P&F INDUSTRIES INC
Form 10-Q/A
May 17, 2004

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A

Amendment No. 1

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

For the Quarter Ended September 30, 2003

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

Commission File Number 1 - 5332

P & F INDUSTRIES, INC.

(Exact name of registrant as specified in its charter)

Delaware	**22-1657413**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

300 Smith Street, Farmingdale, New York	**11735**
(Address of principal executive offices)	(Zip Code)

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

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, and (2) has been subject to such filing requirements for the past 90 days.

Yes ý No o

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). **Yes o No ý**

As of November 12, 2003, there were 3,511,631 shares of the registrant s Class A Common Stock outstanding.

P & F INDUSTRIES, INC.

FORM 10-Q/A

FOR THE QUARTER ENDED SEPTEMBER 30, 2003

TABLE OF CONTENTS

PART I FINANCIAL INFORMATION

Item 1.	Consolidated Financial Statements (unaudited)
	Consolidated Balance Sheets
	Consolidated Statements of Operations
	Consolidated Statement of Shareholders Equity
	Consolidated Statements of Cash Flows
	Notes to Consolidated Financial Statements
Item 2.	Management s Discussion and Analysis of Financial Condition and Results of Operations
Item 3.	Quantitative and Qualitative Disclosures About Market Risk
Item 4.	Controls and Procedures

PART II OTHER INFORMATION

Item 1.	Legal Proceedings
Item 2.	Changes in Securities and Use of Proceeds
Item 3.	Defaults Upon Senior Securities
Item 4.	Submission of Matters to a Vote of Security Holders

Item 5.	Other Information
Item 6.	Exhibits and Reports on Form 8-K

Signatures

Exhibit Index

Certifications

EXPLANATORY NOTE

This Amendment No. 1 on Form 10-Q/A amends and restates Items 1 and 2 of Part I contained in the Company s Quarterly Report on Form 10-Q for the quarter ended September 30, 2003 to give effect to the restatement of the Company s consolidated financial statements for the quarter ended March 31, 2003, as discussed in Note 3 of the Notes to Consolidated Financial Statements. Except as set forth in Items 1 and 2 of Part I below, the Company has not made any changes to, nor updated any disclosures contained in, its Quarterly Report on Form 10-Q filed on November 13, 2003.

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

P & F INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (unaudited)

	September 30, 2003	December 31, 2002
ASSETS		
CURRENT:		
Cash	$ 1,163,550	$ 1,024,222
Accounts receivable, less allowance for possible losses of $392,662 in 2003 and $354,441 in 2002 (Note 8)	14,598,161	10,864,261
Inventories (Notes 7 and 8)	21,262,989	19,580,073
Deferred income taxes - net	485,000	485,000
Prepaid expenses and other	1,198,558	1,080,313
TOTAL CURRENT ASSETS	38,708,258	33,033,869
PROPERTY AND EQUIPMENT (Note 8):		
Land	1,582,938	1,582,938
Buildings and improvements	8,983,150	8,811,117
Machinery and equipment	15,012,719	14,514,353
	25,578,807	24,908,408
Less accumulated depreciation and amortization	12,599,275	11,409,203
NET PROPERTY AND EQUIPMENT	12,979,532	13,499,205
GOODWILL, net of accumulated amortization of $1,419,274 (Note 2)	10,654,867	10,210,621
OTHER INTANGIBLE ASSETS, net of accumulated amortization of $753,667 in 2003 and $354,667 in 2002	1,906,333	2,305,333
OTHER ASSETS, net of accumulated amortization of $173,759 in 2003 and $180,858 in 2002	126,301	118,528
TOTAL ASSETS	$ 64,375,291	$ 59,167,556

See accompanying notes to consolidated financial statements (unaudited).

P & F INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (unaudited)

	September 30, 2003	December 31, 2002
LIABILITIES AND SHAREHOLDERS EQUITY		
CURRENT LIABILITIES:		
Short-term borrowings (Note 8)	$ 9,500,000	$ 4,500,000
Accounts payable	3,240,650	2,860,271
Accruals:		
Compensation	1,677,000	2,112,377
Other (Note 9)	2,698,177	2,379,962
Current maturities of long-term debt (Note 8)	1,509,180	1,402,547
TOTAL CURRENT LIABILITIES	18,625,007	13,255,157
LONG-TERM DEBT, less current maturities (Note 8)	9,240,336	11,591,989
DEFERRED INCOME TAXES - net	351,000	497,000
TOTAL LIABILITIES	28,216,343	25,344,146
COMMITMENTS AND CONTINGENCIES (Notes 8 and 9)		
SHAREHOLDERS EQUITY (Note 10):		
Preferred stock - $10 par; authorized - 2,000,000 shares; no shares issued or outstanding		
Common stock:		
Class A - $1 par; authorized - 7,000,000 shares; issued - 3,730,367 shares in 2003 and 3,690,367 shares in 2002	3,730,367	3,690,367
Class B - $1 par; authorized - 2,000,000 shares; no shares issued or outstanding		
Additional paid-in capital	8,588,590	8,540,528
Retained earnings	25,566,832	22,997,016
Treasury stock, at cost (223,736 shares in 2003 and 176,045 shares in 2002)	(1,726,841)	(1,404,501)
TOTAL SHAREHOLDERS EQUITY	36,158,948	33,823,410
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$ 64,375,291	$ 59,167,556

See accompanying notes to consolidated financial statements (unaudited).

P & F INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2003	**2002**	**2003**	**2002**
REVENUES (Note 11):				
Net sales	$ 23,614,451	$ 20,915,289	$ 64,584,445	$ 56,351,585
Other	88,251	167,220	338,438	494,039
	23,702,702	21,082,509	64,922,883	56,845,624
COSTS AND EXPENSES:				
Cost of sales	16,967,999	14,864,251	45,046,765	39,388,993
Selling, general and administrative	5,149,755	4,679,836	15,209,037	13,193,626
Interest - net	172,256	233,416	555,265	497,838
	22,290,010	19,777,503	60,811,067	53,080,457
INCOME BEFORE TAXES ON INCOME AND CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	1,412,692	1,305,006	4,111,816	3,765,167
TAXES ON INCOME	530,000	528,000	1,542,000	1,475,000
INCOME BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	882,692	777,006	2,569,816	2,290,167
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE, NET OF TAXES OF $1,668,000 (Note 2)				(3,239,118)
NET INCOME (LOSS)	$ 882,692	$ 777,006	$ 2,569,816	$ (948,951)

See accompanying notes to consolidated financial statements (unaudited).

