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FORM 10-K

P&F INDUSTRIES INC - PFIN

Filed: March 31, 1999 (period: December 31, 1998)

Annual report with a comprehensive overview of the company

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

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF
THE SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED DECEMBER 31, 1998

OR

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

COMMISSION FILE NUMBER 1 - 5332

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

DELAWARE
(State of incorporation)

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

300 SMITH STREET, FARMINGDALE, NEW YORK
(Address of principal executive offices)

11735
(Zip Code)

Registrant's telephone number, including area code: (516) 694-1800

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

Title of Class	Name of each exchange on which registered
NONE	NONE

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

CLASS A COMMON STOCK, \$1.00 PAR VALUE
(Title of class)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
YES NO

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

The aggregate market value of the voting stock held by non-affiliates of the Registrant, based on the last sale price on March 25, 1999, was approximately \$20,413,283.

As of March 25, 1999, there were outstanding 3,239,345 shares of the Registrant's Class A Common Stock, par value \$1.00 per share.

DOCUMENTS INCORPORATED BY REFERENCE

Part III incorporates by reference information from the Registrant's definitive Proxy Statement for the 1998 Annual Meeting of Stockholders.

P & F INDUSTRIES, INC.

FORM 10-K

FOR THE FISCAL YEAR ENDED DECEMBER 31, 1998

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PART I

ITEM 1. BUSINESS

P & F Industries, Inc. (the "Company") conducts its business operations through three wholly-owned subsidiaries. Embassy Industries, Inc. ("Embassy") is engaged in the manufacture and sale of baseboard heating products and the importation and sale of radiant heating systems. Embassy also imports a line of door and window hardware items through its Franklin Hardware division ("Franklin"). Florida Pneumatic Manufacturing Corporation ("Florida Pneumatic") is engaged in the importation, manufacture and sale of pneumatic hand tools, primarily for the industrial and retail 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. Green Manufacturing, Inc. ("Green"), which was acquired by the Company on September 16, 1998, is engaged primarily in the manufacture, development and sale of heavy-duty welded custom designed hydraulic cylinders. Green also manufactures a line of access equipment for the petro-chemical industry and a line of post hole digging equipment for the agricultural industry. Note 9 of the Notes to Consolidated Financial Statements presents additional information regarding the acquisition of Green. Note 11 of the Notes to Consolidated Financial Statements presents financial information for the segments of the Company's business.

Florida Pneumatic has two major customers, Sears, Roebuck and Co. and W.W. Grainger, Inc., who accounted for 35.7%, 45.4% and 37.8% and 10.1%, 9.1% and 10.6% of consolidated revenues for the years ended December 31, 1998, 1997 and 1996, respectively.

Revenues derived from countries outside the United States were immaterial for the years ended December 31, 1998, 1997 and 1996, respectively.

EMBASSY

Embassy's baseboard heating products are sold nationally under the Embassy name and under its Panel-Track and System 6 trademarks, for use in hot-water heating systems installed in single family homes, multi-unit dwellings and commercial and industrial buildings. Products are sold principally to wholesalers by manufacturers' representatives and in-house sales support personnel. Embassy's products are also sold to other manufacturers for incorporation into their products and for distribution on a private label basis.

Hot-water heating systems operate by heating water in a boiler and circulating it through the copper tubing in the baseboard along the perimeter of the space to be heated. Attached to the copper tubing are numerous closely-spaced aluminum fins which dissipate the heat. Sections are two to ten feet in length, project several inches from the wall and rise less than a foot from the floor. These sections may be combined for longer installations. Embassy's baseboard contains patented plastic tracks which ease handling and reduce operating noise.

Embassy also imports a line of radiant heating systems. These systems are different from baseboard heating systems in that the radiant heating systems radiate heat provided by hot water circulating through plastic tubing, which is generally installed beneath the surface of the floor. These systems include the tubing, manifolds, controls and installation supplies. Embassy also provides computer software which aids in the design of the system. Sales of this product accounted for 15.3% of Embassy's total heating equipment revenues in 1998.

Baseboard and radiant heating systems compete with forced hot-air and electric heating systems. Electric systems are generally more expensive to operate. Forced hot-air systems are noisier, sometimes cause discomfort from fluctuations in temperature as the furnace cycles on and off and do not distribute warm air uniformly within the room. Hot-water systems are generally more expensive to install. Accordingly, baseboard and radiant heating systems are more widely used in custom and higher priced homes in colder sections of the country. Since Embassy's products are primarily used in new installations, its sales are related to housing starts.

Embassy's baseboard heating products are sold off the shelf and no material backlog of orders exists. Raw materials are readily available. The business is seasonal, with approximately 58.0% of Embassy's heating equipment revenues coming in the last six months of the year.

The primary competitive factors in the baseboard and radiant heating market are quality, price, service and brand-name awareness.

The Franklin division of Embassy imports and packages approximately 225 types of hardware products, including locksets, deadbolts, door and window security hardware, rope-related hardware products and fire escape ladders. Products generally range in price from under \$1.00 to \$30.00 and are sold to retailers, wholesalers and private label accounts through manufacturers' representatives and in-house sales support personnel. Nearly all of Franklin's sales are of products imported from the Far East. Three customers accounted for approximately 48.9% of Franklin's revenues in 1998, with two of these customers each doing approximately the same volume and accounting for approximately 37.8%.

The primary competitive factors in the hardware business are price, service, skill in packaging and point-of-sale marketing.

Franklin's products are sold off the shelf and no material backlog of orders exists. Sources of imported products are readily available. Franklin's business is not seasonal.

FLORIDA PNEUMATIC

Florida Pneumatic imports or manufactures approximately fifty types of pneumatic hand tools, most of which are sold at prices ranging from \$50 to \$1,000, under the names "Florida Pneumatic", "Universal Tool" and "Fuji", as well as under the trade names or trademarks of several private label customers. The line of products includes sanders, grinders, drills, saws, impact wrenches, nailers and staplers. The nailers and staplers were added to Florida Pneumatic's

product line in the fourth quarter of 1997. These tools are similar in appearance and function to electric hand tools but are powered by compressed air, rather than directly by electricity. Air tools, as they are also called, are generally less expensive to operate, offer better performance and are lighter in weight than their electrical counterparts.

Most of Florida Pneumatic's sales are of pneumatic tools imported from Japan, along with sales of some products imported from Taiwan and mainland China. Florida Pneumatic manufactures high speed rotary and reciprocating pneumatic tools at its factory in Jupiter, Florida and imports air filters.

Products are sold to distributors, retailers and private label customers through in-house sales personnel and manufacturers' representatives. Typical users of Florida Pneumatic's hand tools include industrial maintenance and production staffs, do-it-yourself mechanics, automobile mechanics and auto body repairmen.

The primary competitive factors in the pneumatic tool market are price, service and brand-name awareness.

Two customers accounted for 70.4%, 72.9% and 67.9% of Florida Pneumatic's revenues in 1998, 1997 and 1996, respectively. The Company believes that its relationships with these customers remain excellent.

Berkley markets a product line consisting of pipe and bolt dies, pipe taps, pipe and tubing cutter wheels and replacement electrical components for a widely used brand of pipe cutting and threading machines. Florida Pneumatic markets Berkley's products through industrial distributors and contractors.

Florida Pneumatic's products are sold off the shelf and no material backlog of orders exists. The business is not seasonal, but it may be subject to significant periodic changes resulting from occasional sales promotions by customers.

Florida Pneumatic purchases significant amounts of pneumatic tools from two foreign suppliers. Other sources are available. However, the loss of either supplier could cause a temporary disruption in the flow of products, possibly creating an adverse effect on operating results.

GREEN

Green is engaged primarily in the manufacture, development and sale of heavy-duty welded custom designed hydraulic cylinders. All of Green's hydraulic cylinders are sold on

an OEM basis and are integrated components on a variety of equipment and machinery. Hydraulic cylinders are welded casings whose internal chambers consist of a rod and piston surrounded by a petroleum-based fluid. The casings contain openings or valves which allow the introduction of fluid into one side of the chamber at high pressure. The introduction of fluid causes the rod/piston to move with tremendous force and allows for the pushing or lifting of extremely heavy loads.

Green's products, which are sold throughout the United States, are used on tow trucks and car carriers for hoisting and lifting cars and on aerial lifts and cranes to raise platforms and other heavy objects. The cylinders are also used on many types of construction equipment for digging and as steering mechanisms. They are also installed in compacting equipment, as the means to compress recyclable cardboard or other refuse.

Green specializes in cylinders that range in bore size from 2 to 8 inches and stroke or extend up to 180 inches. Each cylinder is engineered to the customer's specifications.

Green sells its products directly to OEM customers, at prices ranging from \$50 to \$1500, with an average selling price of about \$150.

The primary competitive factors in the hydraulic cylinder industry are quality and timely delivery.

Green also manufactures a line of access equipment for the petro-chemical and bulk storage industries. This product line, which accounts for about 10% of Green's sales, consists of bridges, platforms, walkways and stairways, constructed of steel or aluminum and generally installed outdoors. These

products are designed to customers' specifications and sold directly to them for use in overhead and elevated access to large containers, including rail cars and storage tanks.

Green also markets a small line of diggers used primarily as attachments to small tractors for light farm work. This product line, which accounts for less than 5% of Green's sales, is marketed through farm equipment dealers and wholesalers.

