

P&F INDUSTRIES INC
Form 10-K
April 27, 2010

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the Fiscal Year Ended December 31, 2009

or

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

Commission File Number 1-5332

P&F INDUSTRIES, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

22-1657413
(I.R.S. Employer
Identification Number)

445 Broadhollow Road, Suite 100, Melville, New York
(Address of principal executive offices)

11747
(Zip Code)

Registrant's telephone number, including area code: **(631) 694-9800**

Securities registered pursuant to Section 12(b) of the Act:

(Title of each class)

Class A Common Stock, \$1.00 par value

(Name of each exchange on which registered)

The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act: **NONE**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

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Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

The aggregate market value of the registrant's Class A Common Stock held by non-affiliates of the registrant, based on the last sale price on June 30, 2009 (the last business day of the registrant's most recently completed second fiscal quarter), was approximately \$6,868,000.

As of April 9, 2010 there were 3,614,562 shares of the registrant's Class A Common Stock outstanding.

Documents Incorporated by Reference

Part III of this Annual Report on Form 10-K incorporates by reference information from the registrant's definitive Proxy Statement for its 2010 Annual Meeting of Stockholders.

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FOR THE FISCAL YEAR ENDED DECEMBER 31, 2009

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FORWARD LOOKING STATEMENTS

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 (the "Company"). The Company and its representatives may, from time to time, make written or verbal forward looking statements, including statements contained in the Company's filings with the Securities and Exchange Commission and in its reports to stockholders. Generally, the inclusion of the words "believe," "expect," "intend," "estimate," "anticipate," "will," their opposites and similar expressions identify statements that constitute "forward looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 and that are intended to come within the safe harbor protection provided by those sections. Any forward looking statements contained herein, including those related to the Company's future performance, are based upon the Company's historical performance and on current plans, estimates and expectations. Such forward looking statements are subject to various risks and uncertainties, including those identified in Item 1A of this Annual Report on Form 10-K, which may cause actual results to differ materially from the forward looking statements. Forward looking statements speak only as of the date on which they are made, and 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.

PART I

ITEM 1. Business

P&F Industries, Inc. ("P&F") is a Delaware corporation incorporated on April 19, 1963. 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

We conduct our Tools business through a wholly owned subsidiary, Continental Tool Group, Inc. ("Continental"), which in turn currently operates through its wholly owned subsidiaries, Florida Pneumatic Manufacturing Corporation ("Florida Pneumatic") and Hy-Tech Machine, Inc. ("Hy-Tech").

Florida Pneumatic

Florida Pneumatic imports and sells pneumatic hand tools of its own design, primarily for the retail, industrial and automotive markets. This line of products includes sanders, grinders, drills, saws and impact wrenches. These tools are similar in appearance and function to electric hand tools, but are powered by compressed air, rather than directly by electricity. Air tools, as they are also called, are generally less expensive to operate, offer better performance and weigh less than their electrical counterparts. Additionally, Florida Pneumatic also imports and markets compressor air filters. Florida Pneumatic imports approximately seventy-five types of pneumatic hand tools, most of which are sold at prices ranging from \$50 to \$1,000, under the names "Florida Pneumatic" and "Universal Tool," as well as under the trade names or trademarks of several private label customers. These Florida Pneumatic products are sold to distributors, retailers and private label customers through in-house sales personnel and manufacturers' representatives. Users of Florida Pneumatic's hand tools include industrial maintenance and production staffs, do-it-yourself mechanics, automobile mechanics and auto body personnel.

During 2009, Florida Pneumatic purchased approximately 41% of its pneumatic tools from a Far East trading company that owns or represents 21 individual factories in Japan, Taiwan and China and 34% directly from a manufacturer in China. Of the total pneumatic tool purchases in 2009, approximately 5% were bought from Japan, 12% from Taiwan and 76% from China. Florida Pneumatic

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performs final assembly on certain of its pneumatic tools at its factory in Jupiter, Florida. Further, during 2009, it imported its air filters as well as its Franklin products line, which is discussed further below. There are redundant sources for nearly all products purchased.

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. Florida Pneumatic markets Berkley's products through industrial distributors and contractors. Florida Pneumatic sources its Berkley product line from China and Israel, as well as domestic sources.

Through its Franklin Manufacturing ("Franklin") division, Florida Pneumatic imported a line of door and window hardware. However, primarily due to an ongoing diminishing market, Florida Pneumatic decided to discontinue marketing the Franklin products line effective December 31, 2009. Franklin imported and packaged approximately 275 types of hardware products, including locksets, deadbolts, door and window security hardware, rope-related hardware products and fire escape ladders. Franklin's products generally ranged in price from under \$1 to \$30, and were sold to retailers, wholesalers and private label accounts through manufacturers' representatives and in-house sales support personnel. Nearly all of Franklin's sales were products imported from China.

The primary competitive factors in the pneumatic hand tool market are price, service and brand-name awareness. The primary competitive factors in Berkley's business are price and service. The primary competitive factors in Franklin's business are price, service, and skill in packaging and point-of-sale marketing. Florida Pneumatic's products are sold off the shelf, and no material backlog of orders exists. The business is not seasonal, but it may be subject to significant periodic changes resulting from holiday sales promotions by customers.

Hy-Tech

Hy-Tech manufactures and distributes pneumatic tools and parts for industrial applications. Hy-Tech manufactures approximately sixty types of industrial pneumatic tools, most of which are sold at prices ranging from \$300 to \$7,000, under the names "ATP", "Thaxton", "THOR" and "Eureka", as well as under the trade names or trademarks of other private label customers. This line of products includes grinders, drills, saws, impact wrenches and pavement breakers.

Hy-Tech's products are sold to distributors and private label customers through in-house sales personnel and manufacturers' representatives. Users of Hy-Tech's tools include refineries, chemical plants, power generation facilities, the heavy construction industry, oil and mining companies and heavy industry. Hy-Tech's products are sold off the shelf, and are also produced to customer's orders. The business is not seasonal, but it may be subject to significant periodic changes resulting from scheduled shutdowns in refineries, power generation facilities and chemical plants.

The primary competitive factors in the industrial pneumatic tool market are quality, breadth of products and availability of products, customer service and technical support.

Hardware

We conduct our Hardware business through a wholly owned subsidiary, Countrywide Hardware, Inc. ("Countrywide"). During 2009, Countrywide conducted its business operations through its wholly-owned subsidiaries, Nationwide Industries, Inc. ("Nationwide"), Woodmark International, L.P. ("Woodmark"), Pacific Stair Products, Inc. ("PSP") and WM Coffman LLC ("WMC"). Woodmark was, until the transactions, which are described in the Acquisitions section of Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (the "WMC transactions"), an importer of both stair parts components and kitchen and bath hardware and accessories. As part of

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the WMC transactions Woodmark and PSP contributed certain net assets to WMC in return for members' equity in WMC. Effective with the WMC transactions, the stair parts business formerly within Woodmark became part of WMC, and Woodmark's kitchen and bath product line began operating within Nationwide. PSP manufactured and distributed premium stair rail products, until mid-2008. Since the closing of its mill in mid-2008, PSP operated primarily as a distributor of Woodmark's staircase components to the building industry in southern California and the southwestern region of the United States. PSP exited the remaining facility on July 31, 2009. As a result of the WMC transactions, PSP and Woodmark no longer function as operating units. Their former customers are being serviced through WMC. Effective as of the date of the WMC transactions, our entire stair parts business operates through WMC.

Nationwide

Nationwide is an importer and manufacturer of door, window and fencing hardware, 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.

Effective as of the date of the WMC transactions, the Company reports the results of operations of its kitchen and bath hardware and accessories product line, which prior to the WMC transactions, was part of Woodmark, with Nationwide and is referred to as "Other Hardware."

Most of Nationwide's sales are of products imported from Taiwan and China. Nationwide currently out-sources the manufacturing of approximately 90% of its product with several overseas factories, while retaining design, quality control, and patent and trademark control. There are redundant sources for most products. Nationwide manufactures approximately 10% of its products sold including rollers, hinges and pool enclosure products at its facility in Tampa, Florida. Additionally, Nationwide, until its closure distributed its products to its customers located in the western U.S. through the warehouse leased by Pacific Stair, located in Vista, California. Nationwide continues to lease warehouse space in McPherson, KS to support sales to a single customer, and in Buffalo, NY.

