

P&F INDUSTRIES INC
Form 10-K
March 31, 2015

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, 2014

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 11747

(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:

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| (Title of each class) | (Name of each exchange on which registered) |
|--|---|
| Class A Common Stock, \$1.00 par value | 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 ☒

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 <input type="checkbox"/> | Non-accelerated filer <input type="checkbox"/> | Smaller reporting company <input checked="" type="checkbox"/> |
| Accelerated filer <input type="checkbox"/> | (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, 2014 (the last business day of the registrant's most recently completed second fiscal quarter), was approximately \$29,741,000

As of March 27, 2015 there were 3,592,370 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 2015 Annual Meeting of Stockholders.

P&F INDUSTRIES, INC.

FORM 10-K

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2014

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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 within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 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, such as this Annual Report on Form 10-K (“Report”), and in its reports to stockholders. Any statements made in the Report that are not historical facts may be deemed to be forward looking statements. Generally, the inclusion of the words “believe,” “expect,” “intend,” “estimate,” “anticipate,” “will,” “may,” “would,” “could” their opposites and similar expressions identify statements that constitute “forward looking statements” within the meaning of the Reform Act. 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 risk factors described in this Report, 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

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 the assets of Air Tool Service Company (“ATSCO”), through a wholly-owned subsidiary of Hy-Tech, and unless otherwise indicated, the operations and results of operations of Hy-Tech herein include ATSCO as of the date the business was acquired.

Florida Pneumatic

Florida Pneumatic imports and sells pneumatic hand tools, most of which are of its own design, primarily to 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 more commonly referred to, generally are less expensive to operate, offer better performance and weigh less than their electrical counterparts. 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”, “Universal Tool,” AIRCAT or NITROCAT, as well as under the trade names or trademarks of several private label customers. These products are sold to retailers, distributors, 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 2014, Florida Pneumatic purchased approximately 46% of its pneumatic tools from China, 53% from Taiwan and 1% from Japan and Europe. Florida Pneumatic performs final assembly on certain of its pneumatic tools at its factory in Jupiter, Florida.

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. Florida Pneumatic also assembles and markets a line of compressor air filters, for which it imports components from Mexico.

There are redundant supply sources for nearly all products purchased.

The primary competitive factors in the industrial pneumatic tool market are quality, breadth and availability of products, customer service and technical support. 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. Florida Pneumatic’s products are sold off the shelf. Florida Pneumatic’s retail business generally tends to peak during late summer and early fall, whereas all other markets are not seasonal.

On July 1, 2014, Florida Pneumatic acquired ETI, a developer and distributor of pneumatic tools, through a merger between a newly formed, wholly-owned subsidiary of Florida Pneumatic and ETI. As a result, Florida Pneumatic now markets and distributes the AIRCAT and NITROCAT brand of pneumatic tools. These tools are sold primarily to the automotive market. Immediately after the completion of the acquisition, ETI’s business was relocated into and began operating out of the Jupiter, Florida facility.

On July 29, 2014, Florida Pneumatic acquired all of the outstanding shares of UAT, a distributor of pneumatic tools. UAT, located in High Wycombe, England, markets pneumatic tools to the automotive market sector primarily in the United Kingdom and Ireland. This acquisition provides the Company with direct entry into the European pneumatic tool market for the Company’s entire suite of air tool products.

Hy-Tech

Hy-Tech manufactures and distributes its own line of industrial pneumatic tools and parts under the “ATP” brand. Under the ATP brand, Hy-Tech produces and sells over sixty types of pneumatic tools, which include impact wrenches, grinders, drills, and motors that are sold at prices ranging from \$450 to \$28,000. Further, it also manufactures tools to customer unique specifications. Users of ATP parts and tools include refineries, chemical plants, power generation facilities, heavy construction enterprises, and oil and mining companies. In addition, Hy-Tech manufactures an extensive line of pneumatic tool replacement parts that are sold to original equipment manufacturers (“OEMs”), as well as competitively. It also manufactures and distributes high pressure stoppers for hydrostatic testing of fabricated pipe under the “Thaxton” brand name. It also produces a line of siphons under the “Eureka” name. Other than a line of sockets sold under the “OZAT” brand name that are imported from Israel, all Hy-Tech products are made in the United States of America.

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. Following a transition period that lasted into the first quarter of 2015, all ATSCO products are manufactured in Cranberry, PA.

Hy-Tech products are sold through its in-house sales force as well as manufacturer representatives. Hy-Tech’s products are sold off the shelf and also are produced to customer’s specifications.

The business is not seasonal but may be subject to periodic schedule changes in refineries, power generation and chemical plants. The primary competitive factors in the industrial pneumatic tool market are quality, breadth and availability of products, customer service and technical support.

Hardware

We conduct our 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

Nationwide is a developer, importer, and manufacturer of fencing hardware, patio products, and door and window accessories including rollers, hinges, window operators, sash locks, custom zinc castings and door closers. Nationwide's products are sold through in-house sales personnel and independent manufacturers' representatives to distributors, dealers, retailers and OEM customers. End users of Nationwide's products include contractors, home builders, pool and patio enclosure contractors, plumbers, OEM/private label customers and general consumers. Nationwide currently out-sources the manufacturing of approximately 98% of its product with several overseas factories located in China and Taiwan, while retaining design, quality control, and patent and trademark control. There are redundant supply sources for most products. Nationwide manufactures approximately 2% of its products sold including rollers, hinges and pool enclosure products at its facility in Tampa, Florida. Nationwide also provides value-add services for the entire product line with local packaging, kitting, rework and fabrication operations performed in its Tampa location.

Nationwide's sales are moderately seasonal, with revenues typically increasing with home construction and remodeling activity, which generally occurs during the spring and summer months. The majority of Nationwide's products are sold off the shelf. The primary competitive factors affecting Nationwide are quality, breadth of products and availability of products, customer service and technical support. Its products are sold off the shelf.

Nationwide marketed a Kitchen and Bath product line. However, in November 2013, it sold to an unrelated third party, all inventory, intangibles and certain fixed assets attributable to its Kitchen and Bath product line.

Patents, Trademarks and Other Intellectual Property

The Company holds several patents, trademarks, and copyrights of various durations, and it believes that it holds or licenses all of the patent, trademark, copyright, and other intellectual property rights necessary to conduct our business. The Company relies upon patents, copyrights, trademarks, and trade secret laws to establish and maintain our proprietary rights in many of our products. There can be no assurance that any of its patents, trademarks or other intellectual property rights will not be challenged, invalidated, or circumvented, or that any rights granted thereunder will provide competitive advantages to it. In addition, there can be no assurance that patents will be issued from pending patent applications filed by the Company, or that claims allowed on any future patents will be sufficiently broad to protect our technology or designs. Further, the laws of some foreign countries may not permit the protection of our proprietary rights to the same extent as do the laws of the United States.

Customers

Within our Tools group we have two customers that in 2014 accounted for 12.2% and 23.1% of the Company's revenue. In 2013, these two customers accounted for 15.3% and 24.7% of the Company's revenue. There is no customer in our Hardware group that accounted for 10% or more of the Company's 2014 or 2013 revenue.

Information Available on the Company's Website

Additional information regarding the Company and its products is available on the Company's website at www.pfina.com. In addition, the Company's (i) charters for the Audit, of the Lead Director, Compensation, Corporate Governance and Nominating, and Strategic Planning and Risk Assessment Committees of the company's Board of Directors; and (ii) Code of Business Conduct and Ethics are available on the Company's website. P&F is not including the information contained on its website as a part of, or incorporating it by reference into, this Annual Report on Form 10-K. P&F's Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Proxy Statements on Schedule 14A and Current Reports on Form 8-K, as well as any amendments to those reports, are made available to the public at no charge, other than an investor's own internet access charges, through the "SEC Filings" section of the Company's website. The Company makes such material available on its website as soon as reasonably practicable after it electronically files such material with, or furnishes it to, the Securities and Exchange Commission ("SEC"). Copies of any materials the Company files with the SEC can also be obtained free of charge through the SEC's website at www.sec.gov. The SEC's Public Reference Room can be contacted at 100 F Street, N.E., Washington, D.C. 20549, or by calling 1-800-732-0330. The information on the Company's website is not, and should not be considered, part of this Annual Report on Form 10-K and is not incorporated by reference to this report.

Employees

The Company employed 163 full-time employees as of December 31, 2014. At various times during the year our operating units may employ seasonal or part-time help, as necessary. None of the Company's employees are represented by a union.

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 elsewhere in this report, the following factors, among others, could adversely affect our business, including our results of operations or financial position:

Substantial debt and debt service requirements. 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.

Borrowing and compliance with covenants under our credit facility. Our credit facility contains affirmative and negative covenants including financial covenants, and default provisions. A breach of any of these covenants could result in a default under our credit agreement. Upon the occurrence of an event of default under our current credit agreement, the lenders could elect to declare all amounts outstanding to be immediately due and payable and terminate all commitments to extend further credit. If the lenders were to accelerate the repayment of borrowings, we may not have sufficient assets to repay our asset based credit facility and our other indebtedness. Also, should there be an event of default, or a need to obtain waivers following an event of default, we may be subject to higher borrowing costs and/or more restrictive covenants in future periods. Further, the amount available for borrowing under our asset-based revolving loan facility is subject to a borrowing base, which is determined taking into account, among other things, our accounts receivable, inventory and machinery and equipment. Fluctuations in our borrowing base impact our ability to borrow funds pursuant to the revolving loan facility.

Significant volatility and disruption in the global capital and credit markets. Volatility in the global capital and credit markets has in recent years 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 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 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.

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The strength of the retail economy in the United States and abroad. Our business is subject to economic conditions in major markets in which we operate, including recession, inflation, deflation, general weakness in retail, industrial, and housing markets, as well as the exposure to liabilities under anti-corruption laws in various countries, such as the U.S. Foreign Corrupt Practices Act, currency instability, transportation delays or interruptions, sovereign debt uncertainties and difficulties in enforcement of contract and intellectual property rights, as well as natural disasters. The strength of such markets is a function of many factors beyond our control, including interest rates, employment levels, availability of credit and consumer confidence.

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 or their inability to obtain raw materials due to shortages or other factors, may result in delays or non-delivery of shipments of our products. Additionally, material increases in raw material commodity prices could further adversely affect our results of operations and financial position; 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 most 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.

Our ability to maintain mutually beneficial relationships with key customers. We have several key customers, two of which collectively accounted for approximately 35.3% of our 2014 consolidated revenue. Loss of key customers or a material negative change in our relationships with our key customers (including as a result of a negative change in the financial position of such key customers) could have a material adverse effect on our business, results of operations or financial position.

Adverse changes in currency exchange rates A majority of our products are manufactured outside the United States, a portion of which are 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 Taiwan dollar (“TWD”) and the Chinese Renminbi (“RMB”). Purchases from Chinese sources are made in U.S. dollars (“USD”). However, if the RMB were to be revalued against the dollar, there could be a significant negative impact on the cost of our products. Further, the reporting currency for our consolidated financial statements is the USD. Certain of the company’s assets, liabilities, expenses and revenues are denominated in currencies other than the USD. In preparing our Consolidated Financial Statements, those assets, liabilities, expenses and revenues are translated into USDs at applicable exchange rates. Increases or decreases in exchange rates between the USD and other currencies affect the USD value of those items, as reflected in the Consolidated Financial Statements. Substantial fluctuations in the value of the USD could have a significant impact on the company’s financial condition and results of operations. Additionally, cash generated in non-U.S. jurisdictions may be difficult to repatriate to the United States in a tax-efficient manner.

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 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 products. There can be no assurance that the market continues its acceptance of the products we introduced in recent years or will accept new products (including the introduction of products into new geographic markets) introduced or scheduled for introduction in 2015. There can also be no assurance that the level of sales generated from these new products or geographic markets relative to our expectations will materialize.

Competition. The 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.

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, could have a material adverse effect on our business, results of operations or financial position.

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 and insurance. The effects of litigation and product liability exposure, as well as other risks and uncertainties described from time to time in our filings with the Securities and Exchange Commission and our 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.

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, which involve risks that could have a material adverse effect on our business, financial condition and results of operations. These risks include:

- Loss of customers of the acquired businesses;
- Inability to integrate successfully the acquired businesses' operations;
- Inability to coordinate management and integrate and retain employees of the acquired businesses;
- Difficulties in implementing and maintaining consistent standards, controls, procedures, policies and information systems;
- Failure to realize anticipated synergies, economies of scale or other anticipated benefits, or to maintain operating margins;
- Strain on our personnel, systems and resources, and diversion of attention from other priorities;
- Incurrence of additional debt and related interest expense;
- Unforeseen or contingent liabilities of the acquired businesses; and
- Large write-offs or write-downs, or the impairment of goodwill or other intangible assets.

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. Increased legislative and regulatory activity and burdens, and a more stringent manner in which they are applied, could significantly impact our business and the economy as a whole. For example, the Affordable Care Act (the "ACA"), which was adopted in 2010 and is being phased in over several years, significantly affects the provision of both health care services and benefits in the United States; the ACA may impact our cost of providing our employees and retirees with health insurance and/or benefits, and may also impact various other aspects of our business. The ACA did not have a material impact on our fiscal 2014 or prior financial results; however, we are continuing to assess the impact of the ACA on our health care benefit costs. Further, financial services businesses of all kinds are subject to increasing regulation and enforcement. In addition to potentially increasing the costs of doing business due to compliance obligations, new laws and regulations, or changes to existing laws and regulations, as well as the enforcement thereof, may affect the relationships between creditors and debtors, inhibit the rights of creditors to collect amounts owed to them, expand liability for certain actions or inactions, or limit the types of financial products or services offered, any or all of which could have a material adverse effect on our financial condition, results of operations and cash flows. Failure to comply with any of these laws or regulations could also result in penalties and damage to our reputation, and/or the incurrence of remediation costs. These developments, and other potential future legislation and regulations, as well as the increasingly strict regulatory environment, may also adversely affect the customers to which, and the markets into which, we sell our products, and increase our costs and otherwise negatively affect our business, reputation, results of operations and financial condition, including in ways that cannot yet be foreseen.

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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.

Information technology system failures and attacks could harm our business. Our business is dependent on the efficient functioning of our information technology systems and operations, which are vulnerable to damage or interruption from such factors as fires, natural disasters, telecommunications failures, computer viruses and worms, hacking, software defects, as well as human error. Despite our precautions, problems could result in interruptions in services and materially and adversely affect our business, financial condition and results of operations.

- *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 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

Florida Pneumatic owns a 72,000 square foot plant facility located in Jupiter, Florida. Its UAT subsidiary leases a 3,100 square foot facility from a non-affiliated lessor in High Wycombe, United Kingdom. This facility houses UAT's warehouse / distribution, as well as its office needs. The lease expires in 2019 and contains a five-year renewal clause.

Hy-Tech owns a 51,000 square foot plant facility located in Cranberry Township, Pennsylvania and leases a 10,000 square foot facility located in Punxsutawney, Pennsylvania. This lease expires in 2021 and presently does not have a renewal clause.

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.

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 some additional space.

The three owned properties described above are subject to mortgages and therefore pledged as collateral against the Company's credit facility, which is discussed further in Management's Discussion and Analysis – Liquidity and Capital Resources and Notes to Financial Statements.

The Company's executive office of approximately 5,000 square feet is located in an office building in Melville, New York and is leased from a non-affiliated landlord. This lease expires in 2018, however, effective April 1, 2015, the Company can, at its option, terminate giving twelve months written notice.

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. Mine Safety Disclosures

None.

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PART II

ITEM 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

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:

| 2014 | High | Low |
|----------------|--------|--------|
| First Quarter | \$7.81 | \$7.00 |
| Second Quarter | 8.54 | 7.14 |
| Third Quarter | 8.29 | 7.31 |
| Fourth Quarter | 8.18 | 7.70 |

| 2013 | High | Low |
|----------------|--------|--------|
| First Quarter | \$9.00 | \$6.92 |
| Second Quarter | 9.01 | 7.21 |
| Third Quarter | 8.86 | 6.90 |
| Fourth Quarter | 7.85 | 6.26 |

As of March 20, 2015, 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 \$7.76. We have not declared any cash dividends on our Class A Common Stock since our incorporation in 1963 and we currently have no plans to declare any cash dividends in the foreseeable future.

