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FORM 10-K

P&F INDUSTRIES INC - PFIN

Filed: March 29, 2013 (period: December 31, 2012)

Annual report with a comprehensive overview of the company

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

(Mark One)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the Fiscal Year Ended December 31, 2012
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	**22-1657413**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
445 Broadhollow Road, Suite 100, Melville, New York	**11747**
(Address of principal executive offices)	(Zip Code)

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

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

(Title of each class)	**(Name of each exchange on which registered)**
Class A Common Stock, $1.00 par value	The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act: NONE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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

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

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

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

Large accelerated filer ☐	Accelerated filer ☐	Non-accelerated filer ☐ (Do not check if a smaller reporting company)	Smaller reporting company ☒

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

The aggregate market value of the registrant's Class A Common Stock held by non-affiliates of the registrant, based on the last sale price on June 29, 2012 (the last business day of the registrant's most recently completed second fiscal quarter), was approximately $12,409,000.

As of March 29, 2013 there were 3,674,139 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 2013 Annual Meeting of Stockholders.

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P&F INDUSTRIES, INC.

FORM 10-K
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2012

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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"). The Company and its representatives may, from time to time, make written or verbal forward looking statements, including statements contained in the Company's filings with the Securities and Exchange Commission, such as this Annual Report on Form 10-K ("Report"), and in its reports to stockholders. Any statements made in the Report that are not historical facts may be deemed to be forward looking statements. Generally, the inclusion of the words "believe," "expect," "intend," "estimate," "anticipate," "will," their opposites and similar expressions identify statements that constitute "forward looking statements" within the meaning of the Reform Act. Any forward looking statements contained herein, including those related to the Company's future performance, are based upon the Company's historical performance and on current plans, estimates and expectations. Such forward looking statements are subject to various risks and uncertainties, including those risk factors described in this Report, which may cause actual results to differ materially from the forward looking statements. Forward looking statements speak only as of the date on which they are made, and the Company undertakes no obligation to update publicly or revise any forward looking statement, whether as a result of new information, future developments or otherwise.

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PART I

ITEM 1. Business

P&F Industries, Inc. ("P&F") is a Delaware corporation incorporated on April 19, 1963. P&F and each of its subsidiaries are herein referred to collectively as the "Company." In addition, the words "we", "our" and "us" refer to the Company. The Company operates in two primary lines of business, or segments: (i) tools and other products ("Tools") and (ii) hardware and accessories ("Hardware").

Tools

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

Florida Pneumatic

Florida Pneumatic imports and sells pneumatic hand tools of its own design, primarily for the retail, industrial and automotive markets. This line of products includes sanders, grinders, drills, saws and impact wrenches. These tools are similar in appearance and function to electric hand tools, but are powered by compressed air, rather than directly by electricity. Air tools, as they are also called, generally are less expensive to operate, offer better performance and weigh less than their electrical counterparts. Florida Pneumatic imports approximately seventy-five types of pneumatic hand tools, most of which are sold at prices ranging from $50 to $1,000, under the names "Florida Pneumatic" and "Universal Tool," as well as under the trade names or trademarks of several private label customers. These Florida Pneumatic 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.

During 2012, Florida Pneumatic purchased approximately 56% of its pneumatic tools from China, 41% from Taiwan and 1% from Japan and Europe. Florida Pneumatic performs final assembly on certain of its pneumatic tools at its factory in Jupiter, Florida.

Florida Pneumatic also markets, through its Berkley Tool division ("Berkley"), a product line which includes pipe and bolt dies, pipe taps, wrenches, vises and stands, pipe and tubing cutting equipment, hydrostatic test pumps, and replacement electrical components for a widely-used brand of pipe cutting and threading machines. Florida Pneumatic markets Berkley's products through industrial distributors and contractors. Florida Pneumatic sources its Berkley product line from China and Israel, as well as domestic sources. Florida Pneumatic also assembles and markets a line of compressor air filters, for which it imports components from Mexico.

There are redundant supply sources for nearly all products purchased.

The primary competitive factors in the pneumatic hand tool market are price, service and brand-name awareness. The primary competitive factors in Berkley's business are price and service. Florida Pneumatic's products are sold off the shelf, 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.

Hy-Tech

Hy-Tech manufacturers and distributes its own line of industrial pneumatic tools under the "ATP" brand. Under the ATP brand, Hy-Tech produces and sells over sixty types of tools, which include impact wrenches, grinders, drills, and motors and are sold at prices ranging from $450 to $28,000. Further, it also manufacturers tools to customer unique specifications. Users of ATP parts and tools include refineries, chemical plants, power generation, heavy construction, oil and mining companies. In addition, Hy-Tech manufactures an extensive line of pneumatic tool replacement parts that are sold competitively to the original equipment manufacturer. It also manufactures and distributes high pressure stoppers for hydrostatic testing fabricated pipe under the "Thaxton" brand name. It also produces a line of siphons under the " Eureka" name.

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

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

Other than a line of sockets that are imported from Israel, all Hy-Tech products are made in the United States of America.

Hardware

We conduct our Hardware business through a wholly-owned subsidiary, Countrywide Hardware, Inc. ("Countrywide"). Countrywide conducts its business operations through its wholly-owned subsidiary, Nationwide Industries, Inc. ("Nationwide"). Prior to June 2010, we also conducted a stair parts business through certain subsidiaries of Countrywide.

Nationwide

Nationwide is a developer, importer, and manufacturer of fencing hardware, patio products, and door and window accessories including rollers, hinges, window operators, sash locks, custom zinc castings and door closers. Nationwide's products are sold through in-house sales personnel and independent manufacturers' representatives to distributors, dealers, retailers and OEM customers. Additionally, Nationwide markets a kitchen and bath product line. End users of Nationwide's products include contractors, home builders, pool and patio enclosure contractors, plumbers, OEM/private label customers and general consumers. Nationwide currently out-sources the manufacturing of approximately 90% of its product with several overseas factories located in China and Taiwan, while retaining design, quality control, and patent and trademark control. There are redundant supply sources for most products. Nationwide manufactures approximately 10% of its products sold including rollers, hinges and pool enclosure products at its facility in Tampa, Florida. Nationwide also provides value-add services for the entire product line with local packaging, kitting, rework and fabrication operations performed in its Tampa location.

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

Former Stair Parts Business

Prior to June 2009, Countrywide's subsidiaries, Woodmark International, L.P. ("Woodmark") and Pacific Stair Products, Inc. ("PSP") each operated a stair parts business. Additionally, Woodmark was also an importer of kitchen and bath hardware and accessories. In June 2009 pursuant to the transactions (the "WMC transactions") that formed the business of WM Coffman LLC (now known as Old Stairs Co ("WMC")), Woodmark and PSP contributed stair parts-related assets to WMC in return for members' equity. Concurrently, Woodmark transferred its kitchen and bath business to Nationwide. Accordingly, effective with the WMC transactions, the stair parts business became exclusively the business of WMC, and Woodmark and PSP no longer functioned as operating units. As part of the WMC transactions WMC acquired substantially all of the assets of Coffman Stairs, LLC, which operated a competitive stair parts business.

WMC was not able to achieve the revenue levels anticipated prior to the WMC transactions and, as a result, never produced positive cash flows. This caused, among other things, defaults on WMC's loan agreement with its bank, PNC, National Association ("PNC"). PNC, the primary lender and source of credit to WMC, foreclosed upon the assets of WMC. As a result of the aforementioned facts, in June 2010 WMC ceased operations. The Company no longer includes WMC in its Consolidated Financial Statements. See Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations – Off Balance Sheet Arrangements and Note 3 to Consolidated Financial Statements for further discussion.

Significant Customer

See Management's Discussion and Analysis – Liquidity and Capital Resources – Significant Customer.

Employees

We employed 150 full-time employees as of December 31, 2012. At various times during the year our operating units may employee seasonal help. During 2012, we employed part-time or seasonal staff as necessary. None of the Company's employees are represented by a union.

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ITEM 1A. Risk Factors

A wide range of factors could materially affect our performance. In addition to the factors affecting specific business operations identified in connection with the description of these operations and the financial results of these operations elsewhere in this report, the following factors, among others, could adversely affect our results of operations or financial position:

- *Substantial debt and debt service requirements;* The amount of our debt could have important consequences. For example, it could: increase our vulnerability to general adverse economic and industry conditions; limit our ability to fund future capital expenditures, working capital and other general corporate requirements; require us to dedicate a substantial portion of our cash flow from operations to make interest and principal payments on our debt; limit our flexibility in planning for, or reacting to, changes in our business; place us at a competitive disadvantage compared with competitors that have less debt; and limit our ability to borrow additional funds, even when necessary to maintain adequate liquidity.

- *Compliance with covenants under our credit facility.* Our asset based credit facility contains affirmative and negative covenants including financial covenants, and default provisions. A breach of any of these covenants could result in a default under our credit agreement. Upon the occurrence of an event of default under our current credit agreement, the lenders could elect to declare all amounts outstanding to be immediately due and payable and terminate all commitments to extend further credit. If the lenders were to accelerate the repayment of borrowings, we may not have sufficient assets to repay our asset based credit facility and our other indebtedness. Also, should there be an event of default, or a need to obtain waivers following an event of default, we may be subject to higher borrowing costs and/or more restrictive covenants in future periods.

- *Significant volatility and disruption in the global capital and credit markets.* Volatility in the global capital and credit markets has in recent years resulted in a tightening of business credit and liquidity, a contraction of consumer credit, business failures, increased unemployment and declines in consumer confidence and spending. If global economic and financial market conditions deteriorate or remain weak for an extended period of time, it could have a material adverse effect on our financial condition and results of operations. In particular, lower consumer spending may result in reduced demand and orders for certain of our products, order cancellations, lower revenues, increased inventories, and lower gross margins. Further, if our customers experience difficulty obtaining financing in the capital and credit markets to purchase our products, this could result in further reduced orders for our products, order cancellations, inability of customers to timely meet their payment obligations to us, extended payment terms, higher accounts receivable, reduced cash flows, greater expense associated with collection efforts and increased bad debt expense; and a severe financial difficulty experienced by our customers may cause them to become insolvent or cease business operations.

- *The strength of the retail economy in the United States.* Our business is subject to economic conditions in major markets, including recession, inflation, deflation, general weakness in retail, industrial, and housing markets. The strength of such markets are a function of many factors beyond our control, including interest rates, employment levels, availability of credit and consumer confidence. Such economic conditions have had, and may continue to have, an adverse effect on our results of operations and financial position.

- *Supply chain disruptions.* Any difficulty or inability on the part of manufacturers of our products or other participants in our supply chain in obtaining sufficient financing to purchase raw materials or to finance general working capital needs may result in delays or non-delivery of shipments of our products.

- *Our ability to maintain mutually beneficial relationships with key customers.* We have several key customers, one of which constituted approximately 20.8% of our consolidated revenues for 2012. Loss of key customers or a material negative change in our relationships with our key customers (including as a result of a negative change in the financial position of such key customers) could have a material adverse effect on our business, results of operations or financial position.

- *Adverse changes in currency exchange rates or raw material commodity prices.* A majority of our products are manufactured outside the United States, of which a significant amount is purchased in the local currency. As a result, we are exposed to movements in the exchange rates of various currencies against the United States dollar which could have an adverse effect on our results of operations or financial position. We believe our most significant foreign currency exposures are the Taiwan dollar ("TWD") and the Chinese Renminbi ("RMB"). Purchases from Chinese sources are made in U.S. dollars. However, if the RMB were to be revalued against the dollar, there could be a significant negative impact on the cost of our products.

- *Impairment of long-lived assets and goodwill.* The inability of certain of our subsidiaries to generate future cash flows sufficient to support the recorded amounts of goodwill, other intangible assets and other long-lived assets related to those subsidiaries could result in future impairment charges.

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- *Unforeseen interruptions in the manufacturing ability of certain foreign suppliers.* Our foreign suppliers may encounter interruption in their ability to continue to provide us with products on a short-term or long-term basis. Although we believe that there are redundant sources available and maintain multiple sources for certain of our products, there may be costs and delays associated with securing such sources and there can be no assurance that such sources would provide the same quality of product at similar prices.

- *Unforeseen inventory adjustments or changes in purchasing patterns.* We make purchasing decisions based upon a number of factors including an assessment of market needs and preferences, manufacturing lead times and cash flow considerations. To the extent that our assumptions result in inventory levels being too high or too low, there could be a material adverse effect on our business, results of operations or financial position.

- *Market acceptance of new products.* There can be no assurance that the market continues its acceptance of the new products we introduced in recent years or will accept new products introduced or scheduled for introduction, in 2013. There can also be no assurance that the level of sales generated from these new products relative to our expectations will materialize, based on existing investments in productive capacity and commitments by us to fund advertising and product promotions in connection with the introduction of these new products.

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

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

- *Interest rates.* Interest rate fluctuations and other capital market conditions could have a material adverse effect on our business, results of operations or financial position.

- *Litigation and insurance.* The effects of litigation and product liability exposure, as well as other risks and uncertainties described from time to time in our filings with the Securities and Exchange Commission and public announcements could have a material adverse effect on our business, results of operations or financial position. Further, while we maintain insurance policies to protect against most potential exposures, events may arise against which we may not be adequately insured.

- *Retention of key personnel.* Our success depends to a significant extent upon the abilities and efforts of our key personnel. The loss of the services of any of our key personnel or our inability to attract and retain qualified personnel in the future could have a material adverse effect on our business, results of operations or financial position.

- *Acquisition of businesses*. Part of our business strategy is to opportunistically acquire complementary businesses and dispose of non-complementary businesses. If we fail to develop and integrate any acquired business or dispose of any businesses effectively, our earnings may be adversely affected. In addition, our management team will need to devote substantial time and attention to the acquisition and integration of the acquired businesses, which could distract them from their other duties and responsibilities.

- *Regulatory environment.* We cannot anticipate the impact of changes in laws and regulations, including changes in accounting standards, taxation requirements, including tax rate changes, new tax laws and revised tax law interpretations, and environmental laws, in both domestic and foreign jurisdictions.

- *Our financial position, cash flow or results may be adversely affected by the threat of terrorism and related political instability and economic uncertainty.* The threat of potential terrorist attacks on the United States and throughout the world and political instability has created an atmosphere of economic uncertainty in the United States and in foreign markets. Our results may be impacted by the macroeconomic effects of those events. Also, a disruption in our supply chain as a result of terrorist attacks or the threat thereof may significantly affect our business and its prospects. In addition, such events may also result in heightened domestic security and higher costs for importing and exporting shipments of components and finished goods. Any of these occurrences may have a material adverse effect on our financial position, cash flow or results in any reporting period.

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

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- *We may in the future be required to include the financial position of our WMC subsidiary in our consolidated financial statements.* The Financial Accounting Standards Board has issued accounting guidance regarding variable interest entities ("VIEs") that affects the accounting treatment of one of our subsidiaries, WMC. To ascertain if we are required to consolidate this subsidiary, we determine whether it is a VIE and if we are the primary beneficiary in accordance with the accounting guidance, as discussed further in this Annual Report on Form 10-K. Changes in the financial accounting guidance, or changes in circumstances at this subsidiary, could lead us to determine that we have to consolidate the financial position of such entity in the future.

- *Liabilities of WMC.* WMC has liabilities on its balance sheet that are not reflected in our consolidated financial statements. While we believe that neither P&F nor any of its subsidiaries other than WMC are legally responsible for any such liabilities, there can be no assurance that one or more creditors of WMC will not institute legal action against P&F or any of its subsidiaries other than WMC, which could result in a material adverse impact on our financial position.

- *Unforeseen events.* We cannot anticipate the impact of unforeseen events, including but not limited to war and pandemic disease, on economic conditions and consumer confidence in our business.

The risk factors described above are not intended to be all-inclusive. There can be no assurance that we have correctly identified and appropriately assessed all factors affecting our business or that the publicly available and other information with respect to these matters is complete and correct. Additional risks and uncertainties not presently known to us or that we currently believe to be immaterial also may adversely impact us. Should any risks and uncertainties develop into actual events, these developments could have a material adverse effect on our business, results of operations or financial position.

ITEM 1B. Unresolved Staff Comments

None.

ITEM 2. Properties

Florida Pneumatic owns a 72,000 square foot plant facility located in Jupiter, Florida. Hy-Tech owns a 51,000 square foot plant facility located in Cranberry Township, Pennsylvania and leases a 10,000 square foot facility located in Punxsutawney, Pennsylvania.

Countrywide owns a 56,250 square foot plant facility located in Tampa, Florida in which Nationwide conducts its business. Countrywide leases part of the facility to a non-affiliated tenant.

Each facility described above either provides adequate space for the operations of the respective subsidiary for the foreseeable future or can be modified or expanded to provide some additional space.

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

The Company's executive office of approximately 5,000 square feet is located in an office building in Melville, New York and is leased from a non-affiliated landlord.

ITEM 3. Legal Proceedings

We are a defendant or co-defendant in various actions brought about in the ordinary course of conducting our business. We do not believe that any of these actions are material to our financial position.

ITEM 4. Mine Safety Disclosures

None

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PART II

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

Our Class A Common Stock trades on the Nasdaq Global Market under the symbol PFIN. The range of the high and low closing sales prices for our Class A Common Stock during the last two years were as follows:

2012	High	Low
First Quarter	$ 4.70	$ 3.40
Second Quarter	5.05	3.94
Third Quarter	6.24	4.83
Fourth Quarter	6.24	5.50

2011	High	Low
First Quarter	$ 3.74	$ 3.22
Second Quarter	4.65	3.58
Third Quarter	5.18	3.81
Fourth Quarter	4.40	3.40

As of March 20, 2013, there were approximately 1,100 holders of record of our Class A Common Stock and the closing sale price of our stock as reported by the Nasdaq Global Market was $8.55. We have not declared any cash dividends on our Class A Common Stock since our incorporation in 1963 and have no plans to declare any cash dividends in the foreseeable future.

