit, which is not part of Florida Pneumatic's core suite of products, without which Industrial/catalog revenue would have been down slightly. The Industrial/catalog market remains sluggish, most notably in aerospace and oil and gas exploration and production channels.

|                 | <b>Three months ended June 30,</b> |                           | <b>2014</b>    |                           | <b>Increase (decrease)</b> |          |   |
|-----------------|------------------------------------|---------------------------|----------------|---------------------------|----------------------------|----------|---|
|                 | <b>2015</b>                        |                           |                |                           |                            |          |   |
|                 | <b>Revenue</b>                     | <b>Percent of revenue</b> | <b>Revenue</b> | <b>Percent of revenue</b> | <b>\$</b>                  | <b>%</b> |   |
| ATP             | \$3,022,000                        | 74.5                      | % \$2,602,000  | 68.4                      | % \$420,000                | 16.1     | % |
| Hy-Tech Machine | 389,000                            | 9.6                       | 371,000        | 9.7                       | 18,000                     | 4.9      |   |

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|                |             |       |               |       |             |         |
|----------------|-------------|-------|---------------|-------|-------------|---------|
| Major customer | 535,000     | 13.2  | 787,000       | 20.7  | (252,000 )  | (32.0 ) |
| Other          | 109,000     | 2.7   | 46,000        | 1.2   | 63,000      | 137.0   |
| Total          | \$4,055,000 | 100.0 | % \$3,806,000 | 100.0 | % \$249,000 | 6.5 %   |

**Six months ended June 30,**

|                 | <b>2015</b>    |                           | <b>2014</b>    |                           | <b>Increase (decrease)</b> |          |
|-----------------|----------------|---------------------------|----------------|---------------------------|----------------------------|----------|
|                 | <b>Revenue</b> | <b>Percent of revenue</b> | <b>Revenue</b> | <b>Percent of revenue</b> | <b>\$</b>                  | <b>%</b> |
| ATP             | \$6,042,000    | 72.3                      | % \$5,164,000  | 68.7                      | % \$878,000                | 17.0 %   |
| Hy-Tech Machine | 1,053,000      | 12.6                      | 736,000        | 9.8                       | 317,000                    | 43.1     |
| Major customer  | 1,088,000      | 13.0                      | 1,488,000      | 19.8                      | (400,000 )                 | (26.9 )  |
| Other           | 177,000        | 2.1                       | 134,000        | 1.7                       | 43,000                     | 32.1     |
| Total           | \$8,360,000    | 100.0                     | % \$7,522,000  | 100.0                     | % \$838,000                | 11.1 %   |

Hy-Tech's ATP second quarter 2015 revenue increased compared to the second quarter of 2014. Included in the second quarter of 2015 ATP revenue are sales of ATSCO product line pneumatic tools, which was acquired during the third quarter of 2014. Partially offsetting this increase was a decline in the sale of drilling motors and related parts and sockets, which we believe was due in large part to the down-turn in oil drilling and exploration. The ordering pattern from Hy-Tech's Major customer continues to be erratic and unpredictable. We believe the reduction in orders from this customer is due to a decline in its international market. As such, we expect this unpredictability is likely to continue at least for the remainder of 2015. 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 in Canada.

Hy-Tech's ATP revenue for the six-month period ended June 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. We believe, among other factors, the reduction in the price of oil and other drilled resources is causing a slow-down in exploration, which in turn is negatively affecting Hy-Tech's overall revenue. Until such time when major exploration and related activity levels return to more optimum levels, it is difficult to predict when this sector of the ATP category will improve. As such, Hy-Tech continues to pursue alternate markets and customers and focus on its ATSCO products releases. In line with the aforementioned, Hy-Tech increased its Hy-Tech Machine revenue when comparing the six-month periods ended June 30, 2015 and 2014 due to a large order shipped during the first quarter of 2015. Lastly, revenue from Hy-Tech's Major customer during the six-month period ended June 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.