The majority of Nationwide's sales are somewhat seasonal, with revenues typically increasing during the spring and summer months. The majority of Nationwide's products are sold off the shelf.

The primary competitive factors in Nationwide's business are price, quality, product availability and service.

WMC

On June 10, 2009, pursuant to an Asset Purchase Agreement dated as of June 8, 2009, WMC, a Delaware limited liability company, a newly formed subsidiary of the Company, acquired substantially all of the assets of Coffman Stairs, LLC, a Delaware limited liability company ("Coffman"). Coffman was in the business of manufacturing and distributing interior wood and iron stair components throughout the United States. Woodmark and PSP contributed to WMC certain respective assets, subject to WMC's assumption of certain respective liabilities and obligations of each of Woodmark and PSP. In addition, Woodmark and PSP entered into certain agreements with WMC, transferring the Company's stair parts business to WMC.

WMC manufactures or imports a full line of stair parts and related complementary accessories. Approximately 36% of its 2009 revenue consisted of products manufactured in its Marion, Virginia facility, with the balance of its revenue from products imported from China. Nearly all of the raw materials used in its Marion, Virginia facility are sourced from domestic suppliers.

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The primary competitive factors in WMC's business are price, quality, product availability and style.

See further discussion regarding the WMC transactions and the current status of WMC in the "Overview."

Woodmark

Prior to the WMC transactions, Woodmark was an importer and distributor of residential wood and iron stair parts and kitchen and bath hardware, such as residential plumbing fixtures and other accessories for new construction and home improvement applications.

Woodmark had purchased most of its stair parts and kitchen and bath products through a longstanding relationship with a Far East trade partner that owns or represents four individual factories in China and Taiwan. Of the total stair parts and kitchen and bath product purchases, approximately 71% were bought from China and 26% from Taiwan. The balance was sourced primarily from the United States. There are redundant sources for most products purchased and manufactured.

As discussed further in the WMC section above, certain assets and liabilities were transferred to WMC in connection with the WMC Transactions.

The primary competitive factors in Woodmark's business were price, quality and product availability.

Pacific Stair

Prior to the WMC transactions, PSP was, until mid-2008, a manufacturer of premium stair rail products as well as a distributor of staircase components serving the building industry, primarily in southern California and the southwestern region of the United States. In mid-2008, the Company decided to discontinue manufacturing and closed the mill. Pacific Stair continued to operate as a distributor of stair parts and rail products.

As discussed further in the WMC section above, certain assets and liabilities were transferred to WMC in connection with the WMC Transactions.

The primary competitive factors in Pacific Stair's business were price, quality and product availability.

Significant Customers

The Tools segment has one customer that accounted for approximately 21.0% and 16.5%, respectively, of consolidated revenue for the years ended December 31, 2009, and 2008, and 39.0% and 27.7%, respectively, of consolidated accounts receivable as of December 31, 2009 and 2008. There are no significant customers in the Hardware segment.

Employees

We employed 271 persons as of December 31, 2009, of which 258 were full-time employees. None of these employees are represented by a union.

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ITEM 1A. Risk Factors

A wide range of factors could materially affect our performance. In addition to the factors affecting specific business operations identified in connection with the description of these operations and the financial results of these operations elsewhere in this report, the following factors, among others, could adversely affect our results of operations or financial position:

Substantial debt and debt service requirements; Our liquidity and capital resources are limited. The amount of our debt could have important consequences. For example, it could: increase our vulnerability to general adverse economic and industry conditions; limit our ability to fund future capital expenditures, working capital and other general corporate requirements; require us to dedicate a substantial portion of our cash flow from operations to make interest and principal payments on our debt; limit our flexibility in planning for, or reacting to, changes in our business; place us at a competitive disadvantage compared with competitors that have less debt; and limit our ability to borrow additional funds, even when necessary to maintain adequate liquidity. Furthermore, the recent turmoil in the credit markets and the Company's financial position and results of operations has limited the Company's access to additional sources of credit and has resulted in higher borrowing costs. Although we believe that the lenders participating in our primary revolving credit facility will be able to provide financing in accordance with their contractual obligations to provide us with our credit needs through January 1, 2011, such lenders may not extend the term of the revolving credit portion of such credit facility beyond such date, and we may not be able to enter into another facility on reasonable terms in a timely manner.

Compliance with financial covenants. Under the terms of our primary credit agreement, we are required to adhere to certain financial covenants. At December 31, 2009 and at prior periods in 2009, we were not in compliance with certain financial covenants; however, the banks subsequently waived compliance with such financial covenants. If we are not in compliance with any financial covenant at any time in the future and such non-compliance is not waived, our access to funds may be adversely affected, debt may become due immediately, and/or certain of our assets securing our debt could be foreclosed.

Significant volatility and disruption in the global capital and credit markets. Significant volatility and disruption in the global capital and credit markets in 2008 through early 2010 have resulted in a tightening of business credit and liquidity, a contraction of consumer credit, business failures, increased unemployment and declines in consumer confidence and spending. If global economic and financial market conditions continue to deteriorate or remain weak for an extended period of time, it could have a material adverse effect on our financial condition and results of operations. In particular, lower consumer spending may result in reduced demand and orders for certain of our products, order cancellations, lower revenues, increased inventories, and lower gross margins. Further, if our customers continue to experience declining revenues, or experience difficulty obtaining financing in the capital and credit markets to purchase our products, this could result in further reduced orders for our products, order cancellations, inability of customers to timely meet their payment obligations to us, extended payment terms, higher accounts receivable, reduced cash flows, greater expense associated with collection efforts and increased bad debt expense; and a severe financial difficulty experienced by our customers may cause them to become insolvent or cease business operations.

The strength of the retail economy in the United States. Our business is subject to economic conditions in major markets, including recession, inflation, deflation, general weakness in retail, industrial, and housing markets. In particular, a significant portion of our products are tied to new residential construction. The strength of such market depends on new housing starts which are a function of many factors beyond our control, including interest rates, employment levels,

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availability of credit and consumer confidence. New housing starts have been declining on an annualized rate since 2006 and may continue at the lower levels or decline further. Such economic conditions have had, and may continue to have, an adverse effect on our results of operations and financial position.

Supply chain disruptions. Any difficulty or inability on the part of manufacturers of our products or other participants in our supply chain in obtaining sufficient financing to purchase raw materials or to finance general working capital needs may result in delays or non-delivery of shipments of our products.

Our ability to maintain mutually beneficial relationships with key customers. We have several key customers, one of which constituted approximately 21% of our consolidated revenues for 2009. Loss of key customers or a material negative change in our relationships with our key customers could have a material adverse effect on our business, results of operations or financial position.

Adverse changes in currency exchange rates or raw material commodity prices. A majority of our products are manufactured outside the United States, of which a significant amount is purchased in the local currency. As a result, we are exposed to movements in the exchange rates of various currencies against the United States dollar which could have an adverse effect on our results of operations or financial position. We believe our most significant foreign currency exposures are the Japanese yen, the Taiwan dollar ("TWD") and the Chinese Renminbi ("RMB"). Purchases from Chinese sources are made in U.S. dollars. However, if the Chinese currency, the Renminbi ("RMB"), were to be revalued against the dollar, there could be a significant negative impact on the cost of our products.

Impairment of long-lived assets and goodwill. The inability of certain of our subsidiaries to generate future cash flows sufficient to support the recorded amounts of goodwill, other intangible assets and other long-lived assets related to those subsidiaries could result in future impairment charges.

Unforeseen interruptions in the manufacturing ability of certain foreign suppliers. Our foreign suppliers may encounter interruption in their ability to continue to provide us with products on a short-term or long-term basis. Although we believe that there are redundant sources available and maintain multiple sources for certain of our products, there may be costs and delays associated with securing such sources and there can be no assurance that such sources would provide the same quality of product at similar prices.

Unforeseen inventory adjustments or changes in purchasing patterns. We make purchasing decisions based upon a number of factors including an assessment of market needs and preferences, manufacturing lead times and cash flow considerations. To the extent that our assumptions result in inventory levels being too high or too low, there could be a material adverse effect on our business, results of operations or financial position.

Market acceptance of new products. There can be no assurance that the market continues its acceptance of the new products we introduced in recent years or will accept new products scheduled for introduction in 2010. There can also be no assurance that the level of sales generated from these new products relative to our expectations will materialize, based on existing investments in productive capacity and commitments by us to fund advertising and product promotions in connection with the introduction of these new products.

