P&F INDUSTRIES INC
Form 10-Q
May 11, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended March 31, 2018

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

For the transition period from to

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**

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 x No ¨

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

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

Large accelerated filer ¨	Accelerated filer ¨	Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company x 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 is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

As of May 4, 2018 there were 3,579,294 shares of the registrant's Class A Common Stock outstanding.

P&F INDUSTRIES, INC.

FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2018

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

P&F INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	March 31, 2018 (unaudited)	December 31, 2017 (See Note 1)
ASSETS		
CURRENT ASSETS		
Cash	$ 1,704,000	$ 1,241,000
Accounts receivable — net	10,667,000	10,047,000
Inventories	18,739,000	19,657,000
Prepaid expenses and other current assets	1,427,000	1,224,000
TOTAL CURRENT ASSETS	32,537,000	32,169,000
PROPERTY AND EQUIPMENT		
Land	1,281,000	1,281,000
Buildings and improvements	6,138,000	6,138,000
Machinery and equipment	21,094,000	20,579,000
	28,513,000	27,998,000
Less accumulated depreciation and amortization	19,380,000	19,091,000
NET PROPERTY AND EQUIPMENT	9,133,000	8,907,000
GOODWILL	4,454,000	4,447,000
OTHER INTANGIBLE ASSETS — net	8,376,000	8,533,000
DEFERRED INCOME TAXES — net	847,000	872,000
OTHER ASSETS — net	89,000	110,000
TOTAL ASSETS	$ 55,436,000	$ 55,038,000

See accompanying notes to consolidated financial statements (unaudited).

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P&F INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	March 31, 2018 (unaudited)	December 31, 2017 (See Note 1)
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Short-term borrowings	$ 3,241,000	$ 1,928,000
Accounts payable	2,735,000	2,443,000
Accrued compensation and benefits	961,000	1,944,000
Accrued other liabilities	1,256,000	1,576,000
Current maturities of long-term debt	95,000	—
TOTAL CURRENT LIABILITIES	8,288,000	7,891,000
Long–term debt, less current maturities	—	94,000
Other liabilities	1,064,000	1,040,000
TOTAL LIABILITIES	9,352,000	9,025,000
SHAREHOLDERS' EQUITY		
Preferred stock - $10 par; authorized - 2,000,000 shares; no shares issued	—	—
Common stock		
Class A - $1 par; authorized - 7,000,000 shares; issued – 4,229,000 at March 31, 2018 and 4,203,000 at December 31, 2017	4,229,000	4,203,000
Class B - $1 par; authorized - 2,000,000 shares; no shares issued	—	—
Additional paid-in capital	13,210,000	13,064,000
Retained earnings	34,340,000	34,455,000
Treasury stock, at cost – 641,000 shares at March 31, 2018 and 631,000 shares at December 31, 2017	(5,261,000)	(5,179,000)
Accumulated other comprehensive loss	(434,000)	(530,000)
TOTAL SHAREHOLDERS' EQUITY	46,084,000	46,013,000
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 55,436,000	$ 55,038,000

See accompanying notes to consolidated financial statements (unaudited).

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P&F INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

(unaudited)

	Three months ended March 31, 2018	2017
Net revenue	$15,742,000	$13,216,000
Cost of sales	10,308,000	8,243,000
Gross profit	5,434,000	4,973,000
Selling, general and administrative expenses	5,280,000	5,047,000
Operating income (loss)	154,000	(74,000)
Other expenses	29,000	—
Interest expense	37,000	10,000
Income (loss) before income taxes	88,000	(84,000)
Income tax expense (benefit)	23,000	(24,000)
Income (loss)	65,000	(60,000)
Net income (loss)	$65,000	$(60,000)
Basic and diluted earnings (loss) per share	$0.02	$(0.02)
Weighted average common shares outstanding:		
Basic	3,583,000	3,598,000
Diluted	3,745,000	3,598,000
Net income (loss)	$65,000	$(60,000)
Other comprehensive income - foreign currency translation adjustment	96,000	26,000
Total comprehensive income (loss)	$161,000	$(34,000)

See accompanying notes to consolidated financial statements (unaudited).

