

P&F INDUSTRIES INC
Form 10-Q/A
May 13, 2011

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

FORM 10-Q/A
(AMENDMENT NO. 1)

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

For the Quarterly Period Ended June 30, 2010

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

For the transition period from _____ to _____

Commission File Number 1 - 5332

P&F INDUSTRIES, INC.
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

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

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

11747
(Zip Code)

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

Indicate by checkmark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted to its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period the registrant was required to submit and post such files). Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by checkmark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes No

As of August 13, 2010 there were 3,614,562 shares of the registrant's Class A Common Stock outstanding.

EXPLANATORY NOTE

On March 28, 2011, the Board of Directors (the “Board”) of P&F Industries, Inc. (the “Company”) determined, upon advice of management and the recommendation of the Audit Committee of the Board, that the Company’s financial statements contained in the Company’s Quarterly Reports on Form 10-Q for the three and six-month periods ended June 30, 2010 (the “Previously Issued Financial Statements”) should not be relied upon and should be restated because it contains errors discussed below.

The Company believes that the Previously Issued Financial Statements should not be relied upon and should be restated because, pursuant to Accounting Standards Codification Topic 810: Consolidation, the financial position and results of operations of the Company’s subsidiary, Old Stairs Co LLC (formerly known as WM Coffman LLC) (“WMC”), should not have been consolidated with the consolidated condensed financial statements of the Company for such periods.

The Company is filing this Amendment No. 1 (this “Amendment No. 1” or “Form 10-Q/A”) to amend Items 1, 2, and 4 of Part I and Item 6 of Part II of the Company’s Quarterly Report on Form 10-Q to correct the consolidated condensed financial statements as indicated above.

A detailed description of the restatement referred to above (the “Restatement”) is presented under “Note 3 – Restatement” to the Company’s Consolidated Condensed Financial Statements, which presents a reconciliation between the Company’s Previously Issued Financial Statements as previously filed with the Securities and Exchange Commission (“SEC”) on August 13, 2010, and the impact that the deconsolidation of WMC had on the Company’s consolidated condensed financial statements. The Restatement affects the previously reported loss from discontinued operations, net loss, basic and diluted loss per share from discontinued operations, total basic and diluted loss per share, the consolidated condensed balance sheets, consolidated condensed statement of operations, consolidated condensed statement of shareholders equity and consolidated condensed statements of cash flows. As such, the consolidated condensed financial statements contained herein should be considered as restated from the original filing.

In addition, this Form 10-Q/A reflects the revision of management’s discussion and analysis of financial condition and results of operations in Item 2 of Part I; the revision of disclosures regarding controls and procedures in Item 4 of Part I; and new certifications filed as Exhibits 31.1, 31.2, 32.1 and 32.2 in Item 6 of Part II.

Form 10-Q/A has not been updated for events or information subsequent to the date of filing of the original Quarterly Report for the three-month period ended June 30, 2010 (“second quarter Form 10-Q”) Form 10-Q except in connection with the foregoing. Accordingly, except as otherwise set forth herein, this Form 10-Q/A speaks as of August 13, 2010, the date of the filing of the original second quarter Form 10-Q, and should be read in conjunction with the Company’s other filings made with the SEC.

P&F INDUSTRIES, INC.

FORM 10-Q/A

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2010

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PART I - FINANCIAL INFORMATION

Item 1.

Financial Statements

P&F INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED CONDENSED BALANCE SHEETS

	June 30, 2010 (unaudited) (Restated)	December 31, 2009 (See Note 1)
ASSETS		
CURRENT ASSETS		
Cash	\$ 820,000	\$ 546,000
Accounts receivable — net	7,596,000	7,545,000
Inventories - net	17,931,000	19,746,000
Notes and other receivables	92,000	110,000
Deferred income taxes — net	670,000	670,000
Income tax refund receivable	49,000	3,270,000
Prepaid expenses and other current assets	209,000	169,000
Assets of discontinued operations	23,000	10,797,000
TOTAL CURRENT ASSETS	27,390,000	42,853,000
PROPERTY AND EQUIPMENT		
Land	1,550,000	1,550,000
Buildings and improvements	7,480,000	7,476,000
Machinery and equipment	16,199,000	16,130,000
	25,229,000	25,156,000
Less accumulated depreciation and amortization	12,792,000	11,990,000
NET PROPERTY AND EQUIPMENT	12,437,000	13,166,000
GOODWILL	5,150,000	5,150,000
OTHER INTANGIBLE ASSETS — net	2,476,000	2,651,000
DEFERRED INCOME TAXES — net	1,437,000	1,437,000
ASSETS OF DISCONTINUED OPERATIONS	—	3,924,000
OTHER ASSETS — net	509,000	237,000
TOTAL ASSETS	\$ 49,399,000	\$ 69,418,000

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

P&F INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED CONDENSED BALANCE SHEETS

	June 30, 2010 (unaudited) (Restated)	December 31, 2009 (See Note 1)
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Short-term borrowings	\$ 11,300,000	\$ 16,300,000
Accounts payable	2,530,000	1,396,000
Other accrued liabilities	3,020,000	2,003,000
Liabilities of discontinued operations	32,000	9,719,000
Current maturities of long-term debt	4,883,000	5,015,000
TOTAL CURRENT LIABILITIES	21,765,000	34,433,000
Long-term debt, less current maturities	1,688,000	4,148,000
Liabilities of discontinued operations	313,000	5,222,000
TOTAL LIABILITIES	23,766,000	43,803,000
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 - 3,956,000 at June 30, 2010 and December 31, 2009	3,956,000	3,956,000
Class B - \$1 par; authorized - 2,000,000 shares; no shares issued	—	—
Additional paid-in capital	10,684,000	10,615,000
Retained earnings	13,948,000	13,999,000
Treasury stock, at cost – 342,000 shares at June 30, 2010 and December 31, 2009	(2,955,000)	(2,955,000)
TOTAL SHAREHOLDERS' EQUITY	25,633,000	25,615,000
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 49,399,000	\$ 69,418,000

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

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

	Three months ended June 30,		Six months ended June 30,	
	2010 (Restated)	2009	2010 (Restated)	2009
Net revenue	\$ 13,320,000	\$ 14,073,000	\$ 24,467,000	\$ 26,294,000
Cost of sales	8,630,000	10,105,000	15,778,000	18,226,000
Gross profit	4,690,000	3,968,000	8,689,000	8,068,000
Selling, general and administrative expenses	4,084,000	3,823,000	8,401,000	8,026,000
Operating income	606,000	145,000	288,000	42,000
Interest expense	337,000	322,000	726,000	627,000
Income (loss) from continuing operations before income taxes	269,000	(177,000)	(438,000)	(585,000)
Income tax benefit	—	(106,000)	—	(175,000)
Net income (loss) from continuing operations	269,000	(71,000)	(438,000)	(410,000)
Income (loss) from discontinued operations (no tax benefits for the three and six-month periods ended June 30, 2010 and \$268,000 and \$326,000 for the three and six-month periods ended June 30, 2009)	379,000	(494,000)	387,000	(761,000)
Net income (loss)	\$ 648,000	\$ (565,000)	\$ (51,000)	\$ (1,171,000)
Basic and diluted earnings (loss) per share				
Continuing operations	\$0.07	\$(0.02)	\$(0.12)	\$(0.11)
Discontinued operations	0.10	(0.14)	0.10	(0.21)
Net income (loss)	\$0.17	\$(0.16)	\$(0.02)	\$(0.32)
Weighted average common shares outstanding:				
Basic and diluted	3,615,000	3,615,000	3,615,000	3,615,000

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

P&F INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED CONDENSED STATEMENT OF SHAREHOLDERS' EQUITY (unaudited) (restated)

	Total	Class A Common Stock, \$1 Par Shares	Amount	Additional paid-in capital	Retained earnings	Treasury stock Shares	Amount
Balance, January 1, 2010	\$ 25,615,000	3,956,000	\$ 3,956,000	\$ 10,615,000	\$ 13,999,000	342,000	\$ (2,955,000)
Net loss	(51,000)				(51,000)		
Stock-based compensation	69,000			69,000			
Balance, June 30, 2010	\$ 25,633,000	3,956,000	\$ 3,956,000	\$ 10,684,000	\$ 13,948,000	342,000	\$ (2,955,000)

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

P&F INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS (unaudited)

	Six months ended June 30,	
	2010 (Restated)	2009
Cash Flows from Operating Activities		
Net loss	\$(51,000)	\$(1,171,000)
Adjustments to reconcile net loss to net cash provided by operating activities of continuing operations:		
(Income) loss from discontinued operations	(387,000)	761,000
Non-cash charges:		
Depreciation and amortization	826,000	779,000
Amortization of other intangible assets	175,000	175,000
Amortization of other assets	38,000	6,000
Provision for losses on accounts receivable - net	27,000	(22,000)
Stock-based compensation	69,000	138,000
Deferred income taxes - net	—	651,000
(Gain) loss on sale of fixed assets	2,000	(2,000)
Changes in operating assets and liabilities:		
Accounts receivable	(78,000)	(1,614,000)
Notes and other receivables	18,000	(34,000)
Inventories	1,815,000	3,131,000
Income tax refund receivable	3,221,000	(411,000)
Prepaid expenses and other current assets	(40,000)	(419,000)
Other assets	(310,000)	(184,000)
Accounts payable	1,135,000	2,153,000
Accrued liabilities	820,000	(149,000)
Income taxes payable	196,000	—
Total adjustments	7,527,000	4,959,000
Net cash provided by operating activities of continuing operations	7,476,000	3,788,000

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

	Six months ended June 30,	
	2010	2009
	(Restated)	
Cash Flows from Investing Activities:		
Capital expenditures	\$(99,000)	\$(1,066,000)
Proceeds from sale of fixed assets	—	3,000
Additional purchase price – Hy-Tech	—	(2,362,000)
Net cash used in investing activities	(99,000)	(3,425,000)
Cash Flows from Financing Activities:		
Proceeds from short-term borrowings	—	10,484,000
Repayments of short-term borrowings	(5,000,000)	(8,484,000)
Term loan advances	957,000	—
Repayments of term loan	(3,835,000)	(6,889,000)
Net proceeds from equipment lease financing	—	348,000
Principal payments on long-term debt	(464,000)	(35,000)
Proceeds from notes payable	750,000	1,583,000
Net cash used in financing activities	(7,592,000)	(2,993,000)
Cash Flows from Discontinued Operations:		
Operating activities	489,000	825,000
Investing activities	—	(13,799,000)
Financing activities	—	15,194,000
Net cash provided by Discontinued Operations	489,000	2,220,000
NET INCREASE (DECREASE) IN CASH	274,000	(410,000)
Cash at beginning of period	546,000	845,000
Cash at end of period	\$820,000	\$435,000
Supplemental disclosures of cash flow information:		
Cash paid for:		
Interest	\$694,000	\$627,000
Income taxes	\$16,000	\$30,000

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

P&F INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (unaudited)

NOTE 1 - SUMMARY OF ACCOUNTING POLICIES

Basis of Financial Statement Presentation

The accompanying unaudited consolidated condensed financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information, and with the rules and regulations of the Securities and Exchange Commission regarding interim financial reporting. Accordingly, these interim financial statements do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of the Company, these unaudited consolidated condensed financial statements include all adjustments necessary to present fairly the information set forth therein. All such adjustments are of a normal recurring nature. Results for interim periods are not necessarily indicative of results to be expected for a full year.