Increased competition. The domestic markets in which we sell our products are highly competitive on the basis of price, quality, availability, post-sale service and brand-name awareness. A number of competing companies are well-established manufacturers that compete on a global basis.

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Price reductions. Price reductions taken by us in response to customer and competitive pressures, as well as price reductions or promotional actions taken in order to drive demand, may not result in anticipated sales necessary to offset the associated costs.

Interest rates. Interest rate fluctuations and other capital market conditions could have a material adverse effect on our business, results of operations or financial position.

Litigation. The effects of litigation and product liability exposures, as well as other risks and uncertainties described from time to time in our filings with the Securities and Exchange Commission and public announcements could have a material adverse effect on our business, results of operations or financial position. Further, while we maintain insurance policies to protect against most potential exposures, events may arise against which we may not be adequately insured. (See "Item 3 Legal Proceedings".)

Retention of key personnel. Our success depends to a significant extent upon the abilities and efforts of our key personnel. The loss of the services of any of our key personnel or our inability to attract and retain qualified personnel in the future could have a material adverse effect on our business, results of operations or financial position.

Acquisition of businesses. Part of our business strategy is to opportunistically acquire complementary businesses and dispose of non-complementary businesses. If we fail to develop and integrate any acquired business or dispose of any businesses effectively, our earnings may be adversely affected. In addition, our management team will need to devote substantial time and attention to the acquisition and integration of the acquired businesses, which could distract them from their other duties and responsibilities. In particular, in 2009 the Company acquired a business that it believed would be complementary to its existing stair parts business which was primarily acquired in 2004. The combined operations, however, were not able to achieve the revenue levels anticipated prior to the transaction and as a result, never produced positive cash flow. This contributed to, among other things, an ongoing default on such business' credit facility and significant liquidity problems for such business. We have undertaken a search for additional sources of capital and are considering a sale of such business. At December 31, 2009, the Company recorded a write down of \$5,549,000 related to its investment in this business.

Regulatory environment. We cannot anticipate the impact of changes in laws and regulations, including changes in accounting standards, taxation requirements, including tax rate changes, new tax laws and revised tax law interpretations, and environmental laws, in both domestic and foreign jurisdictions.

Our financial position, cash flow or results may be adversely affected by the threat of terrorism and related political instability and economic uncertainty. The threat of potential terrorist attacks on the United States and throughout the world and political instability has created an atmosphere of economic uncertainty in the United States and in foreign markets. Our results may be impacted by the macroeconomic effects of those events. Also, a disruption in our supply chain as a result of terrorist attacks or the threat thereof may significantly affect our business and its prospects. In addition, such events may also result in heightened domestic security and higher costs for importing and exporting shipments of components and finished goods. Any of these occurrences may have a material adverse effect on our financial position, cash flow or results in any reporting period.

Unforeseen events. We cannot anticipate the impact of unforeseen events, including but not limited to war and pandemic disease, on economic conditions and consumer confidence in our business.

The risk factors described above are not intended to be all-inclusive. There can be no assurance that we have correctly identified and appropriately assessed all factors affecting our business or that the

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publicly available and other information with respect to these matters is complete and correct. Additional risks and uncertainties not presently known to us or that we currently believe to be immaterial also may adversely impact us. Should any risks and uncertainties develop into actual events, these developments could have a material adverse effect on our business, results of operations or financial position.

ITEM 1B. Unresolved Staff Comments

None

ITEM 2. Properties

Tools

Florida Pneumatic owns a 72,000 square foot plant facility located in Jupiter, Florida. Hy-Tech owns a 51,000 square foot facility which is located in Cranberry Township, Pennsylvania and leases a 10,000 square foot facility located in Punxsutawney, Pennsylvania. These properties are subject to mortgages.

Hardware

Countrywide owns a 56,250 square foot plant facility located in Tampa, Florida in which Nationwide conducts its business. Countrywide leases part of the facility to a non-affiliated tenant. The facility is subject to a mortgage. WMC leases approximately 523,000 square feet in Marion, Virginia. Such lease expires in 2027. WMC also leases two plant facilities from non-affiliated landlords. One facility is 55,000 square feet and is located in Plano, Texas and is subject to a lease which expires July 2011. The second facility is 17,500 square feet and is located in Austell, Georgia. This facility is subject to a lease expiring May 2010. Pacific Stair leased a 25,400 square foot warehouse located in Vista California from a non-affiliated landlord. The lease expired in July 2009. Each facility described above either provides adequate space for the operations of the respective subsidiary for the foreseeable future or can be modified or expanded to provide additional space.

Our executive offices of approximately 5,000 square feet are located in an office building in Melville, New York and are leased from a non-affiliated landlord with a lease term expiring in March 2013.

ITEM 3. Legal Proceedings

We are a defendant or co-defendant in various actions brought about in the ordinary course of conducting our business. We do not believe that any of these actions are material to our financial position.

ITEM 4. [Reserved]

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Our Class A Common Stock trades on the Nasdaq Global Market under the symbol PFIN. The range of the high and low closing sales prices for our Class A Common Stock during the last two years were as follows:

2009	High	Low
First Quarter	\$ 1.40	\$ 0.71
Second Quarter	2.21	0.95
Third Quarter	2.25	1.44
Fourth Quarter	3.20	2.15

2008	High	Low
First Quarter	\$ 7.26	\$ 5.39
Second Quarter	6.05	3.95
Third Quarter	4.16	2.06
Fourth Quarter	2.58	0.85

As of March 31, 2010, there were approximately 1,100 holders of record of our Class A Common Stock and the closing sale price of our stock as reported by the Nasdaq Global Market was \$2.65. We have not declared any cash dividends on its Class A Common Stock since its incorporation in 1963 and have no plans to declare any cash dividends in the foreseeable future.

Issuer Purchases of Equity Securities

On September 9, 2009, we publicly announced that our Board of Directors extended the time during which we may repurchase shares of our Class A Common Stock under our repurchase plan from September 30, 2009 to September 30, 2010. We did not repurchase any shares of our Class A Common Stock during 2009.

ITEM 6. Selected Financial Data

Not required.

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ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

OVERVIEW

We believe our overall financial results are indicative of the general United States ("U.S.") economy. Our consolidated 2009 revenue of \$72,585,000 reflects a decrease of \$15,071,000 compared to \$87,656,000 reported for 2008. In particular, our Hardware segment continues to suffer through a very low level of new home construction, which is a key driver to its revenue. This prolonged down-turn continues to adversely affect revenue and gross profit reported at WMC, and to a lesser extent, Nationwide.

In an effort to improve the overall results of our stair parts operation, we acquired, as of June 8, 2009, through a newly formed subsidiary, WMC, substantially all of the assets of one of our competitors in the stair parts business, Coffman Stairs, LLC. This transaction was executed in an attempt to take advantage of the synergies available by combining two large players in an industry at the bottom of its economic cycle with complementary distribution channels and operations.

Unfortunately, the combined operations were not able to achieve the revenue levels anticipated prior to the WMC transactions and, as a result, never produced positive cash flow. This caused a default on the loan agreement specific to WMC and the lender has agreed to forbear from taking certain actions, such as accelerating repayment of the loan, through August 31, 2010. The Company has undertaken a search for additional sources of capital and is considering an outright sale of WMC, among other alternatives. Neither P & F nor any of its subsidiaries other than WMC is a party to or a guarantor of any debt obligations of WMC. Primarily as the result of the aforementioned, at December 31, 2009, the Company wrote down the carrying value of the net assets of WMC by \$5,549,000, to reflect their fair value. On March 29, 2010, the Company's board of directors established a plan to sell, liquidate or otherwise dispose of its ownership of WMC. We do not anticipate any further write downs related to WMC regardless of the ultimate resolution of its situation.

During 2009, our Tools segment also continued to suffer as the result of the slowing general U.S. economy, as sales across all industrial product lines declined. Additionally, revenue at Florida Pneumatic decreased as the result of the loss of The Home Depot. The downturn has not affected product pricing or variable costs, but the revenue decrease has made it more difficult to cover fixed costs.