Green's business does not exhibit a great deal of seasonality, except for the agricultural equipment business, which is stronger during the growing season. Backlogs totalling as much as 25% of yearly sales are standard for the cylinder business.

One customer accounted for 24.1% of Green's revenues in 1998. The Company believes that its relationship with this customer remains excellent.

Green purchases significant amounts of raw materials from one supplier. Other sources are available. The Company believes that the loss of this supplier would not cause any disruption in the flow of products or have an adverse effect on operating results.

EMPLOYEES

The Company employed 382 persons as of December 31, 1998, including 4 at corporate headquarters. The 84 employees of the pneumatic tool segment and the 206 employees of the hydraulic cylinder segment are not represented by a union. Of the 88 persons employed in the heating equipment and hardware segments, 61 factory workers are covered by a single-employer union contract. The heating equipment union contract expires on November 30, 2000. The Company believes that its relations with its employees are satisfactory.

ITEM 2. PROPERTIES

Embassy, Florida Pneumatic and Green each own the plant facilities which they occupy. The facilities owned by Embassy and Florida Pneumatic are subject to mortgages. Embassy's 75,000 square foot plant facility is located in Farmingdale, New York. Florida Pneumatic's 72,000 square foot plant facility is located in Jupiter, Florida. Green's 85,000 square foot plant facility is located in Bowling Green, Ohio. Each facility either provides adequate space for the operations of the respective subsidiary in the foreseeable future or can be expanded to provide additional space. The Company's executive offices are located in

Embassy's facility in Farmingdale, New York.

The Company owned, subject to a mortgage, a 36,000 square foot building in New Hyde Park, New York. This building was being leased to Triangle Sheet Metal Works, Inc. ("Triangle"), a former subsidiary of the Company. In August 1997, the Company sold this building to Triangle. Note 9(b) of the Notes to Consolidated Financial Statements presents additional information on the sale of this building.

ITEM 3. LEGAL PROCEEDINGS

The Company is not a party to any litigation that is expected to have a material adverse effect on its business.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the last quarter of the period covered by this report.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

The Company's Class A Common Stock trades on the Nasdaq Stock Market. The price range of the Company's Class A Common Stock during the last two fiscal years was as follows:

1998	HIGH	LOW
----	----	---

First Quarter	\$ 8	\$ 5 7/8
Second Quarter	11 5/16	7 9/16
Third Quarter	10 9/16	7 1/8
Fourth Quarter	9 7/8	7 3/8

1997	HIGH	LOW
----	----	---
First Quarter	\$ 6	\$ 3 1/2
Second Quarter	5 5/8	4 5/8
Third Quarter	7	4 1/2
Fourth Quarter	7 13/16	6

As of March 25, 1999, there were approximately 2,000 holders of record of the Company's Class A Common Stock.

The Company has not declared any cash dividends on its Class A Common Stock since its incorporation in 1962 and has no plans to declare any cash dividends in the immediate future. On January 30, 1997, the Company redeemed all of the outstanding shares of its \$1.00 Cumulative Preferred Stock, at the par value of \$10 per share, for a total of \$2,633,450, plus an interim dividend totalling \$21,858.

ITEM 6. SELECTED FINANCIAL DATA

P & F INDUSTRIES, INC. AND SUBSIDIARIES

SELECTED CONSOLIDATED FINANCIAL DATA

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The following selected consolidated financial data has been derived from the audited consolidated financial statements of P & F Industries, Inc. and subsidiaries. The selected financial data should be read in conjunction with the Consolidated Financial Statements and related notes included elsewhere in this Form 10-K.

	YEAR ENDED DECEMBER 31,				
	1998	1997	1996	1995	1994
	-----	-----	-----	-----	-----
Revenues	\$58,165,715	\$50,026,947	\$43,078,371	\$43,047,601	\$45,075,182
Income from continuing operations	\$ 3,943,441	\$ 2,513,779	\$ 1,953,287	\$ 1,491,975	\$ 1,233,356
Income from continuing operations per share of common stock:					
Basic	\$ 1.23	\$.83	\$.58	\$.42	\$.33
Diluted	\$ 1.07	\$.71	\$.52	\$.39	\$.32
Total assets	\$48,078,479	\$32,648,895	\$31,331,643	\$35,415,672	\$33,013,300
Long-term obligations	\$10,193,064	\$ 5,124,883	\$ 5,288,570	\$ 7,414,181	\$ 7,767,625
Cash dividends declared per common share	\$ --	\$ --	\$ --	\$ --	\$ --

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

1998 COMPARED TO 1997

Consolidated revenues increased 16.3%, from \$50,026,947 to \$58,165,715. Revenues from pneumatic tools and related equipment were essentially flat, increasing from \$37,485,572 to \$37,806,138. This increase would have been 18.2% over the same period in 1997 if not for a one time order in 1997 of a special product from one large customer. This order, which amounted to \$5,494,865, was shipped in the third and fourth quarters of 1997. The increase, after adjusting for the shipments noted above, was the result of an addition of a major new line of pneumatic tools and also an increase in sales to the industrial sector. Selling prices of pneumatic tools and related equipment were unchanged during the year.

Heating equipment revenues increased 13.0%, from \$8,342,996 to \$9,423,633. This increase was consistent across both the baseboard and radiant product lines. Selling prices for several large new accounts opening in 1998 were lower than the average selling prices on existing business.

Hardware revenues increased 3.7%, from \$4,196,351 to \$4,351,114. A drop in sales to one large customer was more than offset by the combination of a large increase in sales to another as well as the second half addition of another very large new account. Selling prices of hardware were unchanged during the year.

Revenues for hydraulic cylinders and other equipment, attributable to the acquisition of Green, were \$6,584,830 for the period from the date of the acquisition to December 31. Selling prices for hydraulic cylinders and other equipment were unchanged during the year.

Consolidated gross profit, as a percentage of revenues, increased from 33.0% to 35.5%. Gross profit on pneumatic tools and related equipment increased from 33.2% to 40.1%, due to a more favorable exchange rate of the dollar compared to the Japanese yen, which reduced the cost of imported product and a slightly more favorable product mix. Gross profit from heating equipment decreased from 35.3% to 34.1%, due primarily to several new large accounts receiving slightly lower prices than existing accounts. Gross profit from hardware increased, from 26.1% to 28.3%, due to a more favorable product mix. Gross profit from hydraulic cylinders was 15.8%.

Consolidated selling, general and administrative expenses increased 15.2%, from \$11,573,473 to \$13,332,424, primarily as the result of an increase in marketing and compensation program expenditures and the acquisition of Green. As a percentage of revenues, selling, general and administrative expenses decreased from 23.1% to 22.9%, due to the increase in revenues.

Interest expense increased 11.3%, from \$693,660 to \$772,035, primarily due to the borrowing in September to effect the acquisition of Green.

The effective tax rates for the years ended December 31, 1998 and 1997 were 39.6% and 45.6%, respectively. See Note 8 of the Notes to Consolidated Financial Statements.

1997 COMPARED TO 1996

Consolidated revenues increased 16.1%, from \$43,078,371 to \$50,026,947. Revenues from pneumatic tools and related equipment increased 21.6%, from \$30,836,616 to \$37,485,572. The increase in these revenues was due primarily to the addition of a major new product line of pneumatic tools.

Heating equipment revenues increased 2.1%, from \$8,171,330 to \$8,342,996. A 48.7% increase in sales of radiant heating products more than offset a decrease of 3.3% in baseboard sales.

Hardware revenues increased 4.0%, from \$4,033,686 to \$4,196,351, due to increased sales to existing customers.

Selling prices of all products were virtually unchanged during the year.

Consolidated gross profit, as a percentage of revenues, increased from 32.6% to 33.0%. Gross profit on pneumatic tools and related equipment increased from 33.1% to 33.2%, due to a more favorable exchange rate of the dollar compared to the Japanese yen, which reduced the cost of imported product and which was offset by a less favorable product mix. Gross profit from heating equipment increased from 33.2% to 35.3%, due to a more favorable product mix. Gross profit from hardware decreased slightly, from 26.2% to 26.1%, due to a less favorable product mix.

Consolidated selling, general and administrative expenses increased 14.7%, from \$10,088,812 to \$11,573,473, primarily as the result of an increase in marketing and compensation program expenditures. As a percentage of revenues, selling, general and administrative expenses decreased from 23.4% to 23.1%, due to the increase in revenues.

Interest expense decreased 8.0%, from \$754,069 to \$693,660, due to a decrease in average loans outstanding.

The effective tax rates for the years ended December 31, 1997 and 1996

were 45.6% and 38.7%, respectively. See Note 8 of the Notes to Consolidated Financial Statements.

LIQUIDITY AND CAPITAL RESOURCES

The Company gauges its liquidity and financial stability by the measurements shown in the following table:

	DECEMBER 31,		
	1998	1997	1996
	-----	-----	-----
	----	----	----
	(amounts in thousands, except for ratios)		
Working Capital	\$15,994	\$17,060	\$15,682
Current Ratio	2.24 to 1	3.45 to 1	3.35 to 1
Shareholders' Equity	\$24,450	\$20,121	\$19,382

During 1998, accounts receivable increased by \$694,918, caused by two factors. The acquisition of Green led to an increase in accounts receivable of approximately \$3,200,000, which was substantially offset by a decrease of approximately \$3,000,000 in accounts receivable at Florida Pneumatic. A majority of Florida Pneumatic's fourth quarter sales occurred in October. Because substantially all of Florida Pneumatic's accounts receivable are collected in approximately 60 days, accounts receivable were unusually low at December 31. The remainder of the increase was due to a very strong fourth quarter for Embassy. Also during 1998, inventories increased \$3,638,995, due to the acquisition of Green, which increased inventories by over \$1,100,000, a build-up at Florida Pneumatic related to two large promotional orders to be shipped in early 1999 and an increase at Franklin to support the addition of a new account. This increase in inventories was financed by an increase in short-term borrowings of \$3,500,000.

