P&F INDUSTRIES INC
Form 10-Q
May 12, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended March 31, 2006

o 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	(I.R.S. Employer Identification Number)

incorporation or organization)

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, 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 a large accelerated filer, an accelerated filer, or a non-accelerated filer (see definition of accelerated filer and large accelerated filer in rule 12b-2 of the Exchange Act).

Large Accelerated Filer o Accelerated Filer o Non-Accelerated Filer ý

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

As of May 12, 2006, there were 3,577,760 shares of the registrant s Class A Common Stock outstanding.

P&F INDUSTRIES, INC.

FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2006

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

P&F INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED CONDENSED BALANCE SHEETS

	March 31, 2006 (unaudited)	December 31, 2005 (derived from audited financial statements)
ASSETS		
CURRENT		
Cash and cash equivalents	$ 922,323	$ 1,771,624
Accounts receivable net	13,076,064	12,567,256
Notes and other receivables	1,915,380	2,727,393
Inventories net	26,254,440	26,173,990
Deferred income taxes net	1,509,000	1,496,000
Assets held for sale	599,518	623,519
Assets of discontinued operations	82,155	76,538
Prepaid expenses and other current assets	1,616,056	1,111,164
TOTAL CURRENT ASSETS	45,974,936	46,547,484
PROPERTY AND EQUIPMENT		
Land	1,174,773	1,174,773
Buildings and improvements	5,356,800	5,219,993
Machinery and equipment	8,701,868	8,087,469
	15,233,441	14,482,235
Less accumulated depreciation and amortization	7,847,436	7,620,626
NET PROPERTY AND EQUIPMENT	7,386,005	6,861,609
GOODWILL	24,719,312	23,821,240
OTHER INTANGIBLE ASSETS net	11,796,209	8,794,833
OTHER ASSETS net	486,548	808,381
TOTAL ASSETS	$ 90,363,010	$ 86,833,547

See accompanying notes to consolidated condensed financial statements (unaudited).

		March 31, 2006 (unaudited)		December 31, 2005 (derived from audited financial statements)
LIABILITIES AND SHAREHOLDERS EQUITY				
CURRENT LIABILITIES				
Short-term borrowings	$	7,000,000	$	3,000,000
Accounts payable		5,232,743		2,927,133
Income taxes payable		496,781		1,366,146
Accrued compensation		780,042		2,518,196
Other accrued liabilities		2,760,165		2,338,909
Current maturities of long-term debt		4,060,737		4,058,729
Liabilities of discontinued operations		2,072,402		2,357,573
TOTAL CURRENT LIABILITIES		22,402,870		18,566,686
LONG-TERM DEBT, less current maturities		18,557,395		19,572,651
DEFERRED INCOME TAXES net		960,000		978,000
TOTAL LIABILITIES		41,920,265		39,117,337
COMMITMENTS AND CONTINGENCIES				
SHAREHOLDERS EQUITY				
Preferred stock - $10 par; authorized - 2,000,000 shares; no shares outstanding				
Common stock				
Class A - $1 par; authorized - 7,000,000 shares; issued - 3,850,367 and 3,814,367 shares at March 31, 2006 and December 31, 2005, respectively		3,850,367		3,814,367
Class B - $1 par; authorized - 2,000,000 shares; no shares issued				
Additional paid-in capital		9,120,435		8,947,855
Retained earnings		37,843,120		36,969,119
Treasury stock, at cost (272,607 and 244,576 shares at March 31, 2006 and December 31, 2005, respectively)		(2,371,177)		(2,015,131)
TOTAL SHAREHOLDERS EQUITY		48,442,745		47,716,210
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$	90,363,010	$	86,833,547

See accompanying notes to consolidated condensed financial statements (unaudited).