ITEM 6. Selected Financial Data

Not required.

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

OVERVIEW

Significant results and events in 2012 include:

- Increased annual net revenue by 9.8%, or $5,330,000.
- Increased annual gross profit by $1,897,000; however gross margin declined 0.1%.
- Full year 2012 income from continuing operations before taxes, as a percentage of net revenue, increased to 5.6% from 3.7% in the prior year.
- After giving effect to a $2,250,000 reduction in a valuation allowance on our deferred tax assets, net income improved to $5,450,000 from $1,909,000,
  - Diluted earnings per share from continuing operations increased to $1.45 from $0.52.
- In December 2012, we amended our credit facility, which included the following:
  - New expiration- December 2017;
  - Increased the Revolver Loan borrowing facility to $20,000,000 from $15,910,000;
  - Modified Term Loan,
    - Extending amortization timeframe.
    - Reduced the Applicable Margin Rate of interest by 275 basis points.

KEY INDICATORS

Economic Measures

Much of our business is driven by the ebbs and flows of the general economic conditions in both the United States and, to a lesser extent, abroad. Our Tools segment focuses on a wide array of customer types; it does not rely as much on specific economic measures or indicators. The Tools segment tends to track the general economic conditions of the United States, industrial production and general retail sales, all of which have, for the most part, generated slight improvement during 2012 compared to 2011. The key economic measures for the Hardware group are general economic conditions within the United States and, to a lesser extent, the housing market.

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Another key economic measure relevant to us is the cost of the raw materials in our products. Key materials include metals, especially various types of steel and aluminum. Also important is the value of the dollar in relation to the Taiwan dollar ("TWD"), as we purchase a significant portion of our products from Taiwan. Purchases from Chinese sources are made in U.S. dollars. However, if the Chinese currency, the Renminbi ("RMB"), were to be revalued against the dollar, there could be a significant negative impact on the cost of our products.

Operating Measures

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

Financial Measures

Key financial measures we use to evaluate the results of our business include: various revenue metrics; gross margin; selling, general and administrative expenses; earnings before interest and taxes; operating cash flows and capital expenditures; return on sales; return on assets; days sales outstanding and inventory turns. These measures are reviewed at monthly, quarterly and annual intervals and compared to historical periods as well as established objectives. To the extent that these measures are relevant, they are discussed in the detailed sections below for each operating segment.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

We prepare our consolidated financial statements in accordance with accounting principles generally accepted in the United States of America ("GAAP"). Certain of these accounting policies require us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and the related disclosure of contingent assets and liabilities, revenues and expenses. On an ongoing basis, we evaluate estimates, including those related to bad debts, inventory reserves, goodwill and intangible assets, warranty reserves and taxes. We base our estimates on historical data and experience, when available, and on various other assumptions that are believed to be reasonable under the circumstances, the combined results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. Our critical accounting policies are further described below.

Revenue Recognition

We recognize revenue when persuasive evidence of an arrangement exists, delivery has occurred or title has passed to our customer or services have been provided, the sale price is fixed or determinable, and collectability is reasonably assured. We sell our goods on terms which transfer title and risk of loss at a specified location, typically shipping point, port of loading or port of discharge, depending on the final destination of the goods. Revenue recognition from product sales occurs when all factors are met, including transfer of title and risk of loss, which occurs either upon shipment by us or upon receipt by customers at the location specified in the terms of sale. Other than standard product warranty provisions, our sales arrangements provide for no other post-shipment obligations. We do offer rebates and other sales incentives, promotional allowances or discounts, from time to time and for certain customers, typically related to customer purchase volume, all of which are fixed or determinable and are classified as a reduction of revenue and recorded at the time of sale. We periodically evaluate whether an allowance for sales returns is necessary. Historically, we have experienced minimal sales returns. If we believe there are material potential sales returns, we would provide the necessary provision against sales.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are customer obligations due under normal trade terms. We sell our products to retailers, distributors and original equipment manufacturers involved in a variety of industries. We perform continuing credit evaluations of our customers' financial condition, and although we generally do not require collateral, letters of credit may be required from customers in certain circumstances. Management reviews accounts receivable to determine if any receivables will potentially be uncollectible. Factors considered in in the determination include, among other factors, number of days an invoice is past due, customer historical trends, available credit ratings information, other financial data and the overall economic environment. Collection agencies may also be utilized if management so determines.

We record an allowance for doubtful accounts based on specifically identified amounts that are believed to be uncollectible. We also may record as an additional allowance a certain percentage of aged accounts receivable, based on historical experience and our assessment of the general financial conditions affecting our customer base. If actual collection experience changes, revisions to the allowance may be required. We have a limited number of customers with individually large amounts due at any given balance sheet date. Any unanticipated change in the creditworthiness of any of these customers could have a material effect on our results of operations in the period in which such changes or events occur. After all reasonable attempts to collect an account receivable have failed, the amount of the receivable is written off against the allowance. Based on the information available, we believe that our allowance for doubtful accounts as of December 31, 2012 was adequate. However, actual write-offs might exceed the recorded allowance.

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Inventories

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

Goodwill and Other Intangible Assets

In accordance with authoritative guidance issued by the Financial Accounting Standards Board ("FASB") we test goodwill for impairment on an annual basis in the fourth quarter or more frequently if we believe indicators of impairment might exist. The evaluation of goodwill and other intangible assets requires that management prepare estimates of future operating results for each of our operating units. These estimates are made with respect to future business conditions and estimated expected future cash flows to determine estimated fair value. However, if, in the future, key drivers in our assumptions or estimates such as (i) a material decline in general economic conditions; (ii) competitive pressures on our revenue or our ability to maintain margins; (iii) pricing from our vendors which cannot be passed through to our customers; and (iv) breakdowns in supply chain or other factors beyond our control occur, an impairment charge against our intangible assets may be required.

Income Taxes

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

We file a consolidated Federal tax return. P&F and certain of its subsidiaries file combined tax returns in New York and Texas. All subsidiaries file other state and local tax returns on a stand-alone basis.

When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while other positions are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the accompanying consolidated balance sheets along with any associated interest and penalties that would be payable to the taxing authorities upon examination. Interest and penalties associated with unrecognized tax benefits are classified as income taxes in the consolidated statement of income.

Consolidation of Variable Interest Entities

On January 1, 2010, we adopted an accounting standard, which replaced the quantitative-based risks and rewards calculation for determining which enterprise, if any, has a controlling financial interest in a variable interest entity. The new approach focuses on identifying which enterprise has the power to direct the activities of a variable interest entity that most significantly impacts the variable interest entity's economic performance and (1) the obligation to absorb losses of the variable interest entity or (2) the right to receive benefits from the variable interest entity.

As a result of adopting this new accounting standard, we determined that, as the result of the facts and circumstances relating to WMC, including the foreclosure, and subsequent disposal and sale of all of its tangible and intangible assets by PNC, we were no longer the primary beneficiary of WMC and we no longer had a controlling financial interest in WMC. As such, we deconsolidate WMC's financial position and results of operations.

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RESULTS OF OPERATIONS

2012 compared to 2011

REVENUE

The tables below provide an analysis of our revenue for the three and twelve-month periods ended December 31, 2012 and 2011.

All revenues are generated in U.S. dollars and are not impacted by changes in foreign currency exchange rates. Unless otherwise stated below, we believe that our relationships with all our key customers, given the current economic conditions, remain good. Other than the matter discussed in the Liquidity and Capital Resources section of this Management Discussion and Analysis pertaining to a major retail customer within the Tools segment, there were no major trends or uncertainties that had, or could reasonably be expected to have, a material impact on our revenue. Other than matters described below, there was no unusual or infrequent event, transaction or significant economic change that materially affected our results of operations.

Consolidated

	Three months ended December 31, 2012	Three months ended December 31, 2011	Variance $	Variance %
Tools				
Florida Pneumatic	$ 5,397,000	$ 5,592,000	$ (195,000)	(3.5)%
Hy-Tech	4,072,000	3,896,000	176,000	4.5
Tools Total	9,469,000	9,488,000	(19,000)	(0.2)
Hardware				
Hardware Total	3,222,000	2,386,000	836,000	35.0
Consolidated	$ 12,691,000	$ 11,874,000	$ 817,000	6.9%

	Year ended December 31, 2012	Year ended December 31, 2011	Variance	Variance
Tools				
Florida Pneumatic	$ 25,484,000	$ 23,455,000	$ 2,029,000	8.7%
Hy-Tech	16,657,000	16,394,000	263,000	1.6
Tools Total	42,141,000	39,849,000	2,292,000	5.8
Hardware				
Hardware Total	17,730,000	14,692,000	3,038,000	20.7
Consolidated	$ 59,871,000	$ 54,541,000	$ 5,330,000	9.8%

Tools

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

An analysis of Florida Pneumatic's revenue for the three and twelve-month periods ended December 31, 2012 and 2011 is as follows:

	Three months ended December 31,					
	2012		2011		Increase (decrease)	
	Revenue	Percent of revenue	Revenue	Percent of revenue	$	%
Retail customers	$ 2,979,000	55.2%	$ 2,970,000	53.1%	$ 9,000	0.3%
Industrial/catalog	1,754,000	32.5	1,682,000	30.1	72,000	4.3
Automotive	233,000	4.3	375,000	6.7	(142,000)	(37.9)
Other	431,000	8.0	565,000	10.1	(134,000)	(23.7)
Total	$ 5,397,000	100.0%	$ 5,592,000	100.0%	$ (195,000)	(3.5)%

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	Year Ended December 31,					
	2012		2011		Increase (decrease)	
	Revenue	Percent of revenue	Revenue	Percent of revenue	$	%
Retail customers	$ 14,499,000	56.9%	$ 13,078,000	55.8%	$ 1,421,000	10.9%
Industrial/catalog	7,813,000	30.7	6,855,000	29.2	958,000	14.0
Automotive	1,071,000	4.2	1,297,000	5.5	(226,000)	(17.4)
Other	2,101,000	8.2	2,225,000	9.5	(124,000)	(5.6)
Total	$ 25,484,000	100.0%	$ 23,455,000	100.0%	$ 2,029,000	8.7%

During the fourth quarter of 2012, Florida Pneumatic commenced its initial product delivery, or roll-out to its new retail customer, The Home Depot ("THD"). However, revenue from its other retail customer, Sears Holdings Corporation ("Sears"), declined when compared to the same three month period in 2011. The decline in Sears' revenue is partially due to the timing of seasonal orders delivered in the third quarter of 2012 compared to the fourth quarter of 2011. Florida Pneumatic continued its growth strategy into the higher gross margin industrial/catalog sector. Fourth quarter of 2012 Automotive product revenue and other revenue, which includes revenue from its Berkley, air filters and OEM lines, declined when compared to the same period in 2011, due primarily to Florida Pneumatic's decision to place greater emphasis on expanding its Retail and Industrial/catalog lines.

With respect to the full-year 2012, Florida Pneumatic continued to expand its presence in the higher gross margin, industrial/catalog sector. We intend to continue to expand our marketing efforts in this sector of the pneumatic air tool market. As Florida Pneumatic commenced shipments to THD during the latter half of 2012, revenue from its Retail customers, in the aggregate, improved 10.9 % when comparing 2012 to 2011. This increase was due primarily to the THD revenue, offset by a reduction in Sears' revenue of certain specialty, promotional and basic items. Decreases in Florida Pneumatic's Other revenue and Automotive revenue were due in large part to management's decision to focus their efforts on expansion of the Retail and Industrial/catalog product lines.

Hy-Tech focuses primarily on the industrial/heavy-duty sector of the pneumatic tools market. Hy-Tech creates quality replacement parts for pneumatic tools, markets its own value-added line of air tools and distributes a complementary line of sockets ("ATP"). Hy-Tech manufactures and markets a line of products that primarily focus on power generation, mining, construction and general industrial manufacturing markets ("Hy-Tech Machine").

An analysis of Hy-Tech's revenue for the three and twelve-month periods ended December 31, 2012 and 2011 is as follows:

	Three months ended December 31,					
	2012		2011		Increase (decrease)	
	Revenue	Percent of revenue	Revenue	Percent of revenue	$	%
ATP	$ 2,592,000	63.7%	$ 2,477,000	63.6%	$ 115,000	4.6%
Hy-Tech Machine	397,000	9.7	448,000	11.5	(51,000)	(11.4)
Major customer	1,014,000	24.9	892,000	22.9	122,000	13.7
Other	69,000	1.7	79,000	2.0	(10,000)	(12.7)
Total	$ 4,072,000	100.0%	$ 3,896,000	100.0%	$ 176,000	4.5%

	Year Ended December 31,					
	2012		2011		Increase (decrease)	
	Revenue	Percent of revenue	Revenue	Percent of revenue	$	%
ATP	$ 10,840,000	65.1%	$ 11,081,000	67.6%	$ (241,000)	(2.2)%
Hy-Tech Machine	1,664,000	10.0	1,922,000	11.7	(258,000)	(13.4)
Major customer	3,787,000	22.7	3,065,000	18.7	722,000	23.6
Other	366,000	2.2	326,000	2.0	40,000	12.3
Total	$ 16,657,000	100.0%	$ 16,394,000	100.0%	$ 263,000	1.6%

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Hy-Tech revenue for the fourth quarter of 2012 grew 4.5% when compared to the same period in 2011. Specifically, when comparing the fourth quarter of 2012 to the same period in the prior year, revenue from its Major customer as well as revenue from its ATP product line improved. We believe both of these increases are due primarily to improving general global economic conditions during 2012 compared to the prior year. Reductions in revenue from its Hy-Tech Machine and Other product lines partially offset the increase.

Overall, Hy-Tech's full-year 2012 revenue improved 1.6%, when compared to full-year of 2011. The increase in revenue from its Major customer we believe is due primarily to improved global economic conditions which favorably impacted on this customer. ATP revenue declined due primarily to a one-time significant order for sockets in 2011, which did not repeat in 2012. The decline in Hy-Tech Machine revenue is due in large part to management's decision to assign additional labor and overhead to the manufacturing for, and servicing of, its Major customer.

Hardware

An analysis of Nationwide's revenue for the three and twelve-month periods ended December 31, 2012 and 2011 is as follows:

	Three months ended December 31,					
	2012		2011		Increase (decrease)	
	Revenue	Percent of revenue	Revenue	Percent of revenue	$	%
Fence and gate hardware	$ 2,061,000	64.0%	$ 1,356,000	56.8%	$ 705,000	52.0%
Kitchen and bath	528,000	16.4	553,000	23.2	(25,000)	(4.5)
OEM	364,000	11.3	276,000	11.6	88,000	31.9
Patio	269,000	8.3	201,000	8.4	68,000	33.8
Total	$ 3,222,000	100.0%	$ 2,386,000	100.0%	$ 836,000	35.0%

	Year ended December 31,					
	2012		2011		Increase (decrease)	
	Revenue	Percent of revenue	Revenue	Percent of revenue	$	%
Fence and gate hardware	$ 12,265,000	69.2%	$ 9,630,000	65.5%	$ 2,635,000	27.4%
Kitchen and bath	2,709,000	15.3	2,606,000	17.8	103,000	4.0
OEM	1,599,000	9.0	1,571,000	10.7	28,000	1.8
Patio	1,157,000	6.5	885,000	6.0	272,000	30.7
Total	$ 17,730,000	100.0%	$ 14,692,000	100.0%	$ 3,038,000	20.7%

Fence and gate hardware continues to be the strength behind Nationwide's revenue growth, with fourth quarter of 2012 exceeding the same period in 2011 by 52.0%. This improvement is due primarily to the expanded customer base and new product releases. The increase in patio revenue is due primarily to increased activity in the sale of foreclosed houses occurring in Florida. When comparing the fourth quarter of 2012 to the same period in 2011, revenue increased at its OEM product line primarily due to of certain orders being delayed by its customers from the fourth quarter 2011 to the first quarter of 2012. During the fourth quarter of 2012, Kitchen and bath encountered a softening of the market.

When comparing the full-year 2012 to 2011 Nationwide was able to increase revenue throughout its suite of product lines. However, nearly 87% of Nationwide's revenue growth was generated from its fence and gate hardware product line, which was due primarily to the introduction of new products, as well as to expanded marketing efforts and increased customer base. Nationwide's kitchen and bath product line revenue improved slightly. Despite significant pricing pressure along with a dwindling market and other factors, OEM product line revenue for the full year 2012 recorded a minimal increase. As a result, it is likely we will continue to place less emphasis on this product line. Patio revenue during the full-year 2012 increased when compared to the same period in 2011, due primarily to an increase in the sale of foreclosed housing, which tend to require repair/ replacement of patio enclosures. As fence and gate hardware continue to be the primary contributor to Nationwide's revenue growth, we intend to continue our current strategy, which is to develop new, innovative fence and gate hardware products and accessories, as well as to continue to expand our national market campaign.

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GROSS MARGIN

Consolidated

	Three months ended December 31,		Increase (decrease)	
	2012	2011	Amount	%
Tools	$ 3,663,000	$ 3,482,000	$ 181,000	5.2%
As percent of respective revenue	38.7%	36.7%	2.0%pts.	
Hardware	$ 1,154,000	$ 791,000	$ 363,000	45.9%
As percent of respective revenue	35.8%	33.2%	2.6%pts.	
Consolidated	$ 4,817,000	$ 4,273,000	$ 544,000	12.7%
As percent of respective revenue	38.0%	36.0%	2.0%pts.	

	Year Ended December 31,		Increase (decrease)	
	2012	2011	Amount	%
Tools	$ 15,416,000	$ 14,631,000	$ 785,000	5.4%
As percent of respective revenue	36.6%	36.7%	(0.1)%pts.	
Hardware	$ 6,726,000	$ 5,614,000	$ 1,112,000	19.8%
As percent of respective revenue	37.9%	38.2%	(0.3)%pts.	
Consolidated	$ 22,142,000	$ 20,245,000	$ 1,897,000	9.4%
As percent of respective revenue	37.0%	37.1%	(0.1)%pts.	

