

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, 2020

or

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

Commission File Number 1-5332

**P&F INDUSTRIES, INC.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**22-1657413**

(I.R.S. Employer  
Identification Number)

**445 Broadhollow Road, Suite 100, Melville, New York**

(Address of principal executive offices)

**11747**

(Zip Code)

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

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Class A Common Stock, \$1.00 par value	PFIN	NASDAQ

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 every Interactive Data File required to be submitted 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 such files). Yes  No

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

Large, accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for the complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

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 30, 2020 (the last business day of the registrant's most recently completed second fiscal quarter), was approximately \$8,370,504. For purposes of this calculation, shares of Common Stock held by each executive officer and director have been excluded since those persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of March 19, 2021, there were 3,181,286 shares of the registrant's Class A Common Stock outstanding.

### **Documents Incorporated by Reference**

Part III of this Annual Report on Form 10-K incorporates by reference information from the registrant's definitive Proxy Statement for the Annual Meeting of Stockholders to be held in 2021.

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P&F INDUSTRIES, INC.

FORM 10-K  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2020

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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 within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 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 or current facts may be deemed to be forward looking statements. Generally, the inclusion of the words “believe,” “expect,” “intend,” “estimate,” “anticipate,” “will,” “may,” “would,” “could,” “should” and 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 Item 1A of Part I, “Risk Factors” of this Report, which may cause actual results to differ materially from the forward-looking statements. You are therefore cautioned against relying on any 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.

## PART I

### ITEM 1. Business

P&F Industries, Inc., (“P&F”) is a Delaware corporation incorporated in 1963. P&F (together with its subsidiaries, the “Company”) conducts its business through a wholly-owned subsidiary, Continental Tool Group, Inc. (“Continental”), which in turn operates through its wholly-owned subsidiaries, Florida Pneumatic Manufacturing Corporation (“Florida Pneumatic”) and Hy-Tech Machine, Inc. (“Hy-Tech”). Exhaust Technologies Inc. (“ETI”), Universal Air Tool Company Limited (“UAT”) and Jiffy Air Tool, Inc. (“Jiffy”), are all wholly-owned subsidiaries of Florida Pneumatic. The business of Air Tool Service Company (“ATSCO”) operates through a wholly-owned subsidiary of Hy-Tech. In October 2019, the Company through a wholly owned subsidiary of Hy-Tech, acquired substantially all the operating assets comprising the businesses of Blaz-Man Gear, Inc. and Gear Products & Manufacturing, Inc., each an Illinois-based corporation that manufactured and distributed custom gears.

#### ***Florida Pneumatic***

Florida Pneumatic imports and sells pneumatic hand tools, most of which are of its own design, primarily to the retail, automotive, aerospace, and industrial markets. Its products include 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 by electricity or battery. Air tools, as they are more commonly referred to generally offer better performance and weigh less than their electrical counterparts. Florida Pneumatic imports and/or manufactures 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,” “Universal Tool”, “Jiffy Air Tool”, AIRCAT, NITROCAT, as well as under the trade names or trademarks of several private label customers. These products are sold to retailers, distributors, manufacturers and private label customers through in-house sales personnel and manufacturers’ representatives. The AIRCAT and NITROCAT brands of pneumatic tools are sold primarily to the automotive service and repair market (“automotive market”). Users of Florida Pneumatics’ hand tools include industrial maintenance and production staffs, do-it-yourself mechanics, professional automobile mechanics and auto body personnel. Jiffy manufactures and distributes pneumatic tools and components primarily to aerospace manufacturers.

There are redundant supply sources for nearly all products purchased.

The primary competitive factors in the industrial and automotive pneumatic tool market are quality, breadth and availability of products, customer service, technical support, price, and brand name awareness. The primary competitive factors in the retail pneumatic tool market are price, service, and brand-name awareness. The primary competitive factors in the aerospace market are quality, technology, and service levels. Florida Pneumatics’ products are sold directly to the retailers, direct to customers and through distributors. Currently, there is minimal seasonality to Florida Pneumatics’ revenue.

Jiffy manufactures its own products in the United States. It sources its raw materials from various well-established suppliers throughout the United States. There are redundant sources for all materials. During 2020 of its purchased products, Florida Pneumatic sourced approximately 15% of its pneumatic tools from China, 18% come from Vietnam, and 65% from Taiwan with the balance from Japan, Europe and domestically. Florida Pneumatic performs final assembly on certain of its products at its factory in Jupiter, Florida.

## **Hy-Tech**

Hy-Tech designs, manufactures, and distributes industrial tools, pneumatic systems, gearing, accessories, and a wide variety of replacement parts under various brands including ATP, Numatx, Thaxton and Power Transmission Group. These tools etc. are sold at prices ranging from \$300 to \$42,000.

Hy-Tech's "Engineered Solutions" products are sold direct to Original Equipment Manufacturers (OEMs), and industrial branded products are sold through a broad network of specialized industrial distributors serving the power generation, petrochemical, aerospace, construction, railroad, mining, ship building and fabricated metals industries, among others. Hy-Tech works directly with its industrial customers, designing and manufacturing products from finished components to complete turnkey systems to be sold under their own brand names.

Hy-Tech's "Power Transmission Group", commonly referred to as "PTG", produces spiral bevel and straight bevel gears along with a wide variety of other gearing. These products are sold directly to OEMs, end-users and gearbox repair companies. PTG works directly with its customers' engineering departments to design or redesign gears or gearboxes to optimize a solution for functionality and manufacturability.

Nearly all of Hy-Tech brands are manufactured in the United States of America. Hy-Tech does distribute ATP branded impact sockets, striking wrenches and accessories imported from Italy and Asia.

The sales of Hy-Tech products through various channel and direct customers are managed by both direct sales personnel and a network of specialized manufacturer representatives. Further, its products are sold as standard off-the-shelf and also customized to be sold for customer specific specifications.

The business is not seasonal but may be subject to periodic outage and maintenance schedules in refineries, power generation and chemical plants. The value proposition for Hy-Tech's products is quality, design engineering expertise, product availability, breadth of products, responsive customer service and readily available technical support.

Hy-Tech sources its raw materials from various well-established suppliers throughout the United States. There are redundant sources for all materials.

### **Patents, Trademarks and Other Intellectual Property**

The Company holds several patents, trademarks, and copyrights of various durations, and it believes that it holds or licenses all of the patent, trademark, copyright, and other intellectual property rights necessary to conduct its business. The Company relies upon patents, copyrights, trademarks, and trade secret laws to establish and maintain its proprietary rights in many of its products. There can be no assurance that any of its patents, trademarks or other intellectual property rights will not be challenged, invalidated, or circumvented, or that any rights granted thereunder will provide competitive advantages to it. In addition, there can be no assurance that patents will be issued from pending patent applications filed by the Company, or that claims allowed on any future patents will be sufficiently broad to protect our technology or designs. Further, the laws of some foreign countries may not permit the protection of our proprietary rights to the same extent as do the laws of the United States.

### **Customers**

The Company is not dependent on any one customer. During 2020 and 2019 it had one customer, The Home Depot, that accounted for 26.3% and 20.7%, respectively of its revenue. Other than the aforementioned, in 2020 and 2019, the Company did not have any customer that accounted for more than ten percent of its consolidated revenue.

### **Employees**

The Company employed 134 full-time employees as of December 31, 2020. At various times during the year our operating units may employ seasonal or part-time help, as necessary. None of the Company's employees are represented by a union.

### **Information Available on the Company's Website**

Additional information regarding the Company and its products is available on the Company's website at [www.pfina.com](http://www.pfina.com). The information on the Company's website is not, and should not be considered, part of this Annual Report on Form 10-K and is not incorporated by reference to this report.

## 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 elsewhere in this report, the following factors, among others, could adversely affect our business, including our results of operations or financial position:

### **Business and Operational Risks**

- *Risks related to the global outbreak of COVID-19 and other public health crises.* The Company faces risks related to pandemics, epidemics, and other public health crises, including the global outbreak of COVID-19, which has reached and disrupted areas in which the Company has operations, suppliers, customers and employees. The COVID-19 pandemic and actions taken by governments and others in response have resulted in, and may continue to cause, the slowdown of the businesses of certain of the Company's customers and the closure of certain of the Company's customers' facilities which in turn has reduced and may continue to reduce demand for some of the Company's products. Additionally, certain of the Company's products and parts are manufactured overseas. During 2020, the COVID-19 pandemic had delayed supply from certain of the Company's overseas suppliers. Should these delays reoccur, the Company would be unable to predict the ultimate duration of such disruptions in supply, whether products or parts from other suppliers will also be delayed, whether such disruptions will become material to the Company and whether, if necessary, the Company will be able to secure such products or parts from alternate suppliers on favorable terms or at all. Moreover, the Company may need to close certain of its facilities in response to the COVID-19 pandemic. The COVID-19 pandemic has also impacted the Company's operations, including by causing many of its employees to work remotely or in shifts designed to minimize exposure. There is also a heightened risk that a significant portion of the Company's workforce will suffer illness or otherwise not be permitted or be unable to work. The Company cannot predict whether any of these disruptions will continue or whether its operations will experience more significant or frequent disruptions in the future. Any measures the Company implements to mitigate these risks and disruptions may not be successful.

The circumstances surrounding the COVID-19 pandemic continue to evolve and it is not possible to predict the full nature and extent of the impacts of the COVID-19 pandemic. However, the Company expects the continued spread of COVID-19 and reactions by governments and others to continue to cause an economic slowdown that could be significant and, therefore, could extend the duration of the period of reduced demand for the Company's products and disruption of its supply chain. Additionally, deteriorating economic conditions could result in material impairment charges in the value of certain of the Company's assets. Moreover, circumstances surrounding the COVID-19 pandemic have negatively impacted global financial markets leading to greater volatility and decreased access to capital. If such conditions continue, the Company's ability to finance its operations and expenditures may be negatively impacted. Any of the risks set forth in this paragraph and the preceding paragraph could have a material adverse effect on our business, results of operations and financial position.

Additional public health crises could also emerge in the future, including other pandemics or epidemics. Such public health crises could pose further risks to the Company and could also have a material adverse effect on our business, results of operations and financial position.

- *Risks associated with sourcing from overseas.* We import finished goods and component parts. 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, or their inability to obtain raw materials due to shortages or other factors, may result in delays or non-delivery of shipments of our products. Additionally, material increases in raw material commodity prices could further adversely affect our results of operations and financial position. 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 most 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. Further, substantially all of our import operations are subject to customs' requirements and to tariffs and quotas set by governments through mutual agreements, bilateral actions or, in some cases unilateral action. Imported products and materials may, from time to time, be subject to tariffs or other trade measures in the U.S. Adverse changes in these import costs and restrictions, or our suppliers' failure to comply with customs regulations or similar laws could harm our business. The implementation of additional tariffs, or increased amounts on current tariffs, on items imported by us from China or other countries could increase our costs and could result in lowering our gross margin on products sold and could cause us to have to stop supplying certain customers.

- *Disruption in the global capital and credit markets.* If global economic and financial market conditions deteriorate, 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.
- *Importation delays.* Our ability to import products in a timely and cost-effective manner may also be affected by conditions at ports or issues that otherwise affect transportation and warehousing providers, such as port and shipping capacity, labor disputes, severe weather or increased homeland security requirements in the U.S. and other countries. These issues could delay importation of products or require us to locate alternative ports or warehousing providers to avoid disruption to customers. These alternatives may not be available on short notice or could result in higher transit costs, which could have an adverse impact on our business and financial condition.
- *Customer concentration.* We have several key customers, one of which accounted for approximately 26.3% of our 2020 consolidated revenue and 38.0% of our consolidated accounts receivable on December 31, 2020. Loss of key customers or a material negative change in our relationships with our key customers could have a material adverse effect on our business, results of operations or financial position.
- *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 products.* There can be no assurance that the market continues its acceptance of the products we introduced in recent years or will accept new products (including the introduction of products into new geographic markets) introduced or scheduled for introduction in 2021. There can also be no assurance that the level of sales generated from these new products or geographic markets relative to our expectations will materialize.
- *Competition.* The markets in which we sell our products are highly competitive based on price, quality, availability, post-sale service and brand-name awareness. Several competing companies are well-established manufacturers that compete on a global basis.
- *Price reductions.* Price reductions in response to customer and competitive pressures, as well as price reductions or promotional actions taken in order to drive demand, could have a material adverse effect on our business, results of operations or financial position.



## **Industry and Economic Risks**

- *Exposure to fluctuations in energy prices.* Fluctuations in energy prices, including crude oil and gas prices, could negatively impact the activities of those of our customers involved in extracting, refining, or exploring for crude oil and gas, resulting in a corresponding adverse effect on the demand for the products that they purchase from us. Prices for oil and gas are subject to large fluctuations in response to relatively minor changes in the supply of, and demand for, oil and gas, market uncertainty and a variety of other economic factors that are beyond our control. Worldwide economic, political, and military events, including war, terrorist activity, events in the Middle East and initiatives by the Organization of the Petroleum Exporting Countries (OPEC), have contributed, and are likely to continue to contribute, to price and volume volatility. Such volatility could result in a material adverse effect on our business, results of operations or financial position.
- *The strength of the retail economy in the United States and abroad.* Our business is subject to economic conditions in major markets in which we operate, including recession, inflation, deflation, general weakness in retail and industrial markets, as well as the exposure to liabilities under anti-corruption laws in various countries, such as the U.S. Foreign Corrupt Practices Act, currency instability, transportation delays or interruptions, sovereign debt uncertainties and difficulties in enforcement of contract and intellectual property rights, as well as natural disasters. The strength of such markets is a function of many factors beyond our control, including interest rates, employment levels, availability of credit and consumer confidence.
- *Risks associated with Brexit.* We have operations in the United Kingdom, and as a result, we face risks associated with the potential uncertainty and disruptions that may follow the U.K.'s exit from the European Union ("Brexit"), including with respect to volatility in exchange rates and interest rates and potential material changes to the regulatory regime applicable to our operations in the U.K. Brexit could adversely affect European or worldwide political, regulatory, economic or market conditions and could contribute to instability in global political institutions, regulatory agencies and financial markets. It is possible that Brexit will result in our U.K. operations becoming subject to materially different, and potentially conflicting, laws, regulations or tariffs which could require costly new compliance initiatives or changes to legal entity structures or operating practices. The ultimate effects of Brexit are yet to be known.
- *Adverse changes in currency exchange rates.* A majority of our products are manufactured outside the United States, a portion of which are 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 ("USD"). However, if the RMB were to be revalued against the dollar, there could be a significant negative impact on the cost of our products. Further, the reporting currency for our Consolidated Financial Statements is the USD. Certain of the Company's assets, liabilities, expenses, and revenues are denominated in currencies other than the USD. In preparing our Consolidated Financial Statements, those assets, liabilities, expenses, and revenues are translated into USD at applicable exchange rates. Increases or decreases in exchange rates between the USD and other currencies affect the USD value of those items, as reflected in the Consolidated Financial Statements. Substantial fluctuations in the value of the USD could have a significant impact on the Company's financial condition and results of operations.
- *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.

## **Financing Risks**

- *Debt and debt service requirements.* The amount of our debt from time to time 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 and limit our flexibility in planning for, or reacting to, changes in our business.
- *Borrowing and compliance with covenants under our credit facility.* Our 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, to the extent we have significant outstanding borrowings at said time, 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. Further, the amount available for borrowing under our asset-based revolving loan facility is subject to a borrowing base, which is determined by taking into account, among other things, our accounts receivable, inventory and machinery and equipment. Fluctuations in our borrowing base impact our ability to borrow funds pursuant to the revolving loan facility.
- *Impairment of long-lived assets and goodwill.* The inability to generate future cash flows sufficient to support the recorded amounts of goodwill, other intangible assets and other long-lived assets could result in future impairment charges.

## **Strategic Risks**

- *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, which involve risks that could have a material adverse effect on our business, financial condition, and results of operations. These risks include:
  - Loss or significant decline in the revenue of customers of the acquired businesses;
  - Inability to successfully integrate the acquired businesses' operations;
  - Inability to coordinate management and integrate and retain employees of the acquired businesses;
  - Difficulties in implementing and maintaining consistent standards, controls, procedures, policies, and information systems;
  - Failure to realize anticipated synergies, economies of scale or other anticipated benefits, or to maintain operating margins;
  - Strain on our personnel, systems and resources, and diversion of attention from other priorities;
  - Incurrence of additional debt and related interest expense;
  - Unforeseen or contingent liabilities of the acquired businesses; and
  - Large write-offs or write-downs, or the impairment of goodwill or other intangible assets.

