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FORM 10-K

P&F INDUSTRIES INC - PFIN

Filed: March 30, 2004 (period: December 31, 2003)

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, 2003

or

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

Commission File Number 1-5332

P & F INDUSTRIES, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

22-1657413

(I.R.S. Employer
Identification Number)

300 Smith Street, Farmingdale, New York
(Address of principal executive offices)

11735
(Zip Code)

Registrant's telephone number, including area code: **(631) 694-1800**

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

NONE

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

CLASS A COMMON STOCK, \$1.00 PAR VALUE

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.

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). YES NO

The aggregate market value of the registrant's Class A Common Stock held by non-affiliates of the registrant, based on the last sale price on June 30, 2003 (the last business day of the registrant's most recently completed second fiscal quarter), was approximately \$14,169,000.

As of March 29, 2004, there were 3,516,631 shares of the registrant's Class A Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Part III of this Annual Report on Form 10-K incorporates by reference information from the registrant's definitive Proxy Statement for the Annual Meeting of Stockholders to be held during 2004.

P & F INDUSTRIES, INC.

FORM 10-K

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**SAFE HARBOR STATEMENT
UNDER THE PRIVATE SECURITIES
LITIGATION REFORM ACT OF 1995**

This Annual Report on Form 10-K may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Any forward-looking statements contained herein, including those related to the Company's future performance, are based upon the Company's historical performance and on current plans, estimates and expectations. Such forward-looking statements are subject to various risks and uncertainties, including, but not limited to, the impact of competition, product demand and pricing. These risks could cause the Company's actual results for the 2004 fiscal year and beyond to differ materially from those expressed in any forward-looking statement made by or on behalf of the Company. Forward-looking statements speak only as of the date on which they are made, and the Company undertakes no obligation to update publicly or revise any forward-looking statement, whether as a result of new information, future developments or otherwise.

ITEM 1. Business

P & F Industries, Inc. ("P & F") is a Delaware corporation incorporated on April 19, 1963. P & F conducts its business operations through its four wholly-owned subsidiaries: Florida Pneumatic Manufacturing Corporation ("Florida Pneumatic"), Countrywide Hardware, Inc. ("Countrywide"), Green Manufacturing, Inc. ("Green") and Embassy Industries, Inc. ("Embassy"). P & F Industries, Inc. and its subsidiaries are herein referred to collectively as the "Company."

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. Countrywide conducts its business operations through Nationwide Industries, Inc. ("Nationwide"), its wholly-owned subsidiary, and through its Franklin Manufacturing ("Franklin") division. Countrywide acquired all of the stock of Nationwide on May 3, 2002. The assets of Franklin were transferred from Embassy to Countrywide on December 30, 2002. Nationwide is an importer and manufacturer of door, window and fencing hardware. Franklin imports a line of door and window hardware. 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. Embassy is engaged in the manufacture and sale of baseboard heating products and the importation and sale of radiant heating systems. Note 13 of the Notes to Consolidated Financial Statements presents financial information for the segments of the Company's business.

Florida Pneumatic has one major customer, Sears, Roebuck and Co., that accounted for 22.0%, 22.3% and 21.4% of consolidated revenues for the years ended December 31, 2003, 2002 and 2001, respectively. The Home Depot, Inc. is a customer of both Florida Pneumatic and Countrywide, and accounted for 18.1%, 18.3% and 18.0% of consolidated revenues for the years ended December 31, 2003, 2002 and 2001, respectively. Revenues derived from countries outside of the United States were immaterial for the years ended December 31, 2003, 2002 and 2001.

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" and "Universal Tool," as well as under the trade names or trademarks of several private label customers. This line of products includes sanders, grinders, drills, saws and impact wrenches. These tools are similar in appearance and function to electric hand tools, but are powered by compressed air, rather than directly by electricity. Air tools, as they are also called, are generally less expensive to operate, offer better performance and weigh less than their electrical counterparts.

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

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

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.

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

Three customers accounted for 42.2%, 40.5% and 37.4%, 30.5%, 28.7% and 26.9%, and 9.9%, 12.0% and 12.9% of Florida Pneumatic's revenues for the years ended December 31, 2003, 2002 and 2001, respectively.

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 all of its pneumatic tools from a Far East trading company that owns or represents 18 individual factories in Japan, Taiwan and China. Of the total pneumatic tool purchases, approximately 30% are bought from Japan, 60% from Taiwan and 10% from China. There are redundant sources for every product manufactured.

Countrywide

Countrywide conducts its business through Nationwide and Franklin.

Nationwide is an importer and manufacturer of door, window and fencing hardware, including rollers, hinges, window operators, sash locks, custom zinc castings and door closers.

Most of Nationwide's sales are of products imported from Taiwan, China and Korea. Nationwide manufactures rollers, screen doors, hinges and pool enclosure products at its factory in Tampa, Florida.

Nationwide's products are sold through in-house sales personnel and manufacturers' representatives to distributors, retailers and OEM customers. End users of Nationwide's products include contractors, home builders, pool and patio distributors, OEM/private label customers and general consumers.

Two customers accounted for 13.0% and 10.5%, and 13.0% and 7.6%, of Nationwide's revenues for the years ended December 31, 2003 and 2002, respectively.

Nationwide currently purchases approximately 80% of its products from one foreign supplier. Although other suppliers are available, the loss of this one supplier could adversely affect operating results.

Nationwide's sales are somewhat seasonal, with revenues increasing approximately 10% during the spring and summer months. The majority of Nationwide's products are sold off the shelf. The backlog at December 31, 2003 of approximately 15% of annual sales results primarily from blanket customer orders.

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

Franklin 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. Franklin's 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.

Two customers accounted for 39.2%, 36.9% and 38.0%, and 20.9%, 23.2% and 27.4% of Franklin's revenues for the years ended December 31, 2003, 2002 and 2001, respectively.

The primary competitive factors in Franklin's business are price, service, skill in packaging and point-of-sale marketing.

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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.

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 for use as integrated components on a variety of equipment and machinery manufactured by others. 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 that 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 various 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 one to eight inches and that 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 \$1,500, with an approximate average selling price of \$150.

Green also manufactures a line of access equipment for the petro-chemical and bulk storage industries. This product line, which accounted for approximately 21% of Green's revenues in 2003, consists of bridges, platforms, walkways and stairways, constructed of steel or aluminum and generally installed outdoors. These products are designed to customers' specifications and are sold 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 accounted for approximately 11% of Green's revenues in 2003, is marketed through farm equipment dealers and wholesalers.

Green's cylinder business is not seasonal, but revenues from agricultural equipment are stronger during the growing season. Backlogs totaling as much as 25% of yearly sales are standard for the cylinder business.

One customer accounted for 4.4% and 26.0% of Green's revenues for the years ended December 31, 2002 and 2001, respectively. This customer ceased being a customer of the Company during the first quarter of 2002.

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

Green purchases approximately 20% of its raw materials from one supplier. Since other sources are available, however, the Company believes that the loss of this supplier would not adversely affect operating results.

Embassy

Embassy's baseboard heating products are sold nationally, under the Embassy name and under its Panel-Track, Commercial-Pak, Ambassador, System 6 and Hide-a-Vector trademarks, for use in hot-water heating systems installed in single family homes, multi-unit dwellings and commercial and industrial buildings. Embassy's products are sold principally to wholesalers by manufacturers'

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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 that 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 that aids in the design of the system. Sales of this product accounted for approximately 21.0%, 20.6% and 20.7% of Embassy's total heating equipment revenues for the years ended December 31, 2003, 2002 and 2001, respectively. No customer accounted for greater than 10% of Embassy's revenues for the years ended December 31, 2003, 2002 or 2001.

Baseboard and radiant heating systems differ from forced hot-air and electric heating systems. Forced hot-air systems, utilizing sheet metal ducts, carry excessive dust and noise throughout the home. Ineffective spot heating also occurs as a result of the relatively small terminal registers at the end of each duct. Conversely, baseboard hot water perimeter heating minimizes noise while blanketing exterior walls in each room with convection heat. By design, both radiant and baseboard heating systems also avoid sudden temperature fluctuations that happen with the "on and off" cycling typical of hot-air blowers. Radiant heat offers the additional benefit of comfortably heated floors, while minimizing the noise and dirt common with hot-air ducted heat. Electric heating systems are generally more expensive to operate than baseboard and radiant heating systems. Radiant heating systems are generally the most expensive of these systems to install and therefore tend to be installed more often in custom and higher priced homes. Because Embassy's products are used primarily in new installations, its sales are related to housing starts.

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

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 somewhat seasonal, with approximately 60% of Embassy's heating equipment revenues coming in the last six months of the year.

Employees

The Company employed 308 persons as of December 31, 2003, including six at corporate headquarters. Countrywide had no employees. Florida Pneumatic had 71 employees, Nationwide had 34 employees and Green had 121 employees. These employees are not represented by a union. Embassy had 76 employees, including 46 factory workers who are covered by a single-employer union contract that expires on November 30, 2004. The Company believes that its relationships with its employees are satisfactory.

ITEM 2. Properties

On May 24, 2002, in connection with the acquisition of Nationwide, Countrywide purchased the real property and the improvements thereon in which Nationwide conducts its business. Countrywide leases part of its facility to a non-affiliated tenant.

Florida Pneumatic, Countrywide, Green and Embassy each own the plant facilities that they occupy. The facilities owned by Florida Pneumatic, Countrywide and Embassy are subject to mortgages. Florida Pneumatic's 72,000 square foot plant facility is located in Jupiter, Florida. Countrywide's 56,250 square foot plant facility is located in Tampa, Florida. Green's 85,000 square foot plant facility is located in Bowling Green, Ohio. Embassy's 75,000 square foot plant facility is located in Farmingdale, New York. Each facility either provides adequate space for the operations of the respective subsidiary for 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.

ITEM 3. Legal Proceedings

The Company is a defendant or co-defendant in various actions brought about in the ordinary course of conducting its business. The Company does not believe that any of these actions are material to the financial condition of the Company.

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 Annual Report on Form 10-K.

PART II

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

The Company's Class A Common Stock trades on The Nasdaq Stock Market. The range of high and low bid information for the Company's Class A Common Stock during the last two fiscal years was as follows:

	High	Low
2003		
First Quarter	\$ 6.93	\$ 5.78
Second Quarter	7.20	6.24
Third Quarter	10.21	6.47
Fourth Quarter	10.46	7.30

	High	Low
2002		
First Quarter	\$ 7.89	\$ 6.00
Second Quarter	7.45	6.20
Third Quarter	7.30	5.85
Fourth Quarter	7.07	5.00

Such over-the-counter market quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not necessarily represent actual transactions.

As of March 29, 2004, there were approximately 1,400 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 foreseeable future.

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ITEM 6. Selected Financial Data

The following selected consolidated financial data has been derived from the Company's audited consolidated financial statements. The selected consolidated financial data for the year ended December 31, 2002 include the results of operations of Nationwide only from May 3, 2002, its date of acquisition, to December 31, 2002. The selected financial data should be read in conjunction with the Consolidated Financial Statements and related notes included elsewhere in this Annual Report on Form 10-K.

	Year ended December 31,				
	2003	2002	2001	2000	1999
Revenues	\$ 86,407,200	\$ 77,213,902	\$ 67,195,912	\$ 80,898,674	\$ 82,700,440
Income before cumulative effect of change in accounting principle	\$ 3,362,949	\$ 2,862,851	\$ 1,812,808	\$ 3,824,940	\$ 4,545,505
Cumulative effect of change in accounting principle, net of taxes of \$1,668,000	—	(3,239,118)	—	—	—
Net income (loss)	\$ 3,362,949	\$ (376,267)	\$ 1,812,808	\$ 3,824,940	\$ 4,545,505
Income (loss) per share of common stock:					
Basic:					
Income before cumulative effect of change in accounting principle	\$.96	\$.82	\$.51	\$ 1.07	\$ 1.35
Cumulative effect of change in accounting principle, net	—	(.93)	—	—	—
Net income (loss)	\$.96	\$ (.11)	\$.51	\$ 1.07	\$ 1.35
Diluted:					
Income before cumulative effect of change in accounting principle	\$.94	\$.80	\$.50	\$ 1.04	\$ 1.23
Cumulative effect of change in accounting principle, net	—	(.91)	—	—	—
Net income (loss)	\$.94	\$ (.11)	\$.50	\$ 1.04	\$ 1.23
Total assets	\$ 58,331,924	\$ 59,167,556	\$ 46,469,522	\$ 54,152,817	\$ 54,240,359
Long-term obligations, less current maturities	\$ 8,723,324	\$ 11,591,989	\$ 3,548,945	\$ 3,862,512	\$ 7,325,661
Cash dividends declared per common share	\$ —	\$ —	\$ —	\$ —	\$ —

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

GENERAL

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, which are subject to various risk and uncertainties, including, but not limited to, the impact of competition, product demand and pricing. These risks could cause the Company's actual results for the 2004 fiscal year and beyond to differ materially from those expressed in any forward-looking statement made by or on behalf of the Company. Forward-looking statements speak only as of the date on which they are made, and the Company undertakes no obligation to update publicly or revise any forward-looking statement, whether as a result of new information, future developments or otherwise.

OVERVIEW

The Company's consolidated revenues for the twelve months ended December 31, 2003 increased 11.9%, from \$77,213,902 to \$86,407,200. Although revenues increased at all subsidiaries, the greatest increase was at Countrywide, resulting primarily from the inclusion of the acquisition of Nationwide for a full twelve months of 2003 as opposed to only eight months in 2002 and to a significant increase in sales in the fencing product line. Overall gross profit decreased slightly as the increased volume, which typically improves margins, was more than offset by a less favorable product mix and the increase in cost of imported product due to the weakening of the U.S. dollar versus both the yen and euro. Profits improved overall, when comparing income before cumulative effect of change in accounting principle, from \$2,862,851 to \$3,362,949.

KEY INDICATORS

Economic Measures

Key economic measures relevant to the Company include the cost of metals, especially various types of steel, aluminum and copper. Also important is the value of the dollar in relation to the Japanese yen, the New Taiwan dollar and, to a lesser extent, the euro, as the Company spends approximately \$20 million in these currencies annually. Key elements for the demand for the Company's products include retail sales, housing starts, especially in the northeast and south, and the demand for capital goods.

At the end of 2003, the Company experienced an increase in the cost of most types of steel and aluminum and products predominantly comprised of steel. This was first attributed to the tariffs imposed on imported steel, but more recently has been driven by excess demand in Asia. Most tariffs appear to have eased and, thus, should not impact the cost of steel going forward; however, it is unclear if or when the demand-driven price increase will dissipate. During 2003, the value of the U.S. dollar decreased in relation to both the euro and the Japanese yen. The decrease in the value of the dollar was approximately 16.6% in relation to the euro and approximately 10.1% in relation to the yen. The net weakening of the U.S. dollar against both the euro and the yen in 2003 resulted in an increase in the cost of imported product from Japan and Europe of approximately \$600,000. Although there can be no certainty, the Company does not expect rates to return to the early 2003 levels in the next year.

In 2003, retail sales improved over 2002, and strong housing demand continued in the south. Housing demand in the northeast remained sluggish. The demand for capital goods improved slightly in 2003. Any change in the trend for these indicators in 2004 will have an impact on results.

Operating Measures

Key operating measures utilized by the Company to manage its operating segments are orders, sales, development projects pipeline, potential customer lists, 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 utilized by the Company to evaluate the results of its business include: sales, gross margin, selling, general and administrative expenses, earnings before interest, taxes and bonus, operating cash flows and capital expenditures, return on sales, return on assets, days sales outstanding and inventory turns. These measures are reviewed at monthly, quarterly and annual intervals and compared to historical periods as well as established objectives. To the extent that these measures are relevant, they are discussed in the detailed sections for each operating segment.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The Company prepares its consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. Certain of these accounting policies require the Company 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, the Company evaluates estimates, including those related to bad debts, inventory reserves, goodwill and intangible assets. The Company bases its 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.

The Company's critical accounting policies include:

Allowance for Doubtful Accounts

Senior management reviews accounts receivable on a monthly basis to determine if any receivables will potentially be uncollectible. Analysis of customer history, financial data and the overall economic environment are performed. In addition, any balance outstanding for more than 90 days is compared to the accounts receivable reserve for adequacy. Collection agencies are also utilized.

The Company records an allowance for doubtful accounts based on specifically identified amounts that are believed to be uncollectible. The

Company also records as an additional allowance a certain percentage of aged accounts receivable, based on historical experience and the Company's assessment of the general financial conditions affecting its customer base. If actual collection experience changes, revisions to the allowance may be required. The Company has a limited number of customers with individually large amounts due at any given balance sheet date. Any unanticipated change in the credit worthiness of any of these customers could have a material effect on the Company's results of operations in the period in which such changes or events occur. After all reasonable attempts to collect an account receivable have failed, the amount of the receivable is written off against the allowance. Based on the information available, the Company believes that its allowance for doubtful accounts as of December 31, 2003 was adequate. However, actual write-offs might exceed the recorded allowance.

Inventories

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

Goodwill and Other Intangible Assets

The Company's operational policy for the assessment and measurement of any impairment in the value of goodwill and other intangible assets that is other than temporary is to evaluate at least annually, with the help of independent third-party appraisals, the recoverability and remaining life of its goodwill and other intangible assets to determine their fair value. The methodologies to be used to estimate fair value include the use of estimates and assumptions, including projected revenues, earnings and cash flows. If the fair value of any of these assets is determined to be less than its carrying value, the Company will reflect the impairment of any such assets through a reduction in its carrying value, in an amount equal to the excess of the carrying value of the asset over its appraised value.

On a quarterly basis, the Company reviews changes in market conditions, among other factors, that could have a material impact on its estimates of fair value in order to reassess the carrying value of goodwill and other intangible assets. At December 31, 2003, no adjustment for impairment was deemed necessary.

IMPAIRMENT OF GOODWILL

In June 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"), which requires that goodwill not be amortized, but tested annually for impairment. The Company adopted SFAS 142 as of January 1, 2002 and, in accordance therewith, ceased amortizing its goodwill as of that date.

The Company had its goodwill tested for impairment, effective January 1, 2002, during the second quarter of 2002. The impairment tests performed required that the Company determine the fair market value of its reporting units for comparison to the carrying value of their net assets to assess whether any impairment existed. The methodologies used to estimate fair market value involved the use of estimates and assumptions, including projected revenues, earnings and cash flows.

The Company's earnings forecast for Green, which reflected the extremely weak market conditions in the hydraulic cylinder business, resulted in the fair market value of Green's goodwill, as determined by an independent third-party appraiser, being lower than its carrying value as of December 31, 2001. Accordingly, in the quarter ended June 30, 2002, the Company recorded, retroactive to January 1, 2002, an after-tax impairment charge of approximately \$3.2 million, which is reported as a cumulative effect of change in accounting principle resulting from the adoption of SFAS 142. The Company's annual impairment test done as of November 30, 2003 indicated that the fair values exceeded the carrying amounts.

ACQUISITION

On May 3, 2002, Countrywide acquired all of the stock of Nationwide for approximately \$10,452,000, plus an additional payment in 2002 for a working capital adjustment of approximately

\$259,000. In addition to the cash paid at the closing, the Company is liable for contingent earnout payments to Nationwide's previous owner, in amounts equal to 30% of the excess of Nationwide's earnings, before amortization of intangible assets, interest and taxes, over \$2,500,000, for each of the five twelve-month periods subsequent to the acquisition date. These contingent earnout payments have been and will be treated as additions to goodwill.

As part of this acquisition, the Company has recorded goodwill of approximately \$7,319,000 through December 31, 2003. During the year ended December 31, 2002, the Company recorded goodwill of approximately \$6,968,000, including approximately \$259,000 related to the working capital adjustment described above, approximately \$561,000 related to acquisition costs and acquisition-related expenses, approximately \$150,000 related to contingent earnout payments and approximately \$972,000 related to a deferred tax liability associated with intangible assets that were part of the acquisition. During the year ended December 31, 2003, the Company recorded net additions to goodwill of approximately \$351,000, related primarily to contingent earnout payments.

Results of operations are included from the date of acquisition, reflecting only eight months in 2002.

Countrywide conducts its business through Nationwide and through its Franklin division. The assets of Franklin were transferred from Embassy to Countrywide on December 30, 2002.

RESULTS OF OPERATIONS

2003 Compared to 2002

Revenues

Revenues for the years ended December 31, 2003 and 2002 were as follows:

Year ended December 31,	Consolidated	Pneumatic tools and related equipment	Hardware	Hydraulic cylinders and related equipment	Heating products
2003	\$ 86,407,200	\$ 45,121,611	\$ 19,212,718	\$ 12,387,005	\$ 9,685,866
2002	\$ 77,213,902	\$ 42,459,567	\$ 13,346,256	\$ 12,107,485	\$ 9,300,594
% increase	11.9%	6.3%	44.0%	2.3%	4.1%

Revenues from pneumatic tools and related equipment increased due primarily to strong promotions of approximately \$6,100,000 by two major retailers and an increased penetration in the automotive after-market of approximately \$400,000, partially offset by price concessions at a significant customer, a base volume decrease of approximately \$1,200,000 and lower industrial revenues of approximately \$600,000. Contributing to the industrial segment decrease was the pending loss of a major customer, expected to occur in early 2004, that generated approximately \$4,500,000 in revenues in 2003. Selling prices of pneumatic tools and related equipment were unchanged, with the exception of prices to a significant customer, which were substantially reduced early in the fourth quarter of 2002.

Revenues from hardware increased due primarily to the inclusion of Nationwide for the entire year in 2003, as opposed to only eight months in 2002. Nationwide's revenues increased approximately \$6,400,000, including an increase of approximately \$4,000,000 from sales of fencing products. The increase at Nationwide was partially offset by a decrease in revenues of approximately \$600,000 at Franklin, as a significant customer declared bankruptcy in the first quarter of 2003 and another significant customer reduced its ordering, because of its decreased volume, in the last three quarters of 2003. Selling prices of hardware products were unchanged. During 2004, the Company anticipates that

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increases in the price of steel will negatively impact its material costs. It is unclear to what extent, if any, these price increases can be passed on to customers.

Revenues from hydraulic cylinders and related equipment increased primarily due to the Company's entry into a new market for log splitter cylinders. This increase was partially offset by an approximately 60% decrease in sales to the wrecker market, including the phasing out of a major customer in the first quarter of 2002, and decreased sales in the access product line driven by weakness in the capital goods market. Selling prices of hydraulic cylinders and related equipment were unchanged. During 2004, the Company anticipates that increases in the price of steel will negatively impact its material costs. It is unclear to what extent, if any, these price increases can be passed on to customers.

Revenues from heating products increased due primarily to increased boiler and radiant sales in the second half of 2003, reflecting continued market penetration with these newer product lines, and increased baseboard sales, resulting from strong housing starts in the northwest. In addition, in 2002, several large customers reorganized their distribution methods, which allowed their inventory levels to fall to exceptionally low levels, and these levels were returned to normal in 2003, affecting all product lines within this segment. Selling prices of heating products were unchanged, with the exception of a modest price increase for baseboard products during the second quarter of 2003. During 2004, the Company anticipates that increases in the price of steel will negatively impact its material costs. It is unclear to what extent, if any, these price increases can be passed on to customers.

Gross Profit

Gross profits for the years ended December 31, 2003 and 2002 were as follows:

Year ended December 31,	Consolidated	Pneumatic tools and related equipment	Hardware	Hydraulic cylinders and related equipment	Heating products
2003	\$ 26,150,003	\$ 15,289,948	\$ 6,621,836	\$ 1,216,241	\$ 3,021,978
	30.3%	33.9%	34.5%	9.8%	31.2%
2002	\$ 23,468,693	\$ 14,996,013	\$ 4,375,892	\$ 1,205,269	\$ 2,891,519
	30.4%	35.3%	32.8%	10.0%	31.1%

The decrease in the gross profit percentage from pneumatic tools and related equipment was due primarily to the lower-margin promotional sales noted above, the impact of the price concessions effective in the fourth quarter of 2002 also noted above and the weakness of the U.S. dollar in relation to the Japanese yen, partially offset by productivity improvements and cost reductions from suppliers. The increase in the gross

profit percentage from hardware products was due primarily to the inclusion of Nationwide's higher margin OEM business for all of 2003, as opposed to only eight months in 2002, a more favorable product mix and cost savings in material purchases and labor productivity. The decrease in the gross profit percentage from hydraulic cylinders and related equipment was due primarily to decreased access sales noted above, which reduced coverage of fixed expenses, and an increase in sales of imported products that were at lower margins. The increase in the gross profit percentage from heating equipment was due primarily to improved overhead absorption and labor efficiency for baseboard products, partially offset by lower radiant margins resulting principally from the weakening of the U.S. dollar in relation to the euro.

Selling, General and Administrative Expenses

Consolidated selling, general and administrative expenses increased 10.2%, from \$18,184,531 to \$20,043,364, due primarily to increased costs associated with the 11.9% increase in revenues noted above, increases in marketing support and expenses related to promotional sales at Florida Pneumatic and, to a lesser extent, to increased compensation tied to higher profitability and increases related to additional reporting and control requirements. These increases were partially offset by substantial decreases resulting from cost-cutting efforts in all of the segments. As a percentage of revenues, selling, general and administrative expenses decreased from 23.6% to 23.2%, due primarily to the increase in revenues.

Interest—Net

Net interest expense decreased from \$741,311 to \$726,690, due primarily to lower interest rates on the Company's borrowings under both its revolving credit and term loan facilities, as well as on a refinanced mortgage. Average borrowings under the Company's term loan facility, which resulted from the acquisition of Nationwide on May 3, 2002, were lower in 2003 than in 2002, but these amounts were outstanding for all of 2003, as opposed to only eight months in 2002. Partially offsetting the overall decrease was an increase in 2003 over 2002 in the average borrowings under the Company's revolving credit loan facility.

Taxes on Income

The effective tax rates for the years ended December 31, 2003 and 2002 were 37.5% and 37.0%, respectively. See Note 9 of the Notes to Consolidated Financial Statements.

2002 Compared to 2001

Revenues

Revenues for the years ended December 31, 2002 and 2001 were as follows:

Year ended December 31,	Consolidated	Pneumatic tools and related equipment	Hardware	Hydraulic cylinders and related equipment	Heating products
2002	\$ 77,213,902	\$ 42,459,567	\$ 13,346,256	\$ 12,107,485	\$ 9,300,594
2001	\$ 67,195,912	\$ 38,359,690	\$ 4,673,604	\$ 14,377,036	\$ 9,785,582
% increase (decrease)	14.9%	10.7%	185.6%	(15.8)%	(5.0)%

Revenues from pneumatic tools and related equipment increased due primarily to large fall promotions at two major customers and increased sales in the industrial and automotive businesses, which were partially offset by lower commission revenues. Selling prices of pneumatic tools and related equipment were unchanged from 2001, with the exception of prices to one significant customer, which were substantially reduced at the start of the third quarter of 2001, and prices to another significant customer, which were substantially reduced early in the fourth quarter of 2002.

Revenues from hardware products increased due primarily to the acquisition of Nationwide, which had revenues of approximately \$8,000,000 in 2002, and strong results at Franklin, which benefited from the addition of two customers in the fourth quarter of 2001. Selling prices of hardware products were unchanged from 2001.

Revenues from hydraulic cylinders and related equipment decreased due primarily to the phasing out of a major customer in the first quarter of 2002 and continued depressed market conditions, which

were partially offset by increased sales in the access and agricultural product lines. Selling prices of hydraulic cylinders and related equipment were virtually unchanged from 2001.

Revenues from heating products decreased due primarily to the loss of a major customer in the first quarter of 2002. Selling prices of heating products were unchanged from 2001.

Gross Profit

Gross profits for the years ended December 31, 2002 and 2001 were as follows:

Year ended December 31,	Consolidated	Pneumatic tools and related equipment	Hardware	Hydraulic cylinders and related equipment	Heating products
2002	\$ 23,468,693	\$ 14,996,013	\$ 4,375,892	\$ 1,205,269	\$ 2,891,519
	30.4%	35.3%	32.8%	10.0%	31.1%
2001	\$ 20,161,447	\$ 14,117,199	\$ 1,298,977	\$ 1,421,658	\$ 3,323,613
	30.0%	36.8%	27.8%	9.9%	34.0%

Gross profit from pneumatic tools and related equipment decreased due primarily to the lower-margin promotional sales noted above and a price reduction to a major customer at the start of the second half of 2001, which was partially offset by productivity improvements and a weaker yen. Gross profit from hardware products increased due primarily to the addition of Nationwide's higher margin OEM business, which is now included in the product mix. Gross profit from hydraulic cylinders and related equipment increased due primarily to a shift in product mix. Gross profit from heating products decreased due primarily to the decrease in revenues, which reduced coverage of fixed expenses, and, to a lesser extent, to new product start-up costs incurred.

Selling, General and Administrative Expenses

Consolidated selling, general and administrative expenses increased 10.3%, from \$16,492,976 to \$18,184,531, due primarily to the addition of approximately \$1,340,000 of these expenses at Nationwide, and, to a lesser extent, to increased compensation tied to higher profitability and increases related to additional reporting and control requirements, principally in the fourth quarter. These increases were partially offset by a decrease of approximately \$500,000 that resulted from cost cutting efforts in all of the segments. As a percentage of revenues, selling, general and administrative expenses decreased from 24.5% to 23.6%, due primarily to the increase in revenues.

Interest—Net

Net interest expense decreased 7.0%, from \$796,663 to \$741,311, due primarily to decreases in both the average outstanding balance of the Company's revolver borrowings and the average rate on these borrowings. The overall decrease was net of increased borrowings to finance the Nationwide acquisition.

Taxes on Income

The effective tax rates for the years ended December 31, 2002 and 2001 were 37.0% and 36.9%, respectively. See Note 9 of the Notes to Consolidated Financial Statements.

LIQUIDITY AND CAPITAL RESOURCES

The Company's cash flows from operations are cyclical, with the greatest demand in the second and third quarters followed by positive cash flows in the fourth quarter as receivables and inventory trend down. Due to its strong asset base and predictable cash flows, the Company has access to substantial additional capital, if and when needed, based on favorable banking relationships. The Company monitors average days sales outstanding, inventory turns and capital expenditures to project liquidity needs and evaluate return on assets employed.

The Company gauges its liquidity and financial stability by the measurements shown in the following table (dollar amounts in thousands):

	December 31,		
	2003	2002	2001
Working Capital	\$ 20,960	\$ 19,779	\$ 21,010
Current Ratio	2.72 to 1	2.49 to 1	3.71 to 1
Shareholders' Equity	\$ 36,978	\$ 33,823	\$ 34,228

Cash decreased 79.2%, or \$.8 million, from \$1.0 million as of December 31, 2002 to \$.2 million as of December 31, 2003. The Company's debt levels decreased from \$17.5 million at December 31, 2002 to \$13.2 million at December 31, 2003. Total percent of debt to total capitalization decreased from 51.7% at December 31, 2002 to 35.8% at December 31, 2003.

On May 3, 2002, Countrywide acquired all of the stock of Nationwide for approximately \$10,452,000, plus an additional payment in 2002 for a working capital adjustment of approximately \$259,000. In addition to the cash paid at the closing, the Company is liable for contingent earnout payments to Nationwide's previous owner, in amounts equal to 30% of the excess of Nationwide's earnings, before amortization of intangible assets, interest and taxes, over \$2,500,000, for each of the five twelve-month periods subsequent to the acquisition date. These contingent earnout payments have been and will be treated as additions to goodwill.

As part of this acquisition, the Company has recorded goodwill of approximately \$7,319,000 through December 31, 2003. During the year ended December 31, 2002, the Company recorded goodwill of approximately \$6,968,000, including approximately \$259,000 related to the working capital adjustment described above, approximately \$561,000 related to acquisition costs and acquisition-related expenses, approximately \$150,000 related to contingent earnout payments and approximately \$972,000 related to a deferred tax liability associated with intangible assets that were part of the acquisition. During the year ended December 31, 2003, the Company recorded net additions to goodwill of approximately \$351,000, related primarily to contingent earnout payments.

On May 24, 2002, in connection with the acquisition of Nationwide, Countrywide also purchased for \$2,500,000 the real property and the improvements thereon in which Nationwide conducts its business. This purchase was financed primarily through a mortgage loan, in the amount of \$2,024,000, from a bank.

The amounts included in the following analysis of changes in liquidity and capital resources are net of amounts related to the acquisition of Nationwide. For the 2001 comparisons, Franklin was included with Embassy, as discussed below.

During 2003, gross accounts receivable increased by approximately \$1,031,000, with increases of approximately \$501,000, \$263,000, \$156,000 and \$111,000 at Florida Pneumatic, Embassy, Green and Countrywide, respectively. The increase at Florida Pneumatic was due primarily to an increase in sales in the fourth quarter of 2003, along with extended terms on some retail promotional sales. The increase at Embassy was due primarily to the timing of sales. The increases at Green and Countrywide were due primarily to increases in sales in the fourth quarter of 2003, compared to the fourth quarter of 2002.

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Inventories decreased by approximately \$825,000 during 2003, with decreases of approximately \$994,000 and \$336,000 at Countrywide and Embassy, respectively, partially offset by increases of approximately \$408,000 and \$97,000 at Florida Pneumatic and Green, respectively. The decrease at Countrywide was due primarily to improved inventory turnover and, for its Franklin division, more efficient ordering levels. The decrease at Embassy was due primarily to the timing of radiant and boiler inventory receipts. The increase at Florida Pneumatic was the result of timing of inventory receipts and a decrease in base revenues. The increase at Green was due primarily to an increase in raw material inventory for cylinder production.

The decrease in cash and inventories were the primary factors in the decrease of \$1,500,000 in short-term borrowings in 2003.

During 2003, accounts payable increased by approximately \$442,000, with an increase of approximately \$643,000 at Florida Pneumatic, partially offset by decreases of \$109,000, \$73,000 and \$19,000 at Green, Countrywide and Embassy, respectively. The increase at Florida Pneumatic was due primarily to the timing payments. The decreases at Green and Countrywide were due primarily to the timing of payments. The decrease at Embassy was due primarily to the timing of purchases.

During 2002, gross accounts receivable decreased by approximately \$88,000, with decreases of approximately \$438,000, \$308,000 and \$273,000 at Countrywide, Embassy and Green, respectively, being substantially offset by an increase of approximately \$931,000 at Florida Pneumatic. The decrease at Countrywide was due primarily to decreased sales in the fourth quarter of 2002. The decreases at Embassy and Green were consistent with the decreases in revenues between the fourth quarter of 2001 and the fourth quarter of 2002.

Inventories decreased by approximately \$519,000 during 2002. Florida Pneumatic's inventory decreased by approximately \$920,000 and Green's inventory decreased by approximately \$88,000. Countrywide's inventory increased by approximately \$359,000 and Embassy's inventory increased by approximately \$130,000. At Florida Pneumatic, reduced safety stock levels for imported products and reduced work in process inventory for manufactured parts as a result of the lean manufacturing initiative were primarily responsible for the decrease in inventory. The decrease at Green was primarily the result of a concerted effort to reduce cylinder finished goods inventory, which was partially offset by an investment in inventory for import cylinders and valves. The increase at Countrywide was due primarily to overall growth in the business. The increase at Embassy was consistent with the decrease in revenues.

During 2002, short-term borrowings increased by \$2,500,000, primarily to fund working capital changes and capital expenditures.

During 2002, accounts payable increased by approximately \$175,000. Florida Pneumatic's accounts payable increased by approximately \$839,000 and Green's accounts payable increased by approximately \$62,000. Countrywide's accounts payable decreased by approximately \$694,000 and Embassy's accounts payable decreased by approximately \$32,000. The increase at Florida Pneumatic was due primarily to the timing of payments. The increase at Green was due primarily to the build-up of import cylinder and valve inventory noted above and the timing of payments. The decreases at Countrywide and Embassy were due primarily to the timing of payments and purchases.