Tools

	Three months ended December 31,		Increase (decrease)	
	2012	2011	Amount	%
Florida Pneumatic	$ 2,019,000	$ 1,905,000	$ 114,000	6.0%
As a percentage of respective revenue	37.4%	34.1%	3.3%pts.	
Hy-Tech	$ 1,644,000	$ 1,577,000	$ 67,000	4.2%
As a percentage of respective revenue	40.4%	40.5%	(0.1)%pts.	
Total Tools	$ 3,663,000	$ 3,482,000	$ 181,000	5.2%
As a percentage of respective revenue	38.7%	36.7%	2.0%pts.	

	Year Ended December 31,		Increase (decrease)	
	2012	2011	Amount	%
Florida Pneumatic	$ 8,482,000	$ 7,875,000	$ 607,000	7.7%
As a percentage of respective revenue	33.3%	33.6%	(0.3)%pts.	
Hy-Tech	$ 6,934,000	$ 6,756,000	$ 178,000	2.6%
As a percentage of respective revenue	41.6%	41.2%	0.4%pts.	
Total Tools	$ 15,416,000	$ 14,631,000	$ 785,000	5.4%
As a percentage of respective revenue	36.6%	36.7%	(0.1)%pts.	

Tools

When comparing the fourth quarters of 2012 and 2011, gross margins generated by our Tools segment increased 2.0 percentage points. Combined with improved revenue, gross profit increased $181,000. Specifically, gross margins at Florida Pneumatic increased due primarily to: (1) improved absorption of warehouse and manufacturing overhead during the fourth quarter of 2012, compared to the same period in 2011 due to the increase in inventory for THD, and (2) product mix. When comparing the three-month periods ended December 31, 2012 and 2011, Hy-Tech's gross margin declined slightly, mostly due to product mix, however, as revenue increased over last year, its gross profit improved slightly.

When comparing the full-years of 2012 and 2011, gross margins generated by our Tools segment decreased 0.1 percentage points, however gross profit increased $785,000. Florida Pneumatic's gross margin decreased when compared to the same period in 2011, primarily due to the impact of the increase in the lower gross margin retail sales on its overall gross margin. However, as the result of the increase in revenue, Florida Pneumatic's gross profit improved by $607,000, compared to the same period a year ago. Hy-Tech increased its gross margin and gross profit primarily through product mix, as well as through improved cost of manufacturing.

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Hardware

Nationwide's gross margin for the fourth quarter of 2012 increased 2.6 percentage points, compared to the same period in 2011. This increase is due primarily to a change in product mix and to a lesser extent, improved burden absorption due to increased volume through the warehouse. However, Nationwide continues to incur increases in overseas raw material costs, such as aluminum, copper and magnets, as well as increased overseas labor costs. With improved revenue in the fourth quarter of 2012, along with stronger gross margins, Nationwide increased its gross profit by $363,000 when compared to the same period in 2011.

Despite a year over year decline of 0.3 percentage points in its gross margin, Nationwide's gross profit improved nearly 20%. The most significant factor contributing to the slight decline in its gross margin were increases in overseas raw material costs, such as aluminum, copper and magnets, as well as increased overseas labor costs. Additionally, during 2012, Nationwide elected to secure certain higher volume, slightly lower priced fence and gate hardware customers. Gross margins on its OEM and kitchen and bath product lines declined in 2012 compared to 2011 due primarily to significant pricing pressures along with dwindling markets and other factors.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

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

Our SG&A during the fourth quarter of 2012 was $4,188,000 compared to $4,033,000 for the same three-month period in 2011. Stated as a percentage of revenue, SG&A was 33.0%, compared to 34.0% during the three-month periods ended December 31, 2012 and 2011, respectively. Significant line items include an increase of $384,000 in compensation, which is comprised of base salaries and wages, performance-based bonus incentives as well as associated payroll taxes and employee benefits, partially offset by reductions in corporate overhead of $200,000, which consists primarily of legal, accounting, general insurance, banking fees and other corporate professional service fees.

Our SG&A for 2012 was $18,281,000, compared to $17,491,000 incurred in 2011. Stated as a percentage of revenue, our SG&A for 2012 was 30.5%, compared to 32.1% during the prior year. Although our revenue increased more than $5,300,000, our variable expenses, which consist primarily of commissions, freight out, warranty, advertising and promotional costs and travel and entertainment costs, increased an aggregate of $71,000. Compensation, which includes wages, associated payroll taxes and employee benefits and performance-based bonus incentives, which are driven primarily by net earnings, increased $993,000. Additionally, during the second quarter of 2012, we recorded a charge of $166,000 for estimated potential penalties and related fees and expenses in connection with unpaid import duty relating to certain products imported by Florida Pneumatic during the period January 1, 2009 through June 19, 2012. The increases were partially offset by reductions in corporate overhead, which consists primarily of legal, accounting, general insurance, banking fees and other corporate professional service fees of $338,000 and a decrease of $69,000 in rent and utilities, due in part to a new lease agreement covering our corporate offices in New York.

INTEREST

	Three months ended December 31,		
	2012	**2011**	**Decrease**
Short-term borrowings	$ 47,000	$ 67,000	$ (20,000)
Term loans, including Capital Expenditure Term Loans	78,000	90,000	(12,000)
Subordinated loans	---	6,000	(6,000)
Other	---	4,000	(4,000)
Total	$ 125,000	$ 167,000	$ (42,000)

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	Year Ended December 31,		
	2012	2011	Decrease
Short-term borrowings	$ 190,000	$ 315,000	$ (125,000)
Term loans, including Capital Expenditure Term Loans	325,000	359,000	(34,000)
Subordinated loans	11,000	44,000	(33,000)
Other - net	---	38,000	(38,000)
Total	$ 526,000	$ 756,000	$ (230,000)

The decrease in the average balance of short-term borrowings during the three-month period ended December 31, 2012, compared to the same period in the prior year, was the key factor contributing to the reduction in interest expense. The reduction of $12,000 of interest on our Term Loans consists of lower interest on the Term Loan partially offset by interest expense incurred on Capital Expenditure Term Loans ("Capex loans") that were created during 2012. During 2011 we repaid $500,000 of the Subordinated Loans (see Liquidity and Capital Resources of this Management's Discussion and Analysis). In July 2012 we repaid the remaining $250,000 of Subordinated Loans. The repayment of these Subordinated Loans caused us not to have any interest expense during the fourth quarter of 2012, compared to interest expense of $6,000 incurred in the fourth quarter of 2011. In 2011, we repaid the balance owed to the sellers of Hy-Tech; as a result, there was no interest expense attributable to this debt during the fourth quarter of 2012, compared to $4,000 in the fourth quarter of 2011.

The most significant factor contributing to the reduction in interest expense during 2012 compared to 2011 was the reduction in our short-term borrowings during the comparative periods. The average balance of short-term borrowings during 2012 was $5,981,000, compared to $8,138,000 in 2011. Despite $900,000 of Capex loans during 2012, our interest expense in the aggregate from both the Term loans and Capex loans decreased a net $34,000. In 2011, we repaid the balance owed to the sellers of Hy-Tech; as a result, there was no interest expense attributable to this debt in 2012, compared to $38,000 interest paid in 2011. Further, in 2011 we repaid $500,000 of the Subordinated Loans (See Note 12 - Related Party Transactions to our Consolidated Financial Statements for further discussion related to these loans), which effectively reduced our interest expense in 2012 attributable to these Subordinated Loans to $11,000, compared to $44,000 in 2011. Additionally, in November 2011 and December 2012, we and Capital One Leverage Finance Corporation, as agent ("COLF") entered into Amendments to the Credit Agreement which, among other things, lowered the Applicable Margin rates that COLF adds to our borrowings. (See - Liquidity and Capital Resources and in Note 7 – Debt, to our Consolidated Financial Statements, for further discussions.)

INCOME TAX EXPENSE

During 2012, we recorded a net deferred tax benefit of $2,243,000, which resulted from a reduction in the valuation allowance on our deferred tax assets, partially offset by the utilization of deferred tax assets in 2012. A tax benefit of $2,250,000 was attributable to continuing operations and a net deferred tax expense of $7,000 was attributable to discontinued operations. We believe it was appropriate to reduce the valuation allowance, based upon evidence such as profitability for the years ended December 31, 2010, 2011 and 2012, as well as projected future sources of taxable income. As a result, our effective tax rate for the twelve-month period ended December 31, 2012 is not directly correlated to the amount of our pretax income and is not comparable to the effective tax rate for the same period in the prior year. We still maintain a full valuation allowance on certain state deferred tax assets.

The effective tax rates applicable to income from continuing operations for the years ended December 31, 2012 and 2011, respectively, were (63.4)% and 4.5%. The primary factor affecting the 2012 effective tax rate was the partial reversal of the valuation allowance, as described above. The primary factor affecting the 2011 effective tax rate was the decrease in the valuation allowance on our deferred tax assets, resulting from the utilization of a portion of these assets.

DISCONTINUED OPERATIONS

In October 2005, we sold substantially all of the operating assets of a wholly-owned subsidiary that participated in a multi-employer pension plan. This plan provided defined benefits to all of its union workers. Contributions to this plan were determined by the union contract. We did not administer or control the plan funds. As a result of the former wholly-owned subsidiary's withdrawal from the plan, we recorded a withdrawal liability of approximately $369,000, which is payable in quarterly installments of approximately $8,200, which includes interest, from May 2006 through February 2026. The total outstanding amount of this withdrawal liability at December 31, 2012 and 2011 was $293,000 and $306,000, respectively, which is included in Current and Long-term liabilities of discontinued operations.

On August 23, 2011, we received a payment of approximately $702,000 relating to a dispute over the sale by our wholly-owned non-operating subsidiary, Embassy Industries, Inc. ("Embassy") of certain real property arising under the Contract of Sale between Embassy and J. D'Addario & Company, Inc., as amended. The payment was made pursuant to the Amended Judgment of the Supreme Court of the State of New York, Suffolk County, dated August 2, 2011 and entered August 4, 2011. Accordingly, we reported the receipt of these funds, less related legal fees and other expenses, as Income from discontinued operations in our Consolidated Financial Statements.

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LIQUIDITY AND CAPITAL RESOURCES

Our cash flows from operations can be somewhat cyclical, with the greatest demand for cash typically in the first and third quarters. We monitor such things as days' sales outstanding, inventory requirements, accounts payable and capital expenditures to project liquidity needs and evaluate return on assets. Our primary sources of funds are cash available through a credit agreement with our bank, as discussed below, as well as any excess cash generated from operations.

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

	December 31,	
	2012	2011
Working capital from continuing operations	$ 20,697	$ 14,070
Current ratio	2.67 to 1	2.15 to 1
Shareholders' equity	$ 35,088	$ 29,155

In October 2010, P&F, along with Florida Pneumatic, Hy-Tech and Nationwide, as borrowers, entered into a Loan and Security Agreement ("Credit Agreement") with COLF. The Credit Agreement had a three year term, with maximum borrowings of $22,000,000 at inception. The Credit Agreement provides for a Revolver Loan ("Revolver") with an original maximum borrowing of $15,910,000. Direct borrowings under the Revolver are secured by our accounts receivable, mortgages on our real property located in Cranberry, PA, Jupiter, FL and Tampa, FL ("Real Property"), inventory and equipment, and are cross-guaranteed by certain of our subsidiaries (the "Subsidiary Guarantors"). Revolver borrowings bear interest at LIBOR (London InterBank Offered Rate) or the Base Rate, as defined in the Credit Agreement ("Base Rate"), plus the Applicable Margin (the "Applicable Margin"), as defined in the Credit Agreement. The Applicable Margin on Revolver borrowings is determined based upon the computation of total debt divided by earnings before interest, taxes, depreciation and amortization ("EBITDA").

On November 21, 2011, we and COLF entered into the Second Amendment to Loan and Security Agreement, ("Amendment 2"). Amendment 2, among other things: (i) increased the total commitment by COLF for the Credit Agreement to $24,500,000; (ii) reduced the Applicable Margin on Revolver borrowings; (iii) increased the maximum aggregate amount of permitted Capital Expenditures (as defined in the Loan Agreement) for 2012 and 2013 to an aggregate of $2,500,000 and (iv) established a $2,500,000 Capital Expenditure loan commitment by COLF, pursuant to which COLF may make one or more Capex Loans (as defined in Amendment 2) (each, a "Capex Term Loan") to us under the terms set forth in Amendment 2. Pursuant to Amendment 2, the Applicable Margin ranged from 2.50% to 3.50% for borrowings at LIBOR and from 1.50% to 2.50% for borrowings at the Base Rate.

On December 19, 2012, we and COLF entered into the Third Amendment to Loan and Security Agreement ("Amendment 3"), which among other things:

- Increased the total commitment by COLF from $24,500,000 to $29,453,000.
- Extended the term of the Credit Agreement through December 19, 2017, the Loan Maturity Date, on which date all principal, interest and other amounts owing with respect to this Credit Agreement shall be due and payable in full.
- Increased the maximum aggregate amount of borrowings on the Revolver from $15,910,000 to $20,000,000.
- Increased the Term Loan, as defined below, to $7,000,000 from $6,090,000, the original principal amount, of which $4,611,000 was outstanding immediately prior to the effectiveness of Amendment 3.
- Extended the rate of amortization on the Term Loan from 20 years to 25 years.
- Increased the amount of borrowings for permitted Capital Expenditures to $2,453,000 from $1,601,000, which was the net amount available to borrow immediately preceding this Amendment.
- Reduced the unused line fee to 0.375% from a range of 0.5% to 0.75%.
- Removed the requirement of a prepayment on the Term Loan from Excess Cash Flows, as defined in the Credit Agreement. (In 2012, we were required to make a $633,000 prepayment toward our Term Loan.)
- Reduced the Applicable Margin on all borrowings. The Applicable Margin on Revolver borrowings is based on the corresponding Leverage Ratio (as defined in the Credit Agreement). The Applicable Margin for each type of borrowing is as follows:

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Type of borrowing		New Applicable Margin		Old Applicable Margin
Revolver				
Base rate		.50% to 1.50%		1.50% to 2.50%
LIBOR		1.50% to 2.50%		2.50% to 3.50%
Term Loan				
Base rate		2.00%		4.75%
LIBOR		3.00%		5.75%
Capex Term Loan				
Base rate		2.00%		2.50%
LIBOR		3.00%		3.50%

The balance of Revolver borrowings outstanding was $2,793,000 at December 31, 2012 and $5,648,000 at December 31, 2011. Applicable Margins added to Revolver borrowings at LIBOR and the Base Rate were 2.00% and 1.00%, respectively, at December 31, 2012 and 2.75% and 1.75%, respectively, at December 31, 2011.

LONG-TERM LOANS

The Credit Agreement also provides for a Term Loan (the "Term Loan"), which is secured by mortgages on the Real Property, accounts receivable, inventory and equipment. The Term Loan, as amended will, effective January 2013 be repaid approximately $23,000 each month, with a balloon payment of the remaining balance due at maturity of the Credit Agreement. Term Loan borrowings incur interest at LIBOR or the Base Rate plus the Applicable Margins, which were 3.00% and 2.00%, respectively, at December 31, 2012 and 5.75% and 4.75%, respectively, at December 31, 2011.

Additionally we, in accordance with Amendment 2, borrowed $380,000 and $519,000, in March 2012 and September 2012, respectively, as Capex Term Loans. These loans amortize approximately $6,000 and $9,000, respectively, each month over a five-year period. Applicable Margins added to the Capex Term Loan borrowings at December 31, 2012 were 3.00% and 2.00%, for borrowings at LIBOR and the Base Rate, respectively.

Long-term debt consists of:

	December 31,	
	2012	**2011**
Term loan - $23,000 (plus interest) payable monthly January 1, 2013 through December 1, 2017, with all remaining balances due December 19, 2017. From October 25, 2010, the original loan date, through December 31, 2012, the monthly payments were $34,000 (plus interest).	$ 7,000,000	$ 5,650,000
Capex Term Loan - $6,000 (plus interest) payable monthly May 1, 2012 through April 1, 2017.	330,000	----
Capex Term Loan - $9,000 (plus interest) payable monthly October 1, 2013 through September 1, 2017.	493,000	----
Subordinated note payable to officer	----	250,000
	7,823,000	5,900,000
Less current maturities	460,000	1,039,000
	$ 7,363,000	$ 4,861,000

In April 2010, as part of an amendment to a prior credit agreement, we were required to obtain subordinated loans of $750,000 (the "Subordinated Loans"). These Subordinated Loans had an interest rate of 8% per annum. The Subordinated Loans were provided by the our Chief Executive Officer ("CEO"), in the amount of $250,000, and an unrelated party, in the amount of $500,000, each with a maturity date of October 25, 2013. During 2011, in accordance with a subordination agreement with COLF, the principal amount plus accrued interest owed to the unrelated third party was paid in full from excess cash flows, as defined in such subordination agreement. We paid interest of $20,000 in 2011 to the CEO. On July 24, 2012, we repaid the $250,000 Subordinated Loan, plus approximately $6,000 of interest, to our CEO.

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

2013	$	460,000
2014		460,000
2015		460,000
2016		460,000
2017		5,983,000
	$	7,823,000

Interest expense on long-term debt was approximately $325,000 and $359,000 for the years ended December 31, 2012 and 2011, respectively.

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

Other Information

Our cash balance at December 31, 2012 was $695,000, compared to $443,000 at December 31, 2011. We were able to reduce our total bank borrowings, which at December 31, 2012 was $10,616,000, from $11,298,000 at December 31, 2011. Cash provided by operating activities for the years ended December 31, 2012 and 2011 was $3,328,000 and $5,363,000, respectively. We believe that cash derived from operations and cash available through borrowings under the Credit Agreement will be sufficient to allow us to meet our working capital needs for at least the next twelve months.

