FORM 10-K

P&F INDUSTRIES INC - PFIN

Filed: March 28, 2005 (period: December 31, 2004)

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, 2004

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. NO ☐

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, 2004 (the last business day of the registrant's most recently completed second fiscal quarter), was approximately $14,169,000.

As of March 24, 2005, there were 3,565,631 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 its Annual Meeting of Stockholders to be held during 2005.

P&F INDUSTRIES, INC.

FORM 10-K
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004

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FORWARD LOOKING STATEMENTS

The Private Securities Litigation Reform Act of 1995 (the "Reform Act") provides a safe harbor for forward-looking statements made by or on behalf of P&F Industries, Inc. and subsidiaries. The Company and its representatives may, from time to time, make written or verbal forward-looking statements, including statements contained in the Company's filings with the Securities and Exchange Commission and in its reports to stockholders. Generally, the inclusion of the words "believe," "expect," "intend," "estimate," "anticipate," "will," and similar expressions identify statements that constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 and that are intended to come within the safe harbor protection provided by those sections. Any forward-looking statements contained herein, including those related to the Company's future performance, are based upon the Company's historical performance and on current plans, estimates and expectations. Such forward-looking statements are subject to various risks and uncertainties identified in Item 7. Forward-looking statements speak only as of the date on which they are made, and the Company undertakes no obligation to update publicly or revise any forward-looking statement, whether as a result of new information, future developments or otherwise.

PART I

ITEM 1. Business

P&F Industries, Inc. ("P&F") is a Delaware corporation incorporated on April 19, 1963. P&F 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, retail and automotive markets, and the importation and sale of compressor air filters. Florida Pneumatic also markets, through its Berkley Tool division ("Berkley"), a line of pipe cutting and threading tools, wrenches and replacement electrical components for a widely-used brand of pipe cutting and threading machines. Countrywide conducts its business operations through Nationwide Industries, Inc. ("Nationwide"), its wholly-owned subsidiary, through its Franklin Manufacturing ("Franklin") division and through Woodmark International, L.P. ("Woodmark"), a limited partnership owned by P&F and Countrywide. (See Note 2 to the Notes to Financial Statements for information regarding the June 2004 Woodmark acquisition transaction.) Nationwide is an importer and manufacturer of door, window and fencing hardware. Franklin imports a line of door and window hardware. Woodmark is an importer of builders' hardware, including staircase components and kitchen and bath hardware and accessories. Green was primarily engaged in the manufacture, development and sale of heavy-duty welded custom designed hydraulic cylinders until it exited that business in December 2004 through the sale of certain assets. (See Note 3 to the Notes to the Consolidated Financial Statements.) Green also manufactured a line of access equipment for the petro-chemical industry until it exited that business in February 2005 and continues to market a line of post hole digging equipment for the agricultural industry. (See Note 15 to the Notes to Consolidated Financial Statements regarding the disposition of certain assets related to Green's exit from the access equipment business.) Embassy is engaged in the manufacture and sale of baseboard heating products and the importation and sale of radiant heating systems and boilers. Note 14 to 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 20.6%, 22.0% and 22.3% of consolidated revenues for the years ended December 31, 2004, 2003 and 2002, respectively. The Home Depot, Inc. is a customer of both Florida Pneumatic and Countrywide, and accounted for 16.5%, 18.1% and 18.3% of consolidated revenues for the years ended December 31, 2004, 2003 and 2002, respectively. Revenues derived from countries outside of the United States were immaterial for the years ended December 31, 2004, 2003 and 2002.

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 45.2%, 42.2% and 40.5%, 32.4%, 37.4% and 30.5%, and 1.2%, 9.9% and 12.0% of Florida Pneumatic's revenues for the years ended December 31, 2004, 2003 and 2002, 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 holiday 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 40% are bought from Japan, 45% from Taiwan and 15% from China. There are redundant sources for every product manufactured.

Countrywide

Countrywide conducts its business through Nationwide, Woodmark 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 and China. Nationwide currently purchases approximately 80% of its product from two foreign suppliers. Although there are redundant sources available for substantially all products manufactured, the loss of either of these existing suppliers could, at least temporarily, adversely affect operating results. 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.

One customer accounted for 10.9% of Nationwide's revenues for the year ended December 31, 2004 while 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's sales are somewhat seasonal, with revenues increasing approximately 35% during the spring and summer months. The majority of Nationwide's products are sold off the shelf. The backlog at December 31, 2004, of approximately 25% of annual sales, results primarily from blanket customer orders.

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

Woodmark is an importer of iron and wood stair parts and residential plumbing fixtures and other accessories for new construction and home improvement applications.

Woodmark purchases all of its stair parts and kitchen and bath products from a Far East trading company that owns or represents 11 individual factories in China, Taiwan and Indonesia. Of the total stair parts and kitchen and bath products purchases, approximately 68% are bought from China, 26% from Taiwan and 6% from Indonesia. There are redundant sources for every product manufactured.

Woodmark's stair products are sold through in-house sales personnel and manufacturers' representatives to a) traditional one- and two-step distributors of construction components who in turn sell to carpenters, home builders and the retail channel, b) distributors who specialize in stair parts and staircase installation and c) stair parts manufacturers who outsource certain components from other manufacturers. Woodmark's residential plumbing fixtures are sold through in-house sales personnel and manufacturers' representatives to plumbing wholesalers and distributors, purchasing cooperatives and OEMs in the manufactured housing and recreational vehicle industry.

No customer accounted for more than 10% of Woodmark's revenues for the six-month period since its acquisition through December 31, 2004.

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

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 China.

Two customers accounted for approximately 39.2%, 39.2% and 36.9%, and 16.5%, 20.9% and 23.2% of Franklin's revenues for the years ended December 31, 2004, 2003 and 2002, respectively.

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

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

Green

Green was primarily engaged in the manufacture, development and sale of heavy-duty welded custom designed hydraulic cylinders until it exited the cylinder business in December 2004 through the sale of certain of its assets, including property, equipment and certain inventories, to a non-affiliated third party in the industry. (See Note 3 to the Notes to the Consolidated Financial Statements.) Prior to the sale, all of Green's hydraulic cylinders were sold for use as integrated components on a variety of equipment and machinery manufactured by others. This product line accounted for 69% of Green's revenues in 2004.

Until February 2005, Green also manufactured a line of access equipment for the petro-chemical and bulk storage industries. This product line, which accounted for approximately 22% of Green's revenues in 2004, consisted of bridges, platforms, walkways and stairways, constructed of steel or aluminum and generally installed outdoors. In February 2005, Green exited the access equipment business and sold certain of its assets, including equipment, inventories and certain accounts receivable, to a non-affiliated third party. (See Note 15 to the Notes to the Consolidated Financial Statements.)

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 9% of Green's revenues in 2004, is marketed through farm equipment dealers and wholesalers.

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' representatives and in-house sales 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 radiant heating products accounted for approximately 20.5%, 21.0% and 20.6% of Embassy's total heating equipment revenues for the years ended December 31, 2004, 2003 and 2002, respectively. No customer accounted for greater than 10% of Embassy's revenues for the years ended December 31, 2004, 2003 or 2002.

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 55% of Embassy's heating equipment revenues coming in the last six months of the year.

Employees

The Company employed 257 persons as of December 31, 2004, including six at corporate headquarters. Countrywide had no employees. Florida Pneumatic had 65 employees, Nationwide had 34 employees, Woodmark had 53 employees and Green had 27 employees. These employees are not represented by a union. Embassy had 72 employees, including 40 factory workers who are covered by a single-employer union contract that expires on November 30, 2007. The Company believes that its relationships with its employees are satisfactory. In February 2005, Green exited its access equipment business and reduced its workforce by 25 employees.

ITEM 2. Properties

In connection with the acquisition of Nationwide in 2002, 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 and Embassy each own the plant facilities that they occupy. Countrywide owns the plant facility occupied by Nationwide. Each of these facilities is subject to a mortgage. Woodmark leases its two plant facilities from non-affiliated landlords with lease terms expiring in June 2008 and May 2010, respectively. Green sold its plant facility in December 2004.

Florida Pneumatic's 72,000 square foot plant facility is located in Jupiter, Florida. Nationwide's 56,250 square foot plant facility is located in Tampa, Florida. Woodmark's 60,000 square foot plant facility is located in Plano, Texas and its 46,000 square foot plant facility is located in Austell, Georgia. 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 modified or 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 position 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 and Related Stockholder Matters

The Company's Class A Common Stock trades on The Nasdaq Stock Market under the symbol PFIN. 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
2004		
First Quarter	$ 9.00	$ 8.03
Second Quarter	9.10	7.50
Third Quarter	9.90	7.50
Fourth Quarter	15.50	9.01
	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

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 24, 2005, there were approximately 1,400 holders of record of the Company's Class A Common Stock and the last sale price of the Company's stock as reported by the The Nasdaq Stock Market was $14.42. The Company has not declared any cash dividends on its Class A Common Stock since its incorporation in 1963 and has no plans to declare any cash dividends in the foreseeable future.

ITEM 6. Selected Financial Data

The following selected consolidated financial data has been derived from the Company's audited Consolidated Financial Statements for the five years ended December 31, 2004. See "Management's Discussion and Analysis of Financial Condition and Results of Operations", found in Item 7 of this report, for information regarding business acquisitions, discontinued operations, critical accounting policies and items affecting comparability of the amounts below. The selected financial information should be read in conjunction with the Consolidated Financial Statements included in Item 8 of this report.

	Year ended December 31,				
	2004	2003	2002	2001	2000
Revenues	$ 103,631,607	$ 77,953,637	$ 69,299,396	$ 55,974,199	$ 64,310,561
Earnings from continuing operations before discontinued operations and cumulative effect of change in accounting principle	$ 4,238,245	$ 3,913,741	$ 3,574,893	$ 2,233,855	$ 3,472,562
Discontinued operations, net of taxes	(199,682)	(550,792)	(712,042)	(421,047)	352,378
Net earnings before cumulative effect of change in accounting principle	4,038,563	3,362,949	2,862,851	1,812,808	3,824,940
Cumulative effect of change in accounting principle, net of taxes	—	—	(3,239,118)	—	—
Net earnings (loss)	$ 4,038,563	$ 3,362,949	$ (376,267)	$ 1,812,808	$ 3,824,940
Earnings (loss) per common share:					
Basic:					
Net earnings from continuing operations	$ 1.20	$ 1.12	$ 1.02	$ .63	$ .98
Discontinued operations, net	(.05)	(.16)	(.20)	(.12)	.09
Change in accounting principle, net	—	—	(.93)	—	—
Net earnings (loss) per common share—basic	$ 1.15	$ .96	$ (.11)	$ .51	$ 1.07
Diluted:					
Net earnings from continuing operations	$ 1.15	$ 1.09	$ 1.00	$ .63	.96
Discontinued operations, net	(.05)	(.15)	(.20)	(.13)	.08
Change in accounting principle, net	—	—	(.91)	—	—
Net earnings (loss) per common share—assuming dilution	$ 1.10	$ .94	$ (.11)	$ .50	$ 1.04
Total assets	$ 90,538,073	$ 58,331,924	$ 59,167,556	$ 46,469,522	$ 54,152,817
Long-term obligations, less current maturities	$ 31,847,597	$ 8,723,324	$ 11,591,989	$ 3,548,945	$ 3,862,512
Cash dividends declared per common share	$ —	$ —	$ —	$ —	$ —

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

FORWARD LOOKING STATEMENTS AND RISK FACTORS

The Private Securities Litigation Reform Act of 1995 (the "Reform Act") provides a safe harbor for forward-looking statements made by or on behalf of P&F Industries, Inc. and subsidiaries. The Company and its representatives may, from time to time, make written or verbal forward-looking statements, including statements contained in the Company's filings with the Securities and Exchange Commission and in its reports to stockholders. Generally, the inclusion of the words "believe," "expect," "intend," "estimate," "anticipate," "will," and similar expressions identify statements that constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 and that are intended to come within the safe harbor protection provided by those sections. Any forward-looking statements contained herein, including those related to the Company's future performance, are based upon the Company's historical performance and on current plans, estimates and expectations. Such forward-looking statements are subject to various risks and uncertainties identified below. 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.

All forward-looking statements involve risks and uncertainties. These risks and uncertainties could cause the Company's actual results for the 2005 fiscal year and beyond to differ materially from those expressed in any forward-looking statement made by or on behalf of the Company for a number of reasons, including, but not limited to:

- The strength of the retail economy in the United States. The Company's business is subject to economic conditions in its major markets, including recession, inflation, deflation, general weakness in retail, industrial, and housing markets.

- The Company's ability to maintain mutually beneficial relationships with key customers. The Company has several significant customers, including two customers that, in the aggregate, constituted approximately 37% of its consolidated revenues for 2004. The loss of either of these significant customers or a material negative change in the Company's relationships with these significant customers could have an adverse effect on its financial position and results of operations.

- Adverse changes in currency exchange rates or raw material commodity prices. A significant amount of the Company's products are manufactured outside the United States and purchased in the local currency. As a result, the Company is exposed to movements in the exchange rates of various currencies against the United States dollar. The Company believes its most significant foreign currency exposures are the Japanese yen, the New Taiwan dollar, and, to a lesser extent, the euro.

- Unforeseen inventory adjustments or changes in purchasing patterns by major customers and the resultant impact on manufacturing volumes and inventory levels. The Company makes its purchasing decisions based upon a number of factors including an assessment of market needs and preferences, manufacturing lead times and cash flow considerations. To the extent that the Company's assumptions result in inventory levels being too high or too low, there could be a negative impact on its financial position and results of operations.

- Unforeseen interruptions in the manufacturing ability of certain foreign suppliers. Although the Company believes there are redundant sources available and does maintain multiple sources for certain of its products, there may be costs and delays associated with securing such sources and there can be no assurance that such sources would provide the same quality of product at similar prices.

- Market acceptance of the new products introduced in 2004 and other products scheduled for introduction in 2005, as well as the level of sales generated from these new products relative to expectations, based on existing investments in productive capacity and commitments by the Company to fund advertising and product promotions in connection with the introduction of these new products.

- The ability of certain subsidiaries of the Company to generate future cash flows sufficient to support the recorded amounts of goodwill, other intangible assets and other long-lived assets related to those subsidiaries.

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

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

- Interest rate fluctuations and other capital market conditions.

- The effects of litigation and product liability exposures, as well as other risks and uncertainties detailed from time to time in the Company's filings with the Securities and Exchange Commission.

- Changes in laws and regulations, including changes in accounting standards, taxation requirements, including tax rate changes, new tax laws and revised tax law interpretations, and environmental laws, in both domestic and foreign jurisdictions.

- The impact of unforeseen events, including war or terrorist activities, on economic conditions and consumer confidence.

This listing is not intended to be all-inclusive. There can be no assurance that the Company has correctly identified and appropriately assessed all factors affecting its business or that the publicly available and other information with respect to these matters is complete and correct. Additional risks and uncertainties not presently known to the Company or that it currently believes to be immaterial also may adversely impact the Company. Should any risks and uncertainties develop into actual events, these developments could have material adverse effects on the Company's financial position and results of operations.

OVERVIEW

The Company's consolidated revenues for the year ended December 31, 2004 increased 32.9% to $103.6 million, compared to $78.0 million for the 2003 fiscal year. Although revenues increased at all subsidiaries, the greatest increase was at Countrywide, resulting primarily from the inclusion of $19.7 million in revenues from Woodmark, acquired on June 30, 2004, and to an increase in sales in the fencing product line of Nationwide. Overall gross profit margin decreased from 33.2% to 31.0% even as the revenue volume increased principally due to a) the inclusion of Woodmark, which had an overall gross margin lower than the Company's 2003 average, b) increases in the cost of raw materials, particularly steel, and c) the increased cost of imported product due to the weakening of the U.S. dollar versus the Japanese yen, the New Taiwan dollar ("NTD") and the euro. Profits improved overall, when comparing earnings from continuing operations, from $3,913,741 to $4,238,245, or approximately 8.3%.

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 NTD 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 and housing starts, especially in the northeast and south.

At the end of 2003 and through 2004, 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 2004, the value of the U.S. dollar decreased in relation to the euro, the Japanese yen and the NTD. When comparing the change in the weighted average value of the Company's foreign currency purchases in 2004 compared to 2003, the decrease in the value of the dollar was approximately 9.3% in relation to the euro, approximately 5.4% in relation to the Japanese yen and approximately 2.1% in relation to the NTD. The net weakening of the U.S. dollar against the euro, the Japanese yen and the NTD in 2004 resulted in an increase in the cost of imported product from Europe, Japan and Taiwan of approximately $731,000. Although there can be no certainty, the Company does not expect these rates to return to the early 2004 levels in the next year.

In 2004, retail sales improved over 2003, and strong housing demand continued in the northeast and south. Any change in the trend for these indicators in 2005 is likely to 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 and warranty reserves. 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:

Revenue Recognition

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

Accounts Receivable and Allowance for Doubtful Accounts

Senior management reviews accounts receivable on a monthly basis to determine if any receivables will potentially be uncollectible. Analysis of customer history, financial data and the overall economic environment is performed. In addition, balances outstanding for more than 90 days are evaluated for possible inclusion in the accounts receivable reserve. 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 creditworthiness of any of these 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 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, 2004 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 earnings 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 appraisers if necessary, 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 fair 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. The Company's annual impairment test, done as of November 30, 2004, indicated that the fair values exceeded the carrying amounts and, as a result, 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", 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.

ACQUISITIONS

Results of operations reported in the Consolidated Financial Statements are included from the dates of the respective acquisitions, reflecting only eight months in 2002 for Nationwide and only six months in 2004 for Woodmark.

Nationwide Industries, Inc.

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. The purchase price was negotiated on the basis of Nationwide's historical financial performance. This acquisition was financed through the term loan facility available under the Company's credit agreement. (See Note 9 to the Notes to Consolidated Financial Statements.)

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 years ended December 31, 2004 and 2003, the Company recorded net additions to goodwill of approximately $489,000 and $351,000, respectively, related primarily to contingent earnout payments. (See Note 2 to the Notes to Consolidated Financial Statements.)

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.

Woodmark International L.P.

On June 30, 2004, pursuant to an Asset Purchase Agreement dated as of such date, Woodmark, a Delaware limited partnership owned by P&F and Countrywide, acquired certain assets (the "Purchased Property") comprising the business of the former Woodmark International L.P., a Texas limited partnership, and its wholly-owned subsidiary, the former Stair House, Inc., a Georgia corporation (collectively, the "Sellers"), and assumed certain of the Sellers' related liabilities. Woodmark paid $31,898,000 to acquire the Purchased Property, which purchase price consisted primarily of $27,160,000 in cash and certain subordinated notes in the aggregate principal amount of $3,408,000. The purchase price was negotiated on the basis of Woodmark's historical financial performance. Subject to certain conditions, Woodmark also agreed to pay additional cash consideration to the Sellers after the third or the fifth anniversary of the closing of the acquisition if certain financial targets described in the Asset Purchase Agreement are met. The acquisition of the Purchased Property was financed through the Company's senior credit facility. (See Note 9 to the Notes to Consolidated Financial Statements.)

As part of the acquisition, the Company recorded approximately $8,840,000 in other identifiable intangible assets, principally related to the value of customer relationships, and approximately $12,675,000 of goodwill through December 31, 2004. (See Note 2 to the Notes to Consolidated Financial Statements.)

DISCONTINUED OPERATIONS

Green Manufacturing, Inc.—Hydraulic Cylinder Division

In December 2004, pursuant to an Asset Purchase Agreement and other related documents (collectively, the "Agreement"), among P&F, Green and Rosenboom Machine & Tool, Inc. ("RMT") (an unaffiliated third party), Green sold certain of its assets comprising its Hydraulic Cylinder Division to RMT. The assets sold pursuant to the Agreement include, among others, property, machinery and equipment, raw materials, work-in process inventory and certain intangibles. Green also sold the land and building in which the division was housed to RMT in connection with this transaction. Green received net cash proceeds of approximately $3,679,000 and a promissory note of approximately $686,000 at the closing. In addition, Green may receive additional consideration based upon certain future sales by RMT. In addition, RMT has agreed to hire all Green Hydraulic Cylinder Division employees in Bowling Green, Ohio and, as a result of the transaction, Green has effectively exited the hydraulic cylinder business.