Issuer Purchases of Equity Securities

On October 14, 2014, the Company purchased 208,325 shares of the Company's Class A Common Stock from Timothy J. Stabosz in a privately negotiated transaction pursuant to a purchase agreement, at a purchase price of \$7.60 per share, which was at a discount to the then market price of the Company's Common Stock, with an aggregate purchase price of approximately \$1,583,000. None of such shares were purchased as part of a publicly announced plan or program, nor has the Company announced any plan or program to purchase any additional shares.

ITEM 6. Selected Financial Data

Not required.

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

MANAGEMENT OVERVIEW

We believe we have effectively countered the on-going sluggish pneumatic tools market, which has during 2014 adversely affected both Hy-Tech and Florida Pneumatic, through the consummation of three acquisitions during the third quarter of 2014. Further, we believe that these acquisitions will better position our Company in 2015 and beyond. Additionally, despite a net decline in Hardware revenue, due primarily to the sale of the Kitchen and Bath product line in November 2013, Nationwide strengthened its gross margin, and without Kitchen and Bath's associated costs and expenses, was able to increase its operating income.

New bank arrangement

Contemporaneously with the ATSCO acquisition, on August 13, 2014, we entered into an Amended and Restated Loan and Security Agreement, (the "Restated Loan Agreement"), with Capital One Business Credit ("COBC"). The Restated Loan Agreement, among other things, amended the existing credit agreement with COBC by: (1) increasing the total amount of the credit facility from \$29,423,000 to \$33,657,000, (2) increasing the revolver loan from \$20,000,000 to \$22,000,000, and (3) creating a new Term Loan. In addition, the Restated Loan Agreement also reset certain financial covenants.

Acquisitions

Exhaust Technologies Inc.

On July 1, 2014, we acquired ETI, a developer and distributor of pneumatic tools. We believe this acquisition will enable us to become a larger factor in the automotive air tools industry, as well as provide our other pneumatic tool companies the ability to utilize some of ETI's patented technologies in future product offerings.

Universal Air Tool Company Limited

On July 29, 2014, we acquired all of the outstanding shares of UAT, a distributor of pneumatic tools. UAT is located in the United Kingdom. This acquisition provides us with direct entry into the European pneumatic tool market for our entire suite of air tool products.

As the result of the UAT acquisition, we now are exposed to foreign currency translation gains and losses. These gains or losses are presented in our consolidated financial statements as "Other comprehensive loss – foreign currency translation adjustments". For the year ended December 31, 2014, we reported a foreign currency translation loss of \$228,000, due to the decline in the value of the British pound sterling ("GBP") to the USD, since the date of acquisition.

Air Tool Service Company

On August 13, 2014, we 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. We believe this acquisition will expand Hy-Tech's product offering and enlarge its customer base.

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 dollar in relation to the TWD, as we purchase a significant portion of our products from Taiwan. Purchases from Chinese sources are made in USDs. However, if the Chinese RMB, were to be revalued against the dollar, 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 GBP to the USD.

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”). 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.

In addition to the Company’s significant accounting policies described in Note 1 to the Consolidated Financial Statements, P&F considers the following policies and estimates to be the most critical in understanding the judgments that are involved in the preparation of the Company’s consolidated financial statements and the uncertainties that could impact the Company’s financial position, results of operations and cash flows.

Revenue Recognition

We recognize revenue when persuasive evidence of an arrangement exists, delivery has occurred or title 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 minimal sales returns. If we believe there are material potential sales returns, we would provide the necessary provision against sales.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are customer obligations due under normal trade terms. We sell our products to retailers, distributors and OEMs involved in a variety of industries. We perform continuing credit evaluations of our customers' financial condition, and although we generally do not require collateral, letters of credit may be required from customers in certain circumstances. Management reviews accounts receivable to determine if any receivables will potentially be uncollectible. Factors considered in the determination include, among other factors, number of days an invoice is past due, customer historical trends, available credit ratings information, other financial data and the overall economic environment. 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 consolidated 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, 2014 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. Inventory, 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 and compliance with authoritative guidance issued by the Financial Accounting Standards Board ("FASB"), we test goodwill for impairment on an annual basis as of the last day in November or more frequently if we believe indicators of impairment might exist. Goodwill is tested at a level of reporting referred to as "the reporting unit." The company's reporting units are Hy-Tech, Florida Pneumatic and Nationwide. An entity has the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not (that is, a likelihood of more than 50%) that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events or circumstances, an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary. The company has elected not to perform the qualitative assessment and began its impairment testing with the first step of the two-step impairment process. The first step, used to identify potential impairment, compares the calculated fair value of a reporting unit with its carrying amount. If the carrying amount of the reporting unit is less than its fair value, no impairment exists and the second step is not performed. If the carrying amount of a reporting unit exceeds its fair value, the entity is required to perform the second step of the goodwill impairment test to measure the amount of the impairment loss, if any. The second step of the goodwill impairment test compares the implied fair value of the reporting unit goodwill with the carrying amount of that goodwill. If the carrying amount of the reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized for the excess. 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 material decline in general economic conditions; (ii) competitive pressures on our revenue or our ability to maintain margins; (iii) significant price increases from our vendors that cannot be passed through to our customers; and (iv) breakdowns in supply chain or other factors beyond our control occur, an impairment charge against our intangible assets may be required.

Impairment of Long-Lived Assets

The company reviews long-lived assets, including property, plant, and equipment and identifiable intangible assets, for impairment whenever changes in circumstances or events may indicate that the carrying amounts are not recoverable. The company also tests indefinite-lived intangible assets, consisting of acquired trade names, for impairment at least annually as of the last day of November. If the fair value is less than the carrying amount of the asset, a loss is recognized for the difference.

Factors which may cause an impairment of long-lived assets include significant changes in the manner of use of these assets, negative industry or market trends, a significant underperformance relative to historical or projected future operating results, or a likely sale or disposal of the asset before the end of its estimated useful life. If any of these factors exist, the company is required to test the long-lived asset for recoverability and may be required to recognize an impairment charge for all or a portion of the asset's carrying value.

Income Taxes

We account for income taxes using the asset and liability approach. This approach requires the recognition of current tax assets or liabilities for the amounts refundable or payable on tax returns for the current year, as well as the recognition of deferred tax assets or liabilities for the expected future tax consequences of temporary differences that can arise between (a) the amount of taxable income and pretax financial income for a year, such as from net operating loss carryforwards and other tax credits, and (b) the tax bases of assets or liabilities and their reported amounts in the consolidated financial statements. Deferred tax assets and liabilities are measured using enacted tax rates. The impact on deferred tax assets and liabilities of changes in tax rates and laws, if any, is reflected in the consolidated financial statements in the period enacted. Further, we evaluate the likelihood of realizing benefit from our deferred tax assets by estimating future sources of taxable income and the impact of tax planning strategies. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion, or all, of the deferred tax assets will not be realized.

We file a consolidated Federal tax return. P&F and certain of its subsidiaries file combined tax returns in New York and Texas. All subsidiaries, other than UAT, file other state and local tax returns on a stand-alone basis. UAT files an income tax return to the taxing authorities in the United Kingdom.

When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while other positions 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 consolidated 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 consolidated statements of income and comprehensive income.

RESULTS OF OPERATIONS**2014 compared to 2013****REVENUE**

The tables set forth below provide an analysis of our revenue for the three and twelve-month periods ended December 31, 2014 and 2013. Unless discussed elsewhere, we believe that our relationships with our key customers remain satisfactory, and 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 impact the three acquisitions completed during the third quarter of 2014 had on our consolidated financial statements, there was no unusual or infrequent event, transaction or any significant economic change that materially affected our results of operations. However, we continue to encounter sluggishness in the pneumatic tool sector of our business.

Consolidated

| | Three months ended December 31, | | | |
|-------------------|---------------------------------|---------------|-------------|----------|
| | 2014 | 2013 | Variance | Variance |
| | | | \$ | % |
| Tools | | | | |
| Florida Pneumatic | \$ 10,280,000 | \$ 8,432,000 | \$1,848,000 | 21.9 |
| Hy-Tech | 4,085,000 | 3,517,000 | 568,000 | 16.2 |
| Tools Total | 14,365,000 | 11,949,000 | 2,416,000 | 20.2 |
| Hardware | | | | |
| Hardware Total | 3,538,000 | 3,449,000 | 89,000 | 2.6 |
| Consolidated | \$ 17,903,000 | \$ 15,398,000 | \$2,505,000 | 16.3 |

| | Year ended December 31, | | | |
|-------------------|-------------------------|--------------|---------------|----------|
| | 2014 | 2013 | Variance | Variance |
| | | | \$ | % |
| Tools | | | | |
| Florida Pneumatic | \$40,615,000 | \$39,916,000 | \$699,000 | 1.8 |
| Hy-Tech | 15,499,000 | 15,658,000 | (159,000) | (1.0) |
| Tools Total | 56,114,000 | 55,574,000 | 540,000 | 1.0 |
| Hardware | | | | |
| Hardware Total | 18,921,000 | 20,492,000 | (1,571,000) | (7.7) |
| Consolidated | \$75,035,000 | \$76,066,000 | \$(1,031,000) | (1.4) |

Tools

Florida Pneumatic

Florida Pneumatic markets its air tool products to three primary sectors within the pneumatic tool market; retail, industrial/catalog and automotive. It also generates revenue from its Berkley products line as well as a line of air filters and other OEM parts.

| | Three months ended December 31, | | | 2013 | | Increase (decrease) | |
|--------------------|---------------------------------|-------|---|-------------|--------------------|---------------------|-----------------------|
| | 2014 | | | Revenue | Percent of revenue | \$ | % |
| Retail customers | \$5,188,000 | 50.5 | % | \$6,296,000 | 74.7 | % | \$(1,108,000) (17.6) |
| Industrial/catalog | 1,556,000 | 15.1 | | 1,597,000 | 18.9 | | (41,000) (2.6) |
| Automotive | 3,238,000 | 31.5 | | 234,000 | 2.8 | | 3,004,000 1,283.8 |
| Other | 298,000 | 2.9 | | 305,000 | 3.6 | | (7,000) (2.3) |
| Total | \$10,280,000 | 100.0 | % | \$8,432,000 | 100.0 | % | \$1,848,000 21.9 |

| | Year Ended December 31, 2014 | | | 2013 | | Increase (decrease) | |
|--------------------|---------------------------------|-----------------------|---|--------------|-----------------------|---------------------|-----------------------|
| | Revenue | Percent of revenue | | Revenue | Percent of revenue | \$ | % |
| Retail customers | \$26,464,000 | 65.2 | % | \$30,429,000 | 76.2 | % | \$(3,965,000) (13.0) |
| Industrial/catalog | 6,220,000 | 15.3 | | 6,938,000 | 17.4 | | (718,000) (10.3) |
| Automotive | 6,515,000 | 16.0 | | 1,124,000 | 2.8 | | 5,391,000 479.6 |
| Other | 1,416,000 | 3.5 | | 1,425,000 | 3.6 | | (9,000) (0.6) |
| Total | \$40,615,000 | 100.0 | % | \$39,916,000 | 100.0 | % | \$699,000 1.8 |

The decline in Florida Pneumatic's fiscal fourth quarter 2014 Retail revenue compared to the same period in 2013 is due primarily to the timing of its shipments of specialty products to Sears. In 2013 these specialty product orders were shipped to Sears during the fourth quarter, whereas in 2014 these products were shipped during the third quarter. Sales of basic air tool products and accessories were up slightly at both its Retail customers during the fourth quarter of 2014 compared to the same period in 2013. Its Industrial/catalog revenue declined a modest 2.6 percent, when comparing the three-month periods ended December 31, 2014 and 2013. While the quarterly revenue was lower than the prior year, this product line has improved since earlier in 2014, when Florida Pneumatic encountered sluggishness from its Industrial and catalog customers. Orders from customers in the metal-working manufacturing and foundries sectors have begun to improve since then. As the result of the acquisitions completed during the third quarter of 2014 of ETI and UAT, Florida Pneumatic's Automotive product line revenue increased nearly thirteen fold.

Retail revenue's full year of 2014 decline is due primarily to a net reduction in the shipments of specialty/promotional products, as well as lower shipments of basic air tools and accessories during the first nine months of 2014 compared to the same period in 2013. The reduction in basic air tools and accessories is due in large part to Florida Pneumatic shipping the initial roll-out to The Home Depot stores in 2013, compared to the normalized level of replenishment orders shipped during the first nine months of 2014, as well as an on-going reduction in the size of orders from Sears. Industrial/catalog revenue during 2014 declined compared to the prior year due in large part to a weakness with the specialty distributors, who service various industries, such as foundries and metal-working manufacturers, which use abrasive/finishing tools such as grinders and cutting tools. However, as noted above, the acquisitions completed earlier this year were the primary cause for the nearly \$5.4 million, or fivefold increase, in Florida Pneumatic's Automotive product line revenue. We believe the Automotive product line should provide greater opportunity for revenue growth, going forward. As such, we anticipate placing greater emphasis on this now expanded sector.

Hy-Tech

Hy-Tech focuses primarily on the industrial sector of the pneumatic tools market. Hy-Tech manufactures and markets its own value-added line of air tools and parts, which now include the ATSCO brand, as well as distributes a high quality line of complementary sockets, which, in the aggregate make up the “ATP” category. Hy-Tech Machine products (“Hy-Tech Machine”) are primarily marketed to the mining, construction and industrial manufacturing sectors.

| Three months ended December 31, | | | | | | | |
|---------------------------------|-------------|-----------------------|---|-------------|-----------------------|------------------------|--------|
| | 2014 | | | 2013 | | Increase (decrease) | |
| | Revenue | Percent of revenue | | Revenue | Percent of revenue | \$ | % |
| ATP | \$3,003,000 | 73.5 | % | \$2,678,000 | 76.2 | % \$325,000 | 12.1 |
| Hy-Tech Machine | 432,000 | 10.6 | | 344,000 | 9.8 | 88,000 | 25.6 |
| Major customer | 577,000 | 14.1 | | 381,000 | 10.8 | 196,000 | 51.4 |
| Other | 73,000 | 1.8 | | 114,000 | 3.2 | (41,000) | (36.0) |
| Total | \$4,085,000 | 100.0 | % | \$3,517,000 | 100.0 | % \$568,000 | 16.2 |

| Year Ended December 31, | | | | | | | |
|-------------------------|--------------|--------------------------|---|--------------|--------------------------|------------------------|--------|
| | 2014 | | | 2013 | | Increase (decrease) | |
| | Revenue | Percent of revenue | | Revenue | Percent of revenue | \$ | % |
| ATP | \$11,133,000 | 71.8 | % | \$11,038,000 | 70.5 | % \$95,000 | 0.9 |
| Hy-Tech Machine | 1,560,000 | 10.1 | | 1,845,000 | 11.8 | (285,000) | (15.4) |
| Major customer | 2,519,000 | 16.2 | | 2,373,000 | 15.1 | 146,000 | 6.2 |
| Other | 287,000 | 1.9 | | 402,000 | 2.6 | (115,000) | (28.6) |
| Total | \$15,499,000 | 100.0 | % | \$15,658,000 | 100.0 | % \$(159,000) | (1.0) |

Fourth quarter of 2014 ATP revenue improved over the same period in 2013 due primarily to the ATSCO acquisition. The integration of the manufacturing of the ATSCO suite of air tools products into the Cranberry, PA facility is continuing. During the fourth quarter of 2014, this transition, along with the relocation of machinery and personnel, negatively impacted ATP, and to some degree Hy-Tech Machine results, compared to the fourth quarter of 2013. Hy-Tech’s sales to its Major customer did improve this quarter, compared to the same period a year ago. The ordering pattern from this customer is erratic and unpredictable, as such it is difficult to plan or predict future results.

When comparing the full year 2014 to 2013, ATP revenue was essentially flat, improving less than one percent. Economic uncertainty in the market sectors in which ATP products are sold, at both the national and international levels, may continue to suppress future revenue opportunities in 2015. 2014 revenue from its Hy-Tech Machine

products declined compared to the prior year due primarily to a one-time order during the second quarter of 2013 in excess of \$300,000 from a railroad company not repeated in 2014. Lastly, as stated above, the ordering pattern from Hy-Tech's Major customer is erratic and unpredictable, which results in quarter to quarter revenue swings. We believe this unpredictability is likely to continue into 2015.