## **Legal, Regulatory and Compliance Risks**

- *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. Increased legislative and regulatory activity and burdens, and a more stringent manner in which they are applied, could significantly impact our business and the economy as a whole.
- *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 our 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 us for which we may not be adequately insured.
- *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.
- *Business disruptions or other costs associated with information technology, cyber-attacks, system implementations, data privacy, or catastrophic losses.* We rely heavily on computer systems to manage and operate our businesses, and record and process transactions. Computer systems are important to production planning, customer service and order fulfillment among other business-critical processes. Consistent and efficient operation of the computer hardware and software systems is imperative to the successful sales and earnings performance. Despite efforts to prevent such situations, and loss control and risk management practices that partially mitigate these risks, our systems may be affected by damage or interruption from, among other causes, fire, natural disasters, power outages, system failures or computer viruses. Computer hardware and storage equipment that is integral to efficient operations, such as e-mail, telephone, and other functionality, is concentrated in certain physical locations in which we operate. Additionally, we rely on software applications and enterprise cloud storage systems and cloud computing services provided by third-party vendors, and our business may be adversely affected by service disruptions or security breaches in such third-party systems. Security threats and sophisticated computer crime pose a potential risk to the security of our information technology systems, cloud storage systems, networks, services, and assets, as well as the confidentiality and integrity of some of our customers' data. If we suffer a loss or disclosure of business or stakeholder information due to security breaches, including as a result of human error and technological failures, and business continuity plans do not effectively address these issues on a timely basis, we may suffer interruptions in our ability to manage operations as well as reputational, competitive, or business harm, which may adversely impact our results of operations and financial condition.

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. Furthermore, the headings under which the risk factors are arranged are not necessarily exclusive, and all of the risk factors should be read in their entirety. 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**

In June 2019, Florida Pneumatic entered into a lease for approximately 42,000 square feet in a facility located in Jupiter, Florida, which houses its corporate offices and warehouse. This lease is for a five-year period which can be reduced by up to one year upon twelve months' notice by either party. Its UAT subsidiary leases a 3,100 square foot facility in High Wycombe, United Kingdom. This facility houses UAT's warehouse / distribution, as well as its office needs. This lease was renewed in 2019, for a five-year period and contains a five-year renewal clause.

Jiffy's operation is located in Carson City, Nevada in a 17,500 square foot facility owned by another subsidiary of Florida Pneumatic.

Hy-Tech owns a 51,000 square foot plant facility located in Cranberry Township, Pennsylvania. Hy-Tech also leased a 13,200 square foot facility located in Punxsutawney, Pennsylvania. In April 2020, the Company negotiated terms to vacate these premises, and relocated its Punxsutawney operations into a 42,000 square foot facility it had leased in 2019. This lease expires in October 2024 and has two three-year options to renew the lease.

The Company leases its executive office of approximately 5,000 square feet located in an office building in Melville, New York. This lease expires in August 2022. The Company has an option to exit the lease giving twelve months' notice.

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

**ITEM 3. Legal Proceedings**

From time to time, the Company is subject to legal proceedings and claims in the ordinary course of business. While the results of proceedings cannot be predicted with certainty, the Company believes that the final outcome of these proceedings will not have a material adverse effect on the Company's business, financial condition, or results of operations.

**ITEM 4. Mine Safety Disclosures**

None.

## PART II

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

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

<b>2020</b>	<b>High</b>	<b>Low</b>
First Quarter	\$ 7.27	\$ 4.41
Second Quarter	5.50	4.10
Third Quarter	5.10	4.16
Fourth Quarter	6.05	4.15

  

<b>2019</b>	<b>High</b>	<b>Low</b>
First Quarter	\$ 8.66	\$ 7.56
Second Quarter	8.62	8.00
Third Quarter	8.31	6.37
Fourth Quarter	7.50	6.24

As of March 19, 2021, there were approximately 520 holders of record of our Common Stock and the closing sale price of our stock as reported by the Nasdaq Global Market was \$6.43.

The Company's Board of Directors approved a dividend policy under which the Company intends to declare a cash dividend to its stockholders in the amount of \$0.20 per share per annum, payable in equal quarterly installments. In conjunction therewith, the Company's Board of Directors declared a cash dividend of \$0.05 per share to stockholders in February 2020 and four quarterly cash dividends in 2019. Due primarily to the negative impacts of the ongoing COVID-19 global pandemic, the Company's Board of Directors suspended its cash dividend commencing with the second quarter of 2020.

At the present time, the Company has not made any definitive determination as to whether or not it will declare and pay cash dividends in 2021. The Company's Board of Directors will take into account such factors as the Company's financial condition, results of operations, capital requirements and other factors it deems necessary in deciding whether to reinstate the issuance of quarterly dividends.

### ITEM 6. Selected Financial Data

Not required.

## **ITEM 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations**

### **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. We focus on a wide array of customer types including, but not limited to large retailers, aerospace manufacturers, large and small resellers of pneumatic tools and parts, and automotive related customers. We tend to track the general economic conditions of the United States, industrial production, and general retail sales.

A 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 United States Dollar (“USD”) in relation to the Taiwanese dollar (“TWD”), as we purchase a significant portion of our products from Taiwan. Purchases from Chinese sources are made in USD; however, if the Chinese currency, the Renminbi (“RMB”), were to be revalued against the USD, there could be a negative impact on the cost of our products. Additionally, we closely monitor the fluctuation in the Great British Pound (“GBP”) to the USD, and the GBP to TWD, both of which can have an impact on the consolidated results.

We now must consider tariffs a key economic measure, as a significant portion of products imported by Florida Pneumatic for our Retail customers are subject to these tariffs.

Lastly, the cost and availability of a quality labor pool in the countries where products and components are manufactured, both overseas as well as in the United States, could materially affect our overall results.

#### **Operating Measures**

Key operating measures we use to manage our operations 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 below.

#### **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; earnings before interest, taxes, depreciation, and amortization; 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 to established objectives. To the extent that these measures are relevant, they are discussed in detail below.

## Management's Discussion and Analysis of Financial Condition and Results of Operations

### CRITICAL ACCOUNTING POLICIES AND ESTIMATES

We prepare our Consolidated Financial Statements in accordance with accounting principles generally accepted in the United States of America ("US 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, revenue and expenses. On an ongoing basis, we evaluate our estimates pertaining to such matters as bad debts, inventory reserves, goodwill and intangible assets, warranty reserves, sales discounts, 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. As future events and their effects cannot be determined with precision, actual results could differ significantly from those estimates and assumptions. Significant changes, if any, in those estimates resulting from continuing changes in the economic environment will be reflected in the Consolidated Financial Statements in future periods. Actual results may differ from these estimates.

We consider the following policies and estimates to be the most critical in understanding the judgments that are involved in the preparation of the Company's Consolidated Financial Statements and the uncertainties that could impact the Company's financial position, results of operations and cash flows.

#### Revenue Recognition

Our accounting policy relating to revenue recognition reflects the impact of the adoption of Accounting Standards Codification, ("ASC") 606 *Revenue from Contracts with Customers* ("ASC 606"), which is discussed further in our Notes to our Consolidated Financial Statements. As a result of our adoption of ASC 606, we record revenue based on a five-step model. We sell our goods on terms that transfer title and risk of loss at a specified location, which may be our warehouse, destination designated by our customer, port of loading or port of discharge, depending on the final destination of the goods. Other than standard product warranty provisions, our sales arrangements provide for no other post-shipment obligations. We offer rebates and other sales incentives, promotional allowances, or discounts to certain customers, typically related to purchase volume, and are classified as a reduction of revenue and recorded at the time of sale, using the most likely amount approach. 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 will provide the necessary provision against sales.

Performance obligations underlying our core revenue sources remain substantially unchanged. Our revenue is generated through the sale of finished products and is recognized at the point in time when merchandise is transferred to the customer with a fixed payment due generally within 30 to 90 days, and in an amount that considers the impacts of estimated allowances. Further, we have made a policy election to account for shipping and handling activities that occur after the customer has obtained control of the products as fulfillment costs rather than as an additional promised service. This election is consistent with our prior policy, and therefore the adoption of ASC 606 relating to shipping and handling activities did not have any impact on our financial results. There are no other performance obligations as of December 31, 2020.

#### Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are customer obligations due under normal trade terms. We sell our products to retailers, distributors, OEMs and end-users 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 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 consolidated balance sheet date. Further, any unanticipated change in the creditworthiness of any of our 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, 2020 and 2019 were adequate. However, actual write-offs in future periods could exceed the recorded allowance.

## Management's Discussion and Analysis of Financial Condition and Results of Operations

### CRITICAL ACCOUNTING POLICIES AND ESTIMATES

#### Inventories

Inventories are valued at the lower of cost or net realizable value. Cost is determined by the first-in, first-out method. Inventory, which includes materials, labor, and manufacturing overhead costs, is recorded net of an allowance for obsolete or slow-moving inventory ("OSMI"), as well as unmarketable inventory. Such allowance is based upon historical experience and management's understanding of market conditions and forecasts of future product demand. Specifically, at Florida Pneumatic and Jiffy we generally place a 100% reserve on inventory that has not had any sales or usage in more than two years. Hy-Tech's methodology is primarily based on inventory turns, with inventory items that turn less frequently, receiving a greater allowance. Changes in our OSMI impact our balance sheet, gross profit, and net earnings.

#### Goodwill and Indefinite-Lived Intangible Assets

Goodwill is tested for impairment at the reporting unit level on an annual basis. This test is performed as of the last day in November, or more frequently if we believe indicators of impairment might exist. The Company considered its market capitalization and the carrying value of its assets and liabilities, including goodwill, when performing its goodwill impairment test. In evaluating goodwill for impairment, we first assessed qualitative factors to determine whether it was more likely than not that the fair value of a reporting unit was less than its carrying amount. Qualitative factors considered included, for example, macroeconomic and industry conditions, overall financial performance, and other relevant entity-specific events. If we bypassed the qualitative assessment, or concluded that it was more likely than not that the fair value of a reporting unit was less than its carrying value, we then performed a quantitative goodwill impairment test to identify potential goodwill impairment and measure the amount of goodwill impairment to be recognized, if any. If the carrying value of the reporting unit's goodwill exceeded the implied fair value of the goodwill, an impairment loss was recognized in the amount of that excess, not to exceed the carrying amount of goodwill. See Note 1 – *Summary of Significant Accounting Policies* in Notes to our Consolidated Financial Statements for further information.

Intangible assets represent trademarks, customer agreements and patents related to our brands. Finite-lived intangible assets are amortized on a straight-line basis over the estimated useful lives of the assets. Indefinite-lived intangible assets are not amortized, but instead are subject to impairment evaluation. This test is performed as of the last day in November, or more frequently if we believe indicators of impairment might exist through the use of discounted cash flow models. Assumptions used in our discounted cash flow models include: (i) discount rates; (ii) projected annual revenue growth rates; and (iii) projected long-term growth rates. Our estimates also factor in economic conditions and expectations of management, which may change in the future based on period-specific facts and circumstances. Other intangibles with determinable lives, including certain trademarks, customer agreements and patents, are evaluated for the possibility of impairment when certain indicators are present, and are otherwise amortized on a straight-line basis over the estimated useful lives of the assets (currently ranging from 3 to 20 years).

When conducting our impairment assessment of indefinite-lived intangible assets, we initially perform a qualitative evaluation of whether it is more likely than not that the asset is impaired. If it is determined by a qualitative evaluation that it is more likely than not that the asset is impaired, we then test the asset for recoverability. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the asset to its future discounted net cash flows. If the carrying amount of such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

#### Impairment of Long-Lived Assets

We review long-lived assets, including property, plant, and equipment and identifiable intangible assets, for impairment whenever changes in circumstances or events may indicate that the carrying amounts are not recoverable. If the fair value is less than the carrying amount of the asset, a loss is recognized for the difference.

Factors which may cause an impairment of long-lived assets include significant changes in the manner of use of these assets, negative industry or market trends, a significant underperformance relative to historical or projected future operating results, or a likely sale or disposal of the asset before the end of its estimated useful life. If any of these factors exist, we are required to test the long-lived asset for recoverability and may be required to recognize an impairment charge for all or a portion of the asset's carrying value.



## Management's Discussion and Analysis of Financial Condition and Results of Operations

### CRITICAL ACCOUNTING POLICIES AND ESTIMATES

#### 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, California, Illinois, and Texas. All subsidiaries, other than UAT, file other state and local tax returns on a stand-alone basis. UAT files an income tax return with the taxing authorities in the United Kingdom.

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% 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 statements of operations and comprehensive (loss) income.

The authoritative guidance for income taxes requires a reduction of the carrying amounts of deferred tax assets by recording a valuation allowance if, based on the available evidence, it is more likely than not (defined as a likelihood of more than 50%) such assets will not be realized. The valuation of deferred tax assets requires judgment in assessing the likely future tax consequences of events that have been recognized in our financial statements or tax returns and future profitability. Our accounting for deferred tax consequences represents our best estimate of those future events. Changes in estimates, due to unanticipated events or otherwise, could have a material effect on our financial condition and results of operations. We continually evaluate our deferred tax assets to determine if a valuation allowance is required.

## Management's Discussion and Analysis of Financial Condition and Results of Operations

### OVERVIEW

During 2020, significant factors that impacted our results of operations were the:

- Ongoing negative impact of the COVID-19 pandemic on revenue and income;
- Ongoing production slow-down by Boeing of its 737 MAX aircraft, as well as significant reductions in activity at other commercial and military aerospace manufacturing facilities; and
- Continued weakness in oil and gas exploration.

### TRENDS AND UNCERTAINTIES

#### *COVID-19 PANDEMIC*

On March 11, 2020, the World Health Organization designated the recent novel coronavirus, or COVID-19, as a global pandemic. COVID-19 was first detected in Wuhan City, Hubei Province, China and continued to spread, significantly impacting various markets around the world, including the United States. Various policies and initiatives have been implemented to reduce the global transmission of COVID-19.

For a portion of 2020, the COVID-19 pandemic impacted our ability to source certain of our products, particularly with respect to factories that we utilize located in China and Italy; however, we do not believe that this is likely to have a material negative impact on our results for the foreseeable future.

The impact of the COVID-19 virus and the resultant global economic down-turn, has had a material impact on our results during 2020. In March 2020, nearly all of the United States, United Kingdom and much of Europe, had ordered non-essential businesses to stop physical operations and ordered its residents to remain home or “shelter-in-place” in order to attempt to control the impact of this pandemic. In addition, many businesses are restricting visits from vendors thus impeding demand. Fortunately, we were able to continue our operations at all of our facilities. While these controls were lifted in the United States and many countries abroad, a number of major European nations and the United Kingdom reinstated “lock-downs” in late 2020 and early 2021. We believe that until this pandemic subsides, where hospitalizations and deaths have declined significantly, it is likely our results will continue to be negatively affected.

#### *BOEING/AEROSPACE*

The Federal Aviation Administration (“FAA”) and the European Union Aviation Safety Agency (“EASA”) have lifted the grounding of the 737 MAX. However, production is still very limited due to the inventory at Boeing and the reluctance of airlines to accept deliveries due to weak air travel demand. This will likely continue to have an adverse effect on our revenue. In addition, production of military and other commercial aircraft throughout the industry has slowed as well due to the ongoing global COVID-19 pandemic. However, we believe when all other commercial and military production lines throughout the United States come back online, an increase in our revenue should follow.

#### *OIL AND GAS*

We believe the primary factor contributing to the significant decline occurring in early 2020 in the price of oil worldwide was the COVID-19 pandemic. The profitability of crude oil production generally declines as prices fall. As a result, as prices dropped in 2020, production slowed dramatically worldwide. This activity is most easily measured by analyzing the number of active rotary rigs. The number of active rotary oil rigs according to Baker Hughes, Inc. as of December 31, 2020, has declined by approximately 60% or more, from a year ago. Additionally, while not as large a market for our products, the natural gas rig count is down approximately 34%, when comparing the data for same two dates. Until these counts return to pre-pandemic levels, we will continue to be impacted negatively.