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P&F INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY (unaudited)

		Class A common stock, $1 par		Additional paid-in	Retained	Treasury stock		Accumulated other comprehensive
	Total	Shares	Amount	capital	earnings	Shares	Amount	loss
Balance, January 1, 2018	$46,013,000	4,203,000	$4,203,000	$13,064,000	$34,455,000	(631,000)	$(5,179,000)	$(530,000)
Net income	65,000	—	—	—	65,000	—	—	—
Exercise of stock options	105,000	26,000	26,000	79,000	—	—	—	—
Restricted common stock compensation	7,000	—	—	7,000	—	—	—	—
Purchase of Class A common stock	(82,000)	—	—	—	—	(10,000)	(82,000)	—
Stock-based compensation	60,000	—	—	60,000	—	—	—	—
Dividends	(180,000)	—	—	—	(180,000)	—	—	—
Foreign currency translation adjustment	96,000	—	—	—	—	—	—	96,000
Balance, March 31, 2018	$46,084,000	4,229,000	$4,229,000	$13,210,000	$34,340,000	(641,000)	$(5,261,000)	$(434,000)

See accompanying notes to consolidated financial statements (unaudited).

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P&F INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

	Three months ended March 31, 2018	2017
Cash Flows from Operating Activities:		
Net income (loss)	$65,000	$(60,000)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Non-cash charges:		
Depreciation and amortization	335,000	319,000
Amortization of other intangible assets	179,000	206,000
Amortization of debt issue costs	23,000	9,000
(Recovery of) provision for losses on accounts receivable - net	(1,000)	1,000
Stock-based compensation	60,000	—
Loss on sale of fixed assets	1,000	—
Restricted stock-based compensation	7,000	12,000
Deferred income taxes	21,000	(71,000)
Fair value increase in contingent consideration	29,000	—
Changes in operating assets and liabilities:		
Accounts receivable	(603,000)	(716,000)
Inventories	961,000	(331,000)
Prepaid expenses and other current assets	(200,000)	(166,000)
Other assets	—	18,000
Accounts payable	287,000	59,000
Accrued compensation and benefits	(985,000)	(1,080,000)
Accrued other liabilities	(328,000)	(69,000)
Other liabilities	(5,000)	(5,000)
Total adjustments	(219,000)	(1,814,000)
Net cash used in operating activities	(154,000)	(1,874,000)

See accompanying notes to consolidated financial statements (unaudited).

P&F INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

	Three months ended March 31, 2018	2017
Cash Flows from Investing Activities:		
Capital expenditures	$(570,000)	$(231,000)
Proceeds from disposal of assets	10,000	—
Net cash used in investing activities	(560,000)	(231,000)
Cash Flows from Financing Activities:		
Dividend payments	(180,000)	(180,000)
Proceeds from exercise of stock options	105,000	—
Purchase of Class A common stock	(82,000)	—
Net proceeds from short-term borrowings	1,313,000	—
Repayments of notes payable	—	(5,000)
Net cash provided by (used in) financing activities	1,156,000	(185,000)
Effect of exchange rate changes on cash	21,000	4,000
Net increase (decrease) in cash	463,000	(2,286,000)
Cash at beginning of period	1,241,000	3,699,000
Cash at end of period	$1,704,000	$1,413,000
Supplemental disclosures of cash flow information:		
Cash paid for:		
Interest	$16,000	$1,000
Income taxes	$2,000	$—

See accompanying notes to consolidated financial statements (unaudited).

P&F INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

NOTE 1 – BUSINESS AND SUMMARY OF ACCOUNTING POLICIES

Basis of Financial Statement Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information, and with the rules and regulations of the Securities and Exchange Commission (“SEC”) regarding interim financial reporting. Accordingly, these interim financial statements do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of the management of the Company, as defined below, these unaudited consolidated financial statements include all adjustments necessary to present fairly the information set forth therein. Results for interim periods are not necessarily indicative of results to be expected for a full year.