P&F INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED CONDENSED STATEMENTS OF EARNINGS (unaudited)

	Three Months Ended March 31, 2006		2005	
Net revenues	$	26,849,503	$	24,324,264
Cost of sales		18,602,203		16,608,559
Gross profit		8,247,300		7,715,705
Selling, general and administrative expenses		6,299,390		5,416,616
Operating income		1,947,910		2,299,089
Interest expense net		491,954		415,129
Earnings from continuing operations before income taxes		1,455,956		1,883,960
Income taxes		584,000		772,000
Earnings from continuing operations before discontinued operations		871,956		1,111,960
Discontinued operations (net of taxes):				
Earnings (loss) from operation of discontinued operations (net of tax expense (benefit) of $1,000 and $(112,000) for 2006 and 2005, respectively)		2,045		(219,788)
Gain on sale of discontinued operations (net of tax expense of $36,000 for 2005)				71,232
Earnings (loss) from discontinued operations		2,045		(148,556)
Net earnings	$	874,001	$	963,404
Basic earnings (loss) per common share:				
Continuing operations	$	.24	$	.31
Discontinued operations				(.04)
	$	.24	$	.27
Diluted earnings (loss) per common share:				
Continuing operations	$	.23	$	.29
Discontinued operations				(.04)
	$	.23	$	.25
Weighted average common shares outstanding:				
Basic		3,583,942		3,559,922
Diluted		3,832,264		3,875,880

See accompanying notes to consolidated condensed financial statements (unaudited).

P&F INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED CONDENSED STATEMENTS OF SHAREHOLDERS EQUITY (unaudited)

	Total	Class A Common Stock, $1 Par Shares	Class A Common Stock, $1 Par Amount	Additional Paid-in Capital	Retained Earnings	Treasury Stock Shares	Treasury Stock Amount
Balance, January 1, 2006	$ 47,716,210	3,814,367	$ 3,814,367	$ 8,947,855	$ 36,969,119	(244,576)	$ (2,015,131)
Net earnings	874,001				874,001		
Issuance of Class A common stock upon exercise of stock options	208,580	36,000	36,000	172,580			
Shares surrendered as payment for exercise of stock options	(61,850)					(5,000)	(61,850)
Purchase of Class A common stock	(294,196)					(23,031)	(294,196)
Balance, March 31, 2006	$ 48,442,745	3,850,367	$ 3,850,367	$ 9,120,435	$ 37,843,120	(272,607)	$ (2,371,177)

See accompanying notes to consolidated condensed financial statements (unaudited).

P&F INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS (unaudited)

	Three Months Ended March 31, 2006		2005	
Cash Flows from Operating Activities of Continuing Operations:				
Net earnings	$	874,001	$	963,404
(Earnings) loss from discontinued operations net of taxes		(2,045)		148,556
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities of continuing operations:				
Non-cash charges and credits:				
Depreciation and amortization		226,810		191,601
Amortization of other intangible assets		298,624		276,250
Amortization of other assets		1,500		1,500
Provision (recoveries) for losses on accounts receivable - net		(8,075)		9,345
Deferred income taxes net		(31,000)		(48,000)
Changes in:				
Accounts receivable		76,261		(414,410)
Notes and other receivables		812,013		924,806
Inventories		257,825		(3,165,583)
Prepaid expenses and other current assets		(508,356)		(479,819)
Other assets		320,333		8,376
Accounts payable		2,303,470		235,162
Accruals and other		(2,186,263)		(1,730,968)
Total adjustments		1,561,097		(4,043,184)
Net cash provided by (used in) operating activities of continuing operations	$	2,435,098	$	(3,079,780)

See accompanying notes to consolidated condensed financial statements (unaudited).

	Three Months Ended March 31, 2006	2005
Cash Flows from Investing Activities of Continuing Operations:		
Capital expenditures	$ (501,206)	$ (150,931)
Purchase of certain assets, net of certain liabilities, of Pacific Stair Products, Inc.	(5,232,916)	
Additional payments for acquisition-related expenses	(162,434)	
Additional purchase price adjustment	37,613	
Proceeds from sale of certain assets of Green s Access Division		880,069
Additional payments for purchase of Nationwide Industries, Inc.		(101,450)
Net cash (used in) provided by investing activities of continuing operations	(5,858,943)	627,688
Cash Flows from Financing Activities of Continuing Operations:		
Proceeds from short-term borrowings	9,500,000	6,000,000
Repayments of short-term borrowings	(5,500,000)	(3,000,000)
Repayments of term loan	(950,000)	(3,250,000)
Principal payments on long-term debt	(63,248)	(58,406)
Proceeds from exercise of stock options	146,730	74,995
Purchase of Class A common stock	(294,196)	
Net cash provided by (used in) financing activities of continuing operations	2,839,286	(233,411)
Cash Flows from Discontinued Operations:		
Net cash (used in) provided by operating activities	(236,454)	2,695,583
Net cash used in investing activities		(1,049,601)
Net cash used in financing activities	(28,288)	(28,288)
Net cash (used in) provided by discontinued operations	(264,742)	1,617,694
NET DECREASE IN CASH	(849,301)	(1,067,809)
Cash and cash equivalents at beginning of period	1,771,624	1,189,869
Cash and cash equivalents at end of period	$ 922,323	$ 122,060
Supplemental disclosures of cash flow information:		
Cash paid for:		
Interest	$ 478,000	$ 408,000
Income taxes	$ 1,736,000	$ 1,606,000