#### *TECHNOLOGIES*

We believe that over time, several newer technologies and features will have a greater impact on the market for our traditional pneumatic tool offerings. The impact of this evolution has been felt initially by the advent of advanced cordless operated hand tools in the automotive aftermarket. We continue to perform a cost-benefit analysis of developing or incorporating more advanced technologies in our tool platforms.

## Management's Discussion and Analysis of Financial Condition and Results of Operations

### TRENDS AND UNCERTAINTIES

#### OTHER MATTERS

Other than the aforementioned, or matters that may be discussed below, there are no major trends or uncertainties that had, or we could have reasonably expected to have a material impact on our revenue, nor was there any unusual or infrequent event, transaction or any significant economic change that materially affected our results of operations.

Unless otherwise discussed elsewhere in the Management's Discussion and Analysis, we believe that our relationships with our key customers and suppliers remain satisfactory.

### RESULTS OF OPERATIONS

#### 2020 compared to 2019

#### REVENUE

The tables set forth below provide an analysis of our revenue for the years ended December 31, 2020 and 2019.

#### Consolidated

	Year Ended December 31,					
	2020		2019		Decrease	
	Revenue	Percent of revenue	Revenue	Percent of revenue	\$	%
Florida Pneumatic	\$ 38,276,000	77.9%	\$ 43,357,000	73.9%	\$ (5,081,000)	(11.7)%
Hy-Tech	10,860,000	22.1	15,317,000	26.1	(4,457,000)	(29.1)
Total	\$ 49,136,000	100.0%	\$ 58,674,000	100.0%	\$ (9,538,000)	(16.3)%

#### Florida Pneumatic

Florida Pneumatic markets its air tool products to four primary sectors within the pneumatic tool market; Retail, Automotive, Aerospace, and Industrial. It also generates revenue from its Berkley products line, as well as a line of air filters and other OEM parts ("Other").

	Year Ended December 31,					
	2020		2019		(Decrease) increase	
	Revenue	Percent of revenue	Revenue	Percent of revenue	\$	%
Automotive	\$ 13,270,000	34.7%	\$ 14,800,000	34.1%	\$ (1,530,000)	(10.3)%
Retail	12,940,000	33.8	12,467,000	28.8	473,000	3.8
Aerospace	8,087,000	21.1	10,513,000	24.2	(2,426,000)	(23.1)
Industrial	3,481,000	9.1	4,969,000	11.5	(1,488,000)	(29.9)
Other	498,000	1.3	608,000	1.4	(110,000)	(18.1)
Total	\$ 38,276,000	100.0%	\$ 43,357,000	100.0%	\$ (5,081,000)	(11.7)%

The Boeing Corporation is a major customer of Jiffy. The continued grounding and minimal production of Boeing's 737 MAX and reduced production of other Boeing aircraft was the major factor driving the decline in Florida Pneumatic's 2020 revenue, when compared to 2019 revenue. Additionally, we believe that the limited air travel caused by the COVID-19 pandemic forced many of our other aircraft customers to reduce their 2020 order levels. Further, military aircraft production declined, we believe due to constraints placed in manufacturing facilities caused by the pandemic. Although the FAA has recently lifted the "No Fly" ruling it imposed on all Boeing 737 MAX aircraft, recently allowing it to begin flights in the United States, we believe it will take several months for the Boeing Corporation to increase its manufacturing of its 737 MAX aircraft to a volume that will require our Jiffy tools. Our Industrial product line has also encountered lower revenue this year, compared to 2019, due primarily to the business interruptions caused by global effects of the COVID-19 pandemic, as our ability to travel has resulted in little to no direct interaction with current or prospective customers. Automotive revenue also declined when comparing full year 2020 and 2019 results.

## Management’s Discussion and Analysis of Financial Condition and Results of Operations

### REVENUE – Florida Pneumatic - Continued

The key drivers to this decline were weak sales at our U.K. operations, which in turn was due we believe to limited travel caused by the pandemic, and the loss of a major distributor in the U.S. A portion of this decline was offset with higher gross margin sales to other distributors. After an increase in Retail revenue during the first quarter of 2020, the pandemic adversely affected revenue during the second quarter of 2020, then improved again during the last six months of 2020. The improvement that occurred during the second half of 2020 was driven primarily from the sale of spray guns (used to apply anti-viral and anti-bacterial solution) and, to a lesser extent, growth in other pneumatic tools.

### Hy-Tech

Hy-Tech designs, manufactures, and sells a wide range of industrial products under the brands ATP and ATSCO which are categorized as ATP for reporting purposes. In addition to Engineered Solutions, products and components manufactured for other companies under their brands are included in the OEM category in the table below. Power Transmission Group (“PTG”) revenue is comprised of products manufactured and sold by the gear businesses that were acquired in October 2019, products sold through Hy-Tech’s legacy gear manufacturing division and products sold to a certain customer whose revenue was included in OEM in 2019. NUMATX, Thaxton and other peripheral product lines, such as general machining, are reported as Other.

	Year Ended December 31,					
	2020		2019		(Decrease) increase	
	Revenue	Percent of revenue	Revenue	Percent of revenue	\$	%
OEM	\$ 4,272,000	39.4%	\$ 6,790,000	44.3%	\$ (2,518,000)	(37.1)%
PTG	3,326,000	30.6	1,475,000	9.6	1,851,000	125.5
ATP	2,796,000	25.7	6,290,000	41.1	(3,494,000)	(55.5)
Other	466,000	4.3	762,000	5.0	(296,000)	(38.8)
Total	\$ 10,860,000	100.0%	\$ 15,317,000	100.0%	\$ (4,457,000)	(29.1)%

The decline in Hy-Tech’s total net revenue for the fiscal year 2020, compared to 2019, was primarily due to the following key factors: the global COVID-19 pandemic; the severe downturn of the oil and gas market, and certain key customers that were in inventory over-stock positions and unable or unwilling to place orders during 2020, at similar levels to 2019. Additionally, our OEM revenue was adversely affected by significant declines in orders during the third quarter of 2020, compared to the same period in 2019, from a major customer that services the aerospace market, which as discussed elsewhere, encountered weak demand for new aircraft. Specifically, we believe that our ATP products offering is likely to continue to struggle due to among other things, the ongoing sluggishness of the price of oil and natural gas, which in turn inhibits exploration and drilling. The oil and gas sector in the United States has been hindered by the downward pricing pressure caused by among other things, excess supply, and ripple effects from the pandemic. This is evidenced by the significant decline in drilling rigs, which is a metric that we monitor. According to Baker Hughes Inc., the average number of rotary rigs in operation during 2020 were 433, compared to 943 during 2019. As such, early in 2020 we made a decision to focus a greater portion of our product development and marketing efforts on our Engineered Solutions and to a lesser extent PTG products offering. We believe the development of the Engineered Solutions and PTG product offerings should provide Hy-Tech an opportunity to generate new, additional sources of revenue in the future. Additionally, we believe that the inability to travel, due to restrictions put in place as the result of the pandemic, greatly reduced direct interaction with current and potential customers was a significant factor in the decline in revenue in all product categories, particularly OEM. Further, as noted above, certain OEM customers who were active in 2019, did not place orders in 2020. Partially offsetting the above, our PTG line, driven by the acquisition in late 2019, saw its revenue improve. However, the transition and relocation from their former Illinois locations to our facility in Punxsutawney, Pennsylvania and the ongoing negative effects of the COVID-19 pandemic, resulted in lower than projected PTG revenue and profits during 2020. Reductions in staff, marketing and product development are the key factors in the reduction on Hy-Tech’s Other lines.

## Management's Discussion and Analysis of Financial Condition and Results of Operations

### GROSS MARGIN

	Year Ended December 31,		Decrease	
	2020	2019	Amount	%
Florida Pneumatic	\$ 14,022,000	\$ 17,058,000	\$ (3,036,000)	(17.8)%
As percent of respective revenue	36.6%	39.3%	(2.7) % pts	
Hy-Tech	\$ 171,000	\$ 3,900,000	\$ (3,729,000)	(95.6)%
As percent of respective revenue	1.6%	25.5%	(23.9) % pts	
Total Tools	\$ 14,193,000	\$ 20,958,000	\$ (6,765,000)	(32.3)%
As percent of respective revenue	28.9%	35.7%	(6.8) % pts	

A significant factor causing the 2.7 percentage point decline in Florida Pneumatic's gross margin is the under absorption of manufacturing overhead at Jiffy, due to lower Aerospace revenue, which as discussed earlier was due to travel and visitation restrictions caused by the COVID-19 pandemic and the halt in production of Boeing's 737 MAX aircraft and other commercial and military sales. Additionally, its gross margin declined due to product/customer mix. Specifically, there was a nearly 30 percent decline in Industrial and Automotive revenue sectors when comparing 2020 to 2019, both of which have higher gross margin than other product lines, compounded with an increase in Retail revenue, which tends to generate lower gross margin.

The decline in Hy-Tech's gross margin was the result of several factors. We believe this significant decline was directly correlated to the global pandemic and economic down turn. With major travel constraints imposed due to the COVID-19 global pandemic, Hy-Tech's revenue was greatly impacted, which lead to Hy-Tech encountering a reduction in machine hours, which resulted in significant under absorption of their manufacturing overhead. Specifically, when comparing full year 2020 to 2019, total machine hours declined approximately 35%. Hy-Tech's total gross margin was also negatively impacted by the general mix of products sold during the year. During the second quarter of 2020, Hy-Tech recorded an unfavorable physical inventory adjustment. Additionally, it incurred an increase in charges relating to obsolete, slow moving inventory ("OSMI") which also negatively impacted Hy-Tech's overall gross margin. Further, primarily occurring during the first half of 2020, Hy-Tech's total gross margin was impacted by lower than expected gross margin on the sale of PTG products, due primarily to start-up issues in the new facility during this period. Lastly, Hy-Tech incurred increased duty charges on certain imported parts and increased costs incurred from outside vendors due to smaller batch sizes for certain manufacturing processes.

### SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

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

Our SG&A during 2020 declined to \$19,367,000, from \$21,869,000 in 2019. A significant component of the net decrease of approximately \$2.5 million was a reduction of \$1,434,000 in compensation expenses, which is comprised of base salaries and wages, accrued performance-based bonus incentives and associated payroll taxes and employee benefits. The elimination of 2020 corporate bonuses, and to a much lesser extent, staff reductions and significant reductions of subsidiary bonuses also contributed to the reduction in our 2020 SG&A. Additionally, our variable expenses, which consist of operating costs such as travel and entertainment, commission, warranty, advertising, and freight out, decreased \$956,000, primarily due to travel and business constraints caused by the COVID-19 pandemic. Additionally, non-cash impairment charges that were reported in 2019 did not reoccur in 2020, thus resulting in a \$221,000 expense reduction. Depreciation and general corporate expenses declined \$128,000 and \$81,000, respectively. The decrease in depreciation was due primarily to the sale in 2019 of the Jupiter, Florida facility. Partially offsetting the above decreases was an increase of \$237,000 in professional fees and consulting costs. The relocation of the gear businesses during the first and second quarters of 2020 and temporary staffing were the primary factors. Lastly, our rent expense increased \$55,000, as Florida Pneumatic now rents a portion of the facility it sold.

## Management's Discussion and Analysis of Financial Condition and Results of Operations

### GOODWILL AND INTANGIBLE ASSETS IMPAIRMENT

During the second quarter of 2020, we recorded goodwill and intangible asset impairment charges totaling \$1,612,000, with \$284,000 related to goodwill and \$1,328,000 related to customer relationships, patents, and trade name. See Note 6 – Goodwill and other intangible assets to the consolidated financial statements for additional information.

### OTHER INCOME

In connection with the Gears Acquisition, (See Note 2 – Acquisition-2019), there was the possibility that we could pay additional consideration (“contingent consideration”) to the sellers if certain inventory components were sold during the two-year period commencing on the date of acquisition. At the time of the acquisition we believed, based on a range of possible outcomes, that it was more likely than not, that items within this inventory group would be sold, and accordingly included in the purchase price a contingent consideration obligation of \$64,000. In January 2021, we and the sellers agreed to settle this obligation for \$12,000. As such, we reduced the contingent consideration payable by \$52,000 and recorded a like amount as Other Income.

During 2020 we received grants totaling \$53,000 at our United Kingdom operation from Her Majesty's Government, which is not required to be repaid.

### INTEREST EXPENSE – NET

	Year Ended December 31,		(Decrease) Increase	
	2020	2019	Amount	%
<b>Interest expense attributable to:</b>				
Short-term borrowings	\$ 106,000	\$ 167,000	\$ (61,000)	(36.6)%
PPP loan	18,000	---	18,000	NA
Term loans	---	9,000	(9,000)	(100.0)
Amortization expense of debt issue costs	16,000	22,000	(6,000)	(27.3)
<b>Total</b>	<b>\$ 140,000</b>	<b>\$ 198,000</b>	<b>\$ (58,000)</b>	<b>(29.3)%</b>

The reduction in short-term borrowings interest expense was due primarily to lower average borrowings in 2020, compared to the average borrowing levels in the prior year. The reduction in short-term borrowings were driven by reduced inventory and accounts receivable levels. As we have not received forgiveness from the Small Business Administration relating to our Payroll Protection Program Loan (“PPP”), discussed in Note 7 – Debt, we accrued \$18,000. The Term loan interest in 2019 related to a loan that was fully paid during 2019. Lastly, we and our bank amended the Credit Agreement in February 2019. The debt issue costs associated with such amendment, are significantly lower than the costs associated with the expiring Credit Agreement. As such, the amortization of debt issue costs during 2020 declined compared to the prior year.

### INCOME TAX EXPENSE

The 2020 provision for income taxes was a benefit of \$1,901,000 compared to a tax expense of \$1,797,000 in 2019. Significant factors impacting 2020's net effective tax benefit rate of 27.7% were the enactment of the Coronavirus Aid, Relief, and Economic Security Act, non-deductible permanent differences, state and local taxes. The net effective tax rate for 2019 was 26.8%. See Note 11 – Income Taxes to our Consolidated Financial Statements for further discussion.

## Management’s Discussion and Analysis of Financial Condition and Results of Operations

### LIQUIDITY AND CAPITAL RESOURCES

We monitor such metrics as days’ sales outstanding, inventory requirements, accounts payable and capital expenditures to project liquidity needs, as well as evaluate return on assets. Our primary sources of funds are operating cash flows and our Revolver Loan (“Revolver”) with our bank.

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

	December 31,	
	2020	2019
Working capital	\$ 21,258,000	\$ 22,115,000
Current ratio	3.57 to 1	2.92 to 1
Shareholders’ equity	\$ 41,538,000	\$ 46,506,000

#### Credit facility

Our Credit Facility is discussed in detail in Note 7 to our consolidated financial statements.

The average balance of short-term borrowings during the years ended December 31, 2020 and 2019 were \$4,042,000 and \$4,253,000, respectively.

We believe that should a need arise whereby the current credit facility is insufficient; we can obtain additional funds based on the value of our real property.

#### Payroll Protection Program Loan (“PPP”)

On April 20, 2020, we received a \$2.9 million PPP loan, as provided pursuant to the CARES Act. This loan was obtained from BNB Bank is unsecured and is guaranteed by the SBA. See Note 8 – CARES Act to our consolidated financial statements for further discussion.

#### Cash Flows

At December 31, 2020, cash provided by operating activities for the year was \$3,047,000, compared to cash used in operating activities for the year ended December 31, 2019 of \$2,514,000. At December 31, 2020, our cash balance was \$904,000, compared to \$380,000 at December 31, 2019. Cash at our UAT subsidiary at December 31, 2020 and 2019 was \$335,000 and \$85,000, respectively. We operate under the terms and conditions of the Credit Agreement. As a result, all domestic cash receipts are remitted to Capital One lockboxes.

Our total debt to total book capitalization (total debt divided by total debt plus equity) at December 31, 2020 was 9.4%, compared to 10.8% at December 31, 2019.

We believe as a result of operations and working capital needs due to anticipated growth, we will likely be required to increase our borrowings from our Revolver during 2021.

Capital spending during the year ended December 31, 2020 was \$1,104,000, compared to \$1,524,000 in 2019. Capital expenditures currently planned for 2021 are approximately \$1,100,000, which we expect will be financed through the Credit Facility. The major portion of these planned capital expenditures will be for new metal cutting equipment, tooling and information technology hardware and software.