While major cost cutting efforts were put in place for the entire Company, including across the board layoffs, pay cuts, major benefit reductions and renegotiated vendor contracts, the Company was not able to reduce costs enough to cover the impact of the lower revenue and maintain gross margin or operating margin. The result was an operating loss, before impairment charges and change in contingent consideration, of \$4.0 million in 2009, compared to a \$2.8 million operating profit, excluding impairment charges, in 2008.

KEY INDICATORS

Economic Measures

While 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, a primary economic measure we monitor is housing starts. New home construction directly affects our stair parts business, and to some degree our Other Hardware business. As our Tools segment focuses on a wider array of customer types, it does not rely as much on specific economic measures or indicators. The Tools segment tends to track the general economic conditions of the United States, industrial production and general retail sales, all of which have, for the most part, trended downward during 2009, thus adversely impacting the financial performance of our Tools segment.

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Another key economic measure relevant to us is the cost of the raw materials in our products. Key materials include wood and metals, especially various types of steel and aluminum. Also important is the value of the dollar in relation to the Japanese yen ("yen") and the Taiwan dollar ("TWD"), as we purchase a significant portion of our products from these two countries. Purchases from Chinese sources are made in U.S. dollars. However, if the Chinese currency, the Renminbi ("RMB"), were to be revalued against the dollar, there could be a significant negative impact on the cost of our products.

Operating Measures

Key operating measures we use to manage our operating segments are: orders; shipments; development of new products; customer retention; inventory levels and productivity. These measures are recorded and monitored at various intervals, including daily, weekly and monthly. To the extent these measures are relevant; they are discussed in the detailed sections for each operating segment.

Financial Measures

Key financial measures we use to evaluate the results of our business include: various revenue metrics; gross margin; selling, general and administrative expenses; earnings before interest and taxes; operating cash flows and capital expenditures; return on sales; return on assets; days sales outstanding and inventory turns. These measures are reviewed at monthly, quarterly and annual intervals and compared to historical periods as well as established objectives. To the extent that these measures are relevant, they are discussed in the detailed sections for each operating segment.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

We prepare our consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. Certain of these accounting policies require us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and the related disclosure of contingent assets and liabilities, revenues and expenses. On an ongoing basis, we evaluate estimates, including those related to bad debts, inventory reserves, goodwill and intangible assets, warranty reserves and taxes. We base our estimates on historical data and experience, when available, and on various other assumptions that are believed to be reasonable under the circumstances, the combined results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. Our critical accounting policies are further described below.

Revenue Recognition

We recognize revenue when persuasive evidence of an arrangement exists, delivery has occurred or titled has passed to our customer or services have been provided, the sale price is fixed or determinable, and collectability is reasonably assured. We sell our goods on terms which transfer title and risk of loss at a specified location, typically shipping point, port of loading or port of discharge, depending on the final destination of the goods. Revenue recognition from product sales occurs when all factors are met, including transfer of title and risk of loss, which occurs either upon shipment by us or upon receipt by customers at the location specified in the terms of sale. Other than standard product warranty provisions, our sales arrangements provide for no other, post-shipment obligations. We do offer rebates and other sales incentives, promotional allowances or discounts, from time to time and for certain customers, typically related to customer purchase volume, all of which are fixed or determinable and are classified as a reduction of revenue and recorded at the time of sale. We periodically evaluate whether an allowance for sales returns is necessary. Historically, we have experienced little, if any, sales returns. If we believe there are potential sales returns, we would provide any necessary provision against sales.

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Accounts Receivable and Allowance for Doubtful Accounts

Senior management reviews accounts receivable on a monthly basis to determine if any receivables will potentially be uncollectible. Analysis of customer history, financial data and the overall economic environment is performed. In addition, balances outstanding for more than 60 days are evaluated for possible inclusion in the accounts receivable reserve. Collection agencies may also be utilized if management so determines.

We record an allowance for doubtful accounts based on specifically identified amounts that are believed to be uncollectible. We also may record as an additional allowance a certain percentage of aged accounts receivable, based on historical experience and our assessment of the general financial conditions affecting our customer base. If actual collection experience changes, revisions to the allowance may be required. We have a limited number of customers with individually large amounts due at any given balance sheet date. Any unanticipated change in the creditworthiness of any of these customers could have a material effect on our results of operations in the period in which such changes or events occur. After all reasonable attempts to collect an account receivable have failed, the amount of the receivable is written off against the allowance. Based on the information available, we believe that our allowance for doubtful accounts as of December 31, 2009 was adequate. However, actual write-offs might exceed the recorded allowance.

Inventories

Inventories are valued at the lower of cost or market. Cost is determined by the first-in, first-out method or the weighted average method. The inventory balance, which includes materials, labor and manufacturing overhead costs, is recorded net of an allowance for obsolete or unmarketable inventory. Such allowance is based upon both historical experience and management's understanding of market conditions and forecasts of future product demand. In addition, all items in inventory in excess of one year's usage are considered for inclusion in the calculation of inventory obsolescence. If the actual amount of obsolete or unmarketable inventory significantly exceeds the estimated allowance, our cost of sales, gross profit and net earnings would be significantly affected.

Goodwill and Other Intangible Assets

In accordance with authoritative guidance issued by the Financial Accounting Standards Board ("FASB") we test goodwill for impairment on an annual basis in the fourth quarter or more frequently if we believe indicators of impairment might exist. The evaluation of goodwill and other intangible assets requires that management prepare estimates of future operating results for each of our operating units. These estimates are made with respect to future business conditions and estimated expected future cash flows to determine estimated fair value. However, if, in the future, key drivers in our assumptions or estimates such as (i) a further material decline in the number of new housing starts; (ii) a material decline in general economic conditions; (iii) competitive pressures on our revenue or our ability to maintain margins; (iv) pricing from our vendors which cannot be passed through to our customers; (v) breakdowns in supply chain or other factors beyond our control occur, an impairment charge to our intangible assets may be required.

Income Taxes

The Company provides for deferred taxes on a liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carry-forwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than

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not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

The Company files a consolidated Federal tax return. P&F Industries, Inc. and certain of its subsidiaries file a combined tax return in New York State. All subsidiaries file other state and local tax returns on a stand-alone basis.

When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the accompanying balance sheets along with any associated interest and penalties that would be payable to the taxing authorities upon examination. Interest and penalties associated with unrecognized tax benefits are classified as income taxes in the statement of operations.

RESULTS OF OPERATIONS**2009 compared to 2008**

The table below presents our net revenue for the years presented.

	Year Ended December 31,		Variance	Variance
	2009	2008		
Tools				
Florida Pneumatic	\$ 23,819,000	\$ 30,275,000	\$ (6,456,000)	(21.3)%
Hy-Tech	13,997,000	19,303,000	(5,306,000)	(27.5)
Tools Total	37,816,000	49,578,000	(11,762,000)	(23.7)
Hardware				
Stair Parts	21,427,000	19,306,000	2,121,000	11.0
Other Hardware	13,342,000	18,772,000	(5,430,000)	(28.9)
Hardware Total	34,769,000	38,078,000	(3,309,000)	(8.7)
Consolidated	\$ 72,585,000	\$ 87,656,000	\$ (15,071,000)	(17.2)%

REVENUE*Tools*

During 2009, Florida Pneumatic's net revenue, as compared to 2008, was adversely impacted by the loss of The Home Depot, which accounted for approximately \$4,777,000, or 74% of the decrease. The weak, sluggish economy during 2009 is the primary cause for the decline in revenue of its industrial business from \$5,496,000 for the year ended December 31, 2008 to \$4,382,000 for the year ended December 31, 2009. The difficult economic climate further affected revenue at its Berkley, filters, and OEM lines as well, where revenue decreased from \$2,710,000 during 2008 to \$1,936,000 during the year ended December 31, 2009. Further, revenue of its Franklin products line declined \$536,000 from \$2,209,000 for the year ended December 31, 2008 to \$1,673,000 in 2009. Primarily due to a diminishing

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market and weakening margins, Florida Pneumatic decided to discontinue marketing the Franklin Products line effective December 31, 2009. The loss of Franklin revenue is projected to have minimal impact on Florida Pneumatic's overall results. However, we note that for the year ended December 31, 2009, revenue from its major retail customer improved \$783,000 or 5.4% over the prior year. We anticipate that revenue in 2010 at Florida Pneumatic will decrease compared to 2009 levels, however improved gross margins and operating efficiencies should negate the decline. However there can be no assurance of these projected outcomes. Given the current economic conditions, its relationships with its customer base remains good.