The consolidated balance sheet information as of December 31, 2017 was derived from the audited consolidated financial statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017 (“2017 Form 10-K”). The interim financial statements contained herein should be read in conjunction with the 2017 Form 10-K.

The consolidated financial statements have been reported in U.S. dollars by translating asset and liability amounts of a foreign wholly-owned subsidiary at the closing exchange rate, equity amounts at historical rates and the results of operations and cash flow at the average of the prevailing exchange rates during the periods reported. As a result, the Company is exposed to foreign currency translation gains or losses. These gains or losses are presented in the Company’s consolidated financial statements as “Other comprehensive income - foreign currency translation adjustment”.

Principles of Consolidation

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

The Company

P&F is a Delaware corporation incorporated on April 19, 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”) and Universal Air Tool Company Limited (“UAT”) are wholly-owned subsidiaries of Florida Pneumatic. Effective April 5, 2017, the Company purchased substantially all of the operating assets, less certain payables of Jiffy Air Tool, Inc., (“Jiffy”) through a wholly-owned subsidiary. See Note 2 to our consolidated financial statements for further discussion. Lastly, the business of Air Tool Service Company (“ATSCO”) operates through a wholly-owned subsidiary of Hy-Tech.

Florida Pneumatic manufactures, imports and sells pneumatic hand tools, most of which are of its own design, primarily to the retail, industrial, automotive and aerospace markets. It also markets, through its Berkley Tool division (“Berkley”), a product line which includes pipe and bolt dies, pipe taps, wrenches, vises and stands, pipe and tubing cutting equipment, hydrostatic test pumps, and replacement electrical components for a widely-used brand of pipe cutting and threading machines.

Hy-Tech designs, manufactures and distributes industrial pneumatic tools, industrial gears, hydrostatic test plugs and a wide variety of parts under the brands ATP, ATSCO, OZAT, Numatx, Thaxton and Quality Gear. Industries served include power generation, petrochemical, construction, railroad, mining, ship building and fabricated metals. Hy-Tech also manufactures components, assemblies, finished product and systems for various Original Equipment Manufacturers under their own brand names.

P&F INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

NOTE 1 – BUSINESS AND SUMMARY OF ACCOUNTING POLICIES – (continued)

Management Estimates

The preparation of financial statements and related disclosures in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses in those financial statements. Certain significant accounting policies that contain subjective management estimates and assumptions include those related to revenue recognition, inventory, goodwill, intangible assets and other long-lived assets, contingent consideration, income taxes and deferred taxes. Descriptions of these policies are discussed in the Company's 2017 Form 10-K. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment, and makes adjustments when facts and circumstances dictate. 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.

Significant Accounting Policies – Revenue Recognition

Our significant accounting policies are described in "Note 1: Summary of Significant Accounting Policies" of our Annual Report on Form 10-K for the year ended December 31, 2017. Our significant accounting policy relating to revenue recognition reflects the impact of the adoption of ASC 606, defined below, in the first quarter of 2018.

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, typically related to customer purchase volume, and 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 would 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 will not have any impact on its financial results. Additionally, as the result of the adoption of ASC 606, the Company will account for certain expenses that in prior periods were accounted for as a selling expense, which will now be treated as an adjustment to gross revenue. Accordingly, during the three-month period ended March 31, 2018 the Company reduced its net revenue, gross margin and selling expense by approximately $214,000. Additionally, the Company at March 31, 2018 has included in its allowance for doubtful accounts approximately $74,000 that was previously accounted for in its current liabilities. There are no remaining performance obligations as of March 31, 2018.

P&F INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

NOTE 1 – BUSINESS AND SUMMARY OF ACCOUNTING POLICIES – (Continued)

The Company analyzes its revenue as follows:

Revenue generated at Florida Pneumatic.