## Management's Discussion and Analysis of Financial Condition and Results of Operations

### LIQUIDITY AND CAPITAL RESOURCES

On February 11, 2020, our Board of Directors, in accordance with its dividend policy, declared a quarterly cash dividend of \$0.05 per common share, which was paid on February 28, 2020, to shareholders of record at the close of business on February 24, 2020. The total amount of this dividend payment was approximately \$157,000. Additionally, our Board of Directors did not issue any further dividends in 2020. As relates to declarations and payments of dividends in the future, the Board of Directors will continue to monitor several factors, which includes such things as our overall financial condition, results of operations, capital requirements and other factors our board may deem relevant.

At December 31, 2020, we had \$8,530,000 of open purchase order commitments, compared to \$4,871,000 at December 31, 2019.

#### Customer concentration

At December 31, 2020, The Home Depot ("THD") accounted for 26.3% of our consolidated revenue, compared to 20.7% of 2019's revenue. Further, accounts receivable at December 31, 2020 and 2019 from THD were 38.0% and 27.2%, respectively. There was no other customer that accounted for more than 10% of revenue or accounts receivable in 2020 or 2019.

### IMPACT OF INFLATION

We believe that the effects of changing prices and inflation on our consolidated financial position and our results of operations have been minimal.

#### **Recently Adopted Accounting Pronouncements**

Please refer to Note 1, *Summary of Significant Accounting Policies*, to the Notes to Consolidated Financial Statements included elsewhere in this report for a discussion of recently adopted accounting pronouncements and new accounting pronouncements that may impact us.

#### **ITEM 7A. Quantitative and Qualitative Disclosures About Market Risk**

Not Required



**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

Stockholders of P&F Industries, Inc. and Subsidiaries

### Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of P&F Industries, Inc. and Subsidiaries (the “Company”) as of December 31, 2020 and 2019, and the related consolidated statements of operations and comprehensive (loss) income, shareholders’ equity and cash flows for each of the two years in the period ended December 31, 2020, and the related consolidated notes (collectively referred to as the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2020, in conformity with accounting principles generally accepted in the United States of America.

### Basis for Opinion

These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting, 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.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

### Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the consolidated financial statements that were communicated or required to be communicated to the audit committee and that (i) relate to accounts or disclosures that are material to the consolidated financial statements and (ii) involved our especially challenging, subjective, or complex judgements. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing a separate opinion on the critical audit matters or on the accounts or disclosures to which they relate.

### Valuation of Goodwill and Indefinite Lived Intangibles (Note 1 and Note 6 to the Consolidated Financial Statements)

#### Critical Audit Matter

As disclosed in the consolidated financial statements, goodwill and indefinite lived intangibles are tested for impairment annually at the reporting unit level on November 30 unless an interim test is required due to the presence of indicators that goodwill and indefinite lived intangibles may be impaired. Significant judgment is exercised by management in determining if impairment is present and at what amount. As a part of this determination, significant estimation is required to determine the fair value of each reporting unit. Fair value is estimated by management based on an income approach using a discounted cash flow model. In particular, the fair value estimates are sensitive to significant assumptions such as the operating performance projections, terminal growth rate, industry factors, and discount rates.

Given these factors, the related audit effort in evaluating management’s judgments evaluating existence and measurement of any material impairment of goodwill and indefinite lived intangibles was extensive and required a high degree of auditor judgment.

#### How Our Audit Addressed the Critical Audit Matter

Our principal audit procedures related to the Company’s annual goodwill and indefinite lived intangibles impairment test included the following, among others:

- We gained an understanding of and tested the Company’s process to estimate future cashflows, including methods, data, and significant assumptions used in developing the discounted cashflow analysis as well as the completeness and accuracy of the underlying data used by the Company in its analyses;
- We evaluated significant judgments made by management, including the identification of two reporting units along with a separate unit to capture the corporate overhead;
- We evaluated management’s ability to estimate future cash flows, including projected revenues, by performing a retrospective review of select Company historical cash flow forecasts;
- We evaluated management’s projected revenues and cash flows by comparing the projections to the underlying business strategies and growth plans and

performed a sensitivity analysis related to the key inputs to projected cash flows, including revenue growth rates, to evaluate the changes in the fair value of the reporting unit that would result from changes in assumptions;

- With the assistance of our firm's valuation professionals with specialized skills and knowledge in valuation methods and models, we tested the Company's discounted cash flow models, including certain assumptions including the terminal value and discount rates; and
- We evaluated management's reconciliation of the fair value measurements per the individual reporting units discounted cash flows to the Company's market capitalization.

/s/ CohnReznick LLP

We have served as the Company's auditor since 2008.

Jericho, New York

March 26, 2021

**P&F INDUSTRIES, INC. AND SUBSIDIARIES**

**CONSOLIDATED BALANCE SHEETS**

	<b>December 31, 2020</b>	<b>December 31, 2019</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash	\$ 904,000	\$ 380,000
Accounts receivable — net	7,468,000	9,313,000
Inventories	18,362,000	22,882,000
Prepaid expenses and other current assets	2,806,000	1,497,000
<b>TOTAL CURRENT ASSETS</b>	<b>29,540,000</b>	<b>34,072,000</b>
<b>PROPERTY AND EQUIPMENT</b>		
Land	507,000	507,000
Buildings and improvements	3,544,000	3,303,000
Machinery and equipment	25,673,000	25,059,000
	29,724,000	28,869,000
Less accumulated depreciation and amortization	20,329,000	18,760,000
<b>NET PROPERTY AND EQUIPMENT</b>	<b>9,395,000</b>	<b>10,109,000</b>
<b>GOODWILL</b>	<b>4,449,000</b>	<b>4,726,000</b>
<b>OTHER INTANGIBLE ASSETS — net</b>	<b>6,226,000</b>	<b>8,259,000</b>
<b>DEFERRED INCOME TAXES — net</b>	<b>226,000</b>	<b>216,000</b>
<b>RIGHT-OF-USE ASSETS – OPERATING LEASES</b>	<b>3,281,000</b>	<b>3,859,000</b>
<b>OTHER ASSETS — net</b>	<b>250,000</b>	<b>502,000</b>
<b>TOTAL ASSETS</b>	<b>\$ 53,367,000</b>	<b>\$ 61,743,000</b>

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

**P&F INDUSTRIES, INC. AND SUBSIDIARIES**

**CONSOLIDATED BALANCE SHEETS**

	<b>December 31, 2020</b>	<b>December 31, 2019</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Short-term borrowings	\$ 1,374,000	\$ 5,648,000
Accounts payable	2,199,000	1,843,000
Accrued compensation and benefits	525,000	2,019,000
Accrued other liabilities	1,354,000	1,568,000
Current leased liabilities – operating leases	847,000	879,000
Current maturities of long-term debt (PPP loan)	1,983,000	—
<b>TOTAL CURRENT LIABILITIES</b>	<b>8,282,000</b>	<b>11,957,000</b>
Non-current leased liabilities – operating leases	2,474,000	3,070,000
Long-term debt, less current maturities (PPP loan)	946,000	—
Other liabilities	127,000	210,000
<b>TOTAL LIABILITIES</b>	<b>11,829,000</b>	<b>15,237,000</b>
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>SHAREHOLDERS' EQUITY</b>		
Preferred stock - \$10 par; authorized - 2,000,000 shares; no shares issued	—	—
Common Stock:		
Class A - \$1 par; authorized - 7,000,000 shares; issued – 4,428,000 at December 31, 2020 and 4,416,000 at December 31, 2019	4,428,000	4,416,000
Class B - \$1 par; authorized - 2,000,000 shares; no shares issued	—	—
Additional paid-in capital	14,144,000	14,056,000
Retained earnings	33,756,000	38,867,000
Treasury stock, at cost – 1,273,000 shares at December 31, 2020 and December 31, 2019	(10,213,000)	(10,213,000)
Accumulated other comprehensive loss	(577,000)	(620,000)
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>41,538,000</b>	<b>46,506,000</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$ 53,367,000</b>	<b>\$ 61,743,000</b>

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

**P&F INDUSTRIES, INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE (LOSS) INCOME**

	<b>Years ended December 31,</b>	
	<b>2020</b>	<b>2019</b>
Net revenue	\$ 49,136,000	\$ 58,674,000
Cost of sales	34,943,000	37,716,000
Gross profit	14,193,000	20,958,000
Selling, general and administrative expenses	19,367,000	21,869,000
Impairment of goodwill and other intangible assets	1,612,000	—
Operating loss	(6,786,000)	(911,000)
Other income	106,000	—
(Loss) gain on sale of fixed assets	(35,000)	7,817,000
Interest expense	(140,000)	(198,000)
(Loss) income before income taxes	(6,855,000)	6,708,000
Income tax benefit (expense)	1,901,000	(1,797,000)
Net (loss) income	<u>\$ (4,954,000)</u>	<u>\$ 4,911,000</u>
Basic (loss) earnings per share	<u>\$ (1.57)</u>	<u>\$ 1.53</u>
Diluted (loss) earnings per share	<u>\$ (1.57)</u>	<u>\$ 1.51</u>
Weighted average common shares outstanding:		
Basic	3,149,000	3,207,000
Diluted	<u>3,149,000</u>	<u>3,262,000</u>
Net (loss) income	\$ (4,954,000)	\$ 4,911,000
Other comprehensive income - foreign currency translation adjustment	43,000	52,000
Total comprehensive (loss) income	<u>\$ (4,911,000)</u>	<u>\$ 4,963,000</u>

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

**P&F INDUSTRIES, INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**

	<u>Total</u>	<u>Class A Common Stock, \$1 Par</u>		<u>Additional paid-in capital</u>	<u>Retained earnings</u>	<u>Treasury stock</u>		<u>Accumulated other comprehensive (loss) income</u>
		<u>Shares</u>	<u>Amount</u>			<u>Shares</u>	<u>Amount</u>	
Balance, January 1, 2019	\$ 45,535,000	4,410,000	\$ 4,410,000	\$ 13,904,000	\$ 34,588,000	(816,000)	\$ (6,695,000)	\$ (672,000)
Net income	4,911,000	—	—	—	4,911,000	—	—	—
Restricted Common Stock compensation	52,000	6,000	6,000	46,000	—	—	—	—
Stock - based compensation	106,000	—	—	106,000	—	—	—	—
Purchase of Class A Common Stock	(3,518,000)	—	—	—	—	(457,000)	(3,518,000)	—
Dividends	(632,000)	—	—	—	(632,000)	—	—	—
Foreign currency translation adjustment	52,000	—	—	—	—	—	—	52,000
Balance, December 31, 2019	<u>\$ 46,506,000</u>	<u>4,416,000</u>	<u>\$ 4,416,000</u>	<u>\$ 14,056,000</u>	<u>\$ 38,867,000</u>	<u>(1,273,000)</u>	<u>\$ (10,213,000)</u>	<u>\$ (620,000)</u>

	<u>Total</u>	<u>Class A Common Stock, \$1 Par</u>		<u>Additional paid-in capital</u>	<u>Retained earnings</u>	<u>Treasury stock</u>		<u>Accumulated other comprehensive (loss) income</u>
		<u>Shares</u>	<u>Amount</u>			<u>Shares</u>	<u>Amount</u>	
Balance, January 1, 2020	\$ 46,506,000	4,416,000	\$ 4,416,000	\$ 14,056,000	\$ 38,867,000	(1,273,000)	\$ (10,213,000)	\$ (620,000)
Net loss	(4,954,000)	—	—	—	(4,954,000)	—	—	—
Exercise of stock options	18,000	6,000	6,000	12,000	—	—	—	—
Restricted Common Stock compensation	41,000	6,000	6,000	35,000	—	—	—	—
Stock - based compensation	41,000	—	—	41,000	—	—	—	—
Dividends	(157,000)	—	—	—	(157,000)	—	—	—
Foreign currency translation adjustment	43,000	—	—	—	—	—	—	43,000
Balance, December 31, 2020	<u>\$ 41,538,000</u>	<u>4,428,000</u>	<u>\$ 4,428,000</u>	<u>\$ 14,144,000</u>	<u>\$ 33,756,000</u>	<u>(1,273,000)</u>	<u>\$ (10,213,000)</u>	<u>\$ (577,000)</u>

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

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

	<b>Years ended December 31,</b>	
	<b>2020</b>	<b>2019</b>
<b>Cash Flows from Operating Activities</b>		
Net (loss) income from operations	\$ (4,954,000)	\$ 4,911,000
Adjustments to reconcile net (loss) income from operations to net cash provided by (used in) operating activities:		
Non-cash charges:		
Depreciation and amortization	1,787,000	1,566,000
Amortization of other intangible assets	702,000	703,000
Amortization of operating lease assets	899,000	582,000
Amortization of debt issue costs	16,000	23,000
Amortization of consideration payable to customer	270,000	270,000
Provision for (recovery of) doubtful accounts	24,000	(38,000)
Stock-based compensation	41,000	106,000
Restricted stock-based compensation	41,000	52,000
Loss (gain) on sale of fixed assets	35,000	(7,817,000)
Deferred income taxes	(11,000)	409,000
Gain on contingent consideration settlement	(52,000)	—
Gain on lease obligation settlement	(31,000)	—
Gain on forgiveness of grant obligation	(53,000)	—
Impairment of assets	1,612,000	194,000
Changes in operating assets and liabilities:		
Accounts receivable	1,835,000	529,000
Inventories	4,538,000	(1,714,000)
Prepaid expenses and other current assets	(1,341,000)	(339,000)
Other assets	—	(1,000)
Accounts payable	352,000	(1,025,000)
Accrued compensation and benefits	(1,498,000)	(318,000)
Accrued other liabilities	(185,000)	255,000
Operating lease liabilities	(918,000)	(597,000)
Other liabilities	(62,000)	(265,000)
Total adjustments	8,001,000	(7,425,000)
Net cash provided by (used in) operating activities	3,047,000	(2,514,000)

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



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

	<b>Years ended December 31,</b>	
	<b>2020</b>	<b>2019</b>
<b>Cash Flows from Investing Activities:</b>		
Capital expenditures	\$ (1,104,000)	\$ (1,524,000)
Proceeds from sale real property and other assets	1,000	8,766,000
Purchase of net assets of gear businesses	—	(3,518,000)
Net cash (used in) provided by investing activities	<u>(1,103,000)</u>	<u>3,724,000</u>
<b>Cash Flows from Financing Activities:</b>		
Dividend payments	(157,000)	(632,000)
Proceeds from exercise of stock options	18,000	—
Purchase of Class A Common Stock	—	(3,518,000)
Net (payments) proceeds from short-term borrowings	(4,274,000)	3,552,000
Payment of contingent consideration	—	(692,000)
Repayments of notes payable	—	(453,000)
Payments of debt issue costs	—	(72,000)
Proceeds from Grant	53,000	—
Proceeds from PPP loan	2,929,000	—
Net cash used in financing activities	<u>(1,431,000)</u>	<u>(1,815,000)</u>
Effect of exchange rate changes on cash	11,000	(14,000)
Net increase (decrease) in cash	<u>524,000</u>	<u>(619,000)</u>
Cash at beginning of year	380,000	999,000
Cash at end of year	<u>\$ 904,000</u>	<u>\$ 380,000</u>
<b>Supplemental disclosures of cash flow information:</b>		
<b>Cash paid for:</b>		
Interest	<u>\$ 120,000</u>	<u>\$ 171,000</u>
Income taxes	<u>\$ 35,000</u>	<u>\$ 1,809,000</u>
Cash paid for amounts included in the measurement of operating lease liabilities	<u>\$ 5,000</u>	<u>\$ 30,000</u>
<b>Supplemental disclosures of non-cash investing and financing activities:</b>		
Contingent consideration on acquisition of gear businesses	<u>\$ —</u>	<u>\$ 64,000</u>
Right of Use (“ROU”) assets recognized for new operating lease liabilities	<u>\$ 140,000</u>	<u>\$ 4,032,000</u>
Operating lease liability related to ROU assets recognized upon adoption of ASC 842	<u>\$ —</u>	<u>\$ 418,000</u>

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

**P&F INDUSTRIES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2020 and 2019**

**NOTE 1— SUMMARY OF ACCOUNTING POLICIES**

**Principles of Consolidation**

The Consolidated Financial Statements contained herein include the accounts of P&F Industries, Inc. and subsidiaries (“P&F” or the “Company”). All significant intercompany balances and transactions have been eliminated.