During 1997, accounts receivable increased by \$1,889,009 as a result of a 37.3% increase in sales in the fourth quarter of 1997 as compared to 1996. Also during 1997, inventories increased \$2,262,630, due primarily to the addition, in December, of a new line of air tools at Florida Pneumatic.

In August 1997, the Company sold the 36,000 square foot building it owned in New Hyde Park, New York. This building was being leased to Triangle Sheet Metal Works, Inc. ("Triangle"), a former subsidiary of the Company. The sale of the building, with proceeds totalling approximately \$1,766,000, resulted in a gain of \$542,837, net of income taxes totalling \$850,000. This gain is presented in the financial statements as income from discontinued operation.

On July 27, 1998, the Company signed a new credit facility agreement with European American Bank. This agreement provides the Company with various credit facilities, including revolving credit loans, term loans for acquisitions and a foreign exchange line. The revolving credit loan facility provides a total of \$12,000,000, with various sublimits, for direct borrowings, letters of credit, bankers' acceptances and equipment loans. At December 31, 1998, there were direct borrowings totalling \$3,500,000 outstanding against this facility. There was also a commitment at December 31, 1998 of approximately \$1,870,000 for open letters of credit.

The term loan facility provides a commitment of \$15,000,000 to finance acquisitions subject to the lending bank's approval. As noted below, \$10,000,000 of this facility was used to help finance the acquisition of Green and there was \$6,000,000 still outstanding against this facility at December 31, 1998. There was also a standby letter of credit totalling approximately \$975,000 outstanding against this facility at December 31 1998. This standby letter of credit was used to secure the Economic Development Revenue Bond assumed as part of the acquisition of Green.

The foreign exchange line provides for the availability of up to \$10,000,000 in foreign currency forward contracts. These contracts fix the exchange rate on future purchases of Japanese yen needed for payments to foreign suppliers. The total amount of foreign currency forward contracts outstanding at December 31, 1998 was approximately \$470,000.

The Company's credit agreement is subject to annual review by the lending bank. Under this agreement, the Company is required to adhere to certain

financial covenants. At December 31, 1998, and for the year then ended, the Company satisfied all of these covenants.

On September 16, 1998, the Company acquired certain assets and liabilities of Green Manufacturing, Inc. for \$10,500,000 including the assumption of \$1,095,000 of outstanding Economic Development Revenue Bonds issued by Wood County, Ohio. The acquisition was financed with \$500,000 in working capital funds and a \$10,000,000 7-year term loan from the Company's principal bank. This loan bears interest at LIBOR plus 175 basis points and is payable with interest only for up to one year at the Company's discretion. As of December 31, 1998, \$4,000,000 of the note had been repaid. The Economic Development Revenue Bond was issued on November 16, 1994 and provides for annual retirement payments each November 1 over a 10-year period. The Bond bears interest at variable rates. The interest rate at December 31, 1998 was 4.2%.

The Company, through Florida Pneumatic, imports a significant amount of its purchases from Japan, with payment due in Japanese yen. As a result, the Company is subject to the effects of foreign currency exchange fluctuations. The Company uses a variety of techniques to protect itself from any adverse effects from these fluctuations, including increasing its selling prices, obtaining price reductions from its overseas suppliers, using alternative supplier sources and entering into foreign currency forward contracts. The strengthening of the U.S. dollar versus the Japanese yen over the last two years has had a positive effect on the Company's results of operations and its financial position. Any future weakness of the dollar would, however, present a problem and there can be no certainty that the Company will be successful in its efforts to counter this problem.

Capital spending was approximately \$1,416,000, \$652,000, and \$278,000 in 1998, 1997, and 1996, respectively. The total amount was provided from working capital. Capital expenditures for 1999 are expected to be approximately \$1,600,000, some of which may be financed through the Company's credit facilities. Included in the expected total for 1999 are capital expenditures relating to new products, expansion of existing product lines and replacement of old equipment.

On January 30, 1998, the Company redeemed all of its outstanding 13.75% Subordinated Debentures, due January 1, 2017, at 100% of the principal amount of the Debentures, plus accrued and unpaid interest to the redemption date. The funds used for this redemption, totalling \$1,384,686, were derived from working capital.

On January 30, 1997, the Company redeemed all of its outstanding \$1.00 Cumulative Preferred Stock at the par value of \$10 per share, plus an interim dividend, through the redemption date, of \$.083 per share. The funds used for this redemption, totalling \$2,655,308, were derived from working capital.

The Company continues to conduct an acquisition search. The funds for an acquisition will be provided by working capital and existing credit facilities, including the \$15,000,000 credit facility earmarked for acquisitions referred to above.

The Company believes that cash on hand, cash generated by future operations and cash available through its credit facilities will be sufficient to allow the Company to support its capital expenditure program and to meet its general working capital needs.

YEAR 2000

The Year 2000 (Y2K) issue is the result of computer programs being written for, or microprocessors using, two digits (rather than four) to define the applicable year. Company computer programs that have date-sensitive software may recognize a date using "00" as the year 1900 rather than the year 2000, which could result in system failures or miscalculations. The Company is currently working to mitigate the Y2K issue and has established processes for assessing the risks and associated costs.

The Company categorizes its Y2K efforts as follows: hardware, software, embedded processors, vendors and customers. Progress in assessing and remediating information technology systems (hardware and software) and non-information technology systems (embedded processors) continue to be tracked in phases including assessments, identification of non-compliant systems, remediation, testing and verification. Hardware, software and embedded processors have been

assessed and remediation is in progress. The Company's Y2K project is progressing and a large portion of its internal remediation work was completed at year end 1998. The Company is using internal and external resources to remediate and test its systems.

The Company has initiated communications with significant vendors and customers to coordinate the Y2K issue, and is in the process of determining the Company's vulnerability if these companies fail to remediate their Y2K issues. There can be no guarantee that the systems of other companies will be timely remediated, or that other companies' failure to remediate Y2K issues would not have a material adverse effect on the Company. The Company continues to develop contingency plans to mitigate risks associated with the Y2K issue.

Costs incurred to date in addressing the Y2K issue have been expenses as incurred and are not material. Based on current information, the total cost to remediate and test the Company's systems is not expected to be material.

The Company presently believes that with remediation, Y2K risks can be mitigated. Although the Company is not currently aware of any material internal operational or financial Y2K related issues, the Company cannot provide assurances that the computer systems, products, services or other systems upon which the Company depends will be Y2K ready on schedule, that the costs of its Y2K program will not become material or that the Company's contingency plans will be adequate. The Company is currently unable to evaluate accurately the magnitude, if any, of the Y2K related issues arising from the Company's vendors and customers. If any such risks (either with respect to the Company or its vendors or customers) materialize, the Company could experience serious consequences to its business which could have material adverse effects on the Company's financial condition, results of operations and liquidity.

NEW ACCOUNTING PRONOUNCEMENTS

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133 ("FAS 133"), "Accounting for Derivative Instruments and Hedging Activities". FAS 133 is effective for transactions entered into after January 1, 2000 and requires that all derivative instruments be recorded on the balance sheet at fair value. Changes in the fair value of derivatives are recorded each period in current earnings or other comprehensive income, depending on whether a derivative is designated as part of the hedge transaction and the type of hedge transaction. The ineffective portion of all hedges will be recognized in earnings. The Company is in the process of reviewing FAS 133 to determine what impact, if any, the adoption of FAS 133 will have on its results of operations and its financial position. Based on current market conditions, the Company does not believe that the impact will be material.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to market risks, which include changes in U.S. and international exchange rates, the prices of certain commodities and currency rates as measured against the U.S. dollar and each other. It attempts to reduce the risks related to foreign currency fluctuation by utilizing financial instruments, pursuant to Company policy.

The value of the U.S. dollar affects the Company's financial results. Changes in exchange rates may positively or negatively affect the Company's gross margins and operating expenses. The Company engages in hedging programs aimed at limiting, in part, the impact of currency fluctuations. Using primarily forward exchange contracts, the Company hedges some of those transactions that, when remeasured according to generally accepted accounting principles, impact the income statement. Factors that could impact the effectiveness of the Company's programs include volatility of the currency markets and availability of hedging instruments. All currency contracts that are entered into by the Company are components of hedging programs and are entered into for the sole purpose of hedging an existing or anticipated currency exposure, not for speculation. The Company does not buy or sell financial instruments for trading purposes. Although the Company maintains these programs to reduce the impact of changes in currency exchange rates, when the U.S. dollar sustains a weakening exchange rate against currencies in which the Company incurs costs, the Company's costs are adversely affected. At year-end, the Company held open hedge forward contracts to deliver approximately \$470,000 of Japanese Yen. The potential loss in value of the Company's net investment in foreign currency forward contracts resulting from a hypothetical 10 percent adverse change in foreign currency exchange rates at December 31, 1998 is approximately \$52,000.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

P & F INDUSTRIES, INC. AND SUBSIDIARIES

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY DATA

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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

We have audited the accompanying consolidated balance sheets of P & F Industries, Inc. and subsidiaries as of December 31, 1998 and 1997, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 1998. We have also audited the schedule listed in the accompanying index. These consolidated financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and schedule based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of P & F Industries, Inc. and subsidiaries at December 31, 1998 and 1997 and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1998 in conformity with generally accepted accounting principles.