Hardware

| | Three months ended December 31, 2014 | | | 2013 | | Increase (decrease) | |
|-------------------------|---|-----------------------|---|-------------|-----------------------|---------------------|-------------------|
| | Revenue | Percent of revenue | | Revenue | Percent of revenue | \$ | % |
| Fence and Gate hardware | \$2,767,000 | 78.2 | % | \$2,480,000 | 71.9 | % | \$287,000 11.6 |
| Kitchen and Bath | --- | --- | | 134,000 | 3.9 | | (134,000) (100.0) |
| OEM | 411,000 | 11.6 | | 479,000 | 13.9 | | (68,000) (14.2) |
| Patio | 360,000 | 10.2 | | 356,000 | 10.3 | | 4,000 1.1 |
| Total | \$3,538,000 | 100.0 | % | \$3,449,000 | 100.0 | % | \$89,000 2.6 |

| | Year ended December 31, 2014 | | | 2013 | | Increase (decrease) | |
|-------------------------|---------------------------------|-----------------------|---|--------------|-----------------------|---------------------|----------------------|
| | Revenue | Percent of revenue | | Revenue | Percent of revenue | \$ | % |
| Fence and Gate hardware | \$15,551,000 | 82.2 | % | \$14,747,000 | 72.0 | % | \$804,000 5.5 |
| Kitchen and Bath | --- | --- | | 2,331,000 | 11.4 | | (2,331,000) (100.0) |
| OEM | 1,750,000 | 9.2 | | 1,882,000 | 9.1 | | (132,000) (7.0) |
| Patio | 1,620,000 | 8.6 | | 1,532,000 | 7.5 | | 88,000 5.7 |
| Total | \$18,921,000 | 100.0 | % | \$20,492,000 | 100.0 | % | \$(1,571,000) (7.7) |

During the fourth quarter of 2014, Nationwide Fence and Gate hardware revenue increased over the same period in 2013. We believe two key drivers to this improvement are new home construction and home improvement/renovations. New home starts during the three-month period ended December 31, 2014, according to the U.S. Census Bureau data released in January 2015, increased over the same period in the prior year, as did spending on home improvement/renovations. The decline in OEM revenue is due primarily to the change of ownership and relocation of a major customer in this category. Fourth quarter 2014 Patio products revenue, although greater than the same period in 2013, was hindered slightly due to supply chain issues. Lastly, in November 2013, Nationwide sold to an unrelated third party, all inventory, intangibles and certain fixed assets attributable to its Kitchen and Bath product line.

Throughout 2014, Nationwide continued its successful marketing efforts of its Fence and Gate hardware line, as it further increased its customer base across the United States. Housing starts during 2014 were greater than during 2013. We believe this increase, along with greater spending on home improvement/renovations, contributed to the growth in its year over year Fence and Gate hardware revenue. Nationwide's OEM product line revenue declined 7.0% compared to the same period a year ago. More than half of the annual decline occurred in the fourth quarter, which we believe to be the result of a change of ownership and relocation of a major customer in this category. Patio revenue during the full-year 2014 increased when compared to the same period in 2013, due primarily to an improved home repair market in the southeastern portion of the United States and improved inventory / service levels.

As Fence and Gate hardware continues to be Nationwide's primary focus, we intend to continue our current strategy, which is to develop new, innovative Fence and Gate hardware products and accessories, as well as to continue to expand our national market campaign. This action may impact the performance of its other product lines.

GROSS MARGIN**Consolidated**

| | Three months ended December 31, | | Increase (decrease) | | |
|----------------------------------|---------------------------------|--------------|---------------------|--------|--|
| | 2014 | 2013 | Amount | % | |
| Florida Pneumatic | \$ 3,686,000 | \$ 2,856,000 | \$ 830,000 | 29.1 | |
| As percent of respective income | 35.9 | % 33.9 | % 2.0 | % pts. | |
| Hy-Tech | \$ 1,768,000 | \$ 1,379,000 | \$ 389,000 | 28.2 | |
| As percent of respective income | 43.3 | % 39.2 | % 4.1 | % pts. | |
| Total Tools | \$ 5,454,000 | \$ 4,235,000 | \$ 1,219,000 | 28.8 | |
| As percent of respective revenue | 38.0 | % 35.4 | % 2.6 | % pts. | |
| Hardware | \$ 1,261,000 | \$ 1,206,000 | \$ 55,000 | 4.6 | |
| As percent of respective revenue | 35.6 | % 35.0 | % 0.6 | % pts. | |
| Consolidated | \$ 6,715,000 | \$ 5,441,000 | \$ 1,274,000 | 23.4 | |
| As percent of respective revenue | 37.5 | % 35.3 | % 2.2 | % pts. | |

| | Year Ended December 31, | | Increase (decrease) | | |
|----------------------------------|-------------------------|---------------|---------------------|--------|--|
| | 2014 | 2013 | Amount | % | |
| Florida Pneumatic | \$ 13,676,000 | \$ 13,227,000 | 449,000 | 3.4 | |
| As percent of respective income | 33.7 | % 33.1 | % 0.6 | % pts. | |
| Hy-Tech | \$ 6,342,000 | \$ 6,501,000 | (159,000) | (2.4) | |
| As percent of respective income | 40.9 | % 41.5 | % (0.6) | % pts. | |
| Tools | \$ 20,018,000 | \$ 19,728,000 | \$ 290,000 | 1.5 | |
| As percent of respective revenue | 35.7 | % 35.5 | % 0.2 | % pts. | |
| Hardware | \$ 7,363,000 | \$ 7,604,000 | \$(241,000) | (3.2) | |
| As percent of respective revenue | 38.9 | % 37.1 | % 1.8 | % pts. | |
| Consolidated | \$ 27,381,000 | \$ 27,332,000 | \$ 49,000 | 0.2 | |
| As percent of respective revenue | 36.5 | % 35.9 | % 0.6 | % pts. | |

Tools

The acquisitions of ETI and UAT during the third quarter of 2014 had a major impact on Florida Pneumatic's fourth quarter of 2014 results. Both product lines are marketed to the automotive sector, which tends to generate higher gross margins than its Retail sector, but not as strong as the higher margin Industrial/catalog sectors. As such, with this added revenue, Florida Pneumatic improved its overall gross margin as well as its gross profit, compared to the same three-month period in 2013. During the fourth quarter of 2014 Hy-Tech's gross margin increased, compared to the same period in 2013, due primarily to higher overhead absorption. This improved overhead absorption, is due primarily to the addition of the ATSCO products, many of which during the quarter were manufactured at our

Cranberry, PA facility. Further, we believe Hy-Tech's overall gross margins should continue to improve during 2015, as we complete the manufacturing integration from the former ATSCO facility in Mentor, OH, to our Cranberry, PA facility. Its gross profit increased due to increased revenue and improved overall gross margins.

When comparing the full-years of 2014 and 2013, Florida Pneumatic's gross margin improved slightly primarily due to increased Automotive revenue, which tend to generate higher gross margin, partially offset by lower absorption of warehouse and manufacturing overhead. During 2013, we processed the entire initial rollout to The Home Depot, creating unusually high warehouse efficiencies due to the inventory through-put. Warehouse overhead absorption during 2014 was at normalized levels, thus negatively impacting Florida Pneumatic's gross margin, compared to 2013. During 2014, Hy-Tech's gross margin declined compared to 2013, primarily due to customer/product mix, and, to a lesser degree, lower absorption of manufacturing during the first two-thirds of 2014, as well as the effects of the initial phase of the integration of ATSCO. For several months immediately following the acquisition of ATSCO's assets, Hy-Tech's overall efficiencies suffered, as ATSCO products were made partially in Mentor OH and in Cranberry PA. However, as noted above, we believe as ATSCO's products are manufactured solely in Cranberry PA, Hy-Tech's overall gross margin should improve.

Hardware

During the quarter ended December 31, 2014, Nationwide was able to improve its overall gross margin by 0.6 percentage points, when compared to the same period in 2013. This increase was due primarily to an overall better product mix in its Fence and Gate hardware, and the elimination of the Kitchen and Bath product line, which generally produced lower profit margins. Their higher gross margin and increased revenue enabled Nationwide to generate higher gross profit during the fourth quarter of 2014 compared to the same period in 2013.

As noted above, the sale in November 2013 of the Kitchen and Bath product line was a key factor in Nationwide's improved overall gross margin in 2014. However, although Nationwide was able to increase its higher gross margin Fence and Gate hardware revenue, the loss of the Kitchen and Bath revenue resulted in a decline in total gross profit, when comparing the twelve-month periods ended December 31, 2014 and 2013. During 2014, Nationwide was able to partially offset through modest price increases, a portion of cost increases it incurred from its suppliers, which were due in part to rising overseas labor costs, as well as increases in overseas raw material costs.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses ("SG&A") include, among other things, all compensation plus employee benefits and related costs, administrative facilities, communications, variable costs, promotional expenses for our direct sales and marketing staff, legal, accounting and other professional fees, as well as amortization and depreciation and general corporate overhead and engineering expenses. This year our SG&A includes additional costs incurred as a result of the three acquisitions consummated during the third quarter of 2014.

During the fourth quarter of 2014, our SG&A was \$5,843,000, or 32.6% of revenue, compared to \$4,411,000, or 28.6% of revenue during the same three-month period in 2013. Contributing to the increase in SG&A was additional compensation of \$831,000, which is comprised of base salaries and wages, including wages and salaries at our three new acquisitions, accrued performance-based bonus incentives, associated payroll taxes and employee benefits. During the fourth quarter of 2013, we recorded reductions, or credits of approximately \$192,000 in our consolidated accrued performance-based bonus incentives, due primarily to an over accrual during the first nine months of 2013, whereas during the fourth quarter of 2014 we recorded approximately \$352,000 of consolidated accrued performance-based bonus incentives, accounting for approximately \$544,000 of the change in the fourth quarter increase. The balance of the increase in compensation is primarily due to added staffing to support the acquisitions and growth, as well as general increases. Variable costs, which include commissions, warranty costs, freight out travel and entertainment, and advertising/promotional fees, increased \$205,000, due primarily to the increase in revenue. Further, amortization and depreciation increased \$311,000, nearly all of which is the result of the three acquisitions. Additionally, \$86,000 of the increase in SG&A is due to increased professional fees, nearly all of which is attributable to the three acquisitions, which are discussed in further detail elsewhere in this Management's Discussion and Analysis. The above increases were partially offset by a decrease in non-cash, stock-based compensation of \$56,000. Lastly, we reached resolution with U.S. Customs on a matter originally recorded and disclosed in 2012 and, as the accrued penalty associated with this matter was settled for an amount less than originally projected, we recorded a credit of \$87,000.

Driven primarily by the three acquisitions during the year, our 2014 SG&A increased to \$23,064,000, compared to \$22,238,000 incurred in the prior year. Stated as a percentage of revenue, our SG&A for 2014 was 30.7%, compared to 29.2% in 2013. The most significant factor contributing to this increase was the three acquisitions in the third quarter of 2014, which is the primary factor that caused professional services, which include legal, accounting and other professional/consultants to increase by \$779,000. Our 2014 SG&A compensation expenses increased \$635,000, due primarily to additional staffing that includes wages and salaries at our three new acquisitions, and improved overall performance, which drives the Company-wide performance based compensation. Additionally, again due to the three acquisitions, we recorded an increase in amortization and depreciation of \$456,000. Partially offsetting the above increases was the one-time fee of \$700,000 incurred by Florida Pneumatic during the first quarter of 2013, in connection with the initial roll-out to THD, not recurring in 2014. Additionally, we reduced non-cash stock-based compensation by \$118,000. Due primarily to an adjustment to our allowance for doubtful accounts, our bad debt expense declined \$189,000.

INTEREST

The overall increase in our interest expense for both the fourth quarter of 2014 and full year 2014 was primarily the result of the three acquisitions completed during the third quarter of 2014, for which we borrowed approximately \$20,000,000 from our bank, mostly from the Revolver. Further, primarily as the result of the aforementioned acquisitions, the average balance of short-term borrowings during the three-month period ended December 31, 2014 increased to \$15,072,000, compared to \$3,086,000 during the same period in 2013. For 2014, the average balance of short-term borrowings was \$7,436,000, compared to \$5,819,000 during 2013. See Liquidity and Capital Resources for further discussion on the applicable margin rate reductions. Additionally, included in our interest expense is amortization expense of debt financing costs.

| | Three months ended December 31, | | Increase (Decrease) | |
|--|---------------------------------|------------|------------------------|--------|
| | 2014 | 2013 | Amount | % |
| Short-term borrowings | \$ 94,000 | \$ 20,000 | \$74,000 | 370.0% |
| Term loans, including Capital Expenditure Term Loans | 83,000 | 62,000 | 21,000 | 33.9 |
| Amortization expense of debt financing costs | 28,000 | 22,000 | 6,000 | 27.3 |
| Total | \$ 205,000 | \$ 104,000 | \$101,000 | 97.1 % |

| | Year Ended December 31, | | Increase (Decrease) | |
|--|-------------------------|------------|------------------------|-------|
| | 2014 | 2013 | Amount | % |
| Short-term borrowings | \$ 172,000 | \$ 149,000 | \$23,000 | 15.4% |
| Term loans, including Capital Expenditure Term Loans | 274,000 | 254,000 | 20,000 | 7.9 |
| Amortization expense of debt financing costs | 94,000 | 87,000 | 7,000 | 8.0 |
| Total | \$ 540,000 | \$ 490,000 | \$50,000 | 10.2% |

INCOME TAX EXPENSE

The effective tax rates for the years ended December 31, 2014 and 2013, respectively, were 44.9% and 30.0%, respectively. The primary factors affecting the 2014 effective tax rate were nondeductible expenses, reversal of liabilities of deconsolidated subsidiary and state income taxes. The primary factors affecting the 2013 effective tax rate were nondeductible expenses, reversal of an uncertain tax position, increase in the valuation allowance on certain state deferred tax assets and state income taxes.

LIQUIDITY AND CAPITAL RESOURCES

Our cash flows from operations can be somewhat cyclical, with the greatest demand for cash typically in the first and third quarters. We monitor such things as days' sales outstanding, inventory requirements, accounts payable and capital expenditures to project liquidity needs, as well as evaluate return on assets. Our primary source of funds is a Revolver Loan ("Revolver") with our bank.

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

| | December 31, | |
|----------------------|---------------|---------------|
| | 2014 | 2013 |
| Working capital | \$ 13,927,000 | \$ 26,777,000 |
| Current ratio | 1.59 to 1 | 4.65 to 1 |
| Shareholders' equity | \$ 39,991,000 | \$ 38,730,000 |

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.

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

The balance of Revolver borrowings outstanding was \$11,817,000 and \$360,000 at December 31, 2014 and 2013, respectively. Applicable Margins added to Revolver borrowings at LIBOR and the Base Rate were 2.25% and 1.25%, respectively at December 31, 2014, and 1.75 % and 0.75%, respectively, at December 31, 2013.

During 2014 we made three acquisitions. These acquisitions were funded as follows:

1. ETI - The purchase price for this acquisition consisted of \$10,377,000 in cash plus the assumption of certain payables. We financed this acquisition from our Revolver.

2. UAT - The purchase price for this acquisition consisted of approximately \$1,947,000. This transaction was subject to a post-closing working capital adjustment that resulted in a repayment from the former shareholders of UAT of approximately \$142,000. In addition, there is a potential contingent consideration payment due to the former shareholders of UAT following the first anniversary of the transaction, of a maximum of £250,000. We financed this acquisition from our Revolver.

3. ATSCO - The purchase price consisted of approximately \$7,659,000 in cash and the assumption of certain payables and is subject to a post-closing working capital adjustment. The cash portion consisted of the \$3 million Term Loan B, (see below and Note 6 to the Company's Consolidated Financial Statements), plus \$4,659,000 from our Revolver. Term Loan borrowings incur interest at LIBOR or the Base Rate plus the Applicable Margins, which were 3.25% and 2.25%, respectively, at December 31, 2014.

Term Loan B is to be repaid in 36 consecutive monthly payments of \$83,000, with an additional annual mandatory payment equal to 50% of the Company's Excess Cash Flow, as defined in the Restated Loan Agreement for any such year, if any. As the result of determining our Excess Cash Flow for the year 2014, in April 2015, we will be required to repay the balance of Term Loan B, which is estimated to be approximately \$2.4 million. The effect of this repayment in April 2015 will be to eliminate Term Loan B and increase the Revolver by a like amount.