Non-cash investing and financing activities were as follows:

In connection with the sale of certain assets of Green s Access Division in February 2005, the Company received interest-bearing promissory notes of approximately $877,000, as adjusted, payable in varying amounts through November 2006.

During the first quarter of 2006, the Company received 5,000 shares of Class A Common Stock in connection with the exercise of options to purchase 15,000 shares of Class A Common Stock. The value of these shares was recorded at $61,850.

See accompanying notes to consolidated condensed financial statements (unaudited).

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P&F INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (unaudited)

NOTE 1 - SUMMARY OF ACCOUNTING POLICIES

Principles of Consolidation

The unaudited consolidated condensed 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 two of its wholly-owned subsidiaries: Florida Pneumatic Manufacturing Corporation (Florida Pneumatic) and Countrywide Hardware, Inc. (Countrywide). P&F and its subsidiaries are herein referred to collectively as the Company. In addition, the words we , our and us refer to the Company.

Florida Pneumatic is engaged in the importation, manufacture and sale of pneumatic hand tools, primarily for the industrial, retail and automotive markets, and the importation and sale of compressor air filters. Florida Pneumatic also markets, through its Berkley Tool division (Berkley), a line of pipe cutting and threading tools, wrenches and replacement electrical components for a widely-used brand of pipe cutting and threading machines. In addition, through its Franklin Manufacturing (Franklin) division, Florida Pneumatic imports a line of door and window hardware. Countrywide conducts its business operations through Nationwide Industries, Inc. (Nationwide), through Woodmark International, L.P. (Woodmark), a limited partnership between Countrywide and WILP Holdings, Inc., a subsidiary of Countrywide, and through Pacific Stair Products, Inc. (Pacific Stair). Nationwide is an importer and manufacturer of door, window and fencing hardware. Woodmark is an importer of builders hardware, including staircase components and kitchen and bath hardware and accessories. In January 2006, Countrywide acquired substantially all of the operating assets of Pacific Stair, a manufacturer of premium stair rail products and a distributor of Woodmark s staircase components to the building industry, primarily in southern California and the southwestern region of the United States (see Note 6). The Company s wholly-owned subsidiary, Embassy Industries, Inc. (Embassy), was engaged in the manufacture and sale of baseboard heating products and the importation and sale of radiant heating systems until it exited that business in October 2005 (see Note 7) through the sale of substantially all of its non-real estate assets. The Company s wholly-owned subsidiary, Green Manufacturing, Inc. (Green), was primarily engaged in the manufacture, development and sale of heavy-duty welded custom designed hydraulic cylinders until it exited that business in December 2004 through the sale of certain assets. Green also manufactured a line of access equipment for the petro-chemical industry until it exited that business in February 2005 through the sale of certain assets and a line of post hole digging equipment for the agricultural industry until it exited that business in July 2005 through the sale of certain assets. Green has effectively ceased all operating activities (see Note 7). Note 12 presents financial information for the segments of the Company s business.

Basis of Financial Statement Presentation

The accompanying unaudited consolidated condensed 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

condensed 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 results of operations for Embassy and Green have been segregated from continuing operations and are reflected on the consolidated condensed statements of earnings as discontinued operations.

The unaudited consolidated condensed balance sheet information as of December 31, 2005 was derived from the audited financial statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2005. The interim financial statements contained herein should be read in conjunction with that Report.