On June 30, 2003, the Company renewed its credit agreement, as amended, with Citibank through July 26, 2004. This agreement provides the Company with various credit facilities, including revolving credit loans, term loans for acquisitions and a foreign exchange line. The credit agreement is subject to annual review by Citibank.

The revolving credit loan facility provides a maximum of \$12,000,000, with various sublimits, for direct borrowings, letters of credit, bankers' acceptances and equipment loans. There are no commitment fees for any unused portion of this credit facility. At December 31, 2003, there was

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\$3,000,000 outstanding against the revolving credit loan facility. There was also a commitment of approximately \$36,000 at December 31, 2003 for open letters of credit.

The term loan facility provides a maximum commitment of \$15,000,000 to finance acquisitions subject to the lending bank's approval. There are no commitment fees for any unused portion of this credit facility. The Company borrowed \$11,500,000 against this facility to finance the acquisition of Nationwide. At December 31, 2003, there was \$5,250,000 outstanding against the term loan facility. There was also a standby letter of credit totaling approximately \$351,000 outstanding against this facility at December 31, 2003. 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, 2003, based on the spot rate, was approximately \$1,456,000.

Under its credit agreement, the Company is required to adhere to certain financial covenants. At December 31, 2003, and for the year then

ended, the Company satisfied all of these covenants.

Certain of the Company's mortgage agreements also require the Company to adhere to certain financial covenants. At December 31, 2003, and for the year then ended, the Company satisfied all of these covenants.

Capital spending was approximately \$979,000, \$3,943,000 and \$944,000 in 2003, 2002 and 2001, respectively, which amounts were provided from working capital. Capital expenditures for 2004 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 2004 are capital expenditures relating to new products, expansion of existing product lines and replacement of equipment.

Cash provided by operating activities for 2003, 2002 and 2001 was approximately \$4,972,000, \$5,786,000 and \$8,923,000, respectively. The Company believes that cash on hand derived from operations and cash available through borrowings under its credit facilities will be sufficient to allow the Company to meet its foreseeable working capital needs.

During the third quarter of 2003, Florida Pneumatic was informed by its third largest customer that it will be sourcing from a new supplier in early 2004. Sales to this customer for 2003 were approximately \$4.5 million. The Company believes that retaining this customer would have required either eliminating all profit margins or converting to an inferior product, which management felt was not in the best long-term interests of the Company.

OFF-BALANCE SHEET ARRANGEMENTS

The Company's 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 Company has not purchased forward contracts on New Taiwan dollars or euros. The total amount of foreign currency forward contracts outstanding at December 31, 2003, based on the spot rate, was approximately \$1,456,000.

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 increase in the strength of the Japanese yen versus the U.S. dollar from 2002 to 2003 had a negative effect on the Company's results of operations and its financial position. Since

December 31, 2003, the relative value of the U.S dollar in relation to the Japanese yen has increased. There can be no assurance as to the future trend of this value. See "Item 7A. Quantitative and Qualitative Disclosure About Market Risk."

IMPACT OF INFLATION

The Company believes that the effects of changing prices and inflation on its financial condition and its results of operations are immaterial.

ENVIRONMENTAL MATTERS

Although it is difficult to identify precisely the portion of capital expenditures or other costs attributable to compliance with environmental laws and regulations, the Company does not expect such expenditures or other costs to have a material adverse effect on its business or financial condition.

CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

At December 31, 2003, the Company had certain contractual cash obligations and other commercial commitments, as set forth in the following tables:

Contractual Cash Obligations	Payments Due by Period				
	Total	Less than 1 year	1 - 3 years	4 - 5 years	After 5 years
Long-term debt	\$ 10,249,537	\$ 1,526,213	\$ 2,714,820	\$ 2,748,316	\$ 3,260,188
Short-term borrowings	3,000,000	3,000,000	—	—	—
Employment agreement	4,032,000	820,000	1,640,000	1,572,000	—
Total contractual cash obligations	\$ 17,281,537	\$ 5,346,213	\$ 4,354,820	\$ 4,320,316	\$ 3,260,188

Other Commercial Commitments	Amount of Commitment Expiration Per Period				
	Total	Less than 1 year	1 - 3 years	4 - 5 years	After 5 years
Purchase commitments	\$ 10,130,000	\$ 10,130,000	\$ —	\$ —	\$ —
Standby letter of credit	\$ 351,000	\$ 351,000	\$ —	\$ —	\$ —

NEW ACCOUNTING PRONOUNCEMENTS

In April 2002, the FASB issued SFAS No. 145, "Recission of FASB Statement No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections" ("SFAS 145"), which eliminates the automatic classification of gain or loss on extinguishment of debt as an extraordinary item of income and requires that such gain or loss be evaluated for extraordinary classification under the criteria of Accounting Principles Board No. 30, "Reporting Results of Operations." The provisions of SFAS 145 related to the recission of Statement 4 are effective for fiscal years beginning after May 15, 2002. The Company adopted SFAS 145 as of January 1, 2003. In January 2003, the Company recorded a loss of approximately \$84,000, included in selling, general and administrative expenses, that resulted from the refinancing of a mortgage.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" ("SFAS 146"). SFAS 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and supersedes Emerging Issues Task Force Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)" ("EITF 94-3"). The principal difference between SFAS 146 and EITF 94-3 relates to the requirements for recognition of a liability for a cost associated

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with an exit or disposal activity. SFAS 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. Under EITF 94-3, a liability was recognized at the date of an entity's commitment to an exit plan. SFAS 146 is effective for exit or disposal activities that are initiated after December 31, 2002. The Company did not have any exit or disposal activities since the adoption of SFAS 146.

In June 2003, the FASB issued SFAS No. 149, "Amendments of Statement 133 on Derivative Instruments and Hedging Activities" ("SFAS 149"). SFAS 149 amends SFAS 133 and certain other FASB standards for decisions made by the FASB as part of the Derivatives Implementation Group process. Among other changes, FASB 149 clarifies the definition of a derivative financial instrument. SFAS 149 is generally effective for contracts entered into or modified after June 30, 2003. The provisions of SFAS 149 that relate to SFAS 133 Implementation Issues that have been effective for fiscal quarters that began prior to June 15, 2003 should continue to be applied in accordance with their respective dates. In addition, certain provisions of SFAS 149 that apply to forward purchases or sales of when-issued securities or other securities that do not yet exist are applicable to both existing contracts and new contracts entered into after June 30, 2003. The adoption of SFAS 149 had no impact on either the Company's results of operations or its financial position.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity," ("SFAS 150") that establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. The adoption of SFAS 150 had no impact on either the Company's results of operations or its financial position.

In January 2003, the Financial Accounting Standards Board issued Interpretation No. 46, ("FIN 46") "Consolidation of Variable Interest Entities." This Interpretation clarifies the application of Accounting Research Bulletin No. 51, "Consolidated Financial Statements," to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN 46 is effective February 1, 2003 for variable interest entities created after January 31, 2003, and July 1, 2003 for variable interest entities created prior to February 1, 2003 (deferred until the first quarter of 2004). The Company does not expect the adoption of FIN 46 to have a material impact on either its results of operations or its financial position.

In May 2003, the Emerging Issues Task Force ("EITF"), issued EITF Issue No. 00-21 "Revenue Arrangements with Multiple Deliverables" ("Issue 00-21"). Issue 00-21 addresses certain aspects of the accounting by a vendor for arrangements under which it will perform multiple revenue generating activities and how to determine whether an arrangement involving multiple deliverables contains more than one unit of accounting. Issue 00-21 became effective for revenue arrangements entered into in fiscal periods after June 15, 2003. The adoption of Issue 00-21 did not have a material effect on either the Company's results of operations or its financial position.

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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. The Company 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 accounting principles generally accepted in the United States of America, impact the statement of operations. 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 not for speculation but for the sole purpose of hedging an existing or anticipated currency exposure. 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. The Company has various debt instruments that bear interest at variable rates tied to LIBOR (London InterBank Offered Rate). Any increase in LIBOR would have an adverse effect on the Company's interest costs.

The Company accounts for changes in the fair value of its foreign currency contracts by marking them to market and recognizing any resulting gains or losses through its statement of operations. The Company also marks its yen-denominated payables to market, recognizing any resulting gains or losses in its statement of operations. At December 31, 2003, the Company had foreign currency forward contracts, maturing in

2004, to purchase Japanese yen at contracted forward rates. The value of these contracts at December 31, 2003 was approximately \$1,456,000, which was the approximate value of the Company's yen-denominated accounts payable. During the year ended December 31, 2003, the Company recorded a net realized gain of approximately \$105,000 on foreign currency transactions. During the years ended December 31, 2002 and 2001, the Company recorded net realized losses of approximately \$120,000 and \$55,000, respectively, on foreign currency transactions. At December 31, 2003, the Company had no material unrealized gains or losses on foreign currency transactions.

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, 2003 was approximately \$162,000. For further information, see Note 1 of the Notes to the Consolidated Financial Statements.

ITEM 8. Financial Statements And Supplementary Data

P & F INDUSTRIES, INC. AND SUBSIDIARIES

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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 (the "Company") as of December 31, 2003 and 2002, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2003. 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 auditing standards generally accepted in the United States of America. 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 as of December 31, 2003 and 2002, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2003, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Notes 1 and 11 to the consolidated financial statements, on January 1, 2002, the Company adopted the provisions of Statement of Financial Accounting Standards No. 142, "Goodwill and other Intangible Assets."

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

/s/ BDO SEIDMAN, LLP

New York, New York
March 5, 2004

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

	December 31,	
	2003	2002
ASSETS		
CURRENT:		
Cash	\$ 213,409	\$ 1,024,222
Accounts receivable, net (Notes 2, 5 and 13)	11,921,846	10,864,261
Inventories (Notes 3 and 5)	18,755,061	19,580,073
Deferred income taxes—net (Note 9)	789,000	485,000
Prepaid expenses and other	1,456,188	1,080,313
TOTAL CURRENT ASSETS	33,135,504	33,033,869
PROPERTY AND EQUIPMENT (Notes 5 and 6):		
Land	1,582,938	1,582,938
Buildings and improvements	9,035,412	8,811,117
Machinery and equipment	14,962,867	14,514,353
	25,581,217	24,908,408
Less accumulated depreciation and amortization	12,840,367	11,409,203
NET PROPERTY AND EQUIPMENT	12,740,850	13,499,205
GOODWILL, net (Notes 10 and 11)	10,561,703	10,210,621
OTHER INTANGIBLE ASSETS, net (Notes 10 and 11)	1,773,333	2,305,333
OTHER ASSETS, net of accumulated amortization of \$178,210 and \$180,858	120,534	118,528
TOTAL ASSETS	\$ 58,331,924	\$ 59,167,556
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Short-term borrowings (Note 5)	\$ 3,000,000	\$ 4,500,000
Accounts payable	3,302,185	2,860,271
Accruals:		
Compensation	1,730,180	2,112,377
Other (Note 4)	2,616,691	2,379,962
Current maturities of long-term debt (Note 6)	1,526,213	1,402,547
TOTAL CURRENT LIABILITIES	12,175,269	13,255,157
LONG-TERM DEBT, less current maturities (Note 6)	8,723,324	11,591,989
DEFERRED INCOME TAXES—net (Note 9)	455,000	497,000
TOTAL LIABILITIES	21,353,593	25,344,146
COMMITMENTS AND CONTINGENCIES (Notes 5, 6, 10 and 12)		
SHAREHOLDERS' EQUITY (Notes 7 and 8):		
Preferred stock—\$10 par; authorized—2,000,000 shares; no shares outstanding.	—	—
Common Stock:		
Class A—\$1 par; authorized—7,000,000 shares; issued—3,735,367 and 3,690,367 shares	3,735,367	3,690,367
Class B—\$1 par; authorized—2,000,000 shares; no shares issued or outstanding	—	—
Additional paid-in capital	8,609,840	8,540,528
Retained earnings	26,359,965	22,997,016
Treasury stock, at cost (223,736 shares and 176,045 shares)	(1,726,841)	(1,404,501)

TOTAL SHAREHOLDERS' EQUITY	36,978,331	33,823,410
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 58,331,924	\$ 59,167,556

See accompanying notes to consolidated financial statements.

P & F INDUSTRIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31,		
	2003	2002	2001
REVENUES (Note 13):			
Net sales	\$ 85,929,952	\$ 76,538,798	\$ 65,821,131
Other	477,248	675,104	1,374,781
	<u>86,407,200</u>	<u>77,213,902</u>	<u>67,195,912</u>
COSTS AND EXPENSES:			
Cost of sales	60,257,197	53,745,209	47,034,465
Selling, general and administrative	20,043,364	18,184,531	16,492,976
Interest—net	726,690	741,311	796,663
	<u>81,027,251</u>	<u>72,671,051</u>	<u>64,324,104</u>
INCOME BEFORE TAXES ON INCOME AND CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	5,379,949	4,542,851	2,871,808
TAXES ON INCOME (Note 9)	2,017,000	1,680,000	1,059,000
INCOME BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	3,362,949	2,862,851	1,812,808
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE, NET OF TAXES OF \$1,668,000 (Note 11)	—	(3,239,118)	—
NET INCOME (LOSS)	\$ 3,362,949	(\$ 376,267)	\$ 1,812,808
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING (Note 15):			
BASIC	3,506,820	3,512,057	3,553,930
DILUTED	3,589,739	3,580,872	3,627,660
EARNINGS (LOSS) PER SHARE OF COMMON STOCK (NOTE 15):			
BASIC:			
INCOME BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	\$.96	\$.82	\$.51
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE, NET OF TAXES	—	(.93)	—
NET INCOME (LOSS)	\$.96	(\$.11)	\$.51
DILUTED:			
INCOME BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	\$.94	\$.80	\$.50
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE, NET OF TAXES	—	(.91)	—
NET INCOME (LOSS)	\$.94	(\$.11)	\$.50

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

Years Ended December 31, 2003, 2002 and 2001	Total	Class A Common Stock \$1 Par		Additional Paid-in Capital	Retained Earnings	Treasury Stock	
		Shares	Amount			Shares	Amount
Balance, January 1, 2001	\$ 32,992,134	3,677,593	\$ 3,677,593	\$ 8,464,139	\$ 21,560,475	(72,185)	\$ (710,073)
Net income for the year ended December 31, 2001	1,812,808	—	—	—	1,812,808	—	—
Purchase of Class A Common Stock (Note 7)	(577,092)	—	—	—	—	(85,260)	(577,092)
Balance, December 31, 2001	34,227,850	3,677,593	3,677,593	8,464,139	23,373,283	(157,445)	(1,287,165)
Net loss for the year ended December 31, 2002	(376,267)	—	—	—	(376,267)	—	—
Issuance of Class A Common Stock (Note 7)	89,163	12,774	12,774	76,389	—	—	—
Purchase of Class A Common Stock (Note 7)	(117,336)	—	—	—	—	(18,600)	(117,336)
Balance, December 31, 2002	33,823,410	3,690,367	3,690,367	8,540,528	22,997,016	(176,045)	(1,404,501)
Net income for the year ended December 31, 2003	3,362,949	—	—	—	3,362,949	—	—
Issuance of Class A Common Stock upon exercise of stock options (Note 8)	114,312	45,000	45,000	69,312	—	—	—
Purchase of Class A Common Stock (Note 7)	(322,340)	—	—	—	—	(47,691)	(322,340)
Balance, December 31, 2003	\$ 36,978,331	3,735,367	\$ 3,735,367	\$ 8,609,840	\$ 26,359,965	(223,736)	\$ (1,726,841)

See accompanying notes to consolidated financial statements.

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

	Year Ended December 31,		
	2003	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	\$ 3,362,949	\$ (376,267)	\$ 1,812,808
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Cumulative effect of change in accounting for goodwill, net of taxes	—	3,239,118	—
Depreciation and amortization	1,702,816	1,568,766	1,418,119
Amortization of goodwill	—	—	324,436
Amortization of other intangibles and other assets	553,019	375,476	17,179
Provision for losses on accounts receivable—net	(26,367)	(90,116)	(92,012)
Deferred income taxes—net	(346,000)	(52,000)	18,000
Issuance of Class A Common Stock as compensation	—	89,163	—
Loss (gain) on disposal of fixed assets	34,362	32,162	(63)
Decrease (increase), net of acquisition in 2002 of Nationwide Industries, Inc., in:			
Accounts receivable	(1,031,218)	88,187	830,911
Inventories	825,012	518,656	6,195,765
Prepaid expenses and other	(375,875)	(352,979)	39,010
Other assets	(23,025)	(36,722)	51,309
Increase (decrease), net of acquisition in 2002 of Nationwide Industries, Inc., in:			

Accounts payable	441,914	319,021	(1,196,101)
Accruals	(145,468)	463,579	(496,312)
Total adjustments	1,609,170	6,162,311	7,110,241
Net cash provided by operating activities	4,972,119	5,786,044	8,923,049

CASH FLOWS FROM INVESTING ACTIVITIES:

Capital expenditures	(979,323)	(3,943,238)	(943,853)
Payments for acquisition of product line	—	(848,064)	—
Payments for acquisition of Nationwide Industries, Inc., net of \$2,920 cash acquired	—	(10,448,794)	—
Additional payments for purchase of Nationwide Industries, Inc.	(351,082)	—	—
Payments for acquisition—related expenses	—	(1,113,939)	—
Proceeds from sale of fixed assets	500	4,200	13,905
Net cash used in investing activities	(1,329,905)	(16,349,835)	(929,948)

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CASH FLOWS FROM FINANCING ACTIVITIES:

Proceeds from short-term borrowings	9,500,000	5,000,000	3,500,000
Repayments of short-term borrowings	(11,000,000)	(2,935,000)	(10,500,000)
Proceeds from mortgage	1,697,301	2,024,000	—
Proceeds from term loan	—	11,500,000	—
Principal payments on long-term debt	(4,442,300)	(4,391,484)	(296,598)
Proceeds from exercise of stock options	114,312	—	—
Purchase of Class A Common Stock	(322,340)	(117,336)	(577,092)
Net cash (used in) provided by financing activities	(4,453,027)	11,080,180	(7,873,690)
NET (DECREASE) INCREASE IN CASH	(810,813)	516,389	119,411
CASH AT BEGINNING OF YEAR	1,024,222	507,833	388,422
CASH AT END OF YEAR	\$ 213,409	\$ 1,024,222	\$ 507,833

Supplemental disclosures of cash flow information:

Cash paid for:

	Year Ended December 31,		
	2003	2002	2001
Interest	\$ 745,616	\$ 705,167	\$ 859,677
Income taxes	\$ 2,508,801	\$ 1,833,141	\$ 1,122,256

On July 12, 2002, the Company issued to the Chief Executive Officer of the Company 12,774 unrestricted shares of Class A Common Stock. The Company recorded the fair market value of these shares, \$89,163, as compensation expense.

See accompanying notes to consolidated financial statements.

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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. All significant intercompany balances and transactions have been eliminated.

P & F Industries, Inc. ("P & F") conducts its business operations through its four wholly-owned subsidiaries: Florida Pneumatic Manufacturing Corporation ("Florida Pneumatic"), Countrywide Hardware, Inc. ("Countrywide"), Green Manufacturing, Inc. ("Green") and Embassy Industries, Inc. ("Embassy"). P & F Industries, Inc. and its subsidiaries are herein referred to collectively as the "Company."

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. Countrywide conducts its business operations through Nationwide Industries, Inc. ("Nationwide"), its wholly-owned subsidiary, and through its Franklin Manufacturing ("Franklin") division. Countrywide acquired all of the stock of Nationwide on May 3, 2002. The assets of Franklin were transferred from Embassy to Countrywide on December 30, 2002. Nationwide is an importer and manufacturer of door, window and fencing hardware. Franklin imports a line of door and window hardware. 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. Embassy is engaged in the manufacture and sale of baseboard heating products and the importation and sale of radiant heating systems. Note 13 of the Notes to Consolidated Financial Statements presents financial information for the segments of the Company's business.

Basis of Financial Statement Presentation

The Company prepares its consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. Certain of these accounting policies require the Company 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. On an ongoing basis, the Company evaluates estimates, including those related to bad debts, inventory reserves, goodwill and intangible assets. The Company bases its 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.

Reclassification

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

Revenue Recognition

The Company records revenues upon shipment with related risks and title passing to the customers. Estimates of losses for bad debts, returns and other allowances are recorded at the time of the sale.

Shipping and Handling Costs

The Company generally does not bill customers for shipping and handling costs. Expenses for shipping and handling costs are included in selling, general and administrative expenses, and totaled approximately \$1,346,000, \$1,206,000 and \$995,000 for the years ended December 31, 2003, 2002 and 2001, respectively.

Financial Instruments

The carrying amounts of financial instruments, including cash, accounts receivable, accounts payable and short-term debt, approximated fair value as of December 31, 2003 and 2002 because of the relatively short-term maturity of these instruments. The carrying value of long-term debt approximated fair value as of December 31, 2003 and 2002, based upon quoted market prices for the same or similar debt issues, with the exception of a fixed rate mortgage with a balance of approximately \$1,700,000 as of December 31, 2002. Using interest rates as of December 31, 2002, the fair value of this mortgage would have been approximately \$1,960,000. This mortgage was refinanced in January 2003. This new mortgage bears interest at a variable rate that more closely approximates the current interest rate.

Allowance for Doubtful Accounts

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

Senior management reviews accounts receivable on a monthly basis to determine if any receivables will potentially be uncollectible. The Company records an allowance for doubtful accounts based on specifically identified amounts that are believed to be uncollectible. The Company also records additional allowances based on certain percentages of aged receivables, based on historical experience and the Company's assessment of the general financial conditions affecting its customer base. If actual collections experience changes, revisions to the allowance may be required. The Company has a limited number of customers with individually large amounts due at any given balance sheet date. Any unanticipated change in the credit worthiness of any of these customers or any other matters affecting the collectibility of amounts due from such customers could have a material affect on the Company's results of operations in the period in which such changes or events occur. After all reasonable attempts to collect a receivable have failed, the receivable is written off against the allowance. Based on the information available, the Company believes that its allowance for doubtful accounts as of December 31, 2003 was adequate. However, actual write-offs might exceed the

Credit Risk

Financial instruments that potentially subject the Company to concentration of credit risk consist principally of temporary cash investments and accounts receivable. The Company places its cash in overnight money market instruments with high quality financial institutions, which, by policy, limit the amount of credit exposure in any one financial instrument.

Inventories

Inventories are valued at the lower of cost or market. Cost is determined by the first-in, first-out method. The inventory balance, which includes materials, labor and manufacturing overhead costs, is recorded net of an allowance for obsolete or unmarketable inventory. Such allowance is based upon both historical experience and management's understanding of market conditions and forecasts of future product demand. If the actual amount of obsolete or unmarketable inventory significantly exceeds the estimated allowance, the Company's cost of sales, gross profit and net income would be significantly affected.

Property and Equipment and Depreciation and Amortization

Property and equipment are stated at cost.

Depreciation and amortization are computed by the straight-line method for financial reporting purposes 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 long-lived assets whenever events or changes in circumstances indicate that the carrying value of any of these assets may not be recoverable. In that regard, the Company will assess the recoverability of such assets based upon estimated undiscounted cash flow forecasts. If an asset impairment is identified the asset is written down to fair value based on discounted cash flow or another fair value measure.

Goodwill and Other Intangible Assets

In June 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"), which requires that goodwill not be amortized, but that goodwill and other intangible assets be tested annually for impairment. The Company adopted SFAS 142 as of January 1, 2002 and, in accordance therewith, ceased amortizing its goodwill as of that date. Prior to the adoption of SFAS 142, the Company had amortized goodwill on a straight-line basis over periods from 25 to 40 years. Other intangible assets continue to be amortized over a period of five years.

The Company's operational policy for the assessment and measurement of any impairment in the value of goodwill and other intangible assets that is other than temporary is to evaluate annually, with

the help of independent third-party appraisals, the recoverability and remaining life of its goodwill and other intangible assets to determine the fair value of these assets. The methodologies to be used to estimate fair value include the use of estimates and assumptions, including projected revenues, earnings and cash flows. If the fair value of any of these assets is determined to be less than its carrying value, the Company will reflect the impairment of any such asset through a reduction in its carrying value, in an amount equal to the excess of the carrying value of the asset over its appraised value.

Warranty Liability

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

Taxes on Income

The Company files a consolidated Federal tax return. P & F Industries, Inc. and each of its subsidiaries file 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 (Loss) Per Share

Basic earnings (loss) per common share is based only on the average number of shares of common stock outstanding for the year. Diluted earnings (loss) 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 earnings (loss) per 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 or warrants 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.

Stock-Based Compensation

In December 2002, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 148, "Accounting for Stock Based Compensation-

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Transition and Disclosure" ("SFAS 148"), which was issued to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS 148 amended the disclosure requirements of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123") to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results.

The Company accounts for its stock option awards to its employees under the intrinsic value based method of accounting prescribed by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued 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, as required by SFAS 123.

SFAS 123 requires the Company to provide pro forma information regarding net income and earnings per share as if compensation cost for its incentive stock option plan had been determined in accordance with the fair value method prescribed by SFAS 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 2002; no dividends paid; expected volatility of 56.9%; risk-free interest rate of 4.3%; and expected life of 8.5 years. No options were granted in either 2003 or 2001.

The weighted-average fair value of options for which the exercise price equaled the market price on the grant date was \$4.20 in 2002. The weighted-average fair value of options for which the exercise price exceeded the market price on the grant date was \$3.07 in 2002.

Under the provisions of SFAS 123, the Company's net income (loss) and its basic and diluted earnings (loss) per share would have changed to the pro forma amounts indicated below:

	Year Ended December 31,		
	2003	2002	2001
Net income (loss) as reported	\$ 3,362,949	\$ (376,267)	\$ 1,812,808
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	—	56,172	—
Deduct: Total stock-based employee compensation expense determined under fair value method, net of related tax effects	—	(593,100)	—
Pro forma net income (loss)	\$ 3,362,949	\$ (913,195)	\$ 1,812,808
Basic earnings (loss) per share:			
As reported	\$.96	\$ (.11)	\$.51
Pro forma	\$.96	\$ (.26)	\$.51
Diluted earnings (loss) per share:			
As reported	\$.94	\$ (.11)	\$.50
Pro forma	\$.94	\$ (.26)	\$.50

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Treasury Stock

Treasury stock is recorded at net acquisition cost. Gains and losses on disposition are recorded as increases or decreases to additional paid-in capital with losses in excess of previously recorded gains charged directly to retained earnings.

Derivative Financial Instruments

The Company uses derivatives to reduce its exposure to fluctuations in foreign currencies, principally Japanese yen. Derivative products, specifically foreign currency forward contracts, are used to hedge the foreign currency market exposures underlying certain debt and forecasted transactions with foreign vendors. The Company does not enter into such contracts for speculative purposes.

For derivative instruments that are designated and qualify as fair value hedges (i.e., hedging the exposure to changes in the fair value of an asset or a liability or an identified portion thereof that is attributable to a particular risk), the gain or loss on the derivative instrument as well as the offsetting gain or loss on the hedge item attributable to the hedged risk are recognized in earnings in the current period. For derivative instruments that are designated and qualify as a cash flow hedge (i.e., hedging the exposure of variability in the expected future cash flows that would be attributable to a particular risk), the effective portion of the gain or loss on the derivative instrument is reported as a component of accumulated comprehensive loss (a component of shareholders' equity) and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. The remaining gain or loss on the derivative instrument, if any (i.e., the ineffective portion and any portion of the derivative instrument excluded from the assessment of effectiveness), is recognized in earnings in the current period. For derivative instruments not designated as hedging instruments, changes in the fair market values are recognized in earnings as a component of cost of goods sold.

The Company accounts for changes in the fair value of its foreign currency contracts by marking them to market and recognizing any resulting gains or losses through its statement of operations. The Company also marks its yen-denominated payables to market, recognizing any resulting gains or losses in its statement of operations. At December 31, 2003, the Company had foreign currency forward contracts, maturing in 2004, to purchase Japanese yen at contracted forward rates. The value of these contracts at December 31, 2003 was approximately \$1,456,000, which was the approximate value of the Company's yen-denominated accounts payable. During the year ended December 31, 2003, the Company recorded a net realized gain of approximately \$105,000 on foreign currency transactions. During the years ended December 31, 2002 and 2001, the Company recorded net realized losses of approximately \$120,000 and \$55,000, respectively, on foreign currency transactions. At December 31, 2003, the Company had no material unrealized gains or losses on foreign currency transactions.

New Accounting Pronouncements

In April 2002, the FASB issued SFAS No. 145, "Recission of FASB Statement No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections" ("SFAS 145"), which eliminates the automatic classification of gain or loss on extinguishment of debt as an extraordinary item of income and requires that such gain or loss be evaluated for extraordinary classification under the criteria of Accounting Principles Board No. 30, "Reporting Results of Operations." The provisions of SFAS 145 related to the recission of Statement 4 are effective for fiscal years beginning after May 15,

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2002. The Company adopted SFAS 145 as of January 1, 2003. In January 2003, the Company recorded a loss of approximately \$84,000, included in selling, general and administrative expenses, that resulted from the refinancing of a mortgage.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" ("SFAS 146"). SFAS 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and supersedes Emerging Issues Task Force Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)" ("EITF 94-3"). The principal difference between SFAS 146 and EITF 94-3 relates to the requirements for recognition of a liability for a cost associated with an exit or disposal activity. SFAS 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. Under EITF 94-3, a liability was recognized at the date of an entity's commitment to an exit plan. SFAS 146 is effective for exit or disposal activities that are initiated after December 31, 2002. The Company did not have any exit or disposal activities since the adoption of SFAS 146.

In June 2003, the FASB issued SFAS No. 149, "Amendments of Statement 133 on Derivative Instruments and Hedging Activities" ("SFAS 149"). SFAS 149 amends SFAS 133 and certain other FASB standards for decisions made by the FASB as part of the Derivatives Implementation Group process. Among other changes, FASB 149 clarifies the definition of a derivative financial instrument. SFAS 149 is generally effective for contracts entered into or modified after June 30, 2003. The provisions of SFAS 149 that relate to SFAS 133 Implementation Issues that have been effective for fiscal quarters that began prior to June 15, 2003 should continue to be applied in accordance with their respective dates. In addition, certain provisions of SFAS 149 that apply to forward purchases or sales of when-issued securities or other securities that do not yet exist are applicable to both existing contracts and new contracts entered into after June 30, 2003. The adoption of SFAS No. 149 had no impact on either the Company's results of operations or its financial position.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity," ("SFAS 150") that establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. The adoption of SFAS 150 had no impact on the Company's results of operations or financial position.

In January 2003, the Financial Accounting Standards Board issued Interpretation No. 46, ("FIN 46") "Consolidation of Variable Interest Entities." This Interpretation clarifies the application of Accounting Research Bulletin No. 51, "Consolidated Financial Statements," to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN 46 is effective February 1, 2003 for variable interest entities created after January 31, 2003, and July 1, 2003 for variable interest entities created prior to February 1, 2003 (deferred until the first quarter of 2004). The Company does not expect the adoption of FIN 46 to have a material impact on either its results of operations or its financial position.

In May 2003, the Emerging Issues Task Force ("EITF"), issued EITF Issue No. 00-21 "Revenue Arrangements with Multiple Deliverables" ("Issue 00-21"). Issue 00-21 addresses certain aspects of the accounting by a vendor for arrangements under which it will perform multiple revenue generating activities and how to determine whether an arrangement involving multiple deliverables contains more

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than one unit of accounting. Issue 00-21 became effective for revenue arrangements entered into in fiscal periods after June 15, 2003. The adoption of Issue 00-21 did not have a material effect on either the Company's results of operations or its financial position.

NOTE 2—ACCOUNTS RECEIVABLE AND ALLOWANCE FOR DOUBTFUL ACCOUNTS

Accounts receivables consist of:

	December 31,	
	2003	2002
Trade accounts receivables	\$ 12,249,920	\$ 11,218,702
Allowance for doubtful accounts	(328,074)	(354,441)
Net accounts receivable	\$ 11,921,846	\$ 10,864,261

NOTE 3—INVENTORIES

Inventories consist of:

	December 31,	
	2003	2002
Raw material	\$ 3,521,478	\$ 3,566,161
Work in process	723,728	754,857
Finished goods	14,509,855	15,259,055
	\$ 18,755,061	\$ 19,580,073

NOTE 4—WARRANTY LIABILITY

Changes in the Company's warranty liability, included in other accrued liabilities, for the years ended December 31, 2003 and December 31, 2002 were as follows:

	Year Ended December 31,	
	2003	2002
Balance, beginning of year	\$ 186,513	\$ 198,384
Warranties issued and changes in estimated pre-existing warranties	241,491	296,192
Actual warranty costs incurred	(217,015)	(308,063)
Balance, end of year	\$ 210,989	\$ 186,513

NOTE 5—SHORT-TERM BORROWINGS

The Company's credit agreement with a bank 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. There are no commitment fees for any unused portion of this credit facility. At December 31, 2003, there was \$3,000,000 outstanding against the revolving credit loan facility. There was also a commitment of approximately \$36,000 at December 31, 2003 for open letters of credit.

Direct borrowings under the Company's revolving credit loan facility are secured by the Company's accounts receivable, inventory and equipment and are cross-guaranteed by each of the Company's subsidiaries. These borrowings bear interest at either the prime interest rate or LIBOR plus 1.6%. The prime interest rate at December 31, 2003 was 4.0% and LIBOR was approximately 1.2%. The prime interest rate at December 31, 2002 was 4.25% and LIBOR was approximately 1.4%.

The 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, 2003, based on the spot rate, was approximately \$1,456,000.

Under the terms of the Company's credit agreement, the Company is required to adhere to certain financial covenants. At December 31, 2003, and for the year then ended, the Company satisfied all of these covenants.

The credit agreement expires in July 2004 and is subject to annual review by the lending bank. The credit agreement also includes a term

NOTE 6—LONG-TERM DEBT

Long-term debt consists of:

	December 31,	
	2003	2002
Term loan—payments of interest only are due monthly through May 2003. Principal amount outstanding at June 1, 2003 to be paid in equal quarterly installments (plus interest at LIBOR plus 175 basis points) from June 2003 through March 2009	\$ 5,250,000	\$ 7,500,000
Mortgage loan—\$11,244 (plus interest at LIBOR plus 155 basis points) payable monthly through May 2009, when a final payment of approximately \$1,090,000 is due(a)	1,810,356	1,945,289
Mortgage loan—\$9,429 (plus interest at LIBOR plus 155 basis points) payable monthly through January 2010, when a final payment of approximately \$915,000 is due(a)	1,593,577	—
Mortgage loan—\$17,438 (including interest at 8.16%) payable monthly through May 2006(c)	—	1,697,282
Mortgage loan—\$16,388 (including interest at 7.09%) payable monthly through March 2014(a)	1,415,604	1,506,965
Economic Development Revenue Bond—payable annually in various principal amounts (plus interest at variable rates) through November 2004(b)	180,000	345,000
	<u>10,249,537</u>	<u>12,994,536</u>
Less current maturities	<u>1,526,213</u>	<u>1,402,547</u>
	<u>\$ 8,723,324</u>	<u>\$ 11,591,989</u>

- (a) These mortgages payable relate to the land and buildings of the Company's subsidiaries. Property with a net book value of approximately \$5,628,000 at December 31, 2003 is pledged as collateral.
- (b) This bond was assumed by the Company as part of the acquisition of Green and is secured by a standby letter of credit. The interest rate at December 31, 2003 was approximately 1.5%.
- (c) This mortgage was refinanced in January 2003.