### 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.

|                         | <b>Three months ended June 30,</b> |                           | <b>2015</b>    |                           | <b>2014</b>  |          | <b>Increase (decrease)</b> |   |
|-------------------------|------------------------------------|---------------------------|----------------|---------------------------|--------------|----------|----------------------------|---|
|                         | <b>Revenue</b>                     | <b>Percent of revenue</b> | <b>Revenue</b> | <b>Percent of revenue</b> | <b>\$</b>    | <b>%</b> |                            |   |
| Fence and gate hardware | \$5,452,000                        | 83.9                      | % \$4,652,000  | 83.4                      | % \$ 800,000 |          | 17.2                       | % |
| OEM                     | 567,000                            | 8.7                       | 474,000        | 8.5                       | 93,000       |          | 19.6                       |   |
| Patio                   | 483,000                            | 7.4                       | 449,000        | 8.1                       | 34,000       |          | 7.6                        |   |
| Total                   | \$6,502,000                        | 100.0                     | % \$5,575,000  | 100.0                     | % \$ 927,000 |          | 16.6                       | % |

|  | <b>Six months ended June 30,</b> |  | <b>2015</b> |  | <b>2014</b> |  | <b>Increase (decrease)</b> |  |
|--|----------------------------------|--|-------------|--|-------------|--|----------------------------|--|
|--|----------------------------------|--|-------------|--|-------------|--|----------------------------|--|

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|                         | <b>Revenue</b> | <b>Percent of<br/>revenue</b> | <b>Revenue</b> | <b>Percent of<br/>revenue</b> | <b>\$</b>      | <b>%</b> |
|-------------------------|----------------|-------------------------------|----------------|-------------------------------|----------------|----------|
| Fence and gate hardware | \$9,646,000    | 82.0                          | % \$8,584,000  | 83.2                          | % \$ 1,062,000 | 12.4 %   |
| OEM                     | 1,209,000      | 10.2                          | 873,000        | 8.5                           | 336,000        | 38.5     |
| Patio                   | 914,000        | 7.8                           | 859,000        | 8.3                           | 55,000         | 6.4      |
| Total                   | \$11,769,000   | 100.0                         | % \$10,316,000 | 100.0                         | % \$ 1,453,000 | 14.1 %   |

Fence and gate hardware continues to be Nationwide's primary product line, accounting for 83.9% of its second 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 six-month period ended June 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 six-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 38.5% 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 foreclosure market, primarily in Florida.

**Gross Margins / Profits**

|                                  | <b>Three months ended June 30,</b> |             | <b>Increase (decrease)</b> |           |
|----------------------------------|------------------------------------|-------------|----------------------------|-----------|
|                                  | <b>2015</b>                        | <b>2014</b> | <b>Amount</b>              | <b>%</b>  |
| Florida Pneumatic                | \$4,227,000                        | \$2,937,000 | \$1,290,000                | 43.9%     |
| As percent of respective revenue | 35.2%                              |             | 33.0%                      | 2.2 % pts |
| Hy-Tech                          | \$1,604,000                        | \$1,506,000 | \$98,000                   | 6.5%      |
| As percent of respective revenue | 39.6%                              |             | 39.6%                      | — % Pts   |
| Total Tools                      | \$5,831,000                        | \$4,443,000 | \$1,388,000                | 31.2%     |
| As percent of respective revenue | 36.3%                              |             | 35.0%                      | 1.3 % pts |
| Total Hardware                   | \$2,588,000                        | \$2,160,000 | \$428,000                  | 19.8%     |
| As percent of respective revenue | 39.8%                              |             | 38.7%                      | 1.1 %pts  |
| Consolidated                     | \$8,419,000                        | \$6,603,000 | \$1,816,000                | 27.5%     |
| As percent of respective revenue | 37.3%                              |             | 36.1%                      | 1.2 % pts |

|                                  | <b>Six months ended June 30,</b> |              | <b>Increase (decrease)</b> |             |
|----------------------------------|----------------------------------|--------------|----------------------------|-------------|
|                                  | <b>2015</b>                      | <b>2014</b>  | <b>Amount</b>              | <b>%</b>    |
| Florida Pneumatic                | \$8,052,000                      | \$5,563,000  | \$2,489,000                | 44.7%       |
| As percent of respective revenue | 36.2%                            |              | 34.0%                      | 2.2 % pts   |
| Hy-Tech                          | \$3,278,000                      | \$3,030,000  | \$248,000                  | 8.2%        |
| As percent of respective revenue | 39.2%                            |              | 40.3%                      | (1.1 )% pts |
| Total Tools                      | \$11,330,000                     | \$8,593,000  | \$2,737,000                | 31.9%       |
| As percent of respective revenue | 37.0%                            |              | 36.0%                      | 1.0 % pts   |
| Total Hardware                   | \$4,608,000                      | \$4,045,000  | \$563,000                  | 13.9%       |
| As percent of respective revenue | 39.2%                            |              | 39.2%                      | — % pts     |
| Consolidated                     | \$15,938,000                     | \$12,638,000 | \$3,300,000                | 26.1%       |
| As percent of respective revenue | 37.6%                            |              | 37.0%                      | 0.6 % 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 second quarter of 2015 gross margin improvement over the same period a year ago. However, its Retail gross margin for the second 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 second 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 second 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 six-month period ended June 30, 2015 improved 2.2 percentage points over the same period in the prior year due primarily to the additional \$5.5 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 six 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**