The percent of debt to total book capitalization (debt plus equity) decreased 5.1 percentage points to 23.2% at December 31, 2012, from 28.3% at December 31, 2011.

Capital spending during the year ended December 31, 2012 was $1,969,000, compared to $598,000 in 2011. In 2012 we purchased two new computer numerically controlled machines (CNC), totaling $1,260,000. Capital expenditures currently planned for 2013 are approximately $1,200,000, most of which we expect will be financed through our credit facility and cash flows. The majority of the projected 2013 capital expenditures will relate to new equipment at Hy-Tech, which we believe will increase output while reducing manufacturing costs. A portion of the planned capital expenditures will be for tooling required for new product development at all three subsidiaries.

At December 31, 2012, we had $15,723,000 of open purchase order commitments, compared to $7,717,000 at December 31, 2011. The most significant component of the increase is for inventory for THD.

Significant Customer

We have one customer in our Tools segment that accounted for approximately 17.9% and 20.8%, respectively, of consolidated revenue for the three and twelve-month periods ended December 31, 2012, compared to 25.0% and 24.0%, respectively for the same periods in 2011. Our accounts receivable from this customer was 30.6% and 44.6%, respectively, of consolidated accounts receivable at December 31, 2012 and 2011. The products we sell to this customer are part of a major brand and we believe the brand has extreme value in today's marketplace. Generally, our revenue from retail customers increases to peak levels during the holiday season shipping period, which is typically August through November. To date, this customer continues, with very minor exceptions, to be current in its payments.

As previously noted, inventory is a component of the collateral against which we are able to borrow funds under the terms of the Revolver. We believe the majority of inventory held for this customer can be repackaged and sold to other customers without significant additional expense. Since this inventory can be sold to others, we do not believe our ability to borrow funds under the terms of the Revolver would be materially adversely affected in the event this customer is unable to purchase such inventory. At December 31, 2012 and 2011, we had approximately $2,312,000 and $2,171,000, respectively, of inventory for this customer.

We believe that, should this customer be unable to make any future payments, it would likely negatively impact our working capital, but would not affect our ability to remain a going concern. We continue to investigate means by which we can protect our accounts receivable balance with this customer.

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Lastly, we continue to monitor the financial status and creditworthiness of this customer. However, there can be no assurance that COLF will continue to permit borrowings against this customer's eligible accounts receivable or the inventory we hold for this customer.

OFF-BALANCE SHEET ARRANGEMENTS

As the result of the facts and circumstances relating to WMC, including the foreclosure and subsequent disposal and sale of all of the tangible and intangible assets by PNC, we determined that we were no longer the primary beneficiary of WMC, as we were unable to direct the activities of this entity, no longer had the obligation to absorb losses that might be significant to WMC and no longer possessed the right to receive benefits from WMC that could potentially be significant to WMC. We believe that neither the Company nor any of its subsidiaries, other than WMC, are legally responsible for any of the liabilities belonging to WMC as neither the Company nor any of its subsidiaries were parties to or guarantors of any of its obligations. As such, in accordance with Accounting Standards Codification ("ASC") 810-10-40 ("ASC 810"), we continue to deconsolidate WMC.

IMPACT OF INFLATION

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

ENVIRONMENTAL MATTERS

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

NEW ACCOUNTING PRONOUNCEMENTS

Recently Adopted Accounting Standards

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

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

ITEM 7A. Quantitative and Qualitative Disclosures About Market Risk

Not Required

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ITEM 8. Financial Statements and Supplementary Data

P&F INDUSTRIES, INC. AND SUBSIDIARIES

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and
Shareholders of P&F Industries, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheets of P&F Industries, Inc. and Subsidiaries as of December 31, 2012 and 2011, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended. P&F Industries, Inc. and Subsidiaries management is responsible for these consolidated financial statements. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of P&F Industries, Inc. and Subsidiaries as of December 31, 2012 and 2011 and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ CohnReznick LLP

Jericho, New York

March 29, 2013

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P&F INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	December 31, 2012	December 31, 2011
ASSETS		
CURRENT ASSETS		
Cash	$ 695,000	$ 443,000
Accounts receivable — net	6,675,000	6,327,000
Inventories — net	24,073,000	18,588,000
Deferred income taxes — net	1,139,000	512,000
Prepaid expenses and other current assets	524,000	454,000
Current assets of discontinued operations	23,000	23,000
TOTAL CURRENT ASSETS	33,129,000	26,347,000
PROPERTY AND EQUIPMENT		
Land	1,550,000	1,550,000
Buildings and improvements	7,536,000	7,504,000
Machinery and equipment	18,010,000	16,803,000
	27,096,000	25,857,000
Less accumulated depreciation and amortization	15,994,000	15,091,000
NET PROPERTY AND EQUIPMENT	11,102,000	10,766,000
GOODWILL	5,150,000	5,150,000
OTHER INTANGIBLE ASSETS — net	1,752,000	1,950,000
DEFERRED INCOME TAXES — net	3,211,000	1,595,000
OTHER ASSETS — net	813,000	778,000
TOTAL ASSETS	$ 55,157,000	$ 46,586,000

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

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P&F INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	December 31, 2012	December 31, 2011
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Short-term borrowings	$ 2,793,000	$ 5,648,000
Accounts payable	4,843,000	2,229,000
Accrued liabilities	4,313,000	3,338,000
Current liabilities of discontinued operations	19,000	24,000
Current maturities of long-term debt	460,000	1,039,000
TOTAL CURRENT LIABILITIES	12,428,000	12,278,000
Long-term debt, less current maturities	7,363,000	4,861,000
Long-term liabilities of discontinued operations	278,000	292,000
TOTAL LIABILITIES	20,069,000	17,431,000
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY		
Preferred stock - $10 par; authorized - 2,000,000 shares; no shares issued	—	—
Common stock		
Class A - $1 par; authorized - 7,000,000 shares; issued – 4,013,000 at December 31, 2012 and 3,956,000 at December 31, 2011	4,013,000	3,956,000
Class B - $1 par; authorized - 2,000,000 shares; no shares issued	—	—
Additional paid-in capital	11,384,000	10,919,000
Retained earnings	22,646,000	17,235,000
Treasury stock, at cost – 342,000 shares at December 31, 2012 and 2011	(2,955,000)	(2,955,000)
TOTAL SHAREHOLDERS' EQUITY	35,088,000	29,155,000
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 55,157,000	$ 46,586,000

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

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P&F INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

	Years ended December 31,	
	2012	**2011**
Net revenue	$ 59,871,000	$ 54,541,000
Cost of sales	37,729,000	34,296,000
Gross profit	22,142,000	20,245,000
Selling, general and administrative expenses	18,281,000	17,491,000
Operating income	3,861,000	2,754,000
Interest expense - net	526,000	756,000
Income from continuing operations before income taxes	3,335,000	1,998,000
Income tax (benefit) expense	(2,115,000)	89,000
Income from continuing operations	5,450,000	1,909,000
(Loss) income from discontinued operations (net of tax expense of $7,000 and $9,000 for the years ended December 31, 2012 and 2011)	(39,000)	646,000
Net income	$ 5,411,000	$ 2,555,000
Basic earnings (loss) per share		
Continuing operations	$ 1.50	$ 0.53
Discontinued operations	(0.01)	0.18
Net income	$ 1.49	$ 0.71
Diluted earnings (loss) per share		
Continuing operations	$ 1.45	$ 0.52
Discontinued operations	(0.01)	0.17
Net income	$ 1.44	$ 0.69
Weighted average common shares outstanding:		
Basic	3,641,000	3,615,000
Diluted	3,748,000	3,698,000

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P&F INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

		Class A Common Stock, $1 Par		Additional paid-in	Retained	Treasury stock	
	Total	Shares	Amount	capital	earnings	Shares	Amount
Balance, January 1, 2011	$ 26,399,000	3,956,000	$3,956,000	$ 10,718,000	$ 14,680,000	(342,000)	$(2,955,000)
Net income	2,555,000				2,555,000		
Stock-based compensation	201,000			201,000			
Balance, December 31, 2011	29,155,000	3,956,000	3,956,000	10,919,000	17,235,000	(342,000)	(2,955,000)
Net income	5,411,000				5,411,000		
Exercise of stock options	304,000	52,000	52,000	252,000			
Issuance of restricted common stock	26,000	5,000	5,000	21,000			
Stock-based compensation	192,000			192,000			
Balance, December 31, 2012	$ 35,088,000	4,013,000	$ 4,013,000	$ 11,384,000	$22,646,000	(342,000)	$(2,955,000)

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

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P&F INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years ended December 31,	
	2012	**2011**
Cash Flows from Operating Activities		
Net income	$ 5,411,000	$ 2,555,000
Adjustments to reconcile net income to net cash provided by operating activities of continuing operations:		
Loss (income) from discontinued operations	39,000	(646,000)
Non-cash charges:		
Depreciation and amortization	1,623,000	1,600,000
Amortization of other intangible assets	398,000	350,000
Amortization of debt issue costs	286,000	286,000
Provision for losses on accounts receivable	53,000	1,000
Stock-based compensation	192,000	201,000
Restricted stock-based compensation	3,000	—
Loss on sale of fixed assets	2,000	1,000
Deferred income taxes	(2,243,000)	—
Changes in operating assets and liabilities:		
Accounts receivable	(401,000)	658,000
Inventories	(5,485,000)	(158,000)
Prepaid expenses and other current assets	(47,000)	(37,000)
Other assets	(92,000)	(227,000)
Accounts payable	2,614,000	336,000
Accrued liabilities	975,000	443,000
Total adjustments	(2,083,000)	2,808,000
Net cash provided by operating activities of continuing operations	3,328,000	5,363,000

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

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P&F INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years ended December 31, 2012	Years ended December 31, 2011
Cash Flows from Investing Activities:		
Capital expenditures	$ (1,969,000)	$ (598,000)
Proceeds from sale of assets	8,000	2,000
Purchase of product license	(200,000)	—
Net cash used in investing activities	(2,161,000)	(596,000)
Cash Flows from Financing Activities:		
Proceeds from exercise of stock options	304,000	—
Proceeds from short-term borrowings	56,005,000	40,280,000
Repayments of short-term borrowings	(58,860,000)	(44,628,000)
Term loan advances	3,289,000	—
Repayments of term loans	(1,116,000)	(406,000)
Repayments on notes payable	(250,000)	(1,073,000)
Bank financing costs	(229,000)	—
Net cash used in financing activities	(857,000)	(5,827,000)
Cash Flows from Discontinued Operations:		
Operating activities	(58,000)	629,000
Net cash (used in) provided by discontinued operations	(58,000)	629,000
Net increase (decrease) in cash	252,000	(431,000)
Cash at beginning of year	443,000	874,000
Cash at end of year	$ 695,000	$ 443,000
Supplemental disclosures of cash flow information:		
Cash paid for:		
Interest	$ 545,000	$ 796,000
Income taxes	$ 164,000	$ 16,000

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

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P&F INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2012 and 2011

NOTE 1—SUMMARY OF ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements contained herein include the accounts of P&F Industries, Inc. and its subsidiaries ("P&F" or the "Company"). All significant intercompany balances and transactions have been eliminated. Certain amounts in the financial statements have been reclassified to conform to classifications used in the current year.

The Company

The Company operates in two primary lines of business, or segments: (i) tools and other products ("Tools") and (ii) hardware and accessories ("Hardware").

Tools

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

Florida Pneumatic is engaged in the importation and sale of pneumatic hand tools, primarily for the retail, industrial and automotive markets, and the importation and sale of compressor air filters. Florida Pneumatic also markets, through its Berkley Tool division ("Berkley"), a line of pipe cutting and threading tools, wrenches and replacement electrical components for a widely-used brand of pipe cutting and threading machines.

Hy-Tech manufacturers and distributes its own line of industrial pneumatic tools. Hy-Tech also produces and markets impact wrenches, grinders, drills, and motors. Further, it also manufacturers tools to customer unique specifications. Its customers include refineries, chemical plants, power generation, heavy construction, oil and mining companies. In addition, Hy-Tech manufactures an extensive line of pneumatic tool replacement parts that are sold competitively to the original equipment manufacturer ("OEM"). It also manufactures and distributes high pressure stoppers for hydrostatic testing fabricated pipe. It also produces a line of siphons. Other than a line of sockets that are imported from Israel, all Hy-Tech products are made in the United States of America.

Hardware

The Company conducts its Hardware business through a wholly-owned subsidiary, Countrywide. Countrywide conducts its business operations through its wholly-owned subsidiary, Nationwide Industries, Inc. ("Nationwide"). Nationwide is an importer and manufacturer of door, window and fencing hardware and accessories, including rollers, hinges, window operators, sash locks, custom zinc castings and door closers. Additionally, Nationwide also markets a line of kitchen and bath fixtures. 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. Most of Nationwide's sales are of products imported from Taiwan and China.

Prior to June 2009, Countrywide also operated two other subsidiaries, Woodmark International, L.P. ("Woodmark") and Pacific Stair Products, Inc. ("PSP") each a stair parts business. Additionally, Woodmark was also an importer of kitchen and bath hardware and accessories. In June 2009 pursuant to the transactions (the "WMC transactions") that formed the business of WM Coffman LLC (now known as Old Stairs Co ("WMC")), Woodmark and PSP contributed stair parts-related assets to WMC in return for members' equity. Concurrently, Woodmark transferred its kitchen and bath business to Nationwide. Accordingly, effective with the WMC transactions, the stair parts business became exclusively the business of WMC, and Woodmark and PSP no longer functioned as operating units. Further, as part of the WMC transactions, in June 2009 WMC acquired substantially all of the assets of Coffman Stairs, LLC, which operated a competitive stair parts business.

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Basis of Financial Statement Presentation

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

Variable Interest Entities - Deconsolidation

On January 1, 2010, the Company adopted an accounting standard, which replaced the quantitative-based risks and rewards calculation for determining which enterprise, if any, has a controlling financial interest in a variable interest entity. The approach focuses on identifying which enterprise has the power to direct the activities of a variable interest entity that most significantly impacts the variable interest entity's economic performance and (1) the obligation to absorb losses of the variable interest entity or (2) the right to receive benefits from the variable interest entity. As a result of adopting this accounting standard, the Company was required to change the way it accounts for its variable interest in WMC. The Company determined that as the result of the foreclosure by PNC, National Association ("PNC") on WMC and PNC's subsequent disposal and sale of all of WMC's assets, tangible and intangible, the Company no longer was the primary beneficiary of WMC and no longer had a controlling financial interest in WMC. As such, the Company deconsolidated WMC's financial position and financial operations.

Revenue Recognition

The Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred or services have been provided, the sale price is fixed or determinable, and collectability is reasonably assured. The Company sells its goods on terms which transfer title and risk of loss at a specified location, typically shipping point, port of loading or port of discharge, depending on the final destination of the goods. Revenue recognition from product sales occurs when all factors are met, including transfer of title and risk of loss, which occurs either upon shipment by the Company or upon receipt by customers at the location specified in the terms of sale. Other than standard product warranty provisions, the Company's sales arrangements provide for no other, 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 sales returns. If the Company concludes there are potential sales returns, the Company would provide any necessary provision against sales.

Shipping and Handling Costs

Expenses for shipping and handling costs are included in selling, general and administrative expenses, and totaled approximately $713,000 and $675,000 for the years ended December 31, 2012 and 2011, respectively.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash held in bank demand deposits. The Company considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents. There were no cash equivalents at December 31, 2012 and 2011.

Financial Instruments

The carrying amounts reported in the consolidated balance sheets for cash, accounts receivable, accounts payable and short-term debt approximate fair value as of December 31, 2012 and 2011 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, 2012 and 2011 because, in general, the interest rates underlying the instruments fluctuate with market rates.

Accounts Receivable and Allowance for Doubtful Accounts

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

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

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The Company records an allowance for doubtful accounts based on specifically identified amounts that are believed to be uncollectible. The Company also records as an additional allowance a certain percentage of aged accounts receivable, based on historical experience and the Company's assessment of the general financial conditions affecting its customer base. If actual collection experience changes, revisions to the allowance may be required. The Company has a limited number of customers with individually large amounts due at any given balance sheet date. Any unanticipated change in the creditworthiness of any of these customers could have a material effect on the Company's results of operations in the period in which such changes or events occur. After all reasonable attempts to collect an account receivable have failed, the amount of the receivable is written off against the allowance. Based on the information available, the Company believes that its allowance for doubtful accounts as of December 31, 2012 is adequate. However, actual write-offs might exceed the recorded allowance.

Concentrations of Credit Risk

The Company places the majority of its cash with Capital One Bank, which is insured by the Federal Deposit Insurance Corporation ("FDIC"). Significant concentrations of credit risk may arise from the Company's cash maintained at Capital One Bank, as from time to time cash balances may exceed the federal deposit insurance limits FDIC limits. As of December 31, 2012 there was no significant credit risk.

Financial instruments that potentially subject the Company to concentration of credit risk consist principally of accounts receivable. The Company has one customer that accounted for approximately 20.8% and 24.0%, respectively, of consolidated revenue for the years ended December 31, 2012 and 2011, and 30.6% and 44.6%, respectively, of consolidated accounts receivable as of December 31, 2012 and 2011.

Use of Estimates

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

Inventories

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

Property and Equipment and Depreciation and Amortization

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

Depreciation of buildings and machinery and equipment is computed by using the straight-line method over the estimated useful lives of the assets. Buildings are depreciated over periods ranging from 10 to 31.5 years, and machinery and equipment is depreciated over periods ranging from 3 to 12 years. Leasehold improvements are amortized over the life of the lease or the useful life of the related asset, whichever is shorter.