In connection with the transaction, Green and RMT entered into an agreement which provides for RMT to purchase from Green 100% of RMT's requirements for products of the type that constitute part of Green's inventory of finished goods as of the acquisition date with all purchases by RMT being binding and non-cancelable at pre-established prices. The term is for a period of one year from the acquisition date. RMT shall maintain for the benefit of Green the insurance policy insuring the finished goods inventory and will bear the entire risk of loss, theft, destruction or any damage to the inventory. RMT will also be responsible for all recordkeeping with respect to the inventory. Within 5 days of the expiration of the term, RMT is obligated to provide Green with a list of all unpurchased inventory and return such inventory to Green. Based on the terms of the agreement, Green has effectively entered into an arrangement which provides for a transfer of its inventory to RMT prior to payment, as if it had been sold to RMT, with Green recording it as an other current receivable (based on the cost of the inventory which approximated $889,000). This treatment is based on the fact that Green has effectively transferred control of the inventory to RMT. RMT's employees maintain control of the inventory as it is located on RMT's premises and also bears risk of loss, theft, destruction or any damage to the inventory. Also, all purchases by RMT are binding and non-cancelable at pre-established prices with RMT being Green's only customer for the one-year period.

The Company recognized a gain on the sale of these assets of approximately $134,000 ($88,000 net of tax) in the fourth quarter of 2004.

The following amounts related to the sale of Green's Hydraulic Cylinder Division assets have been segregated from the Company's continuing operations and are reported as assets of discontinued operations in the consolidated balance sheets.

	December 31,			
	2004		2003	
	Current	Long-term	Current	Long-term
Assets of discontinued operations:				
Inventories	$ —	$ —	$ 1,360,000	$ —
Property and equipment	—	—	—	3,524,000
Total assets of discontinued operations	$ —	$ —	$ 1,360,000	$ 3,524,000

Results of operations for Green's Hydraulic Cylinder Division are included from the beginning of each fiscal period presented through December 10, 2004, the effective date of asset disposition, and have been segregated from continuing operations and reflected as discontinued operations approximately as follows:

	Year Ended December 31,		
	2004	2003	2002
Revenues	$ 10,327,000	$ 8,454,000	$ 7,915,000
Loss before income taxes	$ (437,000)	$ (882,000)	$ (1,130,000)
Income tax benefit	149,000	331,000	418,000
Loss from discontinued operations, net of taxes	(288,000)	(551,000)	(712,000)
Pre-tax gain on sale of assets	134,000	—	—
Income taxes	(46,000)	—	—
Gain on sale of assets, net of taxes	88,000	—	—
Discontinued operations, net of taxes	$ (200,000)	$ (551,000)	$ (712,000)

RESULTS OF OPERATIONS

2004 Compared to 2003

Revenues

Revenues for the years ended December 31, 2004 and 2003 were as follows:

Year ended December 31,	Consolidated	Pneumatic tools and related equipment	Hardware	Access/ Agricultural products	Heating products
2004	$ 103,631,607	$ 47,374,112	$ 40,689,749	$ 4,748,449	$ 10,819,297
2003	$ 77,953,637	$ 45,121,611	$ 19,212,718	$ 3,933,442	$ 9,685,866
% increase	32.9%	5.0%	111.8%	20.7%	11.7%

Revenues from pneumatic tools and related equipment increased due primarily to: increases in retail promotions, new product introductions and base sales of approximately $2,085,000, $1,755,000 and $236,000, respectively, from two major retailers; increases in sales to the automotive after-market of approximately $1,381,000, of which $968,000 related to sales from new product introductions; increases in catalog sales of approximately $496,000; and increases in sales of OEM products of approximately $578,000, primarily from the addition of a new product. These increases were offset by a decrease of approximately $3,914,000 attributable to the loss of a major customer in early 2004 and the reduction of sales commission revenues of approximately $311,000 related to a product no longer being sold. Selling prices of pneumatic tools and related equipment were unchanged.

Revenues from hardware increased significantly as a result of the acquisition of Woodmark, which recorded approximately $19,721,000 in revenues during second half of 2004. Moreover, Nationwide's revenues increased by approximately $1,989,000, or 13.7%, primarily attributable to an increase of approximately $2,194,000 in sales of fencing products, which was partially offset by decreases in OEM sales of approximately $251,000. The increase in revenues in this segment was also partially offset by a decrease in revenues of approximately $166,000, or 3.6%, at Franklin, related to a significant customer that reduced its ordering. During the first quarter of 2004, the Company incurred increases in the price of steel. Effective February 1, 2004, Nationwide began charging fencing product customers an additional 4-5% to cover the increased cost. During April of 2004, the Company began increasing prices to customers at Franklin and to other customers at Nationwide in an effort to cover the cost increases.

Revenues from Access/Agricultural products increased $815,000 due primarily to a relationship begun in the second quarter of 2004 with a reseller that generated new orders in the access product line, as well as a general improvement in that market.

Revenues from heating products increased approximately $1,133,000 due primarily to increased radiant and boiler sales of approximately $554,000, reflecting continued market penetration with these newer product lines, as well as increased baseboard sales resulting from the continued strength of new housing starts in 2004. During the first quarter of 2004, the Company incurred increases in the price of steel, copper and aluminum. During the second quarter of 2004, the Company began increasing selling prices across all product lines within this segment in amounts that approximate the cost increases.

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

Gross Profit

Gross profit for the years ended December 31, 2004 and 2003 were as follows:

Year ended December 31,	Consolidated	Pneumatic tools and related equipment	Hardware	Access/ Agricultural products	Heating products
2004	$ 32,077,322	$ 14,356,939	$ 13,422,361	$ 1,062,953	$ 3,235,069
	31.0%	30.3%	33.0%	22.4%	29.9%
2003	$ 25,866,725	$ 15,289,948	$ 6,621,836	$ 932,963	$ 3,021,978
	33.2%	33.9%	34.5%	23.7%	31.2%

The decrease in the gross profit percentage from pneumatic tools and related equipment was due primarily to the impact of the weakness of the U.S. dollar in relation to the Japanese yen and the New Taiwan dollar, the loss of a major customer with a better-than-average gross margin and by a less favorable product mix, offset by other cost reductions and productivity improvements. The decrease in the gross profit percentage from hardware products was due primarily to the inclusion of Woodmark, whose gross profit percentage of 31.1% was less than this segment's 2003 average. The gross profit percentage for the remaining companies that comprised the hardware products segment was 34.8%. The gross profit percentage increased slightly compared with the prior year due to a more favorable product mix in its OEM business. The decrease in the gross profit percentage from Access/Agricultural products was due primarily to increases in raw material costs which were not able to be recovered through increased selling prices. The decrease in the gross profit percentage from heating equipment was due primarily to increases in steel and other raw material costs, lower radiant margins resulting principally from the weakening of the U.S. dollar in relation to the euro and a less favorable product mix for commercial product, partially offset by improved overhead absorption and labor efficiency for baseboard products.

Selling, General and Administrative Expenses

Consolidated selling, general and administrative ("SG&A") expenses increased $4,735,683, or 25.1%, from $18,884,868 to $23,620,551. SG&A expenses increased due primarily to the inclusion of $2,688,651 of expenses related to Woodmark in the second half of the year, increased compensation resulting from a change in executive personnel at Nationwide and, to a lesser extent, to increased compensation tied to higher profitability and increases related to professional fees, mainly related to corporate compliance and reporting requirements. These increases were partially offset by decreases resulting from cost-cutting efforts in all of the segments. However, due to increases in revenues, SG&A expenses as a percentage of revenues decreased from 24.2% to 22.8%.

Interest—Net

Net interest expense increased $464,410, or 64.5%, from $720,116 to $1,184,526, due primarily to the amounts borrowed under the Company's term loan facility to finance the Woodmark acquisition transaction on June 30, 2004, as well as the issuance and assumption of certain notes related thereto. Interest expense on borrowings under the term loan facility increased by approximately $444,000 and interest expense on the acquisition-related notes approximated $57,000. Interest expense on borrowings under the Company's revolving credit loan facility decreased by approximately $8,000, as lower average borrowings were offset by higher average interest rates.

Income Taxes

The effective tax rates for the years ended December 31, 2004 and 2003 were 41.7% and 37.5%, respectively. The increase in the effective tax rate was due primarily to an increase in expenses that are not deductible for tax purposes, including executive compensation in excess of $1,000,000. (See Note 12 to the Notes to Consolidated Financial Statements.)

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	Access/ Agricultural products	Heating products
2003	$ 77,953,637	$ 45,121,611	$ 19,212,718	$ 3,933,442	$ 9,685,866
2002	$ 69,299,396	$ 42,459,567	$ 13,346,256	$ 4,192,979	$ 9,300,594
% increase (decrease)	12.5%	6.3%	44.0%	(6.2)%	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 reduced selling prices to a significant customer, a base sales 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.

Revenues from Access/Agricultural products decreased due primarily to decreased sales in the access product line driven by weakness in the capital goods market. Selling prices within this segment were unchanged.

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.

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

Gross Profit

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

Year ended December 31,	Consolidated	Pneumatic tools and related equipment	Hardware	Access/ Agricultural products	Heating products
2003	$ 25,866,725	$ 15,289,948	$ 6,621,836	$ 932,963	$ 3,021,978
	33.2%	33.9%	34.5%	23.7%	31.2%
2002	$ 23,330,037	$ 14,996,013	$ 4,375,892	$ 1,066,613	$ 2,891,519
	33.7%	35.3%	32.8%	25.4%	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 Access/Agricultural products 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 SG&A expenses increased 11.6%, from $16,926,446 to $18,884,868, due primarily to increased costs associated with the 12.5% 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, SG&A expenses decreased from 24.4% to 24.2%, due primarily to the increase in revenues.

Interest—Net

Net interest expense decreased from $730,698 to $720,116, 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.

Income Taxes

The effective tax rates for the years ended December 31, 2003 and 2002 were 37.5% and 37.0%, respectively. (See Note 12 to 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 inventories trend down. Due to its strong asset base, predictable cash flows and favorable banking relationships, the Company believes it has adequate access to capital, if and when needed. 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,		
	2004	2003	2002
Working Capital	$29,530	$20,960	$19,779
Current Ratio	2.72 to 1	2.72 to 1	2.49 to 1
Shareholders' Equity	$41,168	$36,978	$33,823

On June 30, 2004, Woodmark acquired certain assets comprising the business of the former Woodmark International L.P. and its wholly-owned subsidiary, the former Stair House, Inc., and assumed certain related liabilities. (See Note 2 to the Notes to Consolidated Financial Statements.)

Cash increased $976,460 from $213,409 as of December 31, 2003 to $1,189,869, as of December 31, 2004. The Company's debt levels increased from $13,249,537 at December 31, 2003 to $38,910,078 at December 31, 2004, due primarily to the financing of the aforementioned acquisition. The Company's total percent of debt to total book capitalization increased from 26.4% at December 31, 2003 to 46.9% at December 31, 2004.

In connection with Countrywide's acquisition of all of the stock of Nationwide in 2002, 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. During 2004, the Company recorded net additions to goodwill of approximately $489,000, related to contingent earnout payments.

In connection with the Woodmark acquisition transaction, the Company is liable for additional payments to the sellers. The amount of these payments, which would be made as of either June 30, 2007 or June 30, 2009, are to be based on increases in earnings before interest and taxes, for the year ended on the respective date, over a base of $5,100,000. Woodmark has the option to make a payment as of June 30, 2007 in an amount equal to 48% of this increase. If Woodmark does not make this payment as of June 30, 2007, the Sellers may demand payment as of June 30, 2009 in an amount equal to 40% of the increase. Any such additional payments will be treated as additions to goodwill.

Cash provided by operating activities for 2004, 2003 and 2002 was approximately $4,951,000, $4,972,000 and $5,786,000, 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 2004, gross accounts receivable increased by approximately $3,622,000 in the aggregate and approximately $463,000, or 3.8%, exclusive of the Woodmark acquisition transaction. Increases (decreases) were approximately $3,244,000, $1,103,000, $(701,000) and $(24,000) at Countrywide, Green, Florida Pneumatic and Embassy, respectively. The increase at Countrywide was due primarily to the addition of Woodmark's gross accounts receivable of $3,260,000. The increase in gross accounts receivable at Green is due primarily to the increase in sales in the fourth quarter of 2004 compared to the fourth quarter of 2003.The decrease in Florida Pneumatic's gross accounts receivable resulted from stronger-than-expected fourth quarter collections and the timing of certain promotions compared to the prior year.

During 2004, inventories increased by approximately $9,209,000 in the aggregate and approximately $3,376,000 exclusive of the Woodmark acquisition transaction. Increases (decreases) were approximately $9,176,000, $841,000, $(868,000) and $60,000 at Countrywide, Green, Florida Pneumatic and Embassy, respectively. The increase at Countrywide was due primarily to the addition of Woodmark's inventories of $7,891,000. Inventory increases at Green and Embassy are primarily to support overall growth in the business. Inventory levels at Florida Pneumatic decreased as a result of the timing of inventory purchases.

During 2004, short-term borrowings increased by $1,000,000 primarily to fund working capital needs.

During 2004, accounts payable increased by approximately $53,000 in the aggregate and decreased approximately $164,000 exclusive of the Woodmark acquisition transaction. Increases (decreases) were approximately $378,000, $(126,000), $(162,000) and $(37,000) at Countrywide, Green, Florida Pneumatic and Embassy, respectively. The increase at Countrywide was due primarily to the addition of Woodmark's accounts payable of $305,000. The decreases at Green, Florida Pneumatic and Embassy were due primarily to the timing of payments associated with inventory purchases.

On June 30, 2004, in conjunction with the Woodmark acquisition transaction, the Company entered into a credit agreement with Citibank and another bank. 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 the banks. (See Notes 7 and 9 to the Notes to Consolidated Financial Statements.)

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, 2004, there was $4,000,000 outstanding against the revolving credit loan facility, and there were no open letters of credit.

The term loan facility provides a maximum commitment of $34,000,000 to finance acquisitions subject to the approval of the lending banks. There are no commitment fees for any unused portion of this credit facility. The Company borrowed $29,000,000 against this facility to finance the Woodmark acquisition transaction, and there was $27,000,000, including amounts rolled over from the prior term loan facility, outstanding against the term loan facility at December 31, 2004.

The foreign exchange line provides for the availability of up to $10,000,000 in foreign currency forward contracts. These contracts fix the exchange rate on future purchases of Japanese yen needed for payments to foreign suppliers. The total amount of foreign currency forward contracts outstanding under the foreign exchange line at December 31, 2004, based on that day's closing spot rate, was approximately $2,792,000.

Under its credit agreement, the Company is required to adhere to certain financial covenants. At December 31, 2004, and for the year then ended, the Company was in compliance with all of these covenants. Certain of the Company's mortgage agreements also require the Company to adhere to certain financial covenants. During the second and third quarter of fiscal 2004, the Company received a waiver for the one covenant with which it was not in compliance. Such mortgage agreement was amended and at December 31, 2004, and for the quarter then ended, the Company was in compliance with all of the covenants.

Capital spending was approximately $1,115,000, $979,000 and $3,943,000 in 2004, 2003 and 2002, respectively, which amounts were provided from working capital. Capital expenditures for 2005 are expected to be approximately $680,000, some of which may be financed through the Company's credit facilities. Included in the expected total for 2005 are capital expenditures relating to new products, expansion of existing product lines and replacement of equipment.

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 foreign currencies 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, 2004, based on that day's closing spot rate, was approximately $2,792,000.

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 2003 to 2004 had a negative effect on the Company's results of operations and its financial position. Since December 31, 2004, the relative value of the U.S dollar in relation to the Japanese yen has increased slightly. There can be no assurance as to the future trend of this value. (See "Item 7A. Quantitative and Qualitative Disclosures About Market Risk.")

IMPACT OF INFLATION

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

ENVIRONMENTAL MATTERS

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

CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

At December 31, 2004, the Company had certain contractual cash obligations and other commercial commitments, as set forth in the following tables:

	Payments Due by Period				
Contractual Cash Obligations	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Short-term borrowings(a)	$ 4,080,000	$ 4,080,000	$ —	$ —	$ —
Long-term debt(b)	40,282,000	4,511,000	15,283,000	11,851,000	8,637,000
Employment agreement(c)	3,444,000	861,000	1,722,000	861,000	—
Operating leases	1,810,000	481,000	862,000	414,000	53,000
Total contractual cash obligations	$ 49,616,000	$ 9,933,000	$ 17,867,000	$ 13,126,000	$ 8,690,000

	Amount of Commitment Expiration Per Period				
Other Commercial Commitments	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Purchase commitments(d)	$ 18,103,000	$ 18,103,000	$ —	$ —	$ —

(a) The Company entered into a credit agreement with Citibank and another bank. This agreement includes a revolving credit loan facility, which provides a total of $12,000,000 for direct borrowings, with various sublimits for letters of credit, bankers' acceptances and equipment loans. Direct borrowings under the 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 LIBOR (London InterBank Offered Rate) plus the currently applicable loan margin or the prime interest rate. 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. The amounts shown in the table include expected interest payments, which were calculated on the basis of the Company's borrowing rate of 4.02% at December 31, 2004. (See Note 7 to the Notes to Consolidated Financial Statements.)

(b) Long-term debt includes a term loan, notes payable related to the Woodmark acquisition and mortgage loans. The amounts shown in the table include expected interest payments. For long-term debt not subject to a pre-determined fixed rate of interest, the expected interest payments were calculated on the basis of the Company's borrowing rate of 4.17% at December 31, 2004. (See Note 9 to the Notes to Consolidated Financial Statements.)

(c) The Company entered into an employment agreement with its Chairman and Chief Executive Officer (the "officer") that provides for a minimum annual salary of $675,000, subject to increases in base compensation as the Board of Directors may from time to time grant to him and to receive such bonuses as the Board of Directors, in its discretion, may allocate to him. The officer is expected to receive an annual salary of $861,000 for the year ending December 31, 2005. (See Note 13 to the Notes to Consolidated Financial Statements.)

(d) The Company enters into contractual arrangements for purchase commitments in the ordinary course of business to ensure adequate levels of inventories, including raw material and sourced products. (See Note 13 to the Notes to Consolidated Financial Statements.)

NEW ACCOUNTING PRONOUNCEMENTS

See Note 1 to the Notes to Consolidated Financial Statements included in Item 8 of this report.

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 through its inventory purchases and operating expenses through realized foreign exchange gains or losses. 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 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, 2004, the Company had foreign currency forward contracts, maturing in 2005, to purchase Japanese yen at contracted forward rates. The value of these contracts at December 31, 2004, based on that day's closing spot rate, was approximately $2,792,000, which was the approximate value of the Company's corresponding yen-denominated accounts payable. During the years ended December 31, 2004, 2003 and 2002, the Company recorded in its selling, general and administrative expenses a net realized gain (loss) of approximately $(96,000), $105,000 and ($120,000), respectively, on foreign currency transactions. At December 31, 2004, 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, 2004 was approximately $308,000. (See Note 1 to the Notes to the Consolidated Financial Statements.)

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. In addition to affecting operating results, adverse changes in interest rates could impact the Company's access to capital, certain merger and acquisition strategies and the level of capital expenditures.

The carrying amounts reported in the consolidated balance sheets for cash and cash equivalents, accounts receivable, accounts payable and short-term debt, approximate fair value as of December 31, 2004 and 2003 because of the relatively short-term maturity of these financial instruments. The carrying amounts reported for long-term debt approximate fair value as of December 31, 2004 and 2003 because, in general, the interest rates underlying the instruments fluctuate with market rates.

ITEM 8. Financial Statements and Supplementary Data

P&F INDUSTRIES, INC. AND SUBSIDIARIES

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors 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, 2004 and 2003, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2004. 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 the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and schedule are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and schedule, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of P&F Industries, Inc. and Subsidiaries at December 31, 2004 and 2003, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2004, in conformity with accounting principles generally accepted in the United States.

As discussed in Note 1 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

BDO Seidman, LLP

New York, New York
March 21, 2005

P&F INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	December 31, 2004	December 31, 2003
ASSETS		
CURRENT		
Cash and cash equivalents	$ 1,189,869	$ 213,409
Accounts receivable—net	15,263,665	11,921,846
Notes and other receivables	1,735,383	—
Inventories	26,073,404	17,395,067
Deferred income taxes—net	1,070,000	789,000
Assets of discontinued operations	—	1,359,994
Prepaid expenses and other	1,383,414	1,456,188
TOTAL CURRENT ASSETS	46,715,735	33,135,504
PROPERTY AND EQUIPMENT		
Land	1,246,938	1,246,938
Buildings and improvements	7,230,248	7,221,986
Machinery and equipment	12,373,606	10,883,632
	20,850,792	19,352,556
Less accumulated depreciation and amortization	11,215,631	10,135,483
NET PROPERTY AND EQUIPMENT	9,635,161	9,217,073
GOODWILL	23,725,085	10,561,703
OTHER INTANGIBLE ASSETS—net	9,794,833	1,773,333
ASSETS OF DISCONTINUED OPERATIONS	—	3,523,777
OTHER ASSETS—net	667,259	120,534
TOTAL ASSETS	$ 90,538,073	$ 58,331,924

See accompanying notes to consolidated financial statements.