The Restated Loan Agreement also provided for a \$7,000,000 Term Loan A, which is secured by mortgages on the Real Property, accounts receivable, inventory and equipment. The balance due on the Term Loan A at December 31, 2014 and December 31, 2013 was \$6,440,000 and \$6,720,000, respectively. Term Loan A is repaid approximately \$23,000 each month, with the remaining balance due at the Maturity Date. Term Loan A borrowings incur interest at LIBOR or the Base Rate plus the Applicable Margins, which were 3.00% and 2.00%, respectively, at December 31, 2014 and December 31, 2013.

Additionally, the Company borrowed \$380,000 and \$519,000 in March 2012 and September 2012, respectively, as loans primarily for machinery and equipment ("Capex Term Loans"). The repayment of these two Capex Term Loans is based on sixty-month amortization periods, resulting in monthly repayments of approximately \$6,000 and \$9,000, respectively. Applicable Margins added to these Capex Term Loans at both December 31, 2014 and December 31, 2013 were 3.00% and 2.00%, for borrowings at LIBOR and the Base Rate, respectively. The balance due on the Capex Term Loans at December 31, 2014 and December 31, 2013 was \$463,000 and \$643,000, respectively.

The aggregate amounts of long-term debt scheduled to mature in each of the years are, approximately as follows:

| | |
|------|-------------|
| 2015 | \$3,167,000 |
| 2016 | 493,000 |
| 2017 | 6,000,000 |
| | \$9,660,000 |

We are required to provide COBC among other things, monthly financial statements, monthly borrowing base certificates and certificates of compliance with various financial covenants. We believe we are in compliance with all financial and non-financial covenants. As part of the Restated Loan Agreement, if an event of default occurs, the interest rate would increase by two percent per annum during the period of default, in addition to other remedies provided to COBC.

Cash Flows

Cash provided by operating activities for the years ended December 31, 2014 and 2013 was \$8,716,000, and \$3,242,000, respectively.

At December 31, 2014, our net cash balance was \$1,011,000, compared to \$413,000 at December 31, 2013. As discussed above, with respect to daily cash flows, we operate under the terms and conditions of the Revolver. As a

result, all domestic cash receipts are remitted to COBC lock-boxes. Thus, cash on hand is primarily cash disbursements that have not yet cleared our operating accounts at COBC. Our total bank debt at December 31, 2014 was \$21,387,000, compared to \$7,723,000 at December 31, 2013, primarily the result of the three acquisitions consummated during the third quarter of 2014. The aforementioned resulted in our total debt to total book capitalization (total debt divided by total debt plus equity), percentage rising to 34.9% at December 31, 2014, compared to 16.6% at December 31, 2013, again driven primarily by the three acquisitions discussed earlier. We anticipate generating cash from operations during 2015. Further, we believe the acquisitions completed in 2014 will be accretive moving forward.

Capital spending during the year ended December 31, 2014 was \$1,072,000, compared to \$693,000 in 2013. Capital expenditures currently planned for 2015 are approximately \$1,600,000, which we expect will be financed through our Restated Loan Agreement and cash flows. The major portion of these planned capital expenditures will be for computer numerical control ("CNC") equipment to be used at Hy-Tech, with the balance for tooling required for new product development at all our operating subsidiaries.

Customer concentration

Within our Tools segment we have two retail customers that accounted for 17.7% and 25.6%, respectively at December 31, 2014, of our consolidated accounts receivable, compared to 31.2% and 27.2%, respectively at December 31, 2013. To date, these customers, with minor exceptions, are current in their payments. Further, these two customers accounted for 12.2% and 23.1%, respectively of our 2014 consolidated revenue, compared to 15.3% and 24.7%, respectively, in 2013.

Other Information

At December 31, 2014, we had \$15,637,000 of open purchase order commitments, compared to \$10,443,000 at December 31, 2013.

Repurchase of our Common Stock

On October 14, 2014, we purchased 208,325 shares of our Class A Common Stock from Timothy J. Stabosz in a privately negotiated transaction pursuant to a purchase agreement, at a purchase price of \$7.60 per share, which was at a discount to the then market price of the Company's Common Stock with an aggregate purchase price of approximately \$1,583,000.

IMPACT OF INFLATION

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

ENVIRONMENTAL MATTERS

Although it is difficult to identify precisely the portion of capital expenditures or other costs attributable to be in 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 results of operations.

AFFORDABLE CARE ACT

The Affordable Care Act (the "ACA"), which was adopted in 2010 and is being phased in over several years, significantly affects the provision of both health care services and benefits in the United States. The ACA may impact our cost of providing our employees with health insurance and/or benefits, and may also impact various other aspects of our business. The ACA did not have a material impact on our fiscal 2014 and 2013 financial results.

NEW ACCOUNTING PRONOUNCEMENTS

Recently Adopted Accounting Standards

Refer to Note 1, "Summary of Accounting Policies", to our consolidated financial statements for a discussion of recent accounting standards and pronouncements.

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

ITEM 7A. Quantitative and Qualitative Disclosures About Market Risk

Not Required

ITEM 8. Financial Statements and Supplementary Data

P&F INDUSTRIES, INC. AND SUBSIDIARIES

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and

Shareholders of P&F Industries, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheets of P&F Industries, Inc. and Subsidiaries as of December 31, 2014 and 2013, and the related consolidated statements of income and comprehensive income, shareholders' equity and cash flows for the years then ended. P&F Industries, Inc. and Subsidiaries' management is responsible for these consolidated financial statements. 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. The company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of P&F Industries, Inc. and Subsidiaries as of December 31, 2014 and 2013 and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ CohnReznick LLP

Jericho, New York

March 31, 2015

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

| | December 31, 2014 | December 31, 2013 |
|--|----------------------|----------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash | \$1,011,000 | \$413,000 |
| Accounts receivable — net | 9,547,000 | 8,739,000 |
| Inventories – net | 24,335,000 | 22,974,000 |
| Deferred income taxes— net | 1,149,000 | 1,168,000 |
| Prepaid expenses and other current assets | 1,511,000 | 829,000 |
| TOTAL CURRENT ASSETS | 37,553,000 | 34,123,000 |
| PROPERTY AND EQUIPMENT | | |
| Land | 1,550,000 | 1,550,000 |
| Buildings and improvements | 7,683,000 | 7,626,000 |
| Machinery and equipment | 20,460,000 | 18,606,000 |
| | 29,693,000 | 27,782,000 |
| Less accumulated depreciation and amortization | 19,101,000 | 17,553,000 |
| NET PROPERTY AND EQUIPMENT | 10,592,000 | 10,229,000 |
| GOODWILL | 11,980,000 | 5,150,000 |
| OTHER INTANGIBLE ASSETS — net | 12,437,000 | 1,502,000 |
| DEFERRED INCOME TAXES — net | — | 1,594,000 |
| OTHER ASSETS — net | 514,000 | 643,000 |
| TOTAL ASSETS | \$73,076,000 | \$53,241,000 |

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

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

| | December 31, 2014 | December 31, 2013 |
|--|----------------------|----------------------|
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| CURRENT LIABILITIES | | |
| Short-term borrowings | \$ 11,817,000 | \$ 360,000 |
| Accounts payable | 3,160,000 | 3,006,000 |
| Accrued liabilities | 5,482,000 | 3,520,000 |
| Current maturities of long-term debt | 3,167,000 | 460,000 |
| TOTAL CURRENT LIABILITIES | 23,626,000 | 7,346,000 |
| Long-term debt, less current maturities | 6,493,000 | 6,903,000 |
| Deferred tax liabilities – net | 2,720,000 | — |
| Other liabilities | 246,000 | 262,000 |
| TOTAL LIABILITIES | 33,085,000 | 14,511,000 |
| COMMITMENTS AND CONTINGENCIES | | |
| SHAREHOLDERS' EQUITY | | |
| Preferred stock - \$10 par; authorized - 2,000,000 shares; no shares issued | — | — |
| Common stock: | | |
| Class A - \$1 par; authorized - 7,000,000 shares; issued – 4,139,000 at December 31, 2014 and 4,038,000 at December 31, 2013 | 4,139,000 | 4,038,000 |
| Class B - \$1 par; authorized - 2,000,000 shares; no shares issued | — | — |
| Additional paid-in capital | 12,695,000 | 11,798,000 |
| Retained earnings | 27,951,000 | 25,871,000 |
| Treasury stock, at cost – 554,000 at December 31, 2014 and 344,000 at December 31, 2013 | (4,566,000) | (2,977,000) |
| Accumulated other comprehensive loss | (228,000) | — |
| TOTAL SHAREHOLDERS' EQUITY | 39,991,000 | 38,730,000 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | \$73,076,000 | \$53,241,000 |

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

P&F INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

| | Years ended December 31, | |
|--|--------------------------|--------------|
| | 2014 | 2013 |
| Net revenue | \$75,035,000 | \$76,066,000 |
| Cost of sales | 47,654,000 | 48,734,000 |
| Gross profit | 27,381,000 | 27,332,000 |
| Selling, general and administrative expenses | 23,064,000 | 22,238,000 |
| Operating income | 4,317,000 | 5,094,000 |
| Interest expense | 540,000 | 490,000 |
| Income before income taxes | 3,777,000 | 4,604,000 |
| Income tax expense | 1,697,000 | 1,379,000 |
| Net income | \$2,080,000 | \$3,225,000 |
| Basic earnings per share | \$0.56 | \$0.87 |
| Diluted earnings per share | \$0.54 | \$0.83 |
| Weighted average common shares outstanding: | | |
| Basic | 3,706,000 | 3,686,000 |
| Diluted | 3,884,000 | 3,887,000 |
| Net income | \$2,080,000 | \$3,225,000 |
| Other comprehensive loss - foreign currency translation adjustment | (228,000) | — |
| Total comprehensive income | \$1,852,000 | \$3,225,000 |

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

P&F INDUSTRIES, INC. AND SUBSIDIARIES**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**

| | | Class A Common Stock, \$1 Par | | Additional paid-in capital | Retained earnings | Treasury stock | | Accumulated other comprehensive loss |
|---|--------------|----------------------------------|-------------|----------------------------------|----------------------|----------------|---------------|---|
| | Total | Shares | Amount | | | Shares | Amount | |
| Balance, January 1, 2013 | \$35,088,000 | 4,013,000 | \$4,013,000 | \$11,384,000 | \$22,646,000 | (342,000) | \$(2,955,000) | \$— |
| Net income | 3,225,000 | — | — | — | 3,225,000 | — | — | — |
| Exercise of stock options | 62,000 | 22,000 | 22,000 | 62,000 | — | (2,000) | (22,000) | — |
| Issuance of restricted common stock | 17,000 | 3,000 | 3,000 | 14,000 | — | — | — | — |
| Stock-based compensation | 338,000 | — | — | 338,000 | — | — | — | — |
| Balance, December 31, 2013 | \$38,730,000 | 4,038,000 | \$4,038,000 | \$11,798,000 | \$25,871,000 | (344,000) | \$(2,977,000) | \$— |
| Net income | 2,080,000 | — | — | — | 2,080,000 | — | — | — |
| Exercise of stock options | 745,000 | 98,000 | 98,000 | 653,000 | — | (1,000) | (6,000) | — |
| Purchase of common stock | (1,583,000) | — | — | — | — | (209,000) | (1,583,000) | — |
| Issuance of restricted common stock | 27,000 | 3,000 | 3,000 | 24,000 | — | — | — | — |
| Stock-based compensation | 220,000 | — | — | 220,000 | — | — | — | — |

| | | | | | | | | |
|--|------------|---|---|---|---|---|---|-----------|
| Foreign currency translation adjustment | (228,000) | — | — | — | — | — | — | (228,000) |
|--|------------|---|---|---|---|---|---|-----------|

| | | | | | | | | |
|----------------------------------|--------------|-----------|-------------|--------------|--------------|-----------|---------------|-------------|
| Balance, December 31, 2014 | \$39,991,000 | 4,139,000 | \$4,139,000 | \$12,695,000 | \$27,951,000 | (554,000) | \$(4,566,000) | \$(228,000) |
|----------------------------------|--------------|-----------|-------------|--------------|--------------|-----------|---------------|-------------|

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

P&F INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Years ended December 31, | |
|---|-----------------------------|-------------|
| | 2014 | 2013 |
| Cash Flows from Operating Activities | | |
| Net income | \$2,080,000 | \$3,225,000 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Non-cash charges: | | |
| Depreciation and amortization | 1,551,000 | 1,559,000 |
| Amortization of other intangible assets | 718,000 | 250,000 |
| Amortization of debt issue costs | 94,000 | 103,000 |
| Recovery of doubtful accounts | (90,000) | (42,000) |
| Stock-based compensation | 220,000 | 338,000 |
| Restricted stock-based compensation | 27,000 | 40,000 |
| Loss on sale of fixed assets | 14,000 | 7,000 |
| Deferred income taxes | 1,458,000 | 1,588,000 |
| Changes in operating assets and liabilities, net of effects of acquisitions: | | |
| Accounts receivable | 1,233,000 | (2,022,000) |
| Inventories | 1,670,000 | 1,099,000 |
| Prepaid expenses and other current assets | 232,000 | (305,000) |
| Other assets | 79,000 | 67,000 |
| Accounts payable | (318,000) | (1,837,000) |
| Accrued liabilities | (236,000) | (812,000) |
| Other liabilities | (16,000) | (16,000) |
| Total adjustments | 6,636,000 | 17,000 |
| Net cash provided by operating activities | 8,716,000 | 3,242,000 |

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

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

| | Years ended December 31, | |
|--|--------------------------|--------------|
| | 2014 | 2013 |
| Cash Flows from Investing Activities: | | |
| Capital expenditures | \$(1,072,000) | \$(693,000) |
| Proceeds from disposal of assets | 15,000 | — |
| Purchase of net assets Air Tool Service Company | (7,659,000) | — |
| Purchase of Exhaust Technologies, Inc. | (10,377,000) | — |
| Purchase of Universal Air Tool Company Limited, net of cash acquired of \$14,000 | (1,792,000) | — |
| Net cash used in investing activities | (20,885,000) | (693,000) |
| Cash Flows from Financing Activities: | | |
| Proceeds from exercise of stock options | 745,000 | 62,000 |
| Purchase of Class A common stock | (1,583,000) | — |
| Proceeds from short-term borrowings | 84,167,000 | 65,353,000 |
| Repayments of short-term borrowings | (72,710,000) | (67,786,000) |
| Proceeds from term loan | 3,000,000 | — |
| Repayments of term loans | (793,000) | (460,000) |
| Proceeds from notes payable | 66,000 | — |
| Repayment of notes payable | (21,000) | — |
| Bank financing costs | (44,000) | — |
| Net cash provided by (used in) financing activities | 12,827,000 | (2,831,000) |
| Effect of exchange rate changes on cash | (60,000) | — |
| Net increase (decrease) in cash | 598,000 | (282,000) |
| Cash at beginning of year | 413,000 | 695,000 |
| Cash at end of year | \$1,011,000 | \$413,000 |
| Supplemental disclosures of cash flow information: | | |
| Cash paid for: | | |
| Interest | \$415,000 | \$413,000 |
| Income taxes | \$143,000 | \$79,000 |
| Supplemental disclosures of non-cash investing and financing activities: | | |
| Contingent Consideration on Acquisition | \$425,000 | \$— |

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

P&F INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2014 and 2013

NOTE 1—SUMMARY OF ACCOUNTING POLICIES

Principles of Consolidation

The 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

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 the assets of Air Tool Service Company (“ATSCO”), which business operates through a wholly-owned subsidiary of Hy-Tech. Unless

otherwise indicated, the operations and results of operations of Hy-Tech herein include ATSCO as of the date the business was acquired. (See Note 2 – Acquisitions, for additional information relating to these acquisitions).

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, and oil 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.

Additionally, Nationwide marketed a Kitchen and Bath product line. However, effective November 12, 2013, Nationwide sold to an unrelated third party all inventory, intangibles and certain fixed assets attributable to its Kitchen and Bath product line. The net impact of this sale was immaterial to the Company’s operations.

Basis of Financial Statement Presentation

The Company prepares its consolidated financial statements in accordance with accounting principles generally accepted in the United States (“GAAP”).

Revenue Recognition

The Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred or services have been provided, the sale price is fixed or determinable, and collectability is reasonably assured. The Company sells its 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 the Company or upon receipt by customers at the location specified in the terms of sale. Other than standard product warranty provisions, the Company’s sales arrangements provide for no other post-shipment obligations. The Company does 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. The Company periodically evaluates whether an allowance for sales returns is necessary. Historically, the Company has experienced sales returns. If the Company concludes there are potential sales returns, the Company would provide any necessary provision against sales.

