P&F INDUSTRIES INC
Form 10-Q
May 14, 2015

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, 2015

.. **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	**22-1657413**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
445 Broadhollow Road, Suite 100, Melville, New York	**11747**
(Address of principal executive offices)	(Zip Code)

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

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 Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes 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

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 12, 2015 there were 3,609,870 shares of the registrant’s Class A Common Stock outstanding.

P&F INDUSTRIES, INC.

FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2015

TABLE OF CONTENTS

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

P&F INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	March 31, 2015 (unaudited)	December 31, 2014 (See Note 1)
ASSETS		
CURRENT ASSETS		
Cash	$ 659,000	$ 1,011,000
Accounts receivable — net	11,891,000	9,547,000
Inventories	26,316,000	24,335,000
Deferred income taxes — net	1,149,000	1,149,000
Prepaid expenses and other current assets	1,989,000	1,511,000
TOTAL CURRENT ASSETS	42,004,000	37,553,000
PROPERTY AND EQUIPMENT		
Land	1,550,000	1,550,000
Buildings and improvements	7,697,000	7,683,000
Machinery and equipment	20,601,000	20,460,000
	29,848,000	29,693,000
Less accumulated depreciation and amortization	19,513,000	19,101,000
NET PROPERTY AND EQUIPMENT	10,335,000	10,592,000
GOODWILL	12,027,000	11,980,000
OTHER INTANGIBLE ASSETS — net	12,081,000	12,437,000
OTHER ASSETS — net	460,000	514,000
TOTAL ASSETS	$ 76,907,000	$ 73,076,000

See accompanying notes to consolidated financial statements (unaudited).

1

P&F INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	March 31, 2015 (unaudited)	December 31, 2014 (See Note 1)
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Short-term borrowings	$ 15,022,000	$ 11,817,000
Accounts payable	4,580,000	3,160,000
Accrued liabilities	4,397,000	5,482,000
Current maturities of long-term debt	2,904,000	3,167,000
TOTAL CURRENT LIABILITIES	26,903,000	23,626,000
Long–term debt, less current maturities	6,376,000	6,493,000
Deferred tax liabilities - net	2,658,000	2,720,000
Other liabilities	242,000	246,000
TOTAL LIABILITIES	36,179,000	33,085,000
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 – 4,146,000 at March 31, 2015 and 4,139,000 at December 31, 2014	4,146,000	4,139,000
Class B - $1 par; authorized - 2,000,000 shares; no shares issued	—	—
Additional paid-in capital	12,752,000	12,695,000
Retained earnings	28,732,000	27,951,000
Treasury stock, at cost – 554,000 shares at March 31, 2015 and December 31, 2014	(4,566,000)	(4,566,000)
Accumulated other comprehensive loss	(336,000)	(228,000)
TOTAL SHAREHOLDERS' EQUITY	40,728,000	39,991,000
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 76,907,000	$ 73,076,000

See accompanying notes to consolidated financial statements (unaudited).

2

P&F INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME (unaudited)

	Three Months Ended March 31,	
	2015	2014
Net revenue	$ 19,826,000	$ 15,932,000
Cost of sales	12,307,000	9,897,000
Gross profit	7,519,000	6,035,000
Selling, general and administrative expenses	6,096,000	5,227,000
Operating income	1,423,000	808,000
Interest expense	192,000	89,000
Income before income taxes	1,231,000	719,000
Income tax expense	450,000	257,000
Net income	$ 781,000	$ 462,000
Basic earnings per share	$ 0.22	$ 0.13
Diluted earnings per share	$ 0.21	$ 0.12
Weighted average common shares outstanding:		
Basic	3,589,000	3,694,000
Diluted	3,746,000	3,878,000

Net income	$781,000	$462,000
Other comprehensive loss - foreign currency translation adjustment	(108,000)	—
Total comprehensive income	$673,000	$462,000

See accompanying notes to consolidated financial statements (unaudited).