	December 31,	
	2004	2003
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Short-term borrowings	$ 4,000,000	$ 3,000,000
Accounts payable	3,355,377	3,302,185
Income taxes payable	1,600,683	—
Accrued compensation	2,331,222	1,730,180
Other accrued liabilities	2,836,209	2,616,691
Current maturities of long-term debt	3,062,481	1,526,213
TOTAL CURRENT LIABILITIES	17,185,972	12,175,269
LONG-TERM DEBT, less current maturities	31,847,597	8,723,324
DEFERRED INCOME TAXES—net	337,000	455,000
TOTAL LIABILITIES	49,370,569	21,353,593
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY		
Preferred stock—$10 par; authorized—2,000,000 shares; no shares outstanding.	—	—
Common Stock:		
Class A—$1 par; authorized—7,000,000 shares; issued—3,777,367 and 3,735,367 shares	3,777,367	3,735,367
Class B—$1 par; authorized—2,000,000 shares; no shares issued or outstanding	—	—
Additional paid-in capital	8,718,450	8,609,840
Retained earnings	30,398,528	26,359,965
Treasury stock, at cost (223,736 shares)	(1,726,841)	(1,726,841)
TOTAL SHAREHOLDERS' EQUITY	41,167,504	36,978,331
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 90,538,073	$ 58,331,924

See accompanying notes to consolidated financial statements.

P&F INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31,		
	2004	2003	2002
Revenues			
Net sales	$ 103,533,151	$ 77,476,389	$ 68,624,292
Other	98,456	477,248	675,104
	103,631,607	77,953,637	69,299,396
Cost of sales	71,554,285	52,086,912	45,969,359
Gross profit	32,077,322	25,866,725	23,330,037
Selling, general and administrative expenses	23,620,551	18,884,868	16,926,446
Operating income	8,456,771	6,981,857	6,403,591
Interest expense—net	1,184,526	720,116	730,698
Earnings from continuing operations before income taxes	7,272,245	6,261,741	5,672,893
Income taxes	3,034,000	2,348,000	2,098,000
Earnings from continuing operations before discontinued operations and cumulative effect of change in accounting principle	4,238,245	3,913,741	3,574,893
Discontinued operations (net of taxes):			
Loss from discontinued operations (net of tax benefit of $149,000, $331,000 and $418,000 for 2004, 2003 and 2002, respectively)	(287,509)	(550,792)	(712,042)
Gain on sale of discontinued operations (net of tax of $46,000)	87,827	—	—
Loss from discontinued operations	(199,682)	(550,792)	(712,042)
Net earnings before cumulative effect of change in accounting principle	4,038,563	3,362,949	2,862,851
Cumulative effect of change in accounting principle, net of taxes of $1,668,000	—	—	(3,239,118)
Net earnings (loss)	$ 4,038,563	$ 3,362,949	$ (376,267)

See accompanying notes to consolidated financial statements.

	Year Ended December 31,		
	2004	2003	2002
Basic earnings (loss) per common share:			
Continuing operations	$ 1.20	$ 1.12	$ 1.02
Discontinued operations	(.05)	(.16)	(.20)
Change in accounting principle	—	—	(.93)
Net earnings (loss) per common share—Basic	$ 1.15	$ .96	$ (.11)
Diluted earnings (loss) per common share:			
Continuing operations	$ 1.15	$ 1.09	$ 1.00
Discontinued operations	(.05)	(.15)	(.20)
Change in accounting principle	—	—	(.91)
Net earnings (loss) per common share—Assuming dilution	$ 1.10	$ .94	$ (.11)
Weighted average common shares outstanding:			
Basic	3,522,094	3,506,820	3,512,057
Diluted	3,670,882	3,589,739	3,580,872

See accompanying notes to consolidated financial statements.

P&F INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Years Ended December 31, 2004, 2003 and 2002	Total	Class A Common Stock, $1 Par Shares	Class A Common Stock, $1 Par Amount	Additional Paid-in Capital	Retained Earnings	Treasury Stock Shares	Treasury Stock Amount
Balance, January 1, 2002	$ 34,227,850	3,677,593	$ 3,677,593	$ 8,464,139	$ 23,373,283	(157,445)	$ (1,287,165)
Net loss	(376,267)	—	—	—	(376,267)	—	—
Issuance of Class A common stock as compensation	89,163	12,774	12,774	76,389	—	—	—
Purchase of Class A common stock	(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 earnings	3,362,949	—	—	—	3,362,949	—	—
Issuance of Class A common stock upon exercise of stock options	114,312	45,000	45,000	69,312	—	—	—
Purchase of Class A common stock	(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)
Net earnings	4,038,563	—	—	—	4,038,563	—	—
Issuance of Class A common stock upon exercise of stock options	150,610	42,000	42,000	108,610	—	—	—
Balance, December 31, 2004	$ 41,167,504	3,777,367	$ 3,777,367	$ 8,718,450	$ 30,398,528	(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,		
	2004	2003	2002
Cash Flows from Operating Activities:			
Net earnings (loss)	$ 4,038,563	$ 3,362,949	$ (376,267)
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:			
Loss from discontinued operations—net of taxes	287,509	—	—
Gain on sale of assets of discontinued operations	(87,827)	—	—
Non-cash charges and credits:			
Cumulative effect of change in accounting for goodwill, net of taxes	—	—	3,239,118
Depreciation and amortization	1,684,598	1,702,816	1,568,766
Amortization of other intangible assets	818,500	532,000	354,667
Amortization of other assets	13,619	21,019	20,809
Provision for losses on accounts receivable—net	126,641	(26,367)	(90,116)
Deferred income taxes—net	(232,000)	(346,000)	(52,000)
Issuance of Class A common stock as compensation	—	—	89,163
Loss (gain) on disposal of fixed assets	(644)	34,362	32,162
Changes, net of assets and liabilities of acquired businesses, in:			
Accounts receivable	(463,487)	(1,031,218)	88,187
Notes and other receivables	(160,641)	—	—
Inventories	(3,375,829)	825,012	518,656
Prepaid expenses and other	399,358	(375,875)	(352,979)
Other assets	585,651	(23,025)	(36,722)
Accounts payable	(164,389)	441,914	319,021
Accrued compensation and other accruals	1,481,646	(145,468)	463,579
	912,705	1,609,170	6,162,311
Net cash provided by operating activities	$ 4,951,268	$ 4,972,119	$ 5,786,044

See accompanying notes to consolidated financial statements.

	Year Ended December 31,		
	2004	2003	2002
Cash Flows from Investing Activities:			
Capital expenditures	$ (1,115,466)	$ (979,323)	$ (3,943,238)
Proceeds from sale of assets of hydraulic cylinder division	3,678,514		
Payments for acquisition of product line	—	—	(848,064)
Purchase of certain assets, net of certain liabilities, of Woodmark International LP	(27,160,000)	—	—
Additional purchase price — working capital adjustment	(340,357)	—	—
Payments for acquisition of Nationwide Industries, Inc., net of $2,920 cash acquired	—	—	(10,448,794)
Additional payments for purchase of Nationwide Industries, Inc.	(488,797)	(351,082)	—
Payments for acquisition-related expenses	(989,385)	—	(1,113,939)
Proceeds from sale of fixed assets	37,532	500	4,200
Net cash used in investing activities	(26,377,959)	(1,329,905)	(16,349,835)
Cash Flows from Financing Activities:			
Proceeds from short-term borrowings	14,000,000	9,500,000	5,000,000
Repayments of short-term borrowings	(13,000,000)	(11,000,000)	(2,935,000)
Proceeds from term loan	34,000,000	—	11,500,000
Repayments of term loan	(12,250,000)	—	—
Proceeds from mortgages	—	1,697,301	2,024,000
Principal payments on long-term debt	(497,459)	(4,442,300)	(4,391,484)
Proceeds from exercise of stock options	150,610	114,312	—
Purchase of Class A Common Stock	—	(322,340)	(117,336)
Net cash provided by (used in) financing activities	22,403,151	(4,453,027)	11,080,180
NET INCREASE (DECREASE) IN CASH	976,460	(810,813)	516,389
Cash and cash equivalents at beginning of year	213,409	1,024,222	507,833
Cash and cash equivalents at end of year	$ 1,189,869	$ 213,409	$ 1,024,222

See accompanying notes to consolidated financial statements.

	Year Ended December 31,		
	2004	2003	2002
Supplemental disclosures of cash flow information:			
Cash paid for:			
Interest	$ 1,060,000	$ 746,000	$ 705,000
Income taxes	$ 1,366,000	$ 2,509,000	$ 1,833,000

Non-cash investing and financing activities were as follows:

In connection with the Woodmark acquisition transaction on June 30, 2004, the Company issued a note payable to the sellers in the amount of $1,218,000. The Company also assumed a note payable to the sellers in the amount of $2,190,000.

In connection with the sale of certain assets of Green's hydraulic cylinder division, the Company received an interest bearing promissory note of approximately $686,000, payable monthly through December 2005. In addition, the Company entered into a finished goods inventory purchase agreement with the buyer and recorded a receivable of approximately $889,000 (see Note 3).

See accompanying notes to consolidated financial statements.

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, retail and automotive markets, and the importation and sale of compressor air filters. Florida Pneumatic also markets, through its Berkley Tool division ("Berkley"), a line of pipe cutting and threading tools, wrenches and replacement electrical components for a widely-used brand of pipe cutting and threading machines. Countrywide conducts its business operations through Nationwide Industries, Inc. ("Nationwide"), its wholly-owned subsidiary, through its Franklin Manufacturing ("Franklin") division and through Woodmark International, L.P. ("Woodmark"), a limited partnership between P&F and Countrywide. (See Note 2 to the Notes to Financial Statements for information regarding the June 2004 Woodmark acquisition transaction.) Nationwide is an importer and manufacturer of door, window and fencing hardware. Franklin imports a line of door and window hardware. Woodmark is an importer of builders' hardware, including staircase components and kitchen and bath hardware and accessories. Green was primarily engaged in the manufacture, development and sale of heavy-duty welded custom designed hydraulic cylinders until it exited that business in December 2004 through the sale of certain assets. (See Note 3.) Green also manufactured a line of access equipment for the petro-chemical industry until it exited that business in February 2005 and continues to manufacture a line of post hole digging equipment for the agricultural industry. (See Note 15 regarding disposition of certain assets related to Green's exit from the access equipment business.) Embassy is engaged in the manufacture and sale of baseboard heating products and the importation and sale of radiant heating systems. Note 14 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 generally accepted accounting principles in the United States. Certain of these accounting policies require the Company to make estimates and judgments that affect the reported amounts of assets, liabilities and the related disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. 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.

Reclassifications

Certain prior years' amounts in the Consolidated Financial Statements have been reclassified to conform to the current year's presentation.

Revenue Recognition

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

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 $1,646,000, $1,527,000 and $1,422,000 for the years ended December 31, 2004, 2003 and 2002, respectively.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with maturities of three months or less from the date of acquisition.

Financial Instruments

The carrying amounts reported in the consolidated balance sheets for cash and cash equivalents, accounts receivable, accounts payable and short-term debt, approximate fair value as of December 31, 2004 and 2003 because of the relatively short-term maturity of these financial instruments. The carrying amounts reported for long-term debt approximate fair value as of December 31, 2004 and 2003 because, in general, the interest rates underlying the instruments fluctuate with market rates.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are customer obligations due under normal trade terms. The Company sells its products to retailers, distributors and original equipment manufacturers involved in a variety of industries, 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, 2004 was adequate. However, actual write-offs might exceed the recorded allowance.

Concentrations of 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. The Company principally sells its products domestically to customers in diversified industries and therefore, has no other significant concentrations of credit risk other than with two major customers (see Note 14).

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 earnings 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, Other Intangible Assets and Accounting Change

In June 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets", 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. Other intangible assets continue to be amortized over a period ranging from five to fifteen 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 appraisers if necessary, 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 fair value.

In connection with the Company's implementation of SFAS 142 with respect to its Green reporting unit, a non-cash impairment charge of approximately $3,239,000, net of tax, was recorded at January 1, 2002 and is reflected in the Company's consolidated statement of operations as a cumulative effect of change in accounting principle for the year ended December 31, 2002. The Company has adopted a policy to review each reporting unit for impairment using a discounted cash flow approach that uses forward-looking assumptions regarding market share, revenues and costs for each reporting unit as well as appropriate discount rates. The write-down of goodwill shown as a cumulative effect of a change in accounting principle in our consolidated statement of operations for the year ended December 31, 2002 was determined using the forward-looking assumptions that were available to us on January 1, 2002. In 2003 and 2004, the Company again reviewed each reporting unit for impairment and no further impairment was identified. The estimates used were consistent with the plans and estimates that the Company was using to manage the underlying business.

Warranty Liability

The Company offers its customers certain 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.

Income Taxes

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 Common 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 common share is computed using the treasury stock method. Under this method, the aggregate number of shares of common stock outstanding reflects the assumed use of proceeds from the hypothetical exercise of any outstanding options 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.

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

	Year Ended December 31,		
	2004	2003	2002
Numerator:			
Numerator for basic and diluted earnings (loss) per common share:			
Earnings from continuing operations	$ 4,238,245	$ 3,913,741	$ 3,574,893
Discontinued operations, net of taxes	(199,682)	(550,792)	(712,042)
Cumulative effect of change in accounting principle, net of taxes	—	—	(3,239,118)
Net earnings (loss)	$ 4,038,563	$ 3,362,949	$ (376,267)
Denominator:			
Denominator for basic earnings (loss) per share—weighted average common shares outstanding	3,522,094	3,506,820	3,512,057
Effect of dilutive securities:			
Employee stock options	148,788	82,919	68,815
Denominator for diluted earnings (loss) per share — adjusted weighted average common shares and assumed conversions	3,670,882	3,589,739	3,580,872
Basic earnings (loss) per common share:			
Earnings from continuing operations	$ 1.20	$ 1.12	$ 1.02
Discontinued operations, net of taxes	(.05)	(.16)	(.20)
Cumulative effect of change in accounting principle, net of taxes	—	—	(.93)
Net earnings (loss) per common share—basic	$ 1.15	$ .96	$ (.11)
Diluted earnings (loss) per common share:			
Earnings from continuing operations	$ 1.15	$ 1.09	$ 1.00
Discontinued operations, net of taxes	(.05)	(.15)	(.20)
Cumulative effect of change in accounting principle, net of taxes	—	—	(.91)
Net earnings (loss) per common share—diluted	$ 1.10	$ .94	$ (.11)

There were outstanding during the years ended December 31, 2004, 2003 and 2002 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, 2004, 2003 and 2002 were 20,453, 181,207 and 189,000, respectively.

Stock-Based Compensation

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock Based Compensation-Transition and Disclosure", 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 SFAS 123, "Accounting for Stock-Based Compensation" 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:

	Year Ended December 31,		
	2004	2003	2002
Risk-free interest rate	4.5%	—	4.3%
Volatility	35.0%	—	56.9%
Expected life (years)	9.3	—	8.5

The weighted-average fair value of options for which the exercise price equaled the market price on the grant date was $4.43 and $4.20 in 2004 and 2002, respectively. The weighted-average fair value of options for which the exercise price exceeded the market price on the grant date was $2.50 and $3.07 in 2004 and 2002, respectively. No options were granted in 2003.

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

	Year Ended December 31,		
	2004	2003	2002
Net earnings (loss) as reported	$ 4,038,563	$ 3,362,949	$ (376,267)
Add: Stock-based employee compensation expense included in reported net earnings (loss), net of related tax effects	—	—	56,172
Deduct: Total stock-based employee Compensation expense determined under fair value method, net of related tax effects	(400,393)	—	(593,100)
Pro forma net earnings (loss)	$ 3,638,170	$ 3,362,949	$ (913,195)
Basic earnings (loss) per common share:			
As reported	$ 1.15	$ .96	$ (.11)
Pro forma	$ 1.03	$ .96	$ (.26)
Diluted earnings (loss) per common share:			
As reported	$ 1.10	$ .94	$ (.11)
Pro forma	$ .99	$ .94	$ (.26)

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, 2004, the Company had foreign currency forward contracts, maturing in 2005, to purchase Japanese yen at contracted forward rates. The value of these contracts at December 31, 2004, based on that day's closing spot rate, was approximately $2,792,000, which was the approximate value of the Company's yen-denominated accounts payable. During the years ended December 31, 2004, 2003 and 2002, the Company recorded in its selling, general and administrative expenses a net realized gain (loss) of approximately $(96,000), $105,000 and ($120,000), respectively, on foreign currency transactions. At December 31, 2004, the Company had no material unrealized gains or losses on foreign currency transactions.

New Accounting Pronouncements

In December 2004, the FASB issued SFAS 123R, "Share-Based Payment." This statement is a revision of SFAS 123, "Accounting for Stock-Based Compensation" and supercedes APB 25, "Accounting for Stock Issued to Employees," and is effective as of the beginning of the first interim or annual reporting period that begins after June 15, 2005. SFAS 123R establishes standards on accounting for transactions in which an entity obtains employee services in share-based payment transactions. This statement requires measurement of the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. That cost will be recognized over the period during which an employee is required to provide service in exchange for the award, which is usually the vesting period. SFAS 123R also addresses transactions in which an entity incurs liabilities in exchange for goods or services that are based on the fair value of the entity's equity instruments or that may be settled by the issuance of those equity instruments. The adoption of this statement is not expected to have a material effect on our financial position or results of operations. We intend to implement this statement in our third quarter of 2005.

In December 2004, the FASB issued SFAS 151, "Inventory Costs," which is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. This statement amends ARB No. 43, Chapter 4, "Inventory Pricing," to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs and wasted material (spoilage). SFAS 151 requires that these items be recognized as current-period charges regardless of whether they meet the criterion of "so abnormal". In addition, allocation of fixed production overheads to the costs of conversion must be based on the normal capacity of the production facilities. The adoption of this statement is not expected to have a material effect on our financial position or results of operations.

In December 2004, the FASB issued SFAS 153, "Exchanges of Nonmonetary Assets," which is effective for fiscal years beginning after June 15, 2005. SFAS 153 amends APB 29, "Accounting for Nonmonetary Transactions", which is based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged. The guidance in APB 29 included certain exceptions to that principle. SFAS 153 amends APB 29 to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. The adoption of this statement is not expected to have an materialeffect on our financial position or results of operations.

In November 2004, the FASB issued Emerging Issues Task Force ("EITF") 03-13, "Applying the Conditions in Paragraph 42 of SFAS 144, Accounting for the Impairment or Disposal of Long-Lived Assets, in Determining Whether to Report Discontinued Operations." This guidance is applied to a component of an enterprise that is either disposed of or classified as "held for sale" in fiscal periods after December 15, 2004. The application of this guidance was adopted in December 2004, as permitted, and had no material effect on our financial position or results of operations.

In November 2004, the FASB issued EITF 04-8, "The Effect of Contingently Convertible Instruments on Diluted Earnings per Share," which is effective for reporting periods ending after December 15, 2004. This consensus addresses when contingently convertible instruments should be included in diluted earnings per share. The application of this guidance is not expected to have a material effect on our financial position or results of operations.

In October 2004, the FASB issued EITF 04-10, "Determining Whether to Aggregate Operating Segments That Do Not Meet the Quantitative Thresholds." The consensus addresses the issue of how an enterprise should evaluate the aggregation criteria in paragraph 17 of SFAS 131, "Disclosures about Segments of an Enterprise and Related Information," when determining whether operating segments that do not meet the quantitative thresholds may be aggregated. The effective date of this issue has been delayed and is anticipated to occur in 2005 to coincide with the final issuance of the FSP (FASB Staff Position), which will provide guidance in determining whether two or more operating segments have similar economic characteristics. However, earlier adoption is permitted. The application of this guidance is not expected to have a material effect on our financial position or results of operations.

NOTE 2—ACQUISITIONS

Nationwide Industries, Inc.

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. The purchase price was negotiated on the basis of Nationwide's historical financial performance.

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, 2004 and 2003, the Company recorded net additions to goodwill of approximately $489,000 and $351,000, respectively, related primarily to contingent earnout payments.

This acquisition was accounted for in accordance with the provisions of SFAS 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 9.

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 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, 2004.