	Three months ended September 30,		Nine months ended September 30,	
	2003	**2002**	**2003**	**2002**
Weighted average common shares outstanding (Note 12):				
Basic	3,503,766	3,516,519	3,505,204	3,510,820
Diluted	3,584,939	3,580,074	3,579,407	3,583,039
Earnings (loss) per share of common stock (Note 12):				
Basic:				
Income before cumulative effect of change in accounting principle	$ .25	$ .22	$ .73	$ .65
Cumulative effect of change in accounting principle, net of taxes				(.92)
Net income (loss)	$ .25	$ .22	$ .73	$ (.27)
Diluted:				
Income before cumulative effect of change in accounting principle	$ .25	$ .22	$ .72	$ .64
Cumulative effect of change in accounting principle, net of taxes				(.90)
Net income (loss)	$ .25	$ .22	$ .72	$ (.26)

See accompanying notes to consolidated financial statements (unaudited).

P & F INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF SHAREHOLDERS EQUITY

(unaudited)

	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Total
Balance, January 1, 2003	$ 3,690,367	$ 8,540,528	$ 22,997,016	$ (1,404,501)	$ 33,823,410
Net income for the nine months ended September 30, 2003			2,569,816		2,569,816
Exercise of stock options	40,000	48,062			88,062
Purchase of Class A Common Stock (Note 10)				(322,340)	(322,340)
Balance, September 30, 2003	$ 3,730,367	$ 8,588,590	$ 25,566,832	$ (1,726,841)	$ 36,158,948

Shares	**Common stock**	**Treasury stock**
Balance, January 1, 2003	3,690,367	176,045
Exercise of stock options	40,000	
Purchase of Class A Common Stock		47,691
Balance, September 30, 2003	3,730,367	223,736

See accompanying notes to consolidated financial statements (unaudited).

P & F INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

	Nine months ended September 30,	
	2003	**2002**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ 2,569,816	$ (948,951)
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities:		
Cumulative effect of change in accounting principle - net of taxes		3,239,118
Depreciation and amortization	1,307,990	1,176,161
Amortization of intangible assets	425,714	234,550
Issuance of Class A Common Stock		89,163
Loss on disposal of fixed assets	11,638	
Provision for losses on accounts receivable - net	38,221	5,861
Deferred income taxes	(146,000)	(23,000)
Decrease (increase) - net of acquisition of Nationwide Industries, Inc. in 2002:		
Accounts receivable	(3,772,121)	(1,989,694)
Inventories	(1,682,916)	(2,882,772)
Prepaid expenses and other	(123,763)	(354,145)
Other assets	(28,969)	
Increase (decrease) - net of acquisition of Nationwide Industries, Inc. in 2002:		
Accounts payable	380,379	2,685,922
Accruals and other	(117,162)	158,542
Total adjustments	(3,706,989)	2,339,706
Net cash (used in) provided by operating activities	(1,137,173)	1,390,755
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(799,955)	(3,707,085)
Payments for acquisition of Nationwide Industries, Inc. - net of $2,920 cash acquired		(10,448,794)
Additional payments for purchase of Nationwide Industries, Inc.	(444,246)	
Payments for acquisition-related expenses		(800,891)
Payment for acquisition of product line		(397,940)
Net cash used in investing activities	(1,244,201)	(15,354,710)

See accompanying notes to consolidated financial statements (unaudited).

	Nine months ended September 30,	
	2003	**2002**
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from short-term borrowings	9,000,000	4,000,000
Repayments of short-term borrowings	(4,000,000)	(1,435,000)
Proceeds from mortgage	1,697,301	2,024,000
Proceeds from term loan		11,500,000
Principal payments on long-term debt	(3,942,321)	(1,658,994)
Proceeds from exercise of stock options	88,062	
Purchase of Class A Common Stock	(322,340)	(100,800)
Net cash provided by financing activities	2,520,702	14,329,206
NET INCREASE IN CASH	139,328	365,251
CASH AT BEGINNING OF PERIOD	1,024,222	507,833
CASH AT END OF PERIOD	$ 1,163,550	$ 873,084
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Income taxes	$ 1,329,212	$ 1,282,500
Interest	$ 566,885	$ 443,834

See accompanying notes to consolidated financial statements (unaudited).

P & F INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

NOTE 1 - PRINCIPLES OF CONSOLIDATION

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

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

Florida Pneumatic is engaged in the importation, manufacture and sale of pneumatic hand tools, primarily for the industrial and retail markets, and the importation and sale of compressor air filters. Florida Pneumatic also markets, through its Berkley Tool division (Berkley), a line of pipe cutting and threading tools, wrenches and replacement electrical components for a widely-used brand of pipe cutting and threading machines. Countrywide conducts its business operations through Nationwide Industries, Inc. (Nationwide), its wholly-owned subsidiary, and through its Franklin Manufacturing (Franklin) division. Countrywide acquired all of the stock of Nationwide on May 3, 2002. The assets of Franklin were transferred from Embassy to Countrywide on December 30, 2002. Nationwide is an importer and manufacturer of door, window and fencing hardware. Franklin imports a line of door and window hardware. Green is engaged primarily in the manufacture, development and sale of heavy-duty welded custom designed hydraulic cylinders. Green also manufactures a line of access equipment for the petro-chemical industry and a line of post hole digging equipment for the agricultural industry. Embassy is engaged in the manufacture and sale of baseboard heating products and the importation and sale of radiant heating systems. Note 11 of the Notes to Consolidated Financial Statements presents financial information for the segments of the Company s business.

NOTE 2 - 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 for interim financial information, and with the rules and regulations of the Securities and Exchange Commission regarding interim financial reporting. Accordingly, these interim financial statements do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of the Company, these unaudited consolidated financial statements include all adjustments necessary to present fairly the information set forth therein. All such adjustments are of a normal recurring nature. 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, 2002 was derived from the audited financial statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2002. The interim financial statements contained herein should be read in conjunction with that Report.

In preparing its consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, the Company is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

The Company s earnings forecasts for Green, which reflected the extremely weak market conditions in the hydraulic cylinder business, resulted in the fair market value of Green s goodwill, as determined by an independent third-party appraiser, being lower than its carrying value as of December 31, 2001. Accordingly, in the quarter ended June 30, 2002, the Company recorded, retroactive to January 1, 2002, an after-tax impairment charge of approximately $3.2 million, which is reported as a cumulative effect of change in accounting principle resulting from the adoption by the Company of Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets.

NOTE 3 RESTATEMENT OF PREVIOUSLY ISSUED FINANCIAL STATEMENTS

Subsequent to the issuance of the Company s consolidated financial statements as of September 30, 2003, filed as part of its Quarterly Report on Form 10-Q filed on November 13, 2003, the Company determined that it needed to revise its provision for taxes on income in previously issued financial statements. This change resulted from the amortization of a deferred tax liability, not previously recorded, related to the acquisition of Nationwide. The Company s consolidated financial statements as of September 30, 2003 and for the three month and nine month periods ended September 30, 2003 have been restated from the amounts previously reported.

Certain balance sheet amounts at December 31, 2002 have been reclassified to conform with the current year s presentation.