The aggregate amounts of the long-term debt scheduled to mature in each of the years ended December 31 are as follows: 2004—\$1,526,213; 2005—\$1,353,494; 2006—\$1,361,326; 2007—\$1,369,740; 2008—\$1,378,576; 2009—\$1,639,230; and 2010 and thereafter—\$1,620,958. Interest expense on long-term debt was \$412,353, \$550,244 and \$284,137 for the years ended December 31, 2003, 2002 and 2001, respectively.

The Company's credit agreement with a bank includes a term loan facility, which provides a maximum commitment of \$15,000,000 to finance acquisitions subject to the lending bank's approval. There are no commitment fees for any unused portion of this credit facility. The Company borrowed \$11,500,000 against this facility to finance the acquisition of Nationwide. At December 31, 2003, there was \$5,250,000 outstanding against the term loan facility. There was also a standby letter of credit totaling approximately \$351,000 outstanding against this facility at December 31, 2003. This standby

letter of credit is used to secure the Economic Development Revenue Bond assumed as part of the acquisition of Green.

Under the terms of the Company's credit agreement, the Company is required to adhere to certain financial covenants. At December 31, 2003, and for the year then ended, the Company satisfied all of these covenants.

The credit agreement expires in July 2004 and is subject to annual review by the lending bank.

NOTE 7—CAPITAL STOCK TRANSACTIONS

During the years ended December 31, 2003, 2002 and 2001, the Company purchased 47,691, 18,600 and 85,260 shares, respectively, of Class A Common Stock, at costs of \$322,340, \$117,336 and \$577,092, respectively.

On July 12, 2002, the Company issued to the Chief Executive Officer of the Company 12,774 unrestricted shares of Class A Common Stock. The Company recorded the fair market value of these shares, \$89,163, as compensation expense. On July 12, 2002, the Company also

issued to various employees options to purchase an aggregate of 221,100 shares of Class A Common Stock. On September 30, 2003, the Company extended until September 30, 2004 its program to repurchase shares of Class A Common Stock.

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, which expires in August 2004, 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 8—STOCK OPTIONS

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 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. 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.

The Current Plan is the successor to the Company's 1992 Incentive Stock Option Plan (the "Prior Plan").

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The following table contains information on stock options for the three years ended December 31, 2003:

	Option Shares	Exercise Price Range Per Share	Weighted Average Exercise Price
Outstanding, January 1, 2001 and 2002	396,300	\$ 1.44 to 9.00	\$ 6.06
Granted	221,100	6.00 to 6.60	6.18
Expired	(78,500)	5.25 to 7.88	5.72
Outstanding, December 31, 2002	538,900	1.44 to 9.00	6.16
Exercised	(45,000)	1.44 to 6.00	2.54
Expired	(13,500)	5.25 to 8.66	8.16
Outstanding, December 31, 2003	480,400	\$ 1.94 to 9.00	\$ 6.44

There were options available for issuance under the Current Plan as of December 31 of each year as follows: 2001—358,200; 2002—878,900; and 2003—878,900. Of the options outstanding at December 31, 2003, 219,100 were issued under the Current Plan and 261,300 were issued under the Prior Plan.

The following table summarizes information about stock options outstanding and exercisable at December 31, 2003:

Range of Exercise Prices	Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Exercisable	Weighted Average Exercise Price
\$1.94	28,000	1.0	\$ 1.94	28,000	\$ 1.94
3.75 to 5.25	57,800	3.3	4.91	57,800	4.91
7.88	156,500	4.2	7.88	156,500	7.88
8.94 to 9.00	17,000	5.2	8.96	17,000	8.96
8.75	2,000	6.3	8.75	2,000	8.75
6.00	152,436	8.5	6.00	152,436	6.00
6.60	66,664	3.5	6.60	—	—
\$1.94 to 9.00	480,400	5.2	\$ 6.44	413,736	\$ 6.42

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NOTE 9—TAXES ON INCOME

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

	Year Ended December 31,		
	2003	2002	2001
Current:			

Federal	\$ 2,059,000	\$ 1,392,000	\$ 953,000
State and local	304,000	211,000	88,000
Total current	2,363,000	1,603,000	1,041,000
Deferred:			
Federal	(279,000)	92,000	15,000
State and local	(67,000)	(15,000)	3,000
Total deferred	(346,000)	77,000	18,000
Total taxes on income	\$ 2,017,000	\$ 1,680,000	\$ 1,059,000

Deferred tax assets (liabilities) consist of:

	December 31,	
	2003	2002
Deferred tax assets—current:		
Bad debt reserves	\$ 118,000	\$ 146,000
Inventory reserves	434,000	353,000
Warranty and other reserves	237,000	196,000
	789,000	695,000
Deferred tax liabilities—current:		
Inventory	—	(210,000)
Net deferred tax assets—current	\$ 789,000	\$ 485,000
Deferred tax assets—non-current:		
Goodwill	1,249,000	1,377,000
Deferred tax liabilities—non-current:		
Depreciation	(1,014,000)	(1,031,000)
Intangible assets	(648,000)	(843,000)
Goodwill	(42,000)	—
	(1,704,000)	(1,874,000)
Net deferred tax liabilities—non-current	\$ (455,000)	\$ (497,000)

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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,					
	2003		2002		2001	
	\$	%	\$	%	\$	%
Federal income taxes computed at statutory rates	1,829,000	34.0	1,545,000	34.0	977,000	34.0
Increase in taxes resulting from:						
State and local taxes, net of Federal tax benefit	156,000	2.9	129,000	2.9	58,000	2.0
Expenses not deductible for tax purposes	57,000	1.1	174,000	3.8	100,000	3.5
Other	(25,000)	(.5)	(168,000)	(3.7)	(76,000)	(2.6)
Taxes on income	2,017,000	37.5	1,680,000	37.0	1,059,000	36.9

NOTE 10—ACQUISITION

On May 3, 2002, Countrywide acquired all of the stock of Nationwide for approximately \$10,452,000, plus an additional payment in 2002 for a working capital adjustment of approximately \$259,000. In addition to the cash paid at the closing, the Company is liable for contingent earnout

payments to Nationwide's previous owner, in amounts equal to 30% of the excess of Nationwide's earnings, before amortization of intangible assets, interest and taxes, over \$2,500,000, for each of the five twelve-month periods subsequent to the acquisition date. These contingent earnout payments have been and will be treated as additions to goodwill.

As part of this acquisition, the Company has recorded goodwill of approximately \$7,319,000 through December 31, 2003. During the year ended December 31, 2002, the Company recorded goodwill of approximately \$6,968,000, including approximately \$259,000 related to the working capital adjustment described above, approximately \$561,000 related to acquisition costs and acquisition-related expenses, approximately \$150,000 related to contingent earnout payments and approximately \$972,000 related to a deferred tax liability associated with intangible assets that were part of the acquisition. During the year ended December 31, 2003, the Company recorded net additions to goodwill of approximately \$351,000, related primarily to contingent earnout payments.

This acquisition was accounted for in accordance with the provisions of Statement of Financial Accounting Standards No. 141, "Business Combinations." Nationwide is engaged in the business of importing and manufacturing door, window and fencing hardware. The Company completed its acquisition of Nationwide in order to expand its presence in the domestic residential hardware market.

This acquisition was financed through the term loan facility available under the Company's credit agreement, as described in Note 6.

On May 24, 2002, in connection with the acquisition of Nationwide, Countrywide also purchased, for \$2,500,000, the real property and the improvements thereon in which Nationwide conducts its business. This purchase was financed primarily through a mortgage loan, in the amount of \$2,024,000, from a bank.

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The consolidated financial statements presented in this report include the combined results of operations of Countrywide and Nationwide for the period from May 4, 2002 through December 31, 2003.

The following table summarizes the estimated fair value of the assets acquired and the liabilities assumed in connection with the acquisition of Nationwide. The Company obtained third party valuations for the property, plant and equipment and intangible assets (i.e., employment agreement and customer list).

	(000's)
Current assets	\$ 4,115
Plant and equipment	860
Employment agreement	760
Customer list	1,900
Goodwill	6,968
Total assets acquired	14,603
Current liabilities	(3,181)
Total liabilities assumed	(3,181)
Net assets acquired	\$ 11,422

The employment agreement and the customer list have each been assigned a useful life of five years for accounting purposes. The amortization of these intangible assets is not deductible for tax purposes. Goodwill is not amortized for either financial reporting or tax purposes.

The following table summarizes, on a pro forma basis, the combined results of operations of the Company and Countrywide (combined with Nationwide), as though the acquisition of Nationwide had been made January 1, 2002. The pro forma amounts give effect to appropriate adjustments for depreciation of fixed assets, amortization of intangible assets, interest expense and income taxes. The pro forma amounts presented are not necessarily indicative of future operating results.

	Year ended December 31, 2002
Net sales	\$ 80,380,000
Income before cumulative effect of change in accounting principle	\$ 2,902,000
Earnings per share of common stock:	
Basic	\$.83
Diluted	\$.81

In January 2002, the Company completed another small acquisition for approximately \$848,000. The entire amount was recorded as goodwill.

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NOTE 11—GOODWILL AND OTHER INTANGIBLE ASSETS

The Company had its goodwill tested for impairment, retroactive to January 1, 2002, during the second quarter of 2002. The impairment tests performed required that the Company determine the fair market value of its reporting units for comparison to the carrying value of their net assets to assess whether any impairment exists. The methodologies used to estimate fair market value involved the use of estimates and assumptions, including projected revenues, earnings and cash flows.

The Company's earnings forecasts for Green, which reflected the extremely weak market conditions in the hydraulic cylinder business, resulted in the fair market value of Green's goodwill, as determined by an independent third-party appraiser, was lower than its carrying value as of December 31, 2001. Accordingly, in the quarter ended June 30, 2002, the Company recorded, retroactive to January 1, 2002, an impairment charge of approximately \$3.2 million, net of taxes of approximately \$1.7 million, which is reported as a cumulative effect of change in accounting principle resulting from the adoption of SFAS 142. The Company's annual impairment test done as of November 30, 2003 indicated that the fair values exceeded the carrying amounts for all reporting units.

The changes in the carrying amounts of goodwill for the years ended December 31, 2003 and 2002 are as follows:

	Consolidated	Pneumatic tools and related equipment	Hardware	Hydraulic cylinders	Heating products
	(In thousands)				
Balance, January 1, 2002	\$ 7,302	\$ 2,327	\$ 68	\$ 4,907	\$ —
Goodwill acquired during the year (Note 10)	7,816	—	6,968	848	—
Impairment loss	(4,907)	—	—	(4,907)	—
Balance, December 31, 2002	10,211	2,327	7,036	848	—
Goodwill acquired during the year (Note 10)	351	—	351	—	—
Balance, December 31, 2003	\$ 10,562	\$ 2,327	\$ 7,387	\$ 848	\$ —

Other intangible assets were as follows:

	December 31, 2003		December 31, 2002	
	Cost	Accumulated amortization	Cost	Accumulated amortization
Other intangible assets:				
Customer list	\$ 1,900,000	\$ 633,334	\$ 1,900,000	\$ 253,334
Employment agreement	760,000	253,333	760,000	101,333
Total	\$ 2,660,000	\$ 886,667	\$ 2,660,000	\$ 354,667

Amortization expense for intangible assets subject to amortization was approximately \$532,000 and \$355,000 for the years ended December 31, 2003 and 2002, respectively. Amortization expense for each of the years in the period ending December 31, 2007 is estimated to be approximately \$532,000 in 2004 through 2006, and approximately \$177,000 in 2007.

With its adoption of SFAS 142, the Company ceased amortization of goodwill as of December 31, 2001. The following table presents the comparable results of operations based on the adoption of SFAS 142 for each of the years ended December 31, 2003, 2002 and 2001, respectively:

	Year ended December 31,		
	2003	2002	2001
Reported net income (loss)	\$ 3,362,949	\$ (376,267)	\$ 1,812,808
Cumulative effect of change in accounting principle	—	3,239,118	—
Goodwill amortization	—	—	324,436
Tax effect	—	—	(120,000)
Adjusted net income	\$ 3,362,949	\$ 2,862,851	\$ 2,017,244

Earnings (loss) per share of Class A Common stock:

Basic			
Reported net income (loss)	\$	.96	\$ (.11) \$.51
Cumulative effect of change in accounting principle		—	.93 —
Goodwill amortization		—	— .09
Tax effect		—	— (.03)
Adjusted net income	\$	.96	\$.82 \$.57
Diluted			
Reported net income (loss)	\$	.94	\$ (.11) \$.50
Cumulative effect of change in accounting principle		—	.91 —
Goodwill amortization		—	— .09
Tax effect		—	— (.03)
Adjusted net income	\$	.94	\$.80 \$.56

NOTE 12—COMMITMENTS AND CONTINGENCIES

(a) P & F 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 \$386,000, \$342,000 and \$345,000 for the years ended December 31, 2003, 2002 and 2001, respectively.

In conjunction with the acquisition of Green, P & F acquired a defined contribution 401(k) plan, which covers all of Green's employees. Employer contributions to this plan were determined as a percentage of employee contributions. The amounts recognized as expense for this plan were approximately \$60,000 for the year ended December 31, 2003, approximately \$63,000 for the year ended December 31, 2002 and approximately \$62,000 for the year ended December 31, 2001.

One of P & F'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 the union contract. The Company does not administer the plan funds and does not have any control over the plan funds. The amounts recognized as pension expense for this plan were approximately \$31,000, \$33,000 and \$32,000 for the years ended December 31, 2003, 2002 and 2001, respectively.

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(b) P & F has an employment agreement with an officer. This agreement currently provides for a minimum annual aggregate salary of \$820,000 through May 2008. This agreement provides 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 will 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.

(c) Florida Pneumatic purchases all of its pneumatic tools from a Far East trading company that owns or represents 18 individual factories in Japan, Taiwan and China. Of the total pneumatic tool purchases, approximately 30% are bought from Japan, 60% from Taiwan and 10% from China. There are redundant sources for every product manufactured.

(d) Green purchases approximately 20% of its raw materials from one supplier. Because other sources are available, however, the Company believes that the loss of this supplier would not adversely affect its operating results.

(e) Nationwide currently purchases approximately 80% of its product from one foreign supplier. Although other suppliers are being developed, the loss of this one supplier could adversely affect operating results.

(f) The Company had non-cancellable inventory purchase commitments totalling approximately \$10,130,000 at December 31, 2003.

(g) The Company is a defendant or co-defendant in various actions brought about in the ordinary course of conducting its business. The Company does not believe that any of these actions are material to the financial condition of the Company.

NOTE 13—SEGMENTS OF BUSINESS

The Company currently operates four reportable business segments: pneumatic tools and related equipment, hardware, hydraulic cylinders and heating equipment. The Company is organized around these four distinct product segments, each of which has very different end users. Franklin and Nationwide are combined in the hardware segment for reporting purposes. The accounting policies of each of the segments are the same as those described in Note 1. The Company evaluates segment performance based on segment profit (loss).

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The following presents financial information by segment for the years ended December 31, 2003, 2002 and 2001. Segment profit (loss) excludes general corporate expenses, interest expense and income taxes. Identifiable assets are those assets directly owned or utilized by the particular business segment.

2003	Consolidated	Pneumatic tools and related equipment	Hardware	Hydraulic cylinders and related equipment	Heating products
(In Thousands)					
Revenues from external customers	\$ 86,407	\$ 45,121	\$ 19,213	\$ 12,387	\$ 9,686
Gross profit	\$ 26,150	\$ 15,290	\$ 6,622	\$ 1,216	\$ 3,022
Selling, general and administrative expenses	16,237	8,165	3,440	1,654	2,978
Segment profit (loss)	9,913	\$ 7,125	\$ 3,182	\$ (438)	\$ 44
General corporate expense	(3,806)				
Interest expense	(727)				
Income before taxes on income	\$ 5,380				
Identifiable assets at December 31, 2003	\$ 57,532	\$ 25,216	\$ 18,488	\$ 8,212	\$ 5,616
Corporate assets	800				
Total assets at December 31, 2003	\$ 58,332				
Depreciation and amortization (\$19 corporate)	\$ 1,703	\$ 485	\$ 219	\$ 615	\$ 365
Amortization of other intangibles	\$ 553	\$ —	\$ 538	\$ 11	\$ 4
Capital expenditures (\$43 corporate)	\$ 979	\$ 89	\$ 162	\$ 187	\$ 498

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2002	Consolidated	Pneumatic tools and related equipment	Hardware	Hydraulic cylinders and related equipment	Heating products
(In Thousands)					
Revenues from external customers	\$ 77,214	\$ 42,460	\$ 13,346	\$ 12,107	\$ 9,301
Gross profit	\$ 23,469	\$ 14,996	\$ 4,376	\$ 1,205	\$ 2,892
Selling, general and administrative expenses	14,735	7,784	2,504	1,754	2,693
Segment profit (loss)	8,734	\$ 7,212	\$ 1,872	\$ (549)	\$ 199
General corporate expense	(3,450)				
Interest expense	(741)				
Income before taxes on income and cumulative effect of change in accounting principle	\$ 4,543				
Cumulative effect of change in accounting principle	\$ (3,239)	\$ —	\$ —	\$ (3,239)	\$ —
Identifiable assets at December 31, 2002	\$ 57,762	\$ 24,188	\$ 19,386	\$ 8,611	\$ 5,577
Corporate assets	1,405				
Total assets at December 31, 2002	\$ 59,167				
Depreciation and amortization (\$16 corporate)	\$ 1,569	\$ 490	\$ 113	\$ 600	\$ 350
Amortization of other intangibles	\$ 375	\$ —	\$ 358	\$ 14	\$ 3
Capital expenditures (\$7 corporate)	\$ 3,943	\$ 496	\$ 2,706	\$ 426	\$ 308

2001	Consolidated	Pneumatic tools and related equipment	Hardware	Hydraulic cylinders and related equipment	Heating products
		(In Thousands)			
Revenues from external customers	\$ 67,196	\$ 38,360	\$ 4,674	\$ 14,377	\$ 9,785
Gross profit	\$ 20,163	\$ 14,118	\$ 1,299	\$ 1,422	\$ 3,324
Selling, general and administrative expenses	13,787	8,128	1,129	1,784	2,746
Segment profit (loss)	6,376	\$ 5,990	\$ 170	\$ (362)	\$ 578
General corporate expense	(2,708)				
Interest expense	(796)				
Income before taxes on income	\$ 2,872				
Identifiable assets at December 31, 2001	\$ 45,053	\$ 23,530	\$ 2,514	\$ 13,290	\$ 5,719
Corporate assets	1,417				
Total assets at December 31, 2001	\$ 46,470				
Depreciation and amortization (\$15 corporate)	\$ 1,418	\$ 475	\$ 40	\$ 602	\$ 286
Amortization of goodwill and other intangibles	\$ 342	\$ 96	\$ —	\$ 240	\$ 6
Capital expenditures (\$25 corporate)	\$ 944	\$ 109	\$ —	\$ 410	\$ 400

The pneumatic tools segment has one customer that accounted for 22.0%, 22.3% and 21.4% of consolidated revenues for the years ended December 31, 2003, 2002 and 2001, respectively. This customer also accounted for 37.2% and 48.9% of consolidated accounts receivable as of December 31, 2003 and 2002, respectively. A second customer, of both the pneumatic tools segment and the hardware segment, accounted for 18.1%, 18.3% and 18.0% of consolidated revenues for the years ended December 31, 2003, 2002 and 2001, respectively, and 13.7% and 12.9% of consolidated accounts receivable as of December 31, 2003 and 2002, respectively. There were no other major customers requiring disclosure.

NOTE 14—UNAUDITED INTERIM CONSOLIDATED FINANCIAL INFORMATION

Unaudited interim consolidated financial information for the two years ended December 31, 2003 and 2002 is summarized as follows:

2003	Quarter Ended			
	March 31, (restated)	June 30, (restated)	September 30, (restated)	December 31,
Revenues	\$ 19,481,876	\$ 21,738,305	\$ 23,702,702	\$ 21,484,317
Gross profit	\$ 6,002,374	\$ 7,139,041	\$ 6,734,703	\$ 6,273,885
Net income—as previously reported	\$ 546,228	\$ 1,012,896	\$ 817,692	
Adjustments for taxes on income	44,000	84,000	65,000	
Net income—as adjusted	\$ 590,228	\$ 1,096,896	\$ 882,692	\$ 793,133
Earnings per share of common stock:				
Basic				
As previously reported	\$.16	\$.29	\$.23	
Adjustments for taxes on income	\$.01	.02	.02	
As adjusted	\$.17	\$.31	\$.25	\$.23

Diluted								
As previously reported	\$	.15	\$	.28	\$	.23
Adjustments for taxes on income	\$	.01		.03		.02	
As adjusted	\$.16	\$.31	\$.25	\$.22

Net income for each of the quarters ended March 31, 2003, June 30, 2003 and September 30, 2003 has been restated to reflect a reduction of taxes on income as previously reported, resulting from the amortization of a deferred tax liability, not previously recorded, related to the acquisition of Nationwide. The Company will file an amended Form 10-Q, with restated quarterly financial statements reflecting this adjustment, for each of these periods. The amended Forms 10-Q will be filed with the Securities and Exchange Commission as soon as is practicable.

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2002	Quarter Ended			
	March 31,	June 30,	September 30,	December 31,
Revenues	\$ 17,096,719	\$ 18,666,396	\$ 21,082,509	\$ 20,368,278
Gross profit	\$ 5,092,497	\$ 6,145,876	\$ 6,218,258	\$ 6,012,062
Income before cumulative effect of change in accounting principle	\$ 553,662	\$ 959,499	\$ 777,006	\$ 572,684
Cumulative effect of change in accounting principle, net of taxes of \$1,668,000	(3,239,118)	—	—	—
Net income (loss)	\$ (2,685,456)	\$ 959,499	\$ 777,006	\$ 572,684
Earnings (loss) per share of common stock after cumulative change in accounting principle:				
Basic:				
Income before cumulative effect of change in accounting Principle	\$.16	\$.27	\$.22	\$.16
Cumulative effect of change in accounting principle, net	(.92)	—	—	—
Net income (loss)	\$ (.76)	\$.27	\$.22	\$.16
Diluted:				
Income before cumulative effect of change in accounting Principle	\$.15	\$.27	\$.22	\$.16
Cumulative effect of change in accounting principle, net	(.90)	—	—	—
Net income (loss)	\$ (.75)	\$.27	\$.22	\$.16

During the fourth quarter of 2002, the Company recorded net adjustments increasing its net income by approximately \$30,000. The Company recorded increases to net income of approximately \$290,000, relating primarily to adjustments to reserves for bad debts and accruals for taxes. The Company recorded decreases to net income of approximately \$320,000, relating primarily to adjustments to inventory valuation and other accruals.

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NOTE 15—EARNINGS (LOSS) PER SHARE

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

	Year Ended December 31,		
	2003	2002	2001
Numerator:			
Numerator for basic and diluted earnings (loss) per common share:			
Income before cumulative effect of change in accounting principle	\$ 3,362,949	\$ 2,862,851	\$ 1,812,808

Cumulative effect of change in accounting principle, net of taxes of \$1,668,000	—	(3,239,118)	—
Net income (loss)	\$ 3,362,949	\$ (376,267)	\$ 1,812,808
Denominator:			
Denominator for basic earnings (loss) per share—weighted average common shares outstanding	3,506,820	3,512,057	3,553,930
Effect of dilutive securities:			
Common stock options	82,919	68,815	73,730
Denominator for diluted earnings (loss) per share—adjusted weighted average common shares and assumed conversions	3,589,739	3,580,872	3,627,660
Basic:			
Income before cumulative effect of change in accounting principle	\$.96	\$.82	\$.51
Cumulative effect of change in accounting principle, net of taxes	—	(.93)	—
Net income (loss)	\$.96	\$ (.11)	\$.51
Diluted:			
Income before cumulative effect of change in accounting principle	\$.94	\$.80	\$.50
Cumulative effect of change in accounting principle, net of taxes	—	(.91)	—
Net income (loss)	\$.94	\$ (.11)	\$.50

There were outstanding during the years ended December 31, 2003, 2002 and 2001 stock options whose exercise prices were higher than the average market values for the respective periods. These options are anti-dilutive and are excluded from the computation of earnings (loss) per share. The weighted average anti-dilutive options outstanding for the years ended December 31, 2003, 2002 and 2001 were as follows: 2003—181,207; 2002—189,000; and 2001—189,000.

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

None.

Item 9A. Controls and Procedures

An evaluation was performed, under the supervision of, and with the participation of, the Company's management, including the Principal Executive Officer and Principal Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) to the Securities and Exchange Act of 1934). Based on that evaluation, the Company's management, including the Principal Executive Officer and Principal Financial Officer, concluded that the Company's disclosure controls and procedures were adequate and effective, as of the end of the period covered by this Annual Report on Form 10-K for the year ended December 31, 2003 (the "Report"), in timely alerting them to all material information relating to the Company and its consolidated subsidiaries that is required to be included in this Report.

There have been no significant changes in the Company's internal controls over financial reporting that occurred during the most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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PART III

Item 10. Directors and Executive Officers of the Registrant

Information required by this Item 10 is set forth under the captions "Ownership of Equity Securities," "Corporate Governance" and "Section 16(a) Beneficial Ownership Reporting Compliance" in the registrant's definitive Proxy Statement for its 2004 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 required by this Item 11 is set forth under the captions "Executive Compensation," "Report on Executive Compensation" and "Company Stock Performance Graph" 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 and Related Stockholder Matters

Equity Compensation Plan Information

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders	480,400	\$ 6.44	878,900
Equity compensation plans not approved by security holders	N/A	N/A	N/A
TOTAL	480,400	\$ 6.44	878,900

For further information, see Note 8 of the Notes to the Consolidated Financial Statements.

Other information required by this Item 12 is set forth under the caption "Ownership of Equity Securities" 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 required by this Item 13 is set forth under the caption "Transactions with Management and Others" 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 14. Principal Accountant Fees and Services

Information required by this Item 14 is set forth under the caption "Selection of Auditors" 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 15. Exhibits, Financial Statement Schedules and Reports on Form 8-K

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(a) The following documents are filed as part of this Annual Report on Form 10-K:	
(1) Financial Statements:	
The consolidated financial statements of the Registrant as set forth under Item 8 of this report.	
(2) Financial Statement Schedule:	
Schedule II—Valuation and Qualifying Accounts for each of the three years ended December 31, 2003, 2002 and 2001	54
All other schedules are omitted because they are not applicable, or because the required information is otherwise shown in the consolidated financial statements or notes thereto.	
(3) Exhibits:	

Name	Title	Date
/s/ ROBERT L. DUBOFSKY		
Robert L. Dubofsky	Director	March 29, 2004
/s/ ALAN GOLDBERG		
Alan Goldberg	Director	March 29, 2004
/s/ RICHARD A. HOROWITZ		
Richard A. Horowitz	Director	March 29, 2004
/s/ SIDNEY HOROWITZ		
Sidney Horowitz	Director	March 29, 2004
/s/ DENNIS KALICK		
Dennis Kalick	Director	March 29, 2004
/s/ NEIL NOVIKOFF		
Neil Novikoff	Director	March 29, 2004
/s/ ROBERT M. STEINBERG		
Robert M. Steinberg	Director	March 29, 2004
/s/ MARC A. UTAY		
Marc A. Utay	Director	March 29, 2004

EXHIBIT INDEX

Number	Description
2.1	Asset Purchase Agreement, dated as of September 16, 1998, by and between Green Manufacturing, Inc., an Ohio corporation, and the Registrant (Incorporated by reference to Exhibit 2.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003). Pursuant to Item 601(b)(2) of Regulation S-K, the Registrant agrees to furnish, supplementally, a copy of any exhibit or schedule omitted from the Asset Purchase Agreement to the Commission upon request.
2.2	Stock Purchase Agreement, dated as of May 3, 2002, by and between Mark C. Weldon and the Registrant (Incorporated by reference to Exhibit 2.1 to the Registrant's Current Report on Form 8-K dated May 3, 2002). Pursuant to Item 601(b)(2) of Regulation S-K, the Registrant agrees to furnish supplementally a copy of any exhibit or schedule omitted from the Asset Purchase Agreement to the Securities and Exchange Commission upon request.
2.3	Contract for Purchase and Sale, dated as of May 1, 2002, between W. I. Commercial Properties, Inc., a Florida corporation, and Countrywide Hardware, Inc., a Delaware corporation (Incorporated by reference to Exhibit 4.7 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002).
3.1	Restated Certificate of Incorporation of the Registrant (Incorporated by reference to Exhibit 3.1 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1999).
3.2	Amended By-laws of the Registrant (Incorporated by reference to Exhibit 3.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1999).
4.1	Rights Agreement, dated as of August 23, 1994, between the Registrant and American Stock Transfer & Trust Company, as Rights Agent (Incorporated by reference to Exhibit 1 to the Registrant's Registration Statement on Form 8-A dated August 24, 1994).
4.2	Amendment to Rights Agreement, dated as of April 11, 1997, between the Registrant and American Stock Transfer & Trust Company, as Rights Agent (Incorporated by reference to Exhibit 4.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2002).

- 4.3 Credit Agreement, dated as of July 23, 1998, by and among the Registrant, Florida Pneumatic Manufacturing Corporation, a Florida corporation, Embassy Industries, Inc., a New York corporation, and European American Bank, a New York banking corporation.
- 4.4 Amendment No. 1 to Credit Agreement, dated as of September 16, 1998, by and among the Registrant, Florida Pneumatic Manufacturing Corporation, a Florida corporation, Embassy Industries, Inc., a New York corporation, Green Manufacturing, Inc., a Delaware corporation, and European American Bank, a New York banking corporation.
- 4.5 Amendment No. 2 to Credit Agreement, dated as of July 28, 1999, by and among the Registrant, Florida Pneumatic Manufacturing Corporation, a Florida corporation, Embassy Industries, Inc., a New York corporation, Green Manufacturing, Inc., a Delaware corporation, and European American Bank, a New York banking corporation (Incorporated by reference to Exhibit 4.5 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1999).

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- 4.6 Amendment No. 3 to Credit Agreement, dated as of July 26, 2000, by and among the Registrant, Florida Pneumatic Manufacturing Corporation, a Florida corporation, Embassy Industries, Inc., a New York corporation, Green Manufacturing, Inc., a Delaware corporation, and European American Bank, a New York banking corporation (Incorporated by reference to Exhibit 4.5 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2000).
- 4.7 Amendment No. 4 to Credit Agreement, dated as of June 25, 2001, by and among the Registrant, Florida Pneumatic Manufacturing Corporation, a Florida corporation, Embassy Industries, Inc., a New York corporation, Green Manufacturing, Inc., a Delaware corporation, and European American Bank, a New York banking corporation (Incorporated by reference to Exhibit 4.7 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2001).
- 4.8 Amendment No. 5 to Credit Agreement, dated as of May 3, 2002, by and among the Registrant, Florida Pneumatic Manufacturing Corporation, a Florida corporation, Embassy Industries, Inc., a New York corporation, Green Manufacturing, Inc., a Delaware corporation, and Citibank, N.A. (successor-in-interest to European American Bank), a New York banking corporation. (Incorporated by reference to Exhibit 4.7 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2002).
- 4.9 Amendment No. 6 to Credit Agreement, dated as of June 13, 2002, by and among the Registrant, Florida Pneumatic Manufacturing Corporation, a Florida corporation, Embassy Industries, Inc., a New York corporation, Green Manufacturing, Inc., a Delaware corporation, and Citibank, N.A. (successor-in-interest to European American Bank), a New York banking corporation (Incorporated by reference to Exhibit 4.7 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002).
- 4.10 Amendment No. 7 to Credit Agreement, dated as of August 1, 2002, by and among the Registrant, Florida Pneumatic Manufacturing Corporation, a Florida corporation, Embassy Industries, Inc., a New York corporation, Green Manufacturing, Inc., a Delaware corporation, Countrywide Hardware, Inc., a Delaware corporation, Nationwide Industries, Inc., a Florida corporation, and Citibank, N.A. (successor-in-interest to European American Bank), a New York banking corporation (Incorporated by reference to Exhibit 4.7 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002).
- 4.11 Amendment No. 8 to Credit Agreement, dated as of August 1, 2002, by and among the Registrant, Florida Pneumatic Manufacturing Corporation, a Florida corporation, Embassy Industries, Inc., a New York corporation, Green Manufacturing, Inc., a Delaware corporation, Countrywide Hardware, Inc., a Delaware corporation, Nationwide Industries, Inc., a Florida corporation, and Citibank, N.A. (successor-in-interest to European American Bank), a New York banking corporation (Incorporated by reference to Exhibit 4.11 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2002).
- 4.12 Second Amendment and Restated Term Note, dated as of February 20, 2003, by and among the Registrant, Florida Pneumatic Manufacturing Corporation, a Florida corporation, Embassy Industries, Inc., a New York corporation, Green Manufacturing, Inc., a Delaware corporation, Countrywide Hardware, Inc., a Delaware corporation, Nationwide Industries, Inc., a Florida corporation, and Citibank, N.A. (successor-in-interest to European American Bank), a New York banking corporation (Incorporated by reference to Exhibit 4.11 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2002).

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- 4.13 Amendment No. 9 to Credit Agreement, dated as of June 30, 2003, by and among the Registrant, Florida Pneumatic Manufacturing Corporation, a Florida corporation, Embassy Industries, Inc., a New York corporation, Green Manufacturing, Inc., a Delaware corporation, Countrywide Hardware, Inc., a Delaware corporation, Nationwide Industries, Inc., a Florida corporation, and Citibank, N.A. (successor-in-interest to European American Bank), a New York banking corporation (Incorporated by reference to Exhibit 4.11 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2003).

- 4.14 Certain instruments defining the rights of holders of the long-term debt securities of the Registrant are omitted pursuant to Section (b)(4)(iii)(A) of Item 601 of Regulation S-K. The Registrant agrees to furnish supplementally copies of these instruments to the Commission upon request.
- 10.1 Second Amended and Restated Employment Agreement, dated as of May 30, 2001, between the Registrant and Richard A. Horowitz (Incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2001).
- 10.2 Consulting Agreement, effective as of November 1, 2003, between the Registrant and Sidney Horowitz.
- 10.3 1992 Incentive Stock Option Plan of the Registrant, as amended and restated as of March 13, 1997.
- 10.4 Executive Incentive Bonus Plan of the Registrant (Incorporated by reference to Exhibit 10.4 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2001).
- 10.5 2002 Stock Incentive Plan of the Registrant (Incorporated by reference to Exhibit 4.7 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2002).
- 14.1 Code of Business Conduct and Ethics of the Registrant and its Affiliates.
- 21 Subsidiaries of the Registrant.
- 23 Consent of the Registrant's Independent Certified Public Accountants.
- 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 Annual Report on Form 10-K may be obtained, upon payment of the Registrant's reasonable expenses in furnishing such exhibit, by writing to P & F Industries, Inc., 300 Smith Street, Farmingdale, New York 11735-1114, Attention: Corporate Secretary.

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P & F INDUSTRIES, INC.

CREDIT AGREEMENT

Dated as of July 23, 1998

by and between

P&F INDUSTRIES, INC.,

FLORIDA PNEUMATIC MANUFACTURING CORPORATION,

EMBASSY INDUSTRIES, INC., as "Co-Borrowers"

and

EUROPEAN AMERICAN BANK, as "Bank"

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CREDIT AGREEMENT dated as of July 23, 1998, by and among P&F INDUSTRIES, INC., a Delaware corporation ("P&F"), FLORIDA PNEUMATIC MANUFACTURING CORPORATION, a Florida corporation ("Florida Pneumatic") and EMBASSY INDUSTRIES, INC., a New York corporation ("Embassy", collectively with P&F and Florida Pneumatic, the "Co-Borrowers") and EUROPEAN AMERICAN BANK, a New York banking corporation (the "Bank").