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

Current and other assets		$ 4,115,000
Property and equipment		860,000
Identifiable intangible assets:		
Customer list	1,900,000	
Employment agreement	760,000	2,660,000
		7,635,000
Less: liabilities assumed		3,181,000
Total fair value of net assets acquired		4,454,000
Goodwill		6,968,000
Total purchase price		$ 11,422,000

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.

Woodmark International L.P.

On June 30, 2004, Woodmark, a Delaware limited partnership owned by P&F and Countrywide, acquired certain assets comprising the business of the former Woodmark International L.P., a Texas limited partnership, and its wholly-owned subsidiary, the former Stair House, Inc., a Georgia corporation (collectively, the "Sellers"), and assumed certain of the Sellers' related liabilities (the "Woodmark acquisition transaction"). Woodmark is an importer of builders' hardware, including staircase components and kitchen and bath hardware and accessories. As a result of this transaction, Countrywide has significantly increased its purchasing power and geographic distribution. Woodmark also agreed to make additional payments to the Sellers. The amount of these payments, which would be made as of either June 30, 2007 or June 30, 2009, are to be based on increases in earnings before interest and taxes, for the year ended on the respective date, over a base of $5,100,000. Woodmark has the option to make a payment as of June 30, 2007 in an amount equal to 48% of this increase. If Woodmark does not make this payment as of June 30, 2007, the Sellers may demand payment as of June 30, 2009 in an amount equal to 40% of the increase. Any such additional payments will be treated as additions to goodwill. The acquisition was financed through the Company's senior credit facility with Citibank, described in Note 9. The consolidated financial statements presented herein include the results of operations for Woodmark for the period from July 1, 2004 to December 31, 2004.

The purchase price for this acquisition, negotiated on the basis of Woodmark's historical financial performance, was as follows:

Cash paid at closing from borrowings under term loan	$	27,160,000
Additional purchase price for working capital adjustment		340,000
Notes payable		3,408,000
Direct acquisition costs		990,000
Total purchase price	$	31,898,000

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

Current and other assets		$	10,437,000
Property and equipment			617,000
Identifiable intangible assets:			
Customer relationships	7,260,000		
Vendor relationship	890,000		
Trademark	690,000		8,840,000
			19,894,000
Less: liabilities assumed			671,000
Total fair value of net assets acquired			19,223,000
Goodwill			12,675,000
Total purchase price		$	31,898,000

The Company obtained an independent third-party valuation of the identifiable intangible assets. The excess of the total purchase price over the fair value of the net assets acquired, including the value of the identifiable intangible assets, has been allocated to goodwill. Goodwill will be amortized, for fifteen years, for tax purposes but not for financial reporting purposes. The fair values of the identifiable intangible assets are based on current information and are subject to change. The intangible assets subject to amortization will be amortized over fifteen years for tax purposes and for financial reporting purposes and have been assigned useful lives as follows:

Customer relationships	15 years
Vendor relationship	10 years
Trademark	Indefinite

The following unaudited pro forma financial information presents the combined results of operations of the Company and its Woodmark acquisition as if it had occurred at the beginning of the periods presented. The pro forma financial information reflects appropriate adjustments for amortization of intangible assets, additional compensation related to an employment agreement, interest expense and income taxes. The pro forma financial information presented is not necessarily indicative of either the actual consolidated operating results had the acquisition been completed at the beginning of each period or future operating results of the consolidated entities.

	Year Ended December 31,	
	2004	2003
Revenues	$ 120,139,000	$ 104,227,000
Net earnings from continuing operations	$ 5,249,000	$ 5,654,000
Earnings per common share from continuing operations:		
Basic	$ 1.49	$ 1.61
Diluted	$ 1.43	$ 1.58

NOTE 3—DISCONTINUED OPERATIONS

In December 2004, pursuant to an Asset Purchase Agreement and other related documents (collectively, the "Agreement"), among P&F, Green and Rosenboom Machine & Tool, Inc. ("RMT") (an unaffiliated third party), Green sold certain of its assets comprising its Hydraulic Cylinder Division to RMT. The assets sold pursuant to the Agreement include, among others, property, machinery and equipment, raw materials, work-in process inventory and certain intangibles. Green also sold the land and building in which the division was housed to RMT in connection with this transaction. Green received net cash proceeds of approximately $3,679,000 and a promissory note of approximately $686,000 at the closing. In addition, Green may receive additional consideration based upon certain future sales by RMT. In addition, RMT has agreed to hire all Green Hydraulic Cylinder Division employees in Bowling Green, Ohio and, as a result of the transaction, Green has effectively exited the hydraulic cylinder business.

In connection with the transaction, Green and RMT entered into an agreement which provides for RMT to purchase from Green 100% of RMT's requirements for products of the type that constitute part of Green's inventory of finished goods as of the acquisition date with all purchases by RMT being binding and non-cancelable at pre-established prices. The term is for a period of one year from the acquisition date. RMT shall maintain for the benefit of Green the insurance policy insuring the finished goods inventory and will bear the entire risk of loss, theft, destruction or any damage to the inventory. RMT will also be responsible for all recordkeeping with respect to the inventory. Within 5 days of the expiration of the term, RMT is obligated to provide Green with a list of all unpurchased inventory and return such inventory to Green. Based on the terms of the agreement, Green has effectively entered into an arrangement which provides for a transfer of its inventory to RMT prior to payment, as if it had been sold to RMT, with Green recording it as an other current receivable (based on the cost of the inventory which approximated $889,000). This treatment is based on the fact that Green has effectively transferred control of the inventory to RMT. RMT's employees maintain control of the inventory as it is located on RMT's premises and also bears risk of loss, theft, destruction or any damage to the inventory. Also, all purchases by RMT are binding and non-cancelable at pre-established prices with RMT being Green's only customer for the one-year period.

The Company recognized a gain on the sale of these assets of approximately $134,000 ($88,000 net of tax) in the fourth quarter of 2004.

The following amounts related to Green's Hydraulic Cylinder Division have been segregated from the Company's continuing operations and are reported as assets of discontinued operations in the consolidated balance sheets:

	December 31,			
	2004		2003	
	Current	Long-term	Current	Long-term
Assets of discontinued operations:				
Inventories	$ —	$ —	$ 1,360,000	$ —
Property and equipment	—	—	—	3,524,000
Total assets of discontinued operations	$ —	$ —	$ 1,360,000	$ 3,524,000

Results of operations for Green's Hydraulic Cylinder Division are included from the beginning of each fiscal period presented through December 10, 2004, the effective date of asset disposition, and have been segregated from continuing operations and reflected as discontinued operations approximately as follows:

	Year Ended December 31,		
	2004	2003	2002
Revenues	$ 10,327,000	$ 8,454,000	$ 7,915,000
Loss before income taxes	$ (437,000)	$ (882,000)	$ (1,130,000)
Income tax benefit	149,000	331,000	418,000
Loss from discontinued operations, net of taxes	(288,000)	(551,000)	(712,000)
Pre-tax gain on sale of assets	134,000	—	—
Income taxes	(46,000)	—	—
Gain on sale of assets, net of taxes	88,000	—	—
Discontinued operations, net of taxes	$ (200,000)	$ (551,000)	$ (712,000)

NOTE 4—ACCOUNTS RECEIVABLE AND ALLOWANCE FOR DOUBTFUL ACCOUNTS

Accounts receivable—net consists of:

	December 31,	
	2004	2003
Trade accounts receivables	$ 15,871,785	$ 12,249,920
Allowance for doubtful accounts	(608,120)	(328,074)
	$ 15,263,665	$ 11,921,846

NOTE 5—INVENTORIES

Inventories consist of:

	December 31,	
	2004	2003
Raw material	$ 3,488,624	$ 3,041,813
Work in process	516,439	560,492
Finished goods	22,068,341	13,792,762
	$ 26,073,404	$ 17,395,067

NOTE 6—GOODWILL AND OTHER INTANGIBLE ASSETS

The changes in the carrying amounts of goodwill at December 31, 2004 and 2003 are as follows:

(In thousands)	Consolidated	Pneumatic tools and related equipment	Hardware	Access/ Agricultural products	Heating products
Balance, January 1, 2003	$ 10,211	$ 2,326	$ 7,037	$ 848	$ —
Goodwill acquired during the year	351	—	351	—	—
Balance, December 31, 2003	10,562	2,326	7,388	848	—
Goodwill acquired during the year	13,163	—	13,163	—	—
Balance, December 31, 2004	$ 23,725	$ 2,326	$ 20,551	$ 848	$ —

Other intangible assets were as follows:

	December 31, 2004		December 31, 2003	
	Cost	Accumulated amortization	Cost	Accumulated amortization
Other intangible assets:				
Customer relationships	$ 9,160,000	$ 1,255,334	$ 1,900,000	$ 633,334
Vendor relationship	890,000	44,500	—	—
Employment agreement	760,000	405,333	760,000	253,333
Trademark	690,000	—	—	—
Total	$ 11,500,000	$ 1,705,167	$ 2,660,000	$ 886,667

Amortization expense for intangible assets subject to amortization was approximately $819,000 and $532,000 for the years ended December 31, 2004 and 2003, respectively. Amortization expense for each of the years in the period ending December 31, 2009 is estimated to be as follows 2005—$1,105,000; 2006—$1,105,000; 2007—$750,000; 2008—$573,000; and 2009—$573,000. The weighted average amortization period for intangible assets was 11.6 years and 3.5 years at December 31, 2004 and 2003, respectively.

NOTE 7—SHORT-TERM BORROWINGS

On June 30, 2004, in conjunction with the Woodmark acquisition transaction, the Company entered into a credit agreement with Citibank and another bank. This agreement includes a revolving credit loan facility, which provides a total of $12,000,000 for direct borrowings, with various sublimits for letters of credit, bankers' acceptances and equipment loans. There are no commitment fees for any unused portion of this credit facility. The credit agreement expires in June 2005 and is subject to annual review by the lending banks. The credit agreement also includes a term loan facility, as described in Note 9.

Direct borrowings under the 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 LIBOR (London InterBank Offered Rate) plus the currently applicable loan margin or the prime interest rate. At December 31, 2004 and 2003, the applicable loan margin added to LIBOR was 1.6%. At December 31, 2004, the prime interest rate and the LIBOR rate were 5.25% and approximately 2.42%, respectively. At December 31, 2003, the prime interest rate and the LIBOR rate were 4.0% and approximately 1.2%, respectively. At December 31, 2004 and 2003, there was $4,000,000 and $3,000,000, respectively, outstanding against the revolving credit loan facility. The weighted average interest rate on short-term borrowings during 2004 and 2003 were 4.30% and 4.11%, respectively. There were no commitments at December 31, 2004 for open letters of credit.

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 foreign currencies needed for payments to foreign suppliers. The total amount of foreign currency forward contracts outstanding under the foreign exchange line at December 31, 2004, based on that day's closing spot rate, was approximately $2,792,000.

Under the terms of the Company's credit agreement, the Company is required to adhere to certain financial covenants. At December 31, 2004, and for the year then ended, the Company was in compliance with all of these covenants.

NOTE 8—WARRANTY LIABILITY

Changes in the Company's warranty liability, included in other accrued liabilities, for the years ended December 31, 2004 and 2003 were as follows:

	December 31,	
	2004	2003
Balance, beginning of year	$ 210,989	$ 186,513
Addition related to the acquisition of Woodmark	148,487	—
Warranties issued and changes in estimated pre-existing warranties	1,006,199	241,491
Actual warranty costs incurred	(799,801)	(217,015)
Balance, end of year	$ 565,874	$ 210,989

NOTE 9—LONG-TERM DEBT

Long-term debt consists of:

	December 31,			
		2004		2003
Term loan — $250,000 payable quarterly from September 2004 through June 2005. Principal amount outstanding at September 30, 2005 to be paid in 24 equal quarterly installments (plus interest at LIBOR plus the applicable loan margin of 1.75% or prime) from September 2005 through June 2011	$	27,000,000	$	5,250,000
Note payable to former owners of Woodmark — lump sum payment, plus interest payable monthly, due in June 2007. Interest accrues at the Company's highest borrowing rate in effect under its credit agreement. At December 31, 2004, the applicable rate was LIBOR plus 1.75%		2,190,000		—
Note payable to former owners of Woodmark — lump sum payment due in June 2007. This non-interest bearing note was discounted at inception using the Company's borrowing rate of 3.04%. This amount includes $19,167 of imputed interest expense recorded through December 31, 2004		1,237,167		—
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)		1,675,422		1,810,356
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)		1,480,423		1,593,577
Mortgage loan — $16,388 (including interest at 7.09%) payable monthly through March 2014 (a)		1,327,066		1,415,604
Economic Development Revenue Bond — payable annually in various principal amounts (plus interest at variable rates) through November 2004. This bond was paid in full in October 2004. (b)		—		180,000
		34,910,078		10,249,537
Less current maturities		3,062,481		1,526,213
	$	31,847,597	$	8,723,324

(a) These mortgages payable relate to the land and buildings of certain of the Company's subsidiaries. Property with a net book value of approximately $4,482,911 at December 31, 2004 is pledged as collateral.

(b) This bond was assumed by the Company as part of the acquisition of Green and was secured by a standby letter of credit.

The aggregate amounts of the long-term debt scheduled to mature in each of the years ended December 31 are approximately as follows: 2005—$3,062,000; 2006—$4,777,000; 2007—$8,213,000;

2008—$4,795,000; 2009—$5,805,000; 2010—$5,481,000; and 2011 and thereafter—$2,777,000. Interest expense on long-term debt was approximately $895,000, $406,000 and $539,000 for the years ended December 31, 2004, 2003 and 2002, respectively.

The Company's credit agreement also includes a term loan facility, which provides a maximum commitment of $34,000,000 to finance acquisitions subject to the approval of the lending banks. There are no commitment fees for any unused portion of this credit facility. Direct borrowings under the term loan 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 LIBOR plus the currently applicable loan margin or the prime interest rate. At December 31, 2004 and 2003, the applicable loan margin added to LIBOR was 1.75%. The Company borrowed $29,000,000 against this facility to finance the Woodmark acquisition transaction, and there was $27,000,000 outstanding against the term loan facility at December 31, 2004. The credit agreement expires in June 2005 and is subject to annual review by the lending banks.

Certain of the Company's mortgage agreements require the Company to adhere to certain financial covenants. During the second and third quarter of fiscal 2004, the Company received a waiver for the one covenant with which it was not in compliance. Such mortgage agreement was amended and at December 31, 2004, and for the quarter then ended, the Company was in compliance with all of the covenants.

NOTE 10—CAPITAL STOCK TRANSACTIONS

During the years ended December 31, 2003 and 2002, the Company purchased 47,691 and 18,600 shares, respectively, of Class A Common Stock, at costs of $322,340 and $117,336, respectively, in connection with a program to repurchase shares. In September 2004, the Company extended this program until September 30, 2005 for the purchase of up to 150,000 shares of Class A common stock. No shares were repurchased in 2004.

In July 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. During 2004 and 2002, the Company issued to various employees options to purchase an aggregate of 166,000 shares and 221,100 shares, respectively, 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 expired in August 2004 and was extended by the Company until August 2014, 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 11—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").

The following table contains information on stock options for the three years ended December 31, 2004:

	Option Shares	Exercise Price Range Per Share	Weighted Average Exercise Price
Outstanding, January 1, 2002	396,300	$ 1.44 to 9.00	$ 6.06
Granted	221,100	6.00 to 6.60	6.18
Forfeited/Canceled	(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
Forfeited/Canceled	(13,500)	5.25 to 8.66	8.16
Outstanding, December 31, 2003	480,400	1.94 to 9.00	6.44
Granted	166,000	7.90 to 8.87	8.18
Exercised	(42,000)	1.94 to 8.06	3.59
Outstanding, December 31, 2004	604,400	$ 3.75 to 9.00	$ 7.12

There were options available for issuance under the Current Plan as of December 31 of each year as follows: 2002—878,900; 2003—878,900; and 2004—712,900. Of the options outstanding at December 31, 2004, 371,100 were issued under the Current Plan and 233,300 were issued under the Prior Plan.

The following table summarizes information about stock options outstanding and exercisable at December 31, 2004:

Range of Exercise Prices	Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Exercisable	Weighted Average Exercise Price
$ 3.75–$5.25	57,800	2.3	$ 4.91	57,800	$ 4.91
$ 6.00	144,436	7.5	6.00	144,436	6.00
$ 6.60	66,664	2.5	6.60	16,666	6.60
$ 7.88	156,500	3.2	7.88	156,500	7.88
$ 7.90–$8.06	135,188	9.5	8.06	135,188	8.06
$ 8.75	2,000	5.3	8.75	2,000	8.75
$ 8.87	24,812	4.5	8.87	—	—
$ 8.94–$9.00	17,000	4.2	8.96	17,000	8.96
$ 3.75–$9.00	604,400	5.6	$ 7.12	529,590	$ 7.08

NOTE 12—INCOME TAXES

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

	Year Ended December 31,		
	2004	2003	2002
Current:			
Federal	$ 3,029,000	$ 2,390,000	$ 1,810,000
State and local	237,000	304,000	211,000
Total current	3,266,000	2,694,000	2,021,000
Deferred:			
Federal	(196,000)	(279,000)	92,000
State and local	(36,000)	(67,000)	(15,000)
Total deferred	(232,000)	(346,000)	77,000
Total income taxes	$ 3,034,000	$ 2,348,000	$ 2,098,000

Deferred tax assets (liabilities) consist of:

	December 31,	
	2004	2003
Deferred tax assets—current:		
Bad debt reserves	$ 256,000	$ 118,000
Inventory reserves	800,000	434,000
Warranty and other reserves	313,000	237,000
	1,369,000	789,000
Deferred tax liabilities—current:		
Prepaid expenses	(299,000)	—
Net deferred tax assets—current	$ 1,070,000	$ 789,000
Deferred tax assets—non-current:		
Goodwill	$ 1,121,000	$ 1,249,000
Deferred tax liabilities—non-current:		
Depreciation	(787,000)	(1,014,000)
Intangible assets	(605,000)	(648,000)
Goodwill	(66,000)	(42,000)
	(1,458,000)	(1,704,000)
Net deferred tax liabilities—non-current	$ (337,000)	$ (455,000)

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

	Year Ended December 31,					
	2004		2003		2002	
	$	%	$	%	$	%
Federal income taxes computed at statutory rates	2,473,000	34.0	2,129,000	34.0	1,929,000	34.0
Increase in taxes resulting from:						
State and local taxes, net of Federal tax benefit	137,000	1.9	156,000	2.5	129,000	2.3
Expenses not deductible for tax purposes	256,000	3.5	57,000	.9	174,000	3.1
Other	168,000	2.3	6,000	.1	(134,000)	(2.4)
Income taxes	3,034,000	41.7	2,348,000	37.5	2,098,000	37.0

NOTE 13—COMMITMENTS AND CONTINGENCIES

(a) P&F and certain 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 $382,000, $386,000 and $342,000 for the years ended December 31, 2004, 2003 and 2002, respectively.

In conjunction with the acquisitions of Green and Woodmark, P&F acquired defined contribution 401(k) plans, which covers all of their respective employees. Employer contributions to these plans were determined as a percentage of employee contributions. The amounts recognized as expense for these plans aggregated approximately $46,000, $12,000 and $11,000 for the years ended December 31, 2004, 2003 and 2002, respectively.

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 $30,000, $31,000 and $33,000 for the years ended December 31, 2004, 2003 and 2002, respectively.

(b) Effective as of May 30, 2001, the Company entered into an employment agreement with its Chairman and Chief Executive Officer (the "officer"). The employment agreement provides for the officer to serve as President of the Company, or in such other capacity as determined by the Company's Board of Directors, for a term expiring on May 30, 2008, unless sooner terminated pursuant to the provisions of the employment agreement. Pursuant to the employment agreement, the officer will receive a minimum annual salary of $675,000 and is also eligible to receive such increases in base compensation as the Board of Directors may from time to time grant to him and to receive such bonuses as the Board of Directors, in its discretion, may allocate to him. The officer is expected to receive an annual salary of $861,000 for the year ending December 31, 2005. In the event of a "discharge" following a "change in control" of the Company (as each term is defined in the employment agreement), the officer will receive his annual salary and all benefits to which he is entitled under the employment agreement for the remainder of the term thereof or a lump sum severance allowance in an amount equal to 2.99 times his "annualized includable compensation for the base period" (as defined in the Internal Revenue Code of 1986, as amended).

(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 40% are bought from Japan, 45% from Taiwan and 15% from China. There are redundant sources for every product manufactured.

(d) Woodmark purchases all of its stair parts and kitchen and bath products from a Far East trading company that owns or represents 11 individual factories in China, Taiwan and Indonesia. Of the total stair parts and kitchen and bath products purchases, approximately 68% are bought from China, 26% from Taiwan and 6% from Indonesia. There are redundant sources for every product manufactured.