The unaudited consolidated condensed balance sheet information as of December 31, 2009 was derived from the audited consolidated financial statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2009. The interim financial statements contained herein should be read in conjunction with that Report.

Principles of Consolidation

The unaudited consolidated condensed financial statements contained herein include the accounts of P&F Industries, Inc. and its subsidiaries (“P&F”). All significant intercompany balances and transactions have been eliminated.

P&F conducts its business operations through two of its wholly-owned subsidiaries: Continental Tool Group, Inc. (“Continental”) and Countrywide Hardware, Inc. (“Countrywide”). P&F and its subsidiaries are herein referred to collectively as the “Company.” In addition, the words “we”, “our” and “us” refer to the Company. P&F operates in two primary lines of business, or segments: (i) tools and other products (“Tools”) and (ii) hardware and accessories (“Hardware”).

The Company

Tools

The Company conducts its Tools business through Continental, which in turn currently operates through its wholly-owned subsidiaries, Florida Pneumatic Manufacturing Corporation (“Florida Pneumatic”) and Hy-Tech Machine, Inc. (“Hy-Tech”).

Florida Pneumatic is engaged in the importation, manufacture and sale of pneumatic hand tools, primarily for the industrial, retail and automotive markets, and the importation and sale of compressor air filters. Florida Pneumatic also markets, through its Berkley Tool division (“Berkley”), a line of pipe cutting and threading tools, wrenches and replacement electrical components for a widely-used brand of pipe cutting and threading machines. Through its Franklin Manufacturing (“Franklin”) division, Florida Pneumatic imported and marketed a line of door and window hardware including locksets, deadbolts, door and window security hardware, rope-related hardware products and fire escape ladders. However, primarily due to an ongoing diminishing market for its products, Florida Pneumatic discontinued marketing the Franklin products line effective December 31, 2009.

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

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

Hardware

The Company conducts its Hardware business through Countrywide, which in turn operates through its wholly-owned subsidiaries, Nationwide Industries, Inc. (“Nationwide”). Nationwide designs and manufactures quality hardware for the fence, rail, gate, and window and door industry. It also markets a full line of components for other companies which produce pool and patio enclosures, storm and screen doors. Nationwide distributes a wide array of sweep and sash locks manufactured for vinyl, aluminum or wood windows. As part of Nationwide’s product offering, it began distributing kitchen and bath hardware and accessories during the second quarter of 2009.

Prior to June 8, 2009, Countrywide also operated through its wholly owned subsidiaries, Woodmark International, L.P. (“Woodmark”) and Pacific Stair Products, Inc. (“PSP”). Woodmark was, until the transactions, (“WMC transactions”) which formed WM Coffman, LLC (“WMC”) in June 2009, an importer of both stair parts components and kitchen and bath hardware and accessories. Woodmark marketed its stair parts nationally. Additionally, effective with the WMC transactions, the operations of Woodmark’s kitchen and bath hardware and accessories product line was transferred to Nationwide. PSP marketed Woodmark’s staircase components to the building industry, in southern California and the southwestern region of the United States. As a result of the WMC transactions, Woodmark and PSP no longer functioned as operating units. Woodmark and PSP contributed certain net assets to WMC in return for members’ equity. Accordingly, effective with the WMC transactions, the stair parts business, which formerly reported through Woodmark and PSP, became part of WMC. Further, on June 10, 2009, pursuant to an Asset Purchase Agreement dated as of June 8, 2009, WMC acquired substantially all of the assets of Coffman Stairs, LLC, a Delaware limited liability company (“Coffman”).

WMC was primarily engaged in the manufacturing and importing of stair parts and related accessories. In an effort to improve the overall results of the Company’s existing stair parts operation, the Company entered into the WMC transactions. These transactions were executed in an attempt to take advantage of the synergies available by combining two large players in an industry at the bottom of its economic cycle with complementary distribution channels and operations. WMC was not able to achieve the revenue levels anticipated prior to the WMC transactions and, as a result, never produced positive cash flows. This caused, among other things, defaults on the WMC loan agreement. As the result of a decision reached by the Company’s board of directors in March 2010, that it was in the best interest of the Company and its shareholders that the Company sell, liquidate or otherwise dispose of its membership interests in WMC, the Company reported WMC as a discontinued operation effective January 1, 2010.

Effective June 7, 2010, WMC executed and delivered to PNC an Acknowledgment of Events of Default and Peaceful Possession Letter (the “Peaceful Possession Letter”), dated as of June 4, 2010, pursuant to which (1) WMC acknowledged that a material adverse change in its business and assets occurred and that such event constituted a forbearance default under the Loan Agreement, and (2) among other things:

- (a) consented to PNC’s exercise of all rights of possession in and to the Collateral consistent with the Loan Agreement, the Other Documents (as defined in the WMC loan agreement) and applicable law, to be disposed of consistent with the Loan Agreements, the Other Documents and applicable law;
- (b) consented to a sale of substantially all of the Collateral, other than the Marion Fixed Assets by PNC to WM Coffman Resources, LLC, or the “Buyer”, pursuant to the terms and conditions of a Foreclosure Agreement,
- (c) consented to the Fixed Asset Auction; and
- (d) agreed to change its name from WM Coffman, LLC to Old Stairs Co LLC.

Included within the WMC loan agreement, was a term loan with an original principal amount of \$1,134,000, which was to be repaid in twenty-four equal monthly installments of \$47,000. This term note between PNC and WMC was collateralized by WMC’s fixed assets. As the result of the Peaceful Possession Letter, PNC took title to and possession of all of WMC’s fixed assets located in Marion, Virginia.

See Note 3 – Restatement, for further discussion.

Management Estimates

The preparation of financial statements and related disclosures in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses in those financial statements. Certain significant accounting policies that contain subjective management estimates and assumptions include those related to revenue recognition, inventory, accounts receivable, goodwill, intangible assets

and other long-lived assets, income taxes and deferred taxes. Descriptions of these policies are discussed in the Company's Annual Report on Form 10-K for the year ended December 31, 2009. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment, and makes adjustments when facts and circumstances dictate. Illiquid credit markets and declines in consumer spending have, among other things, combined to increase the uncertainty inherent in such estimates and assumptions. As future events and their effects cannot be determined with precision, actual results could differ significantly from those estimates and assumptions. Significant changes, if any, in those estimates resulting from continuing changes in the economic environment will be reflected in the consolidated financial statements in future periods.

Recently Adopted Accounting Standards

New authoritative accounting guidance (Accounting Standards Update, or “ASU”, No. 2009-17) on the consolidation of Variable Interest Entities, or “VIEs”, under ASC Topic 810-Consolidation, requires entities to perform a qualitative analysis to determine whether the enterprise’s variable interest or interests give it a controlling financial interest in a VIE. The enterprise is required to assess, on an ongoing basis, whether it is a primary beneficiary or has an implicit responsibility to ensure that a VIE operates as designed. This guidance changes the previous quantitative approach for determining the primary beneficiary to a qualitative approach based on which entity (a) has the power to direct activities of a VIE that most significantly impact economic performance and (b) has the obligation to absorb losses or receive benefits that could be significant to the VIE. In addition, it requires enhanced disclosures that will provide investors with more transparent information about an enterprise’s involvement with a VIE. This standard became effective for interim and annual periods beginning on or after November 15, 2009. The adoption of this standard resulted in the Company accounting for WMC as a VIE, effective June 30, 2010.

NOTE 2 — VARIABLE INTEREST ENTITY

The Company’s overall methodology for evaluating transactions and relationships under the VIE requirements includes the following: (i) determining whether the entity, meets the criteria to qualify as a VIE; and (ii) determining whether the Company is the primary beneficiary of the VIE.

If the Company identifies a VIE based on the requirements within ASC 810, it then performs the second step determine whether it is the primary beneficiary of the VIE by considering the following significant factors and judgments, both of which must be met:

- Whether the Company has the power to direct the activities of the VIE that most significantly impact the entity’s economic performance; and
- Whether the Company has the obligation to absorb losses of the entity that could potentially be significant to the VIE or the right to receive benefits from the entity that could potentially be significant to the VIE.

The Company examined the facts and circumstances pertaining to WMC to determine if it is the primary beneficiary, by considering whether or not it has the power to direct the most significant activities of the entity. The Company has concluded that it does not direct the most significant activities at WMC, nor does it have an obligation to absorb losses or the right to receive benefits from WMC and, therefore, is not considered the primary beneficiary. Accordingly, the Company deconsolidated WMC.

The Company will perform an ongoing reassessment of the facts and circumstances pertaining to WMC to determine whether or not the Company may have become the primary beneficiary.

NOTE 3—RESTATEMENT

As the result of PNC taking possession of and subsequently foreclosing on WMC’s assets, tangible and intangible, and PNC’s subsequent disposal and sale thereof, (the “foreclosure”), the Company, determined that it no longer had a controlling financial interest in WMC and was no longer the primary beneficiary of WMC and determined that WMC was a VIE. The Company further determined that it no longer had the obligation to absorb losses that might be significant to WMC nor did it possess the right to receive benefits from WMC that could potentially be significant to WMC, nor did it have the power to direct any of WMC’s activities that could impact its performance. As a result, the Company, in accordance with authoritative guidance in Accounting Standards Codification (“ASC”) 810-10-40 (“ASC 810”), deconsolidated WMC from its consolidated condensed financial statements. The Company will perform an

ongoing reassessment of the VIE to determine the primary beneficiary and may be required to consolidate WMC in the future.

As the result of deconsolidating WMC, there are no assets or liabilities attributable to WMC included in the Company's consolidated balance sheet at June 30, 2010.

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In the originally filed Quarterly Report on Form 10-Q for the three-month period ended June 30, 2010, the Company incorrectly included WMC in its consolidated condensed financial statements. The tables below show the amounts as originally reported, the amount that should not have been consolidated, and the restated values.