	Three months ended March 31,					
	2018			2017		
	Revenue	Percent of revenue		Revenue	Percent of revenue	
Retail	$4,090,000	33.4	%	$5,353,000	50.9	%
Automotive	3,938,000	32.1		3,613,000	34.4	
Aerospace	2,670,000	21.8		89,000	0.9	
Industrial/catalog	1,364,000	11.1		1,245,000	11.8	
Other	202,000	1.6		209,000	2.0	
Total	$12,264,000	100.0	%	$10,509,000	100.0	%

Revenue generated at Hy-Tech.

	Three months ended March 31,					
	2018			2017		
	Revenue	Percent of revenue		Revenue	Percent of revenue	
ATP brands	$3,076,000	88.4	%	$2,406,000	88.9	%
Other brands	402,000	11.6		301,000	11.1	
Total	$3,478,000	100.0	%	$2,707,000	100.0	%

New Accounting Pronouncements

Recently Adopted

In January 2017, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2017-04, *Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment ("ASU 2017-04"),* which simplified the testing of goodwill for impairment by eliminating Step 2 from the goodwill impairment test. Step 2 measured a goodwill impairment loss by comparing the implied fair value of a reporting unit's goodwill with the carrying amount of that goodwill. ASU 2017-04 is effective for public companies for annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. The Company concluded that ASU 2017-04 is preferable to the current guidance due to efficiency, since ASU 2017-04 eliminates the requirement to determine the fair value of individual assets and liabilities of a reporting unit to measure goodwill impairment. The Company adopted ASU 2017-04 in 2017, in conjunction with its annual impairment test of goodwill for all reporting units. The adoption of ASU 2017-04 did not have a material impact on the Company's financial results.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230) - Classification of Certain Cash Receipts and Cash Payments*. The amendments in ASU 2016-15 are intended to add or clarify guidance on the classification of certain cash receipts and payments in the statement of cash flows, with the intent of reducing diversity in practice for the eight types of cash flows identified. ASU 2016-15 is effective for public companies' fiscal years, including interim periods within those fiscal years, beginning after December 15, 2017. The adoption of ASU 2016-15 as of January 1, 2018 had no material effect on the Company's financial position, results of operations or cash flows.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*, as a new Topic, Accounting Standards Codification ("ASC") ASC 606 ("ASC 606"), which supersedes existing accounting standards for revenue recognition and creates a single framework. Additional updates to ASC 606 were issued by the FASB in 2015 and 2016.

The Company adopted ASC 606 on the first day of fiscal 2018. Its underlying principle is to use a five-step analysis of transactions to recognize revenue when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. The Company has elected to use the modified retrospective approach. As the Company does not have any contracts that were not completed as of January 1, 2018, there is no adjustment required to its retained earnings. The adoption of ASC 606 will not have an effect on the Company's cash flows. Other than discussed earlier in this Note 1, the Adoption of ASC 606 did not have a material effect on the Company's consolidated financial statements.

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

P&F INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

NOTE 1 – BUSINESS AND SUMMARY OF ACCOUNTING POLICIES – (Continued)

Not Yet Adopted

In February 2016, the FASB issued ASU 2016-02, *Leases*. This ASU is a comprehensive new leases standard that amends various aspects of existing guidance for leases and requires additional disclosures about leasing arrangements. It will require companies to recognize lease assets and lease liabilities by lessees for those leases classified as operating leases under previous GAAP. 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 ASU is effective for annual periods beginning after December 15, 2018, including interim periods within those fiscal years; earlier adoption is permitted. In the financial statements in which the ASU is first applied, leases shall be measured and recognized at the beginning of the earliest comparative period presented with an adjustment to equity. Practical expedients are available for election as a package and if applied consistently to all leases. The Company is currently evaluating the impact of the adoption of this guidance on its consolidated financial condition, results of operations and cash flows.