(e) Nationwide currently purchases approximately 80% of its product from two foreign suppliers. Although there are redundant sources available for substantially all products manufactured, the loss of either of these existing suppliers could, at least temporarily, adversely affect operating results.

(f) The Company had non-cancelable inventory purchase commitments totaling approximately $18,103,000 at December 31, 2004.

(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 position of the Company.

(h) The Company leases certain facilities and equipment. Generally, the facility leases carry renewal provisions and require the Corporation to pay maintenance costs. Rental payments may be adjusted for increases in taxes and insurance above specified amounts. Rental expense for 2004 amounted to $199,000. There was no rental expense for 2003 and 2002. Capital leases were immaterial in amount. Future minimum payments under non-cancelable operating leases with initial or remaining terms of more than one year as of December 31, 2004, were as follows:

2005	$ 481,000
2006	462,000
2007	400,000
2008	285,000
2009	129,000
Thereafter	53,000
	$ 1,810,000

NOTE 14—BUSINESS SEGMENTS

The Company has organized its business into four reportable business segments: pneumatic tools and related equipment, hardware, access/agricultural products and heating products. The Company is organized around these four distinct product segments, each of which has very different end users. Franklin, Woodmark 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 operating income.

The following presents financial information by segment for the years ended December 31, 2004, 2003 and 2002. Segment operating income excludes general corporate expenses, interest expense and income taxes. Identifiable assets are those assets directly owned or utilized by the particular business segment.

	Consolidated	Pneumatic tools and related equipment	Hardware	Access/ Agricultural products	Heating products
			(In Thousands)		
Year ended December 31, 2004					
Revenues from unaffiliated customers	$ 103,631	$ 47,374	$ 40,690	$ 4,748	$ 10,819
Segment operating income	12,708	$ 5,417	$ 6,759	$ 261	$ 271
General corporate expense	(4,251)				
Interest expense—net	(1,185)				
Earnings from continuing operations before income taxes	$ 7,272				
Segment assets	$ 88,815	$ 23,262	$ 53,694	$ 6,237	$ 5,622
Corporate assets	1,723				
Total assets	$ 90,538				
Depreciation and amortization ($19 corporate)	$ 1,685	$ 426	$ 307	$ 531	$ 402
Amortization of other intangibles	$ 832	$ —	$ 825	$ 3	$ 4
Capital expenditures ($6 corporate)	$ 1,115	$ 266	$ 145	$ 71	$ 627
Year ended December 31, 2003					
Revenues from unaffiliated customers	$ 77,954	$ 45,122	$ 19,213	$ 3,933	$ 9,686
Segment operating income	10,788	$ 7,125	$ 3,182	$ 437	$ 44
General corporate expense	(3,806)				
Interest expense—net	(720)				
Earnings from continuing operations before income taxes	$ 6,262				
Segment assets	$ 52,649	$ 25,216	$ 18,488	$ 3,329	$ 5,616
Assets of discontinued operations	4,884				
Corporate assets	799				
Total assets	$ 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

Year ended December 31, 2002					
Revenues from unaffiliated customers	$ 69,299	$ 42,460	$ 13,346	$ 4,192	$ 9,301
Segment operating income	$ 9,853	$ 7,212	$ 1,872	$ 570	$ 199
General corporate expense	(3,449)				
Interest expense—net	(731)				
Earnings from continuing operations before income taxes	$ 5,673				
Segment assets	$ 52,477	$ 24,188	$ 19,386	$ 3,326	$ 5,577
Assets of discontinued operations	5,285				
Corporate assets	1,406				
Total assets	$ 59,168				
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

The pneumatic tools segment has one customer that accounted for 20.6%, 22.0% and 22.3% of consolidated revenues for the years ended December 31, 2004, 2003 and 2002, respectively. This customer also accounted for 17.0% and 37.2% of consolidated accounts receivable as of December 31, 2004 and 2003, respectively. A second customer, of both the pneumatic tools segment and the hardware segment, accounted for 16.5%, 18.1% and 18.3% of consolidated revenues for the years ended December 31, 2004, 2003 and 2002, respectively, and 15.4% and 13.7% of consolidated accounts receivable as of December 31, 2004 and 2003, respectively. There were no other major customers requiring disclosure.

NOTE 15—SUBSEQUENT EVENT

Pursuant to an Asset Purchase Agreement (the "APA"), dated as of February 2, 2005, between Green, P&F and Benko Products, Inc. ("Benko"), Green sold certain of its assets comprising its Access Division (the "Division") to Benko. The assets sold pursuant to the APA include, among others, certain machinery and equipment, accounts receivable ("Purchased Receivables"), inventory, intellectual property and other intangibles. Certain assets of the Division were retained by Green, including, but not limited to, certain of the Division's accounts receivable existing at the consummation of the sale to Benko (the "Closing").

The purchase price paid by Benko in consideration for the assets acquired pursuant to the APA was approximately $1,837,715, consisting of (a) a payment to Green at Closing of approximately $880,069; (b) $836,783 payable pursuant to the terms of a Promissory Note ("Note 1"), dated February 2, 2005, payable in various amounts over a twenty-one (21) month period commencing as of the Closing; and (c) $120,862 payable pursuant to the terms of a Promissory Note (collectively with Note 1, the "Notes"), dated February 2, 2005, payable in various amounts over a four (4) month period commencing as of the Closing. Benko agreed to pay additional consideration on an annual basis for the two (2) successive twelve (12) month periods commencing as of the Closing, dependent on certain sales by Benko, subject to certain other conditions. In addition, Benko assumed certain of Green's contractual obligations. Pursuant to the APA, and subject to certain conditions, Benko has the option to return, and Green must purchase, certain delinquent Purchased Receivables. The obligations of

Benko under the APA and the Notes are guaranteed by each of a principal shareholder and an affiliate of Benko, and partially secured by certain collateral. The Company will record a small gain on the sale of these assets in the first quarter of 2005.

NOTE 16—UNAUDITED QUARTERLY RESULTS

	Quarter Ended			
	March 31,	June 30,	September 30,	December 31,
2004				
Revenues	$ 17,394,276	$ 18,796,176	$ 35,838,966	$ 31,602,189
Gross profit	$ 5,561,552	$ 6,532,824	$ 10,412,135	$ 9,570,811
Earnings from continuing operations	$ 394,044	$ 816,417	$ 1,704,495	$ 1,323,289
Earnings (loss) from discontinued operations, net of taxes	(157,478)	(112,043)	(99,094)	168,933
Net earnings	$ 236,566	$ 704,374	$ 1,605,401	$ 1,492,222
Basic earnings per common share:				
Earnings from continuing operations	$ .11	$ .23	$ .49	$ .37
Earnings (loss) from discontinued operations, net of taxes	(.04)	(.03)	(.03)	.05
Net earnings	$ .07	$ .20	$ .46	$ .42
Diluted earnings per common share:				
Earnings from continuing operations	$ .11	$ .23	$ .47	$ .35
Earnings (loss) from discontinued operations, net of taxes	(.04)	(.03)	(.03)	.04
Net earnings	$ .07	$ .20	$ .44	$ .39
Weighted average common shares outstanding:				
Basic	3,515,447	3,517,755	3,518,212	3,536,842
Diluted	3,632,539	3,611,099	3,653,472	3,786,297
2003				
Revenues	$ 17,623,455	$ 19,605,222	$ 21,270,615	$ 19,454,345
Gross profit	$ 6,046,292	$ 7,000,022	$ 6,595,222	$ 6,225,189
Earnings from continuing operations	$ 805,620	$ 1,193,719	$ 984,992	$ 929,410
Loss from discontinued operations, net of taxes	(215,392)	(96,823)	(102,300)	(136,277)
Net earnings	$ 590,228	$ 1,096,896	$ 882,692	$ 793,133
Basic earnings per common share:				
Earnings from continuing operations	$ .23	$ .34	$ .28	$ .27
Loss from discontinued operations, net of taxes	(.06)	(.03)	(.03)	(.04)
Net earnings	$ .17	$ .31	$ .25	$ .23
Diluted earnings per common share:				
Earnings from continuing operations	$ .22	$ .34	$ .27	$ .26
Loss from discontinued operations, net of taxes	(.06)	(.03)	(.02)	(.04)
Net earnings	$ .16	$ .31	$ .25	$ .22
Weighted average common shares outstanding:				
Basic	3,506,086	3,505,785	3,503,766	3,511,614
Diluted	3,574,715	3,578,594	3,584,939	3,620,682

P&F INDUSTRIES, INC. AND SUBSIDIARIES

SCHEDULE II

VALUATION AND QUALIFYING ACCOUNTS

Description	Column A Balance at Beginning of Period	Column B Additions Charged (Credited) to Costs and Expenses	Column C Additions Charged (Credited) to Other Accounts	Column D Deductions	Column E Balance at End of Period
Allowance for doubtful accounts:					
Year ended December 31, 2004	$ 328,074	$ 167,413	$ 153,405(a)	$ 40,772(b)	$ 608,120
Year ended December 31, 2003	$ 354,441	$ 22,884	$ —	$ 49,251(b)	$ 328,074
Year ended December 31, 2002	$ 404,557	$ (40,755)	$ 40,000(a)	$ 49,361(b)	$ 354,441
Reserve for obsolete and slow-moving inventories:					
Year ended December 31, 2004	$ 1,209,660	$ 170,735	$ 754,813(a)	$ 79,637	$ 2,055,571
Year ended December 31, 2003	$ 1,241,129	$ —	$ —	$ 31,469	$ 1,209,660
Year ended December 31, 2002	$ 1,079,631	$ 155,905	$ 240,000(a)	$ 234,407	$ 1,241,129
Provision for warranty obligations:					
Year ended December 31, 2004	$ 210,989	$ 1,006,199	$ 148,487(a)	$ 799,801	$ 565,874
Year ended December 31, 2003	$ 186,513	$ 241,491	$ —	$ 217,015	$ 210,989
Year ended December 31, 2002	$ 198,384	$ 296,192	$ —	$ 308,063	$ 186,513

(a) Initial reserves of company acquired in purchase business combination.

(b) Write-off of expenses against reserve.

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, 2004 (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.

Item 9B. Other Information

None.

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 2005 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

Other then the information shown in the table below entitled "Equity Compensation Plan Information," the 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.

Equity Compensation Plan Information

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	604,400	$ 7.12	712,900
Equity compensation plans not approved by security holders	N/A	N/A	N/A
Total	604,400	$ 7.12	712,900

For further information, see Note 11 to the Notes to the Consolidated Financial Statements.

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 and Financial Statement Schedules

All other schedules for which provision is made in the applicable accounting regulations of the Commission are not required under the related instructions or are inapplicable and, therefore, have been omitted.

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

Exhibit Number	Description of Exhibit
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 Stock 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).
2.4	Asset Purchase Agreement, dated as of June 30, 2004, by and among WM Texas International, L.P., a Texas limited partnership formerly known as Woodmark International, L.P., SH Georgia, Inc., a Georgia corporation formerly known as Stair House, Inc., Samuel G. Sherstad, WM Texas GP, LLC, WM Texas Partners, LLC and Woodmark International, L.P., a Delaware limited partnership (Incorporated by reference to Exhibit 2.1 to the Registrant's Current Report on Form 8-K dated July 9, 2004, and amended September 10, 2004). 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.
2.5	Asset Purchase Agreement, dated December 13, 2004, among Rosenboom Machine & Tool, Inc., Green Manufacturing, Inc. and P&F Industries, Inc. (Incorporated by reference to Exhibit 2.1 to the Registrant's Current Report on Form 8-K dated December 17, 2004, and amended March 4, 2005). 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.
2.6	Asset Purchase Agreement, dated as of February 2, 2005, between Green Manufacturing, Inc. and Benko Products, Inc. (Incorporated by reference to Exhibit 2.1 to the Registrant's Current Report on Form 8-K dated February 4, 2005). 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.
3.1	Restated Certificate of Incorporation of the Registrant (Filed herein).
3.2	Amended By-laws of the Registrant (Filed herein).
3.3	Amendment to the Amended By-laws of the Registrant (Incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K dated March 18, 2005).

4.1 Rights Agreement, dated as of August 19, 2004, between the Registrant and American Stock Transfer & Trust Company, as Rights Agent (Incorporated by reference to Exhibit 1 to the Registrant's Registration Statement on Form 8-A dated August 19, 2004).

4.2 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 (Incorporated by reference to Exhibit 4.3 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2003).

4.3 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 (Incorporated by reference to Exhibit 4.4 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2003).

4.4 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 (Filed herein).

4.5 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).

4.6 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).

4.7 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).

4.8 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).

4.9 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).

4.10 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).

4.11 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).

4.12 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).

4.13 Credit Agreement, dated as of June 30, 2004, by and among the Registrant, Florida Pneumatic Manufacturing Corporation, Embassy Industries, Inc., Green Manufacturing, Inc., Countrywide Hardware, Inc., Nationwide Industries, Inc., Woodmark International, L.P. and Citibank, N.A., as Administrative Agent, and the lenders party thereto (Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated July 9, 2004).

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 (Incorporated by reference to Exhibit 10.2 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2003).

10.3 1992 Incentive Stock Option Plan of the Registrant, as amended and restated as of March 13, 1997 (Incorporated by reference to Exhibit 10.3 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2003).

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 (Incorporated by reference to Exhibit 14.1 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2003).

21 Subsidiaries of the Registrant (Filed herein).

23 Consent of the Registrant's Independent Registered Public Accounting Firm (Filed herein).

31.1 Certification of Richard A. Horowitz, Principal Executive Officer of the Registrant, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Filed herein).

31.2 Certification of Joseph A. Molino, Jr., Principal Financial Officer of the Registrant, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Filed herein).

32.1 Certification of Richard A. Horowitz, Principal Executive Officer of the Registrant, Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Filed herein).

32.2 Certification of Joseph A. Molino, Jr., Principal Financial Officer of the Registrant, Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Filed herein).

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.

SIGNATURES

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

P&F INDUSTRIES, INC.
(Registrant)

By:	/s/ RICHARD A. HOROWITZ	By:	/s/ JOSEPH A. MOLINO, JR.
	Chairman of the Board President Principal Executive Officer Principal Operating Officer		Joseph A. Molino, Jr. Vice President Principal Financial and Accounting Officer

Date: March 28, 2005

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

Name	Title	Date
/s/ ROBERT L. DUBOFSKY Robert L. Dubofsky	Director	March 28, 2005
/s/ JEFFREY D. FRANKLIN Jeffrey D. Franklin	Director	March 28, 2005
/s/ ALAN GOLDBERG Alan Goldberg	Director	March 28, 2005
/s/ RICHARD A. HOROWITZ Richard A. Horowitz	Director	March 28, 2005
/s/ SIDNEY HOROWITZ Sidney Horowitz	Director	March 28, 2005
/s/ DENNIS KALICK Dennis Kalick	Director	March 28, 2005
/s/ NEIL NOVIKOFF Neil Novikoff	Director	March 28, 2005
/s/ MITCHELL A. SOLOMON Mitchell A. Solomon	Director	March 28, 2005
/s/ ROBERT M. STEINBERG Robert M. Steinberg	Director	March 28, 2005
/s/ MARC A. UTAY Marc A. Utay	Director	March 28, 2005

QuickLinks

EXHIBIT 3.1

P&F INDUSTRIES, INC.

RESTATED CERTIFICATE OF INCORPORATION
OF
P&F INDUSTRIES, INC.

It is hereby certified that:

1. (a) The present name of the corporation (herein- after called the "corporation") is "P&F Industries, Inc."

(b) The name under which the corporation was originally incorporated is "Plastics & Fibers, Inc."; and the date of filing the original certificate of incorporation of the corporation with the Secretary of State of the State of Delaware is April 19, 1963.

2. The provisions of the certificate of incorporation of the corporation as heretofore amended and/or supplemented, are hereby restated and integrated into the single instrument which is hereinafter set forth, and which is entitled Restated Certificate of Incorporation of P&F INDUSTRIES, INC. without any further amendment and without any discrepancy between the provisions of the certificate of incorporation as heretofore amended and supplemented and the provisions of the said single instrument hereinafter set forth.

3. The restatement of the restated certificate of incorporation herein certified has been duly adopted by the board of directors in accordance with the provisions of Section 245 of the General Corporation Law of the State of Delaware. The capital of the corporation will not be reduced under or by reason of this Restated Certificate of Incorporation.

4. The certificate of incorporation of the corporation, as restated herein, shall upon the effective date of this Restated Certificate of Incorporation, read as follows:

"Restated Certificate of Incorporation
-of-
P&F INDUSTRIES, INC."

We, the undersigned, for the purpose of associating to establish a corporation for the transaction of the business and the promotion and conduct of the objects and purposes hereinafter stated, under the provisions and subject to the requirements of the laws of the State of Delaware (particularly Chapter 1, Title 8 of the 1953 Delaware Code and the acts amendatory thereof and supplemental thereto, and known as the "General Corporation Law of the State of Delaware"), do make and file this Certificate of Incorporation in writing and do hereby certify as follows, to wit:

FIRST: The name of the Corporation (hereinafter called the "Corporation") is P&F INDUSTRIES, INC.

SECOND: The respective names of the County and of the City within the County in which the principal office of the corporation is to be located in the State of Delaware are the County of Kent and the City of Dover. The name of the resident agent of the corporation is The Prentice-Hall Corporation System, Inc. The street and number of said principal office and the address by street and number of said resident agent is 229 South State Street, Dover, Delaware.

THIRD: The nature of the business of the corporation and the objects or purposes to be transacted, promoted or carried on by it are as follows:

To manufacture, process and distribute at wholesale or retail, or otherwise, products made of metals, plastics and fibers, including, among other things, pipes, fittings, valves, pumps, boilers, gauges, controls and any and all kinds of machinery and equipment used or useful in heating, cooling, treating, processing, conditioning and conveying air, gases, fluids and materials, and building and construction materials and equipment.

To design, construct and deal in machinery, tools, dies and equipment as well as mills and plants for the manufacture or processing of any of the foregoing products.

To acquire by purchase, subscription, contract or otherwise, and to invest in, hold for investment or otherwise, to pledge and otherwise realize upon and to sell, contract to sell and dispose of all forms of securities, real and personal property, including, but not by way of limitations shares, stocks, bonds, debentures, notes, warrants, rights, options, certificates of deposit, mortgages, evidences of indebtedness, certificates of indebtedness and certificates of interest issued or created, or to be issued or created in any and all parts of the world by corporations, associations, partnerships, trustees, syndicates, individuals, governments, states, municipalities and other political and governmental divisions and subdivisions, or by any combinations, organizations or entities whatsoever, irrespective of their form or the name by which they may be described, and all trust, participation, and other certificates of, and receipts evidencing interest in any such securities; to exercise any and all rights, powers and privileges of individual ownership or interest in respect of any and all such securities, real and personal property, or evidences of interest therein, including the right to vote thereon and to consent and otherwise act with respect thereto; to do any and all acts and things for the preservation, protection, improvement and enhancement in value of any and all such securities, or evidences of interest therein, and to aid by loan, subsidy, guaranty or otherwise those issuing, creating or responsible for any bonds or other evidences of indebtedness or stock or certificates of interest therein, or other securities owned or hold by this corporation or by any corporation in which this corporation may have an interest as stockholder or otherwise, or those developing, promoting or otherwise operating on any real estate owned or held by this corporation; to acquire and become interested in any such securities or evidences of interest therein, as aforesaid, by original subscription, participation in syndicates or otherwise and irrespective of whether or not such securities or evidences of interest therein be fully paid or subject to further payments; to make payment thereon as called for in advance of calls or otherwise.

To acquire by purchase, exchange, concession, easement, contract, lease or otherwise, to hold, own, use, control, manage, improve, maintain and develop, to mortgage, pledge, grant, sell, convey, exchange, assign, divide, lease, sublease, or otherwise encumber and dispose of, and to deal and trade in, real estate improved or unimproved, lands, leaseholds, options, concessions, easements, tenements, hereditaments and interests in real, mixed, and personal property, of every kind and description wheresoever situated, and any and all rights therein.

To manufacture, process, purchase, sell and generally to trade and deal in and with goods, wares and merchandise of every kind, nature and description, and to engage and participate in any mercantile, industrial or trading business of any kind or character whatsoever.