Consolidated condensed balance sheet

As at June 30, 2010

	As Reported	Adjustments	As Restated
Assets of discontinued operations - current	\$ 188,000	\$ (165,000)	\$ 23,000
Total current assets	27,555,000	(165,000)	27,390,000
Assets of discontinued operations	16,000	(16,000)	—
Other assets - net	233,000	276,000	509,000
Total Assets	\$ 49,304,000	\$ 95,000	\$ 49,399,000
Liabilities of discontinued operations - current	\$ 12,870,000	\$ (12,838,000)	\$ 32,000
Other accrued liabilities	3,103,000	(83,000)	3,020,000
Total current liabilities	34,686,000	(12,921,000)	21,765,000
Total Liabilities	36,687,000	(12,921,000)	23,766,000
Retained earnings	932,000	13,016,000	13,948,000
Total shareholders' equity	12,617,000	13,016,000	25,633,000
Total liabilities and shareholders' equity	\$ 49,304,000	\$ 95,000	\$ 49,399,000

Consolidated condensed statement of operations

For the three month period ended June 30, 2010

	As Reported	Adjustments	As Restated
(Loss) income from discontinued operations (no tax benefits for the three -month period ended June 30, 2010)	\$ (10,885,000)	\$ 11,264,000	\$ 379,000
Net (loss) income	\$ (10,616,000)	\$ 11,264,000	\$ 648,000
Basic and diluted earnings (loss) per share			
Discontinued operations	\$ (3.01)	\$ 3.11	\$ 0.10
Net (loss) income	\$ (2.94)	\$ 3.11	\$ 0.17

Consolidated condensed statement of operations

For the six month period ended June 30, 2010

	As Reported	Adjustments	As Restated
(Loss) income from discontinued operations (no tax benefits for the six -month period ended June 30, 2010)	\$ (12,629,000)	\$ 13,016,000	\$ 387,000

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Net (loss)	\$ (13,067,000)	\$ 13,016,000	\$ (51,000)
Basic and diluted earnings (loss)			
per share			
Discontinued operations	\$ (3.49)	\$ 3.59	\$ 0.10
Net loss	\$ (3.61)	\$ (3.59)	\$ (0.02)

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Consolidated condensed statement of shareholders' equity

For the six month period ended June 30, 2010

	As Reported	Adjustments	As Restated
Net loss	\$ (13,067,000)	\$ 13,016,000	\$ (51,000)
Balance June 30, 2010	\$ 12,617,000	\$ 13,016,000	\$ 25,633,000

Consolidated condensed statement of cash flows

For the six month period ended June 30, 2010

	As Reported	Adjustments	As Restated
Loss (Income) from discontinued operations	\$ 12,629,000	\$ (13,016,000)	\$ (387,000)
Total adjustments	20,902,000	(13,375,000)	7,527,000
Net cash provided by operating activities of continuing operations	7,835,000	(359,000)	7,476,000
Cash Flows from Discontinued Operations:			
Operating activities	258,000	231,000	489,000
Investing activities	460,000	(460,000)	—
Financing activities	(588,000)	588,000	—
Net cash provided by Discontinued Operations	130,000	359,000	489,000

NOTE 4 — (LOSS) EARNINGS PER SHARE

Basic (loss) earnings per common share is based only on the average number of shares of common stock outstanding for the periods. Diluted earnings per common share reflects the effect of shares of common stock issuable upon the exercise of options, unless the effect on earnings is antidilutive.

Diluted (loss) 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 (loss) earnings per common share:

	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
Numerator:				
Numerator for basic and diluted earnings (loss) per common share:				
Earnings (loss) from continuing operations	\$ 269,000	\$ (71,000)	\$ (438,000)	\$ (410,000)
	379,000	(494,000)	387,000	(761,000)

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Earnings (loss) from discontinued operations

Net income (loss)	\$ 648,000	\$ (565,000)	\$ (51,000)	\$ (1,171,000)
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Denominator:

Denominator for basic earnings (loss)

per share weighted average common

shares outstanding	3,615,000	3,615,000	3,615,000	3,615,000
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At June 30, 2010 and 2009 and during the three and six-month periods ended June 30, 2010 and 2009, there were outstanding stock options whose exercise prices were higher than the average market values of the underlying Class A Common Stock for the period. These options are antidilutive and are excluded from the computation of (loss) earnings per share. The weighted average antidilutive stock options outstanding were as follows:

	Three months ended		Six months ended	
	June 30,		June 30,	
	2010	2009	2010	2009
Weighted average antidilutive stock options outstanding	515,000	554,000	515,000	554,000

Diluted loss per share for the six-month period ended June 30, 2010 and diluted loss per share for the three and six-month periods ended June 30, 2009 were the same as basic loss per share, since the effect of the inclusion of common share equivalents would be anti-dilutive, because of the reported loss.

NOTE 5 - STOCK-BASED COMPENSATION

Stock-based Compensation

Total stock-based compensation expense is attributable to the granting of, and the remaining requisite service periods of, stock options and warrants. Compensation expense attributable to stock-based compensation during the three and six-month periods ended June 30, 2010 was approximately \$34,000 and \$69,000, respectively, and for the three and six-month periods ended June 30, 2009 was approximately \$68,000 and \$138,000, respectively. The compensation expense is recognized in selling, general and administrative expenses on the Company's statements of operations on a straight-line basis over the vesting periods. The Company recognizes compensation cost over the requisite service period. However, the exercisability of the respective non-vested options, which are at pre-determined dates on a calendar year, do not necessarily correspond to the period(s) in which straight-line amortization of compensation cost is recorded. As of June 30, 2010, the Company had approximately \$108,000 of total unrecognized compensation cost related to non-vested awards granted under our stock-based plans, which we expect to recognize over a weighted-average period of 1.3 years. The Company did not grant any stock options or warrants during the three and six month periods ended June 30, 2010.

Stock Option Plan

The Company's 2002 Incentive Stock Option Plan (the "Current Plan") authorizes the issuance, to employees and directors, of options to purchase a maximum of 1,100,000 shares of Class A Common Stock. These options must be issued within ten years of the effective date of the Current Plan and are exercisable for a ten year period from the date of grant, at prices not less than 100% of the market value of the Class A Common Stock on the date the option is granted. Incentive stock options granted to any 10% stockholder are exercisable for a five year period from the date of grant, at prices not less than 110% of the market value of the Class A Common Stock on the date the option is granted. Pursuant to the Current Plan, the Stock Option Committee has the discretion to award non-qualified stock option grants with various vesting parameters. Options have vesting periods of immediate to three years. In the event options granted contain a vesting schedule over a period of years, the Company recognizes compensation cost for these awards on a straight-line basis over the service period. The Current Plan, which terminates in 2012, is the successor to the Company's 1992 Incentive Stock Option Plan (the "Prior Plan").

The following is a summary of the changes in outstanding options for the six months ended June 30, 2010:

Option Shares	Weighted	Weighted Average	Aggregate
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		Average Exercise Price	Remaining Contractual Life (Years)	Intrinsic Value
Outstanding, January 1, 2010	514,624	\$7.26	6.0	—
Granted	—	—		
Exercised	—	—		
Forfeited	—	—		
Expired	—	—		
Outstanding, June 30, 2010	514,624	\$7.26	5.5	—
Vested, June 30, 2010	419,291	\$7.96	8.0	—

The following is a summary of changes in non-vested shares for the six months ended June 30, 2010:

	Option Shares	Weighted Average Grant- Date Fair Value
Non-vested shares, January 1, 2010	147,667	\$ 2.85
Granted	—	
Vested	52,334	3.61
Forfeited	—	
Non-vested shares, June 30, 2010	95,333	\$ 2.44

The number of shares of Class A common stock reserved for stock options available for issuance under the Current Plan as of June 30, 2010 was 443,212. Of the options outstanding at June 30, 2010, all were issued under the Current Plan.

NOTE 6 — RECENT ACCOUNTING PRONOUNCEMENTS

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

NOTE 7 - ACCOUNTS RECEIVABLE AND ALLOWANCE FOR DOUBTFUL ACCOUNTS

Accounts receivable - net consists of:

	June 30, 2010	December 31, 2009
Accounts receivable	\$ 7,772,000	\$ 7,694,000
Allowance for doubtful accounts	(176,000)	(149,000)
	\$ 7,596,000	\$ 7,545,000

NOTE 8 — INVENTORIES

Inventories - net consist of:

	June 30, 2010	December 31, 2009
Raw material	\$ 1,983,000	\$ 2,086,000
Work in process	535,000	680,000
Finished goods	16,859,000	18,532,000
	19,377,000	21,298,000
Reserve for obsolete and slow-moving inventories	(1,446,000)	(1,552,000)
	\$ 17,931,000	\$ 19,746,000

NOTE 9 - GOODWILL AND OTHER INTANGIBLE ASSETS

During the three and six month periods ended June 30, 2010, there was no change to the carrying value of goodwill.

Other intangible assets were as follows:

June 30, 2010

December 31, 2009

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	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
Other intangible assets:						
Customer relationships	\$5,070,000	\$ 3,092,000	\$1,978,000	\$5,070,000	\$ 2,930,000	\$2,140,000
Non-compete and						
Employment agreements	760,000	760,000	—	760,000	760,000	—
Trademarks	199,000	—	199,000	199,000	—	199,000
Drawings	290,000	49,000	241,000	290,000	41,000	249,000
Licensing	105,000	47,000	58,000	105,000	42,000	63,000
Totals	\$6,424,000	\$ 3,948,000	\$2,476,000	\$6,424,000	\$ 3,773,000	\$2,651,000

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

Three months ended June 30,		Six months ended June 30,	
2010	2009	2010	2009
\$ 87,000	\$ 87,000	\$ 175,000	\$ 175,000

Amortization expense for each of the twelve-month periods ending June 30, 2011 through June 30, 2015 is estimated to be as follows: 2011 - \$350,000 ; 2012 - \$351,000 ; 2013 - \$289,000; 2014 - \$185,000 and 2015 - \$185,000. The weighted average amortization period for intangible assets was 8.9 years at June 30, 2010 and 9.3 years at December 31, 2009.

NOTE 10- WARRANTY LIABILITY

The Company offers to its customers, warranties against product defects for periods primarily 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, which are estimated based on 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, the estimated liability for the product warranties could differ materially from future actual warranty costs.