In preparing its unaudited consolidated condensed 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. On an ongoing basis, the Company evaluates estimates, including those related to bad debts, inventory reserves, goodwill and intangible assets. 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 could differ from those estimates.

NOTE 2 - EARNINGS PER SHARE

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

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

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

	Three months ended March 31, 2006		Three months ended March 31, 2005	
Numerator:				
Numerator for basic and diluted earnings (loss) per common share:				
Earnings from continuing operations	$	871,956	$	1,111,960
Discontinued operations, net of taxes		2,045		(148,556)
Net earnings	$	874,001	$	963,404
Denominator:				
Denominator for basic earnings per share weighted average common shares outstanding		3,583,942		3,559,922
Effect of dilutive securities:				
Stock options		248,322		315,958
Denominator for diluted earnings per share adjusted weighted average common shares and assumed conversions		3,832,264		3,875,880

At March 31, 2006 and 2005 and during the three-month periods ended March 31, 2006 and 2005, there were outstanding stock options whose exercise prices were higher than the average market values of the underlying Class A Common Stock for the period. These options are anti-dilutive and are excluded from the computation of earnings per share. The weighted average anti-dilutive stock options outstanding were as follows:

	Three months ended March 31, 2006	Three months ended March 31, 2005
Weighted average anti-dilutive stock options outstanding	29,500	

NOTE 3 - STOCK-BASED COMPENSATION

Stock-based Compensation

On January 1, 2006, the Company adopted the provisions of Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 123(R), Share-Based Payment (Statement 123(R)), which revises FASB SFAS No. 123, Accounting for Stock-Based Compensation , and supersedes APB Opinion 25, Accounting for Stock Issued to Employees . Statement 123(R) requires the Company to recognize expense related to the fair value of our stock-based compensation awards, including employee stock options.

Prior to the adoption of Statement 123(R), the Company accounted for stock-based compensation awards using the intrinsic value method of APB Opinion 25. Accordingly, the Company did not recognize compensation expense in its statement of earnings for options granted that had an exercise price equal to the market value of the underlying common stock on the date of grant. As required by Statement 123, the Company also provided certain pro forma disclosures for stock-based awards as if the fair-value-based approach of Statement 123 had been applied.

The Company has elected to use the modified prospective transition method as permitted by Statement 123(R) and therefore has not restated its financial results for prior periods. Under this transition method, the Company applied the provisions of Statement 123(R) to new awards and to awards modified, repurchased, or cancelled after January 1, 2006. Additionally, the Company will recognize compensation cost for the portion of the awards for which the requisite service has not been rendered (unvested awards) that are outstanding as of January 1, 2006, as the remaining service is rendered. The compensation cost the Company records for these awards will be based on their grant-date fair value as calculated for the pro forma disclosures required by Statement 123.

No stock-based compensation cost related to stock options was recognized in the statements of earnings for the years ended December 31, 2005 and 2004, as all options granted in these periods had an exercise price equal to the market price at the date of grant. As a result of adopting Statement 123(R), the Company s earnings before income taxes and net earnings for the three-month period ended March 31, 2006 were approximately $7,000 and $4,000 lower than if we had continued to account for stock-based compensation under APB Opinion 25. Compensation expense is recognized in the general and administrative expenses line item of the Company s statements of earnings on a straight-line basis over the vesting periods. There are no capitalized stock-based compensation costs at March 31, 2006 and 2005. The adoption of Statement 123(R) had no impact on our basic and dilutive earnings per common share for the three-month period ended March 31, 2006.

The following table illustrates the effect on net earnings after tax and net earnings per common share as if we had applied the fair value recognition provisions of Statement 123 to stock-based compensation for the three-month period ended March 31, 2005:

Net earnings as reported	$	963,000
Deduct: Total stock-based employee compensation expense determined under fair value method, net of related tax effects		(6,000)
Pro forma net earnings	$	957,000
Basic earnings per common share		
As reported	$	.27
Pro forma	$	.27
Diluted earnings per common share		
As reported	$	.25
Pro forma	$	.25

The fair value of options granted is estimated on the date of grant using the Black-Scholes option pricing model.