RECITALS

The Co-Borrowers have requested the Bank to extend credit from time to time and the Bank is willing to extend credit to the Co-Borrowers, subject to the terms and conditions hereinafter set forth.

Accordingly, the Co-Borrowers and the Bank agree as follows:

**ARTICLE I
DEFINITIONS AND ACCOUNTING TERMS**

SECTION 1.01. Definitions. As used herein, the following words and terms shall have the following meanings:

"Affiliate" shall mean with respect to any Person, any corporation, partnership, limited liability company, limited liability partnership, joint venture, trust or unincorporated organization which, directly or indirectly, controls or is controlled by or is under common control with such Person. For the purpose of this definition, "control" of a Person shall mean the power, direct or indirect, to direct or cause the direction of the management or policies of such Person whether through the ownership of voting securities, by contract or otherwise; provided that, in any event, any Person who owns directly or indirectly 10% or more of the securities having ordinary voting power for the election of directors or other governing body of a corporation or 10% or more of the partnership or other ownership interest of any Person (other than as a limited partner of such other Person) will be deemed to control such corporation or other Person.

"Aggregate Banker's Acceptances Outstanding" shall mean on the date of determination thereof, the aggregate principal balance of outstanding Documentary Banker's Acceptances created on behalf of or for the benefit of the Co-Borrowers, or any of them, hereunder.

"Aggregate Letters of Credit Outstanding" shall mean on the date of determination thereof, the sum of (a) the aggregate maximum amount which is available or available in the future to be drawn under all outstanding Letters of Credit under this Agreement plus (b) the aggregate amount of any payments made by the Bank under any Letter of Credit issued pursuant to this Agreement that has not been reimbursed by the Co-Borrowers.

"Aggregate Outstandings" shall mean on the date of determination thereof, the sum of (i) the Aggregate Letters of Credit Outstanding, plus (ii) the Aggregate Banker's Acceptances Outstanding, plus (iii) the aggregate outstanding principal amount of the Revolving Credit Loans plus (iv) the aggregate outstanding principal amount of the Equipment Loans at such time.

"Aggregate Term Loan Outstandings" shall mean, on the date of determination thereof, the aggregate outstanding principal amount of the Term Loans at such time.

"Agreement" shall mean this Credit Agreement dated as of July 23, 1998, as it may hereafter be amended, restated, supplemented or otherwise modified from time to time.

"Applicable Term Loan Margin" shall mean with respect to Term Loans that are Prime Rate Loans or LIBOR Loans hereunder, the percentage set forth below under the headings "Prime Rate Margin" and "LIBOR Margin", respectively, opposite the applicable ratio:

Consolidated Senior Debt to Consolidated EBITDA	Prime Rate Margin	LIBOR Margin
Greater than 3.25:1.00	0.25%	2.00%
Less than or equal to 3.25:1.00	0%	1.75%

The Applicable Term Loan Margins will be initially set with respect to each Term Loan on the date which is five (5) Business Days following the date of receipt by the Bank of the pro forma financial statements referred to in Section 5.03(f) on the basis of such financial statements and

thereafter shall be reset on the date which is five (5) Business Days following the date of receipt by the Bank of the financial statements referred to in 6.03(a) and Section 6.03(b), together with a certificate of the Chief Financial Officer of the Co-Borrowers certifying the ratio of Consolidated Senior Debt to Consolidated EBITDA and setting forth the calculation thereof in detail; provided, however, that if any such financial statement and certificate are not received by the Bank within the time period required pursuant to Section 6.03(a) or Section 6.03(b), as the case may be, the Applicable Term Loan Margin will be established at the highest rates provided above from the date such financial statement and certificate were due until the date which is five (5) Business Days following the receipt by the Bank of such financial statements and certificate; and provided, further, that the Bank shall not in any way be deemed to have waived any Event of Default, or any rights or remedies hereunder or under any other Loan Document in connection with the foregoing proviso. During the occurrence and continuance of a Default or an Event of Default, no downward adjustment, and only upward adjustments, shall be made to the Applicable Term Loan Margin.

"Available Revolving Credit Commitment" shall mean at any time the Revolving Credit Commitment reduced by the aggregate principal amount of the Revolving Credit Loans and of the Equipment Loans then outstanding and by Aggregate Banker's Acceptances Outstanding and Aggregate Letters of Credit Outstanding.

"Available Term Loan Commitment" shall mean at any time the Term Loan Commitment reduced by the aggregate outstanding principal amount of the Term Loans.

"Availability Period" shall have the meaning specified in Section 2.04 hereof.

"Borrowing Date" shall mean, with respect to any Loan, the date on which such Loan is disbursed to a Co-Borrower.

"Business Day" shall mean any day not a Saturday, Sunday or legal holiday, on which banks in New York City are open for business; provided, however, that when used in connection with an LIBOR Loan the term "Business Day" shall exclude any day on which the Bank is not open for dealings in dollar deposits in the London interbank eurodollar market.

"Capital Expenditures" shall mean additions to property and equipment of P&F and its Subsidiaries, which, in conformity with GAAP, are included as "additions to property, plant or equipment" or similar items which would be reflected in the consolidated statement of cash flow of P&F and its Subsidiaries, including without limitation, property and equipment which are the subject of Capital Leases.

"Capital Lease" shall mean (a) any lease of property, real or personal, if the then present value of the minimum rental commitment thereunder should, in accordance with GAAP, be capitalized on the balance sheet of the lessee, and (b) any other such lease the obligations with respect to which are required to be capitalized on the balance sheet of the lessee.

"Chief Financial Officer" shall mean, with respect to any entity, the Chief Financial Officer of such entity or in the event no such officership exists, the Corporate Controller/Treasurer of such entity or the person performing comparable duties.

"Closing Date" shall mean July 23, 1998.

"Code" shall mean the Internal Revenue Code of 1986, as amended from time to time.

"Commitments" shall mean, collectively, the Revolving Credit Commitment and the Term Loan Commitment.

"Consolidated" shall mean, as applied to any financial or accounting term, such term determined on a consolidated basis in accordance with GAAP for P&F and its Subsidiaries.

"Consolidated Capital Base" shall mean on a Consolidated basis, the shareholders' equity of P&F and its Subsidiaries plus, Subordinated Debt, less all intangible assets, including without limitation, organization expenses, intellectual property, goodwill, loans or mortgages due from shareholders and/or employees and/or Affiliates, treasury stock or deferred charges.

"Consolidated Current Maturities on Long Term Debt" shall mean the portion of any Indebtedness which is classified as the current portion of long term debt on the Consolidated financial statements of P&F and its Subsidiaries, in accordance with GAAP.

"Consolidated EBITDA" shall mean for P&F and its Subsidiaries for any period, the Consolidated Net Income (or Consolidated net loss) of P&F and its Subsidiaries for such period, plus the sum, without duplication, of (a) gross interest expense, (b) depreciation and amortization expenses or charges, (c) all income taxes to any government or governmental instrumentality, expenses on P&F's or its Subsidiaries' books (whether paid or accrued) minus the sum of (a) all extraordinary gains, (b) all interest income and (c) all non-cash income or gain, in each case determined on a Consolidated basis for P&F and its Subsidiaries in accordance with GAAP.

"Consolidated Interest Expense" shall mean the Consolidated interest expense of P&F and its Subsidiaries, determined in accordance with GAAP.

"Consolidated Net Income" shall mean, for any period, the net income (or net loss) of P&F and its Subsidiaries on a Consolidated basis for such period determined in accordance with GAAP.

"Consolidated Net Worth" shall mean (a) total Consolidated assets of P&F and its Subsidiaries less (b) the total Consolidated liabilities of P&F and its Subsidiaries, in each case determined in accordance with GAAP.

"Consolidated Senior Debt" shall mean all Indebtedness of P&F and its Subsidiaries for borrowed money other than (i) Indebtedness described in clause "(i)", but only to the extent such Banker's acceptance do not constitute Documentary Banker's Acceptances, and clause "(j)" of the definition of the term "Indebtedness" and (ii) Subordinated Debt.

"Corporate Guarantors" shall mean, collectively, each Person listed on Schedule IV hereto and each Person who, from time to time, is required to execute a Corporate Guaranty in accordance with Section 5.01(b) or Section 6.10; provided such Person's status as a Corporate

Guarantor shall be effective as of the date of such execution.

"Corporate Guaranty" means the Corporate Guaranty in the form attached hereto as Exhibit D to be executed and delivered by the Corporate Guarantors, as the same may hereafter be amended, restated, supplemented or otherwise modified from time to time.

"Default" shall mean any event or condition which upon notice, lapse of time or both, would constitute an Event of Default.

"Documentary Banker's Acceptances" shall mean banker's acceptances created by the Bank accepting a draft drawn on the Bank and which satisfy eligibility requirements established by the Board of Governors of the Federal Reserve System and the Bank's internal requirements as in effect from time-to-time.

"Environmental Law" shall mean any federal, state, local or foreign environmental law, ordinance, rule, regulation or policy relating to the pollution or the protection of the environment or to the use, handling, transportation, treatment, storage, disposal, release or discharge of Hazardous Materials, including, without limitation, the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended (42 U.S.C. ss.ss.9601, et. seq.), the Hazardous

Materials Transportation Act, as amended (49 U.S.C. ss.ss.1801, et. seq.), the Resource Conservation and Recovery Act, as amended (42 U.S.C. ss.ss.6901, et. seq.) and the rules and regulations promulgated pursuant thereto.

"Equipment Loan" shall have the meaning given to such term in Section 2.03 hereof.

"Equipment Loan Maturity Date" means, with respect to each Equipment Loan, the date on which such Equipment Loan becomes due and payable in accordance with its terms, which date shall be the date determined as set forth in Section 2.03 but which shall not be more than five (5) years from the date such Equipment Loan is made.

"Equipment Loan Note" shall mean a promissory note of the Co-Borrower in the form attached as Exhibit B hereto as the same may be amended, supplemented or otherwise modified from time to time.

"ERISA" shall mean the Employee Retirement Income Security Act of 1974, as amended from time to time.

"ERISA Affiliate" shall mean each person (as defined in Section 3(9) of ERISA) which together with the Co-Borrowers or any of them would be deemed to be a member of the same "controlled group" within the meaning of Section 414(b), (c), (m) and (o) of the Code.

"Eurocurrency Reserve Requirement" shall mean a fraction (expressed as a decimal), the numerator of which is the number one and the denominator of which is the number one minus the applicable statutory reserve requirements (expressed as a decimal) for the Bank (without duplication, but including, without limitation, basic, supplemental, marginal and emergency reserves), from time to time in effect under Regulation D with respect to eurocurrency funding currently referred to as "Eurocurrency liabilities" in Regulation D. It is agreed that for purposes hereof each LIBOR Loan shall be deemed to constitute a "Eurocurrency liability" as defined in Regulation D, and to be subject to the reserve requirements of Regulation D without benefit of credit or proration, exemptions or offsets which might otherwise be available to the Bank from time to time under Regulation D.

"Event of Default" shall have the meaning set forth in Article VIII.

"Executive Officer" shall mean with respect to any entity, the Chairman, the President, the Chief Financial Officer or the Secretary of such entity, as applicable, and their respective successors, if any, designated by the board of directors.

"Existing Indebtedness" shall mean the aggregate Indebtedness of the Co-Borrowers to Hong Kong Shanghai Bank and to all other persons in respect of Loans made by such Persons, other than Indebtedness permitted pursuant to Section 7.02 and contingent obligations permitted pursuant to Section 7.03.

"Fixed Rate" shall mean a rate of interest per annum quoted to the Co-Borrowers by the Bank, from time to time at the request of the Co-Borrowers, as the "Fixed Rate". Such quoted rate shall be the fixed rate which would be applicable to a Fixed Rate Loan made by the Bank on the requested date for a proposed Fixed Rate Loan, in the specified amount and for the specified term thereof. Notwithstanding any other provision of this Agreement, the rate so quoted by the Bank shall be the rate, at the time of election, on United States Treasury Notes (as determined by the Bank) having maturities approximately equal to the maturity of such Fixed Rate Loan plus 175 basis points.

"Fixed Rate Loan" shall mean a Loan at such time as it is made or being maintained at the rate of interest based upon the Fixed Rate.

"Foreign Exchange Line" shall mean that credit line more particularly described in that certain Line Letter dated June 30, 1998 from Bank to Co-Borrowers.

"GAAP" shall mean generally accepted accounting principles and practices which are recognized as such by the American Institute of Certified Public Accountants acting through the financial Accounting Standards Board and which are consistently applied for all periods so as to properly reflect the consolidated financial condition and the consolidated results of operations and cash flows of P&F and its Subsidiaries.

"Green Acquisition" shall mean the acquisition by P&F of all of the issued and outstanding stock or substantially all of the assets of Green Manufacturing, Inc.

"Green Debt" shall mean the indebtedness assumed by a Co-Borrower in connection with the Green Acquisition, which indebtedness shall not exceed \$1,095,000.

"Hazardous Materials" shall mean any explosives, radioactive materials, or other materials, wastes, chemicals or substances regulated as toxic, hazardous, or as a pollutant, contaminant, or waste under any Environmental Law.

"Indebtedness" shall mean, without duplication, as to any Person or Persons (a) indebtedness for borrowed money; (b) indebtedness for the deferred purchase price of property or services; (c) indebtedness evidenced by bonds, debentures, term notes or other similar instruments; (d) obligations and liabilities secured by a Lien upon property owned by such Person, whether or not owing by such Person and even though such Person has not assumed or become liable for the payment thereof; (e) Indebtedness of others directly or indirectly guaranteed by such Person; (f) obligations or liabilities created or arising under any conditional sales contract or other title retention agreement with respect to property used and/or acquired by such Person; (g) obligations of such Person as lessee under Capital Leases; (h) all obligations of such Person under hedging agreements and foreign currency exchange agreements, as calculated on a basis satisfactory to the Bank and in accordance with accepted practice; (i) all obligations of such Person in respect of bankers acceptances; and (j) all obligations, contingent or otherwise of such Person as an account party in respect of letters of credit.

"Interest Payment Date" means, (i) with respect to Prime Rate Loans or LIBOR Loans, the first business day of each calendar month during the term of such Loan commencing with the month following the month in which such Loan is made and the date such Loan is required to be repaid in full; and (ii) with respect to Fixed Rate Loans the monthly or quarterly interest payment dates established by the Bank at the time such Fixed Rate Loan is made.

"Interest Period" shall mean with respect to any LIBOR Loan:

(a) initially, the period commencing on the date such LIBOR Loan is made and ending one, three or six months thereafter, as selected by the Co-Borrowers in their Notice of Borrowing, or in their notice of conversion from a Prime Rate Loan as provided in Section 3.01(e); and

(b) thereafter, each period commencing on the last day of the next preceding Interest Period applicable to such LIBOR Loan and ending one, three or six months thereafter, as selected by the Co-Borrowers by irrevocable written notice to the Bank not later than 11:00 a.m. three Business Days prior to the last day of the then current Interest Period with respect to such LIBOR Loan; provided, however, that all of the foregoing provisions relating to Interest Periods are subject to the following:

(i) if any Interest Period pertaining to a LIBOR Loan would otherwise end on a day which is not a Business Day, the Interest Period shall be extended to the next succeeding Business Day unless the result of such extension would be to carry such

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Interest Period into another calendar month in which event such Interest Period shall end on the immediately preceding Business Day;

(ii) if the Co-Borrowers shall fail to give notice as provided in clause (b) above, the Co-Borrowers shall be deemed to have requested conversion of the affected LIBOR Loan to a Prime Rate Loan on the last day of the then current Interest Period with respect thereto;

(iii) any Interest Period that begins on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the calendar month at the end of such Interest Period) shall end on the last Business Day of a calendar month;

(iv) no Interest Period may be selected with respect to (a) a Revolving Credit Loan which ends later than the Revolving Credit Termination Date, and (b) the Term Loan which ends later than the Term Loan Maturity Date; and

(v) no more than twelve (12) Interest Periods may exist at any one time.

"Letter of Credit" shall mean any Sight Letter of Credit or Standby Letter of Credit issued by the Bank for the account of the Co-Borrowers, or any of them, pursuant to the terms of this Agreement. Letters of Credit issued by the Bank hereunder shall be for the account of the Co-Borrowers for the purpose of providing the primary payment mechanism in connection with the purchase of any materials, goods or service by the Co-Borrowers in the ordinary course of their business and to support repayment of the Green Debt.

"LIBOR Loan" shall mean any Loan at such time as it is made and/or being maintained at a rate of interest based upon Reserve Adjusted Libor.

"Liens" shall mean any lien (statutory or otherwise) security interest, mortgage, deed of trust, pledge, charge, conditional sale, title retention agreement, Capital Lease or other encumbrance or similar right of others, or any agreement to give any of the foregoing.

"Loans" shall mean, collectively, the Revolving Credit Loans, the Term Loans and the Equipment Loans and shall refer to a Prime Rate Loan, a LIBOR Loan or a Fixed Rate Loan, each of which shall be a "Type" of Loan.

"Loan Documents" shall mean, collectively, this Agreement, the Notes, the Security Agreements, the Corporate Guaranties, the Pledge Agreement and each other agreement executed in connection with the transactions contemplated hereby or thereby, as each of the same may hereafter or thereafter be amended, supplemented or otherwise modified from time to time.

"Material Adverse Effect" shall mean a material adverse effect on (i) the business, operations, properties or condition, financial or otherwise, of the Co-Borrowers taken as a whole or of the Co-Borrowers and their Subsidiaries, taken as a whole, or (ii) the ability of the Co-Borrowers, their Subsidiaries or any of them to perform their obligations hereunder or under the Loan Documents.

"Notice of Borrowing" shall mean the Notice of Borrowing substantially in the form attached hereto as Exhibit F.

"Obligations" shall mean all obligations, liabilities and indebtedness of the Co-Borrowers to the Bank, whether now existing or hereafter created, absolute or contingent, direct or indirect, due or not, whether created directly or acquired by assignment or otherwise, including, without limitation, all obligations, liabilities and indebtedness of the Co-Borrowers with respect to the principal of and interest on the Loans and the payment and performance of all other obligations, liabilities, and indebtedness of the Co-Borrowers to the Bank hereunder, under the Notes or any

other Loan Document or with respect to the Loans, including without limitation all fees, costs, expenses and indemnity obligations hereunder.

"Payment Office" shall mean the Bank's office located at 730 Veterans Memorial Highway, Hauppauge, New York 11788.

"PBGC" shall mean the Pension Benefit Guaranty Corporation established pursuant to Section 4002 of ERISA, or any successor thereto.

"Permitted Acquisition" shall mean any acquisition by a Co-Borrower of more than 50% of the outstanding capital stock, membership interest, partnership interest or other similar ownership interest of a Person organized under the laws of the United States or any state thereof which is engaged in a line of business similar to the business of P&F or any of its Subsidiaries or the purchase of all or substantially all of the assets used by such Person or a division of such Person; provided (a) the acquisition complies with the terms and conditions of Section 5.03 (regardless of whether the Co-Borrowers have requested the Bank to finance the acquisition with the proceeds of a Term Loan); (b) no Default or Event of Default shall have occurred and be continuing immediately prior to or would occur after giving effect to the acquisition, and (c) the acquisition has either (i) been approved by the Board of Directors or other governing body of the Person which is the subject of the acquisition or (ii) been recommended for approval by the Board of Directors or other governing body of such Person to the shareholders or other members of such Person and subsequently approved by all of the shareholders or all of such members if shareholder or such member approval is required under applicable law or by the by-laws, certificate of incorporation or other governing instruments of such Person.

"Permitted Investments" shall mean (a) direct obligations of the United States of America or any governmental agency thereof, provided that such obligations mature within one year from the date of acquisition thereof; (b) dollar denominated certificates of time deposit maturing within eighteen months issued by the Bank or any commercial bank organized and existing under the laws of the United States or any state thereof and having aggregate capital and surplus in excess of \$1,000,000,000; (c) money market mutual funds having assets in excess of \$2,500,000,000; (d) commercial paper rated not less than P-1 or A-1 or their equivalent by Moody's Investor Services, Inc. or Standard & Poor's Corporation, respectively; or (e) tax exempt securities of a U.S. issuer rated A or better by Standard and Poor's Corporation or Moody's Investors Service, Inc.

"Person" shall mean any natural person, corporation, limited liability company, limited liability partnership, business trust, joint venture, association, company, partnership or government, or any agency or political subdivision thereof.

"Plan" shall mean any multi-employer or single-employer plan defined in Section 4001 of ERISA, which is maintained, or at any time during the five calendar years preceding the date of this Agreement was maintained, by any Co-Borrower or an ERISA Affiliate for employees of any Co-Borrower or an ERISA Affiliate.

"Pledge Agreement" shall mean the Pledge Agreement in the form annexed hereto as Exhibit I.

"Prime Rate" shall mean the rate per annum publicly announced by the Bank from time to time as its prime rate in effect at its principal office, each change in the Prime Rate to be effective on the date such change is announced to become effective.

"Prime Rate Loan" shall mean the portion of a Loan at such time as it is bearing interest at the Prime Rate.

"Regulation D" shall mean Regulation D of the Board of Governors of the Federal Reserve System as the same may be amended or supplemented from time to time.

"Reportable Event" shall mean an event described in Section 4043(c) of ERISA as to which the 30 day notice requirement has not been waived by the PBGC and which event occurs with respect to a Plan.

"Reserve Adjusted Libor" shall mean with respect to the Interest Period pertaining to a LIBOR Loan, the rate per annum equal to the product (rounded upwards to the next higher 1/100 of one percent) of (a) the annual rate of the interest determined by the Bank at which dollar deposits of an amount comparable to the amount of such Loan and for a period equal to the Interest Period applicable thereto are offered to leading banks in immediately available funds in the London interbank market for eurodollars at approximately 11:00 A.M. (London time) on the second Business Day prior to the commencement of such Interest Period, multiplied by (b) the Eurocurrency Reserve Requirement.

"Revolving Credit Commitment" shall mean the Bank's obligation to make Revolving Credit Loans to the Co-Borrowers pursuant to Section 2.01 hereof in an aggregate principal amount not to exceed \$12,000,000.

"Revolving Credit Loan" shall have the meaning specified in Section 2.01.

"Revolving Credit Note" shall mean the promissory note of the Co-Borrowers in the form attached as Exhibit A hereto evidencing the

Revolving Credit Loans, as the same may be amended, supplemented or otherwise modified from time to time.

"Revolving Credit Termination Date" shall mean the earlier of (i) July 22, 1999 or (ii) the date on which the Revolving Credit Commitment shall have been terminated hereunder.

"Security Agreements" shall mean the Security Agreements in the form annexed hereto as Exhibit E-1 in the case of those Security Agreements to be executed and delivered by each Co-Borrower and as Exhibit E-2 in the case of those Security Agreements to be executed by each Corporate Guarantor.

"Sight Letter of Credit" shall mean a Letter of Credit wherein the draft is drawn at sight (i.e., drawn payable upon presentment).

"Solvent" shall mean with respect to any Person as of the date of determination thereof that (a) the amount of the "present fair saleable value" of the assets of such Person will, as of such date, exceed the amount of all "liabilities of such Person, contingent or otherwise," as of such date, as such quoted terms are determined in accordance with applicable federal and state laws governing determinations of the insolvency of debtors, (b) the present fair saleable value of the assets of such Person will, as of such date, be greater than the amount that will be required on its debts as such debts become absolute and matured, (c) such Person will not have as of such date, an unreasonably small amount of capital with which to conduct its business, and (d) such Person will be able to pay its debts as they mature.

"Standby Letter of Credit" shall mean any letter of credit issued to support an obligation of a Person and which may only be drawn upon the failure of such Person to perform such obligation or another contingency.

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"Subordinated Debt or Subordinated Indebtedness" shall mean all debt which is subordinated in right of payment to the prior indefeasible payment in full of the obligations of any Co-Borrower and/or any of their Subsidiaries to the Bank on terms satisfactory to and approved in writing by the Bank.

"Subsidiaries" shall mean with respect to any Person any corporation, association or other business entity more than 50% of the voting stock or other ownership interest of which is at the time owned or controlled, directly or indirectly, by such Person or one or more of its Subsidiaries or a combination thereof.

"Term Loan Commitment" shall mean the Bank's obligation to make Term Loans to the Co-Borrowers pursuant to Section 2.04 hereof in an aggregate principal amount of \$15,000,000.

"Term Loan Commitment Termination Date" shall mean July 22, 1999.

"Term Loan" shall have the meaning specified in Section 2.04.

"Term Loan Maturity Date" shall mean, with respect to any Term Loan, the date on which such Term Loan becomes due and payable in accordance with its terms, which date shall be the date determined as set forth in Section 2.04 but which shall not be more than seven (7) years from the date such Term Loan was made.

"Term Loan Note" shall mean the promissory note of the Co-Borrowers in the form attached as Exhibit C hereto evidencing the Term Loans, as the same may be amended, supplemented or otherwise modified from time to time.

"Type" shall have the meaning set forth in the definition of "Loans".

"Unfunded Current Liability" of any Plan shall mean the amount, if any, by which the present value of the accrued benefits under the Plan as of the close of its most recent plan year exceeds the fair market value of the assets allocable thereto, determined in accordance with Section 412 of the Code.

SECTION 1.02. Accounting Terms. Except as otherwise herein specifically provided, each accounting term used herein shall have the meaning given to it under GAAP.

ARTICLE II LOANS

SECTION 2.01. Revolving Credit Loans. (a) Subject to the terms and conditions, and relying upon the representations and warranties, set forth herein, the Bank agrees to make loans (individually, a "Revolving Credit Loan" and, collectively, the "Revolving Credit Loans") to the Co-Borrowers at any time or from time to time on or after the Closing Date and until the Revolving Credit Termination Date. Within the foregoing limits, the Co-Borrowers may borrow, repay and reborrow hereunder on or after the Closing Date and prior to the Revolving Credit Termination Date, subject to the terms, provisions and limitations set forth herein. The Revolving Credit Loans may be LIBOR Loans or Prime Rate Loans or a combination thereof.

(b) The initial Revolving Credit Loan made by the Bank shall be made against delivery to the Bank of the Revolving Credit Note, payable to the order of the Bank, as referred to in Section 2.02 hereof. The Bank will make available each requested Revolving Credit Loan to the Co-Borrowers by crediting the proceeds thereof into an account of the Co-Borrowers at the Payment Office on the date and in the amount set forth in the applicable Notice of Borrowing.

(c) The Co-Borrowers shall give the Bank a completed irrevocable Notice of Borrowing, no later than 11:00 a.m., New York City time, three Business Days prior to the date of each proposed LIBOR Loan under this Section 2.01 or no later than 11:00 a.m. on the date of each proposed Prime Rate

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Loan under this Section 2.01. Each borrowing pursuant to the Revolving Credit Commitment shall be in an aggregate principal amount of (A) the lesser of (x) \$50,000 or whole multiples of \$25,000 in excess thereof and (y) the Available Revolving Credit Commitment, with respect to Prime Rate Loans, and (B) \$250,000 or whole multiples of \$50,000 in excess thereof, with respect to LIBOR Loans.

(d) The Co-Borrowers shall have the right, upon not less than three Business Days' prior written notice to the Bank, to terminate the Revolving Credit Commitment or, from time to time, to permanently reduce the amount of the Revolving Credit Commitment; provided, however, that no such termination or reduction shall be permitted if, after giving effect thereto and to any prepayments of the Revolving Credit Loans made on the effective date thereof, Aggregate Outstandings would exceed the Revolving Credit Commitment, as then reduced; and provided, further, that any such terminations or reduction of LIBOR Loans shall be made only on the last day of the Interest Period with respect thereto or on the date of payment in full of all amounts owing to the Bank pursuant to Section 3.08 as a result of such termination or reduction. Any such reduction shall be in the amount of \$1,000,000 or an amount in excess thereof, and shall reduce permanently the amount of the Revolving Credit Commitment then in effect.

(e) The Revolving Credit Commitment shall automatically terminate on the Revolving Credit Termination Date. Upon such termination, the Co-Borrowers shall immediately repay in full the principal amount of the Revolving Credit Loans then outstanding, together with all accrued interest thereon and all other amounts due and payable hereunder with respect to the Revolving Credit Loans.

SECTION 2.02. Revolving Credit Note. The Revolving Credit Loans made by the Bank shall be evidenced by the Revolving Credit Note, appropriately completed, duly executed and delivered on behalf of the Co-Borrowers and payable to the order of the Bank in a principal amount equal to the Revolving Credit Commitment. The date, Type and amount of each Revolving Credit Loan and the date and amount of each payment or prepayment of principal of each Revolving Credit Loan shall be recorded on the grid schedule annexed to the Revolving Credit Note, and the Co-Borrowers authorize the Bank to make such recordation; provided, however, that the failure of the Bank to set forth each such Revolving Credit Loan, payment and other information on such grid shall not in any manner affect the obligation of the Co-Borrowers to repay each Revolving Credit Loan made by the Bank in accordance with the terms of the Revolving Credit Note and this Agreement. The Revolving Credit Note, the grid schedule and the books and records of the Bank shall be prima facie evidence of the Revolving Credit Loans absent manifest error. The aggregate unpaid amount of the Revolving Credit Loans of the Bank at any time shall be the principal amount owing on the Revolving Credit Note of the Co-Borrowers at such time.

SECTION 2.03. Equipment Loans. (a) Subject to the terms and conditions set forth in this Agreement, the Co-Borrowers may utilize up to \$3,000,000 of the Revolving Credit Commitment to borrow equipment term loans from the Bank and the Bank agrees to make loans (individually, an "Equipment Loan" and, collectively, the "Equipment Loans") to the Co-Borrowers at any time and from time to time on and after the Closing Date until the Revolving Credit Termination Date, in an aggregate principal amount not in excess of \$3,000,000 at any one time outstanding, provided that the Aggregate Outstandings shall not at any time exceed the Revolving Credit Commitment (it being understood that this provision does not affect the maturity of any Equipment Loan).

(b) Each Equipment Loan made by the Bank to the Co-Borrowers shall be made against delivery to the Bank of an Equipment Loan Note, appropriately completed, duly executed on behalf of the Co-Borrowers and payable to the order of the Bank. Each Equipment Loan shall be a Prime Rate Loan or a Fixed Rate Loan and shall have a term designated by the Co-Borrower in the Notice of Borrowing but which shall not exceed five (5) years from the date of the borrowing and, in the absence of any such designation shall be five (5) years. Each Equipment Loan shall be payable in monthly or quarterly (as determined by the Bank) installments of interest and principal. The date and amount of

each Equipment Loan and the date and amount of each payment or prepayment of principal of such Equipment Loan shall be recorded on a schedule annexed to such Equipment Loan Note, and the Co-Borrowers authorize the Bank to make such recordation; provided, however, that the failure of the Bank to set forth payments and other information in such grid shall not in any manner affect the obligation of the Co-Borrowers to repay any Equipment Loan made by the Bank in accordance with the terms of this Agreement. Each Equipment Loan Note, the grid schedule and the books and records of the Bank shall be prima facie evidence of the information so recorded absent manifest error.

(c) The Co-Borrowers shall deliver to the Bank a completed Notice of Borrowing for each Prime Rate Loan no later than 11:00 a.m., New York City time, on the date of each proposed borrowing of a Prime Rate Loan pursuant to this Section 2.03, and for each Fixed Rate Loan, no later than 11:00 a.m., New York City time, two days prior to the date of each proposed borrowing of a Fixed Rate Loan pursuant to this Section 2.03. The Bank will make available each requested Equipment Loan to the Co-Borrowers by crediting the proceeds thereof into an account of the Co-Borrower specified in the Notice of Borrowing at the Payment Office.

SECTION 2.04. Term Loans. (a) Subject to the terms and conditions, and relying upon the representations and warranties, set forth herein, the Bank agrees to make loans (individually, a "Term Loan" and, collectively, the "Term Loans") to the Co-Borrowers at any time and from time to time on and after the Closing Date and until the Term Loan Commitment Termination Date or until the Term Loan Commitment shall have been terminated in accordance with the terms hereof (the "Availability Period"), in an aggregate principal amount at any one time outstanding not in excess of the Term Loan Commitment. Within the foregoing limits, the Co-Borrowers may borrow during the Availability Period subject to the terms, provisions and limitations set forth herein. The Term Loan Commitment shall automatically terminate on the Term Loan Commitment Termination Date.

(b) The initial Term Loan by the Bank shall be made against delivery to the Bank of a Term Note, payable to the order of the Bank, as referred to in Section 2.05. Each Term Loan shall be a Prime Rate Loan or a LIBOR Loan. The Co-Borrowers shall deliver to the Bank a completed Notice of Borrowing for each Prime Rate Loan no later than 11:00 a.m., New York City time, on the date of each proposed borrowing of a Prime Rate Loan under this Section 2.04, and for each LIBOR Loan, no later than 11:00 a.m. three (3) Business Day prior to the date of each proposed borrowing of a LIBOR Loan under this Section 2.04. The Bank will make available each requested Term Loan to the Co-Borrowers by crediting the proceeds thereof into an account of the Co-Borrowers specified in the Notice of Borrowing at the Payment Office. Each borrowing pursuant to the Term Loan Commitment shall be in an aggregate principal amount of (A) the lesser of (x) \$50,000 or whole multiples thereof, and (y) the Available Term Loan Commitment, with respect to Prime Rate Loans, and (B) at least \$250,000 with respect to LIBOR Loans. Such notice shall be irrevocable and shall specify the amount and Type of Term Loan, and if applicable, the requested Interest Period with respect thereto.

SECTION 2.05. Term Notes. Each Term Loan by the Bank shall be evidenced by a Term Loan Note, appropriately completed, duly executed and delivered on behalf of the Co-Borrowers and payable to the order of the Bank in a principal amount equal to the amount of such Term Loan. Each Term Loan shall have a term designated by the Co-Borrower in the Notice of Borrowing but which term shall not exceed seven (7) years from the date of the borrowing and, in the absence of any such designation, shall not exceed seven (7) years and, at the option of the Co-Borrowers, may allow for interest only to be paid during the first year of the term thereof. The date and amount of each Term Loan and the date and amount of each payment or prepayment of principal of such Term Loan shall be recorded on the grid schedule annexed to such Term Loan Note, and the Co-Borrowers authorize the Bank to make such recordation; provided, however, that the failure of the Bank to set forth payments and other information on such grid shall not in any manner affect the obligation of the Co-Borrowers to repay any Term Loan made by the Bank in accordance with the terms of this Agreement. Each Term Loan

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Note, the grid schedule and the books and records of the Bank shall be prima facie evidence of the information so recorded absent manifest error.