**The Company**

P&F is a Delaware corporation incorporated in 1963. The Company conducts its business through a wholly-owned subsidiary, Continental Tool Group, Inc. (“Continental”), which in turn operates through its wholly-owned subsidiaries, Florida Pneumatic Manufacturing Corporation (“Florida Pneumatic”) and Hy-Tech Machine, Inc. (“Hy-Tech”). Exhaust Technologies Inc. (“ETI”), Universal Air Tool Company Limited (“UAT”) and Jiffy Air Tool, Inc. (“Jiffy”), are all wholly-owned subsidiaries of Florida Pneumatic. The business of Air Tool Service Company (“ATSCO”) operates through a wholly-owned subsidiary of Hy-Tech. Effective October 25, 2019, the Company through a wholly owned subsidiary of Hy-Tech, acquired substantially all the operating assets comprising the businesses of Blaz-Man Gear, Inc. and Gear Products & Manufacturing, Inc., each that manufactures and distributes custom gears. See Note 2 – Acquisition, for further discussion.

Florida Pneumatic imports and sells pneumatic hand tools, most of which are of its own design, primarily to the retail, industrial, automotive, and aerospace markets. Its products include 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 by electricity or battery. Air tools, as they are more commonly referred to, generally offer better performance, and weigh less than their electrical counterparts. Florida Pneumatic imports and/or manufactures 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,” “Universal Tool”, “Jiffy Air Tool”, AIRCAT, NITROCAT, as well as under the trade names or trademarks of several private label customers. These products are sold to retailers, distributors, manufacturers and private label customers through in-house sales personnel and manufacturers’ representatives. The AIRCAT and NITROCAT brands of pneumatic tools are sold primarily to the automotive service and repair market (“automotive market”). Users of Florida Pneumatics’ hand tools include industrial maintenance and production staffs, do-it-yourself mechanics, professional automobile mechanics and auto body personnel. Jiffy manufactures and distributes pneumatic tools and components primarily to aerospace manufacturers.

Hy-Tech designs, manufactures, and distributes industrial tools, pneumatic systems, gearing, accessories, and a wide variety of replacement parts under various brands including ATP, Numatx, Thaxton and Power Transmission Group. These tools etc. are sold at prices ranging from \$300 to \$42,000.

Hy-Tech’s “Engineered Solutions” products are sold direct to Original Equipment Manufacturers (OEM’s), and industrial branded products are sold through a broad network of specialized industrial distributors serving the power generation, petrochemical, aerospace, construction, railroad, mining, ship building and fabricated metals industries, among others. Hy-Tech works directly with its industrial customers, designing and manufacturing products from finished components to complete turnkey systems to be sold under their own brand names.

Hy-Tech’s “Power Transmission Group”, commonly referred to as “PTG”, produces spiral bevel and straight bevel gears along with a wide variety of other gearing. These products are sold direct to OEMs, end-users and gearbox repair companies. PTG works directly with its customers engineering departments to design or redesign gears or gearboxes to optimize a solution for functionality and manufacturability.

Nearly all of Hy-Tech brands are manufactured in the United States of America. Hy-Tech does distribute ATP branded impact sockets, striking wrenches and accessories imported from Italy and Asia.

**P&F INDUSTRIES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2020 and 2019**

**NOTE 1—SUMMARY OF ACCOUNTING POLICIES - Continued**

**The Company – Continued**

The sales of Hy-Tech products through various channel and direct customers are managed by both direct sales personnel and a network of specialized manufacturer representatives. Further, its products are sold as standard off-the-shelf and also customized to be sold for customer specific specifications.

**Basis of Financial Statement Presentation**

The Company prepares its Consolidated Financial Statements in accordance with accounting principles generally accepted in the United States (“US GAAP”).

**COVID-19**

On March 11, 2020, the World Health Organization designated the recent novel coronavirus (“COVID-19”) as a global pandemic. The Company continues to actively monitor COVID-19 and its continued impact on its operations and financial results. To date, there has been minimal disruption to the Company’s supply chain network, and all its manufacturing plants are currently open. The Company is also working closely with its business units, external business partners and customers to minimize the continued impact on its business.

Due in large part to shelter-in-place restrictions that were implemented in late March and early April, which for many, have been lifted, as well as significant constraints imposed on travel and customer consumption behavior, the Company experienced a reduction in its revenue, earnings, and earnings per share during 2020. It is not practical at this point to determine what the financial impact from the global pandemic will have on the Company’s businesses in the future.

**Going Concern Assessment**

Management assesses going concern uncertainty in the Company’s consolidated financial statements to determine whether there is sufficient cash on hand and working capital, including available borrowings on loans, to operate for a period of at least one year from the date the consolidated financial statements are issued, which is referred to as the "look-forward period", as defined in GAAP. As part of this assessment, based on conditions that are known and reasonably knowable to management, it considers various scenarios, forecasts, projections, estimates and makes certain key assumptions, including the timing and nature of projected cash expenditures, its ability to reduce, delay or curtail cash outflows and its ability to raise additional capital, if necessary, among other factors. Management has prepared estimates of operations covering the look-forward period and believes that sufficient funds will be generated from operations, working capital, and its existing credit facility to fund its operations. The Company has contingency plans in which it would further reduce or defer additional expenses and cash outlays, should operations weaken beyond current forecasts.

The impact of COVID-19 on the Company’s business has been considered in these assumptions; however, it is too early to know the full impact of COVID-19 or when the Company believes a return to more normal operations may occur. Further, as part of the business incentives offered in the Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”), the Company, on April 20, 2020, received a \$2.9 million Payroll Protection Program (“PPP”) loan from the United States Small Business Administration (“SBA”). See Note 8 – CARES Act, to the Company’s consolidated financial statements for further discussion.

During 2020, the Company incurred after-tax losses of \$4,954,000. At December 31, 2020, the Company had working capital of \$21,258,000 and available on its bank facility of approximately \$11,971,000. See Note 7 – Debt, for further discussion.

The accompanying consolidated financial statements have been prepared on a going concern basis under which the Company is expected to be able to realize its assets and satisfy its liabilities in the normal course of business.

**P&F INDUSTRIES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 1—SUMMARY OF ACCOUNTING POLICIES - Continued**

**Revenue Recognition**

The Company records revenue based on a five-step model in accordance with Accounting Standards Codification ("ASC") 606, *Revenue from Contracts with Customers* ("ASC 606"). The Company sells its goods on terms which transfer title and risk of loss at a specified location, which may be our warehouse, destination designated by our customer, port of loading or port of discharge, depending on the final destination of the goods. Other than standard product warranty provisions, our sales arrangements provide for no other post-shipment obligations. The Company offers rebates and other sales incentives, promotional allowances or discounts for certain customers that are typically related to customer purchase volume, all of which are classified as a reduction of revenue and recorded at the time of sale, using the most likely amount approach. The Company periodically evaluates whether an allowance for sales returns is necessary. Historically, we have experienced minimal sales returns. If the Company believes there are material potential sales returns, it will provide the necessary provision against sales.

The Company's performance obligations underlying its core revenue sources remain substantially unchanged. Its revenue is generated through the sale of finished products and is generally recognized at the point in time when merchandise is transferred to the customer with a fixed payment due generally within 30 to 90 days, and in an amount that considers the impacts of estimated allowances. Further, the Company has made a policy election to account for shipping and handling activities that occur after the customer has obtained control of the products as fulfillment costs rather than as an additional promised service. This election is consistent with the Company's prior policy, and therefore the adoption of ASC 606 relating to shipping and handling activities did not have any impact on its financial results. There are no other performance obligations as of December 31, 2020.

The Company analyzes its revenue as follows:

Revenue generated at Florida Pneumatic.

	Year Ended December 31,					
	2020		2019		(Decrease) increase	
	Revenue	Percent of revenue	Revenue	Percent of revenue	\$	%
Automotive	\$ 13,270,000	34.7%	\$ 14,800,000	34.1%	\$ (1,530,000)	(10.3)%
Retail	12,940,000	33.8	12,467,000	28.8	473,000	3.8
Aerospace	8,087,000	21.1	10,513,000	24.2	(2,426,000)	(23.1)
Industrial	3,481,000	9.1	4,969,000	11.5	(1,488,000)	(29.9)
Other	498,000	1.3	608,000	1.4	(110,000)	(18.1)
<b>Total</b>	<b>\$ 38,276,000</b>	<b>100.0%</b>	<b>\$ 43,357,000</b>	<b>100.0%</b>	<b>\$ (5,081,000)</b>	<b>(11.7)%</b>

Revenue generated at Hy-Tech.

	Year Ended December 31,					
	2020		2019		(Decrease) increase	
	Revenue	Percent of revenue	Revenue	Percent of revenue	\$	%
OEM	\$ 4,272,000	39.4%	\$ 6,790,000	44.3%	\$ (2,518,000)	(37.1)%
PTG	3,326,000	30.6	1,475,000	9.6	1,851,000	125.5
ATP	2,796,000	25.7	6,290,000	41.1	(3,494,000)	(55.5)
Other	466,000	4.3	762,000	5.0	(296,000)	(38.8)
<b>Total</b>	<b>\$ 10,860,000</b>	<b>100.0%</b>	<b>\$ 15,317,000</b>	<b>100.0%</b>	<b>\$ (4,457,000)</b>	<b>(29.1)%</b>

**P&F INDUSTRIES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2020 and 2019**

**NOTE 1—SUMMARY OF ACCOUNTING POLICIES - Continued**

**Shipping and Handling Costs**

Expenses for shipping and handling costs are included in selling, general and administrative expenses, and totaled approximately \$1,831,000 and \$1,883,000, respectively, for the years ended December 31, 2020 and 2019.

**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, 2020 and 2019.

**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, 2020 and 2019 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, 2020 and 2019 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, OEMs and end-users 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 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.

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, 2020 is adequate. However, actual write-offs might exceed the recorded allowance.

**Concentrations of Credit Risk**

The Company places the majority of its cash with its primary bank, Capital One Bank, National Association ("Capital One"), 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, as from time-to-time cash balances may exceed the FDIC limits.

Financial instruments that potentially subject the Company to concentration of credit risk consist principally of accounts receivable. The Company had one customer that accounted for 38.0% and 27.2% of its consolidated accounts receivable at December 31, 2020 and 2019, respectively. Further, this customer accounted for 26.3% and 20.7% of the Company's consolidated revenue in 2020 and 2019, respectively. There was no other customer that accounted for more than 10% of our consolidated revenue in 2020 or 2019.

**P&F INDUSTRIES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 1—SUMMARY OF ACCOUNTING POLICIES - Continued**

**Inventories**

Inventories are valued at the lower of cost or net realizable value. Cost is determined by the first-in, first-out 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 sheets.

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 27.5 to 31 years, and machinery and equipment is depreciated over periods ranging from 3 to 10 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 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 a reporting unit 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.

**Acquisitions**

The Company accounts for acquired businesses using the purchase method of accounting, which requires that the assets acquired, liabilities assumed, and contingent consideration, if any, are recorded as of the date of the acquisition at their respective fair values. It further requires that acquisition-related costs be recognized separately from the acquisition and expensed as incurred and that restructuring costs be expensed in periods subsequent to the acquisition date. Generally, the Company engages third party valuation appraisal firms to assist it in determining the fair values and useful lives of the assets acquired and liabilities assumed. The Company records a preliminary purchase price allocation for its acquisitions and finalizes purchase price allocations as additional information relative to the fair values of the assets acquired become known.

**P&F INDUSTRIES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 1—SUMMARY OF ACCOUNTING POLICIES - Continued**

**Goodwill, Intangible and Long-Lived 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 reporting unit level and between annual tests in certain circumstances. In accordance with authoritative guidance issued by the Financial Accounting Standards Board (“FASB”), the Company tests goodwill for impairment on an annual basis. This test occurs in the fourth quarter or more frequently if the Company believes indicators of impairment exist. An entity has the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not (that is, a likelihood of more than 50%) that the fair value of a reporting unit is less than its carrying amount. If the carrying amount of the reporting unit is less than its fair value, no impairment exists, and no further action is required. If the carrying amount of a reporting unit exceeds its fair value, the entity will record an impairment charge based on the excess of a reporting unit's carrying amount over its fair value.

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 their respective useful lives, generally 3 to 20 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. The costs are estimated based on revenue and historical experience. The Company periodically assesses the adequacy of its 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 in the future.

**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 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.

The Company files a consolidated Federal tax return. P&F and certain of its subsidiaries file combined tax returns in New York, California, Illinois, and Texas. All subsidiaries, other than UAT, file other state and local tax returns on a stand-alone basis. UAT files an income tax return to the taxing authorities in the United Kingdom.

**P&F INDUSTRIES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 1—SUMMARY OF ACCOUNTING POLICIES - Continued**

**Income Taxes - Continued**

Tax benefits are recognized for an uncertain tax position when, in the Company's judgment, it is more likely than not that the position will be sustained upon examination by a taxing authority. For a tax position that meets the more likely than not recognition threshold, the tax benefit is measured as the largest amount that is judged to have a greater than 50% likelihood of being realized upon ultimate settlement with a taxing authority. The liability associated with unrecognized tax benefits is adjusted periodically due to changing circumstances and when new information becomes available. Such adjustments are recognized entirely in the period in which they are identified. The effective tax rate includes the net impact of changes in the liability for unrecognized tax benefits and subsequent adjustments as considered appropriate by the Company. Interest and penalties recognized on the liability for unrecognized tax benefits are recorded as income tax expense.

The authoritative guidance for income taxes requires a reduction of the carrying amounts of deferred tax assets by recording a valuation allowance if, based on the available evidence, it is more likely than not (defined as a likelihood of more than 50%) such assets will not be realized. The valuation of deferred tax assets requires judgment in assessing the likely future tax consequences of events that have been recognized in the Company's financial statements or tax returns and future profitability. The Company's accounting for deferred tax consequences represents its best estimate of those future events. Changes in the Company's estimates, due to unanticipated events or otherwise, could have a material effect on its financial condition and results of operations. The Company continually evaluates its deferred tax assets to determine if a valuation allowance is required.

In January 2018, the FASB released guidance on the accounting for tax on the global intangible low-taxed income ("GILTI") provisions of the Tax Cuts and Jobs Act enacted in December 2017. The GILTI provisions impose a tax on foreign income in excess of a deemed return on tangible assets of foreign corporations. The guidance allows companies to make an accounting policy election to either (i) account for GILTI as a component of tax expense in the period in which they are subject to the rules (the period cost method), or (ii) account for GILTI in the Company's measurement of deferred taxes (the deferred method). After completing the analysis of the GILTI provisions, the Company elected to account for GILTI using the period cost method.

On March 27, 2020, the CARES Act was enacted in response to the COVID-19 pandemic. The CARES Act, among other things, permits NOL carryovers and carrybacks to offset 100% of taxable income for taxable years beginning before 2021. In addition, the CARES Act allows NOLs incurred in tax years 2018, 2019, and 2020 to be carried back to each of the five preceding taxable years to generate a refund of previously paid income taxes. In addition to the NOL changes, the CARES Act contains modifications on the limitation of business interest for tax years beginning in 2019 and 2020. The modifications to Section 163(j) increase the allowable business interest deduction from 30% of adjusted taxable income to 50% of adjusted taxable income (See Note 11 – Income taxes).



**P&F INDUSTRIES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2020 and 2019**

**NOTE 1—SUMMARY OF ACCOUNTING POLICIES – Continued**

**Lease Accounting**

On January 1, 2019, the Company adopted Accounting Standards Codification (“ASC”) ASC 842 “Leases” using the initial date of adoption method, whereby the adoption does not impact any periods prior to 2019. ASC Topic 842 retains a distinction between finance leases and operating leases. The classification criteria for distinguishing between finance leases and operating leases are substantially similar to the classification criteria for distinguishing between capital leases and operating leases in the previous leases’ guidance. The Company recorded an operating Right of Use (“ROU”) asset of \$394,000, and an operating lease liability of \$418,000 as of January 1, 2019. The difference between the initial operating ROU asset and operating lease liability of \$24,000 is accrued rent previously recorded under ASC 840. The Company elected to adopt the package of practical expedients and, accordingly, did not reassess any previously expired or existing arrangements and related classifications under ASC 840.