Long-Lived Assets

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

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Goodwill and Other Intangible Assets

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

Intangible assets other than goodwill and intangible assets with indefinite lives are carried at cost less accumulated amortization. Intangible assets are generally amortized on a straight-line basis over the useful lives of the respective assets, generally five to twenty-five years. Long-lived assets and certain identifiable intangible assets to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Determination of recoverability is based on an estimate of undiscounted future cash flows resulting from the use of the asset and its eventual disposition. Measurement of any impairment loss for long-lived assets and certain identifiable intangible assets that management expects to hold and use is based on the amount by which the carrying value exceeds the fair value of the asset.

Warranty Liability

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

Income Taxes

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

The Company files a consolidated Federal tax return, as well as combined tax returns in New York and Texas. All subsidiaries file other state and local tax returns on a stand-alone basis.

When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while other positions are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the accompanying consolidated balance sheets along with any associated interest and penalties that would be payable to the taxing authorities upon examination. Interest and penalties associated with unrecognized tax benefits are classified as income taxes in the consolidated statement of income.

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Advertising

The Company expenses its costs of advertising in the period in which they are incurred. Advertising costs for the years ended December 31, 2012 and 2011 were $622,000 and $819,000, respectively.

Earnings Per Common Share

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

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

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

	Years Ended December 31,	
	2012	2011
Numerator:		
Numerator for basic and diluted income per common share:		
Income from continuing operations	$ 5,450,000	$ 1,909,000
(Loss) income from discontinued operations	(39,000)	646,000
Net income	$ 5,411,000	$ 2,555,000
Denominator:		
Denominator for basic income per share—weighted average common shares outstanding	3,641,000	3,615,000
Effect of dilutive securities:		
Stock options	107,000	83,000
Denominator for diluted income per share—adjusted weighted average common shares and assumed conversions	3,748,000	3,698,000

At December 31, 2012 and 2011 and during the years then ended, there were outstanding stock options whose exercise prices were higher than the average market values for the respective periods. These options are anti-dilutive and were excluded from the computation of diluted earnings per share during the years ended December 31, 2012 and 2011, respectively. The average anti-dilutive options outstanding for the years ended December 31, 2012 and 2011 were 373,156 and 461,624, respectively.

Share-Based Compensation

In accordance with GAAP, the Company measures and recognizes compensation expense for all share-based payment awards based on estimated fair values. Share-based compensation expense is included in selling, general and administrative expense on the accompanying consolidated statements of income. See Note 8 for additional information.

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

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.

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NEW ACCOUNTING PRONOUNCEMENTS

Adoption of New Accounting Pronouncements

In July 2012, the FASB issued Accounting Standards Update ("ASU") No. 2012-02, "Intangibles—Goodwill and other" ("ASU 2012-02"). ASU 2012-02 provides guidance on annual impairment testing of indefinite-lived intangible assets. The standards update allows an entity to first assess qualitative factors to determine if it is more likely than not that the fair value of an indefinite-lived intangible asset is less than its carrying amount. If based on its qualitative assessment an entity concludes it is more likely than not that the fair value of an indefinite-lived intangible asset is less than its carrying amount, quantitative impairment testing is required. However, if an entity concludes otherwise, quantitative impairment testing is not required. The standards update is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012, with early adoption permitted. We are evaluating whether to adopt ASU 2012-02 in 2013. The adoption of ASU 2012-02 will not affect our operating results, cash flows or financial position.

In September 2011, the FASB issued ASU No. 2011-08, *Intangibles—Goodwill and Other (Topic 350): Testing Goodwill for Impairment.* ASU 2011-08 is intended to simplify how entities, both public and nonpublic, test goodwill for impairment. ASU 2011-08 permits an entity to first assess qualitative factors to determine whether it is "more likely than not" that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test described in Topic 350, *Intangibles-Goodwill and Other.* The more-likely-than-not threshold is defined as having a likelihood of more than 50%. ASU 2011-08 is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption was permitted. The Company has concluded that the adoption of this ASU did not have a material effect on its consolidated financial statements.

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

NOTE 2 — DISCONTINUED OPERATIONS

In October 2005, the Company sold substantially all of the operating assets of a wholly-owned subsidiary Embassy Industries, Inc. ("Embassy") that participated in a multi-employer pension plan. This plan provided defined benefits to all of its union workers. Contributions to this plan were determined by the union contract. The Company did not administer or control the plan funds. As a result of the former wholly-owned subsidiary's withdrawal from the plan, the Company estimated and recorded a withdrawal liability of approximately $369,000, which is payable in quarterly installments of approximately $8,200, which includes interest, from May 2006 through February 2026.

On August 23, 2011, Embassy received a payment of approximately $702,000 (the "Payment") relating to a dispute over the sale by Embassy of certain real property arising under the Contract of Sale (the "Agreement") between Embassy and J. D'Addario & Company, Inc. ("D'Addario"), dated January 13, 2006, as amended. The Payment was made pursuant to the Amended Judgment of the Supreme Court of the State of New York, Suffolk County, dated August 2, 2011 and entered August 4, 2011. Accordingly, in 2011, the Company reported the receipt of these funds, less related legal fees and other expenses, in income from discontinued operations.

NOTE 3 — VARIABLE INTEREST ENTITY - DECONSOLIDATION

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

If the Company identifies a VIE based on the requirements within Accounting Standards Codification ("ASC") 810-10-40 ("ASC 810"), it then performs the second step to determine whether it is the primary beneficiary of the VIE by considering the following significant factors and judgments, both of which must be met:

- Whether the Company has the power to direct the activities of the VIE that most significantly impact the entity's economic performance; and

- Whether the Company has the obligation to absorb losses of the entity that could potentially be significant to the VIE or the right to receive benefits from the entity that could potentially be significant to the VIE.

The Company examined the facts and circumstances pertaining to WMC to determine if it is the primary beneficiary. Primarily the result of the foreclosure by PNC on WMC's assets, tangible and intangible, and their subsequent disposal and sale thereof, the Company determined that it no longer had a controlling financial interest in WMC and was no longer the primary beneficiary of WMC and accordingly in accordance with ASC 810, deconsolidated WMC, as it determined that it no longer had the obligation to absorb losses that might be significant to WMC nor did it possess the right to receive benefits from WMC that could potentially be significant to WMC.

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The Company concluded that it continues not to direct the most significant activities at WMC, nor have an obligation to absorb losses or the right to receive benefits from WMC. Accordingly, the Company continues to deconsolidate WMC. The Company will perform an ongoing reassessment of the facts and circumstances pertaining to WMC to determine whether or not the Company may become the primary beneficiary.

NOTE 4—ACCOUNTS RECEIVABLE AND ALLOWANCE FOR DOUBTFUL ACCOUNTS

Accounts receivable—net consists of:

	December 31, 2012	December 31, 2011
Accounts receivable	$ 6,953,000	$ 6,553,000
Allowance for doubtful accounts	(278,000)	(226,000)
	$ 6,675,000	$ 6,327,000

NOTE 5—INVENTORIES

Inventories—net consist of:

	December 31, 2012	December 31, 2011
Raw materials	$ 2,093,000	$ 2,301,000
Work in process	888,000	979,000
Finished goods	23,357,000	17,459,000
	26,338,000	20,739,000
Reserve for obsolete and slow-moving inventories	(2,265,000)	(2,151,000)
	$ 24,073,000	$ 18,588,000

NOTE 6—GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill and other intangible assets with indefinite lives are tested annually or whenever events or circumstances indicate the carrying value of these assets may not be recoverable. In accordance with authoritative guidance issued by the FASB, the Company performed an annual impairment test of goodwill and indefinite-lived intangible assets during the fourth quarter based on conditions as of November 30, 2012. The impairment testing is performed in two steps: (i) The Company compares the fair value of a reporting unit with its carrying value, and (ii) if there is impairment, the Company measures the amount of impairment loss by comparing the implied fair value of goodwill with the carrying amount of that goodwill. The revised fair value of a reporting unit is allocated to the assets and liabilities of the business unit to arrive at an implied fair value of goodwill, based upon known facts and circumstances, as if the acquisition occurred at that time. The Company determines the fair value of its reporting units using a weighted average of the income approach methodology of valuation which considers the expected present value of future cash flows and the market valuation approach. As an integral part of the valuation process the Company anticipates minimal growth in future periods, based upon available statistical data as well as input from its senior management staff. The results of step one of the impairment test determined that the fair value exceeded the carrying value and, as such, no impairment to Goodwill and other intangible assets was recorded in 2012 or 2011.

Goodwill:	**Consolidated**	**Tools**	**Hardware**
Balance, December 31, 2012 and 2011	$ 5,150,000	$ 3,277,000	$ 1,873,000

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Other intangible assets:

	December 31, 2012			December 31, 2011		
	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
Customer relationships	$ 5,070,000	$ 3,906,000	$ 1,164,000	$ 5,070,000	$ 3,581,000	$ 1,489,000
Trademarks	199,000	—	199,000	199,000	—	199,000
Drawings	290,000	85,000	205,000	290,000	70,000	220,000
Licensing	305,000	121,000	184,000	105,000	63,000	42,000
Totals	$ 5,864,000	$ 4,112,000	$ 1,752,000	$ 5,664,000	$ 3,714,000	$ 1,950,000

There were no impairment charges recorded for the years ended December 31, 2012 and 2011.

Amortization expense for intangible assets was approximately $398,000 and $350,000 for each of the years ended December 31, 2012 and 2011, respectively. The weighted average amortization period for intangible assets was 7.5 years and 8.2 years at December 31, 2012 and 2011, respectively.

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

2013	$ 253,000
2014	233,000
2015	233,000
2016	187,000
2017	175,000
Thereafter	472,000
	$ 1,553,000

NOTE 7—DEBT

SHORT-TERM LOANS

In October 2010, P&F, along with Florida Pneumatic, Hy-Tech and Nationwide, as borrowers, entered into a Loan and Security Agreement ("Credit Agreement") with Capital One Leverage Finance Corporation, as agent ("COLF"). The Credit Agreement had a three year term, with maximum borrowings of $22,000,000 at inception. The Credit Agreement provides for a Revolver Loan ("Revolver") with an original maximum borrowing of $15,910,000. Direct borrowings under the Revolver are secured by the Company's accounts receivable, mortgages on our real property located in Cranberry, PA, Jupiter, FL and Tampa, FL ("Real Property"), inventory and equipment, and are cross-guaranteed by certain of our subsidiaries (the "Subsidiary Guarantors"). Revolver borrowings bear interest at LIBOR (London InterBank Offered Rate) or the Base Rate, as defined in the Credit Agreement ("Base Rate"), plus the Applicable Margin (the "Applicable Margin"), as defined in the Credit Agreement. The Applicable Margin on Revolver borrowings is determined based upon the computation of total debt divided by earnings before interest, taxes, depreciation and amortization ("EBITDA").

On November 21, 2011, the Company and COLF entered into the Second Amendment to Loan and Security Agreement, ("Amendment 2"). Amendment 2, among other things: (i) increased the total commitment by COLF for the Credit Agreement to $24,500,000; (ii) reduced the Applicable Margin on Revolver borrowings; (iii) increased the maximum aggregate amount of permitted Capital Expenditures (as defined in the Loan Agreement) for 2012 and 2013 to an aggregate of $2,500,000 and (iv) established a $2,500,000 Capital Expenditure loan commitment by COLF, pursuant to which COLF may make one or more Capex Loans (as defined in Amendment 2) (each, a "Capex Term Loan") to the Company under the terms set forth in Amendment 2. Pursuant to Amendment 2, the Applicable Margin ranged from 2.50% to 3.50% for borrowings at LIBOR and from 1.50% to 2.50% for borrowings at the Base Rate.

On December 19, 2012, the Company and COLF entered into the Third Amendment to Loan and Security Agreement ("Amendment 3"), which among other things:

- Increased the total commitment by COLF from $24,500,000 to $29,453,000.
- Extended the term of the Credit Agreement through December 19, 2017, the Loan Maturity Date, on which date all principal, interest and other amounts owing with respect to this Credit Agreement shall be due and payable in full.
- Increased the maximum aggregate amount of borrowings on the Revolver from $15,910,000 to $20,000,000.

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- Increased the Term Loan, as defined below, to $7,000,000 from $6,090,000, the original principal amount, of which $4,610,822 was outstanding immediately prior to the effectiveness of Amendment 3.
- Extended the rate of amortization on the Term Loan from 20 years to 25 years.
- Increased the amount of borrowings for permitted Capital Expenditures to $2,453,000 from $1,601,000, which was the net amount available to borrow immediately preceding this Amendment.
- Reduced the unused line fee to 0.375% from a range of 0.5% to 0.75%.
- Removed the requirement of a prepayment on the Term Loan from Excess Cash Flows, as defined in the Credit Agreement. (In 2012, the Company was required to make a $633,000 prepayment toward our Term Loan.)
- Reduced the Applicable Margin on all borrowings. The Applicable Margin on Revolver borrowings is based on the corresponding Leverage Ratio (as defined in the Credit Agreement). The Applicable Margin for each type of borrowing is as follows:

Type of borrowing	New Applicable Margin	Old Applicable Margin
Revolver		
Base rate	.50% to 1.50%	1.50% to 2.50%
LIBOR	1.50% to 2.50%	2.50% to 3.50%
Term Loan		
Base rate	2.00%	4.75%
LIBOR	3.00%	5.75%
Capex Term Loan		
Base rate	2.00%	2.50%
LIBOR	3.00%	3.50%

The balance of Revolver borrowings outstanding was $2,793,000 at December 31, 2012 and $5,648,000 at December 31, 2011. Applicable Margins added to Revolver borrowings at LIBOR and the Base Rate were 2.00% and 1.00%, respectively, at December 31, 2012 and 2.75% and 1.75%, respectively, at December 31, 2011.

The Company is required to provide, among other things, monthly financial statements, monthly borrowing base certificates and certificates of compliance with various financial covenants. The Company is in compliance with all covenants. As part of the Credit Agreement, if an event of default occurs, the interest rate would increase by two percent per annum during the period of default.

LONG-TERM LOANS

The Credit Agreement also provides for a Term Loan (the “Term Loan”), which is secured by mortgages on the Real Property, accounts receivable, inventory and equipment. The Term Loan, as amended will, effective January 2013, be repaid $23,333 each month, with a balloon payment of the remaining balance due at maturity of the Credit Agreement. Term Loan borrowings incur interest at LIBOR or the Base Rate plus the Applicable Margins, which were 3.00% and 2.00%, respectively, at December 31, 2012 and 5.75% and 4.75%, respectively, at December 31, 2011.

Additionally, the Company, in accordance with Amendment 2, borrowed $380,000 and $519,000, in March 2012 and September 2012, respectively, as Capex Term Loans. These loans amortize approximately $6,000 and $9,000, respectively, each month over a five-year period. Applicable Margins added to the Capex Term Loan borrowings at December 31, 2012 were 3.00% and 2.00%, for borrowings at LIBOR and the Base Rate, respectively.

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Long-term debt consists of:

	December 31, 2012	December 31, 2011
Term loan - $23,333 (plus interest) payable monthly January 1, 2013 through December 1, 2017, with all remaining balances due December 19, 2017. From October 25, 2010, the original loan date, through December 31, 2012, the monthly payments were $34,000 (plus interest).	$ 7,000,000	$ 5,650,000
Capex Term Loan - $6,000 (plus interest) payable monthly May 1, 2012 through April 1, 2017.	330,000	----
Capex Term Loan - $9,000 (plus interest) payable monthly October 1, 2013 through September 1, 2017.	493,000	----
Subordinated note payable to officer	----	250,000
	7,823,000	5,900,000
Less current maturities	460,000	1,039,000
	$ 7,363,000	$ 4,861,000

In April 2010, as part of an amendment to the Company's prior credit agreement, the Company was required to obtain subordinated loans of $750,000 (the "Subordinated Loans"). These Subordinated Loans had an interest at 8% per annum. The Subordinated Loans were provided by the Company's Chief Executive Officer ("CEO"), in the amount of $250,000, and an unrelated party, in the amount of $500,000, each with a maturity date of October 25, 2013. During 2011, in accordance with a subordination agreement with COLF, the principal amount plus accrued interest owed to the unrelated third party was paid in full from excess cash flows, as defined in such subordination agreement. The Company paid interest of $20,000 in 2011 to the CEO. On July 24, 2012, the Company repaid in its entirety the $250,000 Subordinated Loan, plus approximately $6,000 of interest, to its CEO.

The aggregate amounts of long-term debt scheduled to mature in each of the years ended December 31, are approximately as follows: 2013—$460,000; 2014—$460,000; 2015—$460,000; 2016—$460,000 and 2017—$5,983,000. Interest expense on long-term debt was approximately $325,000 and $359,000 for the years ended December 31, 2012 and 2011, respectively

NOTE 8—STOCK OPTIONS – STOCK COMPENSATION

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

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

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

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

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On May 23, 2012, following the Annual Meeting, the Committee granted to Richard P. Randall, who was elected to serve on the Company's Board of Directors at the Annual Meeting, options to purchase 2,000 shares of Common Stock. These options have an exercise price of $4.48, which was the closing price of the Common Stock on the date of the grant, vest one year from the date of grant and expire in ten years from the date of the grant.

In connection with a Severance Agreement entered into between the Company and Joseph Molino, Jr. the Company's Chief Operating Officer ("COO") and Chief Financial Officer ("CFO"), on June 22, 2012, the Company granted Mr. Molino options to purchase 40,000 shares of Common Stock. These options have an exercise price of $4.95, which was the closing price of the Common Stock on the date of the grant. Further, the options shall vest and become exercisable as to 13,333 shares on June 22, 2013, 13,334 shares on June 22, 2014, and 13,333 shares on June 22, 2015, provided, however, that 100% of the then unvested portion of the option grant shall vest and become exercisable in the event of an involuntary termination of Mr. Molino without cause or voluntary termination for good reason or following a Change in Control, as defined in the Severance Agreement.