To apply for, register, obtain, purchase, lease, take licenses in respect of or otherwise acquire, and to hold, own, use, operate, develop, enjoy, turn to account, grant licenses and immunities in respect of, manufacture under and to introduce, sell, assign, mortgage, pledge or otherwise dispose of, and, in any manner deal with and contract with reference to:

(a) inventions, devices, formulae, processes and any improvements and modifications thereof;

(b) Letters patent, patent rights, patented processes, copyrights, designs, and similar rights, trade-marks, trade symbols and other indications of origin and ownership granted by or recognized under the laws of the United States of America or of any state or subdivision thereof, or of any foreign country or subdivision thereof, and all rights connected therewith or appertaining thereunto;

(c) Franchises, licenses, grants and concessions.

To make, enter into, perform and carry out contracts of every kind and description with any person, firm, association, corporation or government or subdivision thereof.

To acquire by purchase, exchange or otherwise, all, or any part of, or any interest in, the properties, assets, business and good will of any one or more persons, firms, associations or corporations heretofore or hereafter engaged in any business for which a corporation may now or hereafter be organized under the laws of the State of Delaware; to pay for the same in cash, property or its own or other securities; to hold, operate, reorganize, liquidate, sell or in any manner dispose of the whole or any part thereof; and in connection therewith, to assume or guarantee performance of any liabilities, obligations or contracts of such persons, firms, associations or corporations, and to conduct the whole or any part of any business thus acquired.

To lend its uninvested funds from time to time to such extent, to such persons, firms, associations, corporations, governments or subdivisions thereof, and on such terms and on such security, if any, as the Board of Directors of the corporation may determine.

To endorse or guarantee the payment of principal, interest or dividends upon, and to guarantee the performance of sinking fund or other obligations of, any securities, and to guarantee in any way permitted by law the performance of any of the contracts or other undertakings in which the corporation may otherwise be or become interested, of any person, firm, association, corporation, government or subdivision thereof, or of any other combination, organization or entity whatsoever.

To borrow money for any of the purposes of the corporation, from time to time, and without limit as to amount; from time to time to issue and sell its own securities in such amounts, on such terms and conditions, for such purposes and for such prices, now or hereafter permitted by the laws of the State of Delaware and by this Certificate of Incorporation, as the Board of Directors of the corporation may determine; and to secure such securities by mortgage upon, or the pledge of, or the conveyance or assignment in trust of, the whole or any part of the properties, assets, business and good will of the corporation, then owned or thereafter acquired.

To draw, make, accept, endorse, discount, execute, and issue promissory notes, drafts, bills of exchange, warrants, bonds, debentures, and other negotiable or transferable instruments and evidences of indebtedness whether secured by mortgage or otherwise, as well as to secure the same by mortgage or otherwise, so far as may be permitted by the laws of the State of Delaware.

To purchase, hold, cancel, reissue, sell, exchange, transfer or otherwise deal in its own securities from time to time to such an extent and in such manner and upon such terms as the Board of Directors of the corporation shall determine; provided that the corporation shall not use its funds or property for the purchase of its own shares of capital stock when such use would cause any impairment of its capital, except to the extent permitted by law; and provided further that shares of its own capital stock belonging to the corporation shall not be voted upon directly or indirectly.

To organize or cause to be organized under the laws of the State of Delaware, or of any other State of the United States of America, or of the District of Columbia, or of any territory, dependency, colony or possession of the United States of America, or of any foreign country, a corporation or corporations for the purpose of transacting, promoting or carrying on any or all of the objects or purposes for which corporations may be organized, and to dissolve, wind up, liquidate, merge or consolidate any such corporation or corporations or to cause the same to be dissolved, wound up, liquidated, merged or consolidated.

To conduct its business in any and all of its branches and maintain offices both within and without the State of Delaware, in any and all States of the United States of America, in the District of Columbia, in any or all territories, dependencies, colonies or possessions of the United States of America, and in foreign countries.

To carry out all or any part of the foregoing objects and purposes in any and all parts of the world and to conduct business in all or any of its branches as principal, factor, agent, contractor or otherwise, either alone or through or in conjunction with any corporations, associations, partnerships, firms, trustees, syndicates, individuals, organizations and other entities located in or organized under the laws of any part of the world, and, in carrying out, conducting or performing its business and attaining or furthering any of its objects and purposes, to maintain offices, branches and agencies in any part of the world, to make and perform any contracts and to do any acts and things, and to carry on any business, and to exercise any powers suitable, convenient or proper for the accomplishment of any of the objects and purposes herein specified or which at any time may appear conducive to or expedient for the accomplishment of any of such objects and purposes and which might be engaged in or carried on by a corporation formed under the General Corporation Law and to have and exercise all of the powers conferred by the laws of the State of Delaware upon corporations formed under the General Corporation Law.

The foregoing provisions of this Article THIRD shall be construed both as purposes and powers and each an independent purpose and power. The foregoing enumeration of specific purposes and powers shall not be held to limit or restrict in any manner the purposes and powers of the corporation, and the purposes and powers herein specified shall, except when otherwise provided in this Article THIRD, be in no wise limited or restricted by reference to, or inference from, the terms of any provision of this or any other Article of this Certificate of Incorporation; provided, that the corporation shall not carry on any business or exercise any power in the State of Delaware or in any state, territory, or country which under the laws thereof the corporation may not lawfully carry on or exercise.

FOURTH: The total number of shares that may be issued by the Corporation is 11,020,000, of which 7,000,000 shares of the par value of $1 each shall be Class A Common Stock, 2,000,000 shares of the par value of $1 each shall be Class B Common Stock, 2,000,000 shares of the par value of $10 each shall be Preferred Stock, and 20,000 shares of the par value of $10 each shall be Prior Preferred Stock. Any and all shares issued, for which the full consideration has been paid or delivered, shall be deemed fully paid stock and the holders of such shares shall not be liable for any further call or assessment or any payment thereon.

The designations, preferences, privileges and voting powers of the shares of the Prior Preferred Stock and the restrictions or qualifications thereof are as follows:

The holders of Prior Preferred Stock shall be entitled to receive out of any funds of this Corporation at the time legally available for the declaration of dividends, dividends at the rate of five percent (5%) per annum of the par value thereof, and no more, payable in cash annually or at such intervals as the Board of Directors may from time to time determine, when and as declared by the Board of Directors. Such dividends shall accrue from the date of issuance of the respective Prior Preferred Stock and shall accrued from day to day, whether or not earned or declared. Such dividends shall be payable before any dividends shall be declared or paid upon or set apart for the Common or Preferred Stock and shall be cumulative, so that if in any year or years dividends upon the outstanding Prior Preferred Stock at the rate of five percent (5%) per annum of the par value thereof shall not have been paid thereon or declared and set apart therefor, the amount of the deficiency shall be fully paid or declared and set apart for payment, but without interest, before any distribution whether by way of dividend or otherwise, shall be declared or paid upon, or set apart for, the Common or Preferred Stock.

In the event of any liquidation, dissolution or winding up of the Corporation, whether voluntary or involuntary, the holders of the shares of Prior Preferred Stock shall be entitled to receive out of the assets of this Corporation (whether from capital or surplus or both) $10 per share before any distribution shall be made to the holders of Common or Preferred Stock and thereafter the holders of the share of Prior Preferred Stock shall not be entitled to share in the assets of the Corporation remaining after such payment. If, upon such liquidation, dissolution or winding up of the Corporation, the assets of the Corporation shall be insufficient to permit the payment in full to the holders of Prior Preferred Stock, then the entire assets of the Corporation shall be distributed ratably among the holders of the shares of Prior Preferred Stock. The foregoing provisions of this paragraph shall not, however, be deemed to require the distribution of assets among the holders of shares of Prior Preferred Stock in the event of a consolidation, merger, lease or sale which does not in fact result in the liquidation, dissolution or winding up of the enterprise.

The Corporation, at the option of the Board of Directors, may redeem the whole or from time to time may redeem any part of the Prior Preferred Stock on any dividend date by paying in cash therefore Eleven Dollars ($11) per share, and, in addition to the aforementioned amount, an amount in cash equal to all dividends on preferred stock unpaid and accumulated as provided in this Article FOURTH, whether earned or declared or not, to and including the date fixed for redemption, such sum being hereinafter sometimes referred to as the redemption price. In case of the redemption of a part only of the outstanding Prior Preferred Stock, this Corporation shall designate by lot, in such manner as the Board of Directors may determine, the shares to be redeemed, or shall effect such redemption pro rata. Less than all of the Prior Preferred Stock at any time outstanding may not be redeemed until all dividends accrued and in arrears upon all Prior Preferred Stock outstanding shall have been paid for all past dividend periods, and until full dividends for the then current dividend period on all Prior Preferred Stock then outstanding, other than the shares to be redeemed, shall have been paid or declared and the full amount thereof set apart for payment. At least thirty (30) days' previous notice by mail, postage prepaid, shall be given to the holders of record of the Prior Preferred Stock to be redeemed, such noticed to be addressed to each such shareholder at his post-office address as shown by the records of this Corporation. On or after the date fixed for redemption and stated in such notice, each holder of Prior Preferred Stock called for redemption shall surrender his certificate evidencing such shares to this Corporation at the place designated in such notice and shall thereupon be entitled to receive payment of the redemption price. In case less than all the shares represented by any such surrendered certificate are redeemed, a new certificate shall be issued representing the unredeemed shares. If such notice of redemption shall have been duly given, and if on the date fixed for redemption funds necessary for the redemption shall be available therefor, then, notwithstanding that the certificates evidencing any Prior Preferred Stock so called for redemption shall not have been surrendered, the dividends with respect to the shares so called for redemption shall cease to accrue after the date fixed for redemption and all rights with respect to the share so called for redemption shall forthwith after such date cease and determine, except only the right of the holders to receive the redemption price without interest upon surrender of their certificates therefor.

If on or prior to any date fixed for redemption of Prior Preferred Stock, this Corporation deposits with any bank or trust company in the City of New York, State of New York, or in the City of Dover, State of Delaware, as a trust fund a sum sufficient to redeem on the date fixed for redemption thereof, the shares called for redemption, with irrevocable instructions and authority to the bank or trust company to give the notice of redemption thereof if such notice shall not previously have been given by this Corporation, or to complete the giving of such notice if theretofore commenced, and to pay on and after the date fixed for redemption or prior thereto the redemption price of the shares to their respective holders upon the surrender of their share certificates, then from and after the date of the deposit (although prior to the date fixed for redemption), the shares so called shall be deemed to be redeemed and dividends on those shares shall cease to accrue after the date fixed for redemption. The deposit shall be deemed to constitute full payment of the shares to their holders and from and after the date of the deposit the shares shall be deemed to be no longer outstanding, and the holders thereof shall cease to be shareholders with respect to such shares, and shall have no rights with respect thereto except the right to receive from the bank or trust company payment of redemption price of the shares without interest, upon the surrender of their certificates therefor.

Any moneys deposited by the Corporation pursuant to this paragraph and unclaimed at the end of six years from the date fixed for redemption shall be repaid to the Corporation upon its request expressed in a resolution of its Board of Directors.

Except as otherwise provided by law or by this Certificate of Incorporation, the holders of Prior Preferred Stock shall not be entitled to notice of any shareholders meeting, or to vote upon the election of directors or upon any question affecting the management or affairs of this Corporation.

If at any time two (2) or more annual dividends (whether consecutive or not) on the Prior Preferred Stock shall be in default, in whole or in part, the holders of Prior Preferred Stock as a class shall be entitled to elect the smallest number of directors which will constitute a majority of the authorized number of directors. At such time as all dividends accrued on the outstanding Prior Preferred Stock have been paid or declared and set apart for payment, the rights of the holders of Prior Preferred Stock to vote as provided in this paragraph shall cease, subject to renewal from time to time upon the same terms and conditions.

At any time after the voting power to elect a majority of the Board of Directors shall have become vested in the holders of Prior Preferred Stock as provided in this paragraph, the secretary of this Corporation may, and upon the request of the record holders of at least ten percent (10%) of the Prior Preferred Stock then outstanding addressed to him at the principal office of this Corporation, shall call a special meeting of stockholders for the election of directors, to be held at the place and upon the notice provided in the By-Laws of the Corporation for the holding of annual meetings. If such meeting shall not be so called within ten (10) days after personal service of the request, or within fifteen (15) days after mailing of the same by registered mail within the United States of America then the record holders of at least ten percent (10%) of the Prior Preferred Stock then outstanding may designate in writing one of their number to call such meeting, and the person so designated may call such meeting at the place and upon the notice above provided, and for that purpose, shall have access to stock books of the Corporation. At any meeting so called or at any annual meeting held while the holders of the Prior Preferred Stock have the voting power to elect a majority of the Board of Directors, the holders of a majority of the then outstanding Prior Preferred Stock present in person or by proxy shall be sufficient to constitute a quorum for the election of directors as herein provided. The terms of office of all persons who are directors of the Corporation at the time of such meeting shall terminate upon the election at such meeting by the holders of the Prior Preferred Stock of the number of directors they are entitled to elect, and the persons so elected as directors by the holders of Prior Preferred Stock, together with such persons, if any, as may be elected as directors by the holders of the Common and/or Preferred Stock, shall constitute the duly elected directors of this Corporation. In the event the holders of the Common and/or Preferred Stock fail to elect the number of directors which they are entitled to elect at such meeting, additional directors may be appointed by the directors elected by the holders of the Prior Preferred Stock.

Whenever the holders of the Prior Preferred Stock shall be divested of such voting power as hereinabove in this paragraph provided, the term of office of all persons who are at the time directors of the Corporation shall terminate upon the election of their successors.

As long as any Prior Preferred Stock is outstanding, the Corporation shall not, without the approval (by vote or written consent, as provided by law) of the holders of two-thirds of the outstanding Prior Preferred Stock:

1. Amend or repeal any provision of, or add any provision to the Corporation's Certificate of Incorporation (which term shall include certificates of determination of preferences, and any future agreements of consolidation or merger) if such action would alter or change the preferences, rights, privileges or powers of, or the restrictions provided for the benefit of any Prior Preferred Stock so as to affect such Prior Preferred Stock adversely; or

2. Authorize or create shares of any class of stock having any preference or priority as to dividends or assets superior to or on a parity with any such preference or priority of the Prior Preferred Stock, or authorize or create shares of stock of any class or any bonds, debentures, notes or other obligations convertible into or exchangeable for, or having optional rights to purchase, any shares of stock of the Corporation having any such preference or priority; or

3. Reclassify any Common Stock, or any other shares of stock hereafter created junior to the Prior Preferred Stock as to dividends or assets into Prior Preferred Stock or into shares having any preference or priority as to dividends or assets superior to or on a parity with that of the Prior Preferred Stock; or

4. Sell, lease, convey, exchange, transfer or otherwise dispose of all or substantially all of the property and assets of the Corporation.

The Preferred Stock shall have the following voting powers, designations, preferences and relative, participating, optional or other special rights and qualifications, limitations or restrictions thereof:

1. Except as otherwise provided herein, shares of Common Stock and Preferred Stock shall be equal in all respects.

2. The Preferred Stock may be issued from time to time in one or more series, each of such series to have such voting powers (full or limited or without voting powers), designation, preferences and relative, participating, optional or other special rights and qualifications, limitations or restrictions thereof as are stated and expressed herein, or in a resolution or resolutions providing for the issue of such series adopted by the Board of Directors as hereinafter provided.

3. Authority is hereby granted to the Board of Directors to create one or more series of Preferred Stock and, with respect to each series, to fix by resolution or resolutions providing for the issue of such series;

(a) the number of shares to constitute each such series and the distinctive designation thereof;

(b) the dividend rate on the shares of such series, the dividend payment dates, the periods in respect of which dividends are payable (“dividend periods”), whether such dividends shall be cumulative, and, if cumulative, the date or dates from which dividends shall accumulate and the medium in which such dividends shall be payable, including whether or not such dividends shall be payable in Common Stock of the Corporation;

(c) whether or not the shares of such series shall be redeemable, on what terms, including the redemption prices which the shares of such series shall be entitled to receive upon the redemption thereof;

(d) whether or not the shares of such series shall be subject to the operation of retirement or sinking funds to be applied to the purchase or redemption of such shares for retirement and, if such retirement or sinking fund or funds be established, the annual amount thereof and the terms and provisions relative to the operation thereof;

(e) whether or not the shares of such series shall be convertible into, or exchangeable for, shares of any other class or classes or of any other series of the same or any other class or classes of stock of the corporation and the conversion price or prices or rate or rates, or the rate or rates at which such exchange may be made, with such adjustment, if any, as shall be stated and expressed or provided in such resolution or resolutions;

(f) the preference, if any, and the amounts thereof, which the shares of such series shall be entitled to receive upon the voluntary and involuntary dissolution of the operation;

(g) the voting power, if any, of the shares of such series; and

(h) such other terms, conditions, special rights and protective provisions as to the Board of Directors may seem advisable.

Notwithstanding the fixing of the number of shares constituting a particular series upon the issuance thereof, the Board of Directors may at any time thereafter authorize the issuance of additional shares of the same series.

4. No dividend shall be declared and set apart for payment on any series of Preferred Stock in respect of any dividend period unless there shall likewise be or have been paid, or declared and set apart for payment, on all shares of Preferred Stock of each other series entitled to cumulative dividends at the time outstanding which ranks equally as to dividends with the series in question, dividends ratably in accordance with the sums which would be payable on the said shares through the end of the last preceding dividend period if all dividends were declared and paid in full.

5. If upon any dissolution of the Corporation, the assets of the Corporation distributable among the holders of any one or more series of Preferred Stock which are (i) entitled to a preference over the holders of the Common Stock upon such dissolution, and (ii) rank equally in connection with any such distribution, shall be insufficient to pay in full the preferential amount to which

the holders of such shares shall be entitled, then such assets, or the proceeds thereof, shall be distributed among the holders of each such series of the Preferred Stock ratably in accordance with the sums which would be payable on such distribution if all sums payable were discharged in full.

Except as otherwise provided by law or by this Certificate of Incorporation or by the resolutions of the Board of Directors providing for the issuance of Preferred Stock, the holders of Class A Common Stock shall have the sole right to notice of and to vote at meetings of stockholders. No holder of Class B Common Stock shall have any right to vote except as otherwise provided by law or by this Certificate of Incorporation.

In case there shall be presented to the holders of Class A Common Stock for their approval any proposal to:

(a) effect a merger or consolidation of the Corporation;

(b) dissolve the Corporation;

(c) sell, lease or exchange all or substantially all of the property and assets of the Corporation, then the holders of Class B Common Stock shall have the right to vote on such proposal, voting together with the holders of Class A Common Stock as a single class.

When and as dividends are declared, whether payable in cash, in property or in shares of stock of the Corporation, the holders of Class B Common Stock and the holders of Class A Common Stock shall be entitled to share equally, share for share, in such dividends, except that if dividends are declared which are payable in shares of Class B Common Stock or Class A Common Stock, dividends shall be declared which are payable at the same rate in both classes of stock and the dividends payable in shares of Class B Common Stock may be payable to holders of that class of stock and the dividends payable in shares of Class A Common Stock may be payable to holders of that class of stock.

If the Corporation shall in any manner subdivide or combine the outstanding shares of one class of Common Stock, the outstanding shares of the other class of Common Stock shall be proportionately subdivided or combined.

All shares of Class B Common Stock shall be identical and shall entitle the holders thereof to the same rights and privileges.

No holder of any of the shares of the stock of the Corporation of any class shall be entitled as of right to purchase or subscribe for any unissued stock of any class or any additional shares of any class to be issued by reason of any increase of the authorized capital stock of the Corporation of any class, or bonds, certificates of indebtedness, debentures or other securities convertible into stock of the Corporation, or carrying any right to purchase stock of any class but any such unissued stock or such additional authorized issue of any stock or of other securities convertible into stock, or carrying any right to purchase stock, may be issued and disposed of pursuant to resolution of the Board of Directors to such persons, firms, corporations or associations and upon such terms as may be deemed advisable by the Board of Directors in the exercise of its discretion.

FIFTH: The minimum amount of capital with which the corporation will commence business is One Thousand Dollars.

SIXTH: The names and places of residence of each of the incorporators are as follows:

NAME	PLACE OF RESIDENCE
Grace Rossler	New York, New York
Joy L. Dekle	New York, New York
Grace X. Bahler	New York, New York

SEVENTH: The corporation is to have perpetual existence.

EIGHTH: The private property of the stockholders of the corporation shall not be subject to the payment of corporate debts to any extent whatever.

NINTH: For the management of the business and for the conduct of the affairs of the corporation, and in further definition, limitation and regulation of the powers of the corporation and of its directors and stockholders, it is further provided:

1. The number of directors of the corporation shall be as specified in the By-Laws of the corporation but such number may from time to time be increased or decreased in such manner as may be prescribed by the By-Laws. In no event shall the number of directors be less than three. The election of directors need not be by ballot. Directors need not be stockholders.