The following is a summary of the effects of the restatements:

	September 30, 2003	
	Previously reported	Restated
Deferred income taxes	$ 695,000	$ 485,000
Total current assets	38,918,258	38,708,258
Deferred income taxes	1,377,000	
Goodwill	9,682,867	10,654,867
Total assets	64,990,291	64,375,291
Accruals - other	2,616,177	2,698,177
Deferred income taxes	210,000	
Total current liabilities	18,753,007	18,625,007
Deferred income taxes	1,031,000	351,000
Total liabilities	29,024,343	28,216,343
Retained earnings	25,373,832	25,566,832
Total shareholders equity	35,965,948	36,158,948
Total liabilities and shareholders equity	$ 64,990,291	$ 64,375,921

10

CONSOLIDATED STATEMENTS OF OPERATIONS

	Three months ended September 30, 2003		Nine months ended September 30, 2003	
	Previously reported	Restated	Previously reported	Restated
Taxes on income	$ 595,000	$ 530,000	$ 1,735,000	$ 1,542,000
Income before cumulative effect of change in accounting principle and Net income	$ 817,692	$ 882,692	$ 2,376,816	$ 2,569,816
Earnings per share of common stock:				
Income before cumulative effect of change in accounting principle and Net income				
Basic	$ .23	$ .25	$ .68	$ .73
Diluted	$ .23	$ .25	$ .66	$ .72

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine months ended September 30, 2003	
	Previously reported	Restated
Cash flows from operating activities:		
Net income	$ 2,376,816	$ 2,569,816
Adjustments to reconcile net income to net cash used in operating activities:		
(Decrease) increase in:		
Deferred income taxes		(146,000)
Accruals and other	(70,162)	(117,162)
Total adjustments	$ (3,513,989)	$ (3,706,989)

NOTE 4 - STOCK-BASED COMPENSATION

The Company accounts for its stock option awards to its employees under the intrinsic value based method of accounting prescribed by Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees. Under the intrinsic value based method, compensation cost is the excess, if any, of the quoted market price of the stock at grant date or other measurement date over the amount an employee must pay to acquire the stock. The Company makes pro forma disclosures of net income and earnings per share as if the fair value based method of accounting had been applied, as required by Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation (SFAS 123).

The Company also complies with the disclosure provisions of Statement of Financial Accounting Standards No. 148, Accounting for Stock Based Compensation Transition and Disclosure, which requires prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method on reported results.

SFAS 123 requires the Company to provide pro forma information regarding net income and earnings per share as if compensation cost for the Company s 2002 Stock Incentive Plan had been determined in accordance with the fair value method prescribed by SFAS 123. The Company estimates the fair value of each stock option at the grant date by using the Black-Scholes option-pricing model. The weighted-average assumptions for options granted in the three months and the nine months ended September 2002, respectively, were: no dividends paid for either of these periods; expected volatility of 56.9%; risk-free interest rate of 4.3%; and expected life of 8.5 years. No options were granted in 2003.

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

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

	Three months ended September 30,		Nine months ended September 30,	
	2003	2002	2003	2002
Net income (loss) as reported	$ 882,692	$ 777,006	$ 2,569,816	$ (948,951)
Pro forma adjustment for employee compensation determined under fair value method		(402,696)		(402,696)
Pro forma net income (loss)	$ 882,692	$ 374,310	$ 2,569,816	$ (1,351,647)
Basic earnings (loss) per share				
As reported	$ .25	$ .22	$ .73	$ (.27)
Pro forma	$ .25	$ .11	$ .73	$ (.38)
Diluted earnings (loss) per share				
As reported	$ .25	$ .22	$ .72	$ (.26)
Pro forma	$ .25	$ .10	$ .72	$ (.38)

NOTE 5 FOREIGN CURRENCY TRANSACTIONS

The Company accounts for changes in the fair value of its foreign currency contracts by marking them to market and recognizing any resulting gains or losses through its statement of operations. The Company also marks its yen-denominated payables to market, recognizing any resulting gains or losses in its statement of operations. At September 30, 2003, the Company had foreign currency forward contracts, maturing in 2003, to purchase yen at contracted forward rates. The value of these contracts at September 30, 2003, based on the spot rate, was approximately $280,000, which was the approximate value of the Company s corresponding yen-denominated accounts payable. During the quarter ended September 30, 2003, the Company recorded a net realized gain of approximately $8,000 on foreign currency transactions. During the quarter ended September 30, 2002, the Company recorded a net realized loss of approximately $65,000 on foreign currency transactions. During the nine month periods ended September 30, 2003 and 2002, the Company recorded net realized losses of approximately $1,000 and $134,000, respectively, on foreign currency transactions. At September 30, 2003, the Company had an unrealized loss of approximately $168,000 on foreign currency transactions.

NOTE 6 - NEW ACCOUNTING PRONOUNCEMENTS

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

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

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

NOTE 7- INVENTORIES

Major classes of inventory were as follows:

		September 30, 2003		December 31, 2002
Raw materials and supplies	$	3,803,063	$	3,566,161
Work in process		811,408		754,857
Finished goods		16,648,518		15,259,055
	$	21,262,989	$	19,580,073

NOTE 8 SHORT-TERM BORROWINGS AND LONG-TERM DEBT

On June 30, 2003, the Company renewed its credit agreement, as amended, with Citibank through July 26, 2004. This agreement includes a revolving credit loan facility, which provides a total of $12,000,000, with various sublimits, for direct borrowings, letters of credit, bankers acceptances and equipment loans. There are no commitment fees for any unused portion of this credit facility. At September 30, 2003, there was $9,500,000 outstanding against the revolving credit loan facility. There was also a commitment of approximately $93,000 at September 30, 2003 for open letters of credit.

Direct borrowings under the Company s revolving credit loan facility are secured by the Company s accounts receivable, inventory and equipment and are cross-guaranteed by each of the Company s subsidiaries. These borrowings bear interest at either the prime interest rate or LIBOR (London InterBank Offered Rate) plus 1.6%. The prime interest rate at September 30, 2003 was 4.0% and LIBOR was approximately 1.1%. The prime interest rate at September 30, 2002 was 4.75% and LIBOR was approximately 1.8%.

The credit agreement also includes a foreign exchange line, which provides for the availability of up to $10,000,000 in foreign currency forward contracts. These contracts fix the exchange rate on future purchases of yen needed for payments to foreign suppliers. The total amount of foreign currency forward contracts outstanding at September 30, 2003, based on the spot rate, was approximately $280,000.

Under the terms of the Company s credit agreement, the Company is required to adhere to certain financial covenants. At September 30, 2003, and for the nine months then ended, the Company satisfied all of these covenants. The credit agreement is subject to annual review by the lending bank.