The Company's 2002 Incentive Stock Option Plan (the "Previous Plan") authorized the issuance to employees and directors of options to purchase a maximum of 1,100,000 shares of Common Stock. These options had to be issued within ten years of the effective date of the Previous Plan and are exercisable for a ten year period from the date of grant, at prices not less than 100% of the closing market value of the Common Stock on the date the option is granted. In the event options granted contained a vesting schedule over a period of years, the Company recognized compensation cost for these awards ratably over the service period.

On May 16, 2011, the stock option/compensation committee of Company's Board of Directors authorized the issuance of options to purchase 70,000 shares of Common Stock from the Previous Plan. The Company granted 15,000 of these options to its COO and CFO, with the balance to non-executive employees of the Company. All options granted on May 16, 2011 vest one-third on each of the first three anniversaries of the grant date. Further, all options granted on May 16, 2011 have an exercise price of $4.56.

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

	For the years ended	
	December 31, 2012	**December 31, 2011**
Risk-free interest rate	Ranging from 1.64% to 1.74%	3.20%
Expected term	10 years	6.5 years
Volatility	Ranging from 81.47% to 81.44%	61.99%
Dividend yield	0%	0%
Weighted-average fair value of options granted	Ranging from $3.67 to $4.05	$ 2.80

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

	Number of Shares	Weighted Average Exercise Price per share	Aggregate Intrinsic Value
Outstanding, January 1, 2011	585,624	$ 6.73	
Granted	70,000	4.56	
Expired	(500)	11.38	
Outstanding, December 31, 2011	655,124	6.50	
Granted	42,000	4.93	
Exercised	(52,000)	5.85	
Expired	(60,436)	6.09	
Outstanding, December 31, 2012	584,688	$ 6.48	$ 758,000
Vested, December 31, 2012	443,688	$ 7.17	$ 490,000

All options that expired in 2012 were issued under the Previous Plan.

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

	December 31,			
	2012		2011	
	Option Shares	Weighted Average Grant-Date Fair Value	Option Shares	Weighted Average Grant-Date Fair Value
Non-vested shares, beginning of year	174,667	$ 2.43	165,333	$ 2.19
Granted	42,000	4.03	70,000	2.80
Vested	(75,667)	2.37	(60,666)	2.05
Forfeited	—	—	—	—
Non-vested shares, end of year	141,000	$ 2.94	174,667	$ 2.43

Share-based compensation expense recognized for the years ended December 31, 2012 and 2011 was approximately $192,000 and $201,000, respectively. The Company recognizes compensation cost over the requisite service period. However, the exercisability of the respective non-vested options, which are at pre-determined dates on a calendar year, does not necessarily correspond to the period(s) in which straight-line amortization of compensation cost is recorded.

The following table summarizes information about stock options outstanding and exercisable at December 31, 2012:

	Options outstanding			Options Exercisable		
Range of Exercise Prices	Number outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number exercisable	Weighted Average Life	Weighted Average Exercise Price
$7.90 - $8.06	115,688	1.5	$ 8.05	115,688	1.5	$ 8.05
$14.44 - $16.68	24,500	2.5	16.50	24,500	2.5	16.50
$11.20	88,500	4.5	11.20	88,500	4.5	11.20
$4.16	174,000	5.5	4.16	145,000	5.5	4.16
$3.05	70,000	8.0	3.05	46,667	8.0	3.05
$4.48 - $4.95	112,000	8.8	4.70	23,333	8.4	4.56
	584,688		6.48	443,688		7.17

Other Information

As of December 31, 2012, the Company had approximately $179,000 of total unrecognized compensation cost related to non-vested awards granted under its share-based plans, which it expects to recognize over a weighted-average period of one year.

At December 31, 2012, there were 276,007 shares available for issuance under the 2012 Plan. At December 31, 2011 there were 302,712 shares available for issuance under the Previous Plan. At December 31, 2012, there were outstanding 42,000 options issued under the 2012 Plan and 542,688 options outstanding issued under the Previous Plan.

Restricted Stock

Pursuant to the 2012 Plan, the Company, in November 2012, granted 666 restricted shares of its common stock to each non-employee member of its Board of Directors, totaling 4,662 restricted shares. The Company determined that the fair value of these shares was $5.51, which was the closing price of the Company's Common Stock on the date of the grant. These shares cannot be traded earlier than the first anniversary of the grant date. As such, the Company is ratably amortizing the total non-cash compensation expense of approximately $26,000 in its selling, general and administrative expenses through November 2013.

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NOTE 9—INCOME TAXES

Income tax (benefit) for continuing operations in the consolidated statements of income consists of:

	Years Ended December 31,	
	2012	2011
Current:		
Federal	$ 54,000	$ 35,000
State and local	81,000	54,000
Total current	135,000	89,000
Deferred:		
Federal	(2,171,000)	—
State and local	(79,000)	—
Total deferred	(2,250,000)	—
Totals	$ (2,115,000)	$ 89,000

In accordance with the authoritative guidance issued by the FASB pertaining to the accounting for income taxes, the Company recorded, in years prior to 2012, a partial valuation allowance against certain of its deferred tax assets, since the Company believed that it was more likely than not that, based on evidence available at that time, the entire net deferred tax asset would not be realized in the foreseeable future. The recorded valuation allowance at December 31, 2011 was $4,107,000, which was approximately 63% of the net deferred tax asset at that date. However, the Company believes that, based upon the fact that it has been profitable for the years ended December 31, 2010, 2011 and 2012, combined with its projected future sources of taxable income, it was appropriate to reduce the valuation allowance during 2012. The Company recorded a net deferred tax benefit of $2,250,000, which resulted from a reduction in the valuation allowance on its deferred tax assets, partially offset by the utilization of deferred tax assets in the current year.

The Company has Federal net operating loss carry forwards at December 31, 2012 of approximately $2,000,000, which expire through 2030.

In addition, the Company recorded a full valuation allowance for certain state deferred tax assets, including a state net operating loss carry forward of approximately $21,000,000. The state net operating losses expire in 2027 through 2032. The Company believes it is more likely than not that the remaining tax benefits associated with these net deferred tax assets will not be realized in the foreseeable future, based upon its ability to generate sufficient state taxable income.

Deferred tax assets (liabilities) consist of:

	December 31,	
	2012	2011
Deferred tax assets—current:		
Bad debt reserves	$ 103,000	$ 83,000
Inventory reserves	1,005,000	994,000
Warranty and other reserves	211,000	302,000
	1,319,000	1,379,000
Valuation allowance	(23,000)	(735,000)
	1,296,000	644,000
Deferred tax liabilities—current:		
Prepaid expenses	(157,000)	(132,000)
Net deferred tax assets—current	$ 1,139,000	$ 512,000
Deferred tax assets—non-current		
Intangibles	$ 1,982,000	$ 2,334,000
Goodwill	1,407,000	1,617,000
Federal net operating loss	669,000	1,177,000
State net operating loss	449,000	448,000
Tax credits	108,000	--
Other	343,000	364,000
	4,958,000	5,940,000
Valuation allowance	(633,000)	(3,372,000)
	4,325,000	2,568,000
Deferred tax liabilities—non-current:		
Depreciation	(1,114,000)	(973,000)
Net deferred tax assets—non-current	$ 3,211,000	$ 1,595,000

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

	Years ended December 31,	
	2012	
Federal income tax computed at statutory rates	34.0%	34.0%
(Decrease) increase in taxes resulting from:		
State and local taxes, net of Federal tax benefit	—	1.8
Change in valuation allowance	(101.1)	(33.8)
Expenses not deductible for tax purposes	2.8	1.6
Increase in uncertain tax positions	0.4	0.8
Other	0.5	0.1
Income tax (benefit) expense	(63.4)%	4.5%

The Company follows the authoritative guidance issued by the FASB that pertains to the accounting for uncertain matters. The adoption of this guidance did not have a material impact on the Company's consolidated financial position or results of operations. A reconciliation of the beginning and ending amounts of unrecognized tax benefits is as follows:

Balance at January 1, 2011	$ 286,000
Interest accrual	15,000
Balance at January 1, 2012	301,000
Interest accrual	14,000
Balance at December 31, 2012	$ 315,000

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

The Company files a consolidated Federal tax return. The Company and certain of its subsidiaries file tax returns in various U.S. state jurisdictions. With few exceptions, the years that remain subject to examination are the years ended December 31, 2009 through December 31, 2011.

NOTE 10—COMMITMENTS AND CONTINGENCIES

(a) The Company maintains a contributory defined contribution plan that covers all eligible employees. All contributions to this plan are discretionary. Amounts recognized as expense for contributions to this plan were $388,000 and $31,000 for the years ended December 31, 2012 and 2011, respectively.

(b) Effective January 1, 2012, the Company entered into a new employment agreement with its Chief Executive Officer ("CEO"). The employment agreement provides for the CEO to serve as the Company's President and CEO and, if elected by the Board of Directors, Chairman of the Board, for a term expiring on December 31, 2014, unless sooner terminated pursuant to the provisions of the employment agreement. Pursuant to the employment agreement, the CEO will receive a minimum annual base salary of $650,000, which will be reviewed annually by the compensation committee of the Board and may be increased, but not decreased, from time to time. The CEO is eligible for an annual discretionary incentive payment under the Company's Executive 162(m) Bonus Plan. The CEO also receives (i) senior executive level employee benefits, (ii) an annual payment of $45,064 to cover premiums on a life insurance policy, (iii) a Company provided automobile and payment of certain related expenses, and (iv) payment and/or reimbursement of certain legal and consultants' fees in connection with the employment agreement.

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

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

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

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(c) At December 31, 2012 and 2011, the Company had open purchase order commitments totaling approximately $15,723,000 and $7,717,000, respectively.

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

(e) The Company leases certain facilities and equipment through 2018. Generally, the facility leases carry renewal provisions and require the Company to pay maintenance costs. Rental payments may be adjusted for increases in taxes and insurance above specified amounts. Operating lease expense for 2012 and 2011 was $220,000 and $252,000, respectively. Future minimum payments under non-cancelable operating leases with initial or remaining terms of more than one year as of December 31, 2012 were as follows:

2013	$	206,000
2014		157,000
2015		58,000
2016		10,000
2017		3,000
Thereafter		3,000
	$	437,000

NOTE 11—BUSINESS SEGMENTS

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

The following table presents financial information by segment for the years ended December 31, 2012 and 2011. 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.

	Consolidated	Tools	Hardware
Year ended December 31, 2012			
Net revenues from unaffiliated customers	$ 59,871,000	$ 42,141,000	$ 17,730,000
Segment operating income	$ 9,397,000	$ 6,714,000	$ 2,683,000
General corporate expense - net	(5,536,000)		
Interest expense	(526,000)		
Income from continuing operations before income taxes	$ 3,335,000		
Segment assets	$ 50,103,000	$ 38,062,000	$ 12,041,000
Corporate assets	5,054,000		
Total assets	$ 55,157,000		
Long-lived assets, including $24,000 of corporate assets	$ 18,004,000	$ 13,426,000	$ 4,554,000

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Year ended December 31, 2011	Consolidated	Tools	Hardware
Net revenues from unaffiliated customers	$ 54,541,000	$ 39,849,000	$ 14,692,000
Segment operating income	$ 8,282,000	$ 6,340,000	$ 1,942,000
General corporate expense - net	(5,528,000)		
Interest expense	(756,000)		
Income from continuing operations before income taxes	$ 1,998,000		
Segment assets	$ 43,679,000	$ 33,106,000	$ 10,573,000
Corporate assets	2,907,000		
Total assets	$ 46,586,000		
Long-lived assets, including $198,000 of corporate assets	$ 17,866,000	$ 13,187,000	$ 4,481,000

Depreciation expense for the Tools and Hardware segments for the year ended December 31, 2012 was $1,250,000 and $192,000, respectively, and $1,181,000 and $198,000, respectively, for the year ended December 31, 2011. Amortization expense for the Tools and Hardware segments for the year ended December 31, 2012 was $354,000 and $58,000, respectively, and $354,000 and $10,000, respectively, for the year ended December 31, 2011. There were no impairment charges recorded in 2012 or 2011.

NOTE 12—RELATED PARTY TRANSACTIONS

One of the Company's directors is a principal of one of the insurance brokerage firms that the Company utilizes for the purchase of business-related insurance products. Total premiums paid to this insurance brokerage firm were $189,000 and $205,000, respectively, for the years ended December 31, 2012 and 2011.

The president of Hy-Tech is part owner of one of its vendors. During the years ended December 31, 2012 and 2011, the Company purchased approximately $971,000 and $1,268,000, respectively, of product from this vendor.

In April 2010, as part of an amendment to the Prior Credit Agreement, the Company was required to obtain subordinated loans totaling $750,000. These subordinated loans were from the CEO, in the amount of $250,000, and an unrelated party, in the amount of $500,000. The loan payable to the unrelated party was paid in full as of December 31, 2011. The loan payable to the CEO was paid in full as of December 31, 2012.

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

None.

Item 9A. Controls and Procedures

Evaluation of disclosure controls and procedures

We maintain disclosure and control procedures that are designed to ensure that information required to be disclosed in reports filed under the Securities and Exchange Act of 1934 (the "Exchange Act") is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to our management, including our CEO and CFO, to allow timely decisions regarding required disclosure.

Our management, with the participation of our CEO and CFO, carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of December 31, 2012. Based upon that evaluation, the CEO and CFO concluded that our disclosure controls and procedures were effective as of December 31, 2012.

Management's Report on Internal Control over Financial Reporting

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

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

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

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

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

We carried out an evaluation, under the supervision and with the participation of our management, including our CEO and CFO, of the effectiveness of the design and operation of our internal control over financial reporting, as of December 31, 2012. Management based this assessment on criteria for effective internal control over financial reporting described in "Internal Control—Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based upon that evaluation, the CEO and CFO concluded that our internal controls over financial reporting were effective as of December 31, 2012.

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

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

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Changes in Internal Control over Financial Reporting

There have been no significant changes in our internal control over financial reporting during the most recently completed fiscal quarter ended December 31, 2012 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

None

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PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by Part III (Items 10, 11, 12, 13 and 14) of this Annual Report on Form 10-K is incorporated by reference to the Company's definitive proxy statement in connection with its Annual Meeting of Stockholders scheduled to be held in May 2013, to be filed with the Securities and Exchange Commission within 120 days following the end of the Company's year ended December 31, 2012.

Item 11. Executive Compensation

See Item 10.

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

See Item 10.

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

See Item 10.

Item 14. Principal Accounting Fees and Services

See Item 10.

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PART IV

Item 15. Exhibits and Financial Statement Schedules

			Page
a)	List of Financial Statements, Financial Statement Schedules, and Exhibits		
	(1)	List of Financial Statements	
		The consolidated financial statements of the Company and its subsidiaries are included in Item 8 of Part II of this report.	22
	(2)	All schedules for which provision is made in the applicable accounting regulations of the Commission are not required under the related instructions or are inapplicable and, therefore, have been omitted.	-
	(3)	List of Exhibits	49

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

Exhibit Number	Description of Exhibit
3.1	Restated Certificate of Incorporation of the Registrant (Incorporated by reference to Exhibit 3.1 to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2004).
3.2	By-laws of the Registrant (as amended on January 14, 2013) (Filed herein).
4.1	Rights Agreement, dated as of August 19, 2004, between the Registrant and American Stock Transfer & Trust Company, as Rights Agent (Incorporated by reference to Exhibit 1 to the Registrant's Registration Statement on Form 8-A dated August 19, 2004).
10.1	Termination of Agreements, Settlement of Claim and Mutual General Releases dated March 3, 2011, among the Registrant, Old Stairs Co LLC, CS Divestiture LLC and Visador Holdings, LLC (Incorporated by reference to Exhibit 10.56 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2010).
10.2	Agreement Settling Claims and Exchanging Mutual Releases, dated May 5, 2011, among Old Stairs Co LLC, the Registrant, Richard A. Horowitz, Christopher Kliefoth and Xiaman We Yu Wood Products Co., Ltd. (Incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2011).
10.3	Settlement of Claims and Mutual General Releases, dated August 3, 2011, by and between Old Stairs Co LLC, the Registrant and AGNL Coffman, LLC. (Incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2011).
10.4	Loan and Security Agreement, dated as of October 25, 2010, among the Registrant, Florida Pneumatic Manufacturing Corporation, Hy-Tech, Machine, Inc., Nationwide Industries, Inc., Continental Tool Group, Inc., Countrywide Hardware, Inc., Embassy Industries, Inc., Green Manufacturing, Inc., Pacific Stair Products, Inc., WILP Holdings, Inc., Woodmark International, L.P., and Capital One Leverage Finance Corporation, as agent (Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated October 25, 2010).
10.5	Revolver Note, dated October 25, 2010, executed by the Registrant, Florida Pneumatic Manufacturing Corporation, Hy-Tech, Machine, Inc. and Nationwide Industries, Inc. in favor of Capital One Leverage Finance Corporation, as agent, in the original principal amount of $15,910,000 (Incorporated by reference to Exhibit 10.8 to the Registrant's Current Report on Form 8-K dated October 25, 2010).
10.6	Term Loan Note, dated October 25, 2010, executed by the Registrant, Florida Pneumatic Manufacturing Corporation, Hy-Tech, Machine, Inc. and Nationwide Industries, Inc. in favor of Capital One Leverage Finance Corporation, as agent, in the original principal amount of $6,090,000 (Incorporated by reference to Exhibit 10.9 to the Registrant's Current Report on Form 8-K dated October 25, 2010).
10.7	Mortgage, Assignment of Leases and Rents, Security Agreement and Financing Statement, dated as of October 25, 2010, made by Countrywide Hardware, Inc. in favor of Capital One Leverage Finance Corporation, as agent (Incorporated by reference to Exhibit 10.10 to the Registrant's Current Report on Form 8-K dated October 25, 2010).