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, 2015	$39,991,000	4,139,000	$4,139,000	$12,695,000	$27,951,000	(554,000)	$(4,566,000)	$(228,000)
Net income	781,000	—	—	—	781,000	—	—	—
Exercise of stock options	20,000	7,000	7,000	13,000	—	—	—	—
Restricted common stock compensation	6,000	—	—	6,000	—	—	—	—
Stock-based compensation	38,000	—	—	38,000	—	—	—	—
Foreign currency translation adjustment	(108,000)	—	—	—	—	—	—	(108,000)
Balance, March 31, 2015	$40,728,000	4,146,000	$4,146,000	$12,752,000	$28,732,000	(554,000)	$(4,566,000)	$(336,000)

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,	
	2015	2014
Cash Flows from Operating Activities:		
Net income	$781,000	$462,000
Adjustments to reconcile net income to net cash used in operating activities:		
Non-cash charges:		
Depreciation and amortization	416,000	374,000
Amortization of other intangible assets	324,000	58,000
Amortization of debt issue costs	28,000	22,000
Provision for (recovery of) losses on accounts receivable - net	5,000	(8,000)
Stock-based compensation	38,000	90,000
Loss on sale of fixed assets	4,000	—
Restricted stock-based compensation	6,000	7,000
Deferred income taxes	(54,000)	231,000
Changes in operating assets and liabilities:		
Accounts receivable	(2,373,000)	(1,142,000)
Inventories	(2,097,000)	285,000
Prepaid expenses and other current assets	(479,000)	(49,000)
Other assets	26,000	11,000
Accounts payable	1,435,000	(511,000)
Accrued liabilities	(1,071,000)	(1,249,000)
Other liabilities	(4,000)	(4,000)
Total adjustments	(3,796,000)	(1,885,000)
Net cash used in operating activities	$(3,015,000)	$(1,423,000)

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, 2015	2014
Cash Flows from Investing Activities:		
Capital expenditures	$(184,000)	$(182,000)
Proceeds from disposal of assets	12,000	—
Net cash used in investing activities	(172,000)	(182,000)
Cash Flows from Financing Activities:		
Proceeds from exercise of stock options	20,000	—
Proceeds from short-term borrowings	18,809,000	15,712,000
Repayments of short-term borrowings	(15,604,000)	(13,822,000)
Repayments of term loans	(365,000)	(115,000)
Repayments of notes payable	(11,000)	—
Net cash provided by financing activities	2,849,000	1,775,000
Effect of exchange rate changes on cash	(14,000)	—
Net (decrease) increase in cash	(352,000)	170,000
Cash at beginning of period	1,011,000	413,000
Cash at end of period	$659,000	$583,000
Supplemental disclosures of cash flow information:		
Cash paid for:		
Interest	$161,000	$68,000
Income taxes	$60,000	$18,000

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 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. 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 unaudited consolidated balance sheet information as of December 31, 2014 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, 2014 (“2014 Form 10-K”). The interim financial statements contained herein should be read in conjunction with the 2014 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 gain or losses. These gains or losses are presented in the Company’s consolidated financial statements as “Other comprehensive income (loss) - foreign currency translation adjustments”.

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

Tools

The Company conducts its Tools business through a wholly-owned subsidiary, Continental Tool Group, Inc. (“Continental”), which in turn operates through its wholly-owned subsidiaries, Florida Pneumatic Manufacturing Corporation (“Florida Pneumatic”) and Hy-Tech Machine, Inc. (“Hy-Tech”). During the third quarter of 2014, the Company acquired Exhaust Technologies Inc. (“ETI”) and Universal Air Tool Company Limited (“UAT”). Both ETI and UAT are wholly-owned subsidiaries of Florida Pneumatic, and unless otherwise indicated, the operations and results of operations of Florida Pneumatic herein include ETI and UAT as of the respective dates such companies were acquired. Additionally, during the third quarter of 2014, the Company acquired substantially all the assets of Air Tool Service Company (“ATSCO”), which business operates through a wholly-owned subsidiary of Hy-Tech. Unless otherwise indicated, the results of operations of Hy-Tech herein include ATSCO from the date the business was acquired.