2. In furtherance and not in limitation of the powers conferred by the laws of the State of Delaware, the Board of Directors is expressly authorized and empowered:

(a) To make, alter, amend, and repeal By-Laws, subject to the power of the stockholders to alter or repeal the By-Laws made by the Board of Directors

(b) Subject to the applicable provisions of the By-Laws then in effect, to determine, from time to time, whether and to what extent and at what times and places and under what conditions and regulations the accounts and books of the corporation or any of them shall be open to the inspection of the stockholders, and no stockholder shall have any right to inspect any account or book or document of the corporation, except as conferred by the laws of the State of Delaware unless and until authorized so to do by resolution of the Board of Directors or of the stockholders of the corporation.

(c) Without the assent or vote of the stockholders, to authorize and issue obligations of the corporation, secured or unsecured, to include therein such provisions as to redeemability, convertibility or otherwise, as the Board of Directors, in its sole discretion, may determine, and to authorize the mortgaging or pledging, as security therefor, of any property of the corporation, real or personal, including after-acquired property.

(d) To establish bonus, profit-sharing or other types of incentive or compensation plans for the employees (including officers and directors) of the corporation and to fix the amount of profits to be distributed or shared and to determine the persons to participate in any such plans and the amounts of their respective participations.

In addition to the powers and authorities hereinbefore or by statute expressly conferred upon it, the Board of Directors may exercise all such powers and do all such acts and things as may be exercised or done by the corporation, subject, nevertheless, to the provisions of the laws of the State of Delaware, of the Certificate of Incorporation and of the By-Laws of the corporation.

3. Any director or any officer elected or appointed by the stockholders or by the Board of Directors may be removed at any time in such manner as shall be provided in the By-Laws of the corporation.

4. In the absence of fraud, no contract or other transaction between the corporation and any other corporation, and no act of the corporation, shall in any way be affected or invalidated by the fact that any of the directors of the corporation are pecuniarily or otherwise interested in, or are directors or officers of, such other corporation; and, in the absence of fraud, any director, individually, or any firm of which any director may be a member, may be a party to, or may be pecuniarily or otherwise interested in, any contract or transaction of the corporation; provided, in any case, that the fact that he or such firm is so interested shall be disclosed or shall have been known to the Board of Directors or a majority thereof; and any director of the corporation who is also a director or officer of any such other corporation, or who is also interested, may be counted in determining the existence of a quorum at any meeting of the Board of Directors of the corporation which shall authorize any such contract, act or transaction and may vote thereat to authorize any such contract, act or transaction, with like force and effect as if he were not such director or officer of such other corporation, or not so interested.

5. Any contract, act or transaction of the corporation or of the directors may be ratified by a vote of a majority of the shares having voting powers at any meeting of stockholders, or at any special meeting called for such purpose, and such ratification shall, so far as permitted by law and by this Certificate of Incorporation, be as valid and as binding as though ratified by every stockholder of the

corporation.

<u>TENTH</u>: From time to time any of the provisions of this Certificate of Incorporation may be amended, altered or repealed, and other provisions authorized by the laws of the State of Delaware at the time in force may be added or inserted in the manner and at the time prescribed by said laws, and all rights at any time conferred upon the stockholders of the corporation by this Certificate of Incorporation are granted subject to the provisions of this Article TENTH.

<u>ELEVENTH</u>: No director shall be personally liable to the corporation or its stockholders for monetary damages for breach of fiduciary duty as a director provided that this provision shall not eliminate or limit the liability of a director (i) for any breach of the director's duty of loyalty to the corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under section 174 of the General Corporation Law of Delaware, as such section may be amended from time to time, or (iv) for any transaction from which the director derived an improper personal benefit.

Executed at Farmingdale, New York on May 26, 1999.

/s/ Joseph A. Molino
Joseph A. Molino
Vice President

EXHIBIT 3.2

P&F INDUSTRIES, INC.

AMENDED BY-LAWS
OF
P&F INDUSTRIES, INC.

ARTICLE I.

OFFICES

SECTION 1. Principal Office. The registered office of P&F Industries, Inc. (the "corporation") shall be located in such place as may be provided from time to time in the Certificate of Incorporation.

SECTION 2. Other Offices. The corporation may also have offices at such other places both within and without the State of Delaware as the board of directors may from time to time determine or as the business of the corporation may require.

ARTICLE II.

STOCKHOLDERS

SECTION 1. Annual Meetings. The annual meeting of the stockholders of the corporation shall be held at such place, within or without the State of Delaware, on such date and at such time as may be determined by the board of directors and as shall be designated in the notice of said meeting.

SECTION 2. Special Meetings. Special meetings of the stockholders for any purpose or purposes, unless otherwise prescribed by statute or by the Certificate of Incorporation, may be held at any place, within or without the State of Delaware, and may be called by resolution of the board of directors, or by the Chairman or the President.

SECTION 3. Notice and Purpose of Meetings. Written or printed notice of the meeting stating the place, day and hour of the meeting and, in case of a special meeting, stating the purpose or purposes for which the meeting is called, shall be delivered not less than ten nor more than sixty days before the date of the meeting, either personally or by mail, by or at the direction of the Chairman or the President to each stockholder of record entitled to vote at such meeting.

SECTION 4. Quorum. The holders of a majority of the shares of capital stock issued and outstanding and entitled to vote, represented in person or by proxy, shall constitute a quorum at all meetings of the stockholders for the transaction of business, except as otherwise provided by statute or by the Certificate of Incorporation. If, however, such quorum shall not be present or represented at any meeting of the stockholders, the stockholders present in person or represented by proxy shall have power to adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present or represented. At such adjourned meeting at which a quorum shall be present or represented any business may be transacted which might have been transacted at the meeting as originally notified.

SECTION 5. Order of Business. At each meeting of the stockholders, the Chairman of the Board, or, in the absence of the Chairman of the Board, the President, shall act as chairman. The order of business at each meeting shall be as determined by the chairman of the meeting. The chairman of the meeting shall have the right and authority to prescribe such rules, regulations and procedures and to do all such acts and things as are necessary or desirable for the proper conduct of the meeting, including, without limitation, the establishment of procedures for the maintenance of order and safety, limitations on the time allotted to questions or comments on the affairs of the corporation, restrictions on entry to such meeting after the time prescribed for the commencement thereof, and the opening and closing of the voting polls.

At any annual meeting of stockholders, only such business shall be conducted as shall have been brought before the annual meeting (i) by or at the direction of the chairman of the meeting or (ii) by any stockholder who complies with the procedures set forth in this Section 5.

For business properly to be brought before an annual meeting by a stockholder, the stockholder must have given timely notice thereof in proper written form to the Secretary of the corporation. To be timely, a stockholder's notice must be delivered to or mailed and received at the principal executive offices of the corporation not more than 180 days nor less than 120 days in advance of the date of the corporation's proxy statement released to stockholders in connection with the previous year's annual meeting. To be in proper form, a stockholder's notice to the Secretary shall set forth in writing as to each matter the stockholder proposes to bring the annual meeting the following information: (i) a description of the business desired to be brought before the annual meeting, consisting of 500 or fewer words conforming to the requirements of Schedule 14A of the Regulations of the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934, as amended (the "Regulations"); (ii) the reasons for conducting such business at the annual meeting; (iii) the name and address, as they appear on the corporations books, of the stockholder proposing such business; (iv) the class and number of shares of the corporation's capital stock which are beneficially owned by the stockholder and the length of the time during which the stockholder beneficially owned such shares; and (v) any material interest of the stockholder in such business. Notwithstanding anything in these by-laws to the contrary, no business shall be conducted at an annual meeting except in accordance with the procedures set forth in this Section 5. The chairman of an annual meeting shall, if the facts warrant, determine and declare to the annual meeting that business was not properly brought before the annual meeting in accordance with the provisions of this Section 5 and, if he should so determine, he shall so declare to the annual meeting and any such business not properly brought before the annual meeting shall not be transacted.

SECTION 6. Voting Process. If a quorum is present or represented the affirmative vote of a majority of the shares of stock present or represented at the meeting shall be the act of the stockholders unless the vote of a greater number of shares of stock is required by law, by the Certificate of Incorporation or by these by-laws. Each outstanding share of stock having voting power, shall be entitled to one vote on each matter submitted to a vote at a meeting of stockholders. A shareholder may vote either in person or by proxy executed in writing by the stockholder or by his duly authorized attorney-in-fact. The term, validity and enforceability of any proxy shall be determined in accordance with the General Corporation Law of the State of Delaware.

ARTICLE III.

DIRECTORS

SECTION 1. Powers, Number, Qualification and Term. The property, affairs and business of the corporation shall be managed by its board of directors, consisting of five persons. At the annual meeting held in 1976, directors shall be elected in three classes as nearly equal in number as may be. The terms of office of the first class shall expire at the annual meeting in 1977, and of the second and third classes at the annual meetings in 1978 and 1979 respectively. At each annual election held after 1976, directors shall be elected for three year terms to succeed those whose terms then expire. If a vacancy shall occur in any class the director elected to fill that vacancy shall be elected for the remaining term of that class. The directors shall have power at any time when a stockholders' meeting is not in session to increase or decrease their own number by an amendment to these By-Laws. If the number of directors be increased, the additional directors shall be elected for such terms as shall maintain equality in the annual classes, as nearly as may be. Vacancies created by an amendment increasing the number of directors may be filled like other vacancies by a majority of the directors in office at the time. If the number of directors be reduced, the terms of the directors remaining in office need not be changed, but the terms of the directors elected to succeed them shall be changed to the extent necessary to maintain equality in the annual classes as nearly as may be. The number of directors shall never be less than three. Directors need not be stockholders.

SECTION 2. Quorum. A majority of the members of the board of directors then acting at a meeting duly assembled shall constitute a quorum for the transaction of business, unless a greater number is required by law, by the Certificate of Incorporation or by these by-laws. If a quorum shall not be present at any meeting of directors, the directors present thereat may adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present.

SECTION 3. Vacancies. In case one or more vacancies shall occur in the board of directors by reason of death, resignation or otherwise, except insofar as otherwise provided in the case of a vacancy or vacancies occurring by reason of removal by the stockholders, the remaining directors, although less than a quorum, may, by a majority vote, elect a successor or successors for the unexpired term or terms.

SECTION 4. Place of Meetings. Meetings of the board of directors, regular or special, may be held either within or without the State of Delaware.

SECTION 5. First Meeting. The first meeting of each newly elected board of directors shall be held immediately following and at the place of the annual meeting of stockholders and no other notice of such meeting shall be necessary to the newly elected directors in order legally to constitute the meeting, provided a quorum shall be present, or it may convene at such place and time as shall be fixed by the consent in writing or the attendance of all the directors.

SECTION 6. Regular Meetings. Regular meetings of the board of directors may be held upon such notice, or without notice, and at such time and at such place as shall from time to time be determined by the board.

SECTION 7. Special Meetings. Special meetings of the board of directors may be called by the Chairman or the President or by the number of directors who then legally constitute a quorum. Notice of each special meeting shall, if mailed, be addressed to each director at his last known address at least four (4) days prior to the date on which the meeting is to be held; or such notice shall be sent to each director at such address by telegram, telex, or facsimile, or be delivered to him personally, not later than one full day before the date on which such meeting is to be held.

SECTION 8. Notice; Waiver. Attendance of a director at any meeting shall constitute a waiver of notice of such meeting, except where a director attends for the express purpose of objecting to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the board of directors need be specified in the notice or waiver of notice of such meeting.

SECTION 9. Action Without a Meeting. Any action required or permitted to be taken at a meeting of the directors may be taken without a meeting if a consent in writing, setting forth the action so taken, shall be signed by all of the directors entitled to vote with respect to the subject matter thereof. In addition, meetings of the board may be held by means of conference telephone as permitted by the General Corporation Law of the State of Delaware.

SECTION 10. Action. Except as otherwise provided by law or in the Certificate of Incorporation or these by-laws, if a quorum is present the affirmative vote of a majority of the members of the board of directors present will be required for any action.

SECTION 11. Removal of Directors. Subject to any contrary provisions of law, a director may be removed only for cause, either by affirmative vote of the holders of a majority of the outstanding shares of stock entitled to vote for the election of directors or by affirmative vote of at least two thirds of the remaining members of the board. A finding of cause shall be made only upon notice to the director to be removed and opportunity to respond to evidence that the director is unfit to serve.

SECTION 12. Nominations. Subject to the rights of the holders of any class or series of stock having a preference over the Class A common stock as to dividends or upon liquidation, nominations for the election of directors may be made by the board of directors or by any stockholder entitled to vote for the election of directors. Any stockholder entitled to vote for the election of directors at a meeting may nominate persons for election as directors only if written notice of such stockholder's intent to make such nomination is given, either by personal delivery or by United States mail, postage prepaid, to the Secretary of the corporation not later than (i) with respect to an election to be held at an annual meeting of stockholders, not more than 180 nor less than 120 days in advance of the date of the corporation's proxy statement released to stockholders in connection with the previous year's annual meeting; and (ii) with respect to an election to be held at a special meeting of stockholders for the election of directors, the close of business on the seventh day following the date on which notice of such meeting is first given to stockholders. Each such notice shall set forth: (a) the name and address as they appear in the corporation's books of the stockholder who intends to make the nomination; (b) the name and address of the person or persons to be nominated; (c) a representation of the stockholder listing the class and number of shares of stock of the corporation beneficially held by him or her and that he or she intends to appear in person or by proxy at the meeting to nominate the person or persons specified in the notice; (d) a description of all arrangements or understandings between the stockholder and each nominee and any other person or persons (naming such person or persons) pursuant to which the nomination or nominations are to be made by the stockholder; (e) such other information regarding each nominee proposed by such stockholder as would have been required to be included in a proxy statement filed pursuant to Schedule 14A of the Regulations had each nominee been nominated, or intended to be nominated, by the board of directors; and (f) the consent of each nominee to serve as a director of the corporation if so elected. The chairman of the meeting may refuse to acknowledge the nomination of any person not made in compliance with the foregoing procedure.

ARTICLE IV.

COMMITTEES

SECTION 1. Committees. The Board may, by resolution adopted by a majority of the whole Board, designate one or more committees, each of which shall, except as otherwise prescribed by law, have such authority of the Board as shall be specified in the resolution of the Board designating such committee. A majority of all the members of such committee may determine its action and fix the time and place of its meeting, unless the Board shall otherwise provide. The Board shall have the power at any time to change the membership of, to fill all vacancies in and to discharge any such committee, either with or without cause.

SECTION 2. Procedure; Meetings; Quorum. Regular meetings of the committees of the Board, of which no notice shall be necessary, may be held at such times and places as shall be fixed by resolution adopted by a majority of the members thereof. Special meetings of the committees of the Board shall be called at the request of the Chairman or a majority of members thereof. So far as applicable, the provisions of Article III of these By-laws relating to notice, quorum and voting requirements applicable to meetings of the Board shall govern meetings of the committees of the Board. Each committee of the Board shall keep written minutes of its proceedings and circulate summaries of such written minutes to the Board before or at the next meeting of the Board.

ARTICLE V.

OFFICERS

SECTION 1. Number. The board of directors at its first meeting after each annual meeting of stockholders shall choose a Chairman, a President, a Secretary and a Treasurer, none of whom need be a member of the board. The board of directors may also choose one or more Executive Vice Presidents, one or more vice presidents, assistant secretaries and assistant treasurers. The board of directors may appoint such other officers and agents as it shall deem necessary, who shall hold their offices for such terms and shall exercise such powers and perform such duties as shall be determined from time to time by the board of directors. Two or more offices may be held by the same person.

SECTION 2. Compensation. The salaries or other compensation of all officers of the corporation shall be fixed by the board of directors. No officer shall be prevented from receiving a salary or other compensation by reason of the fact that he is also a director.

SECTION 3. Term; Removal; Vacancy. The officers of the corporation shall hold office until their successors are chosen and qualify. Any officer may be removed at any time, with or without cause, by the Affirmative vote of a majority of the whole board of directors. Any vacancy occurring in any office of the corporation shall be filled by the board of directors.

SECTION 4. Chairman. The Chairman shall, if one be elected, preside at all meetings of the board of directors and shall be the chief executive officer of the corporation.

SECTION 5. President. The President shall be the chief operating officer of the corporation, shall preside at all meetings of the stockholders and the board of directors in the absence of the Chairman, shall have general supervision over the business of the corporation and shall see that all directions and resolutions of the board of directors are carried into affect.

SECTION 6. Executive Vice President. The Executive Vice President shall, in the absence or disability of the President, perform the duties and exercise the powers of the President and shall perform such other duties and have such other powers as the board of directors may from time to time prescribe. If there shall be more than one Executive Vice President, the Executive Vice Presidents shall perform such duties and exercise such powers in the absence or disability of the President, in the order determined by the board of directors. The vice presidents shall in the absence or disability of the President and of the Executive Vice Presidents, perform the duties and exercise the powers of the President and shall perform such other duties and have such other powers as the board of directors may from time to time prescribe. If there shall be more than one vice president, the vice presidents shall perform such duties and exercise such powers in the absence or disability of the President and of the

Executive Vice President, in the order determined by the board of directors.

SECTION 7. Secretary. The Secretary shall attend all meetings of the board of directors and all meetings of the stockholders and record all the proceedings of the meetings of the corporation and of the board of directors in a book to be kept for that purpose. He shall give, or cause to be given, notice of all meetings of the stockholders and special meetings of the board of directors, and shall perform such other duties as may be prescribed by the board of directors or President, under whose supervision he shall be. He shall have custody of the corporate seal of the corporation and he, or an assistant secretary, shall have the authority to affix the same to an instrument requiring it and when so affixed, it may be attested by his signature or by the signature of such assistant secretary. The board of directors may give general authority to any other officer to affix the seal of the corporation and to attest the affixing by his signature.

SECTION 8. Assistant Secretary. The assistant secretary, if there shall be one, or if there shall be more than one, the assistant secretaries in the order determined by the board of directors, shall, in the absence or disability of the Secretary, perform the duties and exercise the powers of the Secretary and shall perform such other duties and have such powers as the board of directors may from time to time prescribe.

SECTION 9. Treasurer. The Treasurer shall have the custody of the corporate funds and securities and shall keep full and accurate accounts of receipts and disbursements in books belonging to the corporation and shall deposit all moneys and other valuable effects in the name and to the credit of the corporation in such depositories as may be designated by the board of directors. He shall disburse the funds of the corporation as may be ordered by the board of directors, taking proper vouchers for such disbursements, and shall render to the Chairman, the President and the board of directors, at its regular meetings, or when the board of directors so requires, an account of all of his transactions as Treasurer and of the financial condition of the corporation.

SECTION 10. Assistant Treasurer. The assistant treasurer, if there shall be one, or, if there shall be more than one, the assistant treasurers in the order determined by the board of directors, shall, in the absence or disability of the Treasurer, perform the duties and exercise the powers of the Treasurer and shall perform such other duties and have such other powers as the board of directors may from time to time prescribe.

ARTICLE VI.

CAPITAL STOCK

SECTION 1. Form. The shares of the capital stock of the corporation shall be represented by certificates in such form as shall be approved by the board of directors and shall be signed by the Chairman, the President, an Executive Vice President or a vice president, and by the Treasurer or an assistant treasurer or the Secretary or an assistant secretary of the corporation manually or by facsimile, and may be sealed with the seal of the corporation or a facsimile thereof.

SECTION 2. Lost and Destroyed Certificates. The board of directors may direct a new certificate to be issued in place of any certificate theretofore issued by the corporation alleged to have been lost or destroyed. When authorizing such issue of a new certificate, the board of directors, in its discretion and as a condition precedent to the issuance thereof, may prescribe such terms and conditions as it deems expedient, and may require such indemnities as it deems adequate, to protect the corporation from any claim that may be made against it with respect to any such certificate alleged to have been lost or destroyed.

SECTION 3. Transfer of Shares. Upon surrender to the corporation or the transfer agent of the corporation of a certificate representing shares duly endorsed or accompanied by proper evidence of succession, assignment or authority to transfer, a new certificate shall be issued to the person entitled thereto, and the old certificate cancelled and the transaction recorded upon the books of the corporation.

ARTICLE VII.

INDEMNIFICATION

SECTION 1. (a) The corporation shall indemnify, subject to the requirements of subsection (d) of this Section, any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the corporation), by reason of the fact that he is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him in connection with such action, suit or proceeding if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests, of the corporation and, with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful. The termination of any action, suit or proceeding by judgment, order, settlement, conviction or upon a plea of nolo contendere or its equivalent, shall not, of itself, create a presumption that the person did not act in good faith and in a manner which he reasonably believed to be in or not opposed to the best interests of the corporation and, with respect to any criminal action or proceeding, had reasonable cause to believe that his conduct was unlawful.