Shipping and Handling Costs

Expenses for shipping and handling costs are included in selling, general and administrative expenses, and totaled approximately \$2,081,000 and \$2,177,000, respectively, for the years ended December 31, 2014 and 2013.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash held in bank demand deposits. The Company considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents. There were no cash equivalents at December 31, 2014 and 2013.

Financial Instruments

The carrying amounts reported in the consolidated balance sheets for cash, accounts receivable, accounts payable and short-term debt approximate fair value as of December 31, 2014 and 2013 because of the relatively short-term maturity of these financial instruments. The carrying amounts reported for long-term debt approximate fair value as of December 31, 2014 and 2013 because, in general, the interest rates underlying the instruments fluctuate with market rates.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are customer obligations due under normal trade terms. The Company sells its products to retailers, distributors and original equipment manufacturers involved in a variety of industries. The Company performs continuing credit evaluations of its customers' financial condition, and although the Company generally does not require collateral, letters of credit may be required from customers in certain circumstances.

Management reviews accounts receivable to determine if any receivables will potentially be uncollectible. Factors considered in the determination include, among other factors, number of days an invoice is past due, customer historical trends, available credit ratings information, other financial data and the overall economic environment. Collection agencies may also be utilized if management so determines.

The Company records an allowance for doubtful accounts based on specifically identified amounts that are believed to be uncollectible. The Company also records as an additional allowance a certain percentage of aged accounts receivable, based on historical experience and the Company's assessment of the general financial conditions affecting its customer base. If actual collection experience changes, revisions to the allowance may be required. The Company has 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 the Company's 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, the Company believes that its allowance for doubtful accounts as of December 31, 2014 is adequate. However, actual write-offs might exceed the recorded allowance.

Concentrations of Credit Risk

The Company places the majority of its cash with Capital One Bank, which is insured by the Federal Deposit Insurance Corporation ("FDIC"). Significant concentrations of credit risk may arise from the Company's cash maintained at Capital One Bank, as from time to time cash balances may exceed the FDIC limits.

Financial instruments that potentially subject the Company to concentration of credit risk consist principally of accounts receivable. Within our Tools segment we have two customers that in the aggregate, as of December 31, 2014 and 2013, accounted for 43.3% and 58.3%, respectively, of our consolidated accounts receivable. To date, these customers, with few exceptions, are current in their payments.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, possible disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. On an on-going basis P&F evaluates its estimates, including those related to collectability of accounts receivable, valuation of inventories, recoverability of goodwill and intangible assets and income taxes. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not apparent from other sources. Actual results may differ from those estimates under different assumptions or conditions.

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 raw 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. If the actual amount of obsolete or unmarketable inventory significantly exceeds the estimated allowance, the Company's cost of sales, gross profit and net earnings would be significantly affected.

Property and Equipment and Depreciation and Amortization

Property and equipment are stated at cost less accumulated depreciation and amortization. Generally, the Company capitalizes items in excess of \$1,000. Minor replacements and maintenance and repair items are charged to expense as incurred. Upon disposal or retirement of assets, the cost and related accumulated depreciation are removed from the Company's consolidated balance sheet.

Depreciation of buildings and machinery and equipment is computed by using the straight-line method over the estimated useful lives of the assets. Buildings are depreciated over periods ranging from 27.5 to 31 years, and machinery and equipment is depreciated over periods ranging from 3 to 10 years. Leasehold improvements are amortized over the life of the lease or the useful life of the related asset, whichever is shorter.

Long-Lived Assets

In accordance with authoritative guidance issued by the Financial Accounting Standards Board (“FASB”), pertaining to the accounting for the impairment or disposal of long-lived assets, property and equipment and purchased intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Company’s assessment of recoverability of property and equipment is performed on an entity level. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of such asset to its estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of such asset exceeds its estimated undiscounted future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset.

Acquisitions

The Company accounts for acquired businesses using the purchase method of accounting, which requires that the assets acquired, liabilities assumed, and contingent consideration be recorded as of the date of the acquisition at their respective fair values. It further requires that acquisition-related costs be recognized separately from the acquisition and expensed as incurred and that restructuring costs be expensed in periods subsequent to the acquisition date. The Company engaged third party valuation appraisal firms to assist the Company in determining the fair values and useful lives of the assets acquired and liabilities assumed. The Company records a preliminary purchase price allocation for its acquisitions and finalizes purchase price allocations as additional information relative to the fair values of the assets acquired become known.

Goodwill and Other Intangible Assets

Goodwill is carried at cost less any impairment charges. Goodwill and intangible assets with indefinite lives are not amortized but are subject to an annual test for impairment at the entity unit level (operating segment or one level below an operating segment) and between annual tests in certain circumstances. In accordance with authoritative guidance issued by the FASB, the Company tests goodwill for impairment on an annual basis. This test occurs in the fourth quarter or more frequently if the Company believes indicators of impairment exist. The performance of the test involves a two-step process. The first step of the impairment test involves comparing the fair value of the Company’s reporting units with the reporting unit’s carrying amount, including goodwill. The Company generally determines the fair value of its reporting units using the income approach methodology of valuation that includes the expected present value of future cash flows and the market valuation approach. If the carrying amount of a reporting unit exceeds the reporting unit’s fair value, the Company performs the second step of the goodwill impairment test to determine the amount of impairment loss. The second step of the goodwill impairment test involves comparing the implied fair value of the reporting unit’s goodwill with the carrying amount of that goodwill. The measurement of goodwill subsequent to its initial recognition complies with the authoritative guidance issued by the FASB.

Intangible assets other than goodwill and intangible assets with indefinite lives are carried at cost less accumulated amortization. Intangible assets are generally amortized on a straight-line basis over their respective useful lives, generally three to twenty years.

Long-lived assets and certain identifiable intangible assets to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Determination of recoverability is based on an estimate of undiscounted future cash flows resulting from the use of the asset and its eventual disposition. Measurement of any impairment loss for long-lived assets and certain identifiable intangible assets that management expects to hold and use is based on the amount by which the carrying value exceeds the fair value of the asset.

Warranty Liability

The Company offers certain warranties against product defects for periods ranging from one to three years. Certain products carry limited lifetime warranties. The Company's typical warranties require it to repair or replace the defective products during the warranty period at no cost to the customer. At the time the product revenue is recognized, the Company records a liability for estimated costs under its warranties. The costs are estimated based on revenue and historical experience. The Company periodically assesses the adequacy of its recorded warranty liability and adjusts the amounts as necessary. While the Company believes that its estimated liability for product warranties is adequate and that the judgment applied is appropriate, the estimated liability for the product warranties could differ materially from future actual warranty costs.

Income Taxes

The Company accounts for income taxes using the asset and liability approach. This approach requires the recognition of current tax assets or liabilities for the amounts refundable or payable on tax returns for the current year, as well as the recognition of deferred tax assets or liabilities for the expected future tax consequences of temporary differences that can arise between (a) the amount of taxable income and pretax financial income for a year, such as from net operating loss carryforwards and other tax credits, and (b) the tax bases of assets or liabilities and their reported amounts in the consolidated financial statements. Deferred tax assets and liabilities are measured using enacted tax rates. The impact on deferred tax assets and liabilities of changes in tax rates and laws, if any, is reflected in the consolidated financial statements in the period enacted. Further, we evaluate the likelihood of realizing benefit from our deferred tax assets by estimating future sources of taxable income and the impact of tax planning strategies. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion, or all, of the deferred tax assets will not be realized.

The Company files a consolidated Federal tax return. P&F and certain of its subsidiaries file combined tax returns in New York and Texas. All subsidiaries, other than UAT, file other state and local tax returns on a stand-alone basis. UAT files an income tax return to the taxing authorities in the United Kingdom.

When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while other positions 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. For tax positions that meet the more-likely-than-not recognition threshold, the tax benefit is measured as the largest amount that is judged to have a greater than 50 percent likelihood of being realized upon ultimate 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 consolidated 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 consolidated statements of income and comprehensive income.

Advertising

The Company expenses its costs of advertising in the period in which they are incurred. Advertising costs for the years ended December 31, 2014 and 2013 were \$1,642,000 and \$1,401,000, respectively.

Earnings Per Common Share

Basic earnings per common share exclude any dilution. It is based upon the weighted average number of shares of common stock outstanding during the year. Diluted earnings per common share reflect the effect of shares of common stock issuable upon the exercise of stock options, unless the effect on earnings is anti-dilutive.

Diluted earnings per common share is computed using the treasury stock method. Under this method, the aggregate number of shares of common stock outstanding reflects the assumed use of proceeds from the hypothetical exercise of any outstanding options to purchase shares of the Company's Class A Common Stock. The average market value for the period is used as the assumed purchase price.

The following table sets forth the computation of basic and diluted earnings per common share:

| | Years Ended December 31, | |
|--|-----------------------------|-------------|
| | 2014 | 2013 |
| Numerator: | | |
| Numerator for basic and diluted income per common share: | | |
| Net income | \$2,080,000 | \$3,225,000 |
| Denominator: | | |
| Denominator for basic income per share—weighted average common shares outstanding | 3,706,000 | 3,686,000 |
| Effect of dilutive securities: | | |
| Stock options | 178,000 | 201,000 |
| Denominator for diluted income per share—adjusted weighted average common shares and assumed conversions | 3,884,000 | 3,887,000 |

At December 31, 2014 and 2013 and during the years then ended, there were outstanding stock options whose exercise prices were higher than the average market values for the respective periods. These options are anti-dilutive and were excluded from the computation of diluted earnings per share during the years ended December 31, 2014 and 2013. The average anti-dilutive options outstanding for the years ended December 31, 2014 and 2013 were 219,547 and 252,391, respectively.

Share-Based Compensation

In accordance with GAAP, the Company measures and recognizes compensation expense for all share-based payment awards based on estimated fair values. Share-based compensation expense is included in selling, general and administrative expense on the accompanying consolidated statements of income and comprehensive income. See Note 7 for additional information.

With respect to stock options, GAAP requires companies to estimate the fair value of share-based payment awards on the date of grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service periods in the Company's consolidated statement of income and comprehensive income. The Company records compensation expense ratably over the vesting periods. The Company estimates forfeitures at the time of grant and revises this estimate, if necessary, in subsequent periods if actual forfeitures differ from those estimates. The Company uses the Black-Scholes option-pricing model as its method of valuation for share-based awards granted. As such, the Company's determination of fair value of share-based payment awards is affected by the Company's stock price as well as assumptions regarding a number of complex and subjective variables. These variables include, but are not limited to the Company's expected stock price volatility over the term of the awards, relevant interest rates, and the expected term of the awards.

With respect to any issuance of its common stock, the Company determines fair value per share as the closing price of its common stock on the date of the grant of said shares.

Foreign Currency Translation

The assets and liabilities of international operations are translated at the exchange rates in effect at the balance sheet date. Revenue and expense accounts are translated at the monthly average exchange rates. Adjustments arising from the translation of the foreign currency financial statements of the company's international operations are reported as a component of "Accumulated other comprehensive income (loss)" in the company's consolidated balance sheets.

For foreign currency remeasurement from each local currency into the appropriate functional currency, monetary assets and liabilities are remeasured to functional currencies using current exchange rates in effect at the balance sheet date. Gains or losses from these remeasurements were not significant and have been included in the company's consolidated statements of income and comprehensive income. Non-monetary assets and liabilities are recorded at historical exchange rates, and the related remeasurement gains or losses are reported as a component of "Accumulated other comprehensive income (loss)" in the company's consolidated balance sheets.

Adoption of New Accounting Pronouncements

The Company does not believe that any recently issued accounting standards if adopted would have a material effect on its consolidated financial statements.

NOTE 2 – ACQUISITIONS

Exhaust Technologies Inc.

On July 1, 2014, the Company acquired Exhaust Technologies, Inc. (“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 will operate through Florida Pneumatic. The purchase price for this acquisition consisted of \$10,377,000 in cash plus the assumption of certain payables. The Company financed this acquisition from the Company's Revolver Loan (“Revolver”) provided for within the Credit Agreement with Capital One Business Credit Corp. (“COBC”), which is further described in Note 6 to these Consolidated Financial Statements.

Universal Air Tool Company Limited

On July 29, 2014, the Company acquired all of the outstanding shares of Universal Air Tool Company Limited (“UAT”), a distributor of pneumatic tools. The purchase price for this acquisition consisted of approximately \$1,947,000 in cash and is subject to a post-closing working capital adjustment. In addition, there is a potential contingent consideration payment due to the former shareholders of UAT of a maximum of £250,000. UAT, which is located in High Wycombe, England, markets pneumatic tools to the automotive market sector primarily in the United Kingdom and Ireland. The Company financed this acquisition from the Company's Revolver, which is further described in Note 6 to these Consolidated Financial Statements.

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 Air Tool Service Company (“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 payables and liabilities, and is subject to a post-closing working capital adjustment. The Company financed this acquisition from the Company's Revolver and a new Term Loan provided for within the Credit Agreement with COBC, which is further described in Note 6 to these Consolidated Financial Statements.

The purchase price for the acquisitions completed during 2014 was as follows:

| | ETI | UAT | ATSCO | Total |
|--|--------------|-------------|-------------|--------------|
| Cash paid at closing | \$9,850,000 | \$1,947,000 | \$7,659,000 | \$19,456,000 |
| Net asset adjustments | 484,000 | (142,000) | — | 342,000 |
| Excess liabilities assumed | 43,000 | — | — | 43,000 |
| Fair value of contingent consideration | — | 425,000 | — | 425,000 |
| Total purchase price | \$10,377,000 | \$2,230,000 | \$7,659,000 | \$20,266,000 |

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

| | ETI | UAT | ATSCO | TOTAL |
|---|--------------|-------------|-------------|--------------|
| Cash | \$— | \$14,000 | \$— | \$14,000 |
| Accounts receivable | 1,086,000 | 732,000 | 190,000 | 2,008,000 |
| Inventories | 1,669,000 | 852,000 | 600,000 | 3,121,000 |
| Other current assets | 911,000 | 4,000 | — | 915,000 |
| Property and equipment | 140,000 | 167,000 | 581,000 | 888,000 |
| Identifiable intangible assets: | | | | |
| Customer relationships | 4,560,000 | 339,000 | 3,260,000 | 8,159,000 |
| Trademarks and trade names | 1,160,000 | 478,000 | 240,000 | 1,878,000 |
| Non-compete agreements | 115,000 | 134,000 | 130,000 | 379,000 |
| Engineering drawings | — | — | 120,000 | 120,000 |
| Patents | 1,205,000 | — | — | 1,205,000 |
| Total assets acquired | 10,846,000 | 2,720,000 | 5,121,000 | 18,687,000 |
| Less: Liabilities assumed | 1,489,000 | 535,000 | 345,000 | 2,369,000 |
| Deferred income taxes | 2,708,000 | 189,000 | — | 2,897,000 |
| Total fair value of net assets acquired | 6,649,000 | 1,996,000 | 4,776,000 | 13,421,000 |
| Goodwill | 3,728,000 | 234,000 | 2,883,000 | 6,845,000 |
| Total estimated purchase price | \$10,377,000 | \$2,230,000 | \$7,659,000 | \$20,266,000 |

The excess of the total purchase price over the fair value of the net assets acquired, including the value of the identifiable intangible assets, has been allocated to goodwill. Goodwill attributable to ATSCO is deductible for tax purposes. Goodwill attributable to ETI and UAT is not deductible for tax purposes. The ATSCO intangible assets subject to amortization will be amortized over fifteen years for tax purposes. The ETI and UAT intangible assets are not subject to amortization for tax purposes. For financial reporting purposes, useful lives have been assigned as follows:

| | ETI | UAT | ATSCO |
|----------------------------|------------|------------|------------|
| Customer relationships | 12 years | 12 years | 12 years |
| Trademarks and trade names | Indefinite | Indefinite | Indefinite |
| Non-compete agreements | 4 years | 3 years | 5 years |
| Engineering drawings | — | — | 5 years |
| Patents | 3-10 years | — | — |

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

Goodwill recognized on the above acquisitions represents value the Company expects to be created by combining the various operations of the acquired businesses with the Company's operations, including the expansion into markets within existing business segments, access to new customers and potential cost savings and synergies.