Florida Pneumatic is engaged in the importation and sale of pneumatic hand tools, primarily for the retail, industrial and automotive markets, and the importation and sale of compressor air filters. Florida Pneumatic also markets, through its Berkley Tool division (“Berkley”), a 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 manufactures and distributes its own line of industrial pneumatic tools. Hy-Tech also produces and markets impact wrenches, grinders, drills, and motors. Further, it also manufactures tools to customer specifications. Its customers include refineries, chemical plants, power generation facilities, heavy construction enterprises, oil and gas and mining companies. In addition, Hy-Tech manufactures an extensive line of pneumatic tool replacement parts that are sold to original equipment manufacturers (“OEMs”), and competitively. It also manufactures and distributes high pressure stoppers for hydrostatic testing fabricated pipe, gears, sprockets, splines and racks and produces a line of siphons.

Hardware

The Company conducts its Hardware business through a wholly-owned subsidiary, Countrywide Hardware, Inc. (“Countrywide”). Countrywide conducts its business operations through its wholly-owned subsidiary, Nationwide Industries, Inc. (“Nationwide”). Nationwide is an importer and manufacturer of door, window and fencing hardware and accessories, including rollers, hinges, window operators, sash locks, custom zinc castings and door closers. Nationwide’s products are sold through in-house sales personnel and manufacturers’ representatives to distributors, retailers and OEM customers. End users of Nationwide’s products include contractors, home builders, pool and patio distributors, OEM/private label customers and general consumers.

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, income taxes and deferred taxes. Descriptions of these policies are discussed in the Company's 2014 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.

New Accounting Pronouncements

Recently Issued Accounting Pronouncements

In April 2015, the Financial Accounting Standards Board issued ASU 2015-03, "Simplifying the Presentation of Debt Issuance Costs," which amends the current presentation of debt issuance costs in the financial statements. ASU 2015-03 requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts, instead of as an asset. The amendments are to be applied retrospectively and are effective for public business entities for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2015, but early adoption is permitted. The adoption of the new guidance is not expected to have a material impact on the Company's consolidated financial statements.

NOTE 2 – ACQUISITIONS

Exhaust Technologies Inc.

On July 1, 2014, the Company acquired ETI, a developer and distributor of pneumatic tools, through a merger between a newly formed wholly-owned subsidiary of Florida Pneumatic and ETI. ETI markets its AIRCAT and NITROCAT brand pneumatic tools primarily to the automotive market. Currently, ETI's business operates through

Florida Pneumatic. The purchase price for this acquisition consisted of $10,377,000 in cash plus the assumption of certain payables.

Universal Air Tool Company Limited

On July 29, 2014, the Company acquired all of the outstanding shares of UAT, a distributor of pneumatic tools. UAT, which is located in High Wycombe, England, markets pneumatic tools to the automotive market sector primarily in the United Kingdom and Ireland. The purchase price for this acquisition consisted of approximately $1,947,000 in cash less a post-closing working capital adjustment. There is a potential contingent consideration payment due to the former shareholders of UAT of a maximum of £250,000.

Air Tool Service Company

On August 13, 2014, a newly formed wholly owned subsidiary of Hy-Tech, acquired substantially all of the assets comprising the business of ATSCO, an Ohio based corporation engaged in the design, manufacture and distribution of pneumatic tools and parts. The purchase price consisted of approximately $7,659,000 in cash and the assumption of certain liabilities, and is subject to a post-closing working capital adjustment.

All three acquisitions are included as a part of the Company’s Tool Business Segment.

The following unaudited pro-forma combined financial information gives effect to the acquisition of ETI, UAT and ATSCO as if they were consummated January 1, 2014. 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 acquisitions been completed as of January 1, 2014 (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, 2014 (Unaudited)
Revenue	$ 19,854,000
Net income	$ 1,076,000
Earnings per share - basic	$ 0.29
Earnings per share - diluted	$ 0.28

ETI and UAT have been integrated into the business operations of Florida Pneumatic, and ATSCO has been integrated into the business operations of Hy-Tech since their respective dates of acquisition. As such, it is impracticable to determine the specific revenue and earnings directly attributable to any of the acquired businesses.