Changes in the Company's warranty liability, included in other accrued liabilities, were as follows:

	2010	Six-months ended June 30, 2009
Balance, beginning of period	\$ 183,000	\$ 337,000
Warranties issued and changes in estimated pre-existing warranties	211,000	241,000
Actual warranty costs incurred	(166,000)	(262,000)
Balance, end of period	\$ 228,000	\$ 316,000

NOTE 11 — DEBT

SHORT-TERM LOANS

The Company and its subsidiaries, other than WMC, as co-borrowers, entered into a Credit Agreement, ("Credit Agreement") as amended, with two banks ("banks") in 2004. The Credit Agreement, among other things, includes a revolving credit loan facility, ("revolving loan"). The revolving loan can be used for direct borrowings, with various sub-limits for letters of credit, bankers' acceptances and equipment loans. There were no letters of credit, bankers' acceptances or equipment loan borrowings at June 30, 2010 or December 31, 2009. There are no commitment fees for any unused portion of this Credit Agreement. Direct borrowings under the revolving loan are secured by the Company's accounts receivable, inventory, equipment and real property, and are cross-guaranteed by each of the Company's subsidiaries, except WMC. These borrowings bear interest at either LIBOR (London InterBank Offered Rate), at a minimum of 1.0%, plus the currently applicable loan margin of 4.25%, or the prime interest rate, which June 30, 2010 was 3.25% plus the currently applicable loan margin of 2.50%. As such, the interest rates in effect at June 30, 2010 were 5.25% for borrowings at LIBOR and 5.75% for borrowings at prime rate. Should the Company not comply with certain financial covenants, an additional default interest rate of 2.0% would be added. On April 23, 2010, the Company and the banks executed a waiver and amendment which, among other things, extended the termination date of the revolving credit loan portion of the Credit Agreement facility to January 1, 2011 and waived

all then existing defaults, which also eliminated the 2.0% additional default interest rate which had been in effect. Further, the waiver and amendment set new financial covenants and adjusted the borrowing base calculation as well as reduced the size of the facility from \$17,500,000 to \$16,500,000. In addition, it required that all future advances shall be subject to the requirement that the aggregate amount advanced after giving effect to any such future advances be at least \$750,000 less than the aggregate lendable value in eligible borrowing base assets. Finally, the banks required a subordinated loan of \$750,000, which, in the aggregate, was provided by the Company's Chief Executive Officer, President and Chairman of the Board of Directors, ("CEO"), and another unrelated party.

LONG TERM LOANS

As part of the amendment to the Credit Agreement entered into in March 2009, the banks agreed to cancel and refinance two term loans as a single new term loan which will expire March 30, 2012. Further, this new term loan requires the Company to make monthly principal installment payments, which aggregate to approximately \$1,780,000 annually. Borrowings under the new term loan created by the March 2009 amendment are secured by the Company's accounts receivable, inventory, equipment and real property and are cross-guaranteed by each of the Company's subsidiaries, with the exception of WMC. In May 2010 the Company received approximately \$3,455,000 in federal tax refunds. In accordance with the terms and conditions of the waiver and amendment dated April 23, 2010, the Company repaid \$1,989,000 of this term note, with the balance of the refund applied to the revolving loan portion of the Credit facility. The balance of this term loan at June 30, 2010 and December 31, 2009 was \$2,903,000 and \$5,782,000, respectively. At June 30, 2010, this term loan bears interest at LIBOR, at a minimum of 1%, plus the currently applicable loan margin of 4.50%, or the prime interest rate, which June 30, 2010 was 3.25% plus the currently applicable loan margin of 2.5%. As such, the interest rates in effect at June 30, 2010 were 5.50% for borrowings at LIBOR and 5.75% for borrowings at prime rate. However, as the result of the Company not complying with certain financial covenants, a default interest rate premium of an additional 2.0% was added during the period January 22, 2010 through April 23, 2010, the date of the waiver and amendment, at which time this default rate adjustment was removed.

Countrywide is a party to a loan agreement with Wachovia Bank, which is secured by a mortgage with respect to the real property owned by Countrywide and utilized by Nationwide. Countrywide did not make the final "balloon" payment that was due on September 21, 2009. As a result of the non-payment, cross-default provisions set forth in the loan agreement between Florida Pneumatic and Wachovia, secured by a mortgage with respect to the real property owned and utilized by Florida Pneumatic, were triggered. On February 23, 2010, Wachovia amended the underlying loan document to among other things, extend the maturity date of the balloon payment to June 1, 2010 and require the Company to make monthly principal payments of approximately \$11,000 plus accrued interest commencing on March 24, 2010. On April 22, 2010, the Company and Wachovia entered into a new Loan Modification Agreement, which became effective April 23, 2010, wherein the Company prepaid \$150,000 toward the balance due on the loan agreement. In exchange, Wachovia waived all prior defaults and extended the maturity date to January 1, 2011. The balance on this loan agreement at June 30, 2010 and December 31, 2009 was \$896,000 and \$1,091,000, respectively.

The Credit Agreement entered into with the banks also includes a foreign exchange line, which provides for the availability of up to \$10,000,000 in foreign currency forward contracts. These contracts fix the exchange rate on future purchases of foreign currencies needed for payments to foreign suppliers. At June 30, 2010, there were no foreign currency forward contracts outstanding.

In connection with the acquisition of Hy-Tech, the Company agreed to make additional payments ("Contingent Consideration") to the sellers. The amount of the Contingent Consideration was based upon Hy-Tech achieving certain financial performance thresholds during the two year period ending on the second anniversary of the acquisition. Further, the Company agreed to make an additional payment ("Additional Contingent Consideration"), subject to certain conditions related primarily to an exclusive supply agreement with a major customer and, to a certain extent, and subject to certain provisions, the achievement of Contingent Consideration. Hy-Tech successfully achieved the required thresholds necessary to be entitled to both the Contingent Consideration and the Additional Contingent Consideration. The total amount of the Contingent Consideration and the Additional Contingent Consideration was approximately \$2,292,000. According to the Company's purchase agreement with the Hy-Tech sellers, the amounts due the sellers were payable in May 2009. The Company and the sellers agreed upon a payment arrangement wherein the Company was required and did make a payment of approximately \$573,000 in May 2009, with the balance of approximately \$1,719,000 to be paid in six equal payments with interest at 6.0% per annum, payable quarterly commencing in August 2009. The August 2009 and November 2009 installment payments with interest were paid

timely. However, due to the default on the Credit Agreement, the Company was not permitted to make any subsequent payment without permission from the banks. Further, pursuant to the Waiver and Amendment dated April 23, 2010, the Company is still not permitted to make any future payments without permission from the banks. The balance owing on this obligation was \$1,146,000 at June 30, 2010 and December 31, 2009. The Company is accruing interest at 12.0% per annum, the default rate of interest. At June 30, 2010, accrued interest was approximately \$68,000.

NOTE 12—RELATED PARTY TRANSACTIONS

On February 22, 2010, in connection with a Forbearance and Amendment Agreement by and among WMC and PNC, the Company's CEO and the president of one of our subsidiaries (collectively the "Junior Participants"), entered into a Junior Participation Agreement with PNC. Each Junior Participant remitted to PNC \$125,000. According to the terms of the Junior Participation Agreements, these remittances are without recourse to PNC and shall constitute a secured junior and subordinate participation in the outstanding advances PNC may make to WMC. All amounts payable to the Junior Participants, whether regarding principal, interest or otherwise shall be repayable by PNC bank only on the termination of all of the transactions between WMC and PNC, and only out of any surplus received by PNC remaining after the payment in full in cash to PNC of all obligations owing to PNC, including expenses, interest and all other charges. In no event shall the amount returned to the Junior Participants exceed the amount of the invested amount plus accrued interest. The rate of interest accruing on the \$250,000 shall be at the identical rate PNC is permitted under the terms of the original credit facility. As part of the transactions described in Notes 3 and 11 in July, 2010, PNC repaid the Junior Participants the \$250,000 plus approximately \$6,000 in total interest.

As discussed in Note 11, on April 23, 2010, the Company and the banks executed a waiver and amendment which extended the termination date of the revolving credit loan portion of the Credit Agreement facility to January 1, 2011 and waived any existing events of default. Among other things, the banks required the Company to obtain an advance of \$750,000. This advance was, in the aggregate, received from its CEO and another unrelated party as a subordinated loan.

The president of one of our subsidiaries is part owner of one of the subsidiary's vendors. During the three and six-month periods ended June 30, 2010, we purchased approximately \$222,000 and \$426,000, respectively, of product from this vendor. During the three and six-month periods ended June 30, 2009, we purchased approximately \$161,000 and \$506,000, respectively, of product from this vendor.

NOTE 13 - BUSINESS SEGMENTS

P&F operates in two primary lines of business, or segments: (i) tools and other products ("Tools") and (ii) hardware and accessories ("Hardware"). For reporting purposes, Florida Pneumatic and Hy-Tech are combined in the Tools segment, while Nationwide is currently the only subsidiary in the Hardware segment. The Company evaluates segment performance based primarily on segment operating income. The accounting policies of each of the segments are the same as those described in Note 1.

Three months ended June 30, 2010	Consolidated	Tools	Hardware
Revenues from unaffiliated customers	\$ 13,320,000	\$ 8,695,000	\$ 4,625,000
Segment operating income	\$ 1,941,000	\$ 1,095,000	\$ 846,000
General corporate expense	(1,335,000)		
Interest expense – net	(337,000)		
Earnings before income taxes	\$ 269,000		
Segment assets	\$ 45,705,000	\$ 35,684,000	\$ 10,021,000
Corporate assets	3,599,000		
Total assets	\$ 49,304,000		
Long-lived assets, including \$382,000 at corporate	\$ 20,063,000	\$ 15,044,000	\$ 4,637,000
Three months ended June 30, 2009	Consolidated	Tools	Hardware
Revenues from unaffiliated customers	\$ 14,073,000	\$ 9,336,000	\$ 4,737,000
Segment operating income	\$ 1,080,000	\$ 589,000	\$ 491,000
General corporate expense	(935,000)		
Interest expense – net	(322,000)		
Loss before income taxes	\$ (177,000)		
Segment assets	\$ 55,170,000	\$ 43,557,000	\$ 11,613,000
Corporate assets	7,704,000		
Total assets	\$ 62,874,000		
Long-lived assets, including \$161,000 at corporate	\$ 21,333,000	\$ 16,441,000	\$ 4,731,000
Six months ended June 30, 2010	Consolidated	Tools	Hardware
Revenues from unaffiliated customers	\$ 24,467,000	\$ 16,515,000	\$ 7,952,000
Segment operating income	\$ 3,209,000	\$ 1,948,000	\$ 1,261,000
General corporate expense	(2,921,000)		

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Interest expense – net	(726,000)		
Loss before income taxes	\$ (438,000)		
Segment assets	\$ 45,705,000	\$ 35,684,000	\$ 10,021,000
Corporate assets	3,599,000		
Total assets	\$ 49,304,000		
Long-lived assets, including \$382,000 at corporate	\$ 20,063,000	\$ 15,044,000	\$ 4,637,000