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Exhibit Number	Description of Exhibit
10.8	Mortgage, Assignment of Leases and Rents, Security Agreement and Financing Statement, dated as of October 25, 2010, made by Florida Pneumatic Manufacturing Corporation. in favor of Capital One Leverage Finance Corporation, as agent(Incorporated by reference to Exhibit 10.11 to the Registrant's Current Report on Form 8-K dated October 25, 2010).
10.9	Mortgage, Assignment of Leases and Rents, Security Agreement and Financing Statement, dated as of October 25, 2010, made by Hy-Tech Machine, Inc.. in favor of Capital One Leverage Finance Corporation, as agent(Incorporated by reference to Exhibit 10.12 to the Registrant's Current Report on Form 8-K dated October 25, 2010).
10.10	First Amendment to Loan and Security Agreement, dated as of September 21, 2011, among the Registrant, Florida Pneumatic Manufacturing Corporation, Hy-Tech, Machine, Inc., Nationwide Industries, Inc., Continental Tool Group, Inc., Countrywide Hardware, Inc., Embassy Industries, Inc., Green Manufacturing, Inc., Pacific Stair Products, Inc., WILP Holdings, Inc., Woodmark International, L.P., and Capital One Leverage Finance Corporation, as agent (Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated September 21, 2011).
10.11	Second Amendment to Loan and Security Agreement, dated as of November 21, 2011, among the Registrant, Florida Pneumatic Manufacturing Corporation, Hy-Tech, Machine, Inc., Nationwide Industries, Inc., Continental Tool Group, Inc., Countrywide Hardware, Inc., Embassy Industries, Inc., Green Manufacturing, Inc., Pacific Stair Products, Inc., WILP Holdings, Inc., Woodmark International, L.P., and Capital One Leverage Finance Corporation, as agent (Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated November 21, 2011).
10.12	Capex Term Note, dated November 21, 2011, executed by the Registrant, Florida Pneumatic Manufacturing Corporation, Hy-Tech, Machine, Inc. and Nationwide Industries, Inc. in favor of Capital One Leverage Finance Corporation, as agent, in the principal amount of up to $2,500,000 (Incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K dated November 21, 2011).
10.13	Third Amendment to Loan and Security Agreement, dated as of December 19, 2012, among the Registrant, Florida Pneumatic Manufacturing Corporation, Hy-Tech Machine, Inc., Nationwide Industries, Inc., Continental Tool Group, Inc., Countrywide Hardware, Inc., Embassy Industries, Inc., Green Manufacturing, Inc., Pacific Stair Products, Inc., WILP Holdings, Inc., Woodmark International, L.P., and Capital One Leverage Finance Corporate, as lender and agent (Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated December 19, 2012).
10.14	Amended and Restated Revolver Note, dated December 19, 2012, executed by Registrant, Florida Pneumatic Manufacturing Corporation, Hy-Tech Machine, Inc. and Nationwide industries, Inc. in favor of Capital One Leverage Finance Corporation in the original principal amount of $20,000,000 (Incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K dated December 19, 2012).
10.15	Amended and Restated Term Loan Note, dated December 19, 2012, executed by Registrant, Florida Pneumatic Manufacturing Corporation, Hy-Tech Machine, Inc. and Nationwide industries, Inc. in favor of Capital One Leverage Finance Corporation in the original principal amount of $7,000,000 (Incorporated by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K dated December 19, 2012).
10.16	First Amendment to Open-End Mortgage, Security Agreement, Assignment of Leases and Rents and Financing Statement dated as of December 19, 2012, made by Hy-Tech Machine, Inc. in favor of Capital One Leverage Finance Corporation, as agent (Incorporated by reference to Exhibit 10.4 to the Registrant's Current Report on Form 8-K dated December 19, 2012).
10.17	Second Amendment to Mortgage, Assignment of Leases and Rents, Security Agreement and Financing Statement, dated as of December 19, 2012, made by Countrywide Hardware, Inc. in favor of Capital One Leverage Finance Corporation, as agent (Incorporated by reference to Exhibit 10.5 to the Registrant's Current Report on Form 8-K dated December 19, 2012).
10.18	Second Amendment to Mortgage, Assignment of Leases and Rents, Security Agreement and Financing Statement, dated as of December 19, 2012, made by Florida Pneumatic Manufacturing Corporation in favor of Capital One Leverage Finance Corporation, as agent (Incorporated by reference to Exhibit 10.6 to the Registrant's Current Report on Form 8-K dated December 19, 2012).
10.19	Amended and Restated Secured Subordinated Promissory Note, dated October 25, 2010, executed by the Registrant, Florida Pneumatic Manufacturing Corporation, Hy-Tech, Machine, Inc., Nationwide Industries, Inc., Continental Tool Group, Inc., Countrywide Hardware, Inc., Embassy Industries, Inc., Green Manufacturing, Inc., Pacific Stair Products, Inc., WILP Holdings, Inc. and Woodmark International, L.P in favor of Hy-Tech Holdings, Inc., in the original principal amount of $573,235 (Incorporated by reference to Exhibit 10.7 to the Registrant's Current Report on Form 8-K dated October 25, 2010).

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Exhibit Number	Description of Exhibit
10.20	Subordination and Intercreditor Agreement, dated October 25, 2010, by and between Hy-Tech Holdings, Inc. and Capital One Leverage Finance Corporation, as agent (Incorporated by reference to Exhibit 10.4 to the Registrant's Current Report on Form 8-K dated October 25, 2010).
10.21	Termination of Promissory Note and Mutual Releases dated October 31, 2011, among Hy-Tech Machine, Inc., Hy-Tech Holdings, Inc., Quality Gear Holdings, Inc., HTM Associates and Robert H. Ober, Elizabeth Smail, James J. Browne, Daniel Berg and James Hohman (Incorporated by reference to Exhibit 10.65 to the Registrant's Annual Report filed on Form 10-K for the fiscal year ended December 31, 2011).
10.22	*Executive Employment Agreement, dated as of January 1, 2012, between the Registrant and Richard A. Horowitz (Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated December 29, 2011).
10.23	*2002 Stock Incentive Plan of the Registrant (Incorporated by reference to Exhibit 4.7 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2002).
10.24	*2012 Stock Incentive Plan of the Registrant (Incorporated by reference to Appendix A to the Registrant's Definitive Proxy Statement with respect to the Registrant's 2012 Annual Meeting of Stockholders).
10.25	*Executive 162(m) Bonus Plan of the Registrant effective as of January 1, 2006 (Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated May 31, 2006).
10.26	*Severance Agreement between the Registrant and Joseph A. Molino, Jr., effective as of June 22, 2012 (Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated June 22, 2012).
10.27	Amended and Restated Secured Subordinated Promissory Note, dated October 25, 2010, executed by the Registrant, Florida Pneumatic Manufacturing Corporation, Hy-Tech, Machine, Inc., Nationwide Industries, Inc., Continental Tool Group, Inc., Countrywide Hardware, Inc., Embassy Industries, Inc., Green Manufacturing, Inc., Pacific Stair Products, Inc., WILP Holdings, Inc. and Woodmark International, L.P.in favor of Richard Horowitz, in the original principal amount of $250,000 (Incorporated by reference to Exhibit 10.5 to the Registrant's Current Report on Form 8-K dated October 25, 2010).
10.28	Prepayment Agreement between Richard A. Horowitz and the Registrant dated July 24, 2012 (Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated July 22, 2012).
21	Subsidiaries of the Registrant (Filed herein).
23.1	Consent of Independent Registered Public Accounting Firm (Filed herein).
31.1	Certification of Richard A. Horowitz, Principal Executive Officer of the Registrant, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Filed herein).
31.2	Certification of Joseph A. Molino, Jr., Principal Financial Officer of the Registrant, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Filed herein).
32.1	Certification of Richard A. Horowitz, Principal Executive Officer of the Registrant, Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Filed herein).
32.2	Certification of Joseph A. Molino, Jr., Principal Financial Officer of the Registrant, Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Filed herein).
101	** XBRL Interactive Data
	Certain instruments defining the rights of holders of the long-term debt securities of the Registrant may be omitted pursuant to Section (b)(4)(iii)(A) of Item 601 of Regulation S-K. The Registrant agrees to furnish supplemental copies of these instruments to the Commission upon request.

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

** Attached as Exhibit 101 to this Annual Report on Form 10-K are the following, each formatted in Extensible Business Reporting Language ("XBRL"): (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Income, (iii) Consolidated Statements of Shareholders' Equity, (iv) Consolidated Statements of Cash Flows and (v) Notes to Consolidated Financial Statements. This exhibit is deemed "furnished", not "filed". Accordingly, this exhibit will not be incorporated by reference into any registration statement filed by the Company under the Securities Act of 1933, as amended, unless specifically identified therein as being incorporated therein by reference.

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A copy of any of the foregoing exhibits to this Annual Report on Form 10-K may be obtained, upon payment of the Registrant's reasonable expenses in furnishing such exhibit, by writing to P&F Industries, Inc., 445 Broadhollow Road, Suite 100, Melville New York 11747, Attention: Corporate Secretary.

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SIGNATURES

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

P&F INDUSTRIES, INC.
(Registrant)

By: /s/ Richard A. Horowitz
Richard A. Horowitz
Chairman of the Board
President
Principal Executive Officer
Date: March 29, 2013

By: /s/ Joseph A. Molino, Jr.
Joseph A. Molino, Jr.
Vice President
Principal Financial and
Accounting Officer
Date: March 29, 2013

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

Name	Title	Date
/s/ Richard A. Horowitz Richard A. Horowitz	Director	March 29, 2013
/s/ Jeffrey D. Franklin Jeffrey D. Franklin	Director	March 29, 2013
/s/ Howard Brod Brownstein Howard Brod Brownstein	Director	March 29, 2013
/s/ Kenneth M. Scheriff Kenneth M. Scheriff	Director	March 29, 2013
/s/ Mitchell A. Solomon Mitchell A. Solomon	Director	March 29, 2013
/s/ Richard Randall Richard Randall	Director	March 29, 2013
/s/ Alan Goldberg Alan Goldberg	Director	March 29, 2013
/s/ Robert Dubofsky Robert Dubofsky	Director	March 29, 2013

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Exhibit 3.2

BY-LAWS OF

P&F INDUSTRIES, INC.

(As Amended On January 14, 2013)

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. At a special meeting of stockholders, only such business shall be conducted as shall have been brought before the meeting by or at the direction of the person or persons calling the meeting pursuant to this Section.

SECTION 3. Notice and Purpose of Meetings. Notice of the meeting shall be given which shall state the place, if any, day and hour of the meeting, the means of remote communications, if any, by which stockholders and proxy holders may be deemed to be present in person and vote at such meeting, the record date for determining the stockholders entitled to vote at the meeting, if such date is different from the record date for determining stockholders entitled to notice of the meeting, and, in the case of a special meeting, the purpose or purposes for which the meeting is called.

Unless otherwise provided by law, notice of any meeting shall be given not less than ten nor more than sixty days before the date of the meeting to each stockholder entitled to vote at such meeting as of the record date for determining the stockholders entitled to notice of the meeting. If mailed, notice is given when deposited in the United States mail, postage prepaid, directed to the stockholder at such stockholder's address as it appears on the records of the corporation. Without limiting the manner by which notice otherwise may be given effectively to stockholders, notice to stockholders may be given by electronic transmission in the manner provided in Section 232 of the Delaware General Corporation Law (the "DGCL"). An

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affidavit of the Secretary or an assistant secretary or of the transfer agent or other agent of the corporation that the notice has been given shall, in the absence of fraud, be prima facie evidence of the facts stated therein.

When a meeting is adjourned to another time or place, notice need not be given of the adjourned meeting if the time, place, if any, thereof, and the means of remote communications, if any, by which stockholders and proxy holders may be deemed to be present in person and vote at such adjourned meeting are announced at the meeting at which the adjournment is taken. At the adjourned meeting the corporation may transact any business which might have been transacted at the original meeting. If the adjournment is for more than thirty days, a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting. If after the adjournment a new record date for stockholders entitled to vote is fixed for the adjourned meeting, the board of directors shall fix a new record date for notice of such adjourned meeting in accordance with § 213(a) of the DGCL and shall give notice of the adjourned meeting to each stockholder of record entitled to vote at such adjourned meeting as of the record date fixed for notice of such adjourned 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 chairman and the stockholders present in person or represented by proxy each separately shall have power to adjourn the meeting from time to time, 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. The chairman shall have the power to adjourn the meeting to another place, if any, date and time.

At any annual meeting of stockholders, only such business shall be conducted as shall have been brought before the annual meeting

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(i) pursuant to the corporation's proxy materials with respect to such meeting, (ii) by or at the direction of the board of directors, or (iii) by any stockholder of record of the corporation (the "Proposing Stockholder") at the time of giving notice as provided in the following paragraph, who is entitled to vote at the meeting and who has complied with the notice procedures set forth in this Section 5. For the avoidance of doubt, the foregoing clause (iii) shall be the exclusive means for a stockholder to propose business (other than business included in the corporation's proxy materials pursuant to Rule 14a-8 under the Securities Exchange Act of 1934, as amended (such act, and the rules and regulations

promulgated thereunder, the "Exchange Act")) at an annual meeting of stockholders. At a special meeting of stockholders, only such business shall be conducted as shall have been brought before the meeting by or at the direction of the person or persons calling the meeting pursuant to Article II, Section 2 of these by-laws.

For business properly to be brought before an annual meeting by a Proposing Stockholder pursuant to clause (iii) of the foregoing paragraph, (a) the Proposing Stockholder must have given timely notice thereof in proper written form to the Secretary of the corporation, (b) any such business must be a proper matter for stockholder action under Delaware law, and (c) the Proposing Stockholder and the beneficial owner, if any, on whose behalf any such proposal is made, must have acted in accordance with the representations set forth in the Business Proposal Solicitation Statement required by these by-laws. To be timely, a Proposing Stockholder's notice shall be received by the Secretary at the principal executive offices of the corporation not more than 120 days nor less than 90 days in advance of the one year anniversary of the previous year's annual meeting of stockholders; provided however, that subject to the last sentence of this paragraph, if the meeting is convened more than 30 days prior to or delayed by more than 30 days after the anniversary of the preceding year's annual meeting, or if no annual meeting was held in the preceding year, notice by the Proposing Stockholder to be timely must so be received not later than the close of business on the later of (i) the 90th day before such annual meeting or (ii) the 10th day following the day on which public announcement of the date of such meeting is first made. In no event shall an adjournment, or postponement of an annual meeting for which notice has been given, commence a new time period for the giving of a Proposing Stockholder's notice.

To be in proper form, such Proposing Stockholder's notice to the Secretary shall set forth in writing:

(a) as to any business that the Proposing Stockholder proposes to bring before the annual meeting: (i) a brief description of the business; (ii) the reasons for conducting such business at the annual meeting; and (iii) any material interest in such business of the Proposing Stockholder and the beneficial owner, if any, on whose behalf the proposal is made;

(b) as to as to (i) the Proposing Stockholder giving the notice and (ii) the beneficial owner, if any, on whose behalf the proposal is made (each, a "party"):

1. the name and address of each such party;

2. (A) the class, series, and number of shares of the corporation that are owned, directly or indirectly, beneficially and of record by each such party, (B) any option, warrant, convertible security, stock appreciation right, or similar right with an exercise or conversion privilege or a settlement payment or mechanism at a price related to any class or series of shares of the corporation or with a value derived in whole or in part from the value of any class or series of shares of the corporation, whether or not such instrument or right shall be subject to settlement in the underlying class or series of capital stock of the corporation or otherwise (a "Derivative Instrument") directly or indirectly owned beneficially by each such party, and any other direct or indirect opportunity to profit or share in any profit derived from any increase or decrease in the value of shares of the corporation, (C) any proxy, contract,

arrangement, understanding, or relationship pursuant to which either party has a right to vote, directly or indirectly, any shares of any security of the corporation, (D) any short interest in any security of the corporation held by each such party (for purposes of this Section 5, a person shall be deemed to have a short interest in a security if such person directly or indirectly, through any contract, arrangement, understanding, relationship or otherwise, has the opportunity to profit or share in any profit derived from any decrease in the value of the subject security), (E) any rights to dividends on the shares of the corporation owned beneficially directly or indirectly by each such party that are separated or separable from the underlying shares of the corporation, (F) any proportionate interest in shares of the corporation or Derivative Instruments held, directly or indirectly, by a general or limited partnership in which either party is a general partner or, directly or indirectly, beneficially owns an interest in a general partner and (G) any performance-related fees (other than an asset-based fee) that each such party is directly or indirectly entitled to based on any increase or decrease in the value of shares of the corporation or Derivative Instruments, if any, as of the date of such notice, including without limitation any such interests held by members of each such party's immediate family sharing the same household (which information set forth in this paragraph shall be supplemented by such Proposing Stockholder or such beneficial owner, as the case may be, not later than ten days after the record date for determining stockholders entitled to notice for the meeting to disclose such ownership as of such record date);

3. any other information relating to each such party that would be required to be disclosed in a proxy statement or other filings required to be made in connection with solicitations of proxies for the business proposal pursuant to Section 14 of the Exchange Act; and

4. a statement whether or not each such party will deliver a proxy statement and form of proxy to holders of at least the percentage of voting power of all of the shares of capital stock of the corporation required under applicable law to carry the proposal (such statement, a "Business Proposal Solicitation Statement").

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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 have the power and the duty to determine whether any business proposed to be brought before the meeting has been made in accordance with the provisions of this Section 5 and, if any proposed business is not in compliance with these by-laws, to declare that such business not properly brought before the annual meeting shall not be presented for stockholder action at the meeting and shall be disregarded.

For purposes of these by-laws, "public announcement" shall mean disclosure in a press release reported by the Dow Jones News Service, Associated Press or a comparable national news service or in a document publicly filed by the Corporation with the Securities and Exchange Commission pursuant to Section 13, 14 or 15(d) of the Exchange Act.