If the rate implicit in the lease is not readily determinable, the Company uses its incremental borrowing rate as the discount rate. The Company uses its best judgement when determining the incremental borrowing rate, which is the rate of interest that the Company would have to pay to borrow on a collateralized basis over a similar term to the lease payments in a similar currency.

The Company’s operating leases include vehicles, office space and the use of real property. The Company has not identified any material finance leases as of December 31, 2020.

For the year ended December 31, 2020, the Company had \$899,000 in Operating lease expense.

The following is a maturity analysis of the annual undiscounted cash flows reconciled to the carrying value of the operating lease liabilities as of December 31, 2020:

	<b>As of December 31, 2020</b>
2021	\$ 864,000
2022	774,000
2023	662,000
2024	390,000
2025	182,000
Thereafter	867,000
Total operating lease payments	3,739,000
Less imputed interest	(418,000)
Total operating lease liabilities	<u>\$ 3,321,000</u>
Weighted-average remaining lease term	6.0 years
Weighted-average discount rate	4.3%

**P&F INDUSTRIES, INC. AND SUBSIDIARIES**  
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**NOTE 1—SUMMARY OF ACCOUNTING POLICIES - Continued**

**Use of Estimates**

The preparation of financial statements in conformity with US 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, consideration payable to customer 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.

**Advertising**

The Company expenses its costs of advertising in the period in which they are incurred. Advertising costs for the years ended December 31, 2020 and 2019 were \$1,529,000 and \$1,690,000, respectively.

**(Loss) Earnings Per Common Share**

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

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

	<b>Years Ended December 31,</b>	
	<b>2020</b>	<b>2019</b>
<b>Numerator for basic and diluted (loss) earnings per common share:</b>		
Net (loss) income	\$ (4,954,000)	\$ 4,911,000
<b>Denominator:</b>		
Denominator for basic (loss) income per share—weighted average common shares outstanding	3,149,000	3,207,000
Dilutive securities (1)	—	55,000
Denominator for diluted (loss) income per share—adjusted weighted average common shares and assumed conversions	3,149,000	3,262,000

(1) Dilutive securities consist of the “in the money” stock options. In the event of a loss, options are considered anti-dilutive and are therefore not included in the calculation of diluted loss per share.

The average anti-dilutive options outstanding for the years ended December 31, 2020 and 2019 were 164,000 and 55,000, respectively.

**P&F INDUSTRIES, INC. AND SUBSIDIARIES**  
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**NOTE 1—SUMMARY OF ACCOUNTING POLICIES - Continued**

**Share-Based Compensation**

In accordance with US 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 operations and comprehensive (loss) income.

With respect to stock options, US 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 statements of operations and comprehensive (loss) 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 as its method of valuation for share-based awards granted. As such, 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, relevant interest rates, and the expected term of the awards.

With respect to any issuance of its Common Stock, the Company determines fair value per share as the closing price of its Common Stock on the date of the grant of said shares.

**Foreign Currency Translation**

The assets and liabilities of international operations are translated at the exchange rates in effect at the balance sheet date. Revenue and expense accounts are translated at the monthly average exchange rates. Adjustments arising from the translation of the foreign currency financial statements of the Company's international operations are reported as a component of "Accumulated other comprehensive loss" in the Company's consolidated balance sheets.

For foreign currency remeasurement from each local currency into the appropriate functional currency, monetary assets and liabilities are remeasured to functional currencies using current exchange rates in effect at the balance sheet date. Gains or losses from these remeasurements were not significant and have been included in the Company's consolidated statements of operations and comprehensive (loss) income. Non-monetary assets and liabilities are recorded at historical exchange rates, and the related remeasurement gains or losses are reported as a component of "Accumulated other comprehensive loss" in the Company's consolidated balance sheets.

**Recently Adopted Accounting Pronouncements**

In December 2019, the FASB issued Accounting Standards Update ("ASU") 2019-12, "*Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes.*" The ASU is intended to simplify various aspects related to accounting for income taxes. This guidance is effective for fiscal years beginning after December 15, 2020, and for interim periods within those fiscal years, with early adoption permitted. The Company elected to early adopt this standard effective January 1, 2020. The adoption of this standard did not have a material effect on its consolidated financial statements.

No other new accounting pronouncement issued or effective during the fiscal year had or is expected to have a material impact on our consolidated financial statements or disclosures.

**Not yet Adopted**

The Company does not expect any recently issued accounting pronouncements to have a material effect on its financial statements.

**P&F INDUSTRIES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 2 –ACQUISITION-2019**

In October 2019 (the “Gears Closing Date”) the Company, through a wholly owned subsidiary of Hy-Tech, acquired substantially all the assets comprising the businesses of Blaz-Man Gear, Inc. and Gear Products & Manufacturing, Inc. (the “Gears Acquisition”). The purchase price consisted of an aggregate of approximately \$3.5 million in cash, which was funded by Revolver borrowings (see Note 7 – Debt) and the assumption of certain payables and contractual obligations. In addition, the sellers may be entitled to additional consideration based upon the sale of certain categories of acquired inventory. At the time of the acquisition we believed, based on a range of possible outcomes, that it was more likely than not that items within this inventory would be sold, and accordingly included in the purchase price a contingent consideration obligation of \$64,000. In January 2021, we and the sellers agreed to settle this obligation for \$12,000. As such, we reduced the contingent consideration payable by \$52,000 and recorded a like amount as Other Income.

The following unaudited pro-forma combined financial information gives effect to the Gears Acquisition as if the transactions were consummated January 1, 2019. This unaudited pro-forma financial information is presented for information purposes only and is not intended to present actual results that would have been attained had the Gears Acquisition been completed as of January 1, 2019 (the beginning of the earliest period presented) or to project potential operating results as of any future date or for any future periods.

	<b>For the twelve-month period ended December 31, 2019</b>
Revenue	\$ 61,087,000
Net income	\$ 5,356,000
Earnings per share – basic	\$ 1.67
Earnings per share – diluted	\$ 1.64

**NOTE 3—FAIR VALUE MEASUREMENTS**

Accounting guidance defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Under this guidance, the Company is required to classify certain assets and liabilities based on the following hierarchy:

Level 1: Quoted prices for identical assets or liabilities in active markets that can be assessed at the measurement date.

Level 2: Inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Inputs reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date. The inputs are unobservable in the market and significant to the instrument’s valuation.

The guidance requires the use of observable market data if such data is available without undue cost and effort.

As of December 31, 2020 and 2019, the carrying amounts reflected in the accompanying consolidated balance sheets for current assets and current liabilities approximated fair value due to the short-term nature of these accounts.

Assets and liabilities measured at fair value on a non-recurring basis include goodwill and intangible assets. Such assets are reviewed quarterly for impairment indicators. If a triggering event has occurred, the assets are re-measured when the estimated fair value of the corresponding asset group is less than the carrying value. The fair value measurements, in such instances, are based on significant unobservable inputs (Level 3).

**P&F INDUSTRIES, INC. AND SUBSIDIARIES**  
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**NOTE 4—ACCOUNTS RECEIVABLE AND ALLOWANCE FOR DOUBTFUL ACCOUNTS**

Accounts receivable - net consists of:

	<b>December 31, 2020</b>	<b>December 31, 2019</b>
Accounts receivable	\$ 7,726,000	\$ 9,547,000
Allowance for doubtful accounts, sales discounts, and chargebacks	(258,000)	(234,000)
	<u>\$ 7,468,000</u>	<u>\$ 9,313,000</u>

**NOTE 5—INVENTORIES**

Inventories consist of:

	<b>December 31, 2020</b>	<b>December 31, 2019</b>
Raw materials	\$ 2,077,000	\$ 2,178,000
Work in process	1,127,000	2,302,000
Finished goods	15,158,000	18,402,000
	<u>\$ 18,362,000</u>	<u>\$ 22,882,000</u>

**NOTE 6—GOODWILL AND OTHER INTANGIBLE ASSETS**

***Goodwill***

Goodwill is evaluated for impairment at least annually. A more frequent evaluation is performed if events or circumstances indicate that impairment could have occurred. During the second quarter of 2020, the Company determined that a triggering event occurred as it concluded that the impact of COVID-19 on its sales, profitability and cash flows resulted in a reduction to its operating forecasts reflecting the uncertainty of the current environment. As a result, the Company performed an interim goodwill impairment test.

After completion of the interim goodwill impairment test, the Company concluded that Hy-Tech's goodwill was fully impaired and recorded a non-cash goodwill impairment charge of \$284,000 during the second quarter of 2020. Consistent with the procedures followed in the Company's annual impairment test, it estimated the fair values of each of its reporting units using the income approach. The income approach uses projected future cash flows that are discounted using a weighted average cost of capital analysis that reflects current market conditions.

In accordance with authoritative guidance issued by the FASB, the Company performed an annual impairment test of goodwill and indefinite-lived intangible assets as of November 30, 2020. For both 2020 and 2019, with respect to Florida Pneumatic and Hy-Tech, the Company determined their fair value using the income approach methodology of valuation, which considers the expected present value of future cash flows. As an integral part of the valuation process, the Company utilizes its latest cash flows forecasts for the next four fiscal years, and then applies projected minimal growth for all remaining years, based upon available statistical data and management's estimates.

The result of the Company's impairment test as of November 30, 2020 for Florida Pneumatic and Hy-Tech determined that their respective fair value exceeded the carrying value and, as such, no further impairment to Goodwill and other intangible assets was recorded.

Changes in the carrying amount of goodwill are as follows:

Balance, January 1, 2020	\$ 4,726,000
Currency translation adjustment	7,000
Impairment of Goodwill recorded at June 30, 2020	(284,000)
Balance, December 31, 2020	<u>\$ 4,449,000</u>

**P&F INDUSTRIES, INC. AND SUBSIDIARIES**  
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**NOTE 6—GOODWILL AND OTHER INTANGIBLE ASSETS - Continued**

*Other Intangible Assets*

The Company, during the second quarter of 2020, estimated the fair value of the NUMATX patent, and its UAT trade name based on an income approach using the relief-from-royalty method. This approach is dependent upon a number of factors, including estimates of future growth and trends, royalty rates, discount rates and other variables. For the interim impairment test, its estimates of future revenue and profitability associated with NUMATX and UAT were significantly reduced, primarily reflecting the impact of COVID-19. The Company reduced the royalty rate used to estimate the fair value, reflecting the impact of the uncertain environment resulting from COVID-19. Additionally, the weighted average cost of capital used to discount the cash flows for the interim goodwill impairment test was slightly higher than the last annual test, also reflecting the increasing uncertainty resulting from COVID-19. Further, the Company estimated the fair value of Hy-Tech's customer relationships based on the discounted value of future cash flows and determined that, primarily for the same reasons noted above related to impairment of the NUMATX patent and the UAT trade name, Hy-Tech's customer relationships were fully impaired. As a result of the aforementioned, the Company adjusted the fair value of the above-mentioned intangible assets by recording a non-cash impairment charge of \$1,328,000 in the second quarter of 2020.

The result of the Company's impairment test as of November 30, 2020, for Florida Pneumatic and Hy-Tech determined that their respective fair value exceeded the carrying value and, as such, no impairment to other intangible assets was recorded.

In the future, should events or circumstances change, or the Company's financial condition further materially decline, where it would more likely than not further reduce the fair value of the remaining intangible assets, we may be required to record additional impairment charges, which could have a material effect on future results of operations and financial condition.

	<b>December 31, 2020</b>			<b>December 31, 2019</b>		
	<b>Cost</b>	<b>Accumulated amortization</b>	<b>Net book value</b>	<b>Cost</b>	<b>Accumulated amortization</b>	<b>Net book value</b>
<u>Other intangible assets:</u>						
Customer relationships (1)	\$ 6,502,000	\$ 3,034,000	\$ 3,468,000	\$ 7,825,000	\$ 2,724,000	\$ 5,101,000
Trademarks and trade names (1)	2,187,000	—	2,187,000	2,375,000	—	2,375,000
Trademarks and trade names	200,000	59,000	141,000	200,000	45,000	155,000
Engineering drawings	330,000	239,000	91,000	330,000	225,000	105,000
Non-compete agreements (1)	335,000	266,000	69,000	331,000	235,000	96,000
Patents	1,286,000	1,016,000	270,000	1,405,000	978,000	427,000
Totals	<u>\$ 10,840,000</u>	<u>\$ 4,614,000</u>	<u>\$ 6,226,000</u>	<u>\$ 12,466,000</u>	<u>\$ 4,207,000</u>	<u>\$ 8,259,000</u>

(1) A portion of these intangibles are maintained in a foreign currency and are therefore subject to foreign exchange rate fluctuations.

**P&F INDUSTRIES, INC. AND SUBSIDIARIES**  
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**NOTE 6—GOODWILL AND OTHER INTANGIBLE ASSETS - Continued**

*Other Intangible Assets – continued*

	<u>Cost</u>	<u>Accumulated amortization</u>	<u>Net book value</u>
Balance, January 1, 2020	\$ 12,466,000	\$ 4,207,000	\$ 8,259,000
Amortization	—	702,000	(702,000)
Impairment	(1,633,000)	(305,000)	(1,328,000)
Currency translation adjustment	7,000	10,000	(3,000)
Balance, December 31, 2020	<u>\$ 10,840,000</u>	<u>\$ 4,614,000</u>	<u>\$ 6,226,000</u>

The weighted average amortization period for intangible assets was as follows:

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Customer relationships	7.6	8.7
Trademarks and trade names	10.5	11.5
Engineering drawings	6.1	7.1
Non-compete agreements	3.0	3.7
Patents	5.2	7.1

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

	<u>Years ended December 31,</u>	
	<u>2020</u>	<u>2019</u>
	<u>\$ 702,000</u>	<u>\$ 703,000</u>

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

2021	\$ 631,000
2022	630,000
2023	626,000
2024	577,000
2025	548,000
Thereafter	1,027,000
	<u>\$ 4,039,000</u>

**P&F INDUSTRIES, INC. AND SUBSIDIARIES**  
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**NOTE 7—DEBT**

In October 2010, the Company entered into a Loan and Security Agreement (“Credit Agreement”) with an affiliate of Capital One. The Credit Agreement, as amended and restated in April 2017 and further amended from time-to-time, among other things, provides the ability to borrow funds under a \$16,000,000 revolver line (“Revolver”), subject to certain borrowing base criteria. Additionally, there is a \$2,000,000 line for capital expenditures (“Capex Loan”), with \$1,600,000 available for future borrowings. Revolver and Capex Loan borrowings are secured by the Company’s accounts receivable, inventory, equipment, and real property, among other things. P&F and certain of its subsidiaries are borrowers under the Credit Agreement, and their obligations are cross guaranteed by certain other subsidiaries. The Credit Agreement expires on February 8, 2024.

At the Company’s option, Revolver borrowings bear interest at either London Interbank Offered Rate (“LIBOR”) or the Base Rate, as the term is defined in the Credit Agreement, plus an Applicable Margin, as defined in the Credit Agreement. The Company is subject to limitations on the number of LIBOR borrowings.

The Company provides Capital One with monthly borrowing base certificates, and in certain circumstances, it is required to deliver monthly financial statements and certificates of compliance with various financial covenants. Should an event of default occur the interest rate would increase by two percent per annum during the period of default, in addition to other remedies provided to Capital One.

At December 31, 2020, its short-term or Revolver borrowing was \$1,374,000 compared to \$5,648,000, at December 31, 2019. Applicable Margin Rates for LIBOR and Base Rates were 1.50% and 0.50%, respectively, the entire years 2020 and 2019. Additionally, at December 31, 2020 and 2019, there was approximately \$11,971,000 and \$9,200,000, respectively, available to the Company under its Revolver arrangement.

The average balance of short-term borrowings during the years ended December 31, 2020 and 2019 were \$4,042,000 and \$4,253,000, respectively.

**NOTE 8 – CARES Act**

On April 20, 2020, the Company received a \$2.9 million PPP loan, as provided pursuant to the CARES Act and administered by the Small Business Administration (“SBA”). The PPP Loan, which is unsecured and guaranteed by the SBA, was designed to create economic stimulus by providing additional operating capital to small businesses in the U.S., such as P&F. To facilitate the PPP Loan, the Company entered into a Promissory Note dated April 17, 2020, with BNB Bank as the lender (the “Lender”) (the “PPP Promissory Note”). The PPP Promissory Note has a two-year term.