The credit agreement also includes a term loan facility, which provides a maximum commitment of $15,000,000 to finance acquisitions subject to the lending bank s approval. The Company borrowed $11,500,000 against this facility to finance the acquisition of Nationwide, described in Note 1, and there was $5,500,000 outstanding against this facility at September 30, 2003. There was also a standby letter of credit totaling approximately $351,000 outstanding against this facility at September 30, 2003. This standby letter of credit is used to secure the Economic

Development Revenue Bond assumed as part of the acquisition of Green.

On January 24, 2003, Embassy refinanced its mortgage, which was payable monthly through May 2006 and bore interest at 8.16%. The new mortgage, which is payable monthly through January 2010, bears interest at LIBOR plus 155 basis points.

Certain of the Company s mortgage agreements require the Company to adhere to certain financial covenants. At September 30, 2003, and for the nine months then ended, the Company satisfied all of these covenants.

NOTE 9 - WARRANTY LIABILITY

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

Changes in the Company s warranty liability, included in other accrued liabilities, for the nine month periods ended September 30, 2003 and September 30, 2002 were as follows:

	Nine months ended September 30,			
		2003		**2002**
Balance, beginning of period	$	186,513	$	198,384
Warranties issued and changes in estimated pre-existing warranties		258,610		183,586
Actual warranty costs incurred		(230,453)		(182,696)
Balance, end of period	$	214,670	$	199,274

NOTE 10 - CAPITAL STOCK TRANSACTIONS

During the nine months ended September 30, 2003, the Company purchased 47,691 shares of Class A Common Stock, at a cost of $322,340. During the nine months ended September 30, 2002, the Company purchased 16,000 shares of Class A Common Stock, at a cost of $100,800.

NOTE 11 - SEGMENTS OF BUSINESS

The following tables present financial information by segment for the periods ended September 30, 2003 and 2002. Segment profit (loss) excludes general corporate expenses, interest expense and income taxes. All intersegment revenues have been eliminated.

Three months ended September 30, 2003 (In thousands)	**Con-solidated**	**Pneumatic tools**	**Hardware**	**Hydraulic cylinders**	**Heating equipment**
Revenues from external customers	$ 23,703	$ 12,431	$ 5,282	$ 3,452	$ 2,538
Segment profit (loss)	$ 2,543	$ 1,734	$ 912	$ (69)	$ (34)
Identifiable assets at September 30, 2003	$ 62,059	$ 28,632	$ 18,913	$ 8,870	$ 5,644
Corporate assets	2,931				
Total assets at September 30, 2003	$ 64,990				

Three months ended September 30, 2002 (In thousands)	**Con-solidated**	**Pneumatic tools**	**Hardware**	**Hydraulic cylinders**	**Heating equipment**
Revenues from external customers	$ 21,083	$ 11,221	$ 4,637	$ 2,980	$ 2,245
Segment profit (loss)	$ 2,427	$ 1,862	$ 822	$ (216)	$ (41)
Identifiable assets at September 30, 2002	$ 62,039	$ 27,710	$ 19,687	$ 8,757	$ 5,885
Corporate assets	2,532				
Total assets at September 30, 2002	$ 64,571				

Nine months ended September 30, 2003		**Con- solidated**		**Pneumatic tools**		**Hardware**		**Hydraulic cylinders**		**Heating equipment**
(In thousands)										
Revenues from external customers	$	64,923	$	33,705	$	15,229	$	9,341	$	6,648
Segment profit (loss)	$	7,509	$	5,292	$	2,798	$	(391)	$	(190)

Nine months ended September 30, 2002		**Con- solidated**		**Pneumatic tools**		**Hardware**		**Hydraulic cylinders**		**Heating equipment**
(In thousands)										
Revenues from external customers	$	56,846	$	30,922	$	9,924	$	9,488	$	6,512
Segment profit (loss)	$	6,761	$	5,756	$	1,410	$	(488)	$	83
Cumulative effect of change in accounting principle	$	(3,239)	$		$		$	(3,239)	$	

The reconciliations of combined operating profits for reportable segments to consolidated income before income taxes and cumulative effect of change in accounting principle are as follows:

	Three months ended September 30,	
	2003	**2002**
Total profit for reportable segments	$ 2,543,152	$ 2,427,230
General corporate expenses	(958,204)	(888,808)
Interest expense - net	(172,256)	(233,416)
Income before taxes and cumulative effect of change in accounting principle	$ 1,412,692	$ 1,305,006

	Nine months ended September 30,	
	2003	**2002**
Total profit for reportable segments	$ 7,509,062	$ 6,760,998
General corporate expenses	(2,841,981)	(2,497,993)
Interest expense - net	(555,265)	(497,838)
Income before taxes and cumulative effect of change in accounting principle	$ 4,111,816	$ 3,765,167

NOTE 12 - EARNINGS (LOSS) PER SHARE

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

	Three months ended September 30,		Nine months ended September 30,	
	2003	2002	2003	2002
Numerator:				
Numerator for basic and diluted earnings (loss) per common share:				
Income before cumulative effect of change in accounting principle	$ 882,692	$ 777,006	$ 2,569,816	$ 2,290,167
Cumulative effect of change in accounting principle				(3,239,118)
Net income (loss)	$ 882,692	$ 777,006	$ 2,569,816	$ (948,951)
Denominator:				
Denominator for basic earnings (loss) per common share - weighted average common shares outstanding	3,503,766	3,516,519	3,505,204	3,510,820
Effect of dilutive securities: Common stock options	81,173	63,555	74,203	72,219
Denominator for diluted earnings per common share - adjusted weighted average common shares and assumed conversions	3,584,939	3,580,074	3,579,407	3,583,039

During the periods ended September 30, 2003 and 2002, there were outstanding stock options whose exercise prices were higher than the average market values of the underlying Class A Common Stock for the respective periods. These options are anti-dilutive and are excluded from the computation of earnings (loss) per share. The weighted average anti-dilutive stock options outstanding were as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2003	2002	2003	2002
Weighted average anti-dilutive stock options outstanding	187,000	189,000	231,443	189,000

P & F INDUSTRIES, INC. AND SUBSIDIARIES

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

General

Critical Accounting Policies and Estimates

The Company prepares its consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. Certain of these accounting policies require the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and the related disclosure of contingent assets and liabilities. On an ongoing basis, the Company evaluates estimates, including those related to bad debts, inventory reserves, intangible assets, income taxes and contingencies. The Company bases its estimates on historical data and experience, when available, and on various other assumptions that are believed to be reasonable under the circumstances, the combined results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The Company s critical accounting policies include:

Revenue Recognition

The Company records revenues upon shipment with related risks and title passing to the customers. Estimates of losses for bad debts, returns and other allowances are recorded at the time of the sale. Shipping charges to customers and related expenses that are included in selling, general and administrative expenses are immaterial.