Also, in our opinion, the schedule presents fairly, in all material respects, the information set forth therein.

/s/ BDO Seidman, LLP

BDO Seidman, LLP

New York, New York

March 12, 1999

P & F INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

=====

ASSETS	DECEMBER 31,	
	1998	1997
CURRENT:		
Cash	\$ 2,280,788	\$ 2,092,244
Accounts receivable, less allowance for possible losses of \$498,669 and \$421,014	8,542,204	7,924,941
Inventories (Note 2)	17,021,475	13,382,480
Deferred income taxes (Note 8)	507,000	365,000
Prepaid expenses and other assets	586,913	254,544
	-----	-----
TOTAL CURRENT ASSETS	28,938,380	24,019,209
	-----	-----
PROPERTY AND EQUIPMENT:		
Land	1,182,939	846,939
Buildings and improvements	5,773,608	4,304,779
Machinery and equipment	9,724,919	5,763,749
	-----	-----
	16,681,466	10,915,467
Less accumulated depreciation	6,052,899	5,257,701
	-----	-----
NET PROPERTY AND EQUIPMENT	10,628,567	5,657,766
	-----	-----
GOODWILL, net of accumulated amortization of \$1,190,040 and \$1,025,722	8,274,918	2,788,045
	-----	-----
OTHER ASSETS	236,614	183,875
	-----	-----
	\$ 48,078,479	\$ 32,648,895
	=====	=====

See accompanying notes to consolidated financial statements.

P & F INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

=====

LIABILITIES AND SHAREHOLDERS' EQUITY	DECEMBER 31,	
	1998	1997
CURRENT LIABILITIES:		
Short-term borrowings	\$ 3,500,000	\$ --
Accounts payable	4,844,403	4,040,125
Accruals:		
Compensation	1,944,960	1,365,857
Other	2,130,026	1,396,217
Current maturities of long-term debt (Note 4)	524,974	157,140
	-----	-----
TOTAL CURRENT LIABILITIES	12,944,363	6,959,339
LONG-TERM DEBT, less current maturities (Note 4)	10,193,064	3,755,683

DEFERRED INCOME TAXES (Note 8)	491,000	444,000
SUBORDINATED DEBENTURES (Note 5)	--	1,369,200
	-----	-----
TOTAL LIABILITIES	23,628,427	12,528,222
	-----	-----
COMMITMENTS AND CONTINGENCIES		
(Notes 3 and 10)		
SHAREHOLDERS' EQUITY (Notes 6 and 7):		
Preferred stock, \$10 par, cumulative authorized - 2,000,000 shares	--	--
Common stock:		
Class A - \$1 par authorized - 7,000,000 shares outstanding - 3,239,345 shares and 3,101,845 shares	3,239,345	3,101,845
Class B - \$1 par authorized - 2,000,000 shares	--	--
Additional paid-in capital	8,020,677	7,772,239
Retained earnings	13,190,030	9,246,589
	-----	-----
TOTAL SHAREHOLDERS' EQUITY	24,450,052	20,120,673
	-----	-----
	\$ 48,078,479	\$ 32,648,895
	=====	=====

See accompanying notes to consolidated financial statements.

P & F INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

=====

	YEAR ENDED DECEMBER 31,		
	1998	1997	1996
	-----	-----	-----
REVENUES (Note 11):			
Net sales	\$ 57,363,317	\$ 49,605,480	\$ 42,650,342
Other	802,398	421,467	428,029
	-----	-----	-----
	58,165,715	50,026,947	43,078,371
	-----	-----	-----
COSTS AND EXPENSES:			
Cost of sales	37,534,815	33,535,035	29,048,203
Selling, administrative and general	13,332,424	11,573,473	10,088,812
Interest	772,035	693,660	754,069
	-----	-----	-----
	51,639,274	45,802,168	39,891,084
	-----	-----	-----
INCOME BEFORE TAXES ON INCOME	6,526,441	4,224,779	3,187,287
TAXES ON INCOME (Note 8)	2,583,000	1,711,000	1,234,000
	-----	-----	-----
INCOME FROM CONTINUING OPERATIONS	3,943,441	2,513,779	1,953,287
INCOME FROM DISCONTINUED OPERATION (NET OF INCOME TAXES OF \$850,000) (Note 9(b))	--	542,837	--
	-----	-----	-----
NET INCOME	\$ 3,943,441	\$ 3,056,616	\$ 1,953,287
	=====	=====	=====

See accompanying notes to consolidated financial statements.

P & F INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
(CONTINUED)

=====

	YEAR ENDED DECEMBER 31,		
	1998	1997	1996
NET INCOME	\$ 3,943,441	\$ 3,056,616	\$ 1,953,287
PREFERRED DIVIDENDS	\$ --	\$ 21,858	\$ 263,345
INCOME AVAILABLE TO COMMON SHAREHOLDERS	\$ 3,943,441	\$ 3,034,758	\$ 1,689,942
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:			
BASIC	3,208,181	2,986,920	2,929,991
DILUTED	3,689,963	3,525,690	3,237,591
EARNINGS PER SHARE OF COMMON STOCK:			
BASIC:			
CONTINUING OPERATIONS	\$ 1.23	\$.83	\$.58
DISCONTINUED OPERATION	--	.18	--
NET INCOME	\$ 1.23	\$ 1.01	\$.58
DILUTED:			
CONTINUING OPERATIONS	\$ 1.07	\$.71	\$.52
DISCONTINUED OPERATION	--	.15	--
NET INCOME	\$ 1.07	\$.86	\$.52

See accompanying notes to consolidated financial statements.

P & F INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

=====

YEARS ENDED DECEMBER 31, 1996, 1997 AND 1998	PREFERRED STOCK, \$10 PAR - CUMULATIVE		CLASS A COMMON STOCK - \$1 PAR		ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS
	SHARES	AMOUNT	SHARES	AMOUNT		
BALANCE, January 1, 1996	263,345	\$ 2,633,450	2,928,867	\$ 2,928,867	\$ 7,607,614	\$ 4,521,889
Net income for the year ended December 31, 1996	--	--	--	--	--	1,953,287
Dividends on preferred stock	--	--	--	--	--	(263,345)
BALANCE, December 31, 1996	263,345	2,633,450	2,928,867	2,928,867	7,607,614	6,211,831
Net income for the year ended December 31, 1997	--	--	--	--	--	3,056,616
Redemption of preferred stock	(263,345)	(2,633,450)	--	--	--	--
Exercise of stock options and warrants	--	--	172,978	172,978	87,625	--
Tax benefit from exercise of stock options	--	--	--	--	77,000	--

Dividends on preferred stock	--	--	--	--	--	(21,858)
BALANCE, December 31, 1997	--	--	3,101,845	3,101,845	7,772,239	9,246,589
Net income for the year ended December 31, 1998	--	--	--	--	--	3,943,441
Exercise of stock options and warrants	--	--	137,500	137,500	91,438	--
Tax benefit from exercise of stock options	--	--	--	--	157,000	--
BALANCE, December 31, 1998	--	\$ --	3,239,345	\$ 3,239,345	\$ 8,020,677	\$13,190,030

See accompanying notes to consolidated financial statements.

P & F INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	YEAR ENDED DECEMBER 31,		
	1998	1997	1996
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	\$ 3,943,441	\$ 3,056,616	\$ 1,953,287
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	978,905	789,553	771,553
Provision for losses on accounts receivable	18,776	77,327	59,817
Deferred income taxes	(95,000)	465,000	37,000
(Gain) on disposal of fixed assets of discontinued operation	--	(1,392,837)	--
Loss (gain) on disposal of fixed assets	--	--	3,446
Decrease (increase):			
Accounts receivable	1,948,907	(1,889,009)	2,990,170
Inventories	(2,020,088)	(2,262,630)	3,783,711
Prepayments and other items	(231,668)	76,406	86,634
Other assets	2,450	(56,400)	(36,676)
Increase (decrease):			
Accounts payable	12,250	1,378,536	(837,585)
Accruals	850,407	461,149	(140,839)
Total adjustments	1,464,939	(2,352,905)	6,717,231
Net cash provided by operating activities	5,408,380	703,711	8,670,518
CASH FLOWS FROM INVESTING ACTIVITIES:			
Capital expenditures	(1,415,999)	(652,223)	(278,094)
Purchase of assets of Green Manufacturing, Inc.	(10,284,685)	--	--
Payments for acquisition related expenses	(448,163)	--	--
Proceeds from sale of fixed assets of discontinued operation	--	1,724,564	--
Net cash (used in) provided by investing activities	(12,148,847)	1,072,341	(278,094)

See accompanying notes to consolidated financial statements.

