P&F INDUSTRIES INC
Form 10-K
March 29, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the Fiscal Year Ended December 31, 2016

or

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

Commission File Number 1-5332

P&F INDUSTRIES, INC.

(Exact name of registrant as specified in its charter)

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

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

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

(Title of each class)	(Name of each exchange on which registered)
Class A Common Stock, $1.00 par value	The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act: NONE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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

The aggregate market value of the registrant's Class A Common Stock held by non-affiliates of the registrant, based on the last sale price on June 30, 2016 (the last business day of the registrant's most recently completed second fiscal quarter), was approximately $21,955,000. For purposes of this calculation, shares of common stock held by each executive officer and director have been excluded since those persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of March 24, 2017 there were 3,597,870 shares of the registrant's Class A Common Stock outstanding.

Documents Incorporated by Reference

Part III of this Annual Report on Form 10-K incorporates by reference information from the registrant's definitive Proxy Statement for its 2016 Annual Meeting of Stockholders.

P&F INDUSTRIES, INC.

FORM 10-K

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2016

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FORWARD LOOKING STATEMENTS

The Private Securities Litigation Reform Act of 1995 (the “Reform Act”) provides a safe harbor for forward looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 made by or on behalf of P&F Industries, Inc. and subsidiaries (the “Company”). The Company and its representatives may, from time to time, make written or verbal forward looking statements, including statements contained in the Company’s filings with the Securities and Exchange Commission, such as this Annual Report on Form 10-K (“Report”), and in its reports to stockholders. Any statements made in the Report that are not historical or current facts may be deemed to be forward looking statements. Generally, the inclusion of the words “believe,” “expect,” “intend,” “estimate,” “anticipate,” “will,” “may,” “would,” “could” and their opposites and similar express identify statements that constitute forward looking statements within the meaning of the Reform Act. Any forward looking statements contained herein, including those related to the Company’s future performance, are based upon the Company’s historical performance and on current plans, estimates and expectations. Such forward looking statements are subject to various risks and uncertainties, including those risk factors described in Item 1A of Part I, “Risk Factors” of this Report, which may cause actual results to differ materially from the forward looking statements. You are therefore cautioned against relying on any forward looking statements. Forward looking statements speak only as of the date on which they are made, and the Company undertakes no obligation to update publicly or revise any forward looking statement, whether as a result of new information, future developments or otherwise.

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PART I

ITEM 1. Business

P&F Industries, Inc. (P&F) is a Delaware corporation incorporated on April 19, 1963. Prior to February 11, 2016, the effective date of the sale of its Nationwide Industries, Inc. (“Nationwide”) subsidiary, P&F operated in two primary lines of business or segments: (i) tools and other products (“Tools”) and (ii) hardware and accessories (“Hardware”). As a result of the sale of Nationwide, which had been reported in the Hardware segment, the Company currently only operates in the Tools business. See Note 2 to Consolidated Financial Statements for further discussion.

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”). Exhaust Technologies Inc. (“ETI”) and Universal Air Tool Company Limited (“UAT”) are wholly-owned subsidiaries of Florida Pneumatic, each of which was acquired by Florida Pneumatic in 2014. ATSCO Holdings Corp. (“ATSCO”) is a wholly-owned subsidiary of Hy-Tech, which was also acquired in 2014.

Florida Pneumatic

Florida Pneumatic imports and sells pneumatic hand tools, most of which are of its own design, primarily to the retail, industrial and automotive markets. This line of products includes sanders, grinders, drills, saws and impact wrenches. These tools are similar in appearance and function to electric hand tools, but are powered by compressed air, rather than directly by electricity. Air tools, as they are more commonly referred to, generally are less expensive to operate, offer better performance and weigh less than their electrical counterparts. Florida Pneumatic imports approximately seventy-five types of pneumatic hand tools, most of which are sold at prices ranging from $50 to $1,000, under the names “Florida Pneumatic”, “Universal Tool,” AIRCAT or NITROCAT, as well as under the trade names or trademarks of several private label customers. These products are sold to retailers, distributors, and private label customers through in-house sales personnel and manufacturers’ representatives. The AIRCAT and NITROCAT brand of pneumatic tools are sold primarily to the automotive service and repair market (“automotive market”). Users of Florida Pneumatic’s hand tools include industrial maintenance and production staffs, do-it-yourself mechanics, automobile mechanics and auto body personnel.