Hy-Tech, which focuses on the industrial sector of the pneumatic tools market, had not, until early 2009, been as materially affected by the decline in the overall economy. Although Hy-Tech has not lost any major customer, its revenue has been adversely impacted by the decline in both the domestic and global economy. A significant portion of Hy-Tech's decline in revenue was due to the fact that, while Hy-Tech itself generates limited international revenue, certain customers who market their purchases from Hy-Tech to their respective overseas customers, reduced their purchases, as the international downturn adversely impacted their business. Additionally, when comparing 2009 to 2008, a number of major customers began in early 2009 to reduce their respective inventories, resulting in a decline in Hy-Tech's 2009 total revenue. The result of the foregoing has been a decline in revenue, to \$13,997,000 recorded during 2009, from \$19,303,000 in 2008. We believe it is likely that Hy-Tech's revenue for 2010 will approximate the annualized revenue attained during the second half of 2009. Lastly, revenue from the remaining lines of business reported a net decrease during 2009 when compared to 2008, primarily due to general economic market conditions. Given the current economic conditions, its relationships with its customer base remains good.

Hardware

The key economic indicator for the Hardware segment, in particular the stair parts units, continues to be the reduced number of new homes constructed in the United States, as that industry remains in a prolonged decline. The segment is further impacted by the weak general economy in the United States. As a result, Hardware segment revenue decreased to \$34,769,000 for the year ended December 31, 2009 from \$38,079,000 during the same period in 2008. Specifically, as the result of the WMC transactions, in which P&F acquired the Coffman Stairs LLC business and merged it with the stair parts businesses of Woodmark, and PSP forming WMC effective June 8, 2009, our stair parts revenue increased by \$2,121,000. However, during the remainder of 2009, WMC continued to see a decline in the overall stairs market, with several customers either significantly reducing their purchases or no longer being in business. We do not believe that the decrease in revenue is due to pricing. Commencing in November 2009, WMC began to encounter significant cash flow issues and was forced to, among other things, delay payments to certain vendors, which in turn resulted in delays in receipt of goods.

Other Hardware revenue, which is comprised of revenue from the sale of fencing and gate hardware, kitchen and bath accessories, OEM products and patio hardware, continues to be adversely affected by, among other things, the general overall economic sluggishness, a diminishing recreational vehicle and modular home markets, the downward trend in new home construction, and competitive pressures. Within Other Hardware revenue, amounts from fencing and gate hardware, kitchen and bath, OEM and patio hardware during the year ended December 31, 2009 were \$7,173,000, \$3,031,000, \$2,367,000 and \$771,000, respectively, compared to \$10,029,000, \$4,725,000, \$2,982,000 and \$1,037,000, respectively, during the same period in the prior year. We believe the decrease is related to the weak general U.S. economy, as well as increased competitive pressures. We do not believe the decrease in revenue is due to pricing or service issues. Given the current economic conditions, we believe our relationships with our customer base remains good.

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	Year Ended December 31,		Change	
	2009	2008	Amount	%
Tools	\$ 11,423,000	\$ 16,448,000	\$ (5,025,000)	(30.6)%
As percent of respective revenue	30.2%	33.2%	(3.0)pts	
Hardware	\$ 6,691,000	\$ 10,467,000	\$ (3,776,000)	(36.1)%
As percent of respective revenue	19.2%	27.5%	(8.3)pts	
Consolidated	\$ 18,114,000	\$ 26,915,000	\$ (8,801,000)	(32.7)%
As percent of respective revenue	25.0%	30.7%	(5.7)pts	

Tools

Gross margins at our Tools segment for the twelve-month period ended December 31, 2009 decreased 3.0 percentage points from the same period in 2008. Florida Pneumatic's gross margin decrease (4.3 percentage points) is due primarily to the closeout of its Franklin products line and product mix. Hy-Tech encountered margin degradation as well (1.8 percentage points), primarily due to a slight decrease in manufacturing overhead absorption. Gross profit for this segment decreased \$5,025,000 as a result of the decrease in revenue and the drop in gross margin. We anticipate that gross margins at Hy-Tech will remain at or slightly below 2009's results for at least the first half of 2010. In an effort to improve its manufacturing overhead absorption, Hy-Tech is examining effective ways to reduce its cost of manufacturing, which we believe should result in lessening the impact of lower volume in future periods; however there can be no assurance this will be effective. On the other hand, we expect gross margins at Florida Pneumatic to improve slightly in 2010, primarily the result of improved product mix and pricing and the elimination of low margin product lines. Accordingly, we believe that gross margins for the Tools segment should remain at or slightly above those of 2009; however, there can be no assurance that events unknown to us at this time will not adversely affect the outcome.

Hardware

The gross margin for the Hardware segment, the stair parts business in particular, continues to be severely affected by the downturn in home construction. For 2009, the Hardware segment gross margin was 19.2%, reflecting a decrease of 8.3 percentage points when compared to 27.5% for the same period in the prior year. Gross profit for the Hardware segment decreased \$3,776,000 to \$6,691,000 reported for the year ended December 31, 2009 from \$10,467,000, for the same period in 2008. Specifically, gross margins for our stair parts business continues to be affected by further downturn of construction of new homes in the United States, as evidenced by the 36% reduction in new housing starts from a year ago. The WMC transactions were effective June 8, 2009. Coffman, which became part of the Company June 8, 2009, was a manufacturer and wholesaler primarily to major distributors in the stair parts industry, had historically generated gross margins that were lower than Woodmark's stair parts business. Additionally, due to the low number of new housing starts, the manufacturing facility in Marion, Virginia is operating at reduced output, thereby reduced efficiency, creating under-absorption of its overhead costs. This under absorption of overhead has continued to adversely impact the per unit cost of manufacturing, thus generating lower gross margin on the products manufactured. Additionally, the closing of our PSP operations during 2009 resulted in recognition of costs associated with inventory consolidation and liquidation, effectively generated a deficit in the gross margin calculation, and further eroded total gross margin for our stair parts business for the year ended December 31, 2009, to approximately 13.1%, compared to 23.4% for the same period in 2008. Gross margin for our Other Hardware business for the year ended December 31, 2009 of 33.1%, was down slightly from 34.4% for the year ended December 31, 2008. The gross margin decrease at our Other Hardware was primarily due to product mix, competitive pressures and lower absorption of warehouse costs.

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SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses ("SG&A") include salaries and related costs, commissions, travel, administrative facilities, communications costs and promotional expenses for our direct sales and marketing staff, administrative and executive salaries and related benefits, legal, accounting and other professional fees, as well as amortization and depreciation and general corporate overhead and certain engineering expenses.

SG&A for the year ended December 31, 2009 decreased to \$22,076,000 from \$24,114,000 in 2008, reflecting a reduction of \$2,038,000, or 8.5%. A portion of this reduction is the result of management's ongoing effort to reduce or control operating expenses wherever possible. It should be noted that for the year ended December 31, 2009, our consolidated SG&A included additional operating expenses resulting from the WMC transactions, which was effective June 8, 2009. Certain incremental costs incurred as the result of the WMC transactions are discussed below.

The most significant item affecting the decrease in SG&A was the reduction in total compensation and employee benefits of \$1,648,000, comprised of: (i) an "across the board" pay reduction program, which commenced in early 2009, (ii) staff reductions and (iii) the elimination of, or drastic reduction in, all employee benefits corporate wide. When comparing the years ending December 31, 2009 and 2008, factors contributing to the reduction in our SG&A include decreases in depreciation and amortization expenses of \$394,000, commissions of \$440,000, freight costs of \$293,000 and warranty related expenses of \$149,000. We reduced travel and entertainment and advertising costs by \$180,000 and \$176,000, respectively. During 2008 we recorded costs associated with the write down of certain equipment and severance in connection with the closure of light manufacturing operations performed at Florida Pneumatic, the non-occurrence of which in 2009 resulted in a decrease of expenses of approximately \$192,000. However, offsetting the above cost reductions, were one-time costs incurred in connection with the WMC transactions of \$742,000, including, but not limited to, legal, accounting and appraisal costs. Other areas that increased in 2009 compared to 2008, due primarily to the WMC transactions, were management fees and insurance costs, which increased by \$104,000 and \$111,000, respectively. Lastly, bad debt expense increased in 2009 compared to 2008 by \$317,000. We intend to continue to examine our operating expenses for further reductions, particularly during these difficult times.