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Six months ended June 30, 2009	Consolidated	Tools	Hardware
Revenues from unaffiliated customers	\$ 26,294,000	\$ 18,481,000	\$ 7,813,000
Segment operating income	\$ 2,179,000	\$ 1,596,000	\$ 583,000
General corporate expense	(2,137,000)		
Interest expense – net	(627,000)		
Loss before income taxes	\$ (585,000)		
Segment assets	\$ 55,170,000	\$ 43,557,000	\$ 11,613,000
Corporate assets	7,704,000		
Total assets	\$ 62,874,000		
Long-lived assets, including \$161,000 at corporate	\$ 21,333,000	\$ 16,441,000	\$ 4,731,000

P&F INDUSTRIES, INC. AND SUBSIDIARIES

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

General

The Private Securities Litigation Reform Act of 1995 (the "Reform Act") provides a safe harbor for forward-looking statements made by or on behalf of P&F Industries, Inc. and subsidiaries ("P&F", or "the Company"). P&F and its representatives may, from time to time, make written or verbal forward-looking statements, including statements contained in the Company's filings with the Securities and Exchange Commission and in its reports to stockholders. Generally, the inclusion of the words "believe," "expect," "intend," "estimate," "anticipate," "will," and their opposites and similar expressions identify statements that constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 and that are intended to come within the safe harbor protection provided by those sections. Any forward-looking statements contained herein, including those related to the Company's future performance, are based upon the Company's historical performance and on current plans, estimates and expectations. All forward-looking statements involve risks and uncertainties. These risks and uncertainties could cause the Company's actual results for the 2010 fiscal year and beyond to differ materially from those expressed in any forward-looking statement made by or on behalf of the Company for a number of reasons, as previously disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2009. Forward-looking statements speak only as of the date on which they are made. The Company undertakes no obligation to update publicly or revise any forward-looking statement, whether as a result of new information, future developments or otherwise.

Business

The unaudited consolidated condensed financial statements contained herein include the accounts of P&F Industries, Inc. and its subsidiaries ("P&F"). All significant intercompany balances and transactions have been eliminated.

P&F conducts its business operations through two of its wholly-owned subsidiaries: Continental Tool Group, Inc. ("Continental") and Countrywide Hardware, Inc. ("Countrywide"). P&F and its subsidiaries are herein referred to collectively as the "Company." In addition, the words "we", "our" and "us" refer to the Company. P&F operates in two primary lines of business, or segments: (i) tools and other products ("Tools") and (ii) hardware and accessories ("Hardware").

Tools

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

Florida Pneumatic

Florida Pneumatic is engaged in the importation, manufacture and sale of pneumatic hand tools, primarily for the industrial, retail and automotive markets, and the importation and sale of compressor air filters. Florida Pneumatic also markets, through its Berkley Tool division ("Berkley"), a line of pipe cutting and threading tools, wrenches and replacement electrical components for a widely-used brand of pipe cutting and threading machines. Through its Franklin Manufacturing ("Franklin") division, Florida Pneumatic imported and marketed a line of door and window hardware including locksets, deadbolts, door and window security hardware, rope-related hardware products and fire escape ladders. However, primarily due to an ongoing diminishing market, Florida Pneumatic decided to discontinue

marketing the Franklin products line effective December 31, 2009.

Hy-Tech

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

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

Hardware

The Company conducts its Hardware business through Countrywide, which in turn operates through its wholly-owned subsidiaries, Nationwide Industries, Inc (“Nationwide”). Prior to June 8, 2009, Countrywide also operated through its wholly owned subsidiaries, Woodmark International, L.P. (“Woodmark”) and Pacific Stair Products, Inc. (“PSP”). Woodmark was, until the transactions, (“WMC transactions”) which formed WM Coffman, LLC (“WMC”) in June 2009, an importer of both stair parts components and kitchen and bath hardware and accessories. Woodmark marketed its stair parts nationally. Additionally, effective with the WMC transactions, the operations of Woodmark’s kitchen and bath hardware and accessories product line was transferred to Nationwide. PSP marketed Woodmark’s staircase components to the building industry, in southern California and the southwestern region of the United States. As a result of the WMC transactions, Woodmark and PSP no longer functioned as operating units. Woodmark and PSP contributed certain net assets to WMC in return for members’ equity. Accordingly, effective with the WMC transactions, the stair parts business, which formerly reported through Woodmark and PSP, became part of WMC. On June 10, 2009, pursuant to an Asset Purchase Agreement dated as of June 8, 2009, WMC acquired substantially all of the assets of Coffman Stairs, LLC, a Delaware limited liability company (“Coffman”).

As the result of a decision reached by the Company’s board of directors in March 2010, the Company began reporting WMC as a discontinued operation effective January 1, 2010. The Company has restated prior year financial information to present WMC as a discontinued operation.

Nationwide designs and manufactures quality hardware for the fence, rail, gate, and window and door industry. It also markets a full line of components for other companies which produce pool and patio enclosures, storm and screen doors. Nationwide distributes a wide array of sweep and sash locks manufactured for vinyl, aluminum or wood windows. As part of Nationwide’s product offering, it began distributing kitchen and bath hardware and accessories during the second quarter of 2009.

Overview

As is discussed in greater detail below, despite the decline in revenue during the three-month period ended June 30, 2010, compared to the same period in the prior year, we generated \$269,000 of net income after taxes from continuing operations, compared to a loss of \$71,000 after taxes from continuing operations during the three-month period ended June 30, 2009. This improvement is primarily the result of stronger gross margins across all operating units.

As the result of PNC taking possession of and subsequently foreclosing on WMC’s assets, tangible and intangible, and PNC’s subsequent disposal and sale thereof, we determined that we no longer had a controlling financial interest in WMC and was no longer the primary beneficiary of WMC and concluded that WMC was a variable interest entity (“VIE”). We further examined the facts and circumstances pertaining to WMC to determine if we are the primary beneficiary, by considering whether or not we have the power to direct the most significant activities of WMC. We concluded that as of June 30, 2010, we did not direct the most significant activities at WMC, nor did we have an obligation to absorb losses or the right to receive benefits from WMC and, therefore, we are not considered the primary beneficiary. Accordingly, we deconsolidated WMC as further described in Note 2 and 3 to the consolidated condensed financial statements. This deconsolidation requires us to exclude WMC’s assets, liabilities and results from operations, if any, from our consolidated financial statements. We are required to perform an ongoing reassessment of the facts and circumstances pertaining to WMC to determine whether or not we may become the primary beneficiary.

The WMC transactions were executed in an attempt to take advantage of the synergies available by combining two large players in the stair parts business, an industry at the bottom of its economic cycle with complementary distribution channels and operations. WMC was not able to achieve the revenue levels anticipated prior to the WMC transactions and, as a result, never produced positive cash flow. This caused, among other things, a default on the loan agreement specific to WMC and the lender agreed to forbear from taking certain actions, through August 31, 2010.

Neither P & F nor any of its subsidiaries other than WMC is a party to or a guarantor of any debt obligations of WMC.

As a result of a decision reached by our board of directors, we are reporting WMC as a discontinued operation, effective January 1, 2010. Additionally, as of June 7, 2010, WMC ceased operations and its bank began liquidating its assets. WMC funded its operations through a separate asset based credit facility with PNC.

KEY INDICATORS

Economic Measure

We focus on a wide array of customer types, and as such, do not rely as much on specific economic measures or indicators. As such, we tend to track the general economic conditions of the United States, industrial production and general retail sales, all of which have, for the most part, trended downward during the past year.

We pay particular attention to the cost of our raw materials, in particular metals, especially various types of steel and aluminum. To a lesser extent, we are impacted by the value of the U.S. dollar in relation to the Japanese yen (“yen”) and the Taiwan dollar (“TWD”), as we purchase a portion of our products from these two countries in the local currencies. We also make purchases from Chinese sources in U.S. dollars. However, if the Chinese currency, the Renminbi (“RMB”), were to be revalued against the dollar, there could be a significant negative impact on the cost of our products.

Operating Measures

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

Financial Measures

Key financial measures we use to evaluate the results of our business include: revenue; gross margin; selling, general and administrative expenses; earnings before interest, taxes and bonus; operating cash flows, 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 are compared to historical periods as well as established objectives. To the extent that these measures are relevant, they are discussed in the detailed sections for each operating segment below.

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, deferred tax assets and warranty reserves. 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.

There have been no material changes in our critical accounting policies and estimates from those discussed in Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2009.

RESULTS OF OPERATIONS

The table below provides an analysis of our net revenue for the three month and six-month periods ended June 30, 2010 and 2009.

Revenue

	Three-months Ended June 30,		Variance	Variance
	2010	2009	\$	%
Tools				
Florida Pneumatic	\$ 5,115,000	\$ 6,121,000	\$ (1,006,000)	(16.4)%
Hy-Tech	3,580,000	3,215,000	365,000	11.3
Tools Total	8,695,000	9,336,000	(641,000)	(6.9)
Hardware				
Other hardware	4,625,000	4,737,000	(112,000)	(2.4)
Hardware Total	4,625,000	4,737,000	(112,000)	(2.4)
Consolidated	\$ 13,320,000	\$ 14,073,000	\$ (753,000)	(5.3)%

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	Six-months Ended June 30,		Variance	Variance
	2010	2009	\$	%
Tools				
Florida Pneumatic	\$ 9,661,000	\$ 10,830,000	\$ (1,169,000)	(10.8)%
Hy-Tech	6,854,000	7,651,000	(797,000)	(10.4)
Tools Total	16,515,000	18,481,000	(1,966,000)	(10.6)
Hardware				
Other hardware	7,952,000	7,813,000	139,000	1.8
Hardware Total	7,952,000	7,813,000	139,000	1.8
Consolidated	\$ 24,467,000	\$ 26,294,000	\$ (1,827,000)	(6.9)%

All revenues are generated in U.S. dollars and are not impacted by changes in foreign currency exchange rates.

Tools

When comparing the three-month periods ended June 30, 2010 and 2009, net revenue reported by our Tools segment decreased \$641,000 or 6.9%. Specifically, revenue at Florida Pneumatic decreased \$1,006,000, primarily due to reduced volume from its major retail customer's basic stock keeping units of \$498,000 and revenue generated during the three-month period ended June 30, 2009 of specialty products which did not occur during the three-month period ended June 30, 2010 of \$506,000. Additionally, when comparing the three-month period ended June 30, 2010 to the same period in the prior year, Florida Pneumatic's revenue decreased \$433,000 resulting from the decision effective January 1, 2010, to no longer market the Franklin products line. Revenue from our Industrial/Catalog product line increased \$308,000 in the three month period ended June 30, 2010. Additionally, our Berkley and automotive product line had a combined increase in revenue of \$176,000, when comparing the periods ended June 30, 2010 and 2009. We believe that Florida Pneumatic's relationships with its key customers, given the current economic conditions remain good.