During 2016 Florida Pneumatic purchased approximately 36% of its pneumatic tools from China, 63% from Taiwan and 1% from Japan and Europe. Florida Pneumatic performs final assembly on certain of its products at its factory in Jupiter, Florida.

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. Florida Pneumatic markets Berkley’s products through industrial distributors and contractors. Florida Pneumatic sources its Berkley product line from China and Israel, as well as domestic sources. Florida Pneumatic also assembles and markets a line of compressor air filters, for which it imports components from Mexico.

There are redundant supply sources for nearly all products purchased.

The primary competitive factors in the industrial and automotive pneumatic tool market are quality, breadth and availability of products, customer service and technical support. The primary competitive factors in the retail pneumatic tool market are price, service and brand-name awareness. The primary competitive factors in Berkley’s business are price and service. Florida Pneumatic’s products are sold off the shelf. Florida Pneumatic’s retail business is not seasonal.

Hy-Tech

Hy-Tech manufacturers and distributes its own line of industrial pneumatic tools and parts under the “ATP” brand. Under the ATP brand, Hy-Tech produces and sells over sixty types of pneumatic tools, which include impact wrenches, grinders, drills, and motors that are sold at prices ranging from $450 to $28,000. Users of ATP parts and tools include refineries, chemical plants, power generation facilities, heavy construction enterprises, and oil and mining companies. Further, it also manufactures tools to customer unique specifications. In addition, Hy-Tech manufactures an extensive line of pneumatic tool replacement parts that are sold to original equipment manufacturers (“OEMs”), as well as competitively. It also manufactures and distributes high pressure stoppers for hydrostatic testing of fabricated pipe under the “Thaxton” brand name. It also produces a line of siphons under the “Eureka” name. Other than a line of sockets sold under the “OZAT” brand name that are imported from Israel, all Hy-Tech products are made in the United States of America.

Hy-Tech products are sold through its in-house sales force as well as manufacturer representatives. Hy-Tech’s products are sold off the shelf and also are produced and sold to customer’s specifications.

The business is not seasonal but may be subject to periodic schedule changes in refineries, power generation and chemical plants. The primary competitive factors in the industrial pneumatic tool market are quality, breadth and availability of products, customer service and technical support.

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

Hardware

Nationwide

Prior to the sale of Nationwide, which was effective February 11, 2016 (the “Closing Date”), the Company conducted its Hardware business through its wholly-owned subsidiary, Countrywide Hardware, Inc. (“Countrywide”). Countrywide conducted its business operations through its wholly-owned subsidiary, Nationwide. As of the Closing Date, Nationwide was 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. On the Closing Date, Countrywide sold Nationwide to an unrelated third party for approximately $22.2 million.

In November 2016, Countrywide sold the land and building which was the sole location from which Nationwide operated for $3.5 million, after fees and expenses.

See Note 2 to Consolidated Financial Statements for further discussion.

Patents, Trademarks and Other Intellectual Property

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

Customers

We have two retail customers that, during 2016, accounted for 13.6% and 29.8%, respectively, of the Company's revenue. In 2015, these two customers accounted for 11.7% and 28.5% of the Company's revenue.

Employees

The Company employed 115 full-time employees as of December 31, 2016. At various times during the year our operating units may employ seasonal or part-time help, as necessary. None of the Company's employees are represented by a union.

Information Available on the Company's Website

Additional information regarding the Company and its products is available on the Company's website at www.pfina.com . In addition, the Company's (i) charters for the Audit, Compensation, Corporate Governance and Nominating, and Strategic Planning and Risk Assessment Committees of the Company's Board of Directors and of the Lead Independent Director; and (ii) Code of Business Conduct and Ethics are available on the Company's website. P&F's Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Proxy Statements on Schedule 14A and Current Reports on Form 8-K, as well as any amendments to those reports and certain other filings, are made available to the public at no charge, other than an investor's own internet access charges, through the "SEC Filings" section of the Company's website. The Company makes such material available on its website as soon as reasonably practicable after it electronically files such material with, or furnishes it to, the Securities and Exchange Commission ("SEC"). Copies of any materials the Company files with the SEC can also be obtained free of charge through the SEC's website at www.sec.gov. The SEC's Public Reference Room can be contacted at 100 F Street, N.E., Washington, D.C. 20549. The information on the Company's website is not, and should not be considered, part of this Annual Report on Form 10-K and is not incorporated by reference to this report.