SECTION 2.06 Letters of Credit and Documentary Banker's Acceptances. (a) Subject to the terms and conditions set forth in this Agreement, upon the written request of the Co-Borrowers in accordance herewith, the Bank shall issue Letters of Credit and create Documentary Banker's Acceptances, at any time from the date hereof through the Revolving Credit Termination Date. Notwithstanding the foregoing, no Letter of Credit or Documentary Banker's Acceptance shall be issued or created if, after giving effect to the same, the Aggregate Outstandings would exceed the Revolving Credit Commitment. Furthermore, in no event shall the Aggregate Bankers Acceptances Outstanding exceed \$8,000,000 at any time and in no event shall the Aggregate Letters of Credit Outstanding exceed \$8,000,000 at any time. Notwithstanding anything contained herein to the contrary, the Bank shall be under no obligation to issue a Letter of Credit or create a Documentary Banker's Acceptance, if any order, judgment or decree of any court, arbitrator or governmental authority shall purport by its terms to enjoin, restrict or restrain the Bank in any respect relating to the issuance of such Letter of Credit or creation of such Documentary Banker's Acceptance or a similar letter of credit or documentary banker's acceptance, or any law, rule, regulation, policy, guideline or directive (whether or not having the force of law) from any governmental authority with jurisdiction over the Bank shall prohibit or direct the Bank in any respect relating to the issuance of such Letter of Credit or the creation of such Documentary Banker's Acceptance or similar letter of credit or documentary banker's acceptance, or shall impose upon the Bank with respect to any Letter of Credit or Documentary Banker's Acceptance any restrictions, any reserve or capital requirement or any loss, cost or expense not reimbursed by the Co-Borrowers to the Bank. Each request for issuance of a Letter of Credit shall be in writing and shall be received by the Bank by no later than 12:00 p.m. on the day which is at least one Business Day prior to the proposed date of issuance. Such issuance shall occur by no later than 5:00 p.m. on the proposed date of issuance (assuming proper prior notice as aforesaid). Subject to the terms and conditions contained herein, the expiry dates, the type of Letter of Credit, the purpose, the amounts and the beneficiaries of the Letters of Credit will be as designated by the Co-Borrowers. Each Letter of Credit issued by the Bank hereunder shall identify: (i) the dates of issuance and expiry of such Letter of Credit, (ii) the amount of such Letter of Credit (which shall be a sum certain, although partial drawings shall be permitted), (iii) the beneficiary and account party of such Letter of Credit, and (iv) the drafts and other documents necessary to be presented to the Bank upon drawing thereunder. No Sight Letter of Credit issued hereunder shall expire more than 180 days from the date of issuance, no Standby Letter of Credit issued hereunder shall expire more than one year from the date of issuance and no Documentary Banker's Acceptance shall mature more than 180 days from the date of creation thereof, and in no event shall any Letter of Credit expire or any Documentary Banker's Acceptance mature, after the Business Day which is immediately prior to the Revolving Credit Termination Date. The Co-Borrowers agree to execute and deliver to the Bank such further documents and instruments in connection with any Letter of Credit issued or Documentary Banker's Acceptance created hereunder (including, without limitation, applications therefor and the Bank's Master Letter of Credit Agreement and Standard Acceptance Credit Agreement) as the Bank in accordance with its customary practices may request. To the extent of any inconsistency between those documents and this Agreement, the provisions of this Agreement shall control and such other documents shall not impose any operating restrictions, financial covenants, or payment obligations or require Co-Borrowers to provide any collateral in addition to or different from those imposed under this Agreement.

(b) Drawings Under Letters of Credit and Payments of Documentary Banker's Acceptances. The Co-Borrowers hereby absolutely and unconditionally promise to pay to the Bank on the date of any drawing under a Letter of Credit or the maturity of a Documentary Banker's Acceptance, in immediately available funds from its accounts, the amount of such drawing under such Letter of Credit or Documentary Banker's Acceptance. If the Co-Borrowers so request by a Notice of Borrowing delivered to the Bank not later than 12:30 p.m. (New York City time) on the date of the drawing under

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a Letter of Credit or the maturity of a Documentary Banker's Acceptance in accordance with the terms hereof and if each of the conditions precedent to the making of a Loan set forth in Article V of this Agreement has been satisfied, on the Business Day on which a drawing under a Letter of Credit or the maturity of a Documentary Banker's Acceptance occurs, the amount of such drawing, plus interest thereon, or the amount of such Documentary Banker's Acceptance, for which the Bank has not been reimbursed by the Co-Borrowers, shall become a Prime Rate Loan made by the Bank to the Co-Borrowers on such day.

(c) Letter of Credit and Documentary Banker's Acceptance Obligations Absolute. (i) The obligations of the Co-Borrowers to reimburse the Bank as provided hereunder in respect of drawings or payments under Letters of Credit and Documentary Banker's Acceptances shall rank *pari passu* with the obligations of the Co-Borrowers to repay the Loans hereunder, shall be absolute and unconditional under any and all circumstances and shall be secured pro rata with the other Obligations (if any) pursuant to the Security Agreements in accordance with the provisions of the Security Agreements. Without limiting the generality of the foregoing, the obligation of the Co-Borrowers to reimburse the Bank in respect of drawings under Letters of Credit and upon the maturity of Documentary Banker's Acceptances shall not be subject to any defense based on the non-application or misapplication by the beneficiary of the proceeds of any such payment or the legality, validity, regularity or enforceability of the Letters of Credit or Documentary Banker's Acceptances or any related document or any dispute between or among the Co-Borrowers, or any of them, the beneficiary of any Letter of Credit or any financing institution or other party to which any Letter of Credit or Documentary Banker's Acceptances may be transferred. The Bank may accept or pay any draft presented to it under any Letter of Credit regardless of when drawn or made and whether or not negotiated, if such draft, accompanying certificate or documents and any transmittal advice are presented or negotiated on or before the expiry date of the Letter of Credit or any renewal or extension thereof then in effect, and conforms to the terms and conditions of

such Letter of Credit. Furthermore, neither the Bank nor any of its correspondents shall be responsible, as to any document presented under a Letter of Credit which appears to be regular on its face, and appears on its face to conform to the terms of the Letter of Credit, for the validity or sufficiency of any signature or endorsement, for delay in giving any notice or failure of any instrument to bear adequate reference to the Letter of Credit, or for failure of any Person to note the amount of any draft on the reverse of the Letter of Credit.

(ii) Any action, inaction or omission on the part of the Bank or any of its correspondents under or in connection with any Letter of Credit or the related instruments, documents or property, if in good faith and in conformity with such laws, regulations or customs as are applicable, shall be binding upon the Co-Borrowers and shall not place the Bank or any of its correspondents under any liability to the Co-Borrowers, or any of them, in the absence of (i) gross negligence or willful misconduct by the Bank or its correspondents or (ii) the failure by the Bank to pay under a Letter of Credit after presentation of a draft and documents strictly complying with such Letter of Credit. The Bank's rights, powers, privileges and immunities specified in or arising under this Agreement are in addition to any heretofore or at any time hereafter otherwise created or arising, whether by statute or rule of law or contract. All Letters of Credit issued hereunder will, except to the extent otherwise expressly provided hereunder, be governed by the Uniform Customs and Practice for Documentary Credits (1993 Revision), International Chamber of Commerce, Publication No. 500, and any subsequent revisions thereof.

ARTICLE III INTEREST RATE; FEES AND PAYMENTS; USE OF PROCEEDS

SECTION 3.01. Interest Rate. (a) Each Prime Rate Loan shall bear interest for the period from the date thereof on the unpaid principal amount thereof at a fluctuating rate per annum equal to the Prime Rate, plus, in the case of Equipment Loans only, a margin equal to 0.25% per annum and in

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the case of Term Loans, the applicable Prime Rate Margin as provided in the definition of the term "Applicable Term Loan Margin".

(b) Each LIBOR Loan shall bear interest for the Interest Period applicable thereto on the unpaid principal amount thereof at a rate per annum equal to the Reserve Adjusted Libor determined for each Interest Period thereof in accordance with the terms hereof plus, in the case of Revolving Credit Loans, a margin of 1.60% per annum and, in the case of Term Loans, the applicable LIBOR Margin as provided in the definition of the term "Applicable Term Loan Margin".

(c) Each Fixed Rate Loan shall bear interest on the unpaid principal amount thereof at a rate per annum equal to the Fixed Rate established by the Bank for such Loan in accordance with the terms hereof.

(d) If the Co-Borrowers shall default in the payment of the principal of or interest on any portion of any Loan or any other amount becoming due hereunder, including, without limitation, fees, the Co-Borrowers shall on demand from time to time pay interest on such defaulted amount accruing from the date of such default (without reference to any period of grace) up to and including the date of actual payment (after as well as before judgment) at a rate per annum equal to the Prime Rate plus a margin of 2% per annum.

(e) Upon the occurrence and during the continuance of an Event of Default, the outstanding principal amount of the Loans (excluding any defaulted payment accruing interest in accordance with clause (c) above), shall, in the Bank's sole and absolute discretion, bear interest payable on demand at a rate of interest equal to 2% above the rate otherwise in effect with respect to such Loans.

(f) The Co-Borrowers may elect from time to time to convert outstanding Revolving Credit Loans and Term Loans from LIBOR Loans to Prime Rate Loans by giving the Bank at least three Business Days' prior irrevocable notice of such election, provided that any such conversion of LIBOR Loans shall only be made on the last day of an Interest Period with respect thereto or upon the date of payment in full of any amounts owing pursuant to Section 3.08 as a result of such conversion. The Co-Borrowers may elect from time to time to convert outstanding Revolving Credit Loans and Term Loans from Prime Rate Loans to LIBOR Loans by giving the Bank irrevocable written notice of such election not later than 11:00 a.m. three Business Days prior to the date of the proposed conversion. All or any part of outstanding Prime Rate Loans may be converted as provided herein, provided that each conversion shall be in the principal amount of \$50,000 or whole multiples of \$25,000 in excess thereof. Any conversion to or from LIBOR Loans hereunder shall be in such amounts and be made pursuant to such elections so that, after giving effect thereto, the aggregate principal amount of all LIBOR Loans having the same Interest Period shall not be less than \$250,000.

(g) Any LIBOR Loans may be continued as such upon the expiration of an Interest Period with respect thereto by compliance by the Co-Borrowers with the notice provisions contained in the definition of Interest Period.

(h) No Revolving Credit Loan may be funded, converted to or continued as a LIBOR Loan if the Interest Period would extend beyond the Revolving Credit Termination Date. No Term Loan may be funded, converted to, or continued as a LIBOR Loan if the Interest Period would extend beyond the Term Loan Maturity Date.

(i) Notwithstanding any other provision of this Agreement, during the occurrence and continuance of a Default hereunder, the Co-Borrowers may not select Interest Periods longer than one month.

(j) Anything in this Agreement or in any Note to the contrary notwithstanding, the obligation of the Co-Borrowers to make payments of interest shall be subject to the limitation that payments of interest shall not be required to be paid to the Bank to the extent that the charging or receipt thereof

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would not be permissible under the law or laws applicable to the Bank limiting the rates of interest that may be charged or collected by the Bank. If the provisions of this Agreement or any Note would at any time otherwise require payment by the Co-Borrowers to the Bank of any amount of interest in excess of the maximum amount permitted by applicable law the interest payments shall be reduced to the extent necessary so that the Bank shall not receive interest in excess of such maximum amount. To the extent that, pursuant to the foregoing sentence, the Bank shall receive interest payments hereunder or under any Note in an amount less than the amount otherwise provided herein or in any Note, such deficit

(hereinafter called the "Interest Deficit") will accumulate and will be carried forward (without interest) until the termination of this Agreement. Interest otherwise payable to the Bank hereunder and under such Note for any subsequent period shall be increased by such maximum amount of the Interest Deficit that may be so added without causing the Bank to receive interest in excess of the maximum amount then permitted by applicable law. The amount of the Interest Deficit relating to any Note at the time of complete payment of such Note and termination of the Commitment shall be cancelled and not paid.

(k) Interest on each Loan shall be payable to the Bank in arrears on each Interest Payment Date for such Loan and shall be calculated on a year of 360 days for the actual days elapsed.

SECTION 3.02. Use of Proceeds. The proceeds of the Revolving Credit Loans shall be used by the Co-Borrowers for general corporate purposes and to finance ongoing working capital requirements. The proceeds of the Term Loans shall be used by the Co-Borrowers to finance all or a portion of the cash portion of the purchase price of Permitted Acquisitions and of the Green Acquisition. The proceeds of the Equipment Loans shall be used by the Co-Borrowers to finance the acquisition of equipment.

SECTION 3.03. Prepayments. The Co-Borrowers may repay the then outstanding Loans, in whole or in part, without premium or penalty except as provided in Section 3.08, upon not less than three Business Days' irrevocable written notice to the Bank with respect to prepayments of LIBOR Loans or Fixed Rate Loans and on the same Business Day irrevocable written notice with respect to Prime Rate Loans, specifying the date and amount of repayment and whether such repayment is of LIBOR Loans, Fixed Rate Loans or Prime Rate Loans or a combination thereof, and if a combination thereof, the amount of repayment allocable to each. If such notice is given, the Co-Borrowers shall make such repayment and the payment amount specified in such notice shall be due and payable, on the date specified therein, together with accrued interest to such date on the amount repaid to the Bank. Partial prepayments of any Term Loan or Equipment Loan pursuant to this Section 3.03 shall be (a) in an aggregate principal amount of (i) \$50,000 or whole multiples of \$25,000 in excess thereof with respect to Prime Rate Loans or Fixed Rate Loans and (ii) \$250,000 or whole multiples of \$50,000 in excess thereof with respect to LIBOR Loans and (b) applied to the remaining installments of principal of the Term Loan or Equipment Loan, as the case may be, in inverse order of maturity.

SECTION 3.04. Fees and Discounting of Acceptances. (a) Term Loans. The Co-Borrowers agree to pay to the Bank a non-refundable utilization fee of $\frac{1}{2}$ of 1% of each Term Loan, which fee shall be payable on the date such Term Loan is made.

(b) Letters of Credit. The Co-Borrowers agree to pay to the Bank, with respect to each Sight Letter of Credit, upon the issuance of such Letter of Credit an amount equal to $\frac{1}{8}$ of 1% of the face amount of such Letter of Credit (subject to a maximum of \$2,000) and upon presentation of such Letter of Credit for payment to the Bank, a payment commission equal to $\frac{1}{8}$ of 1% on the face amount of such Letter of Credit (subject to a maximum of \$2,000). The Co-Borrowers agree to pay to the Bank, with respect to each Standby Letter of Credit a fee equal to 1% of the face amount of such Letter of Credit upon the issuance of such Letter of Credit.

(c) Discount of Acceptances. The Bank agrees, subject to the terms and conditions of this Agreement, that any date on which it creates a Documentary Banker's Acceptance hereunder, it will

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discount such Documentary Banker's Acceptance at the acceptance rate, as determined by the Bank, plus $1\frac{1}{2}$ % per annum, by making available to the Co-Borrowers an amount in immediately available funds equal to the face amount of such Documentary Acceptance less such discount.

(d) Additional Letter of Credit and Bankers Acceptance Fees. The Co-Borrowers agree to pay the Bank, on demand, in addition to the amounts set forth in clauses (b) and (c) alone, all standard fees and commissions charged by the Bank with respect to the issuance and maintenance of Letters of Credit (including, without limitation, amendments to letters of credit) and the creation of bankers acceptances which fees and commissions may change from time to time without notice to the Co-Borrowers.

SECTION 3.05. Inability to Determine Interest Rate. In the event that the Bank shall have determined (which determination shall be conclusive and binding upon the Co-Borrowers) that, by reason of circumstances affecting the London interbank market, adequate and reasonable means do not exist for ascertaining the Reserve Adjusted Libor applicable pursuant to Section 3.01(b) for any requested Interest Period with respect to (a) the making of a LIBOR Loan, (b) a LIBOR Loan that will result from the requested conversion of a Prime Rate Loan into a LIBOR Loan, or (c) the continuation of a LIBOR Loan beyond the expiration of the then current Interest Period with respect thereto, the Bank shall forthwith give notice of such determination, confirmed in writing, to the Co-Borrowers at least one Business Day prior to, as the case may be, the requested Borrowing Date for such LIBOR Loan, the conversion date of such Prime Rate Loan or the last day of such Interest Period. If such notice is given (a) any LIBOR Loan that was to have been made shall be made as a Prime Rate Loan, (b) any Prime Rate Loan that was to have been converted to a LIBOR Loan shall be continued as a Prime Rate Loan and (c) any outstanding LIBOR Loan shall be converted, on the last day of the then current Interest Period with respect thereto, to a Prime Rate Loan. Until such notice has been withdrawn by the Bank, which notice of withdrawal shall be given promptly after the Bank determines that such conditions no longer exist, the Co-Borrowers shall not have the right to request a LIBOR Loan or to convert a Prime Rate Loan to a LIBOR Loan.

SECTION 3.06. Illegality. Notwithstanding any other provisions herein, if any introduction of or change in any law, regulation, treaty or directive or in the interpretation or application thereof shall make it unlawful for the Bank to make or maintain LIBOR Loans as contemplated by this Agreement, the Bank shall forthwith give notice of such circumstances, confirmed in writing, to the Co-Borrowers and (a) the commitment of the Bank to make and to allow conversion to or continuations of LIBOR Loans shall forthwith be cancelled for the duration of such illegality and (b) the Loans then outstanding as LIBOR Loans, if any, shall be converted automatically to Prime Rate Loans on the next succeeding last day of each Interest Period applicable to such LIBOR Loans or within such earlier period as may be required by law. The Co-Borrowers shall pay to the Bank, upon demand, any additional amounts required to be paid pursuant to Section 3.08 hereof.

SECTION 3.07. Other Events. (a) In the event that any introduction of or change in any applicable law, regulation, treaty, order, directive or in the interpretation or application thereof (including, without limitation, any request, guideline or policy, whether or not having the force of law, or from any central bank or other governmental authority, agency or instrumentality and including, without limitation, Regulation D), by any authority charged with the administration or interpretation thereof shall occur, which:

(i) shall subject the Bank to any tax of any kind whatsoever with respect to this Agreement, any Note, the Loans, or change the

basis of taxation of payments to the Bank of principal, interest, fees or any other amount payable hereunder (other than any tax that is measured with respect to the overall net income of the Bank or of a lending office of the Bank and that is imposed by the United States of America, or any political subdivision or taxing authority thereof or therein, or by the jurisdiction in which the Bank is making or maintaining any Loan hereunder, or by any jurisdiction in which the Bank is organized, has its principal office or is managed and controlled); or

(ii) shall impose, modify or hold applicable any reserve, special deposit, compulsory loan or similar requirement (whether or not having the force of law but excluding any of the foregoing including in the computation of Reserve Adjusted LIBOR) against assets held by, or deposits or other liabilities in or for the account of, advances or loans by, or other credit extended by, or any other acquisition of funds by, any office of the Bank; or

(iii) shall impose on the Bank any other condition, or change therein;

and the result of any of the foregoing is to increase the cost to the Bank of making, renewing or maintaining advances or extensions of credit or to reduce any amount receivable hereunder, in each case by an amount which the Bank deems material, then, in any such case, the Co-Borrowers, shall pay the Bank, upon demand, such additional amount or amounts as the Bank shall have determined will compensate the Bank for such increased costs or reduction. The Bank's determination of such additional amounts shall be conclusive absent manifest error. This Section 3.07 shall survive the termination of this Agreement and payment of the Notes.

(b) No failure on the part of the Bank to demand compensation under clause (a) above on one occasion shall constitute a waiver of its right to demand compensation on any other occasion and no failure on the part of the Bank to promptly notify the Co-Borrowers shall in any way reduce any obligations of the Co-Borrowers to the Bank under this Section 3.07, except that no compensation shall be payable with respect to any event giving rise to a request for compensation unless such request is made within 180 days after the Bank has actual knowledge of such event.

SECTION 3.08. Indemnity. (a) The Co-Borrowers agree to indemnify the Bank and to hold the Bank harmless from any loss, cost or expense which the Bank sustains or incurs, including, without limitation, interest or fees payable by the Bank to lenders of funds obtained by it in order to maintain LIBOR Loans hereunder (but such loss shall not include any loss of profit), as a consequence of (i) default by the Co-Borrowers in payment of the principal amount of or interest on any LIBOR Loan, (ii) default by the Co-Borrowers to accept or make a borrowing of a LIBOR Loan or a conversion or continuation of a LIBOR Loan after the Co-Borrowers have requested such borrowing, conversion or continuation, (iii) default by the Co-Borrowers in making any prepayment of any LIBOR Loan after the Co-Borrowers give a notice in accordance with Section 3.03 of this Agreement and/or (iv) the making of any payment or prepayment (whether mandatory or optional) of a LIBOR Loan or the making of any conversion of a LIBOR Loan to a Prime Rate Loan on a day which is not the last day of the applicable Interest Period with respect thereto. The Bank's determination of such amounts shall be conclusive absent manifest error.

(b) The Co-Borrowers agree that all prepayments of Fixed Rate Loans hereunder shall be accompanied by interest accrued on the amount prepaid through the date of prepayment together with a prepayment charge as liquidated damages and not as a penalty equal to the net present value (as determined by the Bank) of (a)(i) the difference (if positive) between the relevant Fixed Rate (less 175 basis points) and the then current yield on U.S. Treasury Securities with maturities approximately equal to the remaining time between the date of prepayment and the maturity date of such Fixed Rate Loan (expressed as a percentage), multiplied by (ii) the total amount of principal prepaid, divided by (iii) 360 multiplied by (b) the actual number of days remaining until the maturity date of such Fixed Rate Loan.

(c) This Section 3.08 shall survive termination of this Agreement and payment of the Notes.

SECTION 3.09. Funds; Manner of Payment. (a) Unless otherwise specified herein each payment and prepayment of principal of and interest on each Loan shall be made by the Co-Borrowers not later than 12:00 noon, New York City time, on the date on which it is payable.

(b) All payments made by the Co-Borrowers hereunder or under any Note will be made without setoff, counterclaim, deductions or other defense. All such payments will be made free and clear of, and without deduction or withholding for, any present or future taxes, levies, imposts, duties, fees,

assessments or other charges of whatever nature now or hereafter imposed by any jurisdiction or by any political subdivision or taxing authority thereof or therein (but excluding any tax imposed on or measured by the net income of the Bank) and all interest, penalties or similar liabilities with respect thereto (such non-excluded items being hereinafter collectively referred to as "Taxes"). If any Taxes are so levied or imposed, the Co-Borrowers will pay the full amount of such Taxes and such additional amounts as may be necessary so that every payment of all amounts due hereunder or under any Note, after withholding or deduction for or on account of any Taxes, will not be less than the amount provided for herein or in such Note. The Co-Borrowers will furnish to the Bank within 30 days after the date the payment of any Taxes is due pursuant to applicable law certified copies of tax receipts evidencing such payment by the Co-Borrowers. The Co-Borrowers will indemnify and hold harmless the Bank, and reimburse the Bank upon its written request, for the amount of any Taxes so levied or imposed and paid by the Bank, which indemnity shall survive termination of this Agreement and payment of the Notes. All payments under this Agreement shall be made in lawful money of the United States of America in immediately available funds at the Payment Office of the Bank.

(c) In the event that the Bank assigns all or a portion of its obligations hereunder to a bank that is organized outside of the United States, such bank shall deliver to the Co-Borrowers on the date of the assignment and from time to time as required for renewal under applicable law duly completed copies of United States Internal Revenue Service Form 1001 or 4224 (or any successor or additional forms), as appropriate, indicating in each case that such bank is entitled to receive payments under this Agreement without any deduction or withholding of any United States federal income taxes. Any bank that is organized outside the United States that becomes a party to this Agreement shall promptly notify the Co-Borrowers and each other bank of any change in its Lending Office and upon written request of the Co-Borrowers such bank shall, prior to the immediately following due date of any payment by the Co-Borrowers or any Guarantor hereunder or under any other Loan Document, deliver to the Co-Borrowers or such Guarantor, as the case may be, such certificates, documents or other evidence, as required by the Code or Treasury Regulations issued pursuant thereto, including without limitation Internal Revenue Service Form 4224, Form 1001 and any other certificate or

statement of exemption required by Treasury Regulation Section 1.1441-4(a) or Section 1.1441-6(c) or any subsequent version thereof, properly completed and duly executed by such bank establishing that such payment is (i) not subject to withholding under the Code because such payment is effectively connected with the conduct by such bank of a trade or business in the United States or (ii) totally exempt from United States tax under a provision of an applicable tax treaty. The Co-Borrowers shall be entitled to rely on such forms in their possession until receipt of any revised or successor form pursuant to this Section 3.09(c). If a bank fails to provide a certificate, document or other evidence required pursuant to this Section 3.09(c), then, unless it is no longer entitled to such exemption due to a change in law, upon notice by the Co-Borrowers to such bank (i) the Co-Borrowers shall be entitled to deduct or withhold on payments to such bank as a result of such failure, as required by law, and (ii) the Co-Borrowers shall not be required to make payments of additional amounts with respect to such withheld Taxes pursuant to this Section 3.09(c) to the extent such withholding is required solely by reason of the failure of such bank to provide the necessary certificate, document or other evidence.

(d) The Bank shall directly charge all interest and principal payments due in respect of the Loans and all fees payable hereunder to one or more of the accounts of the Co-Borrowers at the Payment Office or other office of the Bank.

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ARTICLE IV REPRESENTATIONS AND WARRANTIES

In order to induce the Bank to enter into this Agreement and to make the Loans the Co-Borrowers represent and warrant to the Bank that:

SECTION 4.01. Organization, Corporate Powers, etc. Each of the Co-Borrowers and their respective Subsidiaries (a) is a corporation duly incorporated, validly existing and in good standing under the laws of the state of its incorporation, (b) has the power and authority to own its properties and to carry on its business as now being conducted, (c) is duly qualified to do business in every jurisdiction wherein the failure to be so qualified could reasonably be expected to, individually or in the aggregate, have a Material Adverse Effect, (d) has the corporate power to execute and perform each of the Loan Documents to which it is a party, (e) with respect to each Co-Borrower, has the corporate power to borrow hereunder and to execute and deliver the Notes, and (f) is in compliance in all material respects with all applicable federal, state and local laws, rules and regulations the violation of which could reasonably be expected to, individually or the aggregate, have a Material Adverse Effect.

SECTION 4.02. Authorization of Borrowing, Enforceable Obligations. The execution, delivery and performance by each Co-Borrower of this Agreement, and the other Loan Documents to which it is a party, the borrowings by the Co-Borrowers hereunder, and the execution, delivery and performance of each Subsidiary of the Loan Documents to which such Subsidiary is a party, (a) have been duly authorized by all requisite corporate action, (b) will not violate or require any consent (other than consents as have been made or obtained and which are in full force and effect) under (i) any provision of law applicable to any Co-Borrower or any Subsidiary, any governmental rule or regulation, or the Certificate of Incorporation, By-laws or other organizational documents, as applicable, of any Co-Borrower or any Subsidiary or (ii) any order of any court or other agency of government binding on any Co-Borrower or any Subsidiary or any indenture, agreement or other instrument to which any Co-Borrower or any Subsidiary is a party, or by which any Co-Borrower or any Subsidiary or any of its property is bound, and (c) will not be in conflict with, result in a breach of or constitute (with due notice and/or lapse of time) a default under, any such indenture, agreement or other instrument, or result in the creation or imposition of any lien, charge or encumbrance of any nature whatsoever upon any of the property or assets of any Co-Borrower or any Subsidiary other than as contemplated by this Agreement or the other Loan Documents. This Agreement and each other Loan Document to which the Co-Borrowers and each Subsidiary is a party constitutes a legal, valid and binding obligation of each Co-Borrower and each Subsidiary, as the case may be, enforceable against each Co-Borrower and each Subsidiary, as the case may be, in accordance with its terms except to the extent enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting creditors' rights generally or by general principles of equity, regardless of whether considered in a proceeding in equity or at law.

SECTION 4.03. Financial Condition. (a) The Co-Borrowers have heretofore furnished to the Bank (i) the audited Consolidated balance sheet of P&F and its Subsidiaries and the related Consolidated statement of income, shareholders equity and cash flow of P&F and its Subsidiaries, dated December 31, 1997, audited by independent certified accountants for the fiscal year ended December 31, 1997, and (ii) the unaudited Consolidated balance sheet of P&F and its Subsidiaries and the related Consolidated statements of income, shareholders equity and cash flow of P&F and its Subsidiaries for the three month period ended March 31, 1998. Such financial statements were prepared in conformity with GAAP and fairly present the financial position and results of operations of P&F and its Subsidiaries as of the date of such financial statements and for the periods to which they relate and, since December 31, 1997, no event which has had a Material Adverse Effect has occurred. The Co-Borrowers shall deliver to the Bank a certificate by the Chief Financial Officer of the Co-Borrowers to that effect on the Closing Date. As of the Closing Date, there are no material obligations or liabilities contingent or otherwise of P&F or any of its Subsidiaries which are not

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reflected or disclosed on such audited statements other than obligations arising in the ordinary course of business since March 31, 1998.

(b) Each of the Co-Borrowers and the Corporate Guarantors is Solvent (taking into account contribution rights).

SECTION 4.04. Taxes. To the best knowledge of the Co-Borrowers, all assessed deficiencies resulting from Internal Revenue Service examinations of the federal income tax returns of the Co-Borrowers, or any of them, or any of their Subsidiaries have been discharged or reserved against in accordance with GAAP. To the best knowledge of the Co-Borrowers, each Co-Borrower and each of their Subsidiaries has filed or caused to be filed all federal, state and local tax returns which are required to be filed, and has paid or has caused to be paid all taxes as shown on said returns or on any assessment received by them, to the extent that such taxes have become due, except taxes which are being contested in good faith and which are reserved against in accordance with GAAP.

SECTION 4.05. Title to Properties. Each Co-Borrower and each of their Subsidiaries has good title to their respective properties and assets except for such properties and assets as have been disposed of as no longer used or useful in the conduct of their respective business or as have been disposed of in the ordinary course of business.

SECTION 4.06. Litigation. (a) Except as set forth in Schedule VII, there are no actions, suits or proceedings (whether or not purportedly on behalf of the Co-Borrowers, or any of them, or any of their Subsidiaries) pending or, to the knowledge of the Co-Borrowers, threatened against or affecting the Co-Borrowers, or any of them, or any of their Subsidiaries at law or in equity or before or by any federal, state, municipal or other governmental department, commission, board, bureau, agency or instrumentality, domestic or foreign, which involve any of the transactions contemplated herein or which could reasonably be expected to result in a Material Adverse Effect; and (b) none of the Co-Borrowers nor any of their Subsidiaries is in default with respect to any judgment, writ, injunction, decree, rule or regulation of any court or federal, state, municipal or other governmental department, commission, board, bureau, agency or instrumentality, domestic or foreign, which could reasonably be expected to have a Material Adverse Effect.

SECTION 4.07. Agreements. None of the Co-Borrowers nor any of their Subsidiaries is a party to any agreement or instrument or subject to any charter or other corporate restriction or any judgment, order, writ, injunction, decree or regulation which could reasonably be expected to have a Material Adverse Effect. None of the Co-Borrowers nor any of their Subsidiaries is in default in any manner which could reasonably be expected to have a Material Adverse Effect in the performance, observance or fulfillment of any of the obligations, covenants or conditions contained in any agreement or instrument to which it is a party.

SECTION 4.08. Compliance with ERISA. Each Plan is in compliance in all material respects with ERISA; to the knowledge of the Co-Borrowers no Plan which is a "Multi-Employer Plan (as defined in Section 4001(a)(3) of ERISA) is insolvent (as defined in Section 4245 of ERISA) or in reorganization (as defined in Section 4241 of ERISA), no Plan or Plans which are single employer Plans (within the meaning of Section 4001(a)(15) of ERISA) have an Unfunded Current Liability in excess of \$100,000 in the aggregate, and no Plan which is a single employer Plan (within the meaning of Section 4001(a)(15) of ERISA) has an accumulated or waived funding deficiency within the meaning of Section 412 of the Code; none of the Co-Borrowers nor any ERISA Affiliate has incurred any material liability to or on account of a Plan pursuant to Section 515, 4062, 4063, 4064, 4201 or 4204 of ERISA or reasonably expects to incur any liability under any of the foregoing sections on account of the prior termination of participation in or contributions to any such Plan; to the knowledge of the Co-Borrowers no proceedings have been instituted to terminate any Plan; to the knowledge of the Co-Borrowers no condition exists which presents a risk to the Co-Borrowers, or any ERISA Affiliate of incurring a liability to or on account of a Plan pursuant to the foregoing provisions of ERISA and the

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Code in excess of \$250,000 in the aggregate; and no lien imposed under the Code or ERISA on the assets of any Co-Borrower or any of their ERISA Affiliates exists or, to the knowledge of the Co-Borrowers, is likely to arise on account of any Plan.

SECTION 4.09. Federal Reserve Regulations; Use of Proceeds. (a) None of the Co-Borrowers nor any of their Subsidiaries is engaged principally in, nor has as one of its important activities, the business of extending credit for the purpose of purchasing or carrying any "margin stock" (within the meaning of Regulation U of the Board of Governors of the Federal Reserve System of the United States, as amended from time to time). If requested by the Bank, the Co-Borrowers will, and will cause each of their Subsidiaries to, furnish to the Bank such a statement on Federal Reserve Form U- 1.

(b) No part of the proceeds of any Loan will be used, whether directly or indirectly, and whether immediately, incidentally or ultimately, (i) to purchase or to carry margin stock or to extend credit to others for the purpose of purchasing or carrying margin stock, or to refund indebtedness originally incurred for such purposes, or (ii) for any purpose which violates or is inconsistent with the provisions of the Regulations T, U, or X of the Board of Governors of The Federal Reserve System.

(c) The proceeds of the each Loan shall be used solely for the purposes permitted under Section 3.02.

SECTION 4.10. Approvals. No registration with or consent or approval of, or other action by, any federal, state or other governmental authority or regulatory body or any other Person is required in connection with the execution, delivery and performance of this Agreement by any of the Co-Borrowers or any of their Subsidiaries, or with the execution and delivery of the other Loan Documents to which it is a party or, with respect to the Co-Borrowers, the borrowings hereunder other than registrations, consents and approvals received prior to the date hereof and disclosed to the Bank and which are in full force and effect or as may be required in the perfection or continuation of perfection of any security interest in any collateral for the Loans or in connection with any sale of collateral for the Loans.

SECTION 4.11. Subsidiaries. Attached hereto as Schedule I is a true, correct and complete list as of the Closing Date of all of the Co-Borrower's Subsidiaries and indicating, as to each Subsidiary, its name, the jurisdiction of its incorporation, its shareholders or other owners of an interest in such Subsidiary and the number of outstanding shares or other ownership interest owned by each shareholder or other owner of an interest.

SECTION 4.12. Hazardous Materials. Except as may be relevant with respect to the matters set forth on Schedule VIII, the Co-Borrowers and each of their Subsidiaries are in compliance in all material respects with all applicable Environmental Laws and none of the Co-Borrowers nor any of their Subsidiaries has used Hazardous Materials on, from, or affecting any property now owned or occupied or hereafter owned or occupied by any of the Co-Borrowers or any of their Subsidiaries in any manner which violates any applicable Environmental Law. To the best knowledge of the Co-Borrowers, no prior owner of any such property or any tenant, subtenant, prior tenant or prior subtenant have used Hazardous Materials on, from, or affecting such property in any manner which violates any applicable Environmental Law in any material respect.

SECTION 4.13. Investment Company Act. None of the Co-Borrowers nor any of their Subsidiaries is an "investment company", or a company "controlled" by an "investment company", within the meaning of the Investment Company Act of 1940, as amended.

SECTION 4.14. Security Agreement. Each Security Agreement when executed by the Co-Borrowers or Corporate Guarantor, as applicable, shall pursuant to its terms constitute a valid and continuing lien on and security interest in the collateral referred to in such Security Agreement in favor of the Bank.

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SECTION 4.15. No Default. No event has occurred and is continuing and no condition exists which constitutes a Default or an Event of Default.