Stock Option Plan

The Company s 2002 Incentive Stock Option Plan (the Current Plan) authorizes the issuance, to employees and directors, of options to purchase a maximum of 1,100,000 shares of Class A Common Stock. These options must be issued within ten years of the effective date of the Plan and are exercisable for a ten year period from the date of grant, at prices not less than 100% of the market value of the Class A Common Stock on the date the option is granted. Options granted to any 10% stockholder are exercisable for a five year period from the date of grant, at prices not less than 110% of the market value of the Class A Common Stock on the date the option is granted. Options typically vest immediately. In the event options granted contain a vesting schedule over a period of years, the Company recognizes compensation cost for these awards on a straight-line basis over the service period. The Current Plan, which terminates in 2012, is the successor to the Company s 1992 Incentive Stock Option Plan (the Prior Plan).

The following is a summary of the changes in outstanding options for the three months ended March 31, 2006:

	Option Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Outstanding, January 1, 2006	596,900	$ 7.58	4.7	
Granted				
Exercised	(36,000)	5.79		
Forfeited				
Expired				
Outstanding, March 31, 2006	560,900	$ 7.69	4.4	$ 3,932,000
Vested, March 31, 2006	519,422	$ 7.53	4.5	$ 3,724,000

There were no stock options granted during the three months ended March 31, 2006 and 2005. The total intrinsic value of stock options exercised during the three months ended March 31, 2006 and 2005 was $223,000 and $113,000, respectively.

The following is a summary of changes in non-vested shares for the three months ended March 31, 2006:

	Option Shares	Weighted Average Grant-Date Fair Value
Non-vested shares, January 1, 2006	41,478	$ 2.73
Granted		
Vested		
Forfeited		
Non-vested shares, March 31, 2006	41,478	$ 2.73

The Company recognizes compensation cost over the requisite service period. However, the exercisability of the respective non-vested options, which are at pre-determined dates on a calendar year, do not necessarily correspond to the period(s) in which straight-line amortization of compensation cost is recorded.

Other Information

As of March 31, 2006, the Company has approximately $43,000 of total unrecognized compensation cost related to non-vested awards granted under our share-based plans, which we expect to recognize over a weighted-average period of 2.7 years.

The Company received cash from options exercised during the three-months ended March 31, 2006 of approximately $147,000. The impact of these cash receipts is included in financing activities in the accompanying consolidated condensed statements of cash flows. Statement 123(R) requires that cash flows from tax benefits attributable to tax deductions in excess of the compensation cost recognized for those options (excess tax benefits) be classified as financing cash flows.

The number of shares of Class A common stock reserved for stock options available for issuance under the Current Plan as of March 31, 2006 was 683,400. Of the options outstanding at March 31, 2006, 348,100 were issued under the Current Plan and 212,800 were issued under the Prior Plan.

NOTE 4 - FOREIGN CURRENCY TRANSACTIONS

Derivative Financial Instruments

The Company uses derivatives to reduce its exposure to fluctuations in foreign currencies, principally Japanese yen. Derivative products, specifically foreign currency forward contracts, are used to hedge the foreign currency market exposures underlying certain debt and forecasted transactions with foreign vendors. The Company does not enter into such contracts for speculative purposes.

For derivative instruments that are designated and qualify as fair value hedges (i.e., hedging the exposure to changes in the fair value of an asset or a liability or an identified portion thereof that is attributable to a particular risk), the gain or loss on the derivative instrument as well as the offsetting gain or loss on the hedge item attributable to the hedged risk are recognized in earnings in the current period. For derivative instruments that are designated and qualify as a cash flow hedge (i.e., hedging the exposure of variability in the expected future cash flows that would be attributable to a particular risk), the effective portion of the gain or loss on the derivative instrument is reported as a component of accumulated comprehensive loss (a component of shareholders equity) and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. The remaining gain or loss on the derivative instrument, if any (i.e., the ineffective portion and any portion of the derivative instrument excluded from the assessment of effectiveness), is recognized in earnings in the current period. For derivative instruments not designated as hedging instruments, changes in the fair market values are recognized in earnings as a component of cost of sales.