P & F INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(CONTINUED)

	YEAR ENDED DECEMBER 31,		
	1998	1997	1996
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from short-term borrowings	16,253,023	19,088,495	12,661,696
Repayments of short-term borrowings	(14,013,023)	(19,088,495)	(16,895,449)
Proceeds from acquisition loan	10,000,000	--	--
Proceeds from mortgage	--	--	2,062,500
Principal payments on long-term debt	(4,327,727)	(1,924,238)	(2,624,294)
Redemption of subordinated debentures	(1,369,200)	--	--
Proceeds from exercise of stock options and warrants	228,938	260,603	--
Tax benefit from exercise of stock options	157,000	77,000	--
Redemption of preferred stock	--	(2,633,450)	--
Dividends paid on preferred stock	--	(21,858)	(263,345)
Net cash (used in) provided by financing activities	6,929,011	(4,241,943)	(5,058,892)
NET INCREASE (DECREASE) IN CASH	188,544	(2,465,891)	3,333,532
CASH AT BEGINNING OF YEAR	2,092,244	4,558,135	1,224,603
CASH AT END OF YEAR	\$ 2,280,788	\$ 2,092,244	\$ 4,558,135

See accompanying notes to consolidated financial statements.

P & F INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

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

P & F Industries, Inc. (the "Company") conducts its business operations through three wholly-owned subsidiaries. Embassy Industries, Inc. ("Embassy") is engaged in the manufacture and sale of baseboard heating products and the importation and sale of radiant heating systems. Embassy also imports a line of door and window hardware items through its Franklin Hardware division ("Franklin"). Florida Pneumatic Manufacturing Corporation ("Florida Pneumatic") is engaged in the importation, manufacture and sale of pneumatic hand tools, primarily for the industrial and retail 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. Green Manufacturing, Inc. ("Green") is engaged primarily in the manufacture, development and sale of heavy-duty welded custom designed hydraulic cylinders. Green also manufactures a line of access equipment for the petro-chemical industry and a line of post hole digging equipment for the agricultural industry. Note 11 of the Notes to Consolidated Financial Statements presents financial information for the segments of the Company's business.

BASIS OF FINANCIAL STATEMENT PRESENTATION

In preparing financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

Actual results could differ from those estimates.

REVENUE RECOGNITION

The Company records revenues when products are shipped.

FINANCIAL INSTRUMENTS

The carrying amounts of financial instruments, including cash and short-term debt, approximated fair value as of December 31, 1998 and 1997, because of the relatively short-term maturity of these instruments. The carrying value of long-term debt, including the current portion, approximated fair value as of December 31, 1998 and 1997, based upon quoted market prices for the same or similar debt issues.

At December 31, 1998, the Company had foreign currency forward contracts, maturing in 1999, to purchase approximately \$470,000 in Japanese yen at contracted forward rates.

P & F INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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NOTE 1 - SUMMARY OF ACCOUNTING POLICIES (continued)

FINANCIAL INSTRUMENTS (continued)

The Company enters into foreign currency forward contracts as a hedge against foreign accounts payable. At December 31, 1998, gains and losses on such contracts were included in the measurement of the related foreign currency transactions and reflected in the cost of sales. The Company does not hold or issue financial instruments for trading purposes.

INVENTORIES

Inventories are valued at the lower of cost or market. Cost is determined by the first-in, first-out method.

PROPERTY AND EQUIPMENT AND DEPRECIATION

Property and equipment are stated at cost.

Depreciation is computed by the straight-line method for financial reporting and by the straight-line and accelerated methods for income tax purposes. The estimated useful lives for financial reporting purposes are as follows:

Buildings and improvements	10 - 30 years
Machinery and equipment	3 - 12 years

LONG-LIVED ASSETS

The Company reviews certain long-lived assets and identifiable intangibles for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. In that regard, the Company assesses the recoverability of such assets based upon estimated non-discounted cash flow forecasts.

GOODWILL

The excess of the purchase price over fair value of net assets of acquired businesses arises from business combinations accounted for as purchases and is amortized on a straight-line basis over periods from 25 to 40 years.

The Company's operational policy for the assessment and measurement of any impairment in the value of excess of cost over net assets acquired which is other than temporary is to evaluate the recoverability and remaining life of its goodwill and determine whether the goodwill should be completely or partially written off or the amortization period accelerated. The Company will recognize an impairment of goodwill if the fair value of the goodwill is deemed to be less than its carrying value. If the Company determines that goodwill has been impaired, the Company will reflect the impairment through a reduction in the

carrying value of goodwill, in an amount equal to the excess of the carrying amount of the goodwill over the amount of the undiscounted estimated operating cash flows.

P & F INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(CONTINUED)

=====

NOTE 1 - SUMMARY OF ACCOUNTING POLICIES (continued)

TAXES ON INCOME

P & F Industries, Inc. and its subsidiaries file a consolidated Federal tax return and separate state and local tax returns.

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and any operating loss or tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of any change in the tax rate is recognized in income in the period that includes the enactment date of such change.

EARNINGS PER SHARE

Basic earnings per share is based only on the average number of common shares outstanding for the period. Diluted earnings per share reflects, in periods for which they have a dilutive effect, the effect of common shares issuable upon the exercise of options, warrants and convertible securities. Earnings per share amounts for all periods have been presented.

Diluted earnings per share is computed using the treasury stock method. Under this method, the aggregate number of shares outstanding reflects the assumed use of proceeds from the hypothetical exercise of any outstanding options or warrants to repurchase shares of common stock. The average market value for the period is used to calculate the repurchase price.

STOCK-BASED COMPENSATION

The Company accounts for its stock option awards under the intrinsic value based method of accounting prescribed by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issue to Employees". Under the intrinsic value based method, compensation cost is the excess, if any, of the quoted market price of the stock at grant date or other measurement date over the amount an employee must pay to acquire the stock. The Company makes pro forma disclosures of net income and earnings per share as if the fair value based method of accounting had been applied is required by Statement of Financial Accounting Standards ("SFAS") 123, "Accounting for Stock-Based Compensation."

P & F INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(CONTINUED)

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NOTE 1 - SUMMARY OF ACCOUNTING POLICIES (continued)

SEGMENT DATA

During 1998, the Company adopted Statement of Financial Accounting Standards No. 131 ("FAS 131"), "Disclosures about Segments of an Enterprise and Related Information". FAS 131 establishes standards for the reporting of certain information about operating segments by public companies, in both annual and interim financial statements. FAS 131 supersedes FAS 14, "Financial Reporting for Segments of a Business Enterprise", replacing the "industry segment" approach with the "management" approach. The management approach designates the internal reporting that is used by management for making operating decisions and assessing performance as the source of the Company's reportable segments. FAS 131 also requires disclosures about products and services, geographic areas and

major customers. The adoption of FAS 131 did not affect the Company's results of operations or its financial position, nor did it materially change the Company's segment disclosures (see Note 10).

NEW ACCOUNTING PRONOUNCEMENTS

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133 ("FAS 133"), "Accounting for Derivative Instruments and Hedging Activities". FAS 133 is effective for transactions entered into after January 1, 2000 and requires that all derivative instruments be recorded on the balance sheet at fair value. Changes in the fair value of derivatives are recorded each period in current earnings or other comprehensive income, depending on whether a derivative is designated as part of the hedge transaction and the type of hedge transaction. The ineffective portion of all hedges will be recognized in earnings. The Company is in the process of reviewing FAS 133 to determine what impact, if any, the adoption of FAS 133 will have on its results of operations and its financial position. Based on current market conditions, the Company does not believe that the impact will be material.

RECLASSIFICATIONS

Certain prior year amounts have been reclassified to conform with the current year's presentation.

NOTE 2 - INVENTORIES

Inventories consist of:

	DECEMBER 31,	
	----- 1998	1997 -----
Raw materials	\$ 3,444,804	\$ 3,538,751
Work-in-process	435,453	211,368
Finished goods	13,141,218	9,632,361
	-----	-----
	\$ 17,021,475	\$ 13,382,480
	=====	=====

P & F INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(CONTINUED)

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NOTE 3 - SHORT-TERM BORROWINGS

The Company's credit agreement includes a revolving credit loan facility which provides a total of \$12,000,000, with various sublimits, for direct borrowings, letters of credit, bankers' acceptances and equipment loans. At December 31, 1998, there were direct borrowings totalling \$3,500,000 outstanding against this facility. There was also a commitment at December 31, 1998 of approximately \$1,870,000 for open letters of credit.

The Company's credit agreement 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 Japanese yen needed for payments to foreign suppliers. The total amount of foreign currency forward contracts outstanding at December 31, 1998 was approximately \$470,000.

Direct borrowings under the Company's revolving credit loan facility are secured by the accounts receivable, inventory and equipment of the Company and are cross-guaranteed by the parent company and each of the subsidiaries. These borrowings bear interest at either the prime rate or LIBOR plus 160 basis points. The prime interest rate at December 31, 1998 was 7.75%. The 30 day LIBOR rate at December 31, 1998 was approximately 5.1%.

The Company's credit agreement is subject to annual review by the lending bank. Under this agreement, the Company is required to adhere to certain financial covenants. At December 31, 1998, and for the year then ended, the Company satisfied all of these covenants.

NOTE 4 - SUBORDINATED DEBENTURES

The Company's 13.75% Subordinated Debentures were unsecured general obligations of the Company, subordinate to all senior indebtedness of the Company. Interest on the Debentures was payable in arrears semi-annually. The Company had the option to redeem the Debentures, at the principal amount, at any time prior to the fixed due date of January 1, 2017. On January 30, 1998, the Company redeemed all of the outstanding Debentures at 100% of the principal amount of the Debentures, plus accrued and unpaid interest to the redemption date.