Allowance for Doubtful Accounts

The Company records an allowance for doubtful accounts based on specifically identified amounts that are believed to be uncollectible. The Company also records as an additional allowance a certain percentage of aged accounts receivable, based on historical experience and the Company s assessment of the general financial conditions affecting its customer base. If actual collection experience changes, revisions to the allowance may be required. The Company has a limited number of customers with individually large amounts due at any given balance sheet date. Any unanticipated change in the credit worthiness of any of these customers or in any other matters affecting the collectibility of amounts due from such customers could have a material affect on the Company s results of operations in the period in which such changes or events occur. After all reasonable attempts to collect an account receivable have failed, the amount of the receivable is written off against the allowance.

Inventories

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

Goodwill and Other Intangible Assets

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

On a quarterly basis, the Company reviews changes in market conditions, among other factors, that could have a material impact on its estimates of fair value in order to reassess the carrying value of goodwill and other intangible assets. At September 30, 2003, no adjustment for impairment was deemed necessary.

Long-Lived Assets

The Company reviews certain long-lived assets for impairment. Whenever events or changes in circumstances indicate that the carrying value of any of these assets may not be recoverable, the Company will assess the recoverability of such assets based upon estimated undiscounted cash flow forecasts.

Acquisition

On May 3, 2002, Countrywide acquired all of the stock of Nationwide for approximately $10,452,000, plus acquisition costs of approximately $490,000 and working capital adjustments of approximately $260,000. There were additional acquisition-related costs of approximately $364,000 recorded as goodwill. In addition to the cash paid at the closing, Nationwide s previous owner is entitled to contingent payments of 30% of the excess of Nationwide s earnings, before amortization of intangible assets, interest and taxes, over $2,500,000, for each of the five twelve-month periods subsequent to the acquisition date, which contingent payments will be treated as additions to goodwill. At December 31, 2002, the Company had accrued $150,000 of these contingent payments. During the nine months ended September 30, 2003, contingent payments totaling an additional $444,246, including amounts accrued at September 30, 2003, have been recorded as additions to goodwill.

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

Results of Operations

Impairment of goodwill

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

The Company s earnings forecasts for Green, which reflected the extremely weak market conditions in the hydraulic cylinder business, resulted in the fair market value of Green s goodwill, as determined by an independent third-party appraiser, being lower than its carrying value as of December 31, 2001. Accordingly, in the quarter ended June 30, 2002, the Company recorded, retroactive to January 1, 2002, an after-tax impairment charge of approximately $3.2 million, which is reported as a cumulative effect of change in accounting principle resulting from the adoption by the Company of Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets.

Comparison of three months ended September 30, 2003 and September 30, 2002

Consolidated revenues increased 12.4%, from $21,082,509 to $23,702,702. Revenues from pneumatic tools and related equipment increased 10.8%, from $11,221,716 to $12,431,566, due primarily to strong promotions by two major customers, partially offset by lower industrial revenues resulting from inventory reduction by a customer and the timing of an annual promotional order from another significant customer. Selling prices of pneumatic tools and related equipment were unchanged, with the exception of prices to a significant customer, which were substantially reduced early in the fourth quarter of 2002. Revenues from hardware products increased 13.9%, from $4,636,348 to $5,282,013, due primarily to increased sales of fencing products. The increase was partially offset by a decrease in revenues associated with a significant customer declaring bankruptcy in the first quarter of 2003 and another significant customer reducing its ordering, because of its decreased volume, in the third quarter of 2003. Selling prices of hardware products were unchanged. Revenues from hydraulic cylinders and other equipment increased 15.8%, from $2,979,498 to $3,451,184, due primarily to increased sales that resulted from entry into a new market for log splitter cylinders, partially offset by depressed conditions early in the third quarter of 2003 in the access sector. Selling prices of hydraulic cylinders and other equipment were unchanged. Revenues from heating products increased 13.1%, from $2,244,947 to $2,537,939, due primarily to increased baseboard and boiler sales, reflecting increases in inventory levels of customers, partially offset by decreased radiant sales resulting from delays in receipt of vendor shipments. Selling prices of heating products were unchanged, with the exception of a modest price increase for baseboard products commencing in the second quarter of 2003.

Consolidated gross profit, as a percentage of revenues, decreased from 29.5% to 28.4%. Gross profit from pneumatic tools and related equipment decreased from 34.0% to 30.7%, due primarily to the lower-margin promotional sales, the impact of the price concessions effective in the fourth quarter of 2002 noted above and decreased commission revenues. Gross profit from hardware products increased from 32.1% to 35.1%, due primarily to a more favorable product mix, which was partially offset by lower overhead absorption. Gross profit from hydraulic cylinders and other equipment increased from 8.1% to 10.6%, due primarily to higher overhead absorption from greater cylinder activity, partially offset by changes in product mix. Gross profit from heating equipment decreased from 29.8% to 27.7%, due primarily to a change in product mix and increased baseboard material costs, partially offset by increased selling prices for baseboard products, as noted above.

Consolidated selling, general and administrative expenses increased 10.0%, from $4,679,836 to $5,149,755, due primarily to increased costs associated with the 12.4% increase in revenues noted above, the strengthening of the yen, which generated losses on foreign currency transactions, increases in advertising and expenses related to promotional sales at Florida Pneumatic and increased professional and wage-related expenses at Countrywide. Also contributing to the overall increase were increased expenses related to additional reporting and control requirements. These increases were partially offset by substantial decreases resulting from cost-cutting efforts in all of the segments. As a percentage of revenues, selling, general and administrative expenses decreased from 22.2% to 21.7%.

Interest expense decreased 26.2%, from $233,416 to $172,256, due primarily to lower interest rates on the Company s borrowings under both its revolving credit and term loan facilities, as well as on a refinanced mortgage. Average borrowings under the Company s revolving credit loan facility were higher in 2003 than in 2002, while average borrowings under the Company s term loan facility, which resulted from the acquisition of Nationwide on May 3, 2002, were lower in 2003 than in 2002.

The effective tax rates for the quarters ended September 30, 2003 and 2002 were 37.5% and 40.5%, respectively.

Comparison of nine months ended September 30, 2003 and September 30, 2002

Consolidated revenues increased 14.2%, from $56,845,624 to $64,922,883. Revenues from pneumatic tools and related equipment increased 9.0%, from $30,922,278 to $33,705,562, due primarily to strong promotions by two major customers and a major promotion at an automotive after-market retailer, partially offset by price concessions at a significant customer, a base volume decrease and lower industrial revenues resulting from inventory reductions at two significant customers and a delayed annual promotion with a third customer. Selling prices of pneumatic tools and related equipment were unchanged, with the exception of prices to a significant customer, which were substantially reduced early in the fourth quarter of 2002. Revenues from hardware products increased 53.5%, from $9,923,528 to $15,228,583, due primarily to the inclusion of Nationwide for the entire nine months in 2003, as opposed to only five months in 2002.