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 earnings. The Company also marks its yen-denominated payables to market, recognizing any resulting gains or losses in its statement of earnings. At March 31, 2006, the Company had foreign currency forward contracts, maturing in 2006, to purchase Japanese yen at contracted forward rates. The value of these contracts at March 31, 2006, based on that day s closing spot rate, was approximately $1,341,000, which was the approximate value of the Company s yen-denominated accounts payable. During the three month periods ended March 31, 2006 and 2005, the Company recorded in its cost of sales a net realized gain of approximately $10,000 and a net realized loss of $102,000, respectively, on foreign currency transactions. At March 31, 2006 and 2005, the Company had no unrealized gains or losses in foreign currency transactions.

NOTE 5 - NEW ACCOUNTING PRONOUNCEMENTS

In February 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 155, Accounting for Certain Hybrid Financial Instruments an amendment of FASB Statements No. 133 and 140. SFAS No. 155 allows companies to elect to measure at fair value entire financial instruments containing embedded derivatives that would otherwise have to be accounted for separately. It also requires companies to identify interests in securitized financial assets that are freestanding derivatives or contain embedded derivatives that would have to be accounted for separately, clarifies which interest- and principal-only strips are subject to SFAS No. 133, and amends SFAS No. 140 to revise the conditions of a qualifying special purpose entity due to the new requirement to identify whether interests in securitized financial assets are freestanding derivatives or contain embedded derivatives. SFAS No. 155 is effective for all financial instruments acquired, issued or subject to a remeasurement event after the beginning of a company s first fiscal year that begins after September 15, 2006. The Company does not expect adoption of SFAS No. 155 to have a material effect on its results of operations or financial position.

In March 2006, the FASB issued SFAS No. 156, Accounting for Servicing of Financial Assets an amendment of FASB Statement No. 140. SFAS No. 156 requires the recognition of a servicing asset or liability each time a company undertakes an obligation to service a financial asset in certain situations. It requires all separately recognized servicing assets and liabilities to be initially measured at fair value, if practical. SFAS No. 156 is effective as of the beginning of a company s first fiscal year that begins after September 15, 2006. The Company does not expect adoption of SFAS No. 156 to have a material effect on its results of operations or financial position.

NOTE 6 ACQUISITION

Pacific Stair Products, Inc.

Pursuant to an Asset Purchase Agreement (the PSP APA), dated December 20, 2005, between Pacific Stair Products, a California corporation (Old PSP), and Pacific Stair Products, Inc., a newly-formed Delaware corporation (Pacific Stair) and a wholly-owned subsidiary of Countrywide, effective January 3, 2006, Pacific Stair purchased substantially all of the operating assets of Old PSP. The total purchase price for the assets was approximately $5,233,000, subject to adjustments, plus the assumption of certain liabilities and obligations by Pacific Stair. The assets purchased pursuant to the PSP APA include, among others, accounts receivable, inventory, machinery and equipment and certain intangibles. Certain assets were retained by Old PSP including cash and title to any real property. The purchase price, including direct acquisition costs, represents a premium over the fair value of the assets purchased of approximately $4,198,000, which will be allocated among goodwill and other intangible assets. Pacific Stair is a manufacturer of premium stair rail products and a distributor of staircase components to the building industry, primarily in southern California and the southwestern region of the United States. As a result of this transaction, Countrywide has increased its purchasing power and geographic distribution. The acquisition was financed through the Company s credit facility with Citibank. The consolidated condensed financial statements presented herein include the results of operations for Pacific Stair for the period from January 3, 2006 to March 31, 2006.

The purchase price for this acquisition, negotiated on the basis of Pacific Stair s historical financial performance, was as follows:

Cash paid at closing from short-term borrowings	$	5,233,000
Additional purchase price for working capital adjustment		(38,000)
Direct acquisition costs		163,000
Total purchase price	$	5,358,000

The following table presents the estimated fair values of the net assets acquired and the amount allocated to goodwill:

Current and other assets			$	912,000
Property and equipment				250,000
Identifiable intangible assets:				
Customer relationships	$	1,800,000		
Tradename		1,450,000		
Non-compete and employment agreements		50,000		3,300,000
				4,462,000
Less: liabilities assumed				2,000
Total fair value of net assets acquired				4,460,000
Goodwill				898,000
Total purchase price			$	5,358,000

The Company obtained an independent third-party valuation of the identifiable intangible assets.