Interest expense on the Subordinated Debentures was \$15,486, \$188,265 and \$188,265 for the years ended December 31, 1998, 1997 and 1996, respectively.

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

NOTE 5 - LONG-TERM DEBT

Long-term debt consists of:

	DECEMBER 31,	
	1998	1997
Term loan - principal amount outstanding at October 1, 1999 to be paid in equal monthly installments (plus interest at LIBOR plus 175 basis points) from October 1999 through November 2004. (a)	\$ 6,000,000	\$ --
Mortgage loan - \$17,438 payable monthly (plus interest at 8.16%) through May 2006, when a payment of the entire balance of unpaid principal and interest is due. (b)	1,938,054	1,987,793
Mortgage loan - \$9,095 payable monthly (plus interest at 1/2% above prime) through February 1999, when a final payment of approximately \$1,798,000 is due. (b) (c) (d)	1,824,984	1,925,030
Wood County, Ohio Variable Rate Economic Development Revenue Bond - payable yearly in various principal amounts (plus interest at variable rates) through November 2004 (e)	955,000	--
	10,718,038	3,912,823
Less current maturities	524,974	157,140
	\$10,193,064	\$ 3,755,683
	=====	=====

- (a) The 30 day LIBOR rate at December 31, 1998 was approximately 5.1%.
- (b) These mortgages payable relate to the land and buildings of the Company's subsidiaries. Property with a net book value of approximately \$3,551,000 is pledged as collateral.
- (c) The prime interest rate at December 31, 1998 was 7.75%.
- (d) This mortgage was refinanced in March 1999.
- (e) This bond was secured by a standby letter of credit.

The aggregate amounts of the long-term debt scheduled to mature in each of the years ended December 31 are as follows: 1999 - \$524,974; 2000 - \$1,280,829; 2001 - \$1,296,069; 2002 - \$1,312,113; 2003 - \$1,329,027; 2004 and thereafter - \$4,975,026. Interest expense on long-term debt was \$341,366, \$478,229 and \$565,830 for the years ended December 31, 1998, 1997 and 1996, respectively.

P & F INDUSTRIES, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6 - CAPITAL STOCK TRANSACTIONS

The Company's preferred stock paid quarterly dividends at the rate of 10% per annum. On January 30, 1997, the Company redeemed all of the outstanding shares of its \$1.00 Cumulative Preferred Stock at the par value of \$10 per share, plus an interim dividend, through the redemption date, of \$.083 per share.

In 1994, in connection with its Stockholder Rights Plan, the Company entered into a Rights Agreement (as amended) and distributed as a dividend to each holder of Class A Common Stock a preferred stock purchase right. These rights entitle the stockholders, in certain circumstances, to purchase one one-thousandth of a share of the Company's Series A Junior Participating Preferred Stock for \$10. The Stockholder Rights Plan is intended to protect, among other things, the interests of the Company's stockholders in the event the Company is confronted with coercive or unfair takeover tactics.

NOTE 7 - STOCK OPTIONS AND WARRANTS

In 1992, the Company adopted its Incentive Stock Option Plan (as amended) (the "Plan"), which 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 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 common stock on the date the option is granted. Options granted to any 10% shareholder are exercisable for a five year period from the date of the grant at prices not less than 110% of the market value of the common stock on the date the option is granted.

The Company applies the Accounting Principles Board ("APB") Opinion 25, "Accounting for Stock Issued to Employees", and related Interpretations in accounting for the incentive stock option plan. Under APB Opinion 25, no compensation cost is recognized if the exercise price of the Company's employee stock options is equal to or greater than the market price of the underlying stock on the date of the grant.

Statement No. 123 of the Financial Accounting Standards Board, "Accounting for Stock-Based Compensation", requires the Company to provide pro forma information regarding net income and earnings per share as if compensation cost for the Company's stock option plan had been determined in accordance with the fair value method prescribed by Statement No. 123. The Company estimates the fair value of each stock option at the grant date by using the Black-Scholes option-pricing model with the following weighted-average assumptions for options granted in 1998 and 1997, respectively: no dividends paid for either year; expected volatility of 35.2% and 34.5%; risk-free interest rates of 5.5% and 6.6%; and expected lives of 9.7 years and 4.0 years. There were no options granted in 1996.

The weighted-average fair values of options for which the exercise price equaled the market price on the grant date were \$4.53 in 1998 and \$2.83 in 1997. The weighted-average fair values of options for which the exercise price exceeded the market price on the grant date were \$2.89 in 1998 and \$1.98 in 1997.

P & F INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(CONTINUED)

NOTE 7 - STOCK OPTIONS AND WARRANTS (continued)

Under the provisions of Statement No. 123, the Company's income from continuing operations available to common shareholders and its basic and diluted earnings per share would have decreased to the pro forma amounts indicated below:

YEAR ENDED DECEMBER 31,

	1998	1997	1996
Income from continuing operations available to common shareholders:			
As reported	\$3,943,441	\$2,491,921	\$1,689,942
Pro forma	\$3,485,588	\$2,296,814	\$1,689,942
Basic earnings per share:			
As reported	\$1.23	\$.83	\$.58
Pro forma	\$1.09	\$.77	\$.58
Diluted earnings per share:			
As reported	\$1.07	\$.71	\$.52
Pro forma	\$.94	\$.65	\$.52

The following table contains information on stock options for the three years ended December 31, 1998:

	OPTION SHARES	EXERCISE PRICE RANGE PER SHARE	WEIGHTED AVERAGE EXERCISE PRICE
Outstanding, January 1, 1996	748,700	1.44 to 2.61	1.85
Granted	--	--	--
Cancelled	--	--	--
Exercised	--	--	--
Expired	(7,500)	1.84 to 1.94	1.92
Outstanding, December 31, 1996	741,200	1.44 to 2.61	1.85
Granted	147,800	3.75 to 5.71	5.33
Cancelled	--	--	--
Exercised	(103,000)	1.50 to 1.88	1.51
Expired	--	--	--
Outstanding, December 31, 1997	786,000	1.44 to 5.71	2.55
Granted	171,500	7.88 to 8.66	7.93
Cancelled	--	--	--
Exercised	(137,500)	1.50 to 1.94	1.67
Expired	--	--	--
Outstanding, December 31, 1998	820,000	1.44 to 8.66	3.82

P & F INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(CONTINUED)

NOTE 7 - STOCK OPTIONS AND WARRANTS (continued)

The following table summarizes information about stock options outstanding and exercisable at December 31, 1998:

RANGE OF EXERCISE PRICES	OUTSTANDING	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE (YEARS)	WEIGHTED AVERAGE EXERCISE PRICE	EXERCISABLE	WEIGHTED AVERAGE EXERCISE PRICE
\$1.99	250,000	.5	\$1.99	250,000	\$1.99
\$1.50 to \$2.61	184,700	1.4	\$2.00	184,700	\$2.00
\$5.71	70,000	3.6	\$5.71	--	--
\$8.66	11,500	4.2	\$8.66	--	--
\$1.44	15,000	4.6	\$1.44	15,000	\$1.44

\$1.94	51,000	6.0	\$1.94	51,000	\$1.94
\$3.75 to \$5.25	77,800	8.2	\$5.00	77,800	\$5.00
\$7.88	160,000	9.2	\$7.88	160,000	\$7.88
\$1.44 to \$7.88	820,000	3.9	\$3.82	738,500	\$3.57

There were options available for issuance under the Plan as of December 31 of each year as follows: 1996 - 696,500; 1997 - 548,700 and 1998 - 377,200. Of the 820,000 options outstanding at December 31, 1998, 685,300 options were issued under the current plan and 134,700 options were issued under a previous plan.

At December 31, 1996, the Company had warrants outstanding for the purchase of 70,000 shares of Class A common stock. These warrants were exercised on December 29, 1997 at the exercise price of \$1.50 per warrant.

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

NOTE 8 - TAXES ON INCOME

Provisions for taxes on income in the consolidated statements of income consist of:

	YEAR ENDED DECEMBER 31,		
	1998	1997	1996
Continuing operations:			
Current:			
Federal	\$2,476,000	\$1,520,000	\$1,089,000
State and local	202,000	112,000	108,000
Total current	2,678,000	1,632,000	1,197,000
Deferred:			
Federal	(90,000)	38,000	41,000
State and local	(5,000)	41,000	(4,000)
Total deferred	(95,000)	79,000	37,000
Taxes on income from continuing operations	2,583,000	1,711,000	1,234,000
Discontinued operation:			
Current:			
Federal	--	464,000	--
State and local	--	--	--
Total current	--	464,000	--
Deferred:			
Federal	--	117,000	--
State and local	--	269,000	--
Total deferred	--	386,000	--
Taxes on income from discontinued operation	--	850,000	--
Total taxes on income	\$2,583,000	\$2,561,000	\$1,234,000

P & F INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(CONTINUED)

=====

NOTE 8 - TAXES ON INCOME (continued)

Deferred tax assets (liabilities) consist of:

	DECEMBER 31,	
	1998	1997
Current deferred tax assets:		
Bad debt reserves	\$ 131,000	\$ 160,000
Warranty and other reserves	376 000	205,000
	\$ 507,000	\$ 365,000
	=====	=====
Non-current deferred tax liabilities:		
Depreciation	\$ 474,000	\$ 444,000
Goodwill	17,000	--
	\$ 491,000	\$ 444,000
	=====	=====

No valuation allowance has been established against the deferred tax assets because management believes that all of the deferred tax assets will be realized.