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, 2013. 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, 2013 (the beginning of the earliest period presented) or to project potential operating results as of any future date or for any future periods.

| | For the year ended December 31, 2014 (Unaudited) | For the year ended December 31, 2013 (Unaudited) |
|------------------------------|--|--|
| Revenues | \$ 83,355,000 | \$ 89,962,000 |
| Net income | \$ 3,107,000 | \$ 4,328,000 |
| Earnings per share - basic | \$ 0.84 | \$ 1.17 |
| Earnings per share - diluted | \$ 0.80 | \$ 1.11 |

In connection with these acquisitions, the Company recorded acquisition-related costs in Selling, general and administrative expense, that totaled approximately \$764,000 for the year ended December 31, 2014.

Due to integration of ETI and UAT into the business operations of Florida Pneumatic, and the integration of ATSCO into the business operations of Hy-Tech, since their respective date of acquisition it is impracticable to determine the specific revenue and earnings directly attributable to any of the acquired businesses.

NOTE 3—ACCOUNTS RECEIVABLE AND ALLOWNCE FOR DOUBTFUL ACCOUNTS

Accounts receivable—net consists of:

| | December 31, 2014 | December 31, 2013 |
|---------------------------------|----------------------|----------------------|
| Accounts receivable | \$9,693,000 | \$8,975,000 |
| Allowance for doubtful accounts | (146,000) | (236,000) |
| | \$9,547,000 | \$8,739,000 |

NOTE 4—INVENTORIES

Inventories consist of:

| | December 31, 2014 | December 31, 2013 |
|-----------------|----------------------|----------------------|
| Raw materials | \$2,014,000 | \$1,836,000 |
| Work in process | 1,433,000 | 475,000 |
| Finished goods | 20,888,000 | 20,663,000 |
| | \$24,335,000 | \$22,974,000 |

NOTE 5—GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill and other intangible assets with indefinite lives are tested annually or whenever events or circumstances indicate the carrying value of these assets may not be recoverable. In accordance with authoritative guidance issued by the FASB, the Company performed an annual impairment test of goodwill and indefinite-lived intangible assets during the fourth quarter based on conditions as of November 30, 2014. The impairment testing is performed in two steps: (i) The Company compares the fair value of a reporting unit with its carrying value, and (ii) if there is impairment, the Company measures the amount of impairment loss by comparing the implied fair value of goodwill with the carrying amount of that goodwill. The revised fair value of a reporting unit is allocated to the assets and liabilities of the business unit to arrive at an implied fair value of goodwill, based upon known facts and circumstances, as if the acquisition occurred at that time. The Company determines the fair value of its reporting units using a weighted average of the income approach methodology of valuation which considers the expected present value of future cash flows and the market valuation approach. As an integral part of the valuation process the Company anticipates minimal growth in future periods, based upon available statistical data as well as input from its senior management staff. The results of step one of the impairment test determined that the fair value exceeded the carrying value and, as such, no impairment to Goodwill and other intangible assets was recorded in 2014 or 2013.

The changes in the carrying amount of goodwill by segment for 2014 and 2013 are as follows:

| | Consolidated | Tools | Hardware |
|-----------------------------------|--------------|--------------|-------------|
| Balance, January 1, 2014 | \$5,150,000 | \$3,277,000 | \$1,873,000 |
| Acquisition of ETI, UAT and ATSCO | 6,845,000 | 6,845,000 | — |
| Currency translation adjustments | (15,000) | (15,000) | — |
| Balance, December 31, 2014 | \$11,980,000 | \$10,107,000 | \$1,873,000 |

Other intangible assets were as follows:

| | December 31, 2014 | | | December 31, 2013 | | |
|----------------------------|-------------------|--------------------------|----------------|-------------------|--------------------------|----------------|
| | Cost | Accumulated amortization | Net book value | Cost | Accumulated amortization | Net book value |
| Other intangible assets: | | | | | | |
| Customer relationships | \$ 13,194,000 | \$ 4,551,000 | \$ 8,643,000 | \$ 5,070,000 | \$ 4,087,000 | \$ 983,000 |
| Trademarks and trade names | 2,035,000 | — | 2,035,000 | 199,000 | — | 199,000 |
| Engineering drawings | 410,000 | 120,000 | 290,000 | 290,000 | 97,000 | 193,000 |
| Licensing | 305,000 | 235,000 | 70,000 | 305,000 | 178,000 | 127,000 |
| Non-compete agreements | 368,000 | 41,000 | 327,000 | — | — | — |
| Patents | 1,205,000 | 133,000 | 1,072,000 | — | — | — |
| Totals | \$ 17,517,000 | \$ 5,080,000 | \$ 12,437,000 | \$ 5,864,000 | \$ 4,362,000 | \$ 1,502,000 |

As of 2014 year end, the company has no accumulated impairment losses.

The weighted-average amortization periods (in years) related to other intangible assets are as follows:

| | December 31, 2014 | December 31, 2013 |
|----------------------------|-------------------|-------------------|
| Customer relationships | 10.9 | 6.1 |
| Trademarks and trade names | — | — |
| Engineering drawings | 9.2 | 13.1 |
| Licensing | 1.2 | 2.2 |
| Non-compete agreements | 3.6 | — |
| Patents | 6.1 | — |
| Total | 10.1 | 6.8 |

Amortization expense for intangible assets was approximately \$718,000 and \$250,000, for the years ended December 31, 2014 and 2013, respectively.

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

| | |
|------|--------------|
| 2015 | \$ 1,296,000 |
| 2016 | 1,250,000 |
| 2017 | 1,117,000 |

| | |
|------------|--------------|
| 2018 | 974,000 |
| 2019 | 941,000 |
| Thereafter | 4,824,000 |
| | \$10,402,000 |

There were no impairment charges recorded for the years ended December 31, 2014 and 2013.

NOTE 6—DEBT***SHORT-TERM***

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 under 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.

Contemporaneously with the ATSCO acquisition described in Note 2, the Company, on August 13, 2014, 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 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 December 31, 2014 and December 31, 2013, the balance of Revolver borrowings outstanding was \$11,817,000 and \$360,000, respectively. The primary cause for the increase in the Company’s Revolver balance at December 31, 2014, was due to the funding necessary to complete the acquisitions of ETI, UAT and ATSCO that occurred during the third quarter of 2014. See Note 2, for further discussion on the use of funds in connection with these acquisitions. Applicable Margins added to Revolver borrowings at LIBOR and the Base Rate were 2.25% and 1.25%, respectively at December 31, 2014 and were 1.75% and 0.75%, respectively, at December 31, 2013.

| | LIBOR | Base Rate |
|--|----------------------------|----------------------------|
| Range of Applicable Margins added to Revolver borrowings during: | | |
| 2014 | 1.50 points to 2.25 points | 0.50 points to 1.25 points |
| 2013 | 1.75 points to 2.25 points | 0.75 points to 1.25 points |

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 two percent 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 borrowings at December 31, 2014 and December 31, 2013 was 3.0%. The Applicable Margins for borrowings at the Base rate was 2.0% at December 31, 2014 and December 31, 2013.

Additionally, the Restated Loan Agreement provides for a Term Loan B, pursuant to which the Company borrowed the maximum principal amount of \$3,000,000 as part of the ATSCO acquisition. This Term Loan B is 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. Term Loan B borrowings incur interest at LIBOR or the Base Rate plus the Applicable Margins, which was 3.25% and 2.25% at December 31, 2014. As the result of computing the Excess Cash Flow for the year 2014, the Company determined that, in April 2015, it will be required to repay the balance of Term Loan B, which is estimated to be approximately \$2.4 million. Accordingly, the approximate payment of \$2.4 million is included in "current maturities" below. The effect of this repayment in April 2015 will be to eliminate Term Loan B and increase the Revolver a like amount.

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 both December 31, 2014 and December 31, 2013 were 3.00% and 2.00%, for borrowings at LIBOR and the Base Rate, respectively.

Long-term debt:

| | December 31, 2014 | December 31, 2013 |
|---|----------------------|----------------------|
| Term Loan A - \$23,000 payable monthly January 2013 through December 2017, balance due December 19, 2017. | \$ 6,440,000 | \$ 6,720,000 |
| 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. | 178,000 | 254,000 |
| Capex Term Loan - \$9,000 payable monthly October 2012 through September 2017. | 285,000 | 389,000 |
| Other | 90,000 | — |
| | 9,660,000 | 7,363,000 |
| Less current maturities | 3,167,000 | 460,000 |
| | \$ 6,493,000 | \$ 6,903,000 |

The aggregate amounts of long-term debt scheduled to mature in each of the years ended December 31, are approximately as follows: 2015—\$3,167,000; 2016—\$493,000 and 2017—\$6,000,000. Interest expense on long-term debt was approximately \$274,000 and \$254,000, respectively, for the years ended December 31, 2014 and 2013.

NOTE 7—STOCK OPTIONS – STOCK COMPENSATION

At the Annual Meeting of Stockholders held May 23, 2012 (the “Annual Meeting”), the Company’s stockholders approved the P&F Industries, Inc. 2012 Stock Incentive Plan (the “2012 Plan”). The 2012 Plan authorizes the issuance, to employees, consultants and non-employee directors of nonqualified stock options, stock appreciation rights, restricted stock, performance shares, performance units, and other stock-based awards. In addition, employees are eligible to be granted incentive stock options under the 2012 Plan. The 2012 Plan is currently administered by the compensation committee of the Company’s Board of Directors (the “Committee”). The aggregate number of shares of the Company’s Class A Common Stock (“Common Stock”) that may be issued under the 2012 Plan may not exceed 325,000 shares; provided, however, that any shares of Common Stock that are subject to a stock option, stock appreciation right or other stock-based award that is based on the appreciation in value of a share of Common Stock in excess of an amount equal to at least the fair market value of the Common Stock on the date such other stock-based award is granted (each an “Appreciation Award”) will be counted against this limit as one share for every share granted. Any shares of restricted stock or shares of Common Stock that are subject to any other award other than Appreciation Award will be counted against this limit as 1.5 shares for every share granted.

The maximum number of shares of Common Stock with respect to which any award of stock options, stock appreciation rights or other Appreciation Award that may be granted under the 2012 Plan during any fiscal year to any eligible employee or consultant will be 100,000 shares per type of award. The maximum number of shares of Common Stock subject to any award of performance shares for any performance period, other stock based awards that are not Appreciation Awards, or shares of restricted stock for which the grant of such award or the lapse of the relevant restriction period is subject to the attainment of specified performance goals that may be granted under the 2012 Plan during any fiscal year to any eligible employee or consultant will be 65,000 shares per type of award. The maximum number of shares of Common Stock for all such types of awards to any eligible employee or consultant will be 165,000 shares during any fiscal year. There are no annual limits on the number of shares of Common Stock with respect to an award of restricted stock that is not subject to the attainment of specified performance goals to eligible employees or consultants. The maximum value at grant of performance units which may be granted under the 2012 Plan during any fiscal year will be \$1,000,000. The maximum number of shares of Common Stock subject to any award which may be granted under the 2012 Plan during any fiscal year of the Company to any non-employee director will be 35,000 shares.

With respect to stock options, the Committee will determine the number of shares of Common Stock subject to each option, the term of each option, which may not exceed ten years (or five years in the case of an incentive stock option granted to a 10% stockholder), the exercise price, the vesting schedule (if any), and the other material terms of each option. No stock option may have an exercise price less than the fair market value of the Common Stock at the time of grant (or, in the case of an incentive stock option granted to a 10% stockholder, 110% of fair market value). With respect to all other permissible grants under the 2012 Plan, the Committee will determine their terms and conditions, subject to the terms and conditions of the 2012 Plan.

The 2012 Plan, which terminates in May 2022, is the successor to the Company's 2002 Stock Incentive Plan ("Previous Plan") – see below. Stock option awards made under the Previous Plan will continue in effect and remain governed by the provisions of that plan.

The Company's Previous Plan authorized the issuance to employees and directors of options to purchase a maximum of 1,100,000 shares of Common Stock. These options had to be issued within ten years of the effective date of the Previous Plan and are exercisable for a ten year period from the date of grant, at prices not less than 100% of the closing market value of the Common Stock on the date the option is granted. In the event options granted contained a vesting schedule over a period of years, the Company recognized compensation cost for these awards ratably over the service period.

There were no Common Stock options granted in 2014.

The Company estimated the fair value of its common stock options using the following assumptions:

| | For the year ended December 31, 2013 | |
|--|---|---|
| Risk-free interest rate | 1.82 | % |
| Expected term | 10 years | |
| Volatility | 81.27 | % |
| Dividend yield | 0 | % |
| Weighted-average fair value of options granted | \$ 6.72 | |

The following table contains information on the status of the Company's stock options:

| | Number of Shares | Weighted Average Exercise Price per share | Aggregate Intrinsic Value |
|--------------------------------|------------------------|---|---------------------------------|
| Outstanding, January 1, 2013 | 584,688 | \$ 6.48 | |
| Granted | 71,500 | 8.21 | |
| Exercised | (22,000) | 3.80 | |
| Expired | (1,000) | 11.20 | |
| Outstanding, December 31, 2013 | 633,188 | 6.76 | |
| Granted | — | — | |
| Exercised | (97,688) | 7.69 | |
| Expired | (30,500) | 7.99 | |
| Outstanding, December 31, 2014 | 505,000 | \$ 6.51 | \$ 1,232,000 |
| Vested, December 31, 2014 | 443,994 | \$ 6.38 | \$ 1,192,000 |

All options that expired in 2014 and 2013 were issued under the Previous Plan.

The following is a summary of changes in non-vested shares, all of which are expected to vest:

| | December 31, 2014 | Weighted Average Grant-Date Fair Value | 2013 | Weighted Average Grant-Date Fair Value |
|--------------------------------------|----------------------|---|-----------|---|
| Non-vested shares, beginning of year | 121,500 | \$ 5.38 | 141,000 | \$ 2.94 |
| Granted | — | — | 71,500 | 6.72 |
| Vested | (60,494) | 4.62 | (91,000) | 2.64 |
| Forfeited | — | — | — | — |
| Non-vested shares, end of year | 61,006 | \$ 6.14 | 121,500 | \$ 5.38 |

Stock-based compensation expense recognized for the years ended December 31, 2014 and 2013 was approximately \$220,000 and \$338,000, respectively. The Company recognizes stock-based compensation cost over the requisite service period. However, the exercisability of the respective non-vested options, which are at predetermined dates, does not necessarily correspond to the periods in which straight line amortization of compensation expenses is recorded.

The following table summarizes information about stock options outstanding and exercisable at December 31, 2014:

| Range of Exercise Prices | Options Outstanding | | | Options Exercisable | | |
|--------------------------|---------------------|---|---------------------------------|---------------------|---|---------------------------------|
| | Number outstanding | Weighted Average Remaining Contractual Life (Years) | Weighted Average Exercise Price | Number exercisable | Weighted Average Remaining Contractual Life (Years) | Weighted Average Exercise Price |
| \$14.44 - \$16.68 | 24,500 | 0.5 | \$ 16.50 | 24,500 | 0.5 | \$ 16.50 |
| \$11.20 | 85,500 | 2.5 | \$ 11.20 | 85,500 | 2.5 | \$ 11.20 |
| \$4.16 | 170,000 | 3.5 | \$ 4.16 | 170,000 | 3.5 | \$ 4.16 |
| \$3.05 | 55,000 | 6.0 | \$ 3.05 | 55,000 | 6.0 | \$ 3.05 |
| \$4.48 - \$4.95 | 98,500 | 6.9 | \$ 4.72 | 85,167 | 6.8 | \$ 4.68 |
| \$8.21 | 71,500 | 8.3 | \$ 8.21 | 23,827 | 8.3 | \$ 8.21 |
| | 505,000 | 4.8 | \$ 6.51 | 443,994 | 4.3 | \$ 6.38 |

Other Information

As of December 31, 2014, the Company had approximately \$101,000 of total unrecognized compensation cost related to non-vested awards granted under its share-based plans, which it expects to recognize over a weighted-average period of one year.

At December 31, 2014 and 2013, there were 194,517 and 199,512 shares available for issuance under the 2012 Plan. At December 31, 2014, there were outstanding 113,500 options issued under the 2012 Plan and 391,500 options outstanding issued under the Previous Plan.

Restricted Stock

Pursuant to the 2012 Plan, the Company, in May 2014, granted 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 that the fair value of these shares was \$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. As such, the Company is ratably amortizing the total non-cash compensation expense of approximately \$25,000 in its selling, general and administrative expenses through May 2015.