NOTE 3 — EARNINGS PER SHARE

Basic earnings per common share is based only on the average number of shares of common stock outstanding for the periods. Diluted earnings 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 per common share is computed using the treasury stock method. Under this method, the aggregate number of shares of common stock outstanding reflects the assumed use of proceeds from the hypothetical exercise of any outstanding options to purchase shares of the Company’s Class A Common Stock (“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 per common share:

	Three months ended March 31, 2015	2014
Numerator:		
Numerator for basic and diluted earnings per common share:		
Net income	$781,000	$462,000
Denominator:		
Denominator for basic earnings per share weighted average common shares outstanding	3,589,000	3,694,000
Dilutive securities (1)	157,000	184,000
Denominator for diluted earnings per share weighted average common shares outstanding	3,746,000	3,878,000

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

9

At March 31, 2015 and 2014 and during the three-month periods ended March 31, 2015 and 2014, there were outstanding stock options whose exercise prices were higher than the average market values of the underlying Common Stock for the period. These options are anti-dilutive and are excluded from the computation of diluted earnings per share. The weighted average of anti-dilutive stock options outstanding was as follows:

	Three months ended March 31, 2015	2014
Weighted average anti-dilutive stock options outstanding	182,000	299,000

NOTE 4 - STOCK-BASED COMPENSATION

During the three month periods ended March 31, 2015 and 2014, the Company did not grant any stock options or issue any Common Stock awards.

The following is a summary of the changes in outstanding options during the three-month period ended March 31, 2015:

	Option Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Outstanding, January 1, 2015	505,000	$ 6.51	4.8	$1,232,000
Granted	—	—		—
Exercised	(6,500)	3.05		
Forfeited	—	—		
Expired	—	—		
Outstanding, March 31, 2015	498,500	$ 6.56	4.5	$845,000
Vested, March 31, 2015	437,494	$ 6.43	4.1	$820,000

The following is a summary of changes in non-vested options for the three months ended March 31, 2015:

	Option Shares	Weighted Average Grant-Date Fair Value
Nonvested options, January 1, 2015	61,006	$ 6.14

Granted	—		
Vested	—		
Forfeited	—		
Nonvested options, March 31, 2015	61,006	$	6.14

The number of shares of Common Stock available for issuance under the 2012 Stock Incentive Plan as of March 31, 2015 was 194,517. At March 31, 2015, there were 113,500 options outstanding issued under the 2012 Stock Incentive Plan and 385,000 options outstanding issued under the 2002 Stock Incentive Plan.

Restricted Stock

Pursuant to the 2012 Plan, the Company, in May 2014, granted 666 restricted shares of its common stock to each non-employee member of its Board of Directors, totaling 3,330 restricted shares. The Company determined that the fair value of these shares was $7.43, 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 $25,000 in its selling, general and administrative expenses through May 2015.

NOTE 5 - ACCOUNTS RECEIVABLE AND ALLOWANCE FOR DOUBTFUL ACCOUNTS

Accounts receivable - net consists of:

	March 31, 2015	December 31, 2014
Accounts receivable	$ 12,042,000	$ 9,693,000
Allowance for doubtful accounts	(151,000)	(146,000)
	$ 11,891,000	$ 9,547,000

NOTE 6 - INVENTORIES

Inventories consist of:

	March 31, 2015	December 31, 2014
Raw material	$ 2,132,000	$ 2,014,000
Work in process	1,449,000	1,433,000
Finished goods	22,735,000	20,888,000
	$ 26,316,000	$ 24,335,000

NOTE 7 - GOODWILL AND OTHER INTANGIBLE ASSETS

The changes in the carrying amount of goodwill by segment are as follows:

	Consolidated	Tools	Hardware
Balance, January 1, 2015	$ 11,980,000	$ 10,107,000	$ 1,873,000
Adjustment to Acquisition of ATSCO	62,000	62,000	—
Currency translation adjustments	(15,000)	(15,000)	—
Balance, March 31, 2015	$ 12,027,000	$ 10,154,000	$ 1,873,000