A reconciliation of the Federal statutory rate to the total effective tax rate applicable to income before taxes on income is as follows:

	YEAR ENDED DECEMBER 31,					
	1998		1997		1996	
	\$	%	\$	%	\$	%
Federal income taxes computed at statutory rates	2,219,000	34.0	1,910,000	34.0	1,084,000	34.0
Increase in taxes resulting from:						
State and local taxes, net of Federal tax benefit	128,000	2.0	384,000	6.9	69,000	2.2
Expenses not deductible for tax purposes	97,000	1.5	100,000	1.7	82,000	2.5
Other	139,000	2.1	167,000	3.0	(1,000)	0.0
	-----	----	-----	----	-----	----
Taxes on income	2,583,000	39.6	2,561,000	45.6	1,234,000	38.7
	=====	=====	=====	=====	=====	=====

P & F INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(CONTINUED)

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NOTE 9 - ACQUISITION AND DISCONTINUED OPERATION

(a) Acquisition

On September 16, 1998, the Company acquired certain assets, including cash totalling \$215,315, and assumed certain liabilities of Green Manufacturing, Inc., a manufacturer of custom-engineered hydraulic cylinders, prefabricated stairways and platforms and tractor-mounted post hole diggers. The purchase price for the acquisition was \$10,500,000 in cash, \$10,000,000 of which was

provided by an acquisition loan made pursuant to a Credit Agreement, dated as of July 23, 1998, as amended, between the Company and its bank. The balance of \$500,000 was provided by working capital funds. The purchase price of \$10,500,000 includes \$50,000 in consideration of a covenant not to compete.

As part of the acquisition, the Company assumed \$1,095,000 of outstanding Economic Development Revenue Bonds issued by Wood County, Ohio and \$1,260,000 in short-term borrowings from a bank.

The acquisition has been accounted for using the purchase method of accounting and, accordingly, the accompanying consolidated financial statements include the results of operations of the acquired company only from the date of acquisition. The excess of acquisition costs over the fair value of net assets acquired is included in the accompanying balance sheets as "Goodwill". Also included in "Goodwill" are costs totalling \$448,163 incurred in connection with this acquisition.

The following table summarizes, on an unaudited pro forma basis, the combined results of operations of the Company and Green Manufacturing, Inc., as though the acquisition had been made January 1, 1997. The pro forma amounts give effect to appropriate adjustments for amortization of goodwill and other intangible assets, interest expense and income taxes. The pro forma amounts presented are not necessarily indicative of future operating results.

	YEAR ENDED DECEMBER 31,	
	1998	1997
Revenues	\$72,082,186	\$68,246,335
Net income from continuing operations available to common shareholders	\$ 4,013,224	\$ 2,576,074
Earnings per share of common stock from continuing operations:		
Basic	\$1.25	\$.86
Diluted	\$1.08	\$.73

P & F INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(CONTINUED)

NOTE 9 - ACQUISITION AND DISCONTINUED OPERATION (continued)

(b) Discontinued operation

In 1994, the Company sold substantially all of the assets and liabilities of Triangle Sheet Metal Works, Inc. ("Triangle"), its sheet metal contracting subsidiary. The assets sold did not include Triangle's land, building and building improvements. As part of the sale agreement, the Company leased this building to its former subsidiary. In August 1997, the Company sold the land and building to Triangle, for approximately \$1,766,000. The Company realized a gain on the sale of \$542,837, net of income taxes totalling \$850,000.

NOTE 10 - COMMITMENTS AND CONTINGENCIES

(a) The Company and its subsidiaries lease equipment under operating leases through 2000 for approximate minimum annual rentals as follows: 1999 - \$67,000; 2000 - \$23,000 and 2001 - \$12,000.

Rental expense for the years ended December 31, 1998, 1997 and 1996 was approximately \$91,000, \$71,000 and \$68,000, respectively.

(b) The Company and two of its subsidiaries have adopted a defined contribution pension plan, which covers substantially all non-union employees. Contributions to this plan were determined as a percentage of compensation. The amounts recognized as pension expense for this plan were approximately \$278,000,

\$258,000 and \$218,000 for the years ended December 31, 1998, 1997 and 1996, respectively.

In conjunction with the acquisition of Green, the Company acquired a defined benefit 401(k) plan, which covers all of Green's employees. Employer contributions to this plan were determined as a percentage of employee contributions. The amount recognized as expense for this plan was approximately \$26,000 for the period from the date of the acquisition to December 31, 1998.

One of the Company's subsidiaries also participates in a multi-employer pension plan. This plan provides defined benefits to all union workers. Contributions to this plan are determined by union contracts and the Company does not administer or control the funds in any way. The amounts recognized as pension expense for this plan were approximately \$29,000, \$29,000 and \$28,000 for the years ended December 31, 1998, 1997 and 1996, respectively.

(c) The Company has an employment agreement with an officer. This agreement currently provides for a minimum annual aggregate salary of \$550,000 through February 2004. This agreement stipulates that if a change in control of the Company occurs and, as a result, the officer is terminated or is unable to exercise his functions and duties and therefore resigns, he shall have the option to receive either full compensation for the remaining term of the agreement or a severance allowance equal to three times average annual compensation for the five previous years.

(d) Florida Pneumatic purchases significant amounts of pneumatic tools from two foreign suppliers. Other sources are available. However, the loss of either supplier could cause a temporary disruption in the flow of products, possibly creating an adverse effect on operating results.

P & F INDUSTRIES, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (CONTINUED)
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NOTE 11 - SEGMENTS OF BUSINESS

The following presents financial information by segment for the years ended December 31, 1998, 1997 and 1996. Operating income excludes general corporate expenses, interest expense and income taxes. Identifiable assets are those assets directly owned or utilized by the particular business segment.

(000 OMITTED)	PNEUMATIC TOOLS AND				
1998	CON-	HEATING	RELATED	HYDRAULIC	OTHER
----	SOLIDATED	EQUIPMENT	EQUIPMENT	CYLINDERS	OTHER
-----	-----	-----	-----	-----	-----
Revenues	\$ 58,166	\$ 9,424	\$ 37,806	\$ 6,585	\$ 4,351
	=====	=====	=====	=====	=====
Operating income	\$ 9,770	\$ 471	\$ 8,410	\$ 417	\$ 472
General corporate expense	(2,472)				
Interest expense	(772)				

Income before taxes on income	\$ 6,526				
	=====				
Identifiable assets at December 31, 1998	\$ 44,342	\$ 5,013	\$ 22,672	\$ 14,225	\$ 2,432
Corporate assets	3,736				

Total assets at December 31, 1998	\$ 48,078				
	=====				
Depreciation (including \$7 corporate)	\$ 795	\$ 238	\$ 419	\$ 111	\$ 20
	=====	=====	=====	=====	=====

Capital expenditures

(including \$29 corporate)	\$ 1,416	\$ 607	\$ 383	\$ 397	\$ --
	=====	=====	=====	=====	=====

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

NOTE 11 - SEGMENTS OF BUSINESS (continued)

(000 OMITTED)	CON- SOLIDATED	HEATING EQUIPMENT	PNEUMATIC TOOLS AND RELATED EQUIPMENT	OTHER
1997 ----	-----	-----	-----	-----
Revenues	\$ 50,027	\$ 8,343	\$ 37,486	\$ 4,198
	=====	=====	=====	=====
Operating income	\$ 7,337	\$ 420	\$ 6,488	\$ 429
General corporate expense	(2,418)	=====	=====	=====
Interest expense	(694)	-----	-----	-----
Income before taxes on income	\$ 4,225	=====	=====	=====
Identifiable assets at December 31, 1997	\$ 29,833	\$ 5,115	\$ 22,629	\$ 2,089
Corporate assets	2,816	=====	=====	=====
Total assets at December 31, 1997	\$ 32,649	=====	=====	=====
Depreciation (including \$9 corporate)	\$ 647	\$ 231	\$ 387	\$ 20
	=====	=====	=====	=====
Capital expenditures (including \$2 corporate)	\$ 652	\$ 164	\$ 486	\$ --
	=====	=====	=====	=====

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

NOTE 11 - SEGMENTS OF BUSINESS (continued)

(000 OMITTED)	CON- SOLIDATED	HEATING EQUIPMENT	PNEUMATIC TOOLS AND RELATED EQUIPMENT	OTHER
1996 ----	-----	-----	-----	-----
Revenues	\$ 43,078	\$ 8,171	\$ 30,836	\$ 4,071
	=====	=====	=====	=====
Operating income	\$ 5,960	\$ 339	\$ 5,208	\$ 413
General corporate expense	(2,019)	=====	=====	=====
Interest expense	(754)	-----	-----	-----
Income before taxes on income	\$ 3,187	=====	=====	=====
Identifiable assets at December 31, 1996	\$ 25,943	\$ 4,640	\$ 19,695	\$ 1,608
Corporate assets	5,389	=====	=====	=====

Total assets at December 31, 1996	----- \$ 31,332 =====				
Depreciation (including \$13 corporate)	\$ 599 =====	\$ 220 =====	\$ 346 =====	\$ 20 =====	
Capital expenditures (including \$5 corporate)	\$ 278 =====	\$ 208 =====	\$ 65 =====	\$ -- =====	

The baseboard heating manufacturing segment, which sells to plumbing supply houses primarily in the northern tier of the United States, is directly affected by the housing industry. The pneumatic tool manufacturing and the hydraulic cylinder segments sell primarily throughout the United States.