Nationwide s revenues increased approximately $5,900,000, including an increase of approximately $3,400,000 from sales of fencing products. The increase at Nationwide was partially offset by a decrease in revenues of approximately $650,000 at Franklin, as a significant customer declared bankruptcy in the first quarter of 2003 and another significant customer reduced its ordering, because of its decreased volume, in the second and third quarters of 2003. Selling prices of hardware products were unchanged. Revenues from hydraulic cylinders and other equipment decreased 1.6%, from $9,487,854 to $9,340,727, due primarily to an approximately 40% decrease in sales to the wrecker market, including the phasing out of a major customer in the first quarter of 2002, and decreased sales in the access product line, partially offset by increased sales that resulted from entry into a new market for log splitter cylinders. Selling prices of hydraulic cylinders and other equipment were unchanged. Revenues from heating products increased 2.1%, from $6,511,964 to $6,648,011, due primarily to increased baseboard and boiler sales in the third quarter of 2003, reflecting increases in inventory levels of customers. Selling prices of heating products were unchanged, with the exception of a modest price increase for baseboard products during the second quarter of 2003.

Consolidated gross profit, as a percentage of revenues, decreased from 30.7% to 30.6%. Gross profit from pneumatic tools and related equipment decreased from 37.3% to 34.7%, due primarily to the lower-margin promotional sales noted above and the impact of the price concessions effective in the fourth quarter of 2002 also noted above, partially offset by productivity improvements and cost reductions from suppliers. Gross profit from hardware products increased from 31.3% to 34.9%, due primarily to the inclusion of Nationwide s higher margin OEM business for the entire nine months in 2003, as opposed to only five months in 2002. Gross profit from hydraulic cylinders and other equipment increased from 8.8% to 9.4%, due primarily to changes in product mix. Gross profit from heating equipment decreased from 30.6% to 29.9%, due primarily to a change in product mix.

Consolidated selling, general and administrative expenses increased 15.3%, from $13,193,626 to $15,209,037, due primarily to increased costs associated with the 14.2% increase in revenues noted above, increases in advertising and expenses related to promotional sales at Florida Pneumatic and, to a lesser extent, to increased compensation tied to higher profitability and increases related to additional reporting and control requirements. These increases were partially offset by substantial decreases resulting from cost-cutting efforts in all of the segments. As a percentage of revenues, selling, general and administrative expenses increased from 23.2% to 23.4%, due primarily to the increased expenses discussed above.

Interest expense increased 11.5%, from $497,838 to $555,265, due primarily to changes in average borrowings outstanding during the periods. Average borrowings under the Company s revolving credit loan facility were higher in 2003 than in 2002. Average borrowings under the Company s term loan facility, which resulted from the acquisition of Nationwide on May 3, 2002, were lower in 2003 than in 2002, but these amounts were outstanding for the entire nine months in 2003, as opposed to only five months in 2002. The overall increase was net of decreases resulting from lower interest rates on the Company s borrowings under both its revolving credit and term loan facilities, as well as on a refinanced mortgage.

The effective tax rates for the nine months ended September 30, 2003 and 2002 were 37.5% and 39.2%, respectively.

Liquidity and Capital Resources

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

	September 30, 2003	December 31, 2002	September 30, 2002
Working Capital	$ 20,083	$ 19,779	$ 22,254
Current Ratio	2.08 to 1	2.49 to 1	2.38 to 1
Shareholders Equity	$ 36,159	$ 33,823	$ 33,267

During the nine months ended September 30, 2003, gross accounts receivable increased by approximately $3,772,000, with increases of approximately $2,152,000, $765,000, $569,000 and $286,000 at Florida Pneumatic, Countrywide, Green and Embassy, respectively. The increase at Florida Pneumatic was due primarily to an increase in sales in the third quarter of 2003 as compared to the fourth quarter of 2002, along with extended terms on some retail promotional sales. The increases at Countrywide and Green were due primarily to increases in sales in the third quarter of 2003, compared to the fourth quarter of 2002. The increase at Embassy was due primarily to the timing of sales.

Inventories increased by approximately $1,683,000 during the nine months ended September 30, 2003, with increases of approximately $2,640,000 and $85,000 at Florida Pneumatic and Green, respectively, partially offset by decreases of approximately $769,000 and $273,000 at Countrywide and Embassy, respectively. The increase at Florida Pneumatic was the result of the timing of inventory receipts, safety stock inventory increases and a decrease in base revenues. The increase at Green was due primarily to an increase in raw material inventory for cylinder production. The decrease at Countrywide was due primarily to improved inventory turnover. The decrease at Embassy was due primarily to the timing of inventory receipts.

During the nine months ended September 30, 2003, short-term borrowings increased by $5,000,000, net of repayments, primarily to fund working capital needs.

During the nine months ended September 30, 2003, accounts payable increased by approximately $380,000, with increases of approximately $306,000, $89,000 and $18,000 at Florida Pneumatic, Green and Countrywide, respectively, being partially offset by a decrease of approximately $33,000 at Embassy. The increase at Florida Pneumatic was due primarily to the timing of payments. The increase at Green was due primarily to the increase in inventories. The increase at Countrywide and the decrease at Embassy were due primarily to the timing of purchases.

On June 30, 2003, the Company renewed its credit agreement, as amended, with Citibank through July 26, 2004. This agreement provides the Company with various credit facilities, including revolving credit loans, term loans for acquisitions and a foreign exchange line. The revolving credit loan facility provides a maximum of $12,000,000, with various sublimits, for direct borrowings, letters of credit, bankers acceptances and equipment loans. There are no commitment fees for any unused portion of this credit facility. At September 30, 2003, there was $9,500,000 outstanding against the revolving credit loan facility. There was also a commitment of approximately $93,000 at September 30, 2003 for open letters of credit.

The term loan facility provides a maximum commitment of $15,000,000 to finance acquisitions subject to the lending bank s approval. There are no commitment fees for any unused portion of this credit facility. The Company borrowed $11,500,000 against this facility to finance the acquisition of Nationwide, described in Note 1, and there was $5,500,000 outstanding against this facility at September 30, 2003. There was also a standby letter of credit totaling approximately $351,000 outstanding against this facility at September 30, 2003. This standby letter of credit was used to secure the Economic Development Revenue Bond assumed as part of the acquisition of Green.

The Company s credit agreement is subject to annual review by the lending bank. Under this agreement, the Company is required to adhere to certain financial covenants. At September 30, 2003 and for the nine months then ended, the Company satisfied all of these covenants.

Certain of the Company s mortgage agreements also require the Company to adhere to certain financial covenants. At September 30, 2003, and for the nine months then ended, the Company satisfied all of these covenants.