Under the terms of the CARES Act, as amended by the Paycheck Protection Program Flexibility Act of 2020 (the “Flexibility Act”), the Company is eligible to apply for and receive forgiveness for all or a portion of the PPP Loan. Such forgiveness will be determined, subject to limitations, based on the use of the loan proceeds for certain permissible purposes as set forth in the PPP, including, but not limited to, payroll costs (as defined under the PPP) and mortgage interest, rent or utility costs (collectively, “Qualifying Expenses”) incurred during the 24 weeks subsequent to funding, and on the maintenance of employee compensation levels, as defined, following the funding of the PPP Loan. The Company believes it has used the proceeds of the PPP Loan for Qualifying Expenses. The Company has filed an application for forgiveness with the Lender, who has approved this submission and has submitted it to the SBA. However, there is no assurance that the Company will be able to obtain forgiveness of the PPP Loan in whole or in part from the SBA. Any amounts that are not forgiven incur interest at 1.0% per annum and monthly repayments of principal and interest are deferred until the SBA makes a determination on forgiveness.

As of December 31, 2020, the current maturities of long-term debt pursuant to the PPP Loan was \$1,983,000 and the long-term debt, less current maturities pursuant to the PPP Loan was \$946,000.



**P&F INDUSTRIES, INC. AND SUBSIDIARIES**  
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**NOTE 9—STOCK OPTIONS – STOCK COMPENSATION**

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, 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 determines 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.

**P&F INDUSTRIES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 9—STOCK OPTIONS – STOCK COMPENSATION - Continued**

The Company's 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.

The Company generally estimates the fair value of its Common Stock options using the following factors:

- Risk-free interest rate
- Expected term
- Volatility
- Dividend yield

The Company did not issue any options to purchase shares of its Common Stock during 2020.

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, 2019	218,075	\$ 6.22	
Granted	8,000	8.55	
Exercised	—	—	
Forfeited	—	—	
Expired	—	—	
Outstanding, December 31, 2019	226,075	6.30	
Granted	—	—	
Exercised	(6,226)	2.92	
Forfeited	(7,998)	6.38	
Expired	(10,973)	2.92	
Outstanding, December 31, 2020	<u>200,878</u>	<u>\$ 6.59</u>	<u>\$ 85,663</u>
Vested, December 31, 2020	<u>195,544</u>	<u>\$ 6.54</u>	<u>\$ 85,663</u>

**P&F INDUSTRIES, INC. AND SUBSIDIARIES**  
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**NOTE 9—STOCK OPTIONS – STOCK COMPENSATION - Continued**

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

	December 31,			
	2020		2019	
	Option Shares	Weighted Average Grant-Date Fair Value	Option Shares	Weighted Average Grant-Date Fair Value
Non-vested shares, beginning of year	37,666	\$ 4.45	59,333	\$ 4.41
Granted	—	—	8,000	4.60
Vested	(31,250)	4.43	(29,667)	4.41
Forfeited	(1,082)	4.41	—	—
Non-vested shares, end of year	<u>5,334</u>	<u>\$ 4.60</u>	<u>37,666</u>	<u>\$ 4.45</u>

Stock-based compensation expense recognized for the years ended December 31, 2020 and 2019 was approximately \$41,000 and \$106,000, respectively. The Company recognizes stock-based compensation cost over the requisite service period. However, the exercisability of the respective non-vested options, which are at predetermined dates, does not necessarily correspond to the periods in which straight-line amortization of compensation expenses is recorded. As of December 31, 2020, the Company had approximately \$6,000 of total unrecognized compensation costs related to non-vested awards granted under its stock-based plans, which it expects to recognize over a weighted average period of 0.7 years.

The following table summarizes information about stock options outstanding and exercisable at December 31, 2020:

	Options Outstanding			Options Exercisable		
	Number outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number exercisable	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price
	16,199	0.4	\$ 4.37	16,199	0.4	\$ 4.37
	2,090	1.4	\$ 4.29	2,090	1.4	\$ 4.29
	41,809	1.5	\$ 4.74	41,809	1.5	\$ 4.74
	47,030	2.3	\$ 7.86	47,030	2.3	\$ 7.86
	85,750	6.7	\$ 7.09	85,750	6.7	\$ 7.09
	8,000	8.2	\$ 8.55	2,666	8.2	\$ 8.55
	<u>200,878</u>	4.1	<u>\$ 6.59</u>	<u>195,544</u>	4.0	<u>\$ 6.54</u>

**Other Information**

At December 31, 2020 and 2019, there were 58,658 and 62,062 shares available for issuance under the 2012 Plan. At December 31, 2020, there were 185,378 options outstanding issued under the 2012 Plan and 15,500 options outstanding issued under the Previous Plan.

**P&F INDUSTRIES, INC. AND SUBSIDIARIES**  
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**NOTE 9—STOCK OPTIONS – STOCK COMPENSATION - Continued**

***Restricted Stock***

On May 20, 2020, the Company granted 1,250 restricted shares of its Common Stock to each non-employee member of its Board of Directors, totaling 6,250 restricted shares. The Company determined that the fair value of these shares was \$5.14 per share, 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. The Company will ratably amortize the total non-cash compensation expense of approximately \$32,000 to selling, general and administrative expenses through May 2021.

The Company, in May 2019, granted 1,250 restricted shares of its Common Stock to each non-employee member of its Board of Directors, totaling 6,250 restricted shares. The Company determined that the fair value of these shares was \$8.31 per share, which was the closing price of the Company's Common Stock on the date of the grant. These shares could not have been traded earlier than the first anniversary of the grant date. The Company ratably amortized the total non-cash compensation expense of approximately \$52,000, which is included in its selling, general and administrative expenses through May 2020.

***Treasury Stock***

There were no changes to the Company's Treasury Stock during 2020.

On February 14, 2019, the Company entered into an agreement to repurchase 389,909 shares of its Common Stock from certain funds and accounts advised or sub-advised by Fidelity Management & Research Company or one of its affiliates in a privately negotiated transaction at approximately \$7.62 per share for a total purchase price of \$2,971,000. On February 15, 2019, the Company completed this transaction. On February 14, 2019, the Company entered into Amendment No. 6 to the Second Amended and Restated Loan and Security Agreement with Capital One, which permitted the Company to complete the above transaction.

**P&F INDUSTRIES, INC. AND SUBSIDIARIES**  
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**NOTE 10—DIVIDENDS**

On February 11, 2020, the Company's Board of Directors, in accordance with its dividend policy, declared a quarterly cash dividend of \$0.05 per common share, which was paid on February 28, 2020, to shareholders of record at the close of business on February 24, 2020. The total amount of this dividend payment was approximately \$157,000.

The Company's Board of Directors has not issued any additional dividends in 2020.

**NOTE 11—INCOME TAXES**

Income tax (benefit) expense in the consolidated statements of operations and comprehensive (loss) income consists of:

	<b>Years Ended December 31,</b>	
	<b>2020</b>	<b>2019</b>
Current:		
Federal	\$ (1,821,000)	\$ 1,078,000
State and local	(73,000)	312,000
Foreign	3,000	3,000
<b>Total current</b>	<b>(1,891,000)</b>	<b>1,393,000</b>
Deferred:		
Federal	(238,000)	513,000
State and local	263,000	(105,000)
Foreign	(35,000)	(4,000)
<b>Total deferred</b>	<b>(10,000)</b>	<b>404,000</b>
<b>Totals</b>	<b>\$ (1,901,000)</b>	<b>\$ 1,797,000</b>

At December 31, 2020, the Company had state net operating loss carryforwards of approximately \$9,038,000, of which we have a full valuation allowance against. The state net operating losses generally expire through 2040.

On March 27, 2020, the CARES Act was enacted in response to the COVID-19 pandemic. The CARES Act, among other things, permits NOL carryovers and carrybacks to offset 100% of taxable income for taxable years beginning before 2021. In addition, the CARES Act allows NOLs incurred in tax years 2018, 2019, and 2020 to be carried back to each of the five preceding taxable years to generate a refund of previously paid income taxes. The NOL carryback provision of the CARES Act resulted in a \$1,921,000 benefit to the Company. In addition to the NOL changes, the CARES Act contains modifications on the limitation of business interest for tax years beginning in 2019 and 2020. The modifications to Section 163(j) increase the allowable business interest deduction from 30% of adjusted taxable income to 50% of adjusted taxable income. This modification increased the allowable interest expense deduction of the Company and resulted in less taxable income for the year ended 2020, resulting in less utilization of net operating losses.

**P&F INDUSTRIES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 11—INCOME TAXES – Continued**

Deferred tax assets (liabilities) consist of:

	<b>December 31,</b>	
	<b>2020</b>	<b>2019</b>
Deferred tax assets:		
Bad debt reserves	\$ 25,000	\$ 17,000
Inventory reserves	762,000	653,000
Warranty and other reserves	74,000	77,000
Stock-based compensation	205,000	212,000
Goodwill	852,000	866,000
Acquisition costs	212,000	223,000
Net operating losses - federal	—	—
Net operating losses - state	168,000	77,000
Other	51,000	20,000
Less valuation allowance	(316,000)	—
	<u>2,033,000</u>	<u>2,145,000</u>
Deferred tax (liabilities):		
Prepaid expenses	(260,000)	(79,000)
Depreciation	(1,113,000)	(1,154,000)
Intangibles	(434,000)	(696,000)
Net deferred tax assets	<u>\$ 226,000</u>	<u>\$ 216,000</u>

At December 31, 2020, the Company recorded a valuation allowance against certain state net operating losses and state depreciation adjustments. The Company believes it is more likely than not that the remaining tax benefits associated with the state net operating losses and depreciation adjustments will not be realized in the foreseeable future based upon its ability to generate sufficient state taxable income.

The components of (loss) income before income taxes consisted of the following:

	<b>Years ended December 31,</b>	
	<b>2020</b>	<b>2019</b>
United States operations	\$ (6,663,000)	\$ 6,715,000
International operations	(192,000)	(7,000)
(Loss) income before income taxes	<u>\$ (6,855,000)</u>	<u>\$ 6,708,000</u>

**P&F INDUSTRIES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 11—INCOME TAXES – Continued**

A reconciliation of the Federal statutory rate to the total effective (benefit) tax rate applicable to (loss) income is as follows:

	<b>Years ended December 31,</b>	
	<b>2020</b>	<b>2019</b>
Federal income (benefit) tax expense computed at statutory rates	(21.0)%	21.0%
(Decrease) increase in taxes resulting from:		
State and local taxes, net of Federal tax benefit	(2.4)	2.4
Permanent differences - net	0.4	3.1
Valuation allowance	4.6	—
Foreign rate differential	0.1	—
CARES Act	(9.3)	—
Other	(0.1)	0.3
<b>Income (benefit) tax expense</b>	<b>(27.7)%</b>	<b>26.8%</b>

The Company files a consolidated Federal tax return. The Company and certain of its subsidiaries file tax returns in various U.S. state jurisdictions. Its foreign subsidiary, UAT, files in the United Kingdom. With few exceptions, the years that remain subject to examination are the years ended December 31, 2017 through December 31, 2020.

Interest and penalties, if any, related to income tax liabilities are included in income tax expense. As of December 31, 2020, the Company does not have a liability for uncertain tax positions.

**NOTE 12—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 \$275,000 and \$438,000, for the years ended December 31, 2020 and 2019, respectively.

(b) At December 31, 2020 and 2019, the Company had open purchase order commitments totaling approximately \$8,530,000 and \$4,871,000, respectively.

(c) From time-to-time, the Company may be a defendant or co-defendant in actions brought about in the ordinary course of conducting our business.

## **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**

The Company's management, with the participation of the Company's CEO and CFO, evaluated, as of December 31, 2020, the effectiveness of the Company's disclosure controls and procedures, which were designed to be effective at the reasonable assurance level. The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized, and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of the Company's disclosure controls and procedures as of December 31, 2020, the Company's management, including its CEO and CFO, concluded that the Company's disclosure controls and procedures were effective at the reasonable assurance level at that date.

#### **Management's Report on Internal Control over Financial Reporting**

The Company's 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 by, or under the supervision of, the Company's principal executive officer and principal financial officer, 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.

The Company's 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 the Company's transactions and dispositions of its 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 the Company's receipts and expenditures are being made only in accordance with the authorizations of its management and directors; and
- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the consolidated financial statements.

The Company carried out an evaluation, under the supervision and with the participation of its Management, including its CEO and CFO, of the effectiveness of the design and operation of its internal control over financial reporting, as of December 31, 2020. Management based this assessment on criteria for effective internal control over financial reporting described in "Internal Control—Integrated Framework 2013" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that evaluation, the Company's Management, including its CEO and CFO concluded that its internal control over financial reporting was effective at December 31, 2020.

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.



**ITEM 9A. Controls and Procedures – Continued**

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

**Changes in Internal Control over Financial Reporting**

There have been no changes in our internal control over financial reporting during the most recently completed quarter ended December 31, 2020 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**ITEM 9B. Other Information**

None

## **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 2021, to be filed with the Securities and Exchange Commission within 120 days following the end of the Company's year ended December 31, 2020.

### **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.

## 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.
  - (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

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

<b>Exhibit Number</b>	<b>Description of Exhibit</b>
<a href="#"><u>2.1</u></a>	<a href="#"><u>Asset Purchase Agreement, dated as of October 25, 2019, by and among Davinci Purchase Corp., Blaz-Man Gear, Inc., and Edward Blaszyński (Incorporated by reference to Exhibit 2.1 to the Registrant's Current Report on Form 8-K dated October 25, 2019).</u></a>
<a href="#"><u>2.2</u></a>	<a href="#"><u>Asset Purchase Agreement, dated as of October 25, 2019, by and among Davinci Purchase Corp., Gear Products &amp; Manufacturing, Inc., Paul Michaud, and Edward Blaszyński (Incorporated by reference to Exhibit 2.2 to the Registrant's Current Report on Form 8-K dated October 25, 2019).</u></a>
<a href="#"><u>3.1</u></a>	<a href="#"><u>Restated Certificate of Incorporation of the Registrant (Incorporated by reference to Exhibit 3.1 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2004).</u></a>
<a href="#"><u>3.2</u></a>	<a href="#"><u>By-laws of the Registrant (as amended on September 19, 2016) (Incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K dated September 19, 2016).</u></a>
<a href="#"><u>4.1</u></a>	<a href="#"><u>Description of the Registrant's Securities Registered Pursuant to Section 12 of the Securities Exchange Act of 1934 (Filed herewith).</u></a>