SECTION 4.16. Permits and Licenses. The Co-Borrowers and each of their Subsidiaries has all permits, licenses, certifications, authorizations and approvals required for it lawfully to own and operate their respective businesses, except where the failure to do so could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

SECTION 4.17. Compliance with Law. The Co-Borrowers and each of their Subsidiaries are in compliance with all laws, rules, regulations, orders and decrees which are applicable to them, or to any of their respective properties, except where the failure to be in compliance could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

SECTION 4.18. Disclosure. None of the reports, financial statements, certificates or other documents, certificates or other written statements furnished to the Bank by or on behalf of the Co-Borrowers, or any of them, or any of their Subsidiaries hereunder or any other Loan Document for use in connection with the transactions contemplated by this Agreement or any other Loan Document taken as a whole contains any untrue statement of a material fact or omits to state a material fact necessary in order to make the statements contained herein or therein not misleading in light of the circumstances in which they were made.

SECTION 4.19. Year 2000 Compliance. Any reprogramming or other corrective modifications required to permit the proper functioning, in and following the year 2000, of (i) the computer systems of the Co-Borrowers and each of their Subsidiaries and (ii) equipment containing embedding microchips (including systems and equipment supplied by others or with which systems of the Co-Borrowers and each of their Subsidiaries interface) and the testing of all such systems and equipment, as so reprogrammed, will be substantially completed by January 1, 1999 except to the extent that the failure to do so is not reasonably likely to have a Material Adverse Effect. The cost to the Co-Borrowers and their Subsidiaries of such reprogramming, modifications and testing and of the reasonably foreseeable consequences of year 2000 to the Co-Borrowers and their Subsidiaries (including, without limitation, reprogramming errors and the failure of others' systems or equipment) will not result in the occurrence of an Event of Default or have a Material Adverse Effect. Except for such of the reprogramming and modifications referred to in the preceding sentence as may be necessary, the computer and management information systems of the Co-Borrowers are, and with ordinary course upgrading and maintenance, will continue for the term of the Notes to be, sufficient to permit the Co-Borrowers and their Subsidiaries to conduct their business without any Material Adverse Effect.

SECTION 4.20. Pledge Agreement. The Pledge Agreement, when executed by P&F, shall pursuant to its terms, pledge and grant to the Bank a first security interest in all of P&F's right, title and interest in and to all of the issued and outstanding shares of capital stock of each of its Subsidiaries.

SECTION 4.21. Inventory at Outside Locations. The Co-Borrowers' inventory is located at the addresses set forth Schedule V hereto or at another Acceptable Locations. The net present value of the inventory of (i) Florida Pneumatic held at the locations set forth in Schedule V hereto, will not be greater than \$1,100,000, in the aggregate and (ii) Embassy held at the locations set forth in Schedule V hereto, will not be greater than \$50,000, in the aggregate. A location is an "Acceptable Location" if (a) the Bank has been given at least 30 days prior written notice of such location and (b) all action deemed necessary or desirable by the Bank (including, without limitation, notice to bailees, landlord waivers, access agreements, and filing of Uniform Commercial Code financing statements) has been taken to create and maintain a first priority perfected security interest in favor of the Bank securing the Obligations in the inventory located at such location.

ARTICLE V CONDITIONS OF LENDING

SECTION 5.01. Conditions to the Initial Loan. The obligation of the Bank to make the initial Loan hereunder is subject to the following conditions precedent:

(a) Revolving Credit Note. On or prior to the Closing Date, the Bank shall have received the Revolving Credit Note duly executed by the Co-Borrowers.

(b) Corporate Guaranties. On or prior to the Closing Date, the Bank shall have received a Corporate Guaranty duly executed by each Corporate Guarantor.

(c) Security Agreements. On or prior to the Closing Date, the Bank shall have received the Security Agreements, duly executed by each Co-Borrower and each Corporate Guarantor.

(d) UCC-1 Financing Statements. On or prior to the Closing Date, the Bank shall have received UCC-1 financing statements in a form acceptable to the Bank for such jurisdictions at the Bank determines are necessary to perfect the liens created by the Security Agreements.

(e) Opinion of Counsel. On or prior to the Closing Date, the Bank shall have received the favorable written opinion of counsel for the Co-Borrowers and the Corporate Guarantors dated the date thereof, substantially in the form of Exhibit H attached hereto.

(f) Supporting Documents. The Bank shall have received on or prior to the Closing Date (i) a certificate of good standing for each Co-Borrower and each Corporate Guarantor from the secretary of the state of their respective jurisdiction of incorporation dated as of a recent date; (ii) certified copies of the Certificate of Incorporation and By-laws of each Co-Borrower and each Corporate Guarantor; (iii) a certificate of the Secretary or an Assistant Secretary of each Co-Borrower and each Corporate Guarantor dated the Closing Date and certifying (a) that neither the Certificates of Incorporation nor the By-laws of such Co-Borrower or such Corporate Guarantor has been amended since the date of their certification; (b) that attached thereto is a true and complete copy of resolutions adopted by the Board of Directors of such Co-Borrower and by the Board of Directors and the shareholders of such Corporate Guarantor authorizing the execution, delivery and performance of each Loan Document to which it is a party and, with respect to each Co-Borrower, the borrowings hereunder; and (c) the incumbency and specimen signature of each officer of such Co-Borrower and such Corporate Guarantor executing each Loan Document to which such Co-Borrower or Corporate Guarantor is a party and any certificates or instruments furnished pursuant hereto or

thereto, and a certification by another officer of each Co-Borrower and each Corporate Guarantor as to the incumbency and signature of the Secretary or Assistant Secretary of such Co-Borrower and such Corporate Guarantor; and (iv) such other documents as the Bank may reasonably request.

(g) Insurance. The Bank shall have received on or prior to the Closing Date a certificate of insurance from an independent insurance broker confirming the insurance required to be maintained pursuant to Section 6.01 hereof.

(h) Assets Free from Encumbrances. The Bank shall have received on or prior to the Closing Date evidence satisfactory to the Bank that the accounts receivable, inventory, equipment and all other assets of each Co-Borrower and each Corporate Guarantor are free and clear of all Liens, except those Liens permitted pursuant to Section 7.01.

(i) No Material Adverse Changes. There shall not have occurred any event which could reasonably be expected to cause a Material Adverse Effect.

(j) Fees. The Co-Borrowers shall have paid the fees payable on the Closing Date referred to in Section 3.04 and all costs and expenses incurred by the Bank in connection with the negotiation,

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preparation and execution of the Loan Documents and the creation and perfection of the Liens granted pursuant to the Security Agreements.

(k) Certain Agreements. Receipt and satisfactory review by the Bank of (i) all shareholder agreements, voting trust agreements, employment agreements, consulting agreements, management agreements and any agreement between the Co-Borrowers, or any of them, their Subsidiaries, and any of their respective shareholders, and (ii) all agreements (excluding leases of real property) governing the Existing Indebtedness of any Co-Borrower and each Corporate Guarantor.

(l) ERISA. Receipt and satisfactory review by the Bank of (i) the most recent audit, if any, of the pension plans (within the meaning of Section 3(2) of ERISA) maintained by the Co-Borrowers and their ERISA Affiliates which are subject to audit requirements under ERISA, filed by independent qualified public accountants, (ii) the documents comprising all Plans (except Multiemployer Plans within the meaning of Section 4001(a)(3) of ERISA) and (iii) confirmation satisfactory to the Bank that (a) such plans are funded in accordance with any applicable minimum statutory requirements for funding under Section 312 of the Code, (b) no notice of a Reportable Event has occurred with respect to any Plan and (c) no termination of, or withdrawal from, any of such Plans has occurred or is contemplated that could reasonably be expected to result in any liability on the part of any Co-Borrower or any ERISA Affiliate in excess of \$250,000.

(m) Lease Schedule. Prior to the Closing Date the Bank shall have received a schedule of all the lease agreements to which any Co-Borrower or any Corporate Guarantor is a party (other than leases of real property, leases of motor vehicles and leases of equipment which do not require an annual lease expenditure in excess of \$50,000) and the Bank shall have been satisfied with its review thereof or, in lieu thereof, a copy of each lease agreement shall be delivered to the Bank prior to the Closing Date.

(n) Financial Statements of the Co-Borrowers and their Subsidiaries. The Bank shall have received prior to the Closing Date the management prepared consolidated and consolidating financial statements of the Co-Borrowers and their Subsidiaries for the three month interim period ended March 31, 1998, all of the foregoing statements in form, substance and detail satisfactory to the Bank.

(o) Payment of Indebtedness. On the Closing Date, the Bank shall have received evidence satisfactory to it that the Existing Indebtedness of the Co-Borrowers shall be paid in full simultaneously with the consummation of the transactions contemplated hereby.

(p) Completion of Proceedings. All corporate and other proceedings, and all documents, instruments and other legal matters in connection with the transactions contemplated by the Loan Documents shall be reasonably satisfactory in form and substance to the Bank and its counsel.

(q) Other Information, Documentation. The Bank shall have received such other and further information and documentation as it may reasonably require, including, but not limited, to any information or documentation relating to compliance by the Co-Borrower, or any of them, or any of their Subsidiaries with the requirements of all federal, state and local laws, ordinances, rules, regulations or policies governing the use, storage, treatment, transportation, refinement, handling, production or disposal of Hazardous Materials.

(r) Pledge Agreement. On or prior to the Closing Date, the Bank shall have received the Pledge Agreement, duly executed by P&F along with all share certificates evidencing the shares pledged thereunder and stock powers executed in blank.

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SECTION 5.02. Conditions to all Loans. The obligation of the Bank to make each Loan hereunder is subject to the conditions precedent set forth in Section 5.01, 5.03 and 5.04, to the extent applicable, and the following conditions precedent:

(a) Representations and Warranties. The representations and warranties by the Co-Borrowers and each Corporate Guarantor pursuant to this Agreement and the Loan Documents to which each is a party shall be true and correct on and as of the Borrowing Date with the same effect as though such representations and warranties had been made on and as of the Borrowing Date (unless limited to an earlier date, in which event they will be true as of such earlier date).

(b) No Default. No Default or Event of Default shall have occurred and be continuing at the time of each borrowing hereunder or will result after giving effect to the Loan requested.

(c) Notice of Borrowing. The Bank shall have received a Notice of Borrowing duly executed by an Executive Officer of the Co-Borrowers with respect to the requested Loan.

Each Notice of Borrowing and the acceptance by the Co-Borrowers of the proceeds of each Loan shall constitute a representation and warranty that the statements contained in Sections 5.02(a) and 5.02(b) above are true and correct as of the date of such Loan.

SECTION 5.03. Conditions to Each Term Loan. The obligation of the Bank to make each Term Loan is subject to the conditions precedent set forth in Sections 5.01 and 5.02 and the following conditions precedent:

(a) Term Loan Note. The Co-Borrowers shall have delivered to the Bank a fully executed Term Loan Note, which shall be dated the date of such Term Loan, be stated to mature in consecutive quarterly installments of principal, have a term not to exceed seven (7) years and shall bear interest for a period from the date such Loan is made on the unpaid principal amount thereof at the applicable rates per annum specified herein.

(b) Consideration. The aggregate consideration, including, without limitation, cash, notes, stock, transaction costs, guarantees and other contingent obligations, liabilities and Indebtedness, in the event of an acquisition of assets, liabilities assumed, compensation to be paid to former shareholders of the seller pursuant to employment agreements, consulting agreements or non-compete agreements, fees, earn-out provisions, any deferred portions of the purchase price or any other costs paid in connection with any and all such acquisitions (other than the Green Acquisition), shall not exceed \$5,000,000.

(c) Security Agreement and Guaranty. The Bank shall have received, to the extent not previously received, a duly executed Security Agreement executed by the Person acquired in the Permitted Acquisition, and a Corporate Guaranty duly executed by such Person.

(d) Receipts of Consents. The Bank shall have been reasonably satisfied that all material third party and governmental consents and approvals, necessary in connection with the consummation of the Permitted Acquisition shall have been obtained.

(e) Assets Free From Encumbrances. The Bank shall have received evidence satisfactory to it that the shares or other interest in the Person, or the assets of the Person, which is the subject of the Permitted Acquisition are free and clear of all Liens, except those Liens permitted pursuant to Section 7.01, including, without limitation, with respect to the acquisition of shares or other equity interests, free of any restrictions on transfer other than restrictions applicable to the sale of securities under the federal and state securities laws and regulations generally.

(f) Pro Forma Financial Statements. The Bank shall have received 5 days prior to the date of such Loan, pro forma balance sheet and income statements of P&F and its Subsidiaries (after giving effect to the Permitted Acquisition) demonstrating that upon consummation of the

Permitted Acquisition, the Co-Borrowers will be in compliance with the financial condition covenants contained in Section 7.12 hereof.

(g) Projections. The Bank shall have received 5 days prior to the date of such Loan combined projections for the Co-Borrowers and the Person, or the assets of the Person, which is the subject of the Permitted Acquisition for a period of five (5) years, which projections shall be in form reasonably satisfactory to the Bank.

(i) Acquisition Documents. The Bank shall have been provided 10 days prior to the date of such Loan with copies of the relevant purchase agreement and shall be satisfied in all respects with the term of the proposed acquisition.

(j) Pledge of Stock. The Bank shall have received to the extent not previously received, (i) an amended Schedule A to the Pledge Agreement adding a reference to the stock of the Person acquired in the Permitted Acquisition and (ii) the applicable share certificate(s) and stock power(s) executed in blank, with respect to such pledged stock.

SECTION 5.04. Additional Condition with respect to each Equipment Loan. The obligation of the Bank to make each Equipment Loan hereunder is subject to the conditions precedent set forth in Section 5.01 and 5.02 and to the following conditions precedent.

(a) Equipment Loan Note. The Co-Borrowers shall have delivered to the Bank an Equipment Loan Note which shall be dated the date of such Equipment Loan, be stated to mature in consecutive monthly or quarterly installments of principal, have a term not to exceed five (5) years and shall bear interest for a period from the date such Loan is made on the unpaid principal amount thereof at the applicable rates per annum specified herein.

(b) Equipment Free from Encumbrances. The Bank shall have been provided a description of the equipment to be acquired with the proceeds of such Equipment Loan and shall be satisfied that such equipment is being acquired free and clear of all Liens, other than Liens permitted pursuant to Section 7.01.

(c) Security Interest of Bank. The Bank shall be satisfied that the equipment to be acquired with the proceeds of such Equipment Loan shall be subject to the Lien granted to the Bank pursuant to the Security Agreements and the Co-Borrowers shall take all steps determined by the Bank to be necessary or desirable to perfect the Bank's Liens on such equipment.

ARTICLE VI AFFIRMATIVE COVENANTS

Each Co-Borrower covenants and agrees with the Bank that so long as the Revolving Credit Commitment or the Term Loan Commitment shall remain in effect or any of the principal of or interest on any Note or any other Obligations shall be unpaid it will, and will cause each of its Subsidiaries to:

SECTION 6.01. Corporate Existence, Properties, etc. Do or cause to be done all things necessary to preserve and keep in full force and

effect its corporate existence; at all times maintain, preserve and protect all franchises and trade names and preserve all of its property, except to the extent that failure to do so is not reasonably likely to have a Material Adverse Effect; and keep the same in good repair, working order and condition, ordinary wear and tear excepted, and from time to time make, or cause to be made, all needful and proper repairs, renewals, replacements, betterments and improvements thereto so that the business carried on in connection therewith may be properly and advantageously conducted at all times; at all times keep its insurable properties adequately insured and maintain (a) insurance to such extent and against such risks, including fire, as is customary with companies in the same or similar businesses, (b) workmen's compensation insurance in the amount

required by applicable law, (c) public liability insurance, which shall include product liability insurance, in the amount customary with companies in the same or similar business against claims for personal injury or death or properties owned, occupied or controlled by it, and (d) such other insurance as may be required by law or as may be reasonably required in writing by the Bank. Each Co-Borrower shall provide to the Bank promptly upon receipt of written request therefor, evidence of the annual renewal of each such policy.

SECTION 6.02. Payment of Indebtedness, Taxes, etc. (a) Pay all indebtedness and obligations, now existing or hereafter arising, as and when due and payable except where the failure to make such payment pending such contest could not reasonably be expected to have Material Adverse Effect, and (b) pay and discharge or cause to be paid and discharged promptly all taxes, assessments and government charges or levies imposed upon it or upon its income and profits, or upon any of its property, real, personal or mixed, or upon any part thereof, before the same shall become in default, as well as all lawful claims for labor, materials and supplies or otherwise which, if unpaid, might become a Lien or charge upon such properties or any part thereof; provided, however, that none of the Co-Borrowers nor any of their Subsidiaries shall be required to pay and discharge or cause to be paid and discharged any such tax, assessment, charge, levy or claim so long as the validity thereof shall be contested in good faith by appropriate proceedings, and the relevant Co-Borrower or Subsidiary, as the case may be, shall have set aside on its books adequate reserves determined in accordance with GAAP with respect to any such tax, assessment, charge, levy or claim so contested and; further, provided that, subject to the foregoing proviso, each Co-Borrower and each of its Subsidiaries will pay or cause to be paid all such taxes, assessments, charges, levies or claims upon the commencement of proceedings to foreclose any lien which has attached as security therefor.

SECTION 6.03. Financial Statements, Reports, etc. Furnish to the Bank:

(a) (i) as soon as available, but in any event within 90 days after the end of each fiscal year of the Co-Borrowers, a copy of the audited consolidated balance sheet of P&F and its Subsidiaries as of the end of such year and the related audited consolidated statements of income, shareholders equity and cash flow for such year, setting forth in each case in comparative form the respective figures for the previous fiscal year end, and accompanied by a report thereon of BDO Siedman, LLP or other independent certified public accountants of recognized standing selected by the Co-Borrowers and reasonably satisfactory to the Bank (the "Auditor"), which report shall be unqualified; and (ii) as soon as available, but in any event within 90 days after the end of each fiscal year of P&F and each of its Subsidiaries, a copy of the management prepared consolidating financial statements of the Co-Borrowers setting forth in comparative form the respective figures for the previous fiscal year end and which support the financial statements delivered pursuant to clause (i), in each case of (i) and (ii) prepared in accordance with GAAP, applied on a consistent basis and with respect to the statements referred to in clause (ii) accompanied by a certificate to that effect executed by the Chief Financial Officer;

(b) as soon as available, but in any event not later than 60 days after the end of each quarterly period of each fiscal year of the Co-Borrowers, a copy of the unaudited interim consolidated and consolidating balance sheet of P&F and its Subsidiaries as of the end of each such quarter and the related unaudited interim consolidated and consolidating statements of income, shareholders equity and cash flow for such quarter and the portion of the fiscal year through such date and setting forth in each case in comparative form the respective figures for the corresponding date and period in the previous fiscal year, in each case prepared by the Chief Financial Officer in accordance with GAAP, applied on a consistent basis and accompanied by a certificate to that effect executed by the Chief Financial Officer;

(c) a certificate prepared and signed by the Chief Financial Officer with each delivery required by (a) and (b), as to whether or not, as of the close of such preceding period and at all

times during such preceding period, the Co-Borrowers were in compliance with all the provisions in this Agreement, showing computation of financial covenants and quantitative negative covenants, and if the Auditor or Chief Financial Officer, as the case may be, shall have obtained knowledge of any default in such compliance or notice of such default, it shall disclose in such certificate such default or defaults or notice thereof and the nature thereof, whether or not the same shall constitute an Event of Default hereunder;

(d) at all times indicated in (a) above, a copy of the management letter, if any, prepared by the Auditor;

(e) promptly after filing thereof, copies of all regular and periodic financial information, proxy materials and other information and reports which P&F or any of its Subsidiaries shall file with the Securities and Exchange Commission;

(f) simultaneously with the delivery of the financial statements referred to in clauses (a) and (b) above, quarterly accounts receivable aging reports for the Co-Borrowers, in form satisfactory to the Bank;

(g) promptly after submission to any government or regulatory agency, all documents and information furnished to such government or regulatory agency other than such documents and information prepared in the normal course of business and which could not reasonably be expected to result in any materially adverse action to be taken by such agency; and

(h) promptly, from time to time, such other information regarding the operations, business affairs and condition, financial or otherwise, of the Co-Borrowers, or any of them, or any of their Subsidiaries as the Bank may reasonably request.

SECTION 6.04. Access to Premises and Records. Maintain financial records in accordance with GAAP and permit representatives of the

Bank upon reasonable written prior notice to have access during normal business hours to the premises of each Co-Borrower and each of their Subsidiaries upon request, and to examine and make excerpts from the minute books, books of accounts, reports and other records and to discuss the affairs, finances and accounts of each Co-Borrower and their Subsidiaries with their respective executive officers or with their respective independent accountants. The Co-Borrowers shall be entitled to have a representative present at any meetings with such accountants.

SECTION 6.05. Notice of Adverse Change. Promptly notify the Bank in writing of (a) any change in the business or the operations of the Co-Borrowers, or any of them, or any of their Subsidiaries which could reasonably be expected to have a Material Adverse Effect, disclosing the nature thereof, and (b) any information which indicates that any financial statements which are the subject of any representation contained in this Agreement, or which are furnished to the Bank pursuant to this Agreement, fail, in any material respect, to present fairly, as of the date thereof and for the periods covered thereby, the financial condition and results of operations purported to be presented therein, disclosing the nature thereof.

SECTION 6.06. Notice of Default. Promptly notify the Bank of any Default or Event of Default which notice shall include a written statement as to such occurrence, specifying the nature thereof and the action which is proposed to be taken with respect thereto.

SECTION 6.07. Notice of Litigation. Give the Bank prompt written notice of any action, suit or proceeding at law or in equity or by or before any governmental instrumentality or other agency which, if adversely determined against the Co-Borrowers, or any of them, or any of their Subsidiaries on the basis of the allegations and information set forth in the complaint or other notice of such action, suit or proceeding, or in the amendments thereof, if any, would (a) materially impair the right of the

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Co-Borrowers, or any of them, or any of their Subsidiaries to carry on their business substantially as now conducted or (b) have a Material Adverse Effect.

SECTION 6.08. ERISA. Promptly deliver to the Bank a certificate of the Chief Financial Officer of the Co-Borrowers setting forth details as to such occurrence and such action, if any, which the Co-Borrowers, or any of them, or any ERISA Affiliate is required or proposes to take, together with any notices required to be given to or filed with or by (as applicable) the Co-Borrowers, or any of them, any ERISA Affiliate, the PBGC, a Plan participant or the Plan Administrator, with respect thereto: that a Reportable Event has occurred with respect to a Plan, that an accumulated funding deficiency (as defined in Section 412 of the Code) has been incurred or an application has been made to the Secretary of the Treasury for a waiver or modification of the minimum funding standard (including of any required installment payments) or for an extension of any amortization period under Section 412 of the Code with respect to a Plan that is a single employer plan (within the meaning of Section 4001(a)(15) of ERISA), that a Plan has been terminated, reorganized, partitioned or declared insolvent under Title IV of ERISA, that one or more Plans that are Single Employer Plans within the meaning of Section 4001(a)(15) of ERISA have an Unfunded Current Liability in excess of \$100,000 in the aggregate, that proceedings have been instituted to terminate a Plan, that a proceeding has been instituted pursuant to Section 515 of ERISA to collect a delinquent contribution to a Plan, or that the Co-Borrowers, or any of them, or any ERISA Affiliate will incur any liability (including any contingent or secondary liability) to or on account of the termination of or withdrawal from a Plan under Section 4062, 4063, 4064, 4201 or 4204 of ERISA. Upon request of the Bank, the Co-Borrowers will deliver to the Bank a complete copy of the annual report (Form 5500) of each Plan that is a single employer Plan (within the meaning of Section 4001(a)(15) of ERISA), required to be filed with the Internal Revenue Service. In addition to any certificates or notices delivered to the Bank pursuant to the first sentence hereof, copies of annual reports and any other notices received by the Co-Borrowers, or any of them, or any of their Subsidiaries required to be delivered to the Bank hereunder shall be delivered to the Bank no later than 10 days after the later of the date such report or notice has been filed with the Internal Revenue Service or the PBGC, given to Plan participants or received by the Co-Borrowers, or any of them, or any of the Subsidiaries.

SECTION 6.09. Compliance with Applicable Laws. Comply in all material respects with the requirements of all applicable laws, rules, regulations and orders of any governmental authority.

SECTION 6.10. Subsidiaries. Promptly notify the Bank prior to the occurrence thereof, of the creation, establishment or acquisition, in any manner, including without limitation, as a result of a Permitted Acquisition, of any Subsidiary of any Co-Borrower or any Corporate Guarantor not existing on the date hereof. The Co-Borrowers shall cause each Subsidiary to execute a Corporate Guaranty and a Security Agreement, in each case, concurrently with the creation, establishment or acquisition of such Subsidiary and in connection therewith shall provide to the Bank the supporting documents identified in Section 5.01(f) in each case with respect to such Subsidiary, together with a favorable written opinion of counsel to such Subsidiary in form and substance satisfactory to the Bank and such counsel, as to the due execution, delivery and enforceability of such documents and such other usual and customary matters (with usual and customary exceptions) as the Bank may reasonably request. All costs and expenses incurred by the Bank or its representatives in connection with the execution of such Corporate Guaranties or Security Agreements shall be for the account of the Co-Borrowers, including the Bank's reasonable attorneys' fees.

SECTION 6.11. Default in Other Agreements. Promptly notify the Bank of any default in the performance, observance or fulfillment of any of the obligations, covenants or conditions contained in any agreement or instrument to which the Co-Borrowers, or any of them, or any of their Subsidiaries is a party, which default could reasonably be expected to have a Material Adverse Effect.

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SECTION 6.12. Environmental Laws. Comply in all material respects with the requirements of all applicable Environmental Laws, provide to the Bank all documentation in connection with such compliance that the Bank may reasonably request, and defend, indemnify, and hold harmless the Bank, its employees, agents, officers, and directors, from and against any claims, demands, penalties, fines, liabilities, settlements, damages, costs, or expenses of whatever kind or nature, known or unknown, contingent or otherwise, arising out of, or in any way related to, (a) the presence, disposal, release, or threatened release of any Hazardous Materials on any property at any time owned or occupied by the Co-Borrowers, or any of them, or any of their Subsidiaries; (b) any personal injury (including wrongful death) or property damage (real or personal) arising out of or related to such Hazardous Materials; (c) any lawsuit brought or threatened, settlement reached, or government order relating to such Hazardous Materials; and/or (d) any violation of laws, orders, regulations, requirements, or demands of government authorities, which are based upon or in any way related to such Hazardous Materials including, without limitation, reasonable attorney and consultant fees, investigation and laboratory fees, court costs, and litigation expenses.

SECTION 6.13. Outside Inventory Locations. The Co-Borrowers shall keep all inventory at the location(s) set forth on Schedule V hereto and shall not remove any inventory from such location(s) without the prior written consent of the Bank, except to an Acceptable Location (as described in Section 4.21 above) with respect to the sale of inventory in the ordinary course of business. In addition, at any time after November 1, 1998, Florida Pneumatic shall keep all of its inventory at its Jupiter, Florida location or at an Acceptable Location.

ARTICLE VII NEGATIVE COVENANTS

Each Co-Borrower covenants and agrees with the Bank that so long as the Revolving Credit Commitment or the Term Loan Commitment shall remain in effect or any of the principal of or interest on any Note or any other Obligations shall be unpaid, it will not, and will not cause or permit any of its Subsidiaries, directly or indirectly, to:

SECTION 7.01. Liens. Incur, create, assume or suffer to exist any Lien on any of their respective assets now or hereafter owned, other than:

- (a) Liens existing on the date hereof as set forth on Schedule II attached hereto including any renewals or extensions thereof, or, with respect to the liens of Barnett Bank of Palm Beach County or MetLife Capital Financial Corporation on the real property of Florida Pneumatic and Embassy, respectively, any refinancings of such debt with the same or new lenders; provided that no such Lien is extended to cover any additional property and that the amount of Indebtedness secured thereby is not increased;
- (b) Liens for taxes, assessments or other governmental charges or levies not yet delinquent or which are being contested in good faith by appropriate proceedings, provided, however, that adequate reserves with respect thereto are maintained on the books of the relevant Co-Borrower or Subsidiary in accordance with GAAP;
- (c) carriers', warehousemen's, mechanics', suppliers, or other like Liens arising in the ordinary course of business and not overdue for a period of more than 45 days or which are being contested in good faith by appropriate proceedings in a manner which will not jeopardize or diminish in any material respect the interest of the Bank in any of the collateral subject to the Security Agreements;
- (d) Liens incurred or deposits to secure the performance of tenders, bids, trade contracts, leases, statutory obligations, surety, performance and appeal bonds, and other obligations of a similar nature incurred in the ordinary course of business;

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- (e) any attachment, judgment or similar Lien arising in connection with any court or governmental proceeding provided that the execution or other enforcement of such Lien is effectively stayed;
- (f) easements, rights of way, restrictions and other similar charges or encumbrances which in the aggregate do not materially interfere with the occupation, use and enjoyment by the Co-Borrowers, or any of them, or any of their Subsidiaries of the property or assets encumbered thereby in the normal course of their respective business or materially impair the value of the property subject thereto;
- (g) deposits under workmen's compensation, unemployment insurance and social security laws;
- (h) purchase money Liens for fixed or capital assets, including obligations under any Capital Lease; provided, in each case, (x) no Event of Default or event which, upon notice or lapse of time or both, would constitute an Event of Default shall have occurred and be continuing or shall occur after the grant of the proposed Lien, and (y) such purchase money Lien does not exceed 100% of the purchase price and encumbers only the property being acquired and such other property that may have been previously acquired from such Person or an affiliate of such Person, so long as such Lien does not, at any time, extend to any items of collateral not so acquired from such Person;
- (i) Liens on assets acquired in a Permitted Acquisition or in the Green Acquisition;
- (j) Liens on assets acquired in the Green Acquisition, provided, that such Liens only cover assets acquired thereunder;
- (k) Liens granted to the Bank.

SECTION 7.02. Indebtedness. Incur, create, assume or suffer to exist or otherwise become liable in respect of any Indebtedness, other than:

- (a) Indebtedness incurred prior to the date hereof as described in Schedule III attached hereto including any renewals or extensions thereof; provided such renewal or extension does not result in an increase in the aggregate principal amount of such Indebtedness;
- (b) Indebtedness to the Bank;
- (c) Indebtedness for trade payables incurred in the ordinary course of business which are not overdue;
- (d) Indebtedness consisting of guarantees permitted pursuant to Section 7.03;
- (e) Subordinated Indebtedness approved in writing by the Bank;
- (f) Indebtedness secured by purchase money liens as permitted under Section 7.01(h) for Capital Expenditures permitted hereunder; provided no Default or Event of Default shall have occurred and be continuing or would occur after giving effect to the incurrence of such Indebtedness;
- (g) Indebtedness under the Foreign Exchange Line;
- (h) the Green Debt; and

(i) Additional Indebtedness not otherwise permitted by this Section 7.01 in an amount not to exceed \$1,000,000, in the aggregate, at any time.

SECTION 7.03. Guaranties. Guarantee, endorse, become surety for, or otherwise in any way become or be responsible for the Indebtedness of any Person, whether by agreement to maintain

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working capital or equity capital or otherwise to maintain the net worth or solvency of any Person or by agreement to purchase the Indebtedness of any other Person, or agreement for the furnishing of funds, directly or indirectly, through the purchase of goods, supplies or services for the purpose of discharging the Indebtedness of any other Person or otherwise, or enter into or be a party to any contract for the purchase of merchandise, materials, supplies or other property if such contract provides that payment for such merchandise, materials, supplies or other property shall be made regardless of whether delivery of such merchandise, supplies or other property is ever made or tendered except:

- (a) guaranties executed prior to the date hereof as described on Schedule IV attached hereto but not including any renewals or extension thereof;
- (b) endorsements of negotiable instruments for collection or deposit in the ordinary course of business;
- (c) guaranties of any Indebtedness under this Agreement or any other Indebtedness owing to the Bank; and
- (d) guarantees of Indebtedness permitted under Section 7.02, provided, that, any guarantee of Subordinated Indebtedness shall be subordinated in the same manner and to the same extent as the Subordinated Indebtedness.

SECTION 7.04. Sale of Assets. Sell, lease, transfer or otherwise dispose of their respective properties and assets, whether or not pursuant to an order of a federal agency or commission, except for (a) the sale of inventory disposed of in the ordinary course of business and (b) the sale or other disposition of properties or assets no longer used or useful in the conduct of their respective businesses.

SECTION 7.05. Sales of Notes. Sell, transfer, discount or otherwise dispose of notes, accounts receivable or other obligations owing to the Co-Borrowers, or any of them, or any of their Subsidiaries, with or without recourse, except for collection in the ordinary course of business.

SECTION 7.06. Loans and Investments. Make or commit to make any advance, loan, extension of credit, or capital contributions to or purchase or hold beneficially any stock or other securities, or evidence of Indebtedness of, purchase or acquire all or a substantial part of the assets of, make or permit to exist any interest whatsoever in, any other Person except for (a) the ownership of stock of any Subsidiaries existing as of the Closing Date or acquired after the date hereof whether pursuant to a Permitted Acquisition or otherwise, provided the Co-Borrowers have complied with their obligations under Section 6.10 with respect to such Subsidiary, (b) investments described on Schedule VI attached hereto, (c) loans by any Co-Borrower to any other Co-Borrower or any Corporate Guarantor and loans by any Corporate Guarantor to any Co-Borrower or any other Corporate Guarantor, (d) Permitted Investments, (e) Permitted Acquisitions (provided that the conditions specified in Section 5.03 hereof shall have been satisfied) and (f) the Green Acquisition.

SECTION 7.07. Nature of Business. Change or alter, in any material respect, the primary nature of its business from the nature of the business engaged in by it on the date hereof but nothing herein shall prevent any acquisition of a business which is engaged in the same line of business of the Co-Borrowers or a business incidental thereto.

SECTION 7.08. Sale and Leaseback. Enter into any arrangement, directly or indirectly, with any Person whereby it shall sell or transfer any property, whether real or personal, used or useful in its business, whether now owned or hereafter acquired, if at the time of such sale or disposition it intends to lease or otherwise acquire the right to use or possess (except by purchase) such property or like property for a substantially similar purpose.

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SECTION 7.09. Federal Reserve Regulations. Permit any Loan or the proceeds of any Loan to be used for any purpose which violates or is inconsistent with the provisions of Regulations T, U or X of the Board of Governors of the Federal Reserve System.

SECTION 7.10. Change in Fiscal Year. Permit a change in the fiscal year of the Co-Borrowers, or any of them.

SECTION 7.11. Limitations on Fundamental Changes. Merge or consolidate with, or sell, assign, lease or otherwise dispose of (whether in one transaction or in a series of transactions) all or substantially all of its assets (whether now owned or hereafter acquired) to any Person, or, except with respect to a Permitted Acquisition, acquire all of the stock or all or substantially all of the assets or the business of any Person or liquidate, wind up or dissolve or suffer any liquidation or dissolution; provided, however, any Corporate Guarantor may merge or consolidate with any other Corporate Guarantor or merge with and into a Co-Borrower (provided the Co-Borrower is the surviving corporation).

SECTION 7.12. Financial Condition Covenants.

(a) Fixed Charge Coverage Ratio. Permit at any time the ratio of (i) Consolidated EBITDA to (ii) Consolidated Interest Expense plus Consolidated Current Maturities on Long Term Debt to be less than 1.25:1.00 at any time.

(b) Minimum Capital Base. Maintain a Consolidated Capital Base of at least (i) \$16,000,000 at all times prior to the closing of the Green Acquisition, and (ii) \$10,000,000 at all times following the closing of the Green Acquisition.