In February 2018, the FASB issued No. ASU 2018-02, *Income Statement – Reporting Comprehensive Income* (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income (“ASU 2018-02”). Under ASU 2018-02, an entity may elect to reclassify the income tax effects of the Tax Reform Act on items within accumulated other comprehensive income to retained earnings. ASU 2018-02 is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted in any interim period. We are currently evaluating what impact, if any, adoption of ASU 2018-02 may have on our consolidated financial statements.

Other Accounting Pronouncement

The Tax Cuts and Jobs Act (the “Act”) was enacted on December 22, 2017. The Act reduces the U.S. federal corporate income tax rate from 35% to 21%, required companies to pay a one-time transition tax on earnings of certain foreign subsidiaries previously deferred from tax, generally eliminates U.S federal income taxes on dividends from foreign subsidiaries and creates a new provision designed to tax global intangible low-taxed income (“GILTI”). Also on

December 22, 2017, the U.S. Securities and Exchange Commission issued Staff Accounting Bulletin No. 118 (“SAB 118”), which provides for a measurement period of up to one year from the enactment for companies to complete their accounting for the Act. The Company is applying the guidance in SAB 118 when accounting for the enactment-date effects of the Act.

At March 31, 2018, the Company has not completed its accounting for the tax effects of the Act, but has made reasonable estimates of the effects on the re-measurement of its deferred tax assets and liabilities as well as its transition tax liability. During the three month period ended March 31, 2018, the Company made no adjustments to the provisional amounts recorded at December 31, 2017. Additionally, the Company has not yet collected and analyzed all necessary tax and earnings data of its foreign operations and therefore, the Company has also not yet completed its accounting for the income tax effects of the transition tax. The Company will continue to make and refine its calculations as additional analysis is completed.

Other than the aforementioned, the Company does not believe that any other recently issued, but not yet effective accounting standard, if adopted, will have a material effect on its consolidated financial statements.

NOTE 2 – ACQUISITION

On April 5, 2017 (the “Jiffy Closing Date”), Bonanza Holdings Corp. (now known as Jiffy Air Tool, Inc.), a Delaware corporation and newly formed wholly-owned subsidiary (“Jiffy”) of Florida Pneumatic, Jiffy Air Tool, Inc. a Nevada corporation (“Jiffy Seller”), The Jack E. Pettit—1996 Trust, the sole shareholder of Jiffy Seller and Jack E. Pettit, entered into an Asset Purchase Agreement (the “Asset Purchase Agreement”), pursuant to which, among other things, Jiffy acquired (the “Jiffy Acquisition”) substantially all of the operating assets of Jiffy Seller for $5,950,000, in addition to the assumption of certain payables and contractual obligations as set forth in the Asset Purchase Agreement. Jiffy manufactures and distributes pneumatic tools and components, primarily sold to aerospace manufacturers. The purchase price was $5,950,000, less a post-closing working capital adjustment of $155,000, which was paid by Jiffy Seller to the Company in June 2017.

Additionally, Jiffy Seller may be entitled to up to $1,000,000 in additional consideration, which is contingent upon Jiffy achieving certain revenue thresholds and other criteria as set forth in the Asset Purchase Agreement within two defined measurement periods occurring within approximately the first two years following the Jiffy Closing Date. As of March 31, 2018, the Company has estimated the fair value of this contingent consideration to be $880,000.

In connection with the Asset Purchase Agreement, a separate Purchase and Sale Agreement and Joint Escrow Instructions (the “Purchase and Sale Agreement” and together with the Asset Purchase Agreement, the “Agreements”) was entered into between Jiffy Seller and Bonanza Properties Corp. (“Bonanza Properties”), a Delaware corporation and newly formed wholly-owned subsidiary of Florida Pneumatic, pursuant to which Bonanza Properties purchased certain real property of Jiffy Seller. Pursuant to the Purchase and Sale Agreement, the purchase price for the real property was $1,050,000.