Exhibit Number	Description of Exhibit
10.1	<a href="#"><u>Second Amended and Restated Loan and Security Agreement dated as of April 5, 2017, by and among the Registrant, Florida Pneumatic Manufacturing Corporation, Hy-Tech Machine, Inc., ATSCO Holdings Corp, Jiffy Air Tool, Inc. (formerly known as Bonanza Holdings Corp.), Bonanza Properties Corp., Continental Tool Group, Inc., Countrywide Hardware, Inc., Embassy Industries, Inc., Exhaust Technologies, Inc., Green Manufacturing, Inc., Pacific Stair Products, Inc., WILP Holdings, Inc., Woodmark International, L.P, and Capital One, National Association, as lender and agent (Incorporated by reference to Exhibit 10.1 to the Registrant’s Current Report on Form 8-K dated April 5, 2017).</u></a>
10.2	<a href="#"><u>Third Amended and Restated Revolver Note dated as of April 5, 2017, by the Registrant, Florida Pneumatic Manufacturing Corporation and Hy-Tech Machine, Inc. in favor of Capital One, National Association (Incorporated by reference to Exhibit 10.2 to the Registrant’s Current Report on Form 8-K dated April 5, 2017).</u></a>
10.3	<a href="#"><u>Second Amended and Restated Capex Loan Note dated as of April 5, 2017 by the Registrant, Florida Pneumatic Manufacturing Corporation and Hy-Tech Machine, Inc. in favor of Capital One, National Association (Incorporated by reference to Exhibit 10.4 to the Registrant’s Current Report on Form 8-K dated April 5, 2017).</u></a>
10.4	<a href="#"><u>Amendment No. 1 to Second Amended and Restated Loan and Security Agreement, dated as of August 9, 2017, by and among the Registrant, Florida Pneumatic Manufacturing Corporation, Hy-Tech Machine, Inc., ATSCO Holdings Corp, Jiffy Air Tool, Inc. (formerly known as Bonanza Holdings Corp.), Bonanza Properties Corp., Continental Tool Group, Inc., Countrywide Hardware, Inc., Embassy Industries, Inc., Exhaust Technologies, Inc., Green Manufacturing, Inc., Pacific Stair Products, Inc., WILP Holdings, Inc., Woodmark International, L.P, and Capital One, National Association, as lender and agent (Incorporated by reference to Exhibit 10.1 to the Registrant’s Current Report on Form 8-K dated September 20, 2017).</u></a>
10.5	<a href="#"><u>Amendment No. 2 to Second Amended and Restated Loan and Security Agreement, dated as of June 21, 2018, by and among the Registrant, Florida Pneumatic Manufacturing Corporation, Hy-Tech Machine, Inc., ATSCO Holdings Corp, Jiffy Air Tool, Inc., Bonanza Properties Corp., Continental Tool Group, Inc., Countrywide Hardware, Inc., Embassy Industries, Inc., Exhaust Technologies, Inc., Green Manufacturing, Inc., Pacific Stair Products, Inc., WILP Holdings, Inc., Woodmark International, L.P, and Capital One, National Association, as lender and agent (Incorporated by reference to Exhibit 10.1 to the Registrant’s Current Report on Form 8-K dated June 27, 2018).</u></a>
10.6	<a href="#"><u>Amendment No. 3 to Second Amended and Restated Loan and Security Agreement, dated as of October 1, 2018, by and among the Registrant, Florida Pneumatic Manufacturing Corporation, Hy-Tech Machine, Inc., ATSCO Holdings Corp, Jiffy Air Tool, Inc., Bonanza Properties Corp., Continental Tool Group, Inc., Countrywide Hardware, Inc., Embassy Industries, Inc., Exhaust Technologies, Inc., Green Manufacturing, Inc., Pacific Stair Products, Inc., WILP Holdings, Inc., Woodmark International, L.P, and Capital One, National Association, as lender and agent (Incorporated by reference to Exhibit 10.1 to the Registrant’s Current Report on Form 8-K dated October 1, 2018).</u></a>

**Exhibit  
Number****Description of Exhibit**

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- [10.7](#) [Amendment No. 4 to Second Amended and Restated Loan and Security Agreement, dated as of November 16, 2018, by and among the Registrant, Florida Pneumatic Manufacturing Corporation, Hy-Tech Machine, Inc., ATSCO Holdings Corp, Jiffy Air Tool, Inc., Bonanza Properties Corp., Continental Tool Group, Inc., Countrywide Hardware, Inc., Embassy Industries, Inc., Exhaust Technologies, Inc., Green Manufacturing, Inc., Pacific Stair Products, Inc., WILP Holdings, Inc., Woodmark International, L.P. and Capital One, National Association, as lender and agent \(Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated November 16, 2018\).](#)
- [10.8](#) [Amendment No. 5 to Second Amended and Restated Loan and Security Agreement, dated as of February 8, 2019, by and among the Registrant, Florida Pneumatic Manufacturing Corporation, Hy-Tech Machine, Inc., ATSCO Holdings Corp, Jiffy Air Tool, Inc., Bonanza Properties Corp., Continental Tool Group, Inc., Countrywide Hardware, Inc., Embassy Industries, Inc., Exhaust Technologies, Inc. and Capital One, National Association, as lender and agent \(Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated February 8, 2019\).](#)
- [10.9](#) [Third Amended and Restated Capex Loan Note dated as of February 8, 2019 by the Registrant, Florida Pneumatic Manufacturing Corporation and Hy-Tech Machine, Inc. in favor of Capital One, National Association \(Incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K dated February 8, 2019\).](#)
- [10.10](#) [Amendment No. 6 to Second Amended and Restated Loan and Security Agreement, dated as of February 14, 2019, by and among the Registrant, Florida Pneumatic Manufacturing Corporation, Hy-Tech Machine, Inc., ATSCO Holdings Corp, Jiffy Air Tool, Inc., Bonanza Properties Corp., Continental Tool Group, Inc., Countrywide Hardware, Inc., Embassy Industries, Inc., Exhaust Technologies, Inc. and Capital One, National Association, as lender and agent \(Incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K dated February 14, 2019\).](#)
- [10.11](#) [Consent and Amendment No. 7 to Second Amended and Restated Loan and Security Agreement, dated as of April 19, 2019, by and among the Registrant, Florida Pneumatic Manufacturing Corporation, Hy-Tech Machine, Inc., ATSCO Holdings Corp, Jiffy Air Tool, Inc., Bonanza Properties Corp., Continental Tool Group, Inc., Countrywide Hardware, Inc., Embassy Industries, Inc., Exhaust Technologies, Inc. and Capital One, National Association, as lender and agent \(Incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K dated April 19, 2019\).](#)
- [10.12](#) [Consent, Joinder and Amendment No. 8 to Second Amended and Restated Loan and Security Agreement, dated as of October 25, 2019, by and among the Registrant, Florida Pneumatic Manufacturing Corporation, Hy-Tech Machine, Inc., ATSCO Holdings Corp, Jiffy Air Tool, Inc., Bonanza Properties Corp., Continental Tool Group, Inc., Countrywide Hardware, Inc., Embassy Industries, Inc., Exhaust Technologies, Inc., DaVinci Purchase Corp. and Capital One, National Association, as lender and agent \(Incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K dated April 19, 2019\).](#)
- [10.13](#) [Note, dated April 17, 2020 by Registrant in favor of BNB Bank \(Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated April 17, 2020\).](#)
- [10.14](#) [Payroll Protection Program Consent, dated as of April 17, 2020 among the Registrant, Florida Pneumatic Manufacturing Corporation, Hy-Tech Machine, Inc., ATSCO Holdings Corp, Jiffy Air Tool, Inc., Bonanza Properties Corp., Continental Tool Group, Inc., Countrywide Hardware, Inc., Embassy Industries, Inc., Exhaust Technologies, Inc., Hy-Tech Illinois, Inc. and Capital One, National Association, as lender and agent \(Incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K dated April 17, 2020\).](#)

**Exhibit  
Number**

**Description of Exhibit**

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- [10.15](#) [Second Modification Regarding Payroll Protection Program Consent, dated as of August 17, 2020, among the Registrant, Florida Pneumatic Manufacturing Corporation, Hy-Tech Machine, Inc., ATSCO Holdings Corp, Jiffy Air Tool, Inc., Bonanza Properties Corp., Continental Tool Group, Inc., Countrywide Hardware, Inc., Embassy Industries, Inc., Exhaust Technologies, Inc., Hy-Tech Illinois, Inc. and Capital One, National Association, as lender and agent \(Incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K dated August 17, 2020\).](#)
- [10.16](#) [\\*Agreement, dated February 14, 2019, between Richard A. Horowitz and the Board of Directors of the Registrant \(Incorporated by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K dated February 14, 2019\).](#)
- [10.17](#) [\\*Executive Employment Agreement, dated as of January 1, 2019, between the Registrant and Richard A. Horowitz \(Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated October 24, 2018\).](#)
- [10.18](#) [\\*2002 Stock Incentive Plan of the Registrant \(Incorporated by reference to Exhibit 10.5 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2002\).](#)
- [10.19](#) [\\*2012 Stock Incentive Plan of the Registrant \(Incorporated by reference to Appendix A to the Registrant's Definitive Proxy Statement with respect to the Registrant's 2012 Annual Meeting of Stockholders\).](#)
- [10.20](#) [\\*Executive Employment Agreement, dated as of January 1, 2018, between the Registrant and Joseph A. Molino, Jr. \(Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated January 30, 2018\).](#)
- [10.21](#) [\\*Amendment No. 1 to Executive Employment Agreement, dated as of March 5, 2019, between the Company and Joseph A. Molino, Jr. \(Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated March 5, 2019\).](#)
- [10.22](#) [\\*Amendment No. 2 to Executive Employment Agreement, dated as of December 30, 2020, between the Company and Joseph A. Molino, Jr. \(Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated December 30, 2020\).](#)

Exhibit Number	Description of Exhibit
<a href="#">21</a>	<a href="#">Subsidiaries of the Registrant (Filed herein).</a>
<a href="#">23.1</a>	<a href="#">Consent of Independent Registered Public Accounting Firm (Filed herein).</a>
<a href="#">31.1</a>	<a href="#">Certification of Richard A. Horowitz, Principal Executive Officer of the Registrant, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Filed herein).</a>
<a href="#">31.2</a>	<a href="#">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).</a>
<a href="#">32.1</a>	<a href="#">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).</a>
<a href="#">32.2</a>	<a href="#">Certification of Joseph A. Molino, Jr., Principal Financial Officer of the Registrant, Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Filed herein).</a>
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.*

\* 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 Operations and Comprehensive (Loss) Income, (iii) Consolidated Statements of Shareholders' Equity, (iv) Consolidated Statements of Cash Flows and (v) Notes to Consolidated Financial Statements.

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.

## 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 26, 2021

By: /s/ JOSEPH A. MOLINO, JR.  
Joseph A. Molino, Jr.  
*Vice President*  
*Principal Financial and*  
*Accounting Officer*  
Date: March 26, 2021

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.

<u>Name</u>	<u>Title</u>	<u>Date</u>
<u>/s/ RICHARD A. HOROWITZ</u> Richard A. Horowitz	Director	March 26, 2021
<u>/s/ JEFFREY D. FRANKLIN</u> Jeffrey D. Franklin	Director	March 26, 2021
<u>/s/ HOWARD BROD BROWNSTEIN</u> Howard Brod Brownstein	Director	March 26, 2021
<u>/s/ KENNETH M. SCHERIFF</u> Kenneth M. Scheriff	Director	March 26, 2021
<u>/s/ MITCHELL A. SOLOMON</u> Mitchell A. Solomon	Director	March 26, 2021
<u>/s/ RICHARD RANDALL</u> Richard Randall	Director	March 26, 2021



**DESCRIPTION OF THE REGISTRANT'S SECURITIES REGISTERED  
PURSUANT TO SECTION 12 OF THE SECURITIES EXCHANGE ACT OF 1934**

As of December 31, 2020, P&F Industries, Inc. (the "Corporation") had one class of securities registered under Section 12 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), which is our Class A Common Stock.

**Description of Class A Common Stock**

The following description of our Class A Common Stock is a summary and does not purport to be complete. It is subject to and qualified in its entirety by reference to our Restated Certificate of Incorporation (the "Certificate of Incorporation") and our Bylaws (as amended on September 19, 2016) (the "Bylaws"). The Certificate of Incorporation and Bylaws are incorporated by reference as an exhibit to the Annual Report on Form 10-K of which this Exhibit 4.1 is a part. We encourage you to read our Certificate of Incorporation, our Bylaws and the applicable provisions of the Delaware General Corporation Law ("DGL"), for additional information.

**Authorized Capital Shares**

Pursuant to our Certificate of Incorporation our Board of Directors is authorized to issue 7,000,000 shares of Class A Common Stock, \$1 par value per share ("Class A Common Stock") in addition to 2,000,000 shares of Class B Common Stock, \$1 par value per share, and 2,000,000 shares of preferred stock, par value \$10 per share. As of March 19, 2021, there were 3,181,286 shares of our Class A Common Stock outstanding and no other shares outstanding. The outstanding shares of our Class A Common Stock are fully paid and nonassessable.

**Voting Rights**

Except as otherwise provided by law or by this Certificate of Incorporation, and subject to the rights of holders of outstanding shares of preferred stock that may be issued in the future, the holders of Class A Common Stock shall have the sole right to vote at meetings of stockholders and shall be entitled to one vote per share; however, in case there shall be presented for approval any proposal to: (a) effect a merger or consolidation of the Corporation; (b) dissolve the Corporation; or (c) sell, lease or exchange all or substantially all of the property and assets of the Corporation, then the holders of Class B Common Stock, if any, shall also have the right to vote on such proposal, voting together with the holders of Class A Common Stock as a single class. Our Class A Common Stock does not have cumulative voting rights. Elections of directors are 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. Our Board of Directors is classified, consisting of three classes of directors serving staggered three-year terms.

**Dividend Rights**

Subject to the rights of holders of outstanding shares of preferred stock that may be issued in the future, the holders of Class A Common Stock are entitled to receive dividends, if any, as may be declared from time to time by the Board of Directors in its discretion out of funds legally available for the payment of dividends. To the extent there are any shares of Class B Common Stock outstanding, the holders of Class B Common Stock and the holders of Class A Common Stock shall be entitled to share equally, share for share, in such dividends.

**Liquidation Rights**

Subject to any preferential rights of outstanding shares of preferred stock that may be issued in the future, holders of Class A Common Stock (together with holders of Class B Common Stock, if any) will share ratably in all assets legally available for distribution to our stockholders in the event of dissolution.

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**DESCRIPTION OF THE REGISTRANT'S SECURITIES REGISTERED  
PURSUANT TO SECTION 12 OF THE SECURITIES EXCHANGE ACT OF 1934**

**Other Rights and Preferences**

Our Class A Common Stock has no sinking fund or redemption provisions or preemptive, conversion or exchange rights.

**Listing**

The Class A Common Stock is traded on The Nasdaq Stock Market LLC under the trading symbol "PFIN."

**Change of Control Provisions**

Provisions of our Certificate of Incorporation and Bylaws may delay or discourage transactions involving an actual or potential change in control of the Corporation or change in the Corporation's management, including transactions that stockholders might otherwise deem to be in their best interests. In addition to provisions of the DGL, as well as the provisions described above, the Certificate of Incorporation and Bylaws include the following provisions:

- (a) vacancies on our Board of Directors, and any new director positions created by the expansion of our Board of Directors, may be filled only by a majority of the directors then in office, subject to certain exceptions;
  - (b) our Bylaws establish an advance notice procedure for stockholders to submit proposed nominations of persons for election to our Board of Directors and other proposals for business to be brought before an annual meeting of our Stockholders;
  - (c) our Board of Directors may issue shares of preferred stock, with designations, rights and preferences as may be determined from time to time by our Board of Directors;
  - (d) our Bylaws may only be amended by our Board of Directors; and
  - (e) our Bylaws provide that special meetings of the stockholders may be called only by the chairperson of our board, our President or our Board of Directors.
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**P&F INDUSTRIES, INC.**

**SUBSIDIARIES OF THE REGISTRANT  
AS OF DECEMBER 31, 2020**

Continental Tool Group, Inc., a Delaware Corporation

Hy-Tech Machine, Inc., a Delaware Corporation  
ATSCO Holdings Corp., a Delaware Corporation  
Hy-Tech Illinois, Inc., a Delaware Corporation

Florida Pneumatic Manufacturing Corporation, a Florida Corporation  
D/b/a Universal Tool  
D/b/a Berkley Tool  
Exhaust Technologies, Inc., a Delaware corporation  
Universal Air Tool Company Limited, a Company incorporated in England and Wales  
Jiffy Air Tool, Inc., a Delaware Corporation  
Bonanza Properties, Inc., a Delaware Corporation

Countrywide Hardware, Inc., a Delaware Corporation

Pursuant to Item 601(b)(21)(ii) of Regulation S-K, the names of other subsidiaries are omitted because, considered in the aggregate, they would not constitute a significant subsidiary as of December 31, 2020.

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**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We 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 26, 2021 on our audits of the consolidated financial statements of P&F Industries, Inc. and Subsidiaries as of December 31, 2020 and 2019, and for the years then ended included in the 2020 Annual Report of P&F Industries, Inc. on Form 10-K.

/s/ CohnReznick LLP  
CohnReznick LLP  
Jericho, New York  
March 26, 2021

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**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 26, 2021

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**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 26, 2021

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

In connection with the annual report on Form 10-K of P&F Industries, Inc. (the "Company") for the year ended December 31, 2020, 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 26, 2021

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

In connection with the annual report on Form 10-K of P&F Industries, Inc. (the "Company") for the year ended December 31, 2020, 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.

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Joseph A. Molino, Jr.

*Principal Financial Officer*

Date: March 26, 2021

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