(c) Consolidated Senior Debt to Consolidated EBITDA. Permit the ratio of Consolidated Senior Debt to Consolidated EBITDA to be greater than (i) 4.00:1.00 at any time prior to the closing of the Green Acquisition or (ii) 3.50:1.00 at any time following the closing of the Green Acquisition.

(d) Consolidated Capital Expenditures. Permit Consolidated Capital Expenditures to exceed \$3,000,000 for any fiscal year, provided, that up to \$1,500,000 of an unexpended amount in any fiscal year may be carried forward for use in the immediately following fiscal year only.

All financial condition covenants included in this Section 7.12 shall be tested on a "rolling four quarters" basis. If any Permitted Acquisition is consummated, then for purposes of calculating compliance with this Section 7.12, for each of the first three quarters following consummation of such Permitted Acquisition, Consolidated EBITDA shall be determined on the basis of such quarters and shall be annualized. For purposes of calculating compliance with the provisions of Section 7.12(a) and (c) above, Consolidated EBITDA at any time shall mean Consolidated EBITDA as determined on the basis of the financial statements most recently delivered to the Bank pursuant to Section 6.03.

SECTION 7.13. Subordinated Debt. Directly or indirectly prepay, defease, purchase, redeem, or otherwise acquire any Subordinated Debt.

SECTION 7.14. Transactions with Affiliates. Enter into any transaction, including, without limitation, the purchase, sale, or exchange of property or the rendering of any service, with any Affiliate, except in the ordinary course of and pursuant to the reasonable requirements of the business of such Co-Borrower or of its Subsidiary and upon fair and reasonable terms no less favorable to the such entity than it would obtain in a comparable arms-length transaction with a Person not an Affiliate.

SECTION 7.15. Impairment of Security Interest. Neither take or omit to take any action which could reasonably be expected to adversely effect or impair the security interest in any property subject to a security interest in favor of the Bank nor grant to any Person any interest whatsoever in any property subject to a security interest in favor of the Bank.

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ARTICLE VIII EVENTS OF DEFAULT

SECTION 8.01. Events of Default. In the case of the happening of any of the following events (each an "Event of Default"):

(a) failure by the Co-Borrowers to (i) pay the principal or interest on any Loan when due and payable, (ii) pay any fees or other amounts payable under any Loan Document when due or payable and, with respect to clause (ii), such failure shall continue unremedied for a period of three (3) Business Days;

(b) default shall be made in (i) the due observance or performance of any covenant, condition or agreement of the Co-Borrowers, or any of them, or any of their Subsidiaries to be performed pursuant to Section 6.03, 6.04, 6.05, 6.06 or 6.07 or Article VII of this Agreement, or (ii) the due observance or performance of any other covenant, condition or agreement of the Co-Borrowers, or any of them, or any of their Subsidiaries to be performed pursuant to this Agreement or any other Loan Document (other than those specified in clause (a) of this Section 8.01) and such failure shall continue unremedied for a period of ten (10) days after written notice thereof from the Bank;

(c) any representation or warranty made in this Agreement or any other Loan Document or in any report, certificate, financial statement or other instrument furnished in connection with this Agreement or any other Loan Document, shall prove to be false or misleading in any material respect when made or given or when deemed made or given;

(d) default in the performance or compliance in respect of any agreement or condition relating to any Indebtedness (other than any Note and unsecured trade payables) of the Co-Borrowers or any of their Subsidiaries in excess of \$500,000, individually or in the aggregate, if the effect of such default is to accelerate the maturity of such Indebtedness or to permit the holder or obligee thereof (or a trustee on behalf of such holder or obligee) to cause such Indebtedness to become due prior to the stated maturity thereof, or any Indebtedness (other than unsecured trade payables) in excess of \$500,000, individually or in the aggregate, shall not be paid when due;

(e) the Co-Borrowers, or any of them, or any of their Subsidiaries shall (i) voluntarily commence any proceeding or file any petition seeking relief under Title 11 of the United States Code or any other federal or state bankruptcy, insolvency or similar law, (ii) consent to the institution of, or fail to controvert in a timely and appropriate manner, any such proceeding or the filing of any such petition, (iii) apply for or consent to the employment of a receiver, trustee, custodian, sequestrator or similar official for the Co-Borrowers, or any of them, or any of their Subsidiaries or for a substantial part of its property; (iv) file an answer admitting the material allegations of a petition filed against it in such proceeding, (v) make a general assignment for the benefit of creditors, (vi) take corporate action for the purpose of effecting any of the foregoing, or (vii) the Co-Borrowers, or any of them, or any of their Subsidiaries shall become unable or admit in writing its inability or fail generally to pay its debts as they become due;

(f) an involuntary proceeding shall be commenced or an involuntary petition shall be filed in a court of competent jurisdiction seeking (i) relief in respect of the Co-Borrowers, or any of them, or any of their Subsidiaries or of a substantial part of their respective property, under Title 11 of the United States Code or any other federal or state bankruptcy, insolvency or similar law, (ii) the appointment of a receiver, trustee, custodian, sequestrator or similar official for the Co-Borrowers, or any of them, or any of their Subsidiaries or for a substantial part of their property, or (iii) the winding-up or liquidation of the Co-Borrowers, or any of them, or any of their Subsidiaries and

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such proceeding or petition shall continue undismissed for 30 days or an order or decree approving or ordering any of the foregoing shall continue unstayed and in effect for 30 days;

(g) One or more orders, judgments or decrees for the payment of money in excess of \$250,000 in the aggregate shall be rendered against the Co-Borrowers, or any of them, or any of their Subsidiaries and the same shall not have been paid in accordance with such judgment, order or decree and either (i) an enforcement proceeding shall have been commenced by any creditor upon such judgment, order or decree which is not stayed, or (ii) there shall have been a period of sixty (60) days during which a stay of enforcement of such judgment

order or decree, by reason of pending appeal or otherwise, was not in effect;

(h) any Plan which is a single employer Plan shall fail to comply in any material respect with the minimum funding standard required under Section 412 of the Code for any Plan year or part thereof or a waiver of such standard is applied for or granted under Section 412 of the Code, any Plan is terminated by the Co-Borrowers, or any of them, or any ERISA Affiliate or the subject of termination proceedings by the PBGC under ERISA, any Plan shall have an Unfunded Current Liability, a Reportable Event shall have occurred with respect to a Plan or the Co-Borrowers, or any of them, or any ERISA Affiliate shall have incurred a liability to or on account of a Plan under Section 515, 4062, 4063, 4063, 4201 or 4204 of ERISA, and there shall result from any such event or events the imposition of a lien upon the assets of the Co-Borrowers, or any of them, or any ERISA Affiliate, the granting of a security interest on such assets, or a liability to the PBGC or a Plan or a trustee appointed under ERISA or a penalty under Section 4971 of the Code, and in each case, such event or condition, together with all such events or conditions, if any, could reasonably be expected to result in liability of the Co-Borrowers, or any of them, or any of their Subsidiaries in an aggregate amount exceeding \$250,000;

(i) any material provision of any Loan Document shall for any reason cease to be in full force and effect in accordance with its terms or the Co-Borrowers, or any of them, or any Corporate Guarantor shall so assert in writing; or

(j) any of the Liens purported to be granted pursuant to any Security Agreement shall cease for any reason to be legal, valid and enforceable Liens on the collateral purported to be covered thereby or shall cease to have the priority purported to be created thereby,

then, at any time thereafter during the continuance of any such event, the Bank may, without notice to the Co-Borrowers, or any of them, or any Corporate Guarantor, (A) terminate the Commitments and declare (i) the Notes, both as to principal and interest, (ii) an amount equal to the Aggregate Letters of Credit Outstanding, and (iii) an amount equal to the Aggregate Banker's Acceptances Outstanding, to be forthwith due and payable, without presentment, demand, protest or other notice of any kind, all of which are hereby expressly waived, anything contained herein or in the Notes to the contrary notwithstanding; provided, however, that if an event specified in Section 8.01 (e) and (f) shall have occurred, the Commitments shall automatically terminate and the Notes and an amount equal to the Aggregate Letters of Credit Outstanding and to the Aggregate Banker's Acceptances Outstanding, shall be immediately due and payable; and (B) exercise any or all of the rights and remedies afforded to the Bank in the Security Agreements, by the Uniform Commercial Code or otherwise possessed by the Bank and, realize upon, dispose of, or sell, all or any part of the collateral given by the Co-Borrowers and the Corporate Guarantors to the Bank, and the Bank may apply the net proceeds of such realization, disposal or sale to the payment of any liabilities of the Co-Borrowers under the Notes or this Agreement as set forth in the Security Agreements. With respect to all Letters of Credit that shall not have matured or presentment for honor shall not have occurred, and with respect to Documentary Banker's Acceptances the maturity date of which has not occurred, the amounts in respect thereof as described in the preceding sentence shall be deposited in an account under the sole domain and

control of the Bank, as cash collateral for the obligation of the Co-Borrowers to reimburse the Bank in the event of any drawing or payment in respect thereof.

ARTICLE IX MISCELLANEOUS

SECTION 9.01. Notices. All notices, requests and demands to or upon the respective parties hereto to be effective shall be in writing, and unless otherwise expressly provided herein, shall be conclusively deemed to have been received by a party hereto and to be effective on the day on which delivered to such party at the address set forth below, or, in the case of telecopy notice, when acknowledged as received, or if sent by registered or certified mail, on the third Business Day after the day on which mailed in the United States, addressed to such party at said address:

(a) if to the Bank, at

European American Bank
730 Veterans Memorial Highway
Hauppauge, New York 11788
Attention: Mr. Richard Romano
Telecopy: (516) 360-7112

(b) if to the Co-Borrowers at

P & F Industries, Inc.
300 Smith Street
Farmingdale, New York 11735
Attention: Mr. Joseph A. Molino, Jr.
Telecopy: (516) 694-1836

with a copy to:

Willkie Farr & Gallagher
787 Seventh Avenue
New York, New York 10019-6099
Attention: Neil Novikoff, Esq.
Telecopy: (212) 728-8111

- and -

(c) as to each such party at such other address as such party shall have designated to the other in a written notice complying as to delivery with the provisions of this Section 9.01.

SECTION 9.02. Survival of Agreement. All covenants, agreements, representations and warranties made herein and in the other Loan Documents and in the certificates delivered pursuant hereto or thereto shall survive the making by the Bank of the Loans herein contemplated and the execution and delivery to the Bank of the Notes evidencing the Loans and shall continue in full force and effect so long as any Note is outstanding and unpaid. Whenever in this Agreement any of the parties hereto is referred to, such reference shall be deemed to include the successors and assigns of such party; and all covenants, promises and agreements by or on behalf of the Co-Borrowers, or any of them, and their Subsidiaries which are contained in this Agreement shall bind and inure to the benefit of the respective successors and assigns of the Bank. The Co-Borrowers may not assign or transfer any of their interest under this Agreement, any Note or any other Loan Document without the prior written consent of the Bank.

SECTION 9.03. Expenses of the Bank. The Co-Borrowers agree (a) to indemnify, defend and hold harmless the Bank and its officers, directors, employees and affiliates (each, an "indemnified

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person") from and against any and all losses, claims, damages, liabilities or judgments to which any such indemnified person may be subject and arising out of or in connection with the Loan Documents, the financings contemplated hereby, the use of any proceeds of such financings or any related transaction or any claim, litigation, investigation or proceeding relating to any of the foregoing, whether or not any of such indemnified person is a party thereto, and to reimburse each of such indemnified persons upon demand for any reasonable legal or other expenses incurred in connection with the investigation or defending of any of the foregoing; provided that the foregoing indemnity will not, as to any indemnified person, apply to losses, claims, damages, liabilities, judgments or related expenses to the extent arising from the wilful misconduct or gross negligence of such indemnified person; and (b) to reimburse the Bank from time to time, upon demand, all out-of-pocket expenses (including reasonable expenses of its due diligence investigation, and fees and disbursements of counsel and the allocated costs of internal counsel) incurred in connection with the financings contemplated under this Agreement, the preparation, execution and delivery of this Agreement and the other Loan Documents, any amendments and waivers hereof or thereof, the security arrangements contemplated thereby and the enforcement thereof. The provisions of this Section 9.03 shall survive termination of this Agreement.

SECTION 9.04. No Waiver of Rights by the Bank. Neither any failure nor any delay on the part of the Bank in exercising any right, power or privilege hereunder or under any Note or any other Loan Document shall operate as a waiver thereof, nor shall a single or partial exercise thereof preclude any other or further exercise of any other right, power or privilege.

SECTION 9.05. APPLICABLE LAW. THIS AGREEMENT AND EACH NOTE SHALL BE CONSTRUED IN ACCORDANCE WITH AND GOVERNED BY THE LAWS OF THE STATE OF NEW YORK, WITHOUT REGARD TO PRINCIPLES OF CONFLICTS OF LAW.

SECTION 9.06. SUBMISSION TO JURISDICTION; JURY WAIVER. EACH CO-BORROWER HEREBY IRREVOCABLY SUBMITS TO THE NONEXCLUSIVE JURISDICTION OF THE UNITED STATES DISTRICT COURT FOR THE EASTERN DISTRICT OF NEW YORK AND EACH SUPREME COURT OF THE STATE OF NEW YORK SITTING IN NEW YORK, NASSAU OR SUFFOLK COUNTY AND ANY APPELLATE COURT FROM ANY THEREOF IN ANY ACTION, SUIT OR PROCEEDING BROUGHT AGAINST IT AND RELATED TO OR IN CONNECTION WITH THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT OR ANY OF THE TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY, AND TO THE EXTENT PERMITTED BY APPLICABLE LAW, EACH CO-BORROWER HEREBY WAIVES AND AGREES NOT TO ASSERT BY WAY OF MOTION, AS A DEFENSE OR OTHERWISE, IN ANY SUCH SUIT, ACTION OR PROCEEDING ANY CLAIM THAT IT IS NOT PERSONALLY SUBJECT TO THE JURISDICTION OF SUCH COURTS, THAT THE SUIT, ACTION OR PROCEEDING IS BROUGHT IN AN INCONVENIENT FORUM, THAT THE VENUE OF THE SUIT, ACTION OR PROCEEDING IS IMPROPER, OR THAT THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT OR ANY OTHER DOCUMENT OR INSTRUMENT REFERRED TO HEREIN OR THEREIN OR THE SUBJECT MATTER THEREOF MAY NOT BE LITIGATED IN OR BY SUCH COURTS. TO THE EXTENT PERMITTED BY APPLICABLE LAW, EACH CO-BORROWER AGREES NOT TO (a) SEEK AND HEREBY WAIVES THE RIGHT TO ANY REVIEW OF THE JUDGMENT OF ANY SUCH COURT BY ANY COURT OF ANY OTHER NATION OR JURISDICTION WHICH MAY BE CALLED UPON TO GRANT AN ENFORCEMENT OF SUCH JUDGMENT AND (b) ASSERT ANY COUNTERCLAIM IN ANY SUCH SUIT, ACTION OR PROCEEDING UNLESS SUCH COUNTERCLAIM IS A COMPULSORY COUNTERCLAIM UNDER FEDERAL LAW OR NEW YORK LAW, AS APPLICABLE. EACH CO-BORROWER AGREES THAT SERVICE OF PROCESS MAY BE MADE UPON IT BY CERTIFIED OR REGISTERED MAIL TO THE ADDRESS FOR NOTICES SET FORTH IN THIS AGREEMENT OR ANY METHOD

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AUTHORIZED BY THE LAWS OF NEW YORK. EACH CO-BORROWER AND THE BANK HEREBY WAIVES ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY LITIGATION DIRECTLY OR INDIRECTLY ARISING OUT OF, UNDER OR IN CONNECTION WITH THIS AGREEMENT, ANY NOTE OR ANY OTHER LOAN DOCUMENT.

SECTION 9.07. Extension of Maturity. Except as otherwise expressly provided herein, whenever a payment to be made hereunder shall fall due and payable on any day other than a Business Day, such payment may be made on the next succeeding Business Day, and such extension of time shall be included in computing interest.

SECTION 9.08. Modification of Agreement. No modification, amendment or waiver of any provision of this Agreement, any Note or any other Loan Document, nor consent to any departure by the Co-Borrowers therefrom shall in any event be effective unless the same shall be in writing and signed by the Bank and the Co-Borrowers and then such waiver or consent shall be effective only in the specific instance and for the purpose for which given. No notice to or demand on the Co-Borrowers in any case shall entitle the Co-Borrowers to any other or further notice or demand in the same, similar or other circumstance.

SECTION 9.09. Severability. In case any one or more of the provisions contained in this Agreement, any Note or in any other Loan Document should be invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein and therein shall not in any way be affected or impaired thereby.

SECTION 9.10. Sale of Participations. The Bank reserves the right to sell participations in or to sell and assign its rights, duties or

obligations with respect to the Loans or the Commitment to such banks, lending institutions or other parties as it may choose and without the consent of the Co-Borrowers except (a) the Bank shall not assign its rights or obligations under the Loan Documents without the prior written consent of the Co-Borrowers (which consent shall not be unreasonably withheld) and (b) the Bank shall not sell participations to any competitor of the Co-Borrowers. In the event that the Bank shall sell a participation interest in the Loans, the Bank shall, nevertheless, remain liable to perform all obligations of the Bank hereunder as if such participation had not been sold and shall not restrict its right to grant waivers, amendments and consents to the Loan Documents except with respect to the default in any payment of principal or interest on the Loans beyond any applicable grace period, any acceleration of the maturity of the Loan, any material amendment of the Credit Agreement or any change in the accrual status of the Loans. The Bank may furnish any information concerning the Co-Borrowers or any of their Subsidiaries in its possession from time to time to any assignee or participant (or proposed assignee or participant).

SECTION 9.11. Reinstatement; Certain Payments. If claim is ever made upon the Bank for repayment or recovery of any amount or amounts received by the Bank in payment or on account of any of the Obligations under this Agreement, the Bank shall give prompt notice of such claim to the Co-Borrowers, and if the Bank repays all or part of said amount by reason of (i) any judgment, decree or order of any court or administrative body having jurisdiction over the Bank or any of its property, or (ii) any settlement or compromise of any such claim effected by the Bank with any such claimant, then and in such event each Co-Borrower agrees that any such judgment, decree, order, settlement or compromise shall be binding upon such Co-Borrower notwithstanding the cancellation of any Note or other instrument evidencing the Obligations under this Agreement or the termination of this Agreement, and the Co-Borrower shall be and remain liable to the Bank hereunder for the amount so repaid or recovered to the same extent as if such amount had never originally been received by the Bank.

SECTION 9.12. Right of Setoff. If an Event of Default shall have occurred and be continuing, the Bank and each Affiliate of the Bank are each hereby authorized at any time and from time to time after acceleration of the Loan, to the fullest extent permitted by law, to set off and apply any and all

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deposits (general or special, time or demand, provisional or final) at any time held and other indebtedness at any time owing by the Bank to or for the credit or the account of the Co-Borrowers or any of them, against any and all the Obligations. The rights of the Bank under this Section 9.12 are in addition to the other rights and remedies (including, without limitation, other rights of setoff) which the Bank may have.

SECTION 9.13. Joint and Several Obligations of the Co-Borrowers. The obligations of the Co-Borrowers hereunder constitute joint and several obligations of the Co-Borrowers and may be enforced against any of the Co-Borrowers to the full extent thereof without proceeding against the others.

SECTION 9.14. Counterparts. This Agreement may be executed in counterparts, each of which shall constitute an original, but all of which, taken together, shall constitute one and the same instrument.

SECTION 9.15. Headings. Section headings used herein are for convenience of reference only and are not to affect the construction of or be taken into consideration in interpreting this Agreement.

IN WITNESS WHEREOF, the Co-Borrowers and the Bank have caused this Agreement to be duly executed by their duly authorized officers, as of the day and year first above written.

THE CO-BORROWERS:

P&F INDUSTRIES, INC.

By: /s/ JOSEPH A. MOLINO

Name: Joseph A. Molino
Title: Vice President

FLORIDA PNEUMATIC MANUFACTURING
CORPORATION

By: /s/ JOSEPH A. MOLINO

Name: Joseph A. Molino
Title: Vice President

EMBASSY INDUSTRIES, INC.

By: /s/ JOSEPH A. MOLINO

Name: Joseph A. Molino
Title: Vice President

THE BANK:

EUROPEAN AMERICAN BANK

By: /s/ RICHARD ROMANO

Name: Richard Romano
Title: Vice President

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[EXHIBIT 4.3](#)

[P & F INDUSTRIES, INC.
CREDIT AGREEMENT](#)

P & F INDUSTRIES, INC.

**AMENDMENT NO. 1
TO
CREDIT AGREEMENT**

THIS AMENDMENT NO. 1 is entered into as of September 16, 1998 (the "Amendment"), by and among P&F INDUSTRIES, INC., a Delaware corporation ("P&F"), FLORIDA PNEUMATIC MANUFACTURING CORPORATION, a Florida corporation ("Florida Pneumatic"), EMBASSY INDUSTRIES, INC., a New York corporation ("Embassy") and GREEN MANUFACTURING, INC., a Delaware corporation ("Green") (P&F, Florida Pneumatic, Embassy and Green, the "Co-Borrowers"), and EUROPEAN AMERICAN BANK, a New York banking corporation (the "Bank").

BACKGROUND

P&F, Florida Pneumatic and Embassy (the "Original Co-Borrowers") and the Bank are parties to a Credit Agreement, dated as of July 23, 1998 (as amended, restated, supplemented or modified, from time to time, the "Credit Agreement"), pursuant to which the Bank provides the Original Co-Borrowers with certain financial accommodations.

The Original Co-Borrowers have informed the Bank that (i) Green has entered into an Asset Purchase Agreement, dated as of the date hereof, pursuant to which Green will acquire certain assets of Green Manufacturing, Inc., an Ohio corporation ("Old Green").

The Co-Borrowers have requested that the Bank (i) include Green as a Co-Borrower under the existing credit facility and (ii) amend certain provisions of the Credit Agreement and the Bank is willing to do so on the terms and conditions hereinafter set forth. Capitalized terms used herein and not defined herein shall have the meanings given to them in the Credit Agreement.

Accordingly, in consideration of the premises and of the mutual covenants and agreements hereinafter set forth, the parties hereto agree as follows:

**ARTICLE I.
Amendments to Credit Agreement.**

Section 1.1. The first paragraph of the Credit Agreement is hereby amended in its entirety to provide as follows:

"CREDIT AGREEMENT dated as of July 23, 1998, by and among P&F INDUSTRIES, INC., a Delaware corporation ("P&F"), FLORIDA PNEUMATIC MANUFACTURING CORPORATION, a Florida corporation ("Florida Pneumatic"), EMBASSY INDUSTRIES, INC., a New York corporation ("Embassy") and GREEN MANUFACTURING, INC., a Delaware corporation ("Green", and, collectively, with P&F, Florida Pneumatic and Embassy, the "Co-Borrowers") and EUROPEAN AMERICAN BANK, a New York banking corporation (the "Bank").

Section 1.2. Section 1.1 of the Credit Agreement is hereby amended as follows:

- a. the following defined terms are hereby added in their appropriate alphabetical order:

"Amendment No. 1" shall mean Amendment No. 1 to Credit Agreement among the Co-Borrowers and the Bank dated as of the Amendment No. 1 Effective Date.

"Amendment No. 1 Effective Date" shall mean September 16, 1998.

"Asset Purchase Agreement" shall mean the Asset Purchase Agreement between Old Green and Green, dated as of the Amendment No. 1 Effective Date, and all exhibits and schedules thereto.

"Green" shall mean Green Manufacturing, Inc., a Delaware corporation.

"Green Letter of Credit" shall mean that certain Letter of Credit issued by the Bank for the benefit of Green pursuant to and in accordance with the terms and conditions of the Reimbursement Agreement.

"Green Letter of Credit Outstanding" shall mean, at any time, the face amount of the Green Letter of Credit.

"Indenture" shall mean the Trust Indenture dated as of November 1, 1994, between the Issuer and the Trustee, as the same may hereafter be amended, restated, supplemented or otherwise modified from time to time.

"Issuer" shall mean the County of Wood, Ohio, and its successors.

"Old Green" shall mean Green Manufacturing, Inc., an Ohio corporation.

"Reimbursement Agreement" shall mean the Reimbursement Agreement, dated as of the Amendment No. 1 Effective Date, between the Bank and Green,

"Trustee" shall mean PNC Bank, Ohio, National Association.

b. the following defined terms are amended in their entirety to provide as follows:

"Loan Documents" shall mean, collectively, this Agreement, the Notes, the Security Agreements, the Corporate Guaranties, the Pledge Agreement, the Reimbursement Agreement, and each other agreement executed in connection with the transactions contemplated hereby or thereby, as each of the same may hereafter or thereafter be amended, supplemented or otherwise modified from time to time.

"Revolving Credit Note" shall mean the amended and restated promissory note of the Co-Borrowers in the form attached as Exhibit A to Amendment No. 1 evidencing the Revolving Credit Loans, as the same may be amended, supplemented, restated or otherwise modified, from time to time.

"Term Loan Commitment" shall mean the Bank's obligation to make Term Loans to the Co-Borrowers pursuant to Section 2.04 hereof in an aggregate principal amount equal to the difference between (a) \$15,000,000 and (b) the Green Letter of Credit Outstanding.

c. The definition of "Letter of Credit" is hereby amended by (i) adding a period after the word "business" on the eighth line thereof and (ii) by deleting the remainder of said definition.

Section 1.3. Section 2.06(a) of the Credit Agreement is hereby amended by deleting the third sentence thereof in its entirety and replacing it with the following sentence in its place and stead:

"Furthermore, in no event shall (i) the Aggregate Bankers Acceptances Outstanding, exceed an amount in excess of \$8,000,000, at any time and (ii) (A) the Aggregate Letters of Credit Outstanding plus (B) the Green Letter of Credit Outstanding, exceed \$8,000,000, at any time.

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Section 1.4. Subsections (i) and (j) of Section 7.01 of the Credit Agreement are hereby amended in their entirety to read as follows:

"(i) Liens on assets acquired in a Permitted Acquisition, provided, that such Liens (i) only cover assets acquired thereunder and (ii) are the result of the continuation of Liens on such assets in existence of the date of closing of such Permitted Acquisition;

(j) Liens on assets acquired in the Green Acquisition, provided, that such Liens (i) only cover assets acquired thereunder and (ii) are the result of the continuation of Liens on such assets in existence of the date of closing of the Green Acquisition;"

Section 1.5. Section 8.01 of the Credit Agreement is hereby amended by (a) deleting the "or" at the end of subsection "(i)" thereof, (b) by deleting the comma at the end of subsection "(j)" thereof and replacing it with "; or" in its place and stead and (c) adding the following new subsection "(k)" immediately thereafter:

"(k) an "Event of Default" as defined in the Reimbursement Agreement shall have occurred,"

Section 1.6. Schedules I, III, IV and VIII to the Credit Agreement are hereby amended in their entirety and are replaced with Schedules I, III, IV and VIII, respectively, attached to Amendment No. 1.

Section 1.7. Exhibits A, B, C, D, E-1 and E-2 to the Credit Agreement are hereby amended in their entirety and are replaced with Exhibits A, B, C, D, E-1 and E-2, respectively, attached to Amendment No. 1.

ARTICLE II. Conditions of Effectiveness

Section 2.1. This Amendment shall become effective as of the Amendment No. 1 Effective Date, upon satisfaction of the following conditions precedent:

a. The Bank shall have received each of the following, in form and substance satisfactory to the Bank and its counsel:

- (1) this Amendment and the amended and restated Revolving Credit Note executed by each Co-Borrower in favor of the Bank;
- (2) a certificate of the Secretary of Green, dated as of the Amendment No. 1 Effective Date and certifying (A) that neither the Certificates of Incorporation nor the By-laws of Green has been amended since the date of their certification; (B) that attached thereto is a true and a complete copy of resolutions adopted by the Board of Directors of Green authorizing the execution, delivery and performance of this Amendment and each other Loan Document to which it is a party and the borrowings thereunder; and (C) the incumbency and specimen signature of each officer of Green executing each Loan Document to which Green is a party and any certificates or instruments furnished pursuant hereto, and a certification by another officer of Green as to the incumbency and signature of the Secretary, and together with certified copies of the Certificate of Incorporation and By-laws of Green;
- (3) a certificate of good standing for Green from the Secretary of the State of Delaware dated as of a recent date and a certificate of authorization to do business for Green from the Secretary of the State of Ohio;
- (4) a certificate of the Secretary of each of the Original Borrowers, dated as of the Amendment No. 1 Effective Date, certifying (A) the names and true signatures of the officers of such entity authorized to sign this Amendment, the other Loan Documents

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and any other documents to be delivered by such entity under this Amendment, (B) that attached thereto is a true and a complete copy of resolutions adopted by the Board of Directors authorizing the execution, delivery and performance of this Amendment and each other Loan Document to which it is a party and (C) that neither its Certificate of Incorporation nor By-laws have been amended since the Closing Date;

- (5) a certificate of a duly authorized officer of each of the Co-Borrowers, dated as of the Amendment No. 1 Effective Date, stating that the representations and warranties in Article 4 are true and correct on such date as though made on and as of such date and that no event has occurred and is continuing which constitutes a Default or Event of Default;
 - (6) (A) a Security Agreement duly executed by Green together with UCC-1 financing statements in a form acceptable to the Bank for such jurisdictions as the Bank determines are necessary to perfect the liens created by the Security Agreement and (B) an amendment to Security Agreement duly executed by each Original Borrower;
 - (7) an amendment to the Pledge Agreement, duly executed by P&F, with respect the pledge of the shares of Green held by P&F, along with share certificates evidencing such shares and stock powers executed in blank;
 - (8) receipt of a copy of duly executed Asset Purchase Agreement and all documents and instruments executed in connection therewith, including but not limited to the Consulting Agreement, Escrow Agreement, Automobile Storage Lease and Bill of Sale;
 - (9) combined projections for the Co-Borrowers and Green, for a period of five (5) years;
 - (10) a pro forma balance sheet and income statements of P&F and its Subsidiaries (after giving effect to the Asset Purchase Agreement) demonstrating that the Co-Borrowers will be in compliance with the financial condition covenants contained in Section 7.12 of the Credit Agreement;
 - (11) a favorable opinion of counsel for Green dated as of the Amendment No. 1 Effective Date with respect to the transactions contemplated hereby and pursuant to the Reimbursement Agreement;
 - (12) a certificates of insurance from an independent insurance broker confirming the insurance required to be maintained pursuant to Section 6.01 of the Credit Agreement;
 - (13) a schedule of all the lease agreements to which Green is a party (other than leases of real property, leases of motor vehicles and leases of equipment which do not require an annual lease expenditure in excess of \$50,000) and the Bank shall have been satisfied with its review thereof or, in lieu thereof, a copy of each lease agreement shall be delivered to the Bank prior to the Amendment No. 1 Effective Date;
 - (14) Receipt and satisfactory review by the Bank of all (A) documents with respect to any Plans of Green or Old Green (which are to be assumed by Green) and (B) material agreements of Green or Old Green (which are to be assumed by Green);
 - (15) the Reimbursement Agreement duly executed by Green, and any other documents executed in connection with the foregoing; and
 - (16) such other documents, instruments, agreements, approvals, opinions and evidence as the Bank may reasonably require.
- b. All conditions precedent set forth in the Reimbursement Agreement shall have been satisfied and the transactions thereunder, including, but not limited to the issuance of the Green

Letter of Credit, shall occur simultaneously with the consummation of the transactions contemplated by this Amendment.

c. The indebtedness of Green to MidAmerican National Bank & Trust Co. shall have been paid in full simultaneously with the consummation of the transactions contemplated by this Amendment and all existing documentation with respect to said indebtedness shall have been terminated.

d. The assets to be acquired pursuant to the Asset Purchase Agreement shall be free and clear of all Liens, except those Liens permitted pursuant to Section 7.01 of the Credit Agreement.

ARTICLE III. Representations and Warranties; Effect on Credit Agreement.

Section 3.1. Each Co-Borrower hereby represents and warrants as follows:

- a. This Amendment and the Credit Agreement, as amended hereby, constitute legal, valid and binding obligations of the Co-Borrowers and are enforceable against the Co-Borrowers in accordance with their respective terms.
- b. Upon the effectiveness of this Amendment, the Original Co-Borrowers hereby reaffirm all covenants, representations and warranties made in the Credit Agreement to the extent that the same are not amended hereby and each Co-Borrower agrees that all such covenants, representations and warranties shall be deemed to have been remade as of the Amendment No. 1 Effective Date.
- c. No Default or Event of Default has occurred and is continuing or would exist after giving effect to this Amendment.

d. No Co-Borrower has any defense, counterclaim or offset with respect to the Credit Agreement.

Section 3.2. Effect on Credit Agreement.

- a. Upon the effectiveness of this Amendment, each reference in the Credit Agreement to "this Agreement", "hereunder", "hereof", "herein" or words of like import shall mean and be a reference to the Credit Agreement as amended hereby.
- b. Except as specifically amended herein, the Credit Agreement, and all other documents, instruments and agreement executed and/or delivered in connection therewith, shall remain in full force and effect, and are hereby ratified and confirmed.
- c. The execution, delivery and effectiveness of this Amendment shall not operate as a waiver of any right, power or remedy of the Bank, nor constitute a waiver of any provision of the Credit Agreement, or any other documents, instruments or agreements executed and/or delivered under or in connection therewith.

**ARTICLE IV.
Miscellaneous.**

Section 4.1. This Amendment shall be governed by and construed in accordance with the laws of the State of New York.

Section 4.2. Section headings in this Amendment are included herein for convenience of reference only and shall not constitute a part of this Amendment for any other purpose.

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Section 4.3. This Amendment may be executed in one or more counterparts, each of which shall constitute an original, and all of which, taken together, shall be deemed to constitute one and the same agreement.

IN WITNESS WHEREOF, the Co-Borrowers and the Bank have caused this Amendment to be duly executed by their duly authorized officers as of the day and year first above written.

P&F INDUSTRIES, INC.

By: /s/ JOSEPH A. MOLINO

Title: Vice President

FLORIDA PNEUMATIC MANUFACTURING CORPORATION

By: /s/ JOSEPH A. MOLINO

Title: Vice President

EMBASSY INDUSTRIES, INC.

By: /s/ JOSEPH A. MOLINO

Title: Vice President

GREEN MANUFACTURING, INC.

By: /s/ JOSEPH A. MOLINO

Title: Vice President

EUROPEAN AMERICAN BANK

By: /s/ RICHARD ROMANO

Title: Vice President

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[EXHIBIT 4.4](#)

[P & F INDUSTRIES, INC. AMENDMENT NO. 1 TO CREDIT AGREEMENT](#)

P & F INDUSTRIES, INC.

CONSULTING AGREEMENT

AGREEMENT, effective as of November 1, 2003, between **P & F INDUSTRIES, INC.**, a Delaware corporation (the "Company") having its principal place of business at 300 Smith Street, Farmingdale, New York 11735, and **SIDNEY HOROWITZ**, residing at 20596 Links Circle, Boca Raton, Florida 33434 (the "Consultant").

WITNESSETH

WHEREAS, the Company recognizes the value of the experience, training and background of the Consultant;

WHEREAS, the Company wishes to utilize the Consultant's expertise and background regarding the Company; and

WHEREAS, the Company and the Consultant wish to replace the Consulting Agreement, dated as of November 1, 2000, between the parties hereto, with this Agreement.

NOW, THEREFORE, in consideration of the premises and the mutual covenants hereinafter set forth, it is agreed by and between the parties hereto as follows:

1. Term of Service

The term of the Consultant's service pursuant to this Agreement will commence on the effective date hereof and will terminate on October 31, 2006 (the "Consulting Term").