IMPAIRMENT OF GOODWILL AND OTHER INTANGIBLE ASSETS

In accordance with the authoritative guidance pertaining to the determination of the fair value of goodwill and other intangible assets, as well as other information that came to light, the Company recorded an impairment charge of \$5,549,000 in connection with WMC during the fourth quarter of 2009. Throughout 2009, the United States was in the throes of a major downturn in the number of new homes being constructed. According to the U.S. Department of Commerce Census data, new single-unit housing completions were approximately 520,000, and 819,000 for 2009 and 2008, respectively, reflecting a 37% decrease in the number of new home construction starts. This decrease in annual single unit housing starts has resulted in a decrease in the value of our Hardware segment, in particular WMC. As a result, we were unable to demonstrate an ability to generate sufficient undiscounted future cash flows to support the recorded amounts of goodwill and other intangible assets related to WMC, thus necessitating an impairment charge. If the business sectors in which our subsidiaries operate experience a further weakening of we could incur additional impairment charges in future periods. We recorded an impairment charge of \$7,477,000 relating to goodwill and other intangible assets during the fourth quarter of 2008, related to the Hardware segment.

INTEREST NET

Our interest expense for the year ended December 31, 2009 was \$1,918,000, \$149,000 higher than the year ended December 31, 2008 amount of \$1,769,000. As part of the March 30, 2009 amendment to

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the credit agreement, the banks converted the two existing term loans totaling \$13,200,000 into one new term loan in the amount of \$7,116,000, with the balance of \$6,084,000 added to the revolving credit loan facility. This action resulted in increasing the revolving credit facility thus increasing the interest expense associated thereto. Interest expense incurred on our revolving credit facility for the year ended December 31, 2009 was \$766,000, an increase of \$94,000, compared to \$672,000 incurred in 2008. Interest expense incurred on the term-loan facility decreased \$483,000, to \$379,000 for the year ended December 31, 2009, from \$862,000 in 2008, primarily due to the restructuring. As the result of the WMC transactions, interest expense increased approximately \$571,000, of which \$282,000 is additional interest expense incurred on WMC's short-term borrowing, \$145,000 is interest expense accrued on the notes payable to Visador and \$135,000 is due to the adjusting of the fair value of the contingent consideration obligation associated with the WMC transactions.

It is likely that, as the result of the WMC transactions, we will continue to see interest expense increase as we have additional bank debt as well as interest on the \$3,972,000 promissory note payable to Visador. Additionally, we will record as either interest expense or interest income as may be required, to record any adjustment to the fair value of the remaining contingent consideration. As the result of the arrangement entered into earlier in 2009 to extend the payment terms of the contingent consideration owed to the sellers of Hy-Tech, we incurred interest expense of \$56,000 during 2009. Interest expense on trade payables financed with overseas suppliers at Florida Pneumatic decreased approximately \$85,000, primarily the result of changes in both certain overseas vendors and, in some cases, vendor payment terms.

INCOME TAX EXPENSE (BENEFIT)

The effective income tax rate for the year ended December 31, 2009 and 2008 was 15.7% and (33.4)%, respectively. Although the Company had a pre-tax loss, adjustments to its valuation allowance on certain deferred tax assets in 2009, effectively increased the tax provision, thereby creating a tax expense. The adjustment to the deferred tax asset valuation allowance was approximately \$3,663,000.

LIQUIDITY AND CAPITAL RESOURCES

Our cash flows from operations can be somewhat cyclical, typically with the greatest demand in the second and third quarters followed by positive cash flows in the fourth quarter as receivables and inventories trend down. We monitor average days sales outstanding, inventory turns and capital expenditures to project liquidity needs and evaluate return on assets employed. Our primary sources of funds are cash available through a credit agreement with two banks, a loan agreement with a third bank and cash generated from operations.

We gauge our liquidity and financial stability by the measurements shown in the following table:

	December 31,	
	2009	2008
Working capital	\$ 8,664,000	\$ 16,492,000
Current ratio	1.25 to 1	1.61 to 1
Shareholders' equity	\$ 25,615,000	\$ 33,867,000

The Company and its subsidiaries, except WMC, as co-borrowers, entered into a Credit Agreement, ("Credit Agreement") as amended, with two banks ("banks") in 2004. In March 2009, the banks amended the Credit Agreement to among other things increase the revolving credit loan facility, to a maximum of \$22,000,000 for direct borrowings, with various sublimits for letters of credit, bankers' acceptances and equipment loans. There are no commitment fees for any unused portion of this Credit Agreement. The revolving credit loan facility within the Credit Agreement, as amended, expired March 30, 2010 and was subject to annual review by the lending banks. Direct borrowings under the

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revolving credit loan facility are secured by the Company's accounts receivable, inventory, equipment and real property and are cross-guaranteed by each of the Company's subsidiaries, except WMC. These borrowings bear interest at LIBOR (London InterBank Offered Rate) plus the currently applicable loan margin, or the prime interest rate. The loan margins added to LIBOR were 4.25% and 2.00% at December 31, 2009 and 2008, respectively, and the loan margin added to the prime interest rate at both December 31, 2009 and 2008 was 2.5%. At December 31, 2009 and 2008, the balances outstanding on the revolving credit loan facility were \$16,300,000 and \$15,000,000, respectively. See Note 15 to the consolidated financial statements for further discuss of bank arrangements subsequent to December 31, 2009.

On June 10, 2009, the banks, in connection with the WMC transactions (see Note 2 to the consolidated financial statements), entered into a new Amendment to the Credit Agreement which, among other things, released certain collateral contemporaneous with the Company remitting the respective advanced funds associated thereto, lowered the maximum eligible inventory, and increased the applicable loan margins on the Company's revolving credit loan facility to 2.00% with respect to prime rate loans and 3.75% with respect to LIBOR loans as well as resetting the applicable term loan margins to 2.00% and 4.00%, respectively, for prime rate and LIBOR loans. Additionally, as certain collateral was released by the banks in connection with the WMC transactions, this amendment reduced certain components of the collateral base as well as established the maximum amount available under the terms of this revolving credit loan facility to \$20,700,000 as of the effective date of the Amendment, and \$19,400,000 as of August 31, 2009.

Under the terms of the Credit Agreement the Company is required to adhere to certain financial covenants. In August 2009, the banks issued a waiver and amendment to the related credit facility for non-compliance with certain financial covenants as of June 30, 2009. As part of the waiver and amendment, the banks, among other things, increased the applicable loan margins on both the revolving credit and term loan portions of the Credit Agreement by 50 basis points. Thus, the applicable revolving credit loan margin rates are, effective with this amendment, 2.50% for borrowings at the Prime Rate and 4.25% for any borrowings taken at LIBOR. The applicable term loan margin is now 2.5% for any portion of the term loan at Prime Rate and 4.5% for any portion taken at LIBOR. Further, as part of the waiver and amendment, the Company was required to adhere to certain financial covenants for the months of July, August and September 2009. At September 30, 2009, the Company was not in compliance with financial covenants set forth in the August 2009 amendment and the amendment dated June 10, 2009. The Company and the banks executed and delivered a letter agreement dated November 2, 2009 relating to the credit agreement which reduced the maximum amount the Company may borrow under the revolving credit portion to \$17,500,000.

At December 31, 2009, the Company remained out of compliance with the financial covenants set forth in the amendment dated June 10, 2009 and the amendment of August 2009, discussed above. On January 22, 2010, the Company received a letter from the banks expressly reserving their rights and remedies arising from these defaults. Effective on the date of this letter, the banks, among other things, added 2% default interest to the applicable loan margins. On April 23, 2010, the Company and the banks executed a waiver and amendment which, among other things, extended the termination date of the revolving credit loan portion of the Credit Agreement facility to January 1, 2011 and waived all then existing defaults. The waiver and amendment sets new financial covenants and adjusts the borrowing base calculation as well as reduces the size of the facility from \$17,500,000 to \$16,500,000. In addition, it requires that all future advances shall be subject to the requirement that the aggregate amount advanced after giving effect to any such future advances be at least \$750,000 less than the aggregate lendable value in eligible borrowing base assets. Finally, the banks required an advance of \$750,000, which, in the aggregate was received from its Chief Executive Officer, President and Chairman of the Board of Directors, ("CEO"), and another unrelated party. See Note 15 for further discussion.