Pursuant to the 2012 Plan, the Company, in May 2013, granted 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 that the fair value of these shares was \$8.95, which was the closing price of the Company's Common Stock on the date of the grant. These shares could not have been traded earlier than the first anniversary of the grant date. As such, the Company ratably amortized the total non-cash compensation expense of approximately \$30,000 in its selling, general and administrative expenses through May 2014.

Treasury Stock

On October 14, 2014, the Company acquired 208,325 shares of the Company's Class A Common Stock from Timothy J. Stabosz in a privately negotiated transaction pursuant to a purchase agreement, at a purchase price of \$7.60 per share, which was at a discount to the then market price of the Company's Common Stock, with an aggregate purchase price of approximately \$1,583,000. The purchase agreement contains certain covenants, including standstill restrictions imposed on Mr. Stabosz with respect to shares of Common Stock for a three-year period.

NOTE 8—INCOME TAXES

Income tax expense in the consolidated statements of income and comprehensive income consists of:

| | Years Ended December 31, | |
|---|-----------------------------|--------------|
| | 2014 | 2013 |
| Current: | | |
| Federal | \$ 123,000 | \$(317,000) |
| State and local | 109,000 | 108,000 |
| Foreign | 7,000 | — |
| Total current | 239,000 | (209,000) |
| Deferred: | | |
| Federal | 1,830,000 | 1,471,000 |
| State and local | 208,000 | 117,000 |
| Reversal of State and Local Valuation Allowance | (574,000) | — |
| Foreign | (6,000) | — |
| Total deferred | 1,458,000 | 1,588,000 |
| Totals | \$ 1,697,000 | \$ 1,379,000 |

The Company has Federal net operating loss carryforwards at December 31, 2014 of approximately \$606,000, which expire in 2033.

In addition, the Company has state net operating loss carryforwards of \$9,700,000, which expire in 2030 through 2033.

Deferred tax assets (liabilities) consist of:

| | December 31, | |
|-------------------------------------|--------------|-----------|
| | 2014 | 2013 |
| Deferred tax assets—current: | | |
| Bad debt reserves | \$ 52,000 | \$ 86,000 |
| Inventory reserves | 1,066,000 | 989,000 |
| Warranty and other reserves | 220,000 | 314,000 |
| | 1,338,000 | 1,389,000 |
| Valuation allowance | — | (11,000) |
| | 1,338,000 | 1,378,000 |
| Deferred tax (liabilities)—current: | | |

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| | | |
|--|----------------|--------------|
| Prepaid expenses | (189,000) | (210,000) |
| Net deferred tax assets—current | \$ 1,149,000 | \$ 1,168,000 |
| Deferred tax assets—non-current | | |
| Federal net operating loss | \$ 206,000 | \$ 2,195,000 |
| State net operating loss | 208,000 | 614,000 |
| Tax credits | 243,000 | 128,000 |
| Stock based compensation | 521,000 | 455,000 |
| Other | 95,000 | 1,000 |
| | 1,273,000 | 3,393,000 |
| Valuation allowance | — | (617,000) |
| | 1,273,000 | 2,776,000 |
| Deferred tax (liabilities)—non-current: | | |
| Depreciation | (1,036,000) | (1,032,000) |
| Intangibles | (2,864,000) | (144,000) |
| Goodwill | (93,000) | (6,000) |
| | (3,993,000) | (1,182,000) |
| Net deferred tax (liabilities) assets —non-current | \$ (2,720,000) | \$ 1,594,000 |

As discussed in Note 1, on November 12, 2013, the Company sold the assets of the Kitchen and Bath product line. As the result of the sale, the Company wrote-off the remaining tax basis of intangibles and goodwill. The deferred tax effect was to reduce tax basis of intangibles and goodwill and increase the net operating loss carryforward.

A reconciliation of the Federal statutory rate to the total effective tax rate applicable to income from continuing operations is as follows:

| | Years ended December 31, | |
|--|-----------------------------|--------|
| | 2014 | 2013 |
| Federal income tax computed at statutory rates | 34.0 % | 34.0 % |
| (Decrease) increase in taxes resulting from: | | |
| State and local taxes, net of Federal tax benefit | 4.1 | 3.2 |
| Change in valuation allowance | (10.0) | (0.6) |
| Expenses not deductible for tax purposes - net | 5.1 | 0.5 |
| Lapse of statute of limitation on uncertain tax position | — | (6.8) |
| Reversal of liabilities (1) | 11.3 | — |
| Other | 0.4 | (0.3) |
| Income tax expense | 44.9 % | 30.0 % |

As the result of the expiration of various state statute of limitations pertaining to approximately \$1.2 million of (1) unpaid vendor invoices belonging to a formerly deconsolidated subsidiary, for which claims for payment were not submitted, the Company was required to recognize a gain for income tax purposes.

The Company follows the authoritative guidance issued by the FASB that pertains to the accounting for uncertain tax matters. A reconciliation of the beginning and ending amounts of unrecognized tax benefits is as follows:

| | |
|---|-----------|
| Balance at January 1, 2013 | \$315,000 |
| Interest accrual | 14,000 |
| Lapse of statute of limitation on uncertain tax position | (329,000) |
| Balance at January 1, 2014 | — |
| Additions for tax positions related to current year acquisition | 866,000 |
| Interest accrual | 14,000 |
| Balance at December 31, 2014 | \$880,000 |

In connection with one of the acquisitions that occurred in 2014, the Company, in accordance the Accounting Standards Codification 740-10, recorded in Accrued liabilities an uncertain tax position of \$866,000 on its Consolidated Balance Sheet as of December 31, 2014. The parties to such transaction entered into a tax exposure-related escrow agreement, which, together with the indemnity obligations of the seller, the Company believes adequately covers the entire potential exposure related to the uncertain tax position. As a result, such liability was offset by an indemnification asset recorded in Prepaid expenses and other current assets in the Consolidated Balance Sheet.

The Company files a consolidated Federal tax return. The Company and certain of its subsidiaries file tax returns in various U.S. state jurisdictions. Its foreign subsidiary, UAT, files in the United Kingdom. With few exceptions, the years that remain subject to examination are the years ended December 31, 2011 through December 31, 2013. During the prior year, the Company received notification from the Internal Revenue Service of an examination for the year ended December 31, 2010. As of December 31, 2014, no significant preliminary audit findings were received by the Company and no reserves have been recorded.

Interest and penalties, if any, related to income tax liabilities are included in income tax expense.

NOTE 9—COMMITMENTS AND CONTINGENCIES

(a) The Company maintains a contributory defined contribution plan that covers all eligible employees. All contributions to this plan are discretionary. Amounts recognized as expense for contributions to this plan were \$373,000 and \$363,000 for the years ended December 31, 2014 and 2013, respectively.

(b) At December 31, 2014 and 2013, the Company had open purchase order commitments totaling approximately \$15,637,000 and \$10,443,000, respectively.

(c) The Company is a defendant or co-defendant in various actions brought about in the ordinary course of conducting its business. The Company does not believe that any of these actions are material to the consolidated financial position, results of operations or cash flows of the Company.

(d) The Company leases certain facilities and equipment through 2021. Generally, the facility leases carry renewal provisions and require the Company to pay maintenance costs. Rental payments may be adjusted for increases in taxes and insurance above specified amounts. Operating lease expense for 2014 and 2013 was \$360,000 and \$308,000, respectively. Future minimum payments under non-cancelable operating leases with initial or remaining terms of more than one year as of December 31, 2014 were as follows:

| | |
|------------|-----------|
| 2015 | \$334,000 |
| 2016 | 180,000 |
| 2017 | 102,000 |
| 2018 | 92,000 |
| 2019 | 77,000 |
| Thereafter | 60,000 |
| | \$845,000 |

NOTE 10—BUSINESS SEGMENTS

The Company has organized its business into two reportable business segments: “Tools” and “Hardware”. The Company is organized around these two distinct product segments, each of which has very different end users. For reporting purposes, Florida Pneumatic, and Hy-Tech are combined in the Tools segment, with Nationwide being the sole entity reported 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 described in Note 1.

The following table presents financial information by segment for the years ended December 31, 2014 and 2013. Segment operating income excludes general corporate expenses, interest expense and income taxes. Identifiable assets are those assets directly owned or utilized by the particular business.

| Year ended December 31, 2014 | Consolidated | Tools | Hardware |
|---|--------------|--------------|--------------|
| Net revenues from unaffiliated customers | \$75,035,000 | \$56,114,000 | \$18,921,000 |
| Segment operating income | \$10,313,000 | \$6,715,000 | \$3,598,000 |
| General corporate expense | (5,996,000) | | |
| Interest expense | (540,000) | | |
| Income before income taxes | \$3,777,000 | | |
| Segment assets | \$71,376,000 | \$60,348,000 | \$11,028,000 |
| Corporate assets | 1,700,000 | | |
| Total assets | \$73,076,000 | | |
| Long-lived assets, including \$51,000 of corporate assets | \$35,009,000 | \$30,326,000 | \$4,632,000 |
| Depreciation Expense, including \$11,000 of corporate expense | \$1,551,000 | \$1,336,000 | \$204,000 |
| Amortization Expense | \$718,000 | \$661,000 | \$57,000 |

| Year ended December 31, 2013 | Consolidated | Tools | Hardware |
|---|--------------|--------------|--------------|
| Net revenues from unaffiliated customers | \$76,066,000 | \$55,574,000 | \$20,492,000 |
| Segment operating income | \$10,328,000 | \$7,204,000 | \$3,124,000 |
| General corporate expense | (5,234,000) | | |
| Interest expense | (490,000) | | |
| Income before income taxes | \$4,604,000 | | |
| Segment assets | \$49,893,000 | \$38,984,000 | \$10,909,000 |
| Corporate assets | 3,348,000 | | |
| Total assets | \$53,241,000 | | |
| Long-lived assets, including \$22,000 of corporate assets | \$16,881,000 | \$12,303,000 | \$4,556,000 |
| Depreciation Expense, including \$14,000 of corporate expense | \$1,559,000 | \$1,350,000 | \$195,000 |
| Amortization Expense | \$250,000 | \$190,000 | \$60,000 |

There was no impairment charge recorded in 2014 or 2013.

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

| | Year ended December 31, | |
|-------------------------|-------------------------|--------------|
| | 2014 | 2013 |
| Revenue: | | |
| North America | \$72,881,000 | \$74,933,000 |
| Europe | 1,563,000 | 339,000 |
| All other | 591,000 | 794,000 |
| Total Revenue | \$75,035,000 | \$76,066,000 |
| Long-Lived Assets: | | |
| North America | \$33,709,000 | \$16,881,000 |
| Europe | 1,300,000 | -- |
| Total Long-Lived Assets | \$35,009,000 | \$16,881,000 |

NOTE 11—RELATED PARTY TRANSACTIONS

The president of one of the Company's subsidiaries is part owner of one of that subsidiary's vendors. During the years ended December 31, 2014 and 2013, the Company purchased approximately \$964,000 and \$882,000, respectively, of product from this vendor. At December 31, 2014 and 2013, the Company had trade payables to this vendor of \$103,000 and \$128,000, respectively. Additionally, during 2014 and 2013, the Company recorded sales to this vendor of \$27,000 and \$100,000, respectively.

NOTE 12—SUBSEQUENT EVENT

Effective January 1, 2015, the Company entered into an employment agreement with its Chief Executive Officer ("CEO"). The employment agreement provides for the CEO to serve as the Company's President and CEO and, if elected by the Board of Directors, Chairman of the Board, for a term expiring on December 31, 2018, unless sooner terminated pursuant to the provisions of the employment agreement. Pursuant to the employment agreement, the CEO will receive a minimum annual base salary of \$700,000, which will be reviewed annually by the compensation committee of the Board and may be increased, but not decreased, from time to time. The CEO is eligible for an annual discretionary incentive payment under the Company's Executive 162(m) Bonus Plan with performance goals to be set by the Compensation Committee in its sole discretion (after discussions with the CEO), with a target of 55% of his then-current base salary, and a maximum bonus based on exceeding performance targets as established by the Compensation Committee of 165% of his then-current base salary. The CEO also receives (i) senior executive level employee benefits, (ii) an annual payment of \$45,064 to cover premiums on a life insurance policy through 2016, (iii) a Company provided automobile and payment of certain related expenses, and (iv) payment and/or reimbursement of certain legal and consultants' fees in connection with the employment agreement.

In the event the CEO's employment is terminated by the Company without cause (as defined in the employment agreement), or the CEO resigns for good reason (as defined in the employment agreement) then, subject to his execution of a general release, the CEO will continue to receive his base salary for 20 months, a pro rata bonus for the year of termination, and the Company will pay his monthly COBRA premiums until the earlier of (a) 18 months from the date of termination, (b) his becoming eligible for medical benefits from a subsequent employer, or (c) his becoming ineligible for COBRA.

In the event the CEO's employment is terminated by the Company without cause or the CEO resigns for good reason within two years following a change in control (as defined in the employment agreement) or, under certain circumstances, within six months prior to a change in control, then subject to the CEO's execution of a general release, he will receive the amounts set forth in the previous paragraph either in whole or in part in a lump sum, subject to his execution of a general release. Notwithstanding the foregoing, in the event an excise tax (as defined in the employment agreement) would otherwise be incurred by the CEO, amounts paid upon a change in control will be reduced to 2.99 times his "base amount" (as determined in accordance with Sections 280G of the Internal Revenue Code of 1986, as amended).

Pursuant to the employment agreement, during term of his employment and for a period of twelve months after termination of his employment, the CEO is prohibited from (i) competing with the Company, (ii) soliciting or hiring the Company's employees, representatives or agents, or (iii) soliciting any of the Company's customers. The employment agreement also prohibits the CEO from using or disclosing any of the Company's non-public, proprietary or confidential information.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosures

None.

Item 9A. Controls and Procedures

Evaluation of disclosure controls and procedures

The Company's management, with the participation of the Company's CEO and CFO, evaluated, as of December 31, 2014, 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 December 31, 2014, 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.

Management's Report on Internal Control over Financial Reporting

The Company's Management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) of the Exchange Act). This system is designed by, or under the supervision of, the Company's principal executive officer and principal financial officer, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with generally accepted accounting principles.

Our internal control over financial reporting includes those policies and procedures that:

Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect our transactions and dispositions of our assets;

Provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with the authorizations of our management and directors; and

Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on the consolidated financial statements.

We carried out an evaluation, under the supervision and with the participation of our management, including our CEO and CFO, of the effectiveness of the design and operation of our internal control over financial reporting, as of December 31, 2014. Management based this assessment on criteria for effective internal control over financial reporting described in “Internal Control—Integrated Framework 2013” issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that evaluation, CEO and CFO concluded that our internal control over financial reporting was effective at December 31, 2014.

Because of its inherent limitations, internal controls may not prevent or detect misstatements. A control system, no matter how well designed and operated, can only provide reasonable, not absolute, assurance that the control system’s objectives will be met. Also, projections of any evaluation of effectiveness as to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with policies and procedures may deteriorate.

This annual report on Form 10-K does not include an attestation report of our independent registered public accounting firm regarding internal control over financial reporting. Management’s report was not subject to attestation by our independent registered public accounting firm pursuant to the rules of the Securities and Exchange Commission that permit us to provide only management’s report in this annual report.

Changes in Internal Control over Financial Reporting

With the oversight of senior management and the audit committee of our Board of Directors, during the fourth quarter of 2014, management took the necessary steps to remediate the underlying causes of the material weakness in our internal control over financial reporting that related to the Company's review process of a spreadsheet that was utilized to prepare a pro-forma footnote in its Quarterly Reports on Form 10-Q for the three-month periods ended June 30, 2014 and September 30, 2014. Steps taken include the implementation of a detailed review process of all manually generated spreadsheets, which includes redundant calculations, verification of data not generated by our legacy information systems, senior management level review, as well as an augmented detailed checklist, requiring dual sign-off for each item. Management believes that the actions described above have been fully implemented and tested and that the material weakness in our internal control over financial reporting has now been remediated. There were no other changes to our internal controls over financial reporting made during the three-month period ended December 31, 2014.

Item 9B. Other Information

None

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by Part III (Items 10, 11, 12, 13 and 14) of this Annual Report on Form 10-K is incorporated by reference to the Company's definitive proxy statement in connection with its Annual Meeting of Stockholders scheduled to be held in May 2015, to be filed with the Securities and Exchange Commission within 120 days following the end of the Company's year ended December 31, 2014.