The pneumatic tool manufacturing segment has two major customers who accounted for 35.7%, 45.4% and 37.8% and 10.1%, 9.1% and 10.6%, respectively, of consolidated revenues for the years ended December 31, 1998, 1997 and 1996, respectively. Two customers of the pneumatic tool segment accounted for 25.5% and 66.1% of consolidated accounts receivable as of December 31, 1998 and 1997, respectively.

There were no other major customers requiring disclosure.

P & F INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(CONTINUED)
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NOTE 12 - UNAUDITED INTERIM CONSOLIDATED FINANCIAL INFORMATION

Unaudited interim consolidated financial information for the two years ended December 31, 1998 and 1997 is summarized as follows:

	QUARTER ENDED			
	MARCH 31, ----- \$	JUNE 30, ----- \$	SEPTEMBER 30, ----- \$	DECEMBER 31, ----- \$
1998 ----				
Revenues	12,541,124 =====	11,997,372 =====	14,118,689 =====	19,508,530 =====
Gross profit	4,681,236 =====	4,830,800 =====	5,361,648 =====	5,757,216 =====
Income available to common shareholders	780,869 =====	950,009 =====	1,220,719 =====	991,844 =====
Earnings per share of common stock				
Basic	.25 ===	.29 ===	.38 ===	.31 ===
Diluted	.22 ===	.25 ===	.33 ===	.27 ===

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

NOTE 12 - UNAUDITED INTERIM CONSOLIDATED FINANCIAL INFORMATION (continued)

	QUARTER ENDED			
	MARCH 31, -----	JUNE 30, -----	SEPTEMBER 30, -----	DECEMBER 31, -----

1997	\$	\$	\$	\$
Revenues	9,217,808	10,643,323	14,981,455	15,184,361
Gross profit	3,279,167	3,770,427	4,754,418	4,687,900
Income available to common shareholders:				
Continuing operations	339,616	487,038	871,556	793,711
Discontinued operation	--	--	542,837	--
Total	339,616	487,038	1,414,393	793,711
Earnings per share of common stock (a):				
Basic				
Continuing operations	.12	.16	.29	.26
Discontinued operation	--	--	.18	--
Total	.12	.16	.47	.26
Diluted				
Continuing operations	.10	.14	.25	.22
Discontinued operation	--	--	.15	--
Total	.10	.14	.40	.22

(a) After giving effect to dividends paid on preferred stock, as described in the Summary of Accounting Policies.

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

NOTE 13 - EARNINGS PER SHARE

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

	YEAR ENDED DECEMBER 31,		
	1998	1997	1996
Numerator:			
Net income from continuing operations	\$3,943,441	\$2,513,779	\$1,953,287
Dividends on preferred stock	--	(21,858)	(263,345)
Numerator for basic and diluted earnings per common share - income from continuing operations available to common shareholders	\$3,943,441	\$2,491,921	\$1,689,942
Denominator:			
Denominator for basic earnings per share - weighted average common shares outstanding	3,208,181	2,986,920	2,929,991
Effect of dilutive securities:			
Common stock options	481,782	538,770	307,600
Denominator for diluted earnings per share - adjusted weighted average common shares and			

assumed conversions	3,689,963	3,525,690	3,237,591
	=====	=====	=====
Basic earnings per common share from continuing operations	\$ 1.23	\$.83	\$.58
	=====	=====	=====
Diluted earnings per common share from continuing operations	\$ 1.07	\$.71	\$.52
	=====	=====	=====

P & F INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(CONTINUED)
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NOTE 13 - SUPPLEMENTAL CASH FLOW INFORMATION

Cash paid during the year for:

	YEAR ENDED DECEMBER 31,		
	1998	1997	1996
Interest	\$ 673,814	\$ 818,552	\$ 1,029,075
	=====	=====	=====
Income taxes	\$ 2,539,601	\$ 2,113,329	\$ 1,242,199
	=====	=====	=====
Accruals included in gain on sale of fixed assets of discontinued operation	\$ --	\$ 218,894	\$ --
	=====	=====	=====

PART II (continued)

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURES

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information relating to the directors and executive officers of the Registrant is set forth in the Registrant's definitive Proxy Statement for its 1998 Annual Meeting of Stockholders (the "Proxy Statement") to be filed with the Securities and Exchange Commission pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended, and is hereby incorporated by reference.

ITEM 11. EXECUTIVE COMPENSATION

Information relating to executive compensation is set forth in the Proxy Statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended, and is hereby incorporated by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Information relating to the security ownership of certain beneficial owners and management is set forth in the Proxy Statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended, and is hereby incorporated by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information relating to certain relationships and related transactions is set forth in the Proxy Statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A of the Securities Exchange Act of 1934, as

amended, and is hereby incorporated by reference.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

	PAGE

(a) Financial statements and financial statement schedules	
(1) The consolidated financial statements of the Registrant as set forth under Item 8 are filed as part of this report.	
(2) The following consolidated financial statement schedule for the three years ended December 31, 1998, 1997 and 1996 is filed as part of this report:	
Schedule II - Valuation and Qualifying Accounts	44
<p>All other schedules are omitted because they are not required, are not applicable, or the required information is otherwise shown in the financial statements or notes thereto.</p>	
(b) The following exhibits are filed as part of this report:	
Exhibit 23 - Consent of BDO Seidman, LLP	46
Exhibit 27 - Financial Data Schedules (submitted to the Securities and Exchange Commission in electronic format)	--
(c) Reports on Form 8-K.	

A report on Form 8-K/A was filed by the Registrant regarding the acquisition of Green Manufacturing, Inc. The date of the report was December 20, 1998. The date of the related Form 8-K was September 30, 1998.

P & F INDUSTRIES, INC. AND SUBSIDIARIES

SCHEDULE II

VALUATION AND QUALIFYING ACCOUNTS

=====

COLUMN A	COLUMN B	COLUMN C	COLUMN D	COLUMN E	
-----	-----	-----	-----	-----	
DESCRIPTION	BALANCE AT BEGINNING OF PERIOD	ADDITIONS CHARGED TO COSTS AND EXPENSES	CHARGED TO OTHER ACCOUNTS	DEDUCTIONS	BALANCE AT END OF PERIOD
-----	-----	-----	-----	-----	-----
Year ended December 31, 1998:					
Allowance for possible losses	\$ 421,014	\$ 18,776	\$ 177,517 (a)	\$ 118,638 (b)	\$ 498,669
	=====	=====	=====	=====	=====
Year ended December 31, 1997:					
Allowance for possible losses	\$ 370,410	\$ 77,327	\$ --	\$ 26,723 (b)	\$ 421,014
	=====	=====	=====	=====	=====
Year ended December 31, 1996:					
Allowance for possible losses	\$ 350,684	\$ 59,817	\$ --	\$ 40,091 (b)	\$ 370,410
	=====	=====	=====	=====	=====

(a) Amount received as part of purchase of net assets of Green Manufacturing, Inc. (b) Write-off of expenses against reserve.

SIGNATURES

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

P & F INDUSTRIES, INC.
(Registrant)

By: /s/ RICHARD A. HOROWITZ

Richard A. Horowitz
Chairman of the Board
President
Principal Executive Officer
Principal Operating Officer

By: /s/ JOSEPH A. MOLINO, JR.

Joseph A. Molino, Jr.
Vice President
Principal Financial and
Accounting Officer

Date: March 25, 1999

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

/s/ ROBERT L. DUBOFSKY

Robert L. Dubofsky, Director

/s/ ALAN GOLDBERG

Alan Goldberg, Director

/s/ RICHARD A. HOROWITZ

Richard A. Horowitz, Director

/s/ SIDNEY HOROWITZ

Sidney Horowitz, Director

/s/ ARTHUR HUG, JR.

Arthur Hug, Jr., Director

/s/ DENNIS KALICK

Dennis Kalick, Director

/s/ EARLE K. MOORE

Earle K. Moore, Director

/s/ NEIL NOVIKOFF

Neil Novikoff, Director

/s/ MARC A. UTAY

Marc A. Utay, Director

Date: March 25, 1999

CONSENT OF BDO SEIDMAN, LLP

P & F Industries, Inc.
Farmingdale, New York

We hereby consent to the incorporation by reference in the Form S-8 Registration Statement filed on February 18, 1997 of our report dated March 12, 1999, relating to the consolidated financial statements and schedule of P & F Industries, Inc. and subsidiaries appearing in the Company's Annual Report on Form 10-K for the year ended December 31, 1998.

We also consent to the reference to us under the caption "Experts" in the Form S-8 Registration Statement.

/s/ BDO Seidman, LLP

BDO Seidman, LLP

New York, New York
March 12, 1999

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<CGS>		37,534,815
<TOTAL-COSTS>		37,534,815
<OTHER-EXPENSES>		0
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<INTEREST-EXPENSE>		772,035
<INCOME-PRETAX>		6,526,441
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<INCOME-CONTINUING>		3,943,441
<DISCONTINUED>		0
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<CHANGES>		0
<NET-INCOME>		3,943,441
<EPS-PRIMARY>		1.23
<EPS-DILUTED>		1.07
<FN>		
<F1>ACCOUNTS RECEIVABLE ARE NET OF ALLOWANCE		
</FN>		