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In connection with the WMC transactions, WMC entered into the WMC Loan Agreement, ("Loan Agreement") with PNC, which is due to expire on June 8, 2012. Neither the Company nor any other subsidiary is a co-borrower or a guarantor to this Loan Agreement. The Loan Agreement provides a maximum loan amount of \$12,000,000, of which \$1,134,000 was established as a term loan and the balance of \$10,866,000 was the maximum revolving advance amount. The Loan Agreement is collateralized by the accounts receivable, inventory, equipment, and general intangibles of WMC. The revolving advances made against the Loan Agreement will bear interest based upon either the Eurodollar Rate Loans plus 3.50%, or at Domestic Rate Loans plus 2.50%. Domestic Rate Loans are advances at a rate of interest per annum equal to the highest of (i) the Base Rate in effect on such day, (ii) the Federal Funds Open Rate in effect on such day plus 1/2 of 1%, (iii) the Daily LIBOR plus 1%, and (iv) three hundred fifty basis points (3.50%). At December 31, 2009 the balance outstanding on the revolving advance was \$4,382,000 and the interest rate applied was 8.0%

At September 30, 2009, WMC was not in compliance with certain financial covenants associated with the Loan Agreement with PNC. As a result of this non-compliance, WMC is required to pay an additional interest rate default premium of 2.00% on the entire Loan Agreement. Pursuant to certain requirements in the Loan Agreement with PNC, WMC requested and received from the Company's CEO two letters of credit, each in the amount of \$145,000 with PNC as the beneficiary. Per the Loan Agreement, the letters of credit may be drawn against, should WMC's availability related to the revolving credit portion of the Loan Agreement fall below a certain threshold. On November 19, 2010, both the first and second letters of credit were drawn upon by PNC. As a result, WMC issued to the Company's CEO two notes payable aggregating \$290,000, bearing interest at the rate of six and one half percent (6.5%) from the date of the letter of credit note to its maturity. Subsequently, the CEO sold his notes to an unaffiliated third party, a vendor of WMC.

At December 31, 2009, WMC was not in compliance with certain financial covenants of the Loan Agreement. This caused a default on the loan agreement specific to WMC and PNC, pursuant to a forbearance agreement dated February 22, 2010, agreed to forbear from taking certain actions, such as accelerating repayment of the loan, through August 31, 2010. The forbearance agreement set new financial covenants and adjusted the borrowing base calculation as well as reduced the maximum amount the Company could borrow under the revolver from \$10,866,000 to \$7,000,000. Per the forbearance agreement, the bank required WMC to obtain additional funding of \$250,000. This funding was made by the Company's CEO and a trust controlled by the president of Countrywide Hardware. In return, PNC agreed to reduce a block that applied to the revolving loan by \$350,000. See further discussion regarding the WMC transactions and the current status of WMC in the "Overview."

The Company's Credit Agreement with the banks also included a term loan facility, which provided a maximum commitment of \$34,000,000 to finance acquisitions subject to the approval of the lending banks. Borrowings under the term loan facility were secured by the Company's accounts receivable, inventories, equipment and real property, and were cross-guaranteed by each of the Company's subsidiaries other than WMC. These borrowings bore interest at either LIBOR or the prime interest rate, plus the currently applicable loan margin. One of these term loans, in connection with the acquisition of Hy-Tech in February 2007, had a balance of \$7,560,000 outstanding at December 31, 2008 and required quarterly principal payments of \$360,000. The second term loan, in connection with the 2004 acquisition of Woodmark, had a balance of \$6,000,000 outstanding at December 31, 2008 and required quarterly principal payments of \$950,000.

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On March 30, 2009, the Company's Credit Agreement was renewed through March 30, 2012. In conjunction with this renewal, the Credit Agreement was amended, to replace the two existing term loans, with a combined balance of \$13,200,000 outstanding, with a single term loan of \$7,116,000, to be amortized monthly over a four-year period with a balloon payment after the third year. The difference between the two amounts, \$6,084,000, was added to the Company's revolving credit facility. The new term loan, requires monthly principal payments of \$148,250, and the total annual payments of approximately \$1,780,000 due on this loan are significantly lower than the total annual payments of approximately \$5,240,000 due on the previous term loans. The new term loan is secured by second mortgages on the Company's properties in Jupiter, Florida and Tampa, Florida and a first mortgage on the Company's property in Cranberry Township, Pennsylvania.

Countrywide is a party to a loan agreement with Wachovia Bank, which is secured by a mortgage with respect to the real property owned by Countrywide and utilized by Nationwide. Countrywide did not make the final "balloon" payment that was due on September 21, 2009, and currently owes Wachovia approximately \$1,091,000 under the Countrywide loan agreement which is reflected in current liabilities. As a result of the non-payment, cross-default provisions set forth in the loan agreement between Florida Pneumatic and Wachovia, secured by a mortgage with respect to the real property owned and utilized by Florida Pneumatic, were triggered. On February 24, 2010, the Company entered into a Loan Modification Agreement extending the maturity date of the Countrywide loan agreement to June 1, 2010 in return for, among other items, the monthly principal payments of \$11,244 per month plus accrued interest beginning on March 24, 2010. On April 22, 2010 the Company and Wachovia entered into a Loan Modification Agreement, wherein the Company agreed to prepay \$150,000 toward the balance due on the loan agreement, in exchange for an extension until January 1, 2011 of the remaining balance.

In connection with the acquisition of Hy-Tech, we agreed to make additional payments ("Contingent Consideration") to the sellers. The amount of the Contingent Consideration is to be based on a percentage of the average increase in earnings before interest, taxes, depreciation and amortization ("EBITDA") over a two-year period from the date of acquisition, February 12, 2007, over a base year EBITDA of \$4,473,000. In addition, we agreed to make an additional payment ("Additional Contingent Consideration"), subject to certain conditions related to an exclusive supply agreement with a major customer and to a certain extent and subject to certain provisions, the achievement of Contingent Consideration. The maximum amount of Additional Contingent Consideration may not exceed \$1,900,000. Hy-Tech successfully achieved the required thresholds necessary to be entitled to both the Contingent Consideration and the Additional Contingent Consideration. The total amount of the Contingent Consideration and the Additional Contingent Consideration is \$2,362,000 and was recorded as goodwill. According to the agreement, the amounts due the sellers were payable in May 2009. However, we and the sellers agreed upon a payment arrangement wherein we paid approximately \$573,000 in May 2009 with the balance of approximately \$1,719,000 to be paid in six equal payments incurring interest at 6.0% per annum, payable quarterly commencing in August 2009. The August and November 2009 installment payments with interest were paid timely. Due to the default on the Credit Agreement these payments are suspended until the banks are paid in full.

The foreign exchange line provides for the availability of up to \$10,000,000 in foreign currency forward contracts. These contracts fix the exchange rate on future purchases of Japanese yen needed for payments to foreign suppliers. The total amount of foreign currency forward contracts outstanding under the foreign exchange line at December 31, 2009, based on that day's closing spot rate, was approximately \$11,000.

We believe we will be able to fund our current working capital needs, interest and debt servicing payments over the next twelve months with cash on hand and cash generated from operations, supplemented by borrowings available under the loan agreements from the banks and potentially available elsewhere, such as vendor financing. However, the Company continues to seek alternative

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sources of funding that may be more flexible. For example, the Company is attempting to obtain new first mortgages on its three properties to replace the current mortgages and the bank's term note. In addition, the Company is in discussions with several lenders regarding a new revolving line of credit as well as a term loan secured by the Company's machinery and equipment. The goal of these activities is to enhance the Company's access to capital as well as cash flow.

With respect to WMC, the Company believes that PNC may not provide credit beyond the August 31, 2010 expiration of the forbearance agreement. Due in large part to the forgoing, on March 29, 2010, the Company's board of directors established a plan to sell, liquidate or otherwise dispose of its ownership of WMC.