Capital spending for the nine month ended September 30, 2003 was approximately $800,000, which amounts were provided from working capital. Capital expenditures for the remainder of 2003 are expected to be approximately $300,000, some of which may be financed through the Company s credit facilities. Included in the expected total for the remainder of 2003 are capital expenditures relating to new products, expansion of existing product lines and replacement of equipment.

Operating activities used cash totaling approximately $1,137,000 during the nine months ended September 30, 2003, and provided cash totaling approximately $1,391,000 during the nine months ended September 30, 2002. The Company believes that cash on hand derived from operations and cash available through borrowings under its credit facilities will be sufficient to allow the Company to meet its foreseeable capital needs.

During the third quarter of 2003, Florida Pneumatic was informed by its third largest customer that it will be sourcing from a new supplier effective January 1, 2004. Sales to this customer for the fiscal year 2003 are estimated to be approximately $4.4 million. We believe that retaining this customer would have required either eliminating all profit margins or converting to an inferior product, which management felt was not in the best long-term interests of the Company.

Off-Balance Sheet Arrangements

The Company s foreign exchange line provides for the availability of up to $10,000,000 in foreign currency forward contracts. These contracts fix the exchange rate on future purchases of yen needed for payments to foreign suppliers. The total amount of foreign currency forward contracts outstanding at September 30, 2003, based on the spot rate, was approximately $280,000.

The Company, through Florida Pneumatic, imports a significant amount of its purchases from Japan, with payment due in yen. As a result, the Company is subject to the effects of foreign currency exchange fluctuations. The Company uses a variety of techniques to protect itself from any adverse effects from these fluctuations, including increasing its selling prices, obtaining price reductions from its overseas suppliers, using alternative supplier sources and entering into foreign currency forward contracts. The increase in the strength of the yen versus the U.S. dollar over the last 12 months had a negative effect on the Company s results of operations and its financial position. There can be no assurance as to the future trend of this value. See Item 3 Quantitative and Qualitative Disclosure About Market Risk.

New Accounting Pronouncements

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

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

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

Item 3. **Quantitative and Qualitative Disclosures About Market Risk**

The Company is exposed to market risks, which include changes in international exchange rates and the prices of certain commodities. The Company attempts to reduce the risks related to foreign currency fluctuation by utilizing financial instruments, pursuant to Company policy.

The value of the U.S. dollar affects the Company s results. Changes in exchange rates may positively or negatively affect the Company s gross margins and operating expenses. The Company engages in hedging programs aimed at limiting, in part, the impact of currency fluctuations. Using primarily forward exchange contracts, the Company hedges some of those transactions that, when remeasured according to accounting principles generally accepted in the United States of America, impact the statement of operations. Factors that could impact the effectiveness of the Company s programs include volatility of the currency markets and availability of hedging instruments. All currency transactions that are entered into by the Company are components of hedging programs and are entered into not for speculation but for the sole purpose of hedging an existing or anticipated currency exposure. The Company does not buy or sell financial instruments for trading purposes. Although the Company maintains these programs to reduce the impact of changes in currency exchange rates, when the U.S. dollar sustains a weakening exchange rate against currencies in which the Company incurs costs, the Company s costs are adversely affected. The Company has various debt instruments that bear interest at variable rates tied to LIBOR (London InterBank Offered Rate). Any increase in LIBOR would have an adverse effect on the Company s interest costs.

The Company accounts for changes in the fair value of its foreign currency contracts by marking them to market and recognizing any resulting gains or losses through its statement of operations. The Company also marks its yen-denominated payables to market, recognizing any resulting gains or losses in its statement of operations. At September 30, 2003, the Company had foreign currency forward contracts, maturing in 2003, to purchase yen at contracted forward rates. The value of these contracts at September 30, 2003, based on the spot rate, was approximately $280,000, which was the approximate value of the Company s yen-denominated accounts payable. During the quarter ended September 30, 2003, the Company recorded a net realized gain of approximately $8,000 on foreign currency transactions. During the quarter ended September 30, 2002, the Company recorded a net realized loss of approximately $65,000 on foreign currency transactions. During the nine month periods ended September 30, 2003 and 2002, the Company recorded net realized losses of approximately $1,000 and $134,000, respectively, on foreign currency transactions. At September 30, 2003, the Company had an unrealized loss of approximately $168,000 on foreign currency transactions.

The potential loss in value of the Company s net investment in foreign currency forward contracts resulting from a hypothetical 10 percent adverse change in foreign exchange rates at September 30, 2003 was approximately $29,000.

Item 4. Controls and Procedures

Evaluation of disclosure controls and procedures

An evaluation was performed, under the supervision of, and with the participation of, the Company s management, including the Principal Executive Officer and Principal Financial Officer, of the effectiveness of the design and operation of the Company s disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) to the Securities and Exchange Act of 1934). Based on that evaluation, the Company s management, including the Principal Executive Officer and Principal Financial Officer, concluded that the Company s disclosure controls and procedures were adequate and effective, as of the end of the period covered by this Quarterly Report on Form 10-Q for the quarter ended September 30, 2003 (the Report), in timely alerting them to all material information relating to the Company and its consolidated subsidiaries that is required to be included in this Report.

Changes in internal controls

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

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 2. Changes in Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Submission of Matters to a Vote of Security Holders

None.

Item 5. Other Information

None.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

See Exhibit Index immediately following the signature page.

(b) Reports on Form 8-K

The Registrant filed a Report on Form 8-K dated August 12, 2003, in which it furnished a press release announcing its second quarter 2003 results under Items 9 and 12 of such Report.

SIGNATURES

Pursuant to the requirements 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/ Joseph A. Molino, Jr.
Joseph A. Molino, Jr.
Vice President
(Principal Financial Officer)

Dated: May 17, 2004

EXHIBIT INDEX

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

Number	Description
4.3	Credit Agreement, dated as of July 23, 1998, by and among the Registrant, Florida Pneumatic Manufacturing Corporation, a Florida corporation, Embassy Industries, Inc., a New York corporation, and European American Bank, a New York banking corporation (Incorporated by reference to Exhibit 4.3 to the Registrant s Annual Report on Form 10-K for the fiscal year ended December 31, 2003).
4.4	Amendment No. 1 to Credit Agreement, dated as of September 16, 1998, by and among the Registrant, Florida Pneumatic Manufacturing Corporation, a Florida corporation, Embassy Industries, Inc., a New York corporation, Green Manufacturing, Inc., a Delaware corporation, and European American Bank, a New York banking corporation (Incorporated by reference to Exhibit 4.4 to the Registrant s Annual Report on Form 10-K for the fiscal year ended December 31, 2003).
4.5	Amendment No. 2 to Credit Agreement, dated as of July 28, 1999, by and among the Registrant, Florida Pneumatic Manufacturing Corporation, a Florida corporation, Embassy Industries, Inc., a New York corporation, Green Manufacturing, Inc., a Delaware corporation, and European American Bank, a New York banking corporation (Incorporated by reference to Exhibit 4.5 to the Registrant s Quarterly Report on Form 10-Q for the quarter ended June 30, 1999).
4.6	Amendment No. 3 to Credit Agreement, dated as of July 26, 2000, by and among the Registrant, Florida Pneumatic Manufacturing Corporation, a Florida corporation, Embassy Industries, Inc., a New York corporation, Green Manufacturing, Inc., a Delaware corporation, and European American Bank, a New York banking corporation (Incorporated by reference to Exhibit 4.5 to the Registrant s Quarterly Report on Form 10-Q for the quarter ended June 30, 2000).
4.7	Amendment No. 4 to Credit Agreement, dated as of June 25, 2001, by and among the Registrant, Florida Pneumatic Manufacturing Corporation, a Florida corporation, Embassy Industries, Inc., a New York corporation, Green Manufacturing, Inc., a Delaware corporation, and European American Bank, a New York banking corporation (Incorporated by reference to Exhibit 4.7 to the Registrant s Quarterly Report on Form 10-Q for the quarter ended September 30, 2001).