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P&F INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

NOTE 2 – ACQUISITION – (Continued)

The initial total consideration ($5,950,000 plus $1,050,000) paid to Jiffy Seller was from funds available under the Revolver, as defined in Note 9, less certain amounts escrowed pursuant to the terms of the Agreements.

	Total
Cash paid at closing	$7,000,000
Less working capital adjustment	(155,000)
Fair value of contingent consideration	692,000
Total estimated purchase price	$7,537,000

The following table presents purchase price allocation:

Accounts receivable	$789,000
Inventories	1,571,000
Other current assets	45,000
Land	131,000
Building	919,000
Machinery and equipment	1,196,000
Identifiable intangible assets:	
Customer relationships	1,670,000
Trademarks and trade names	790,000
Non-compete agreements	17,000
Liabilities assumed	(125,000)
Goodwill	534,000
Total estimated purchase price	$7,537,000

The excess of the total purchase price over the fair value of the net assets acquired, including the value of the identifiable intangible assets, has been allocated to goodwill. Goodwill will be amortized over 15 years for tax purposes, but not deductible for financial reporting purposes. The intangible assets subject to amortization will be amortized over 15 years for tax purposes. For financial reporting purposes, useful lives have been assigned as follows:

Customer relationships	15 years
Trademarks and trade names	Indefinite
Non-compete agreements	4 years

The following unaudited pro-forma combined financial information gives effect to the Jiffy Acquisition as if the Jiffy Acquisition was consummated January 1, 2017. 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 Jiffy Acquisition been completed as of January 1, 2017 (the beginning of the earliest period presented) or to project potential operating results as of any future date or for any future periods.

	Three months ended March 31, 2017
Revenue	$ 14,694,000
Net Income	$ 46,000
Earnings per share – Basic	$ 0.01
Earnings per share – Diluted	$ 0.01

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P&F INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

NOTE 3 – EARNINGS (LOSS) PER SHARE

Basic earnings (loss) per common share is based only on the average number of shares of Common Stock outstanding for the periods. Diluted earnings (loss) per common share reflects the effect of shares of Common Stock issuable upon the exercise of options, unless the effect on earnings is antidilutive.

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

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

	Three months ended March 31,	
	2018	2017
Numerator for basic and diluted earnings (loss) per common share:		
Net income (loss)	$65,000	$(60,000)
Denominator:		
For basic earnings (loss) per share - weighted average common shares outstanding	3,583,000	3,598,000
Dilutive securities [(1)]	162,000	—
For diluted earnings (loss) per share - weighted average common shares outstanding	3,745,000	3,598,000

(1) Dilutive securities consist of “in the money” stock options.

At March 31, 2018 and 2017, there were outstanding stock options whose exercise prices were higher than the average market values of the underlying Common Stock for the period. Options for the three months ended March 31, 2017 are anti-dilutive and are excluded from the computation of diluted earnings (loss) per share. The weighted average of anti-dilutive stock options outstanding was as follows:

	Three months ended March 31,	
	2018	2017
Weighted average antidilutive stock options outstanding	49,000	71,000

NOTE 4 – STOCK-BASED COMPENSATION

There were no options granted or issued during the three-month period ended March 31, 2018.

The following is a summary of the changes in outstanding options during the three-month period ended March 31, 2018:

	Option Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Outstanding, January 1, 2018	418,233	$ 5.17	3.8	$1,343,442
Granted	—	—		
Exercised	(26,130)	3.98		
Forfeited	—	—		
Expired	—	—		
Outstanding, March 31, 2018	392,103	$ 5.25	3.8	$989,441
Vested, March 31, 2018	303,103	$ 4.71	2.1	$929,811

P&F INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

NOTE 4 – STOCK-BASED COMPENSATION – (Continued)

	Option Shares	Weighted Average Grant-Date Fair Value
Non-vested options, January 1, 2018	89,000	$ 4.41
Granted	—	—
Vested	—	—
Forfeited	—	—
Non-vested options, March 31, 2018	89,000	$ 4.41

The number of shares of Common Stock available for issuance under the P&F Industries, Inc. 2012 Stock Incentive Plan (the "2012 Plan") as of March 31, 2018 was 88,812. At March 31, 2018, there were 192,233 options outstanding issued under the 2012 Plan and 199,870 options outstanding issued under the 2002 Stock Incentive Plan.