Revenue at Hy-Tech, which focuses on the industrial sector of the pneumatic tools market, increased \$365,000 this quarter compared to the same period in the prior year. During the three-month period ended June 30, 2010, Hy-Tech was able to increase its volume over the prior year to a major customer by approximately \$252,000, thus accounting for much of its increase. Revenue from its ATP product line increased nominally over the prior year. Given the current economic conditions, we believe Hy-Tech's relationships with its customer base remain good.

During the six-month period ended June 30, 2010, net revenue for our Tools segment decreased to \$16,515,000 from \$18,481,000 in the same period a year ago. It should be noted that Hy-Tech revenue during the three month period ended March 31, 2009 included unusually large orders from one of its customers that have not repeated thus far in 2010. Although its revenue for the second quarter of 2010 reflects an increase over the prior year, revenue for the six-month period ended June 30, 2010 is down 10.4% to \$6,854,000 from \$7,651,000 in the same period in the prior year. Revenue at Florida Pneumatic for the six-month period ended June 30, 2010, has decreased primarily due to the decision, effective January 1, 2010, to discontinue marketing the Franklin products line, as well as a reduction in revenue from its major customer resulting from lower shipments of their basic stock keeping units. However, increased revenue from its industrial/catalog products as well as new products and promotional sales to its major retail customer has offset the decline.

Hardware

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Our Hardware revenue is comprised of the sales of fencing and gate hardware, kitchen and bath accessories, OEM products and patio hardware.

	Three-months Ended June 30,		Variance	Variance
	2010	2009	\$	%
Other Hardware				
Fence and gate hardware	\$ 3,115,000	\$ 2,794,000	\$ 321,000	11.5 %
Kitchen and Bath	703,000	856,000	(153,000)	(17.9)
OEM	557,000	948,000	(391,000)	(41.2)
Patio	250,000	139,000	111,000	79.9
Total Other Hardware	\$ 4,625,000	\$ 4,737,000	\$ (112,000)	(2.4)

	Six-months Ended June 30,		Variance \$	Variance %
	2010	2009		
Other Hardware				
Fence and gate hardware	\$ 4,964,000	\$ 4,425,000	\$ 539,000	12.2 %
Kitchen and Bath	1,523,000	1,701,000	(178,000)	(10.5)
OEM	1,006,000	1,377,000	(371,000)	(26.9)
Patio	459,000	310,000	149,000	48.1
Total Other Hardware	\$ 7,952,000	\$ 7,813,000	\$ 139,000	1.8 %

The increase in fence and gate hardware is due primarily to new product sales and increased customer base. Kitchen and bath product sales declined due primarily to declines in the recreational vehicle and modular home markets, and competitive pressures. Much of the decline in OEM revenue was due to the loss of Coffman, which prior to the WMC transaction in June 2009, was a customer of Nationwide. Sales by Nationwide after the date of the WMC transaction were eliminated on consolidation. Given the current economic conditions, we believe relationships with the major customers within our Other Hardware segment remain good.

Analysis of our net revenue for the Hardware segment during the six-month period ended June 30, 2010 falls much in line with that of the second quarter; there has been year over year growth in the fence and gate hardware product line revenue due essentially to an expanded customer base as well as the launching of new products. With respect to OEM product line, revenue decreased due primarily to the loss of recognition of revenue generated from shipments to Coffman. After June 9, 2009 Nationwide shipments to Coffman were eliminated on consolidation. Revenue for the kitchen and bath product line during the six month period ended June 30, 2010 reflects a 10.5% decline when compared to the same period in 2009, due to further weakening within this market sector. Patio hardware product line revenue improved to of \$459,000 from \$310,000 during the six-month period ended June 30, 2009.

Gross Margins / Profits

Gross profits for the three and six-month periods ended June 30, 2010 and 2009:

Three months ended June 30,		Consolidated	Tools	Hardware
2010	Gross Profit	\$ 4,690,000	\$ 2,937,000	\$ 1,753,000
	Gross Margin	35.2 %	33.8 %	37.9 %
2009	Gross Profit	\$ 3,968,000	\$ 2,524,000	\$ 1,444,000
	Gross Margin	28.2 %	27.0 %	30.5 %
Six months ended June 30,		Consolidated	Tools	Hardware
2010	Gross Profit	\$ 8,689,000	\$ 5,644,000	\$ 3,045,000
	Gross Margin	35.5 %	34.2 %	38.3 %
2009	Gross Profit	\$ 8,068,000	\$ 5,724,000	\$ 2,344,000
	Gross Margin	30.7 %	31.0 %	30.4 %

Tools

Gross margins in the Tools segment for the three-month period ended June 30, 2010 increased 6.8 percentage points to 33.8% from 27.0% for the three-month period ended June 30, 2009. Gross profit for this segment increased \$413,000.

Specifically, when comparing the three-month periods ended June 30, 2010 and 2009, Florida Pneumatic's gross margin increased 9.0 percentage points. This increase in gross margin is due primarily to, among other factors; improved mix of products sold; improved pricing from its overseas suppliers, lower indirect labor and improved utilization of fixed overhead. Although revenue decreased, as the result of improved gross margins Florida Pneumatic's gross profit improved by \$278,000.

Gross margin increased at Hy-Tech to 35.5% from 35.3% when comparing the three-month periods ended June 30, 2010 and 2009. This improvement is due in part to improved cost of manufacturing. During the second quarter of 2009 Hy-Tech reduced its cost of manufacturing, in an effort to offset the impact of less volume through the facility, which lowers overhead absorption. This improvement in gross margin, combined with the increase in revenue, resulted in Hy-Tech's gross profit increase of \$135,000, when comparing the three-month periods ended June 30, 2010 and 2009.

Gross margin for the Tools segment for the six-month period ended June 30, 2010 increased to 34.2% from 31.0% in the same period a year ago. Gross profit for the Tools segment however decreased slightly to \$5,644,000 from \$5,724,000. Florida Pneumatic, during the six-month period ended June 30, 2010, was able to improve its six month gross margin 7.5 percentage points due primarily to improved mix of products sold, lower pricing from its overseas suppliers, lower indirect labor and improved utilization of fixed overhead. Despite revenue decreasing during the six-month period ended June 30, 2010 compared to the same time a year ago, Florida Pneumatic was able to increase its gross profit by \$420,000.

Hy-Tech's gross margin for the six-month period ended June 30, 2010 decreased to 35.3% from 38.2% for the same period in 2009, due in part to less product being manufactured, thereby adversely affecting absorption of fixed overhead, thus increasing costs. The lower gross margin in 2010 applied to decreased year to date revenue caused Hy-Tech's gross profit to decline \$500,000, when comparing the six-month periods ended June 30, 2010 and 2009.

Hardware

Our gross margin attributable to Hardware product lines for the three-month period ended June 30, 2010 increased to 37.9% from 30.5% during the same period in the prior year. As the result of increased revenue during the second quarter of 2010 compared to 2009 and improved gross margins, the Hardware's gross profit grew to \$1,753,000 from \$1,444,000 during the same three-month period in 2009. This improvement is primarily the result of (i) product mix, (ii) reduction in the cost of products being relieved from inventory, and (iii) greater absorption of warehouse overhead. We expect gross margin for this segment to decrease slightly during the remainder of 2010, as higher priced products currently being purchased will ultimately flow through cost of goods sold.

Our gross margin at our Hardware segment for the six-month period ended June 30, 2010 increased to 38.3% from 30.0% during the same period in the prior year. When comparing the six-month periods ended June 30, 2010 and 2009, gross profit increased for all product lines, except for Patio, which decreased slightly. This improvement is primarily the result of (i) product mix, (ii) reduction in the cost of products being relieved from inventory, and (iii) greater absorption of warehouse overhead. We expect gross margin for this segment to reduce slightly during the remainder of 2010, as higher priced products currently being purchased will ultimately flow through cost of goods sold.

Selling, General and Administrative Expenses

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

For the three-month period ended June 30, 2010, our SG&A was \$4,084,000, reflecting an increase of \$261,000 when compared to \$3,823,000 for the three-month period ended June 30, 2009. As a percentage of revenue, SG&A was 30.7% for the three-month period ended June 30, 2010 compared to 27.2% for the same period in the prior year. The most significant factor contributing to the net change was the increase of \$118,000 in legal and consulting fees incurred during this quarter compared to the second quarter of 2009. This increase is primarily attributable to our efforts to resolve various matters with our banks, including a new waiver and amendment entered into in April 2010, and costs incurred as the result of PNC's actions pertaining to their foreclosure on WMC. During the three-month period ended March 31, 2009, we recorded approximately \$80,000 of expense attributable to a then proposed WMC transaction. During the second quarter of 2009, we reclassified and capitalized debt issuance costs of approximately \$80,000, which resulted in a reduction of our SG&A during the quarter ended June 30, 2009. As there was no similar reduction occurring during the three-month period ended June 30, 2010, our SG&A effectively increased during the

three-month period ended June 30, 2010 when compared to the same period in the prior year by a like amount. Additional areas of increased costs include bank fees and charges by \$34,000, freight out by \$42,000 and depreciation and amortization of \$31,000. These increases were offset slightly as our on-going compensation and benefits reduction plan remains in place, resulting in a decrease of \$38,000 over the second quarter of 2009. We intend to continue to examine our operating expenses, for further possible reductions particularly during these difficult times.

Our SG&A for the six-month period ended June 30, 2010 of \$8,401,000, reflects an increase \$375,000 or 4.7% from \$8,026,000 reported during the same period in the prior year. The most significant component of the increase as noted above are legal, consulting and accounting costs of \$555,000 incurred in connection with our efforts to resolve matters with our banks, including a new waiver and amendment entered into during the second quarter of 2010, and costs incurred as the result of PNC's actions pertaining to their Foreclosure on WMC. Additional areas which encountered increases were depreciation and amortization of \$76,000, which is due primarily to a software application implementation and freight out which increased by \$59,000. These increases were partially offset by, among other things, our continuing compensation and benefits reduction plan and reduced staff, which resulting in a savings of \$315,000 and a reduction of \$69,000 in the required expensing of prior period non-cash stock based compensation charges.