ITEM 1A. Risk Factors

A wide range of factors could materially affect our performance. In addition to the factors affecting specific business operations identified in connection with the description of these operations and the financial results elsewhere in this report, the following factors, among others, could adversely affect our business, including our results of operations or financial position:

- *Exposure to fluctuations in energy prices.* Fluctuations in energy prices, including crude oil and gas prices, could negatively impact the activities of those of our customers involved in extracting, refining or exploring for crude oil and gas, resulting in a corresponding adverse effect on the demand for the products that they purchase from us. Prices for oil and gas are subject to large fluctuations in response to relatively minor changes in the supply of, and demand for, oil and gas, market uncertainty and a variety of other economic factors that are beyond our control. Worldwide economic, political and military events, including war, terrorist activity, events in the Middle East and initiatives by the Organization of the Petroleum Exporting Countries (OPEC), have contributed, and are likely to continue to contribute, to price and volume volatility. Crude oil prices have been depressed. We believe this in large part is due to increasing global supply of oil due to factors such as weakening demand from slowing economic growth in Europe and Asia and trends towards increased fuel-efficiency. The resulting negative shift in demand of our products by our customers has negatively impacted us, and could in the future have a material adverse effect on our business, results of operations or financial position.

- *Debt and debt service requirements.* The amount of our debt from time to time could have important consequences. For example, it could: increase our vulnerability to general adverse economic and industry conditions; limit our ability to fund future capital expenditures, working capital and other general corporate requirements and limit our flexibility in planning for, or reacting to, changes in our business.

- *Borrowing and compliance with covenants under our credit facility.* Our credit facility contains affirmative and negative covenants including financial covenants, and default provisions. A breach of any of these covenants could result in a default under our credit agreement. Upon the occurrence of an event of default under our current credit agreement, the lenders could elect to declare all amounts outstanding to be immediately due and payable and terminate all commitments to extend further credit. If the lenders were to accelerate the repayment of borrowings, to the extent we have significant outstanding borrowings at said time, we may not have sufficient assets to repay our asset based credit facility and our other indebtedness. Also, should there be an event of default, or a need to obtain waivers following an event of default, we may be subject to higher borrowing costs and/or more restrictive covenants in future periods. Further, the amount available for borrowing under our asset-based revolving loan facility is subject to a borrowing base, which is determined by taking into account, among other things, our accounts receivable, inventory and machinery and equipment. Fluctuations in our borrowing base impact our ability to borrow funds pursuant to the revolving loan facility.

- *Disruption in the global capital and credit markets.* If global economic and financial market conditions deteriorate, it could have a material adverse effect on our financial condition and results of operations. In particular, lower consumer spending may result in reduced demand and orders for certain of our products, order cancellations, lower revenues, increased inventories, and lower gross margins. Further, if our customers experience difficulty obtaining financing in the capital and credit markets to purchase our products, this could result in further reduced orders for our products, order cancellations, inability of customers to timely meet their payment obligations to us, extended payment terms, higher accounts receivable, reduced cash flows, greater expense associated with collection efforts and increased bad debt expense; and a severe financial difficulty experienced by our customers may cause them to become insolvent or cease business operations.

- *The strength of the retail economy in the United States and abroad.* Our business is subject to economic conditions in major markets in which we operate, including recession, inflation, deflation, general weakness in retail and industrial markets, as well as the exposure to liabilities under anti-corruption laws in various countries, such as the U.S. Foreign Corrupt Practices Act, currency instability, transportation delays or interruptions, sovereign debt uncertainties and difficulties in enforcement of contract and intellectual property rights, as well as natural disasters. The strength of such markets is a function of many factors beyond our control, including interest rates, employment levels, availability of credit and consumer confidence.

- *Supply chain disruptions.* Any difficulty or inability on the part of manufacturers of our products or other participants in our supply chain in obtaining sufficient financing to purchase raw materials or to finance general working capital needs or their inability to obtain raw materials due to shortages or other factors, may result in delays or non-delivery of shipments of our products. Additionally, material increases in raw material commodity prices could further adversely affect our results of operations and financial position. Our foreign suppliers may encounter interruption in their ability to continue to provide us with products on a short-term or long-term basis. Although we believe that there are redundant sources available and maintain multiple sources for most of our products, there may be costs and delays associated with securing such sources and there can be no assurance that such sources would provide the same quality of product at similar prices.