2. Consulting Arrangements

2.1. The Consultant's services hereunder shall be rendered at such place or places and times, on such subjects and in such manner as shall be satisfactory to him. Notwithstanding the foregoing, the Consultant shall be present at the Company's Florida Pneumatic subsidiary, during the period from October through April, each time the Chairman of the Board and the Chief Financial Officer conduct a review of that subsidiary's operations and, during the period from May through September, the Consultant shall be available at the request of the Chairman of the Board at the Company's headquarters to advise the Company on operating matters.

2.2. During the Consulting Term, the Consultant shall be entitled to all benefits and service credit for benefits under medical insurance, life insurance and other employee benefit plans, programs and arrangements of the Company as if he were still employed during such period under this Agreement, to the extent that such benefits and service credit are available to consultants to the Company generally under the terms thereof.

3. Events of Termination

In the event of the Consultant's death, this Agreement will terminate and the Consultant shall receive his full consulting fee through the date of death.

4. Protection of Information

4.1. In view of the fact that the Consultant's work with the Company will bring him into close contact with many confidential affairs of the Company, including matters of a business nature such as

information about costs, profits, markets, sales, plans for future development and other information not readily available to the public, the Consultant will:

4.1.1. keep secret all confidential information relating to the Company and not disclose such information to anyone outside of the Company either during or after his service with the Company, except with the Company's prior written consent; and

4.1.2. deliver promptly to the Company on termination of his services hereunder, or at any time the Company may so request, all memoranda, notes, records, lists, reports and other documents (and all copies thereof) relating to the business of the Company, which he may then possess or have under his control.

5. Miscellaneous

5.1. If any provision contained in this Agreement is hereafter construed to be invalid or unenforceable, such event will not affect the remainder of this Agreement, which will be given full effect, without regard to the invalid portions.

5.2. If any covenant contained in Article 4, or any part thereof, is held to be unenforceable because of the duration or scope of such provision or the area covered thereby, the parties agree that the court making such determination will have the power to reduce the duration, scope and/or area of such provision and, in its reduced form, such provision will then be enforceable.

5.3. This Agreement has been negotiated and executed in the State of New York, and will be construed and enforced in accordance with the laws of the State of New York applicable to agreements made and to be performed entirely in New York.

5.4. All notices, requests, consents and other communications required or permitted to be given hereunder will be in writing and shall be deemed to have been duly given if delivered personally or sent by prepaid telegram, or mailed first class, postage prepaid, by registered or certified mail (if possible), addressed to either party at the address set forth in the preamble to this Agreement (or to such other address as either party shall designate by notice in writing to the other in accordance herewith).

5.5. The article headings contained herein are for reference purposes only and shall not in any way affect the meaning or interpretation of this Agreement.

5.6. This Agreement sets forth the entire agreement and understanding of the parties relating to the subject matter hereof, and supersedes and will supersede all prior agreements, arrangements and understandings, written or oral, relating to the subject matter hereof between the Consultant and the Company.

5.6.1. This Agreement may be amended, modified, superseded, cancelled, renewed or extended and the terms or covenants hereof may be waived only by a written instrument executed by each of the parties hereto, or in the case of a waiver, by the party waiving compliance. The failure of either party at any time or times to require performance of any provision hereof will in no manner affect the right at a later time to enforce the same. No waiver by either party of the breach of any term or covenant contained in this Agreement, whether by conduct or otherwise, in any one or more instances, will be deemed to be, or construed as, a further or continuing waiver of any such breach, or a waiver of the breach of any other term or covenant contained in this Agreement.

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IN WITNESS WHEREOF, the parties have duly executed this Agreement this 12th day of March, 2004, effective as of the date first above written.

P & F INDUSTRIES, INC.

By: /s/ RICHARD HOROWITZ

Name: Richard Horowitz
Title: President

By: /s/ SIDNEY HOROWITZ

Name: Sidney Horowitz

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[EXHIBIT 10.2](#)

[P & F INDUSTRIES, INC. CONSULTING AGREEMENT](#)

P & F INDUSTRIES, INC.
1992 INCENTIVE STOCK OPTION PLAN
(Amended and Restated as of March 13, 1997)

1. Purpose.

The purpose of the P&F Industries, Inc. 1992 Incentive Stock Option Plan (the "Plan") is to induce directors, key executives and other key employees to remain in the service of P&F Industries, Inc. (the "Company"), to attract new directors and employees and to encourage such directors and employees to acquire stock ownership in the Company. The Board of Directors of the Company (the "Board") believes that the granting of stock options ("Options") under the Plan will promote continuity of the Board and management and increased incentive and personal interest in the welfare of the Company by those who are or may become primarily responsible for shaping and carrying out the long range plans of the Company and securing its continued growth and financial success. It is intended that certain Options granted hereunder will qualify as "incentive stock options" under Section 422 of the Internal Revenue Code of 1986, as amended (the "Code") ("Incentive Stock Options") while other Options will not be so qualified ("Nonqualified Stock Options").

2. Effective Date of the Plan.

The effective date of the Plan, as amended and restated, is March 13, 1997, the date on which the Plan was amended and restated by the Board, but the Plan is subject to approval by the holders of a majority of the outstanding shares of common stock of the Company participating in the vote. If by no later than March 12, 1998 the Plan is not so approved, then the Plan shall continue as it existed prior to the amendment and restatement and all Options granted hereunder shall be pursuant to the terms of the Plan as it existed prior to the amendment and restatement.

3. Stock Subject to Plan.

Subject to adjustment as provided in Section 12 hereof, the number of shares of the common stock, \$1.00 par value, of the Company (the "Common Stock") available for delivery upon the exercise of Options under the Plan shall not exceed 1,100,000 shares of Common Stock, which are hereby reserved for issuance upon exercise of Options. The shares of Common Stock to be delivered upon exercise of Options may be authorized and unissued shares or treasury shares. If any Options expire or terminate for any reason without having been exercised in full, the unissued shares subject thereto shall again become available for the purposes of the Plan.

4. Administration.

(a) The Plan shall be administered by a stock option committee (the "Committee") consisting of not less than two members of the Board, each of whom, at the time action is taken with respect to the Plan, shall be a "non-employee director" within the meaning of Rule 16b-3 of the Securities Exchange Act of 1934, as amended, and an "outside director" within the meaning of Section 162(m) of the Code. The members of the Committee shall be appointed by the Board and shall serve at the pleasure of the Board.

(b) The Committee shall have the authority in its discretion (i) to construe and interpret the Plan and all Options granted thereunder, and to determine the terms and provisions (and amendments thereof) of the Options granted under the Plan (which need not be identical), including such terms and provisions of (and amendments) as shall be required in the judgment of the Committee to provide that Options intended to be Incentive Stock Options under the Plan will be so qualified under the Code as

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it now exists or may from time to time be amended and/or superseded or to conform to any change in any law or regulations applicable thereto; (ii) to define the terms used in the Plan and in the Options granted thereunder; (iii) to prescribe, amend and rescind rules and regulations relating to the Plan; (iv) to determine the individuals to whom and the time or times at which Options shall be granted, the number of shares to be subject to each Option, the vesting schedule, the term of each Option, and the option price, taking into consideration any requirements of the Code applicable to Incentive Stock Options; and (v) to make all other determinations necessary or advisable for the administration of the Plan. All determinations and interpretations made by the Committee shall be final, binding and conclusive on all participants in the Plan and on their legal representatives and beneficiaries.

(c) Any action of the Committee with respect to the Plan shall be taken by majority vote at a meeting of the Committee or by written consent of a majority of the members of the Committee without a meeting.

5. Selection of Grantees.

(a) Options may be granted only to employees (which term as used herein includes officers) who hold positions of responsibility, are able to contribute significantly to the Company's success and progress and are determined to be key employees ("Employees"), and to directors of the Company who are not also Employees ("Eligible Persons"); provided, however, that Incentive Stock Options may only be granted to Employees. In determining the Eligible Persons to whom Options shall be granted and the number of shares to be covered by any such Options, the Committee may take into account the nature of the services rendered by the proposed optionees, their present and potential contributions to the success of the Company and such other factors as the Committee in its discretion shall deem relevant; provided, however, that no Eligible Person may receive Options with respect to more than 250,000 shares of Common Stock in any single calendar year.

(b) Incentive Stock Options may be granted hereunder to an Employee who owns immediately after such option is granted ten (10%) percent or more of either the outstanding voting shares of the Company or the value of all classes of stock of the Company ("10% Shareholder") as defined in Sections 422 and 424 of the Code, only in accordance with the provisions of Sections 6(a) and 7 hereof. For purposes of this Plan, an Employee will be considered as owning the stock in accordance with Section 424 of the Code.

6. Option Price.

(a) The purchase price of the shares covered by each Option shall be determined by the Committee, but, with respect to Incentive Stock Options, shall not be less than 100% of the fair market value of such shares at the time of granting the Option. The purchase price of the shares under Incentive Stock Options granted pursuant to the Plan to a 10% Shareholder shall not be less than 110% of the fair market value of such shares at the time the Option is granted.

(b) The purchase price of the shares as to which an Option shall be exercised shall be paid in full in cash, or shares of Common Stock held by an Option holder for at least six months at the time of exercise, or by such other means as shall be determined by the Committee.

7. Term of Options.

An Option may provide for exercise in full at any time or from time to time during the term of the Option, or in installments at such times as the Committee may determine. The term of each Option shall be not more than 10 years from the date of grant. Notwithstanding the above, any Incentive Stock Option granted pursuant to the Plan to a 10% Shareholder shall not be exercisable after the expiration of 5 years from the date the Incentive Stock Option is first granted.

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8. \$100,000 Limitation on Exercise of Incentive Stock Options.

To the extent the aggregate fair market value per share (determined as of the time the Option is granted) with respect to which any Options granted hereunder which are intended to be Incentive Stock Options may be exercisable for the first time by the Option holder in any calendar year (under this Plan or any other stock option plan of the Company or any parent or subsidiary thereof) exceeds \$100,000, the excess of such Options shall not be considered Incentive Stock Options but rather shall be Nonqualified Stock Options.

9. Non-Transferability of Options.

No Option granted under the Plan shall be transferable or assignable otherwise than by will or the laws of descent and distribution and an Option may be exercised, during the lifetime of the holder thereof, only by him.

10. Termination of Employment.

Unless otherwise determined by the Committee, if a holder of an Option ceases to be either an employee or a director of the Company for any reason other than death or disability, his Option shall terminate three months after the date he ceases to be an employee or director, unless by its terms it expires sooner. Unless otherwise determined by the Committee, during the three month period after an Option holder ceases to be either an employee or a director, all vesting with respect to his Options shall cease and his Options may be exercised only as to shares which he could have purchased at the time of such cessation and no more.

11. Death or Disability of Option Holder.

Unless otherwise determined by the Committee, if a holder of an Option shall die or become disabled (as acknowledged by the Committee) while he is an employee or a director of the Company, his Option shall terminate one year from the date of his death or disability, unless by its terms it expires sooner. Unless otherwise determined by the Committee, during the period after his death or disability, all vesting with respect to his Options shall cease and his Options may be exercised only as to shares which he could have purchased at the time of his death or disability and no more.

12. Adjustments.

In the event of (a) a combination or subdivision of shares purchasable under any Option, (b) other recapitalization affecting such shares, or (c) an exchange of such shares for other securities in any plan of disposition, acquisition or merger, a holder of an Option shall be entitled to purchase the securities exchangeable for the securities theretofore purchasable under his Option with the purchase price per share or other unit of securities proportionately adjusted. In the event of any other material change in the capital structure of the Company, the Board may make an equitable and proportionate adjustment of the terms of any Option, and its decision thereon shall be final, binding and conclusive.

13. Amendment of Plan.

The Board may at any time make such amendments to the Plan as it shall deem advisable; provided, however, that the Board may not without further approval of the holders of a majority of the shares of the Common Stock present in person or by proxy at any special or annual meeting of stockholders, increase the number of shares as to which Options may be granted under the Plan (as adjusted in accordance with the provisions of Section 12 hereof), increase the maximum number of shares with respect to which Options may be granted in any single calendar year to any Eligible Person, or change the class of persons eligible to receive Incentive Stock Options under the Plan. Except as otherwise provided in Section 14 hereof, no termination or amendment of the Plan may, without the consent of the participant to whom any Option shall theretofore have been granted, adversely affect the rights of such participant under such Option.

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14. Expiration and Termination of the Plan.

The Board may at any time terminate the Plan; provided, however, any Option outstanding under the Plan at the time of termination of the Plan shall remain in effect until such Option shall have been exercised or shall have expired in accordance with its terms. Options may be granted under the Plan at any time and from time to time prior to its termination. Unless previously terminated, the Plan shall terminate on April 8, 2002.

15. Privileges of Stock Ownership.

No person entitled to exercise any Option granted under the Plan shall have any of the rights or privileges of a stockholder of the Company in respect of any shares issuable upon exercise of such Option until such Option shall have been validly exercised.

16. Registration Requirements.

All Options shall include such provisions as are necessary or advisable in the opinion of counsel for the Company to comply with the requirements of the Securities Act of 1933, as amended. No shares shall be issued and delivered upon exercise of any Option unless and until, in the opinion of counsel for the Company, any applicable requirements of the Securities Act of 1933, any national securities exchange on which stock of the Company is then listed, or other laws or rules have been fully complied with.

17. Indemnification of Committee.

In addition to such other rights of indemnification as they may have as members of the Board or as members of the Committee, the Company shall indemnify each member of the Committee against all costs and expenses reasonably incurred by such member in connection with any action, suit or proceeding to which such member may be party by reason of any action taken or failure to act under or in connection with the Plan or any award made under the Plan, and against all amounts paid by such member in satisfaction of a judgment in any action, except a judgment based upon a finding of bad faith.

As adopted by the Board of Directors
of P&F Industries, Inc. on April 9, 1992
and amended and restated as of March 13, 1997

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[EXHIBIT 10.3](#)

[P & F INDUSTRIES, INC. 1992 INCENTIVE STOCK OPTION PLAN \(Amended and Restated as of March 13, 1997\)](#)

**CODE OF BUSINESS CONDUCT AND ETHICS
OF
P&F INDUSTRIES, INC.
AND ITS AFFILIATES**

EFFECTIVE DATE: March 9, 2004

INTRODUCTION

P&F Industries, Inc. and all of its subsidiaries and affiliates (hereinafter referred to collectively as the "Company") expect that directors, officers and employees will conduct themselves ethically and properly as a matter of course and comply with the guidelines set forth below.

This Code of Business Conduct and Ethics (this "Code") exists to provide the Company's directors, officers, employees, shareholders, suppliers and members of the general public with an official statement as to how the Company conducts itself internally and in the marketplace and certain standards that the Company shall require of its directors, officers and employees.

The Company's Compliance Officer on the Effective Date of this Code is currently Joseph A. Molino, Jr. and the term "Compliance Officer", as used in this Code, refers to the Company's current Compliance Officer and any subsequent person appointed to that office.

PURPOSE

This Code is intended to provide a codification of standards that is reasonably designed to deter wrongdoing and to promote the following:

- Honest and ethical conduct, including the ethical handling of actual or apparent conflicts interest between personal and professional relationships;
- Full, fair, accurate, timely and understandable disclosure in reports and documents that the Company files with, or submits to, the Securities and Exchange Commission (the "SEC") and in other public communications made by the Company;
- Compliance with applicable governmental laws, rules and regulations;
- The prompt internal reporting to an appropriate person or persons identified in this Code for violations of this Code; and
- Accountability for adherence to this Code.

SCOPE

This Code applies to the Company's Chairman of the Board, Chief Executive Officer, Chief Financial Officer, Controller and persons performing similar functions as well as to all directors, officers and employees of the Company. As used herein, the term "employees" shall be deemed to include each of the foregoing persons unless specifically stated otherwise or unless the context clearly indicates otherwise.

POLICY PROVISIONS

Under this Code, all directors, officers (including the Company's Chairman of the Board, Chief Executive Officer, Chief Financial Officer, Controller and persons performing similar functions) and employees are expected to conduct business for the Company in the full spirit of honest and lawful behavior and shall not cause another director, officer, employee or non-employee to act otherwise, either through inducement or coercion.

I. Conflicts of Interest and Other Matters

Conflicts of interest may arise when an employee's position or responsibilities with the Company present an opportunity for personal gain apart from the normal compensation provided through employment. The following guidelines are provided:

A. Protection and Proper Use of Company Funds and Assets

The assets of the Company are much more than its properties, facilities, equipment, corporate funds and computer systems; they include technologies and concepts, business strategies and plans, as well as information about its business. These assets may not be improperly used and/or used to provide personal benefits for employees. In addition, employees may not provide outside persons with assets of the Company for the employee's personal gain or in such a manner as to be detrimental to the Company. Employees should protect the Company's assets and ensure their efficient and proper use. Theft, carelessness and waste have a direct impact on the Company's profitability. All Company assets should be used for legitimate business purposes.

B. Confidential Information

As part of an employee's job, he/she may have access to confidential information about the Company, its employees, agents, contractors, customers, suppliers and competitors. Unless released to the public by management, this information should not be disclosed to fellow employees who did not have a business need to know or to non-employees for any reason, except in accordance with established corporate procedures. Confidential information of this sort includes, but is not limited to, information or data on operations, business strategies and growth, business relationships, processes, systems, procedures and financial information.

C. Outside Financial Interests Influencing an Employee's Decisions or Actions

Employees should avoid any outside financial interest that might influence their decisions or actions on matters involving the Company or its businesses or property. Such interests include, among other things: (i) a significant personal or immediate family interest in an enterprise that has significant business relations with the Company; or (ii) an enterprise or contract with a supplier, service-provider or any other company or entity where the employee or a member of the immediate family of the employee is a principal or financial beneficiary other than as an employee. All such interests should be disclosed by the employee to the Company's Compliance Officer.

D. Outside Activities Having Negative Impact On Job Performance

Employees should avoid outside employment or activities that would have a negative impact on their job performance with the Company, or which are likely to conflict with their job or their obligations to the Company.

E. Business Opportunities; Competitive Interests; Corporate Opportunities

No employee may enter into any contract or arrangement, own any interest or be a director, officer or consultant in or for an entity which enters into any contract or arrangement (except for the ownership of non-controlling interests in publicly-traded entities) with the Company for the providing of services to the Company unless and until the material facts as to the relationship or interest and the contract or transaction are fully disclosed to the Company's Compliance Officer and, if approved by the Company, the Company's Compliance Officer shall provide written confirmation of the approval of said contract or transaction.

Employees owe a duty to the Company to advance its legitimate interests when the opportunity arises to do so. Employees should refrain from and shall be prohibited from (i) taking for themselves or for their personal benefit opportunities that could advance the interests of the Company or benefit the Company when such opportunities are discovered through the use of Company property,

information or position; (ii) using Company property, information or position for personal gain; or (iii) competing with the Company.

II. Dealing With Suppliers, Customers And Other Employees

The Company obtains and keeps its business because of the quality of its operations. Conducting business, however, with other employees, suppliers and customers can pose ethical or even legal problems. The following guidelines are intended to help all employees make the appropriate decision in potentially difficult situations.

A. Bribes and Kickbacks

No employee of the Company may ever accept or pay bribes, kickbacks or other types of unusual payments from or to any organization or individual seeking to do business with, doing business with or competing with the Company.

B. Gifts

Employees may accept gifts or entertainment of nominal value as part of the normal business process if public knowledge of the employee's acceptance could cause the Company no conceivable embarrassment. Even a nominal gift and/or entertainment should not be accepted if it might appear to an observer that the gift and/or entertainment would influence the employee's business decisions. The term "nominal value" applies to the amount of the gift and/or its frequency; i.e., frequent gifts, even if of nominal value, are unacceptable. The term "entertainment" includes, but is not limited to, meals, charitable and sporting events, parties, plays and concerts. If you have any questions about the acceptance of entertainment or gifts, ask the Company's Compliance Officer for advice.

C. Travel and Entertainment Expenses

Employees must comply with the Company's policy on travel and entertainment expenses is set forth in the Company's Employee Handbook, as the same may be amended or supplemented from time to time.

D. Relations with Government Personnel

The Company will not offer, give or reimburse expenses for entertainment or gratuities (including transportation, meals at business meetings or tickets to sporting or other events) to government officials or employees who are prohibited from receiving such by applicable government regulations.

E. Payments to Agents, Consultants, Distributors, Contractors

Agreements with agents, sales representatives, distributors, contractors and consultants should be in writing and should clearly and accurately set forth the services to be performed, the basis for earning the commission or fee involved and the applicable rate or fee. Payments should be reasonable in amount and not excessive in light of the practice in the trade and commensurate with the value of services rendered.

F. Fair Dealing

Each employee should endeavor to deal fairly with the Company's customers, suppliers, competitors and other employees.

III. Books and Records

False or misleading entries shall not be made in any reports, ledgers, books or records of the Company nor shall any misrepresentation be made regarding the content thereof. No employee may engage in an arrangement that in any way may be interpreted or construed as misstating or otherwise concealing the nature or purpose of any entries in the books and records of the Company. No payment

or receipt on behalf of the Company may be approved or made with the intention or understanding that any part of the payment or receipt is to be used for a purpose other than that described in the documents supporting the transaction.

IV. Competitive Practices

In business, it is inevitable that the Company and its competitors will meet and talk from time to time; this is neither against the law nor to be avoided. What will not be tolerated is collaboration with competitors in violation of the law on such things as pricing, production, marketing, inventories, product development, sales territories and goals, market studies and proprietary or confidential information.

As a vigorous competitor in the marketplace, the Company seeks economic knowledge about its competitors; however, it will not engage in illegal acts to acquire a competitor's trade secrets, financial data, information about company facilities, technical developments or operations.

V. Political Activities & Contributions

The Company encourages each of its employees to be good citizens and to participate in the political process. Employees should, however, be aware that: (1) federal law and the statutes of some states in the U.S. prohibit the Company from contributing, directly or indirectly, to political candidates, political parties or party officials; and (2) employees who participate in partisan political activities should ensure that they do not leave the impression that they speak or act for the Company.

VI. Equal Employment Opportunity

The Company is an Equal Opportunity Employer as a matter of law, conduct and good business practice. No employee may discriminate against another employee or prospective employee or make disparaging comments or criticisms on the basis of race, color, creed, sex, national origin, age, disability or veteran's status. Such practices must be avoided in daily work as well as in personnel actions—hiring, transfer, discipline, promotion, pay action and terminations. In addition to the above-stated prohibitions, sexual harassment will not be tolerated.

VII. Compliance with Laws, Rules and Regulations

The Company proactively promotes compliance by all employees with applicable laws, rules and regulations of any governmental unit, agency or divisions thereof and the rules and regulations of The Nasdaq Stock Market, Inc. or any exchange upon which the Company's stock may be traded. The Company has adopted and will enforce its policies regarding an employee's trading in the stock of the Company based on inside information and will require employees to abide by such policy as well as the provisions of applicable law on trading on inside information and all employees of the Company are directed to refrain from trading in the Company's stock based on inside information. The Company requires its employees to abide by applicable law and the Company's procedures with respect to "blackouts" (periods of time within which all or some cross-section of the Company's employees will be prevented from trading in the Company' stock). The Company requires its employees to abide by applicable law and the Company's policies with respect to disclosures of material non-public information (Regulation FD).

VIII. Protection of Employees from Retaliation for Whistleblowing ("Whistleblowing Policy")

A. Purpose

To encourage employees to report Alleged Wrongful Conduct.

To prohibit supervisory personnel from taking Adverse Personnel Action against a Company employee as a result of the employee's good faith disclosure of Alleged Wrongful Conduct to a Designated Company Officer or Director or to the Company's Audit Committee. An employee who discloses and subsequently suffers an adverse Personnel Action as a result is subject to the protection of this Whistleblowing Policy.

B. Applicability

All employees of the Company who disclose Alleged Wrongful Conduct, as defined in this Whistleblowing Policy, and, who, as a result of the disclosure, are subject to an Adverse Personnel Action.

C. Whistleblowing Policy

All employees of the Company are encouraged promptly to report Alleged Wrongful Conduct. No Adverse Personnel Action may be taken against a Company employee in Knowing Retaliation for any lawful disclosure of information to a Designated Company Officer or Director or to the Company's Audit Committee, which information the employee in good faith believes evidences: (i) a violation of any law; (ii) fraudulent or criminal conduct or activities; (iii) questionable accounting or auditing matters or matters; (iv) misappropriation of Company funds; or (v) violations of provisions of this Code (such matters being collectively referred to herein as "Alleged Wrongful Conduct").

No supervisor, officer, director, department head or any other employee with authority to make or materially influence significant personnel decisions shall take or recommend an Adverse Personnel Action against an employee in Knowing Retaliation for disclosing Alleged Wrongful Conduct to a Designated Company Officer or Director or to the Company's Audit Committee.

D. Definitions

In addition to other terms as defined above, the terms set forth on Exhibit A attached hereto shall have the meanings set forth thereon for purposes of this Whistleblowing Policy.

E. Making A Disclosure

An employee who becomes aware of Alleged Wrongful Conduct is encouraged to make a Disclosure to a Designated Company Officer or Director or to the Company's Audit Committee as soon as possible.

F. Legitimate Employment Action

This Whistleblowing Policy may not be used as a defense by an employee against whom an Adverse Personnel Action has been taken for legitimate reasons or cause. It shall not be a violation of this Whistleblowing Policy to take Adverse Personnel Action against an employee whose conduct or performance warrants that action separate and apart from the employee making a disclosure.

G. Whistleblowing Statutes

An employee's protection under this Whistleblowing Policy is in addition to any protections such employee may have pursuant to any applicable state or federal law and this Whistleblowing Policy shall not be construed as limiting any of such protections.

IX. Audit Committee Procedures—Receipt, Retention and Treatment of Complaints Regarding Accounting, Internal Accounting Controls or Auditing Matters

Pursuant to the requirements of the Sarbanes-Oxley Act of 2002, the Company's Audit Committee has established the following procedures for the receipt, retention and treatment of complaints by Company employees regarding the Company's accounting, internal accounting controls or auditing matters.

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A. Purpose

To promote and encourage Company employees to report complaints, problems or questionable practices relative to accounting, internal accounting controls or auditing matters (collectively referred to herein as "Accounting Concerns").

B. Applicability

All employees of the Company.

C. Procedures

Any Company employee who has, knows of or has reason to know or suspect the existence of any Accounting Concern is encouraged to report such Accounting Concern, promptly and in writing, to the Company's Compliance Officer and the Audit Committee at the following address:

Compliance Officer

P&F Industries, Inc.
c/o Joseph A. Molino, Jr.
300 Smith Street
Farmingdale, New York 11735

with a copy to:

Chairman of the Audit Committee
P&F Industries, Inc.
c/o Joseph A. Molino, Jr.
300 Smith Street
Farmingdale, New York 11735

Submissions by Company employees of Accounting Concerns may be signed by the employee or may be anonymous. Submissions by Company employees of Accounting Concerns should be sufficiently detailed so as to provide the necessary information to the Company's Audit Committee as to the nature of the Accounting Concerns, the violation or potential violation of any federal or state law or regulation or the nature of any questionable accounting or auditing practice or matter. Company employees are encouraged to include as much factual data as possible in any submissions of Accounting Concerns and Company employees shall not utilize the submission of an Accounting Concern for the sole purpose of harassing another Company employee or officer. Submissions by Company employees of Accounting Concerns shall be copied by the Compliance Officer's Administrative Assistant and retained in a file entitled "Accounting Concerns Report File" to be kept separate from the files located outside of the Company's Accounting Department.

The Chairman of the Audit Committee shall review and investigate or cause to be investigated each submission by Company employees of Accounting Concerns that suggests any violation of Company policies, violation of any federal or state laws or regulations or any questionable accounting or auditing practice or matter. The Chairman of the Audit Committee may utilize the services of the Company's outside legal counsel in any such investigations. In the event the Chairman of the Audit Committee shall determine that any Accounting Concern is of sufficient veracity and significance so as to mandate any action by the Company, the Chairman of the Audit Committee shall report the Accounting Concern to the Audit Committee and, if necessary, to the Company's Board of Directors with a recommendation as to specific action to be taken. In extreme cases where an Accounting Concern has been reported that involves a violation or potential violation of federal or state laws or regulations and the Chairman of the Audit Committee has determined that such report is accurate or that sufficient evidence exists to create a significant concern as to whether such violation has occurred

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or will occur, the Chairman of the Audit Committee may report such Accounting Concern to the appropriate government authority.

D. Protections

Company employees who submit reports of Accounting Concerns shall be entitled to the protection of the Whistleblowing Policy set forth above.

X. Public Company Reporting

As a public company, it is important that the Company's filings with the SEC and other public disclosures of information be complete, fair, accurate and timely. An employee, officer or director of the Company may be called upon to provide necessary information to ensure that the Company's public reports are complete, fair and accurate. The Company expects each Company employee, officer and director to take this responsibility seriously and to provide prompt, complete, fair and accurate responses to inquiries with respect to the Company's public disclosure requirements. With respect to the Company's employees, officers and directors who may be participating in the preparation of reports, information, press releases, forms or other information to be publicly disclosed through filings with the SEC or as mandated by the SEC, such employees, officers and directors are expected to use their diligent efforts to ensure that such reports, press releases, forms or other information are complete, fair, accurate and timely.

XI. Compliance and Discipline

All Company employees are required to comply with this Code. Employees are expected to report violations of this Code and assist the Company, when necessary, in investigating violations. All department heads, managers and supervisors are charged with the responsibility of supervising their employees in accordance with this Code.

Failure to comply with this Code will result in disciplinary action that may include suspension, termination, referral for criminal prosecution and/or reimbursement to the Company for any losses or damages resulting from the violation. The Company reserves the right to terminate any employee immediately for a single violation of this Code.

All employees of the Company may be asked from time to time to reaffirm their understanding of and willingness to comply with this Code by signing an appropriate certificate (see Appendix A).

XII. Adoption, Amendment and Waiver

A. Adoption and Amendment

This Code has been adopted by the Company's Board of Directors and may be changed, altered or amended at any time. The interpretation of any matter with respect to this Code by the Board of Directors shall be final and binding.

B. Waiver

Waivers of the provisions of this Code may be granted or withheld from time to time by the Company in its sole discretion. Waivers are only effective if set forth in writing after full disclosure of the facts and circumstances surrounding the waiver. Waivers for the benefit of directors and executive officers must be approved by the Board of Directors and will be publicly disclosed by the Company. All other waivers may be approved by the Compliance Officer and may be publicly disclosed by the Company.

NO EMPLOYMENT CONTRACT

Nothing contained herein shall be construed as limiting the Company's right to terminate an employee immediately for any reason. This Code does not provide any guarantees of continued employment, nor does it constitute an employment contract between the Company and any employee.

APPENDIX A

EMPLOYEE STATEMENT

I acknowledge having received a copy of the Company's Code of Business Conduct and Ethics. I have read it completely and I understand that the Code applies to me. I understand the Code does not constitute an employment contract and I agree to comply fully with each of the provisions of the Code, including such changes to the Code as the Company may announce from time to time. I have reviewed with my department head or the Compliance Officer any matters concerning ownership or other activities which are required to be disclosed to the Company by the Code.

Employee Name _____
Employee Signature _____
Date _____

EXHIBIT A

DEFINED TERMS—WHISTLEBLOWING POLICY

1. "Adverse Personnel Action": an employment-related act or decision or a failure to take appropriate action by a supervisor or higher level authority which affects an employee negatively as follows:
 - a. Termination of employment;
 - b. Demotion;
 - c. Suspension;
 - d. Written reprimand;
 - e. Retaliatory investigation;
 - f. Decision not to promote;
 - g. Receipt of an unwarranted performance rating;
 - h. Withholding of appropriate salary adjustments;
 - i. Elimination of the employees' position, absent an overall reduction in work force, reorganization, or a decrease in or lack of sufficient funding, monies, or work load; or
 - j. Denial of awards, grants, leaves or benefits for which the employee is then eligible.
2. "Disclosure": oral or written report by an employee to a Designated Company Officer or Director or to the Company's Audit Committee of Alleged Wrongful Conduct.
3. "Knowing Retaliation": An Adverse Personnel Action taken by a supervisor or other authority against an employee where such employee's prior disclosure of Alleged Wrongful Conduct is a direct or indirect reason or basis for the Adverse Personnel Action.
4. "Designated Company Officer or Director": The Company's Compliance Officer, any executive officer of the Company of the level of Vice President or above and any member of the Company's Board of Directors.

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[Exhibit 14.1](#)

[APPENDIX A EMPLOYEE STATEMENT](#)

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EXHIBIT 21

P & F INDUSTRIES, INC.

SUBSIDIARIES OF THE REGISTRANT

Countrywide Hardware, Inc., a Delaware Corporation

d/b/a Nationwide Industries, Inc.
Franklin Manufacturing

Embassy Industries, Inc., a New York Corporation

d/b/a Embassy Industries, Inc.

Florida Pneumatic Manufacturing Corporation, a Florida Corporation

d/b/a Florida Pneumatic Manufacturing Corporation
Universal Tool
Pipemaster
Berkley Tool

Green Manufacturing, Inc. a Delaware Corporation

d/b/a Green Manufacturing, Inc.

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[P & F INDUSTRIES, INC. SUBSIDIARIES OF THE REGISTRANT](#)

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EXHIBIT 23

P & F INDUSTRIES, INC.

CONSENT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

P & F Industries, Inc.
Farmingdale, New York

We hereby consent to the incorporation by reference in the Registration Statements of P & F Industries, Inc. (the "Company") on Form S-8 filed on February 18, 1997 and June 14, 2002, as filed with the Securities and Exchange Commission, of our report dated March 5, 2004 on the consolidated financial statements and schedule of the Company appearing in its Annual Report on Form 10-K for the year ended December 31, 2003.

/s/ BDO SEIDMAN, LLP

New York, New York
March 25, 2004

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[P & F INDUSTRIES, INC. CONSENT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS](#)

P & F INDUSTRIES, INC.

**CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Richard A. Horowitz, certify that:

1. I have reviewed this Annual Report of P & F Industries, Inc. on Form 10-K (this "report") for the year ended December 31, 2003;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
 - a) All significant deficiencies in the design or operation of internal control over financial reporting that are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

March 29, 2004

s/ RICHARD A. HOROWITZ

Date

Richard A. Horowitz
Principal Executive Officer

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[P & F INDUSTRIES, INC. CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002](#)

P & F INDUSTRIES, INC.
CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Joseph A. Molino, Jr., certify that:

1. I have reviewed this Annual Report of P & F Industries, Inc. on Form 10-K (this "report") for the year ended December 31, 2003;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
 - a) All significant deficiencies in the design or operation of internal control over financial reporting that are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

March 29, 2004

s/ JOSEPH A. MOLINO, JR.

Date

Joseph A. Molino, Jr.
Principal Financial Officer

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[P & F INDUSTRIES, INC. CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002](#)

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EXHIBIT 32.1

P & F INDUSTRIES, INC.

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of P&F Industries, Inc. (the "Company") on Form 10-K for the year ended December 31, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Richard A. Horowitz, Principal Executive Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

March 29, 2004

s/ RICHARD A. HOROWITZ

Date

Richard A. Horowitz
Principal Executive Officer

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[P & F INDUSTRIES, INC. CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002](#)

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EXHIBIT 32.2

P & F INDUSTRIES, INC.

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of P&F Industries, Inc. (the "Company") on Form 10-K for the year ended December 31, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Joseph A. Molino, Jr., Principal Financial Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

(3) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(4) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

March 29, 2004

s/ JOSEPH A. MOLINO, JR.

Date

Joseph A. Molino, Jr.
Principal Financial Officer

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[P & F INDUSTRIES, INC. CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002](#)