Our cash balance at December 31, 2009 of \$599,000 reflects a decrease of \$444,000 from \$1,043,000 at December 31, 2008. Our total borrowings increased \$5,289,000 to \$35,833,000 from \$30,544,000 at December 31, 2008, due primarily to increases in revolving loans as a result of the WMC transactions. Cash provided by operating activities for the years ended December 31, 2009 and 2008 were approximately \$7,562,000 and \$4,019,000, respectively. We believe that cash on hand derived from operations and cash available through borrowings under our credit facilities will be sufficient to allow us to meet our working capital needs for at least the next twelve months.

The percent of debt to total book capitalization (debt plus equity) increased 11.0% to 58.4% at December 31, 2009, from 47.4% at December 31, 2008.

Capital spending increased to \$1,688,000 during the year ended December 31, 2009; an increase of \$929,000 or 122% compared to \$759,000 in 2008. Capital expenditures currently planned for 2010 are expected to approximate \$400,000, some of which may be financed through our credit facilities. The majority of the projected 2010 capital expenditures will relate to tooling required for new product development.

OFF-BALANCE SHEET ARRANGEMENTS

Our foreign exchange line provides for the availability of up to \$10,000,000 in foreign currency forward contracts. These contracts fix the exchange rate on future purchases of foreign currencies needed for payments to foreign suppliers. We have not purchased forward contracts on New Taiwan Dollars ("TWD"). The total amount of foreign currency forward contracts outstanding under the foreign exchange line at December 31, 2009, based on that day's closing spot rate, was approximately \$11,000.

Florida Pneumatic imports approximately 5% of its purchases from Japan, with payment due in Japanese yen. As a result, we are subject to the effects of foreign currency exchange fluctuations. We use a variety of techniques to protect ourselves from any adverse effects from these fluctuations, obtaining price reductions from our overseas suppliers, using alternative supplier sources, increasing selling prices, when possible and entering into foreign currency forward contracts.

IMPACT OF INFLATION

We believe that the effects of changing prices and inflation on our financial position and its results of operations are immaterial.

ENVIRONMENTAL MATTERS

Although it is difficult to identify precisely the portion of capital expenditures or other costs attributable to compliance with environmental laws and regulations, we do not expect such expenditures or other costs to have a material adverse effect on our consolidated financial position and its results of operations.

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NEW ACCOUNTING PRONOUNCEMENTS

Recently Adopted Accounting Standards

In August 2009, the FASB issued authoritative guidance to provide clarification on measuring liabilities at fair value when a quoted price in an active market is not available. In these circumstances, a valuation technique should be applied that uses either the quote of the liability when traded as an asset, the quoted prices for similar liabilities or similar liabilities when traded as assets, or another valuation technique consistent with existing fair value measurement guidance, such as an income approach or a market approach. The new guidance also clarifies that when estimating the fair value of a liability, a reporting entity is not required to include a separate input or adjustment to other inputs relating to the existence of a restriction that prevents the transfer of the liability. This guidance became effective for the year ended December 31, 2009, and did not have an impact on the Company's consolidated financial statements.

In June 2009, the FASB established the FASB Accounting Standards Codification (the "Codification") as the single source of authoritative U.S. generally accepted accounting principles ("U.S. GAAP") recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the United States Securities and Exchange Commission ("SEC") under authority of federal securities laws are also sources of authoritative U.S. GAAP for SEC registrants. The Codification did not have a material impact on the Company's consolidated financial statements upon adoption. Accordingly, the Company's notes to consolidated financial statements will explain accounting concepts rather than cite the topics of specific U.S. GAAP.

In April 2009, the FASB issued authoritative guidance that principally requires publicly traded companies to provide disclosures about fair value of financial instruments in interim financial information. The adoption of this disclosure-only guidance is included in Note 3 Fair Value Measurements and did not have an impact on the Company's consolidated financial results.

In April 2009, the FASB issued authoritative guidance to require that assets acquired and liabilities assumed in a business combination that arise from contingencies be recognized at fair value if fair value can be reasonably determined. If the fair value of such assets or liabilities cannot be reasonably determined, then they would generally be recognized in accordance with certain other pre-existing accounting standards. This guidance also amends the subsequent accounting for assets and liabilities arising from contingencies in a business combination and certain other disclosure requirements. This guidance became effective for assets or liabilities arising from contingencies in business combinations that are consummated on or after January 1, 2009 and did not have an impact on the Company's consolidated financial statements.

In April 2008, the FASB issued authoritative guidance to amend the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset and to require additional disclosures. The guidance for determining useful lives must be applied prospectively to intangible assets acquired after the effective date. The disclosure requirements must be applied prospectively to all intangible assets recognized as of the effective date. This guidance became effective for fiscal years, and interim periods within those fiscal years, beginning in the Company's fiscal 2009 and did not have a material impact on the Company's consolidated financial statements.

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

ITEM 7A. Quantitative and Qualitative Disclosures About Market Risk

Not Required

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ITEM 8. Financial Statements

P&F INDUSTRIES, INC. AND SUBSIDIARIES

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors
P&F Industries, Inc.

We have audited the accompanying consolidated balance sheets of P&F Industries, Inc. and Subsidiaries (the "Company") as of December 31, 2009 and 2008, and the related consolidated statements of operations, shareholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of P&F Industries, Inc. and Subsidiaries as of December 31, 2009 and 2008, and their consolidated results of operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

/s/ J.H. Cohn LLP
Jericho, New York
April 26, 2010

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

	December 31,	
	2009	2008
ASSETS		
CURRENT		
Cash	\$ 599,000	\$ 1,043,000
Accounts receivable net	9,669,000	8,507,000
Notes and other receivables	157,000	72,000
Inventories net	27,665,000	31,286,000
Deferred income taxes net	670,000	1,584,000
Income tax refund receivable	3,270,000	327,000
Prepaid expenses and other current assets	1,068,000	918,000
TOTAL CURRENT ASSETS	43,098,000	43,737,000
PROPERTY AND EQUIPMENT		
Land	1,550,000	1,550,000
Buildings and improvements	7,642,000	7,637,000
Machinery and equipment	19,473,000	15,567,000
	28,665,000	24,754,000
Less accumulated depreciation and amortization	13,060,000	11,232,000
NET PROPERTY AND EQUIPMENT	15,605,000	13,522,000
GOODWILL	5,150,000	4,183,000
OTHER INTANGIBLE ASSETS net	3,866,000	3,121,000
DEFERRED INCOME TAXES net	1,437,000	5,424,000
OTHER ASSETS net	262,000	485,000
TOTAL ASSETS	\$ 69,418,000	\$ 70,472,000
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Short-term borrowings	\$ 20,682,000	\$ 15,000,000
Accounts payable	3,514,000	1,961,000
Accrued compensation	695,000	913,000
Other accrued liabilities	3,442,000	2,856,000
Current maturities of long-term debt	6,101,000	6,515,000
TOTAL CURRENT LIABILITIES	34,434,000	27,245,000
LONG-TERM DEBT, less current maturities	9,050,000	9,029,000
OTHER LONG-TERM LIABILITIES	319,000	331,000
TOTAL LIABILITIES	43,803,000	36,605,000
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY		
Preferred stock \$10 par; authorized 2,000,000 shares; no shares outstanding		
Common stock		
Class A \$1 par; authorized 7,000,000 shares; issued 3,956,000 shares	3,956,000	3,956,000
Class B \$1 par; authorized 2,000,000 shares; no shares issued		
Additional paid-in capital	10,615,000	10,407,000

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Retained earnings	13,999,000	22,459,000
Treasury stock, at cost (342,000 shares)	(2,955,000)	(2,955,000)
TOTAL SHAREHOLDERS' EQUITY	25,615,000	33,867,000
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 69,418,000	\$ 70,472,000

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents**P&F INDUSTRIES, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF OPERATIONS**

	Years Ended December 31,	
	2009	2008
Net revenue	\$ 72,585,000	\$ 87,656,000
Cost of sales	54,471,000	60,741,000
Gross profit	18,114,000	26,915,000
Selling, general and administrative expenses	22,076,000	24,114,000
Impairment of goodwill and other intangible assets	5,549,000	7,477,000
Operating loss	(9,511,000)	(4,676,000)
Interest expense net	1,918,000	1,769,000
Change in fair value of contingent consideration	(4,118,000)	
Loss before income taxes	(7,311,000)	(6,445,000)
Income tax expense (benefit)	1,149,000	(2,147,000)
Net loss	\$ (8,460,000)	\$ (4,298,000)
Loss per common share:		
Basic and diluted	\$ (2.34)	