Restricted Stock

The Company, in May 2017, granted 1,000 restricted shares of its common stock to each non-employee member of its Board of Directors, totaling 5,000 restricted shares. The Company determined that the fair value of these shares was $6.17 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. As such, the Company is ratably amortizing the total non-cash compensation expense of approximately $30,000 in its selling, general and administrative expenses through May 2018.

Treasury Stock

On August 9, 2017, the Company's Board of Directors authorized the Company to repurchase up to 100,000 shares of its common stock over a period of up to twelve months (the "Repurchase Program"). On August 24, 2017, the Company announced that, pursuant to the Repurchase Program, it had adopted a written trading plan in accordance with the guidelines specified under Rule 10b5-1 under the Securities Exchange Act of 1934. A plan under Rule 10b5-1 allows the Company to repurchase shares at times when it might otherwise be prevented from doing so by securities laws or because of self-imposed trading blackout periods. Repurchases made under the plan are subject to the SEC's regulations, as well as certain price, market, volume, and timing constraints specified in the plan. Since repurchases under the plan are subject to certain constraints, there is no guarantee as to the exact number of shares that will be repurchased under the plan. Since the inception of the Repurchase Program through March 31, 2018, the Company repurchased approximately 57,000 shares of its common stock at an aggregate cost of approximately $439,000.

NOTE 5 – 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 instruments valuation.

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

P&F INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

NOTE 5 – FAIR VALUE MEASUREMENTS – (Continued)

As of March 31, 2018 and December 31, 2017, 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).

NOTE 6 – ACCOUNTS RECEIVABLE AND ALLOWANCE FOR DOUBTFUL ACCOUNTS

Accounts receivable - net consists of:

	March 31, 2018	December 31, 2017
Accounts receivable	$ 10,892,000	$ 10,199,000
Allowance for doubtful accounts, sales discounts and chargebacks	(225,000)	(152,000)
	$ 10,667,000	$ 10,047,000

NOTE 7 – INVENTORIES

Inventories consist of:

	March 31, 2018	December 31, 2017
Raw material	$ 1,912,000	$ 1,871,000

Work in process	1,873,000	1,556,000
Finished goods	14,954,000	16,230,000
	$ 18,739,000	$ 19,657,000

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P&F INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

NOTE 8 – GOODWILL AND OTHER INTANGIBLE ASSETS

Changes in the carrying amount of goodwill are as follows:

Balance, January 1, 2018	$4,447,000
Currency translation adjustment	7,000
Balance, March 31, 2018	$4,454,000

Other intangible assets were as follows:

	March 31, 2018			December 31, 2017		
	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
Other intangible assets:						
Customer relationships (1)	$6,847,000	$1,715,000	$5,132,000	$6,836,000	$1,570,000	$5,266,000
Trademarks and trade names (1)	2,344,000	—	2,344,000	2,329,000	—	2,329,000
Trademarks and trade names (2)	200,000	22,000	178,000	200,000	19,000	181,000
Engineering drawings	330,000	182,000	148,000	330,000	175,000	155,000
Non-compete agreements (1)	243,000	223,000	20,000	239,000	210,000	29,000
Patents	1,405,000	851,000	554,000	1,405,000	832,000	573,000
Totals	$11,369,000	$2,993,000	$8,376,000	$11,339,000	$2,806,000	$8,533,000

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

(2) These were previously considered an indefinite-lived intangible asset of Hy-Tech. However, as the result of a prior impairment, the Company began amortizing these intangible assets over a 15 year useful life.

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

Three months ended March 31,	
2018	2017
$ 179,000	$ 206,000

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

	March 31, 2018	December 31, 2017
Customer relationships	9.9	