Other intangible assets were as follows:

	March 31, 2015			December 31, 2014		
	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
Other intangible assets:						
Customer relationships (1)	$13,185,000	$4,760,000	$8,425,000	$13,194,000	$4,551,000	$8,643,000
Trademarks and trade names (1)	2,016,000	—	2,016,000	2,035,000	—	2,035,000
Engineering drawings	410,000	130,000	280,000	410,000	120,000	290,000
Licensing	305,000	250,000	55,000	305,000	235,000	70,000
Non-compete agreements (1)	362,000	63,000	299,000	368,000	41,000	327,000
Patents	1,205,000	199,000	1,006,000	1,205,000	133,000	1,072,000
Totals	$17,483,000	$5,402,000	$12,081,000	$17,517,000	$5,080,000	$12,437,000

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

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

Three months ended March 31,	
2015	2014
$ 324,000	$ 58,000

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

	March 31, 2015	December 31, 2014
Customer relationships	10.7	10.9
Trademarks and trade names	—	—
Engineering drawings	9.1	9.2
Licensing	1.0	1.2
Non-compete agreements	3.4	3.6
Patents	6.0	6.1
Total	9.9	10.1

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

2016	$1,290,000
2017	1,235,000
2018	1,053,000
2019	966,000
2020	908,000
Thereafter	4,613,000
	$10,065,000

NOTE 8 - DEBT

SHORT-TERM LOANS

The Company entered into a Loan and Security Agreement in October 2010, as amended ("Credit Agreement"), with Capital One Business Credit Corp., formerly known as Capital One Leverage Finance Corporation, as agent and lender ("COBC"). The Credit Agreement expires December 19, 2017 (the "Maturity Date"). The Credit Agreement provides for a Revolver Loan ("Revolver"), borrowings under which are secured by the Company's accounts receivable, mortgages on its real property located in Cranberry, PA, Jupiter, FL and Tampa, FL ("Real Property"), inventory and equipment. P&F and certain of its subsidiaries are borrowers under the Credit Agreement, and their obligations are cross-guaranteed by certain other subsidiaries. Revolver borrowings bear interest at either LIBOR (London InterBank Offered Rate) or the Base Rate, as defined in the Credit Agreement ("Base Rate"), or a combination of the two, plus the Applicable Margin (the "Applicable Margin"), as defined in the Credit Agreement. The interest rate, either LIBOR or Base Rate, which is added to the Applicable Margin, is at the option of the Company, subject to limitations on the number of LIBOR borrowings.

Contemporaneously with the ATSCO acquisition in August 2014, the Company entered into an Amended and Restated Loan and Security Agreement (the “Restated Loan Agreement”) with COBC. The Restated Loan Agreement, among other things, amended the Credit Agreement by: (1) increasing the total amount of the credit facility from $29,423,000 to $33,657,000, (2) increasing the Revolver from $20,000,000 to $22,000,000, (3) creating a new $3,000,000 Term Loan, as defined in the Restated Loan Agreement (“Term Loan B”), and (4) re-designating as “Term Loan A”, the previously existing outstanding Term Loan, which relates primarily to the Company’s real property. In addition, the Restated Loan Agreement also reset certain financial covenants.

At March 31, 2015 and December 31, 2014, the balance of Revolver borrowings outstanding was $15,022,000 and $11,817,000, respectively. Applicable Margins added to Revolver borrowings at LIBOR and the Base Rate were 2.25% and 1.25%, respectively, at March 31, 2015 and December 31, 2014. These applicable margin rates were constant throughout the three-month period ended March 31, 2015.

The Company is required to provide COBC with, among other things, monthly financial statements, monthly borrowing base certificates and certificates of compliance with various financial covenants. The Company believes it is in compliance with all covenants under the Restated Loan Agreement. As part of the Restated Loan Agreement, if an event of default occurs, the interest rate would increase by 2% per annum during the period of default, in addition to other remedies provided to COBC.