Interest - Net

Our net interest expense of \$337,000 for the three-month period ended June 30, 2010, reflects an increase of \$15,000 or 4.7%, when compared to net interest expense of \$322,000 incurred for the same period in the prior year. Interest expense incurred in connection with our term loan during the second quarter of 2010, reflects a decrease of \$11,000 to \$65,000 incurred during the three-month period ended June 30, 2010 from \$76,000 incurred during the same period in the prior year. The decrease is principally the result of lower average borrowings during the period due to repayments, partially offset by higher average interest rates. Interest expense on borrowings under our revolving credit loan facility for the three-month period ended June 30, 2010 was \$192,000, compared to \$205,000 for the same period in 2009, a decrease of \$13,000. Factors contributing to this decrease include lower average loan balances partially offset by higher interest rates, which included the addition of the default rate adjustment applied to our borrowings under the revolving credit facility through April 23, 2010, the date of an amendment and waiver to our credit facility which eliminated the additional default rate. Other material items included in our interest expense include approximately \$35,000 of interest accrued on the Hy-Tech sellers note and \$11,000 of accrued interest on the loan from our CEO and an unrelated third party made as a condition by the banks to the waiver and amendment to our credit facility dated April 23, 2010. Our total average debt balances under the terms of our credit facilities with our banks for the quarters ended June 30, 2010 and 2009 were \$17,118,000 and \$26,501,000, respectively. The total average interest rate for the quarters ended June 30, 2010 and 2009 were 6.00% and 4.17%, respectively.

Our net interest for the six-month period ended June 30, 2010 was \$726,000, compared to \$627,000 during the same period in 2009, an increase of \$99,000 or 15.8%. Interest expense incurred in connection with our Term Loan was \$161,000 compared to \$212,000 in 2009. This decrease is principally the result of lower average borrowings during the period due to repayments, offset by higher average interest rates. Interest expense on borrowings under our revolving credit loan facility for the six-month period ended June 30, 2010 was \$432,000, compared to \$344,000 for the same period in 2009, an increase of \$88,000. Factors contributing to this increase include higher interest rates, which included the addition of the default rate adjustment applied to our borrowings through April 23, 2010, the date of an amendment and waiver to our credit facility. The increase was partially offset by lower average loan balances. Other material items included in our interest expense are approximately \$60,000 of interest accrued on the Hy-Tech sellers note and \$11,000 of accrued interest on the loan from our CEO and an unrelated third party made as a condition to the waiver and amendment to our credit facility dated April 23, 2010. Our total average debt balances under the terms of our credit facilities with our banks was \$18,373,000 and \$27,096,000 for the six-month periods ended June 30, 2010 and 2009, respectively. The total average interest rate for the six-month periods ended June 30, 2010 and 2009 were 6.45% and 4.10%, respectively.

Income Taxes

The effective rate applicable to our loss from continuing operations for the three and six-month periods ended June 30, 2010, differs from the statutory rate primarily due to uncertainties relating to projected future taxable income, which would enable us to realize the federal carry-forward benefit. As such, we applied a 100% valuation allowance of the calculated tax benefit. The effective rate applicable to the loss from continuing operations for the three and six-month periods ended June 30, 2009 of approximately 60% and 30%. The primary factors affecting our effective tax rate for the three and six month ended periods ended June 30, 2009, were state income taxes and permanent differences.

LIQUIDITY AND CAPITAL RESOURCES

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

project liquidity needs and evaluate return on assets employed.

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

	June 30, 2010	December 31, 2009
Working Capital of continuing operations	\$ 5,634,000	\$ 7,342,000
Current Ratio of continuing operations	1.26 to 1.0	1.30 to 1.0
Shareholders' Equity	\$ 25,633,000	\$ 25,615,000

We and our subsidiaries, other than WMC, as co-borrowers, entered into a Credit Agreement, (“Credit Agreement”) as amended, with two banks (“banks”) in 2004. The Credit Agreement, among other things, includes a revolving credit loan facility, (“revolving loan”). The revolving loan can be used for direct borrowings, with various sub-limits for letters of credit, bankers’ acceptances and equipment loans. There were no letters of credit, bankers’ acceptances or equipment loan borrowings at June 30, 2010, or December 31, 2009. There are no commitment fees for any unused portion of this Credit Agreement. Direct borrowings under the revolving loan are secured by our accounts receivable, inventory, equipment and real property, and are cross-guaranteed by each of our subsidiaries, except WMC. These borrowings bear interest at either LIBOR (London InterBank Offered Rate), at a minimum of 1.0%, plus the currently applicable loan margin of 4.25%, or the prime interest rate, plus the currently applicable loan margin of 2.50%. The revolving loan within the Credit Agreement expired March 30, 2010. Primarily the result of the expiration of the revolving credit facility, and us being in default on various financial covenants, the banks on March 31, 2010 withdrew approximately \$957,000 from our operating accounts and applied these funds to pay down the term note. During the period from April 1, 2010 through April 23, 2010, the banks returned the \$957,000 to our operating accounts. On April 23, 2010, we and the banks executed a waiver and amendment which, among other things, extended the termination date of the revolving credit loan portion of the Credit Agreement facility to January 1, 2011, waived all then existing defaults and eliminated the additional default interest rate of 2.0%. The waiver and amendment set new financial covenants and adjusted the borrowing base calculation as well as reduced the size of the facility from \$17,500,000 to \$16,500,000. In addition, it required that all future advances shall be subject to the requirement that the aggregate amount advanced after giving effect to any such future advances be at least \$750,000 less than the aggregate lendable value in eligible borrowing base assets. Finally, the banks required a subordinated loan of \$750,000, which, in the aggregate was provided by the Company’s Chief Executive Officer, President and Chairman of the Board of Directors, (“CEO”), and another unrelated party.

As part of the March 2009 amendment to the Credit Agreement we have a term loan, entered into in March 2009. Similar to the borrowings under the revolving loan facility of the Credit Agreement, borrowings under this term loan are secured by our accounts receivable, inventory, equipment and real property and are cross-guaranteed by each of our subsidiaries, with the exception of WMC. The balance of this term loan at June 30, 2010 and December 31, 2009 was \$2,903,000 and \$5,782,000, respectively. At June 30, 2010, this term loan bears interest at LIBOR, at a minimum of 1%, plus the currently applicable loan margin of 4.50%.

Countrywide is a party to a loan agreement with Wachovia Bank, which is secured by a mortgage with respect to the real property owned by Countrywide and utilized by Nationwide. Countrywide did not make the final “balloon” payment that was due on September 21, 2009. As a result of the non-payment, cross-default provisions set forth in the loan agreement between Florida Pneumatic and Wachovia, secured by a mortgage with respect to the real property owned and utilized by Florida Pneumatic, were triggered. On February 23, 2010, Wachovia amended the underlying loan document to among other things, extend the maturity date of the balloon payment to June 1, 2010 and require the Company to make monthly principal payments of approximately \$11,000 plus accrued interest commencing on March 24, 2010. On April 22, 2010, the Company and Wachovia entered into a new Loan Modification Agreement, which became effective April 23, 2010, wherein the Company agreed to prepay \$150,000 toward the balance due on the loan agreement. In exchange, Wachovia waived all prior defaults and extended the maturity date to January 1, 2011. The balance on this loan agreement at June 30, 2010 and December 31, 2009 was \$896,000 and \$1,091,000, respectively.

In connection with the acquisition of Hy-Tech, we agreed to make additional payments (“Contingent Consideration”) to the sellers. The amount of the Contingent Consideration was based upon Hy-Tech achieving certain financial performance thresholds during the two year period ending on the second anniversary of the acquisition. Further, the Company agreed to make an additional payment (“Additional Contingent Consideration”), subject to certain conditions related primarily to an exclusive supply agreement with a major customer and, to a certain extent, and subject to certain provisions, the achievement of Contingent Consideration. Hy-Tech successfully achieved the required

thresholds necessary to be entitled to both the Contingent Consideration and the Additional Contingent Consideration. The total amount of the Contingent Consideration and the Additional Contingent Consideration was approximately a \$2,292,000. According to the agreement, the amounts due the sellers were payable in May 2009. We and the sellers agreed upon payment arrangement wherein we were required and did make a payment of approximately \$573,000 in May 2009, with the balance of approximately \$1,719,000 to be paid in six equal payments incurring interest at 6.0% per annum, payable quarterly commencing in August 2009. The August 2009 and November 2009 installment payments with interest were paid timely. However, due to the default on the Credit Agreement, we were not permitted to make any subsequent payment without permission from the banks. The balance due on this obligation was \$1,146,000 at June 30, 2010. Pursuant to the Waiver and Amendment dated April 23, 2010, we are still not permitted to make any future payments without permission from the banks. As such, we have been accruing interest at 12.0% per annum, the default rate of interest.

The Credit Agreement entered into with the banks also includes a foreign exchange line, which provides for the availability of up to \$10,000,000 in foreign currency forward contracts. These contracts fix the exchange rate on future purchases of foreign currencies needed for payments to foreign suppliers. At June 30, 2010 and 2009, the Company had no material foreign exchange forward contracts outstanding. Additionally, there was no material realized or unrealized gains related to these contracts during the three and six month periods ended June 30, 2010 and 2009, respectively.

During the six-month period ended June 30, 2010, our cash increased \$274,000 to \$820,000 from \$546,000 at December 31, 2009. Our total debt at June 30, 2010, excluding debt included in Liabilities of Discontinued operations, was \$17,871,000, compared to \$25,463,000 at December 31, 2009. The percent of total debt to total book capitalization (total debt divided by total bank debt plus equity) was 58.6% at June 30, 2010, compared to 50.9% at December 31, 2009.

We had net cash of \$7,836,000 provided by operating activities of continuing operations for the six-month period ended June 30, 2010, compared to \$3,788,000 provided by operating activities of continuing operations during the six-month period ended June 30, 2009.

Capital spending was approximately \$99,000 for the six-month period ended June 30, 2010, compared to \$1,066,000 during the six-month period ended June 30, 2009. Capital expenditures for the balance of 2010 are expected to be approximately \$300,000, some of which may be financed through our credit facilities or financed through independent third party financial institutions. Included in the expected total for 2010 are capital expenditures relating to new products, expansion of existing product lines and replacement of equipment.

In accordance with authoritative guidance issued by the Financial Accounting Standards Board, and discussed further in the Explanatory Note preceding the consolidated condensed financial statements and in Note 2 and 3, we deconsolidated WMC. We believe neither the Company nor any of its subsidiaries other than WMC are legally responsible for any of the liabilities belonging to WMC. Until such time when these obligations have been resolved, either directly with the creditors, discharged by a court of law, or otherwise eliminated, WMC, which has been deconsolidated, and therefore not included in the Company's consolidated balance sheets, is required to maintain these obligations on its books, which at June 30, 2010 were approximately \$12,779,000. We will, as required, reevaluate each quarter the facts and circumstances regarding whether or not we should continue to deconsolidate WMC.