- *Customer concentration.* We have several key customers, two of which collectively accounted for approximately 43.4% of our 2016 consolidated revenue and 53.5% of our consolidated accounts receivable. Loss of key customers or a material negative change in our relationships with our key customers (including delays or defaults in payments owed to us as a result of a negative change in the financial position of such key customers or otherwise) could have a material adverse effect on our business, results of operations or financial position.

- *Adverse changes in currency exchange rates* A majority of our products are manufactured outside the United States, a portion of which are purchased in the local currency. As a result, we are exposed to movements in the exchange rates of various currencies against the United States dollar which could have an adverse effect on our results of operations or financial position. We believe our most significant foreign currency exposures are the Taiwan dollar ("TWD") and the Chinese Renminbi ("RMB"). Purchases from Chinese sources are made in U.S. dollars ("USD"). However, if the RMB were to be revalued against the dollar, there could be a significant negative impact on the cost of our products. Further, the reporting currency for our consolidated financial statements is the USD. Certain of the company's assets, liabilities, expenses and revenues are denominated in currencies other than the USD. In preparing our Consolidated Financial Statements, those assets, liabilities, expenses and revenues are translated into USD at applicable exchange rates. Increases or decreases in exchange rates between the USD and other currencies affect the USD value of those items, as reflected in the Consolidated Financial Statements. Substantial fluctuations in the value of the USD could have a significant impact on the company's financial condition and results of operations. Additionally, cash generated in non-U.S. jurisdictions may be difficult to repatriate to the United States in a tax-efficient manner.

- *Impairment of long-lived assets and goodwill.* The inability to generate future cash flows sufficient to support the recorded amounts of goodwill, other intangible assets and other long-lived assets could result in future impairment charges.

- *Unforeseen inventory adjustments or changes in purchasing patterns.* We make purchasing decisions based upon a number of factors including an assessment of market needs and preferences, manufacturing lead times and cash flow considerations. To the extent that our assumptions result in inventory levels being too high or too low, there could be a material adverse effect on our business, results of operations or financial position.

- *Market acceptance of products.* There can be no assurance that the market continues its acceptance of the products we introduced in recent years or will accept new products (including the introduction of products into new geographic markets) introduced or scheduled for introduction in 2017. There can also be no assurance that the level of sales generated from these new products or geographic markets relative to our expectations will materialize.

- *Competition.* The markets in which we sell our products are highly competitive on the basis of price, quality, availability, post-sale service and brand-name awareness. A number of competing companies are well-established manufacturers that compete on a global basis.

- *Price reductions.* Price reductions taken by us in response to customer and competitive pressures, as well as price reductions or promotional actions taken in order to drive demand, could have a material adverse effect on our business, results of operations or financial position.

- *Interest rates.* Interest rate fluctuations and other capital market conditions could have a material adverse effect on our business, results of operations or financial position.

- *Litigation and insurance.* The effects of litigation and product liability exposure, as well as other risks and uncertainties described from time to time in our filings with the Securities and Exchange Commission and our public announcements could have a material adverse effect on our business, results of operations or financial position. Further, while we maintain insurance policies to protect against most potential exposures, events may arise against which we may not be adequately insured.

- *Retention of key personnel.* Our success depends to a significant extent upon the abilities and efforts of our key personnel. The loss of the services of any of our key personnel or our inability to attract and retain qualified personnel in the future could have a material adverse effect on our business, results of operations or financial position.

- *Acquisition of businesses.* Part of our business strategy is to opportunistically acquire complementary businesses, which involve risks that could have a material adverse effect on our business, financial condition and results of operations. These risks include:

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

- *Regulatory environment.* We cannot anticipate the impact of changes in laws and regulations, including changes in accounting standards, taxation requirements, including tax rate changes, new tax laws and revised tax law interpretations, and environmental laws, in both domestic and foreign jurisdictions. Increased legislative and regulatory activity and burdens, and a more stringent manner in which they are applied, could significantly impact our business and the economy as a whole.