The excess of the total purchase price over the fair value of the net assets acquired, including the value of the identifiable intangible assets, has been allocated to goodwill. Goodwill will be amortized, for fifteen years, for tax purposes but not for financial reporting purposes. The fair values of the identifiable intangible assets are based on current information and are subject to change. The intangible assets subject to amortization will be amortized over fifteen years for tax purposes and for financial reporting purposes and have been assigned useful lives as follows:

Customer relationships	25 years
Tradename	Indefinite
Non-compete and employment agreements	5 years

The following unaudited pro forma financial information presents the combined results of operations of the Company and its Pacific Stair acquisition as if it had occurred at the beginning of the periods presented. The pro forma financial information reflects appropriate adjustments for amortization of intangible assets, additional compensation related to an employment agreement, interest expense and income taxes. The pro forma financial information presented is not necessarily indicative of either the actual consolidated operating results had the acquisition been completed at the beginning of each period or future operating results of the consolidated entities.

	Three Months Ended March 31, 2005	
Net revenues	$	25,530,000
Net earnings from continuing operations	$	1,226,000
Earnings per common share from continuing operations:		
Basic	$	.34
Diluted	$	.32

NOTE 7 DISCONTINUED OPERATIONS

<u>Embassy Industries, Inc.</u>

Pursuant to an Asset Purchase Agreement (the Embassy APA), dated as of October 11, 2005, among P&F, Embassy, Mestek, Inc. (Mestek) and Embassy Manufacturing, Inc., a wholly-owned subsidiary of Mestek (EMI), Embassy sold substantially all of its operating assets to EMI. The assets sold pursuant to the Embassy APA include, among others, machinery and equipment, inventory, accounts receivable and certain intangibles. Certain assets were retained by Embassy, including, but not limited to, cash and title to any real property owned by Embassy at the consummation of the sale to EMI. The consideration paid by EMI for the assets acquired pursuant to the Embassy APA was approximately $8,433,000 plus the assumption of certain liabilities and obligations of Embassy by EMI.

Pursuant to a Lease, dated as of October 11, 2005, between Embassy, as landlord and EMI, as tenant (the EMI Lease), Embassy has agreed to lease certain space (approximately 60,000 rentable square feet) in the building located at 300 Smith Street, Farmingdale, New York to EMI in connection with the operation of EMI s business, at an annual rental rate of $480,000, payable in monthly installments of $40,000 each. The term of the EMI Lease is for a period of six (6) months commencing October 11, 2005 and terminating April 10, 2006; provided however, that, in the event EMI serves notice on Embassy by December 31, 2005, the Lease may be extended on a month to month basis to, and including, June 30, 2006. EMI has served notice on Embassy to extend the EMI Lease through May 31, 2006.

Embassy has effectively ceased all operating activities. The Company recognized a gain on the sale of these assets of approximately $1,467,000, net of taxes, during the fourth quarter of fiscal 2005.

In January 2006, Embassy entered into a contract of sale, as amended, on its building with a non-affiliated third party for a purchase price of approximately $6.4 million. The contract is scheduled to close on or about June 1, 2006. The Company intends to use the net proceeds from this sale to satisfy an existing mortgage on the building of approximately $1.3 million and to reduce its short and long-term debt. The Company expects to report a pre-tax gain from the sale of the building of approximately $5.0 million in its second fiscal quarter of 2006.

Green Manufacturing, Inc. Agricultural Products Division

Pursuant to an Asset Purchase Agreement (the Agricultural APA), dated as of July 14, 2005, between Green and Benko Products, Inc. (Benko), Green sold certain of its assets comprising its Agricultural Products Division (the Agricultural Division) to Benko. The assets sold pursuant to the Agricultural APA include, among others, certain machinery and equipment. Certain assets of the Agricultural Division were retained by Green, including, but not limited to, certain of the Agricultural Division s accounts receivable and inventories existing at the consummation of the sale to Benko (the Agricultural Closing).