Notwithstanding the foregoing provisions of this Section 5, a stockholder shall also comply with all applicable requirements of the Exchange Act and the rules and regulations thereunder with respect to matters set forth in this Section 5. Nothing in this Section 5 shall be

deemed to affect any rights of stockholders to request inclusion of proposals in the corporation's proxy statement pursuant to Rule 14a-8 under the Exchange Act.

SECTION 6. Voting Process. If a quorum is present or represented, all elections shall be determined by a plurality of the votes cast, and for all other matters, 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. At any meeting of the stockholders, every stockholder entitled to vote may vote in person or by proxy authorized by an instrument in writing or by a transmission permitted by law filed in accordance with the procedure established for the meeting. Any copy, facsimile telecommunication or other reliable reproduction of the writing or transmission created pursuant to this paragraph may be substituted or used in lieu of the original writing or transmission for any and all purposes for which the original writing or transmission could be used, provided that such copy, facsimile telecommunication or other reproduction shall be a complete reproduction of the entire original writing or transmission. The term, validity and enforceability of any proxy shall be determined in accordance with the DGCL.

SECTION 7. Record Date. In order that the corporation may determine the stockholders entitled to notice of any meeting of stockholders or any adjournment thereof, the board of directors may fix a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted by the board of directors, and which record date shall not be more than sixty nor less than ten days before the date of such meeting. If the board of directors so fixes a date, such date shall also be the record date for determining the stockholders entitled to vote at such meeting unless the board of directors determines, at the time it fixes such record date, that a later date on or before the date of the meeting shall be the date for making such determination. If no record date is fixed by the board of directors, the record date for determining stockholders entitled to notice of and to vote at a meeting of stockholders shall be at the close of business on the day next preceding the day on which notice is given, or, if notice is waived, at the close of business on the day next preceding the day on which the meeting is held. A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; provided, however, that the board of directors may fix a new record date for determination of stockholders entitled to vote at the adjourned meeting, and in such case shall also fix as the record date for stockholders entitled to notice of such adjourned meeting the same or an earlier date as that fixed for determination of stockholders entitled to vote in accordance with the foregoing provisions of this paragraph at the adjourned meeting.

In order that the corporation may determine the stockholders entitled to consent to corporate action in writing without a meeting, the board of directors may fix a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted by the board of directors, and which date shall not be more than ten days after the date upon which the resolution fixing the record date is adopted by the board of directors. Any stockholder of record seeking to have the stockholders authorize or take corporate action by consent shall, by written notice to the Secretary, request the board of directors to fix a record date. The board of directors shall promptly, but in all events within ten days after the date on which such a request

is received, adopt a resolution fixing the record date (unless a record date has previously been fixed by the board of directors pursuant to the first sentence of this paragraph). If no record date has been fixed by the board of directors within ten days of the date on which such a request is received, the record date for determining stockholders entitled to consent to corporate action without a meeting, when no prior action by the board of directors is required by applicable law, shall be the first date on which a signed written consent setting forth the action taken or proposed to be taken is delivered to the corporation by delivery to its registered office in the State of Delaware, its principal place of business, or any officer or agent of the corporation having custody of the book in which proceedings of meetings of stockholders are recorded. Delivery made to the corporation's registered office shall be by hand or by certified or registered mail, return receipt requested. If no record date has been fixed by the board of directors and prior action by the board of directors is required by applicable law, the record date for determining stockholders entitled to consent to corporate action without a meeting shall be at the close of business on the date on which the board of directors adopts the resolution taking such prior action.

In order that the corporation may determine the stockholders entitled to receive payment of any dividend or other distribution or allotment of any rights or the stockholders entitled to exercise any rights in respect of any change, conversion or exchange of stock, or for the purpose of any other lawful action, the board of directors may fix a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted, and which record date shall be not more than sixty days prior to such action. If no record date is fixed, the record date for determining stockholders for any such purpose shall be at the close of business on the day on which the board of directors adopts the resolution relating thereto.

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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 eight persons; *provided, however*, that upon the election of the director at the corporation's 2013 annual meeting of stockholders, the board of directors shall consist of six persons (and the term of any director who had previously been elected to serve in the class of directors whose term expires at the 2013 annual meeting of stockholders shall terminate at such time unless such director is re-elected at the 2013 annual meeting of stockholders). The 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 the 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 practicable. 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 that 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 practicable. The number of directors shall never be less than three. Directors need not be stockholders.

SECTION 2. Quorum. A majority of the Whole Board, 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. For purposes of these by-laws, the term "Whole Board" shall mean the total number of authorized directorships as set forth in Article III, Section 1 of 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 telephone, telegram, telex, or by facsimile or electronic transmission of the same, 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. A written waiver of any notice, signed by a director, or waiver by electronic transmission by a director, whether given before or after the time of the event for which notice is to be given, shall be deemed equivalent to the notice required to be given to such director. 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 or by electronic transmission, setting forth the action so taken, shall be given by all of the directors. Members of the board of directors, or of any committee thereof, may participate in a meeting of such board of directors or committee by means of conference telephone or other communications

equipment by means of which all persons participating in the meeting can hear each other and such participation shall constitute presence in person at such meeting.

SECTION 10. Action. Except as otherwise provided by law or in the Certificate of Incorporation or these by-laws, if a quorum is present

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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 at an annual or special meeting of stockholders at which directors are to be elected (i) by or at the direction of the board of directors, or (ii) by any stockholder of record of the corporation (the "Nominating Stockholder") at the time of the giving of the notice in the following paragraph, who is entitled to vote at the meeting and who has complied with the notice procedures set forth in this Section 12. For the avoidance of doubt, the foregoing clause (ii) shall be the exclusive means for a stockholder to make nominations at an annual or special meeting of stockholders.

For nominations to be properly brought before an annual or special meeting by a Nominating Stockholder pursuant to clause (ii) of the foregoing paragraph, (a) the Nominating Stockholder must have given timely notice thereof in writing to the Secretary of the corporation, and (b) the Nominating Stockholder and the beneficial owner, if any, on whose behalf any such nomination is made, must have acted in accordance with the representations set forth in the Nominating Solicitation Statement required by these by-laws.

To be timely, a Nominating Stockholder's notice with respect to an election to be held at an annual meeting of stockholders shall be received by the Secretary at the principal executive offices of the corporation not more than 120 days nor less than 90 days in advance of the one year anniversary of the previous year's annual meeting of stockholders; provided however, that subject to the last sentence of this paragraph, if the meeting is convened more than 30 days prior to or delayed by more than 30 days after the anniversary of the preceding year's annual meeting, or if no annual meeting was held in the preceding year, notice by the Nominating Stockholder to be timely must so be received not later than the close of business on the later of (i) the 90th day before such annual meeting or (ii) the 10th day following the day on which public announcement of the date of such meeting is first made. Notwithstanding anything in the preceding sentence to the contrary, in the event that the number of directors to be elected to the board of directors is increased and there has been no public announcement naming all of the nominees for director or indicating the increase in the size of the board of directors made by the corporation at least 10 days before the last day a Nominating Stockholder may deliver a notice of nomination in accordance with the preceding sentence, a Nominating Stockholder's notice required by this by-law shall also be considered timely, but only with respect to nominees

for any new positions created by such increase, if it shall be received by the Secretary at the principal executive offices of the corporation not later than the close of business on the 10th day following the day on which such public announcement is first made by the corporation. In no event shall an adjournment, or postponement of an annual meeting for which notice has been given, commence a new time period for the giving of a Nominating Stockholder's notice.

To be timely, a Nominating Stockholder's notice with respect to an election to be held at a special meeting of stockholders shall be received by the Secretary at the principal executive offices of the corporation not later than the close of business on the seventh day following the date on which public announcement of such meeting is first given to stockholders. In no event shall an adjournment, or postponement of special meeting for which notice has been given, commence a new time period for the giving of a Nominating Stockholder's notice.

To be in proper form, such Nominating Stockholder's notice to the Secretary shall set forth in writing:

(a) as to each person whom the Nominating Stockholder proposes to nominate for election or reelection as a director all information relating to such person as would be required to be disclosed in solicitations of proxies for the election of such nominees as directors pursuant to Regulation 14A under the Exchange Act, and such person's written consent to serve as a director if elected;

(b) as to as to (i) the Nominating Stockholder giving the notice and (ii) the beneficial owner, if any, on whose behalf the nomination is made (each, a "party"):

1. the name and address of each such party;

2. (A) the class, series, and number of shares of the corporation that are owned, directly or indirectly, beneficially and of record by each such party, (B) any Derivative Instrument directly or indirectly owned beneficially by each such party, and any other direct or indirect opportunity to profit or share in any profit derived from any increase or decrease in the value of shares of the corporation, (C) any proxy, contract, arrangement, understanding, or relationship pursuant to which either party has a right to vote, directly or indirectly, any shares of any security of the corporation, (D) any short interest in any security of the corporation held by each such party (for purposes of this Section 12, a person shall be deemed to have a short interest in a security if such person directly or indirectly, through any contract, arrangement, understanding, relationship or otherwise, has the opportunity to profit or share in any profit derived from any decrease in the value of the subject security), (E) any rights to dividends on the shares of the corporation owned beneficially directly or indirectly by each such party that are separated or separable from the underlying shares of the corporation, (F) any proportionate interest in shares of the corporation or Derivative Instruments held, directly or indirectly, by a general or limited partnership in which either party is a general partner or, directly or indirectly, beneficially owns an interest in a general partner and (G) any performance-related fees (other than an asset-based fee) that each such party is directly or indirectly entitled to based on any increase or decrease in the value of shares of the corporation or Derivative Instruments, if any, as of the date of such notice, including without limitation any such interests held by members of each such party's immediate family sharing the same household (which

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information set forth in this paragraph shall be supplemented by such stockholder or such beneficial owner, as the case may be, not later than ten days after the record date for determining stockholders entitled to notice for the meeting to disclose such ownership as of such record date);

3. any other information relating to each such party that would be required to be disclosed in a proxy statement or other filings required to be made in connection with solicitations of proxies for the election of directors in a contested election pursuant to Section 14 of the Exchange Act; and

4. a statement whether or not each such party will deliver a proxy statement and form of proxy to holders of at least the percentage of voting power of all of the shares of capital stock of the corporation reasonably believed by the Nominating Stockholder or beneficial owner, as the case may be, to be sufficient to elect the nominee or nominees proposed to be nominated by the Nominating Stockholder (such statement, a "Nominating Solicitation Statement").

A person shall not be eligible for election or re-election as a director at an annual or special meeting unless (i) the person is nominated by a Nominating Stockholder in accordance with this Section or (ii) the person is nominated by or at the direction of the board of directors. The chairman of the meeting shall have the power and the duty to determine whether a nomination has been made in accordance with the procedures set forth in these by-laws and, if any proposed nomination is not in compliance with these by-laws, to declare that such defectively proposed nomination shall not be presented for stockholder action at the meeting and shall be disregarded.

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 have such other duties as the board of directors may from time to time determine.

SECTION 5. President. The President shall be the chief executive 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

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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. Shares of the capital stock of the corporation may be certificated or uncertificated, as provided under the DGCL. Each record holder of stock represented by certificates, upon written request to the transfer agent or registrar of the corporation, shall be entitled to a certificate of the capital stock of the corporation in such form as may from time to time be prescribed by the board of directors. Such certificate shall bear the corporation’s seal and shall be signed by the Chairman, the President, an Executive Vice President or vice president and by the Treasurer or an assistant treasurer or the Secretary or an assistant secretary. The corporation’s seal and the signatures by corporation officers may be facsimiles. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed on such certificate shall have ceased to be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the corporation with the same effect as if such officer, transfer agent or registrar were such officer, transfer agent or registrar at the time of its issue. Every certificate for shares of stock which are subject to any restriction on transfer and every certificate issued when the corporation is authorized to issue more than one class or series of stock shall contain such legend with respect thereto as is required by law. The corporation shall be permitted to issue fractional shares.

SECTION 2. Transfer of Shares. Stock of the corporation shall be transferable in the manner prescribed by applicable law and in these By-Laws. Transfers of stock shall be made on the books of the corporation, and in the case of certificated shares of stock, only by the person named in the certificate or by such person’s attorney lawfully constituted in writing and upon the surrender of the certificate therefor, properly endorsed for transfer and payment of all necessary transfer taxes; or, in the case of uncertificated shares of stock, upon receipt of proper transfer instructions from the registered holder of the shares or by such person’s attorney lawfully constituted in writing, and upon payment of all necessary transfer taxes and compliance with appropriate procedures for transferring shares in uncertificated form; provided, however, that such surrender and endorsement, compliance or payment of taxes shall not be required in any case in which the officers of the corporation shall determine to waive such requirement. With respect to certificated shares of stock, every certificate exchanged, returned or surrendered to the corporation shall be marked “Cancelled,” with the date of cancellation, by the secretary or assistant secretary of the corporation or the transfer agent thereof. No transfer of stock shall be valid as against the corporation for any purpose until it shall have been entered in the stock records of the corporation by an entry showing from and to whom transferred.

SECTION 3. Lost 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. If such shares have ceased to be certificated, a new certificate shall be issued only upon written request to the transfer agent or registrar of the corporation.

SECTION 4. Stock List. The officer who has charge of the stock ledger of the corporation shall, at least ten days before every meeting of stockholders, prepare and make a complete list of stockholders entitled to vote at any meeting of stockholders, provided, however, if the record date for determining the stockholders entitled to vote is less than ten days before the meeting date, the list shall reflect the stockholders entitled to vote as of the tenth day before the meeting date, arranged in alphabetical order for each class of stock and showing the address of each such stockholder and the number of shares registered in his or her name. Such list shall be open to the examination of any stockholder for a period of at least ten days prior to the meeting in the manner

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provided by law.

The stock list shall also be open to the examination of any stockholder during the whole time of the meeting as provided by law. This list shall presumptively determine (a) the identity of the stockholders entitled to examine such stock list and to vote at the meeting and (b) the number of shares held by each of them.

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. A right to indemnification or to advancement of expenses arising under a provision of the Certificate of Incorporation or a by-law shall not be eliminated or impaired by an amendment to such provision after the occurrence of the act or omission that is the subject of the civil, criminal, administrative or investigative action, suit or proceeding for which indemnification or advancement of expenses is sought.

(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.

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(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.

SECTION 4. Facsimile Signatures. In addition to the provisions for use of facsimile signatures elsewhere specifically authorized in these by-laws, facsimile signatures of any officer or officers of the corporation may be used whenever and as authorized by the board of directors or a committee thereof.

SECTION 5. Form of Records. Any records maintained by the corporation in the regular course of its business, including its stock ledger, books of account, and minute books, may be kept on, or by means of, or be in the form of, any information storage device, or method provided that the records so kept can be converted into clearly legible paper form within a reasonable time. The corporation shall so convert any records so kept upon the request of any person entitled to inspect such records pursuant to any provision of the DGCL. When records are kept in such manner, a clearly legible paper form produced from or by means of the information storage device or method shall be admissible in evidence, and accepted for all other purposes, to the same extent as an original paper record of the same information would have been, provided the paper form accurately portrays the record.

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.

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EXHIBIT 21

P&F INDUSTRIES, INC.

SUBSIDIARIES OF THE REGISTRANT

Continental Tool Group, Inc., a Delaware Corporation

Hy-Tech Machine, Inc., a Delaware Corporation
Florida Pneumatic Manufacturing Corporation, a Florida Corporation
D/b/a Universal Tool
D/b/a Pipemaster
D/b/a Berkley Tool

Countrywide Hardware, Inc., a Delaware Corporation

Nationwide Industries, Inc., a Florida Corporation
Pacific Stair Products, Inc., a Delaware Corporation
WILP Holdings, Inc., a Delaware Corporation
Woodmark International L.P., a Delaware Limited Partnership
Old Stairs Co. LLC, a Delaware Limited Liability Company

Embassy Industries, Inc., a New York Corporation

Green Manufacturing, Inc., a Delaware Corporation

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EXHIBIT 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in Forms S-8 (File No. 333-22047 and File No. 333-90562) of P&F Industries, Inc. of our report dated March 29, 2013 relating to the consolidated financial statements of P&F Industries, Inc. and Subsidiaries as of December 31, 2012 and 2011, and for the years then ended included in this Annual Report of P&F Industries, Inc. on Form 10-K for the year ended December 31, 2012.

/s/ CohnRezick LLP
Jericho, New York
March 29, 2013

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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 on Form 10-K of P&F Industries, Inc.;

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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) 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

   d) 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 (the registrant's fourth fiscal quarter in the case of an annual report) 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 functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which 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.

/s/ Richard A. Horowitz

Richard A. Horowitz
Principal Executive Officer

Date: March 29, 2013

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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 on Form 10-K of P&F Industries, Inc.;

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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) 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

   d) 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 (the registrant's fourth fiscal quarter in the case of an annual report) 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 functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which 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.

/s/ JOSEPH A. MOLINO, JR.
Joseph A. Molino, Jr.
Principal Financial Officer

Date: March 29, 2013

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EXHIBIT 32.1

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

In connection with the annual report on Form 10-K of P&F Industries, Inc. (the “Company”) for the year ended December 31, 2012, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), the undersigned, Richard A. Horowitz, Principal Executive Officer of the Company, hereby certifies, pursuant to 18 U.S.C. §1350, 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.

/s/ RICHARD A. HOROWITZ
Richard A. Horowitz
Principal Executive Officer

Date: March 29, 2013

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EXHIBIT 32.2

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

In connection with the annual report on Form 10-K of P&F Industries, Inc. (the "Company") for the year ended December 31, 2012, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Joseph A. Molino, Jr., Principal Financial Officer of the Company, hereby certifies, pursuant to 18 U.S.C. §1350, 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.

/s/ JOSEPH A. MOLINO, JR.
Joseph A. Molino, Jr.
Principal Financial Officer

Date: March 29, 2013

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