Despite encountering on-going competitive pricing pressure in its Fence and gate hardware, and Patio product lines, as well as a servicing a new, low margin OEM customer, Nationwide's second quarter 2015 gross margin increased, when compared to the same period in 2014. Within Nationwide, Fence and gate hardware generate the highest gross margins, followed by OEM, then Patio. As such, the key driver to the higher overall gross margin during the second quarter of 2015, compared to the same period in 2014 is the additional, higher margin Fence and gate hardware revenue. However, as Nationwide has decided to service the lower margin OEM customer, it is possible that its OEM gross margins may be less, when compared to the same period in prior years, which in turn could negatively affect its overall gross margin.

Nationwide's overall gross margin for the six-month periods ended June 30, 2015 and 2014 were the same. While its gross margin for the second quarter of 2015 reflected improvement over its first quarter of 2015, it is difficult to predict future results. 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 second quarter of 2015, our SG&A was \$6,452,000 or 28.6% of revenue, compared to \$5,556,000, or 30.4% of revenue during the same three-month period in 2014. Significant items contributing to the change in SG&A are: (i) our depreciation and amortization increased by \$284,000, when comparing the three-month periods ended June 30, 2015 and 2014, most of which is attributable to the three acquisitions completed during the third quarter of 2014; (ii) as the result of the increased revenue our incremental variable costs and expenses, which includes among other expenses, commissions, warranty costs, freight out and advertising/promotional fees, increased by \$310,000 during the second quarter of 2015, compared to the same period in the prior year; (iii) when comparing the second quarter of 2015 to the same period in 2014, our bad debt expense increased \$135,000, primarily the result of adjustments recorded in the second quarter of 2014 that lowered our bad debt expense; (iv) compensation, which is comprised of base salaries and wages, accrued performance-based bonus incentives, associated payroll taxes and employee benefits, increased \$264,000, with the majority of this increase due to the added staffing resulting from the three acquisitions; and (v) our professional services decreased \$95,000, primarily due to expenses incurred in 2014 related to the three 2014 acquisitions not recurring in 2015.

During the six-month period ended June 30, 2015, our SG&A was \$12,548,000, or 29.6% of revenue, compared to \$10,783,000, or 31.5% of revenue during the six-month period in 2014. Significant elements of this change are: (i) depreciation and amortization increased by \$554,000, most of which is attributable to the assets acquired; (ii) incremental variable costs and expenses increased \$454,000, due in large part to the added revenue in 2015; (iii) compensation expenses increased \$534,000, due mostly to additional staffing resulting from the three acquisitions plus slightly higher, performance-based bonus incentives; (iv) bad debt expenses increased \$152,000, due primarily to adjustments made during the second quarter of 2014, which lowered our bad debt expense, and (v) our professional fees and corporate expenses, in the aggregate declined \$80,000.

### **Interest**

Our interest expense during the second quarter of 2015 was \$201,000, compared to \$88,000 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. The average balance of short-term borrowings during the second quarter of 2015 was \$17,430,000, compared to \$1,500,000 during the same three-month period in 2014. As a result of the aforementioned acquisitions, interest expense incurred on our Revolver borrowings during the second quarter of 2015 was \$117,000, compared to \$8,000 during the second quarter of 2014. Interest expense on our Long-term borrowings was \$55,000,

compared to \$58,000 during the same three-month period in 2014. Included in our interest expense for the three-month periods ended June 30, 2015 and 2014 is amortization expense of debt financing costs of \$28,000 and \$22,000, respectively. An increase in the applicable loan margins that are added to both our LIBOR (London InterBank Offered Rate) or Base Rate, as defined in the Credit Agreement borrowings, also negatively impacted our interest expense. (See Liquidity and Capital Resources for further discussion.)