Number	Description
4.8	Amendment No. 5 to Credit Agreement, dated as of May 3, 2002, by and among the Registrant, Florida Pneumatic Manufacturing Corporation, a Florida corporation, Embassy Industries, Inc., a New York corporation, Green Manufacturing, Inc., a Delaware corporation, and Citibank, N.A. (successor-in-interest to European American Bank), a New York banking corporation. (Incorporated by reference to Exhibit 4.7 to the Registrant s Quarterly Report on Form 10-Q for the quarter ended March 31, 2002).
4.9	Amendment No. 6 to Credit Agreement, dated as of June 13, 2002, by and among the Registrant, Florida Pneumatic Manufacturing Corporation, a Florida corporation, Embassy Industries, Inc., a New York corporation, Green Manufacturing, Inc., a Delaware corporation, and Citibank, N.A. (successor-in-interest to European American Bank), a New York banking corporation (Incorporated by reference to Exhibit 4.7 to the Registrant s Quarterly Report on Form 10-Q for the quarter ended June 30, 2002).
4.10	Amendment No. 7 to Credit Agreement, dated as of August 1, 2002, by and among the Registrant, Florida Pneumatic Manufacturing Corporation, a Florida corporation, Embassy Industries, Inc., a New York corporation, Green Manufacturing, Inc., a Delaware corporation, Countrywide Hardware, Inc., a Delaware corporation, Nationwide Industries, Inc., a Florida corporation, and Citibank, N.A. (successor-in-interest to European American Bank), a New York banking corporation (Incorporated by reference to Exhibit 4.7 to the Registrant s Quarterly Report on Form 10-Q for the quarter ended June 30, 2002).
4.11	Amendment No. 8 to Credit Agreement, dated as of August 1, 2002, by and among the Registrant, Florida Pneumatic Manufacturing Corporation, a Florida corporation, Embassy Industries, Inc., a New York corporation, Green Manufacturing, Inc., a Delaware corporation, Countrywide Hardware, Inc., a Delaware corporation, Nationwide Industries, Inc., a Florida corporation, and Citibank, N.A. (successor-in-interest to European American Bank), a New York banking corporation (Incorporated by reference to Exhibit 4.11 to the Registrant s Quarterly Report on Form 10-Q for the quarter ended September 30, 2002).

Number	Description
4.12	Second Amendment and Restated Term Note, dated as of February 20, 2003, by and among the Registrant, Florida Pneumatic Manufacturing Corporation, a Florida corporation, Embassy Industries, Inc., a New York corporation, Green Manufacturing, Inc., a Delaware corporation, Countrywide Hardware, Inc., a Delaware corporation, Nationwide Industries, Inc., a Florida corporation, and Citibank, N.A. (successor-in-interest to European American Bank), a New York banking corporation (Incorporated by reference to Exhibit 4.11 to the Registrant s Annual Report on Form 10-K for the year ended December 31, 2002).
4.13	Amendment No. 9 to Credit Agreement, dated as of June 30, 2003, by and among the Registrant, Florida Pneumatic Manufacturing Corporation, a Florida corporation, Embassy Industries, Inc., a New York corporation, Green Manufacturing, Inc., a Delaware corporation, Countrywide Hardware, Inc., a Delaware corporation, Nationwide Industries, Inc., a Florida corporation, and Citibank, N.A. (successor-in-interest to European American Bank), a New York banking corporation (Incorporated by reference to Exhibit 4.11 to the Registrant s Quarterly Report on Form 10-Q for the quarter ended June 30, 2003).
4.14	Certain instruments defining the rights of holders of the long-term debt securities of the Registrant are omitted pursuant to Section (b)(4)(iii)(A) of Item 601 of Regulation S-K. The Registrant agrees to furnish supplementally copies of these instruments to the Commission upon request.
10.1	Second Amended and Restated Employment Agreement, dated as of May 30, 2001, between the Registrant and Richard A. Horowitz (Incorporated by reference to Exhibit 10.1 to the Registrant s Quarterly Report on Form 10-Q for the quarter ended June 30, 2001).
10.2	Consulting Agreement, effective as of November 1, 2003, between the Registrant and Sidney Horowitz (Incorporated by reference to Exhibit 10.2 to the Registrant s Annual Report on Form 10-K for the fiscal year ended December 31, 2003).
10.3	1992 Incentive Stock Option Plan of the Registrant, as amended and restated as of March 13, 1997 (Incorporated by reference to Exhibit 10.3 to the Registrant s Annual Report on Form 10-K for the fiscal year ended December 31, 2003).
10.4	Executive Incentive Bonus Plan of the Registrant (Incorporated by reference to Exhibit 10.4 to the Registrant s Annual Report on Form 10-K for the fiscal year ended December 31, 2001).

Number	Description
10.5	2002 Stock Incentive Plan of the Registrant (Incorporated by reference to Exhibit 4.7 to the Registrant s Quarterly Report on Form 10-Q for the quarter ended March 31, 2002).
14.1	Code of Business Conduct and Ethics of the Registrant and its Affiliates (Incorporated by reference to Exhibit 14.1 to the Registrant s Annual Report on Form 10-K for the fiscal year ended December 31, 2003).
31.1	Certification of Richard A. Horowitz, Principal Executive Officer of the Registrant, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Joseph A. Molino, Jr., Principal Financial Officer of the Registrant, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Richard A. Horowitz, Principal Executive Officer of the Registrant, Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Joseph A. Molino, Jr., Principal Financial Officer of the Registrant, Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

A copy of any of the foregoing exhibits to this Annual Report on Form 10-K may be obtained, upon payment of the Registrant s reasonable expenses in furnishing such exhibit, by writing to P & F Industries, Inc., 300 Smith Street, Farmingdale, New York 11735-1114, Attention: Corporate Secretary.