OFF-BALANCE SHEET ARRANGEMENTS

Our foreign exchange line within the Credit Agreement provides for the availability of up to \$10,000,000 in foreign currency forward contracts. These contracts fix the exchange rate on future purchases of foreign currencies needed for payments to foreign suppliers. We have not purchased forward contracts on New Taiwan dollars ("TWD"). At June 30, 2010 and 2009, the Company had no material foreign exchange forward contracts outstanding. Additionally, there was no material realized or unrealized gains related to these contracts during the three and six month periods ended June 30, 2010 and 2009, respectively.

RECENT ACCOUNTING PRONOUNCEMENTS

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

Item 4. Controls and Procedures

Evaluation of disclosure controls and procedures

An evaluation was performed, under the supervision of, and with the participation of, our management including the Principal Executive Officer and Principal Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) to the Securities and Exchange Act of 1934) as of June 30, 2010. Based on that evaluation, at the time our Quarterly Report on Form 10-Q for the period ended June 30, 2010 was filed, on August 13, 2010, our management, including the Principal Executive Officer and

Principal Financial Officer, concluded that our disclosure controls and procedures as of June 30, 2010 were effective and that the consolidated condensed financial statements included in such Quarterly Report on Form 10-Q fairly presented, in all material respects, our financial condition, results of operations and cash flows for the periods presented.

As set forth in the Explanatory Note preceding this Amendment No. 1 and Note 3 of to the consolidated condensed financial statements included in Item 1 of this Amendment No. 1, the Company restated the financial statements for the three and six-month periods ended June 30, 2010, to correct the accounting for a variable interest entity. Such restatement relates to the deconsolidation of the Company's subsidiary, WMC. During the preparation of its Annual Report filed on Form 10-K for the year ended December 31, 2010, the Company retained additional outside accounting expertise to assist it with our accounting for WMC as a VIE under ASC 810. Following such retention, the Company determined that, effective with the actions of WMC's bank, PNC Bank, which took possession of and ultimately foreclosed on all the assets of WMC, WMC should have been accounted for as a VIE, of which the Company no longer had a controlling financial interest, and the Company should therefore have excluded WMC from its financial statements as of June 30, 2010.

Subsequently, our management, including the Principal Executive Officer and Principal Financial Officer re-evaluated the effectiveness of the design and operations of the Company's disclosure controls and procedures as of the end of the fiscal quarter ended June 30, 2010 and concluded that the Company's disclosure controls and procedures were not effective as of June 30, 2010.

P&F management is responsible for establishing and maintaining effective internal controls. Because of our 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.

The Certifications of our Principal Executive Officer and Principal Financial Officer included as Exhibits 31.1 and 31.2 to this Quarterly Report on Form 10-Q/A include, in paragraph 4 of such certifications, information concerning our disclosure controls and procedures and internal control over financial reporting. Such certifications should be read in conjunction with the information contained in this Item 4 - Controls and Procedures for a more complete understanding of the matters covered by such certifications.

Changes in Internal Control Over Financial Reporting

There have been no significant changes in our internal control over financial reporting during the three-month period ended June 30, 2010, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 6. Exhibits

See "Exhibit Index" immediately following the signature page.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

P&F INDUSTRIES, INC.
(Registrant)

By

/s/ Joseph A. Molino, Jr.
Joseph A. Molino, Jr.
Chief Financial Officer
(Principal Financial and Chief Accounting
Officer)

Dated: May 13, 2011

EXHIBIT INDEX

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

Exhibit Number	Description of Exhibit
10.1	Amendment No. 21 and Waiver to Credit Agreement, dated as of April 23, 2010, by and among the Registrant, Florida Pneumatic Manufacturing Corporation, Embassy Industries, Inc., Green Manufacturing, Inc., Countrywide Hardware, Inc., Nationwide Industries, Inc., Woodmark International, L.P., Pacific Stair Products, Inc., WILP Holdings, Inc., Continental Tool Group, Inc., Hy-Tech Machine, Inc. and Citibank, N.A., as Administrative Agent, and the lenders party thereto (Incorporated by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K dated April 23, 2010).
10.2	Secured Subordinated Promissory Note, dated as of April 23, 2010, by and among the Registrant, Florida Pneumatic Manufacturing Corporation, Embassy Industries, Inc., Green Manufacturing, Inc., Countrywide Hardware, Inc., Nationwide Industries, Inc., Woodmark International, L.P., Pacific Stair Products, Inc., WILP Holdings, Inc., Continental Tool Group, Inc., Hy-Tech Machine, Inc. in favor of Marc Schorr in the principal amount of \$500,000 (Incorporated by reference to Exhibit 10.2 to Registrant's Current Report on Form 8-K dated April 23, 2010).
10.3	Secured Subordinated Promissory Note, dated as of April 23, 2010, by and among the Registrant, Florida Pneumatic Manufacturing Corporation, Embassy Industries, Inc., Green Manufacturing, Inc., Countrywide Hardware, Inc., Nationwide Industries, Inc., Woodmark International, L.P., Pacific Stair Products, Inc., WILP Holdings, Inc., Continental Tool Group, Inc., Hy-Tech Machine, Inc. in favor of Richard A. Horowitz in the principal amount of \$500,000 (Incorporated by reference to Exhibit 10.3 to Registrant's Current Report on Form 8-K dated April 23, 2010).
10.4	Security Agreement, dated as of April 23, 2010, between Marc Schorr and Richard A. Horowitz, as secured parties, and the Registrant, as debtor (Incorporated by reference to Exhibit 10.4 to Registrant's Current Report on Form 8-K dated April 23, 2010).
10.5	Security Agreement, dated as of April 23, 2010, between Marc Schorr and Richard A. Horowitz, as secured parties, and Florida Pneumatic Manufacturing Corporation, as debtor (Incorporated by reference to Exhibit 10.5 to Registrant's Current Report on Form 8-K dated April 23, 2010).
10.6	Security Agreement, dated as of April 23, 2010, between Marc Schorr and Richard A. Horowitz, as secured parties, and Embassy Industries, Inc., as debtor (Incorporated by reference to Exhibit 10.6 to Registrant's Current Report on Form 8-K dated April 23, 2010).
10.7	Security Agreement, dated as of April 23, 2010, between Marc Schorr and Richard A. Horowitz, as secured parties, and Green Manufacturing, Inc., as debtor (Incorporated by reference to Exhibit 10.7 to Registrant's Current Report on Form 8-K dated April 23, 2010).
10.8	Security Agreement, dated as of April 23, 2010, between Marc Schorr and Richard A. Horowitz, as secured parties, and Countrywide Hardware, Inc., as debtor (Incorporated by reference to Exhibit 10.8 to Registrant's Current Report on Form 8-K dated April 23, 2010).
10.9	

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Security Agreement, dated as of April 23, 2010, between Marc Schorr and Richard A. Horowitz, as secured parties, and Nationwide Industries, Inc., as debtor (Incorporated by reference to Exhibit 10.9 to Registrant's Current Report on Form 8-K dated April 23, 2010).

- 10.10 Security Agreement, dated as of April 23, 2010, between Marc Schorr and Richard A. Horowitz, as secured parties, and Woodmark International, L.P, as debtor (Incorporated by reference to Exhibit 10.10 to Registrant's Current Report on Form 8-K dated April 23, 2010).
- 10.11 Security Agreement, dated as of April 23, 2010, between Marc Schorr and Richard A. Horowitz, as secured parties, and WILP Holdings, Inc., as debtor (Incorporated by reference to Exhibit 10.11 to Registrant's Current Report on Form 8-K dated April 23, 2010).
- 10.12 Security Agreement, dated as of April 23, 2010, between Marc Schorr and Richard A. Horowitz, as secured parties, and Continental Tool Group, Inc., as debtor (Incorporated by reference to Exhibit 10.12 to Registrant's Current Report on Form 8-K dated April 23, 2010)

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- 10.13 Security Agreement, dated as of April 23, 2010, between Marc Schorr and Richard A. Horowitz, as secured parties, and Hy-Tech Machine, Inc., as debtor (Incorporated by reference to Exhibit 10.13 to Registrant's Current Report on Form 8-K dated April 23, 2010).
- 10.14 Second Loan Documents Modification Agreement, dated April 22, 2010, between Countrywide Hardware, Inc. and Wells Fargo, National Association (successor by merger to Wachovia Bank, National Association) as modifying the related (i) Mortgage, Security Agreement and Absolute Assignment of Leases, (ii) Promissory Note, and (iii) Loan Agreement, each dated May 24, 2002, between Countrywide Hardware, Inc. and Wachovia Bank, National Association, as previously amended (Incorporated by reference to Exhibit 10.15 to Registrant's Current Report on Form 8-K dated April 23, 2010).
- 10.15 Indemnification Agreement, dated as of April 23, 2010, by the Registrant in favor of Marc Schorr and Richard A. Horowitz (Incorporated by reference to Exhibit 10.16 to Registrant's Current Report on Form 8-K dated April 23, 2010).
- 10.16 P&F Industries, Inc. 2010 CEO Deferred Compensation Plan (Incorporated by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K dated April 26, 2010).
- 10.17 Lease Agreement, dated as of March 30, 2007, by and between AGNL Coffman, L.L.C. and Coffman Stairs, LLC and Visador Holding Corporation (Incorporated by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K dated June 16, 2009).
- 10.18 First Amendment to Lease Agreement, dated as of June 8, 2009, made by AGNL Coffman, L.L.C. and WM Coffman LLC (Incorporated by reference to Exhibit 10.2 to Registrant's Current Report on Form 8-K dated June 10, 2009).
- 10.19 Acknowledgment of Events of Default and Peaceful Possession Letter, dated June 4, 2010, by WM Coffman LLC in favor of PNC Bank National Association (Incorporated by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K dated June 7, 2010).
- 10.20 Mutual Release Agreement, dated as of June 4, 2010, by and among PNC Bank, National Association, as agent P & F Industries, Inc., Continental Tool Group, Inc., Florida Pneumatic Manufacturing Corporation, Hy-Tech Machine, Inc., Countrywide Hardware, Inc., WILP Holdings, Inc., Green Manufacturing, Inc., Embassy Industries, Inc., Nationwide Industries, Inc., Pacific Stair Products, Inc. and Woodmark International, L.P. (Incorporated by reference to Exhibit 10.2 to Registrant's Current Report on Form 8-K dated June 7, 2010).
- 31.1 Certification of Richard A. Horowitz, Principal Executive Officer of the Registrant, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Joseph A. Molino, Jr., Principal Financial Officer of the Registrant, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of Richard A. Horowitz, Principal Executive Officer of the Registrant, Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 32.2 Certification of Joseph A. Molino, Jr., Principal Financial Officer of the Registrant, Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

A copy of any of the foregoing exhibits to this Quarterly Report on Form 10-Q/A 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.