Our interest expense during the six-month period ended June 30, 2015 was \$393,000, compared to \$177,000 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. The average balance of short-term borrowings during the first two quarters of 2015 was \$15,446,000, compared to \$1,309,000 during the same six-month period in 2014. As a result, interest expense incurred on our Revolver borrowings was \$202,000, compared to \$17,000, respectively for six-month periods ended June 30, 2015 and 2014. Interest expense incurred during these six-month periods on our Long-term borrowings was \$133,000, compared to \$116,000, respectively. Lastly, included in our six-month interest expense is amortization expense of debt financing costs of \$55,000 in 2015 and \$43,000 in 2014. An increase in the applicable loan margins that are added to both our LIBOR (London InterBank Offered Rate) or Base Rate, as defined in the Credit Agreement borrowings, also negatively impacted our interest expense. (See Liquidity and Capital Resources for further discussion.)

### **Other 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). Further, we anticipated that for the twelve-month period ending July 29, 2015, a disproportionate amount of UAT’s adjusted net income would likely be attained primarily during the period beginning late first quarter 2015 through July 29, 2015. However, we now estimate that the adjusted net income for the year ending July 29, 2015 will result in the contingent consideration payable to the Sellers to be approximately \$224,000. As such, we have adjusted our estimate of the payment of this contingent consideration payable to the Sellers and have recorded \$201,000 as Other Income. It should be noted that this income is not subject to federal or state income tax.

**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 rate for the three and six-months ended June 30, 2015 were 33.3% and 34.6%, respectively, compared to 40.4% and 38.4%, respectively, for the three and six-month periods ended June 30, 2014. Non-taxable income related to the contingent consideration adjustment of approximately \$201,000 is the primary factor for the lower effective tax rate for the three and six-month periods ended June 30, 2015, compared to the same periods in 2014. Additionally, the effective tax rate for all periods differed from the U.S. federal statutory rate of 34% primarily due to state taxes and nondeductible expenses.

**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:

|                      | June 30, 2015 | December 31, 2014 |
|----------------------|---------------|-------------------|
| Working Capital      | \$ 17,169,000 | \$ 13,927,000     |
| Current Ratio        | 1.71 to 1     | 1.59 to 1         |
| Shareholders' Equity | \$ 42,269,000 | \$ 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 \$14,916,000 and \$11,817,000, at June 30, 2015 and December 31, 2014, respectively. Applicable Margins added to Revolver borrowings at LIBOR and the Base Rate at June 30, 2015 were 2.50% and 1.50%, respectively and were 2.25% and 1.25%, respectively at December 31, 2014.

The Restated Loan Agreement provided for a Term Loan B, pursuant to which we borrowed the maximum principal amount of \$3,000,000 as part of 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 June 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**

During the six-month period ended June 30, 2015, our net cash decreased \$146,000 to \$865,000 from \$1,011,000 at December 31, 2014. Our total bank debt at June 30, 2015 was \$21,590,000, compared to \$21,387,000 at December 31, 2014. Our revolver borrowings increased approximately \$3.1 million, due primarily to make the required payment toward our Term Loan B, which was discussed above. The aforementioned also contributed to the increase in the percent of the total debt to total book capitalization (total debt divided by total debt plus equity), which at June 30, 2015 was 33.9%, compared to 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 \$372,000 for the six-month period ended June 30, 2015, compared to \$446,000 during the same period in the prior year. Capital expenditures for the balance of 2015 are expected to be approximately \$500,000, 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 account for 6.2% and 36.8%, respectively of our consolidated accounts receivable at June 30, 2015, and 17.7% and 25.6% at December 31, 2014. To date, these customers, with minor exceptions, are current in their payments. Further, these two customers in the aggregate, accounted for 31.2% and 29.1%, of our consolidated revenue for the three and six-month periods ended June 30, 2015, compared to 36.4% and 34.9% during the same three and six-month periods in 2014.

We believe that the loss of one or both of these customers would negatively impact our working capital, 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.

24

**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 June 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 June 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**

There were no material changes to the risk factors previously disclosed in our 2014 Form 10-K.

**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)

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

Dated: August 14, 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:

| <b>Exhibit<br/>Number</b> | <b>Description of Exhibit</b>   |
|---------------------------|---|
| <b>10.1</b>               | Executive Employment Agreement, dated as of January 1, 2015, between the Registrant and Joseph A. Molino, Jr. (Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated April 2, 2015). |
| <b>31.1</b>               | Certification of Richard A. Horowitz, Principal Executive Officer of the Registrant, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.   |
| <b>31.2</b>               | Certification of Joseph A. Molino, Jr., Principal Financial Officer of the Registrant, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.   |
| <b>32.1</b>               | 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 .                               |
| <b>32.2</b>               | 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.                              |
| <b>101</b>                | * 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.