(b) The corporation shall indemnify, subject to the requirements of subsection (d) of this Section, any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the corporation to procure a judgment in its favor by reason of the fact that he is or was a director, officer, employee or agent of the corporation or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees) actually and reasonably incurred by him in connection with the defense or settlement of such action or suit if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the corporation and except that no indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable to the corporation unless and only to the extent that the Court of Chancery of the State of Delaware or the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which the Court of Chancery of the State of Delaware or such other court shall deem proper.

(c) To the extent that a director, officer, employee or agent of the corporation has been successful on the merits or otherwise in defense of any action, suit or proceeding referred to in subsections (a) and (b) of this Section, or in defense of any claim, issue or matter therein, the corporation shall indemnify him against expenses (including attorneys' fees) actually and reasonably incurred by him in connection therewith.

(d) Any indemnification under subsections (a) and (b) of this Section (unless ordered by a court) shall be made by the corporation only as authorized in the specific case upon a determination that indemnification of the director, officer, employee or agent is proper in the circumstances because he has met the applicable standard of conduct set forth in subsections (a) and (b) of this Section. Such determination shall be made (1) by the board of directors by a majority vote of a quorum consisting of directors who were not parties to such action, suit or proceeding, or (2) if such a quorum is not obtainable, or, even if obtainable a quorum of disinterested directors so directs, by independent legal counsel in a written opinion, or (3) by the stockholders.

(e) Expenses incurred by a director, officer, employee or agent in defending a civil or criminal action, suit or proceeding may be paid by the corporation in advance of the final disposition of such action, suit or proceeding upon receipt of an undertaking by or on behalf of such director or officer to repay such amount if it shall ultimately be determined that he is not entitled to be indemnified by the corporation as authorized in this Section. Such expenses incurred by other employees and agents may be so paid upon such terms and conditions, if any, as the board of directors deems appropriate.

(f) The indemnification and advancement of expenses provided by, or granted pursuant to, the other subsections of this Section shall not limit the corporation from providing any other indemnification or advancement of expenses permitted by law nor shall they be deemed exclusive of any other rights to which a person seeking indemnification or advancement of expenses may be entitled under any by-law, agreement, vote of stockholders or disinterested directors or otherwise, both as to action in his official capacity and as to action in another capacity while holding such office.

(g) The corporation may purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation partnership, joint venture, trust or other enterprise against any liability asserted against him and incurred by him in any such capacity, or arising out of his status as such, whether or not the corporation would have the power to indemnify him against such liability under the provisions of this Section.

(h) For the purposes of this Section, references to “the corporation” shall include, in addition to the resulting corporation, any constituent corporation (including any constituent of a constituent) absorbed in a consolidation or merger which, if its separate existence had continued, would have had power and authority to indemnify its directors, officers, employees or agents, so that any person who in or was a director, officer, employee or agent of such constituent corporation, or is or was serving at the request of such constituent corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, shall stand in the same position under the provisions of this Section with respect to the resulting or surviving corporation as he would have with respect to such constituent corporation if its separate existence had continued.

(i) For purposes of this Section, references to “other enterprises” shall include employee benefit plans; references to “fines” shall include any excise taxes assessed on a person with respect to an employee benefit plan; and references to “serving at the request of the corporation” shall include any service as a director, officer, employee or agent of the corporation which imposes duties on, or involves services by, such director, officer, employee or agent with respect to any employee benefit plan, its participants, or beneficiaries; and a person who acted in good faith and in a manner he reasonably believed to be in the interest of the participants and beneficiaries of an employee benefit plan shall be deemed to have acted in a manner “not opposed to the best interests of the corporation” as referred to in this Section.

(j) The indemnification and advancement of expenses provided by, or granted pursuant to, this Section shall, unless otherwise provided when authorized or ratified by the board of directors, continue as to a person who has ceased to be a director, officer, employee or agent of the corporation and shall inure to the benefit of the heirs executors and administrators of such a person.

(k) For purposes of this Article the term “corporation” shall include wholly-owned subsidiaries of the corporation.

ARTICLE VIII.

GENERAL PROVISIONS

SECTION 1. Checks. All checks or demands for money and notes of the corporation shall be signed by such officer or officers or such other person or persons as the board of directors may from time to time designate.

SECTION 2. Fiscal Year. The fiscal year of the corporation shall be determined, and may be changed, by resolution of the board of directors.

SECTION 3. Seal. The corporate seal shall have inscribed thereon the name of the corporation, the year of its organization and the words “Corporate Seal, Delaware.” The seal may be used by causing it or a facsimile thereof to be impressed or affixed or in any manner reproduced.

ARTICLE IX.

AMENDMENTS

SECTION 1. These by-laws may be altered, amended, supplemented or repealed or new by-laws may be adopted by a resolution adopted by a majority of the whole board of directors at any regular or special meeting of the board.

Adopted by the Board of Directors of P&F Industries, Inc. on September 23, 1999.

EXHIBIT 4.4

P&F INDUSTRIES, INC.

AMENDMENT NO. 2
TO
CREDIT AGREEMENT

THIS AMENDMENT NO. 2 is entered into as of July 28, 1999 (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

The Co-Borrowers and the Bank are parties to a Credit Agreement, dated as of July 23, 1998 (as same has been and may be further amended, restated, supplemented or modified, from time to time, the "Credit Agreement"), pursuant to which the Bank provides the Co-Borrowers with certain financial accommodations.

The Co-Borrowers have requested that the Bank (i) extend the term through July 26, 2000, (ii) increase the Revolving Credit Commitment and the Term Loan Commitment for the period commencing the date hereof through and including January 31, 2000 and (iii) 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. Section 1.1 of the Credit Agreement is hereby amended as follows:

The following defined terms are hereby added in their appropriate alphabetical order:

"Amendment No. 2" shall mean Amendment No. 2 to Credit Agreement among the Co-Borrowers and the Bank dated as of the Amendment No. 2 Effective Date.

"Amendment No. 2 Effective Date" shall mean July 28, 1999.

"Authorized Acquisitions" shall mean the acquisition by a Co-Borrower of all of the issued and outstanding stock or substantially all of the assets of such corporations as shall have been previously indentified by such Co-Borrower in writing to the Bank and approved by the Bank.

"Step-Up Period" shall mean the period commencing the Amendment No. 2 Effective Date through and including January 31, 2000.

The following defined terms are hereby amended in their entirety to provide as follows:

"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 (a) $17,000,000, during the Step-Up Period and (b) $12,000,000, at any time thereafter.

"Revolving Credit Note" shall mean the second amended and restated promissory note of the Co-Borrowers in the form attached as Exhibit A to Amendment No. 2 evidencing the Revolving Credit Loans, as the same may be amended, supplemented, restated or otherwise modified, from time to time.

"Revolving Credit Termination Date" shall mean the earlier of (i) July 26, 2000 or (ii) the date on which the Revolving Credit Commitment shall have been terminated hereunder.

"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) (i) $18,000,000, during the Step-Up Period or (ii) $15,000,000, at any time thereafter and (b) the Green Letter of Credit Outstanding.

"Term Loan Commitment Maturity Date" shall mean July 26, 2000.

The definition of the term "Interest Period" is hereby amended as follows: (a) subparagraph (a) thereof shall be amended to add the word "two" immediately after the word "one" on the second line thereof and (b) subparagraph (b) thereof shall be amended to add the word "two" immediately after the word "one" on the third line thereof.

Section 1.3. Section 2.04 of the Credit Agreement is hereby amended by adding a new subsection (c) at the end thereof as follows:

"(c) Notwithstanding anything to the contrary in this Agreement or in any Loan Document, any increase in the amount of the Term Loan Commitment during the Step-Up Period, shall be used solely with respect to the Authorized Acquisitions."

Section 1.4. Section 3.03 of the Credit Agreement is hereby amended by (a) adding an "(a)" immediately before the phrase "The Co-Borrowers" on the first line thereof and (b) adding a new subsection (b) at the end thereof as follows:

"(b) In the event that (a) the Aggregate Outstandings exceed the Revolving Credit Commitment or (b) the Aggregate Term Loan Outstandings exceed the Term Loan Commitment, the Co-Borrowers shall immediately pay or prepay so much of the Loans as shall be necessary in order for the Aggregate Outstandings and the Aggregate Term Loan Outstandings to be in compliance with the Revolving Credit Commitment and the Term Loan Commitment, respectively.

Section 1.5. Section 5.03(b) of the Credit Agreement is hereby amended in its entirety to provide as follows:

"(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 and the Authorized Acquisitions), shall not exceed $5,000,000."

Section 1.5. Section 7.12(b) of the Credit Agreement is hereby amended in its entirety to provide as follows:

"(b) **Minimum Capital Base.** Maintain a Consolidated Capital Base (i) during the period commencing with the Amendment No. 2 Effective Date through and including December 30, 1999, of at least (A) $10,000,000 at all times prior to the closing of all Authorized Acquisitions and (B) $8,750,000, at all times following the closing of all Authorized Acquisitions and (ii) on December 31, 1999 and at all times thereafter, of at least $10,000,000.

Section 1.6. Exhibit A to the Credit Agreement is hereby amended in its entirety and replaced with Exhibit A attached to Amendment No. 2.

ARTICLE II.
Conditions of Effectiveness

Section 2.1. This Amendment shall become effective as of the Amendment No. 2 Effective Date, upon receipt by the Bank of each of the following documents, each in form and substance satisfactory to the Bank and its counsel:

a. this Amendment, the second amended and restated Revolving Credit Note and the amended and restated Term Loan Note, each executed by each Co-Borrower in favor of the Bank;

b. a certificate of the Secretary of each of Co-Borrowers, dated as of the Amendment No. 2 Effective Date, certifying (A) the names and true signatures of the officers of such entity authorized to sign this Amendment, the other Loan Documents 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;

c. a certificate of a duly authorized officer of each of the Co-Borrowers, dated as of the Amendment No. 2 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;

d. the Reaffirmation Agreement, in the form attached hereto as Exhibit I, duly executed by each Co-Borrower;

e. such other documents, instruments, agreements, approvals, opinions and evidence as the Bank may reasonably require.

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 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. 2 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 4.1. 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.

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
Joseph A. Molino, Vice President

FLORIDA PNEUMATIC MANUFACTURING CORPORATION
By:: /s/ Joseph A. Molino
Joseph A. Molino, Vice President

EMBASSY INDUSTRIES, INC.
By:: /s/ Joseph A. Molino
Joseph A. Molino, Vice President

GREEN MANUFACTURING, INC.
By:: /s/ Joseph A. Molino
Joseph A. Molino, Vice President

EUROPEAN AMERICAN BANK
By:: /s/ Anthony V. Pantina
Anthony V. Pantina, Vice President

AMENDED AND RESTATED REVOLVING CREDIT NOTE

$17,000,000.00

Uniondale, New York
July 28, 1999

FOR VALUE RECEIVED, 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"), promise to pay to the order of **EUROPEAN AMERICAN BANK** (the "Bank"), on or before the Revolving Credit Termination Date, **SEVENTEEN MILLION DOLLARS** ($17,000,000.00) or, if less, the unpaid principal amount of all Revolving Credit Loans made by the Bank to the Co-Borrowers under the Credit Agreement referred to below.

The Co-Borrowers promise to pay interest on the unpaid principal amount hereof from the date hereof until paid in full at the rates and at the times which shall be determined, and to make principal repayments on this Note at the times which shall be determined, in accordance with the provisions of the Credit Agreement referred to below.

This Note is the "Revolving Credit Note" referred to in the Credit Agreement dated as of July 23, 1998 among the Co-Borrowers and the Bank (as the same has been and may be further amended, modified or supplemented from time to time, the "Credit Agreement") and is issued pursuant to and entitled to the benefits of the Credit Agreement to which reference is hereby made for a more complete statement of the terms and conditions under which the Revolving Credit Loans evidenced hereby were made and are to be repaid. Capitalized terms used herein without definition shall have the meanings set forth in the Credit Agreement.

The Bank shall record 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 on the grid schedule annexed to this Note; provided, however, that the failure of the Bank to set forth such Revolving Credit Loans, payments and other information on the attached grid schedule shall not in any manner affect the obligation of the Co-Borrowers to repay the Revolving Credit Loans made by the Bank in accordance with the terms of this Note.

This Note is subject to prepayment as provided in Section 3.03.

Upon the occurrence of an Event of Default the unpaid balance of the principal amount of this Note together with all accrued but unpaid interest thereon, may become, or may be declared to be, due and payable in the manner, upon the conditions and with the effect provided in the Credit Agreement.

All payments of principal and interest in respect of this Note shall be made in lawful money of the United States of America in same day funds at the office of the Bank located at the Bank's Payment Office or at such other place as shall be designated in writing for such purpose in accordance with the terms of the Credit Agreement.

No reference herein to the Credit Agreement and no provision of this Note or the Credit Agreement shall alter or impair the obligation of the Co-Borrowers, which is absolute and unconditional, to pay the principal of and interest on this Note at the place, at the respective times, and in the currency herein prescribed.

This Note amends and restates in its entirety and given in substitution for, but not in satisfaction of, that certain Amended and Restated Revolving Credit Note, dated September 16, 1998, issued by the Co-Borrowers in favor of the Bank in the original principal sum of $12,000,000, and is entitled to the benefits of the Credit Agreement and the Loan Documents and is subject to all of the agreements, terms and conditions therein contained.

Each Co-Borrower and each endorser of this Note waive diligence, presentment, protest, demand, and notice of any kind in connection with this Note.

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

IN WITNESS WHEREOF, each Co-Borrower has caused this Note to be executed and delivered by its duly authorized officer, as of the day and year and at a place first above written.

P&F INDUSTRIES, INC.

By: /s/ Joseph A. Molino, Jr.
Name: Joseph A. Molino, Jr.
Title: Vice President

FLORIDA PNEUMATIC MANUFACTURING CORPORATION

By: /s/ Joseph A. Molino, Jr.
Name: Joseph A. Molino, Jr.
Title: Vice President

EMBASSY INDUSTRIES, INC.

By: /s/ Joseph A. Molino, Jr.
Name: Joseph A. Molino, Jr.
Title: Vice President

GREEN MANUFACTURING, INC.

By: /s/ Joseph A. Molino, Jr.
Name: Joseph A. Molino, Jr.
Title: Vice President

REAFFIRMATION AND AMENDMENT AGREEMENT

July 28, 1999

EUROPEAN AMERICAN BANK
730 Veterans Memorial Highway
Hauppauge, New York 11788

Gentlemen:

Reference is hereby made to (a) each Security Agreement, dated as of July 23, 1998, by and between European American Bank (the "Secured Party") and each of P&F Industries, Inc. ("P&F"), Florida Pneumatic Manufacturing Corporation ("Florida Pneumatic"), Embassy Industries, Inc. ("Embassy") and Green Manufacturing, Inc. ("Green") (P&F, Florida Pneumatic, Embassy and Green, collectively, the "Co-Borrowers") (as each has been or may be amended, restated, modified or supplemented, from time to time, collectively, the "Security Agreements"), (b) the Pledge Agreement, dated as of July 23, 1998, by and between the Debtor and the Secured Party (as same has been and may be further amended, restated, modified or supplemented, from time to time, the "Pledge Agreement") and (c) Amendment No. 2 to Credit Agreement, dated as of the date hereof, by and among Secured Party and the Co-Borrowers (the "Amendment"). Capitalized terms not otherwise defined herein shall have the meanings given to them in the Security Agreement.

In connection with the foregoing and as a condition precedent to the effectiveness of the Amendment, each Co-Borrower hereby acknowledges and confirms that (a) all terms and provisions contained in their respective Security Agreement and, with respect to P&F, the Pledge Agreement, are and shall remain, in full force and effect in accordance with their respective terms, and are hereby ratified and confirmed and (b) the liens heretofore granted, pledged and/or assigned to the Bank as security for the Co-Borrowers' obligations under the respective Security Agreements and the Credit Agreement shall not be impaired, limited or affected in any manner whatsoever by reason of the Amendment.

Except as expressly provided herein, the execution, delivery and effectiveness of this letter 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, any Security Agreement and, with respect to P&F, the Pledge Agreement, or any other documents, instruments and agreements executed and/or delivered thereunder or in connection therewith.

If you are in agreement with the foregoing, kindly execute this agreement in the space provided for below.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed and delivered as of the date first above written.

P&F INDUSTRIES, INC.
FLORIDA PNEUMATIC MANUFACTURING CORPORATION
EMBASSY INDUSTRIES, INC.
GREEN MANUFACTURING CORPORATION

By: /s/ Joseph A. Molino, Jr.
Name: Joseph A. Molino, Jr.
Title: The Vice President of each of the foregoing corporations

ACKNOWLEDGED AND AGREED
EUROPEAN AMERICAN BANK

By: /s/ Anthony V. Pantina
Name: Anthony V. Pantina
Title: Vice President

EUROPEAN AMERICAN BANK
730 Veterans Memorial Highway
Hauppauge, New York 11788

July 28, 1999

P&F INDUSTRIES, INC.
FLORIDA PNEUMATIC MANUFACTURING CORPORATION
EMBASSY INDUSTRIES, INC.
GREEN MANUFACTURING, INC.

Gentlemen:

Reference is hereby made to the Credit Agreement, dated as of July 23, 1998, by and among P&F Industries, Inc., Florida Pneumatic Manufacturing Corporation, Embassy Industries, Inc., Green Manufacturing, Inc. (collectively, the "Co-Borrowers") and European American Bank (the "Bank"), as amended by Amendment No. 1 to Credit Agreement, dated as of September 16, 1998 and Amendment No. 2 to Credit Agreement, dated as of the date hereof (the "Second Amendment") (as same may be further amended, restated, supplemented or modified, from time to time, the "Credit Agreement"). Capitalized terms not otherwise defined herein shall have the meanings given to them in the Credit Agreement.

Pursuant to and in connection with the Second Amendment and the Credit Agreement, the Co-Borrowers have requested that the Bank permit the Co-Borrowers to enter into certain transactions to acquire all of the issued and outstanding stock or substantially all of the assets of certain corporations. The Company has advised the Bank that it seeks to acquire such outstanding stock or assets from Right Touch, Inc. ("Right Touch") and National Electric Manufacturing Corp. ("NEM").

The Bank approves the acquisition by any Co-Borrower of outstanding stock or assets of Right Touch or NEM, subject to and in accordance with the terms and conditions described in the Credit Agreement and the Second Amendment, and that such acquisitions shall be deemed Authorized Acquisitions (as defined in the Second Amendment). This Agreement does not constitute approval by the Bank for the acquisition by any Co-Borrower of the outstanding stock or assets of any company other than Right Touch and NEM nor shall the execution of this Agreement be deemed to waive any provision of the Credit Agreement with respect to Permitted Acquisitions or Authorized Acquisitions.

If you are in agreement with the foregoing, kindly execute this Agreement in the space provided for below.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed and delivered as of the date first above written.

EUROPEAN AMERICAN BANK

By: /s/ Richard Romano
Name: Richard Romano
Title: Vice President

ACKNOWLEDGED AND AGREED

P&F INDUSTRIES, INC.
FLORIDA PNEUMATIC MANUFACTURING CORPORATION
EMBASSY INDUSTRIES, INC.
GREEN MANUFACTURING CORPORATION

By: /s/ Joseph A. Molino, Jr.
Name: Joseph A. Molino, Jr.
Title: The Vice President of each of the foregoing corporations

EXHIBIT 21

P&F INDUSTRIES, INC.

SUBSIDIARIES OF THE REGISTRANT

Countrywide Hardware, Inc., a Delaware Corporation

d/b/a	Nationwide Industries, Inc., a Florida Corporation
	Woodmark International L.P., a Delaware Limited Partnership
	Stair House
	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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EXHIBIT 23

P&F INDUSTRIES, INC.

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

P&F Industries, Inc.
Farmingdale, New York

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 of P&F Industries, Inc. filed on February 18, 1997 and June 14, 2002, of our report dated March 21, 2005, relating to the consolidated financial statements and schedule which appear in this Form 10-K.

/s/ BDO SEIDMAN, LLP

BDO Seidman, LLP

New York, New York
March 24, 2005

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P&F INDUSTRIES, INC. CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

EXHIBIT 31.1

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, 2004;

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 28, 2005	/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

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EXHIBIT 31.2

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, 2004;

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 28, 2005	/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

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, 2004 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 28, 2005	/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]

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, 2004 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 28, 2005	/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