The purchase price paid by Benko in consideration for the assets acquired pursuant to the Agricultural APA was $530,000, consisting of (a) a payment to Green at Agricultural Closing of $225,000; (b) $25,000 payable pursuant to the terms of a Promissory Note (Agricultural Note 1), dated July 14, 2005, payable in equal monthly amounts over a five (5) month period commencing as of the Agricultural Closing; and (c) $280,000 payable pursuant to the terms of a Promissory Note (collectively with Agricultural Note 1, the Agricultural Notes), dated July 14, 2005, payable in equal monthly amounts over a four (4) year period commencing as of the Agricultural Closing. In addition, Benko assumed certain of Green s contractual obligations. The obligations of Benko under the Agricultural APA and the Agricultural Notes are guaranteed by each of a principal shareholder and an affiliate of Benko, and partially secured by certain collateral.

In connection with the transaction, Green and Benko entered into an agreement which provides for Benko to purchase from Green 100% of Benko s requirements for products of the type that constitute part of Green s inventory of raw materials and finished goods as of the acquisition date with all purchases by Benko being binding and non-cancelable at pre-established prices. The term is for a period of one year from the acquisition date. Benko shall maintain for the benefit of Green an insurance policy insuring the inventory and will bear the entire risk of loss, theft, destruction or any damage to the inventory. Benko will also be responsible for all recordkeeping with respect to the inventory. After the expiration of the term, Benko is obligated to provide Green with a list of all unpurchased inventory and return such inventory to Green. Based on the terms of the agreement, Green has effectively entered into an arrangement which provides for a transfer of its inventory to Benko prior to payment, as if it had been sold to Benko, with Green recording it as an other current receivable (based on the cost of the inventory, which approximated $373,000) in the third quarter of 2005. This treatment is based on the fact that Green has effectively transferred control of the inventory to Benko. Benko s employees maintain control of the inventory as it is located on Benko s premises and also bears risk of loss, theft, destruction or any damage to the inventory. Also, all purchases by Benko are binding and non-cancelable at pre-established prices with Benko being Green s only customer for the one-year period.

The Company recognized a gain on the sale of these assets of approximately $312,000, net of taxes, in fiscal 2005.

Green Manufacturing, Inc. Access Division

Pursuant to an Asset Purchase Agreement (the Access APA), dated as of February 2, 2005, between Green and Benko Products, Inc. (Benko), Green sold certain of its assets comprising its Access Division (the Access Division) to Benko. The assets sold pursuant to the Access APA include, among others, certain machinery and equipment, accounts receivable (Purchased Receivables), inventory, intellectual property and other intangibles. Certain assets of the Access Division were retained by Green, including, but not limited to, certain of the Access Division s accounts receivable existing at the consummation of the sale to Benko (the Access Closing).

The purchase price paid by Benko in consideration for the assets acquired pursuant to the Access APA, giving effect to certain adjustments, was approximately $1,756,655, consisting of (a) a payment to Green at Access Closing of approximately $880,069; (b) $755,724 payable pursuant to the terms of a Promissory Note (Access Note 1), dated February 2, 2005, payable in various amounts over a twenty-one (21) month period commencing as of the Access Closing; and (c) $120,862 payable pursuant to the terms of a Promissory Note (collectively with Access Note 1, the Access Notes), dated February 2, 2005, payable in various amounts over a four (4) month period commencing as of the Access Closing. Benko agreed to pay additional consideration on an annual basis for the two (2) successive twelve (12) month periods commencing as of the Access Closing, dependent on certain sales by Benko, subject to certain other conditions. In addition, Benko assumed certain of Green s contractual obligations. The obligations of Benko under the Access APA and the Access Notes are guaranteed by each of a principal shareholder and an affiliate of Benko, and partially secured by certain collateral.

The Company recognized a gain on the sale of these assets of approximately $71,000, net of taxes, in fiscal 2005.

The following amounts related to Embassy and Green have been segregated from the Company s continuing operations and are reported as assets held for sale and assets and liabilities of discontinued operations in the consolidated condensed balance sheets:

		March 31, 2006		**December 31, 2005**
Assets held for sale and assets of discontinued operations:				
Prepaid expenses	$	82,000	$	77,000
Assets held for sale		600,000		623,000
Total assets held for sale and assets of discontinued operations	$	682,000	$	700,000
Liabilities of discontinued operations:				
Accounts payable and accrued expenses	$	733,000	$	991,000
Mortgage payable		1,339,000		1,367,000
Total liabilities of discontinued operations				