LONG-TERM

The Restated Loan Agreement also provides for Term Loan A, which is secured by mortgages on the Real Property, accounts receivable, inventory and equipment. Term Loan A borrowings can be at either LIBOR, or at the Base Rate, as defined in the Restated Loan Agreement, or a combination of the two plus the Applicable Margins, which for LIBOR borrowings at March 31, 2015 and December 31, 2014 was 3.0%. The Applicable Margin for borrowings at the Base Rate was 2.0% at March 31, 2015 and December 31, 2014.

Additionally, the Restated Loan Agreement provides for a Term Loan B, pursuant to which the Company borrowed the maximum principal amount of $3,000,000 as part of the ATSCO acquisition. This Term Loan B is to be repaid in 36 consecutive monthly payments of $83,000, with an additional mandatory repayment each year equal to 50% of the Company's Excess Cash Flow (as defined in the Restated Loan Agreement) for such year, if any. Term Loan B borrowings incur interest at LIBOR or the Base Rate or a combination, plus the Applicable Margins, which was 3.25% and 2.25% at March 31, 2015 and December 31, 2014. As the result of computing the Company's Excess Cash Flow for the year 2014, in April 2015, the Company repaid $2,417,000, which was the balance of the Term Loan B at March 31, 2015 with funds available from its Revolver.

The Company borrowed $380,000 and $519,000 in March 2012 and September 2012, respectively, as loans primarily for machinery and equipment ("Capex Term Loans"). Applicable Margins added to these Capex Term Loans at March 31, 2015 and December 31, 2014 were 3.00% and 2.00%, respectively for borrowings at LIBOR and the Base Rate, respectively.

Long-term debt:

	March 31, 2015	**December 31, 2014**
Term Loan A - $23,000 payable monthly January 2013 through December 2017, balance due December 19, 2017.	$ 6,370,000	$ 6,440,000
Term Loan B - $83,000 payable monthly September 2014 through March 2015.	2,417,000	2,667,000
Capex Term Loan - $6,000 payable monthly May 2012 through April 2017.	158,000	178,000
Capex Term Loan - $9,000 payable monthly October 2012 through September 2017.	260,000	285,000
Other	75,000	90,000
	9,280,000	9,660,000
Less: current maturities	2,904,000	3,167,000
	$ 6,376,000	$ 6,493,000

NOTE 9 - RELATED PARTY TRANSACTIONS

The president of one of the Company's subsidiaries is part owner of one of the subsidiary's vendors. During the three-month periods ended March 31, 2015 and 2014, the Company purchased approximately $181,000 and $263,000, respectively, of product from this vendor. At March 31, 2015 and December 31, 2014, the Company had trade payables to this vendor of $60,000 and $103,000, respectively. Additionally, during the three-month periods ended March 31, 2015 and 2014, the Company recorded sales to this vendor of $2,000 and $4,000, respectively.

NOTE 10 - BUSINESS SEGMENTS

P&F operates in two primary lines of business, or segments: Tools and Hardware. For reporting purposes, Florida Pneumatic and Hy-Tech are combined in the Tools segment, while Nationwide is currently the only subsidiary in the Hardware segment. The Company evaluates segment performance based primarily on segment operating income. The accounting policies of each of the segments are the same as those referred to in Note 1.

Three months ended March 31, 2015	Consolidated	Tools	Hardware
Revenue	$19,826,000	$14,559,000	$5,267,000
Segment operating income	$2,865,000	$1,908,000	$957,000
General corporate expense	(1,442,000)		
Interest expense	(192,000)		
Earnings before income taxes	$1,231,000		
Segment assets	$75,143,000	$61,836,000	$13,307,000
Corporate assets	1,764,000		
Total assets	$76,907,000		
Long-lived assets, including $47,000 at corporate	$34,443,000	$29,800,000	$4,596,000

Three months ended March 31, 2014	Consolidated	Tools	Hardware
Revenue	$15,932,000	$11,191,000	$4,741,000
Segment operating income			