Item 11. Executive Compensation

See Item 10.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

See Item 10.

Item 13. Certain Relationships and Related Transactions, and Director Independence

See Item 10.

Item 14. Principal Accounting Fees and Services

See Item 10.

PART IV

Item 15. Exhibits and Financial Statement Schedules

| | Page |
|---|-------------|
| a)List of Financial Statements, Financial Statement Schedules, and Exhibits | |
| (1)List of Financial Statements | 26 |
| The consolidated financial statements of the Company and its subsidiaries are included in Item 8 of Part II of this report. | 28 |
| (2) All schedules for which provision is made in the applicable accounting regulations of the Commission are not required under the related instructions or are inapplicable and, therefore, have been omitted. | |
| (3)List of Exhibits | 57 |

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

Exhibit

Number Description of Exhibit

| | |
|------------|--|
| 2.1 | Agreement and Plan of Merger, dated as of July 1, 2014, by and among Florida Pneumatic Manufacturing Corporation, Flying Tiger Acquisition Corp., Exhaust Technologies, Inc. and the Shareholders and Shareholders' Representatives as named therein (Incorporated by reference to Exhibit 2.1 to Registrant's Current Report on Form 8-K dated July 1, 2014). |
| 2.2 | Sale and Purchase Agreement, dated as of July 29, 2014, by and among Florida Pneumatic Manufacturing Corporation, the Shareholders as named therein, and Universal Air Tool Company Limited (Incorporated by reference to Exhibit 2.1 to Registrant's Current Report on Form 8-K dated July 29, 2014). |
| 2.3 | Asset Purchase Agreement dated as of August 13, 2014, by and among ATSCO Holdings Corp., Hy-Tech Machine, Inc., Air Tool Service Company and the Shareholder named therein (Incorporated by reference to Exhibit 2.1 to Registrant's Current Report on Form 8-K dated August 13, 2014). |
| 3.1 | Restated Certificate of Incorporation of the Registrant (Incorporated by reference to Exhibit 3.1 to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2004). |
| 3.2 | By-laws of the Registrant (as amended on January 14, 2013) (Incorporated by reference to Exhibit 3.2 to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2012). |
| 4.1 | Rights Agreement, dated as of August 19, 2004, between the Registrant and American Stock Transfer & Trust Company, as Rights Agent (Incorporated by reference to Exhibit 1 to the Registrant's Registration Statement on Form 8-A dated August 19, 2004). |

- 10.1** Loan and Security Agreement, dated as of October 25, 2010, among the Registrant, Florida Pneumatic Manufacturing Corporation, Hy-Tech, Machine, Inc., Nationwide Industries, Inc., Continental Tool Group, Inc., Countrywide Hardware, Inc., Embassy Industries, Inc., Green Manufacturing, Inc., Pacific Stair Products, Inc., WILP Holdings, Inc., Woodmark International, L.P., and Capital One Leverage Finance Corporation, as agent (Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated October 25, 2010).
- 10.2** Revolver Note, dated October 25, 2010, executed by the Registrant, Florida Pneumatic Manufacturing Corporation, Hy-Tech, Machine, Inc. and Nationwide Industries, Inc. in favor of Capital One Leverage Finance Corporation, as agent, in the original principal amount of \$15,910,000 (Incorporated by reference to Exhibit 10.8 to the Registrant's Current Report on Form 8-K dated October 25, 2010).
- 10.3** Term Loan Note, dated October 25, 2010, executed by the Registrant, Florida Pneumatic Manufacturing Corporation, Hy-Tech, Machine, Inc. and Nationwide Industries, Inc. in favor of Capital One Leverage Finance Corporation, as agent, in the original principal amount of \$6,090,000 (Incorporated by reference to Exhibit 10.9 to the Registrant's Current Report on Form 8-K dated October 25, 2010).
- 10.4** Mortgage, Assignment of Leases and Rents, Security Agreement and Financing Statement, dated as of October 25, 2010, made by Countrywide Hardware, Inc. in favor of Capital One Leverage Finance Corporation, as agent (Incorporated by reference to Exhibit 10.10 to the Registrant's Current Report on Form 8-K dated October 25, 2010).

Exhibit

Number Description of Exhibit

- 10.5** Mortgage, Assignment of Leases and Rents, Security Agreement and Financing Statement, dated as of October 25, 2010, made by Florida Pneumatic Manufacturing Corporation. in favor of Capital One Leverage Finance Corporation, as agent(Incorporated by reference to Exhibit 10.11 to the Registrant's Current Report on Form 8-K dated October 25, 2010).
- 10.6** Mortgage, Assignment of Leases and Rents, Security Agreement and Financing Statement, dated as of October 25, 2010, made by Hy-Tech Machine, Inc.. in favor of Capital One Leverage Finance Corporation, as agent (Incorporated by reference to Exhibit 10.12 to the Registrant's Current Report on Form 8-K dated October 25, 2010).
- 10.7** First Amendment to Loan and Security Agreement, dated as of September 21, 2011, among the Registrant, Florida Pneumatic Manufacturing Corporation, Hy-Tech, Machine, Inc., Nationwide Industries, Inc., Continental Tool Group, Inc., Countrywide Hardware, Inc., Embassy Industries, Inc., Green Manufacturing, Inc., Pacific Stair Products, Inc., WILP Holdings, Inc., Woodmark International, L.P., and Capital One Leverage Finance Corporation, as agent (Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated September 21, 2011).
- 10.8** Second Amendment to Loan and Security Agreement, dated as of November 21, 2011, among the Registrant, Florida Pneumatic Manufacturing Corporation, Hy-Tech, Machine, Inc., Nationwide Industries, Inc., Continental Tool Group, Inc., Countrywide Hardware, Inc., Embassy Industries, Inc., Green Manufacturing, Inc., Pacific Stair Products, Inc., WILP Holdings, Inc., Woodmark International, L.P., and Capital One Leverage Finance Corporation, as agent (Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated November 21, 2011).
- 10.9** Capex Term Note, dated November 21, 2011, executed by the Registrant, Florida Pneumatic Manufacturing Corporation, Hy-Tech, Machine, Inc. and Nationwide Industries, Inc. in favor of Capital One Leverage Finance Corporation, as agent, in the principal amount of up to \$2,500,000 (Incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K dated November 21, 2011).
- 10.10** Third Amendment to Loan and Security Agreement, dated as of December 19, 2012, among the Registrant, Florida Pneumatic Manufacturing Corporation, Hy-Tech Machine, Inc., Nationwide Industries, Inc., Continental Tool Group, Inc., Countrywide Hardware, Inc., Embassy Industries, Inc., Green Manufacturing, Inc., Pacific Stair Products, Inc., WILP Holdings, Inc., Woodmark International, L.P., and Capital One Leverage Finance Corporation, as lender and agent (Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated December 19, 2012).
- 10.11** Fourth Amendment to Loan and Security Agreement, dated as of May 22, 2013, among the Registrant, Florida Pneumatic Manufacturing Corporation, Hy-Tech Machine, Inc., Nationwide Industries, Inc., Continental Tool Group, Inc., Countrywide Hardware, Inc., Embassy Industries, Inc., Green Manufacturing, Inc., Pacific Stair Products, Inc., WILP Holdings, Inc., Woodmark International, L.P., and Capital One Leverage Finance Corporation, as lender and agent (Incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2013).
- 10.12** Amended and Restated Revolver Note, dated December 19, 2012, executed by Registrant, Florida Pneumatic Manufacturing Corporation, Hy-Tech Machine, Inc. and Nationwide industries, Inc. in favor of

Capital One Leverage Finance Corporation in the original principal amount of \$20,000,000 (Incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K dated December 19, 2012).

10.13

Amended and Restated Term Loan Note, dated December 19, 2012, executed by Registrant, Florida Pneumatic Manufacturing Corporation, Hy-Tech Machine, Inc. and Nationwide industries, Inc. in favor of Capital One Leverage Finance Corporation in the original principal amount of \$7,000,000 (Incorporated by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K dated December 19, 2012).

10.14

First Amendment to Open-End Mortgage, Security Agreement, Assignment of Leases and Rents and Financing Statement dated as of December 19, 2012, made by Hy-Tech Machine, Inc. in favor of Capital One Leverage Finance Corporation, as agent (Incorporated by reference to Exhibit 10.4 to the Registrant's Current Report on Form 8-K dated December 19, 2012).

Exhibit

Number Description of Exhibit

- 10.15** Second Amendment to Mortgage, Assignment of Leases and Rents, Security Agreement and Financing Statement, dated as of December 19, 2012, made by Countrywide Hardware, Inc. in favor of Capital One Leverage Finance Corporation, as agent (Incorporated by reference to Exhibit 10.5 to the Registrant's Current Report on Form 8-K dated December 19, 2012).
- 10.16** Second Amendment to Mortgage, Assignment of Leases and Rents, Security Agreement and Financing Statement, dated as of December 19, 2012, made by Florida Pneumatic Manufacturing Corporation in favor of Capital One Leverage Finance Corporation, as agent (Incorporated by reference to Exhibit 10.6 to the Registrant's Current Report on Form 8-K dated December 19, 2012).
- 10.17** Fifth Amendment to Loan and Security Agreement, dated as of July 1, 2014, among the Registrant, Florida Pneumatic Manufacturing Corporation, Hy-Tech Machine, Inc., Nationwide Industries, Inc., Continental Tool Group, Inc., Countrywide Hardware, Inc., Embassy Industries, Inc., Green Manufacturing, Inc., Pacific Stair Products, Inc., WILP Holdings, Inc., Woodmark International, L.P., and Capital One Business Credit Corporation, as lender and agent (Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated July 1, 2014).
- 10.18** Sixth Amendment to the Loan Agreement, dated as of July 29, 2014, by and among the Registrant, Florida Pneumatic Manufacturing Corporation, Hy-Tech Machine, Inc., Nationwide Industries, Inc., Continental Tool Group, Inc., Countrywide Hardware, Inc., Embassy Industries, Inc., Green Manufacturing, Inc., Pacific Stair Products, Inc., WILP Holdings, Inc., Woodmark International, L.P., and Capital One Business Credit Corporation, as lender and agent (Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated July 29, 2014).
- 10.19** Amended and Restated Loan and Security Agreement dated as of August 13, 2014, by and among the Registrant, Florida Pneumatic Manufacturing Corporation, Hy-Tech Machine, Inc., Nationwide Industries, Inc., ATSCO Holdings Corp., Continental Tool Group, Inc., Countrywide Hardware, Inc., Embassy Industries, Inc., Exhaust Technologies, Inc., Green Manufacturing, Inc., Pacific Stair Products, Inc., WILP Holdings, Inc., Woodmark International, L.P., and Capital One Business Credit Corporation, as lender and agent (Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated August 13, 2014).
- 10.20** Second Amended and Restated Revolver Note dated as of August 13, 2014 by the Registrant, Florida Pneumatic Manufacturing Corporation, Hy-Tech Machine, Inc., Nationwide Industries, Inc. and ATSCO Holdings Corp., in favor of and Capital One Business Credit Corporation (Incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K dated August 13, 2014).
- 10.21** Tranche A Term Loan Note dated as of August 13, 2014 by the Registrant, Florida Pneumatic Manufacturing Corporation, Hy-Tech Machine, Inc., Nationwide Industries, Inc. and ATSCO Holdings Corp in favor of and Capital One Business Credit Corporation (Incorporated by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K dated August 13, 2014).
- 10.22** Tranche B Term Loan Note dated as of August 13, 2014 by the Registrant, Florida Pneumatic Manufacturing Corporation, Hy-Tech Machine, Inc., Nationwide Industries, Inc. and ATSCO Holdings Corp in favor of and Capital One Business Credit Corporation (Incorporated by reference to Exhibit 10.4 to the Registrant's Current Report on Form 8-K dated August 13, 2014).

- 10.23** Amended and Restated Capex Loan Note dated as of August 13, 2014 by the Registrant, Florida Pneumatic Manufacturing Corporation, Hy-Tech Machine, Inc., Nationwide Industries, Inc. and ATSCO Holdings Corp in favor of and Capital One Business Credit Corporation. (Incorporated by reference to Exhibit 10.5 to the Registrant's Current Report on Form 8-K dated August 13, 2014).
- 10.24** Purchase Agreement, dated as of October 14, 2014, by and between the Company and Timothy J. Stabosz (Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated October 14, 2014).
- 10.25** Waiver and Amendment No. 1 to the Amended and Restated Loan and Security Agreement, dated as of October 14, 2014, by and among the Registrant, Florida Pneumatic Manufacturing Corporation, Hy-Tech Machine, Inc., Nationwide Industries, Inc., ATSCO Holdings Corp, Continental Tool Group, Inc., Countrywide Hardware, Inc., Embassy Industries, Inc., Exhaust Technologies, Inc., Green Manufacturing, Inc., Pacific Stair Products, Inc., WILP Holdings, Inc., Woodmark International, L.P., and Capital One Business Credit Corporation, as lender and agent (Incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K dated October 14, 2014).
- 10.26** *Executive Employment Agreement, dated as of January 1, 2012, between the Registrant and Richard A. Horowitz (Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated December 29, 2011).

Exhibit

Number Description of Exhibit

- *Executive Employment Agreement, dated as of January 1, 2015, between the Registrant and Richard A. Horowitz (Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated January 5, 2015).
- 10.27**
- *2002 Stock Incentive Plan of the Registrant (Incorporated by reference to Exhibit 4.7 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2002).
- 10.28**
- *2012 Stock Incentive Plan of the Registrant (Incorporated by reference to Appendix A to the Registrant's Definitive Proxy Statement with respect to the Registrant's 2012 Annual Meeting of Stockholders).
- 10.29**
- *Amended and Restated Executive 162(m) Bonus Plan of the Registrant effective as of May 25, 2011 (Incorporated by reference to Appendix A to the Registrant's Definitive Proxy Statement with respect to the Registrant's 2011 Annual Meeting of Stockholders).
- 10.30**
- *Severance Agreement between the Registrant and Joseph A. Molino, Jr., effective as of June 22, 2012 (Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated June 22, 2012).
- 10.31**
- 21** Subsidiaries of the Registrant (Filed herein).
- 23.1** Consent of Independent Registered Public Accounting Firm (Filed herein).
- 31.1** Certification of Richard A. Horowitz, Principal Executive Officer of the Registrant, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Filed herein).
- 31.2** Certification of Joseph A. Molino, Jr., Principal Financial Officer of the Registrant, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Filed herein).
- 32.1** Certification of Richard A. Horowitz, Principal Executive Officer of the Registrant, Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Filed herein).
- 32.2** Certification of Joseph A. Molino, Jr., Principal Financial Officer of the Registrant, Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Filed herein).

** XBRL Interactive Data

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Certain instruments defining the rights of holders of the long-term debt securities of the Registrant may be omitted pursuant to Section (b)(4)(iii)(A) of Item 601 of Regulation S-K. The Registrant agrees to furnish supplemental copies of these instruments to the Commission upon request.

* Management contract or a compensatory plan or arrangement required to be filed as an exhibit.

** Attached as Exhibit 101 to this Annual Report on Form 10-K 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 Statements 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 Annual Report on Form 10-K 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.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

P&F INDUSTRIES, INC.

(Registrant)

| | |
|------------------------------------|--------------------------------|
| By: /s/ Richard A. Horowitz | By: /s/ Joseph A. Molino, Jr. |
| Richard A. Horowitz | Joseph A. Molino, Jr. |
| <i>Chairman of the Board</i> | <i>Vice President</i> |
| <i>President</i> | <i>Principal Financial and</i> |
| <i>Principal Executive Officer</i> | <i>Accounting Officer</i> |
| Date: March 31, 2015 | Date: March 31, 2015 |

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

| Name | Title | Date |
|--|----------|----------------|
| /s/ Richard A. Horowitz Richard A. Horowitz | Director | March 31, 2015 |
| /s/ Jeffrey D. Franklin Jeffrey D. Franklin | Director | March 31, 2015 |
| /s/ Howard Brod Brownstein Howard Brod Brownstein | Director | March 31, 2015 |
| /s/ Kenneth M. Scheriff Kenneth M. Scheriff | Director | March 31, 2015 |
| /s/ Mitchell A. Solomon Mitchell A. Solomon | Director | March 31, 2015 |
| /s/ Richard Randall Richard Randall | Director | March 31, 2015 |