- *The threat of terrorism and related political instability and economic uncertainty.* The threat of potential terrorist attacks on the United States and throughout the world and political instability has created an atmosphere of economic uncertainty in the United States and in foreign markets. Our results may be impacted by the macroeconomic effects of those events. Also, a disruption in our supply chain as a result of terrorist attacks or the threat thereof may significantly affect our business and its prospects. In addition, such events may also result in heightened domestic security and higher costs for importing and exporting shipments of components and finished goods. Any of these occurrences may have a material adverse effect on our financial position, cash flow or results in any reporting period.

- *Information technology system failures and attacks could harm our business.* Our business is dependent on the efficient functioning of our information technology systems and operations, which are vulnerable to damage or interruption from such factors as fires, natural disasters, telecommunications failures, computer viruses and worms, hacking, software defects, as well as human error. Despite our precautions, problems could result in interruptions in services and materially and adversely affect our business, financial condition and results of operations.

- *Unforeseen events.* We cannot anticipate the impact of unforeseen events, including but not limited to war and pandemic disease, on economic conditions and consumer confidence in our business.

The risk factors described above are not intended to be all-inclusive. There can be no assurance that we have correctly identified and appropriately assessed all factors affecting our business or that the publicly available and other information with respect to these matters is complete and correct. Additional risks and uncertainties not presently known to us or that we currently believe to be immaterial also may adversely impact us. Should any risks and uncertainties develop into actual events, these developments could have a material adverse effect on our business, results of operations or financial position.

ITEM 1B. Unresolved Staff Comments

None.

ITEM 2. Properties

Florida Pneumatic owns a 72,000 square foot plant facility located in Jupiter, Florida. Its UAT subsidiary leases a 3,100 square foot facility from a non-affiliated lessor in High Wycombe, United Kingdom. This facility houses UAT's warehouse / distribution, as well as its office needs. The lease expires in 2019 and contains a five-year renewal clause.

Hy-Tech owns a 51,000 square foot plant facility located in Cranberry Township, Pennsylvania and leases a 13,200 square foot facility located in Punxsutawney, Pennsylvania, which expires in 2021 and does not have a renewal clause.

Each facility described above either provides adequate space for the operations of the respective subsidiary for the foreseeable future or can be modified or expanded to provide some additional space.

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

The Company's executive office of approximately 5,000 square feet is located in an office building in Melville, New York and is leased from a non-affiliated landlord. This lease expires in 2018, the Company can, at its option, terminate giving twelve months written notice.

In November 2016, Countrywide sold the 56,250 square foot facility located in Tampa, Florida in which Nationwide conducted its business, until it was sold in February 2016. See Note 2 to Consolidated Financial Statements for further discussion.

ITEM 3. Legal Proceedings

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

ITEM 4. Mine Safety Disclosures

None.

PART II

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

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

2016	High	Low
First Quarter	$11.62	$7.80
Second Quarter	10.15	8.29
Third Quarter	9.39	7.70
Fourth Quarter	8.69	6.75

2015	High	Low
First Quarter	$8.09	$6.83
Second Quarter	8.95	6.35
Third Quarter	11.18	8.45
Fourth Quarter	10.50	8.15

As of March 20, 2017, there were approximately 800 holders of record of our Class A Common Stock and the closing sale price of our stock as reported by the Nasdaq Global Market was $8.28.

From our incorporation in 1963 through December 31, 2015, we declared no cash dividends on our Class A Common Stock. On March 8, 2016, the Company's Board of Directors announced that it declared a special, one-time cash dividend of $0.50 per share payable on April 4, 2016, to stockholders of record at the close of business on March 21, 2016. The total amount of this special dividend payment was approximately $1,800,000 based on the then current number of shares outstanding. Further, the Company's Board of Directors also announced that it approved the initiation of a dividend policy under which the Company intends to declare a cash dividend to its stockholders in the amount of $0.20 per share per annum, payable in equal quarterly installments. In conjunction therewith, during 2016, the Company's Board of Directors declared quarterly cash dividends of $0.05 per share to stockholders of record at the close of business on March 31, 2016, July 18, 2016, and October 28, 2016.

The Company continues to maintain the dividend policy; however, the declaration of dividends under this policy going forward is dependent upon the Company's financial condition, results of operations, capital requirements and other factors deemed relevant by the Company’s Board of Directors.

On the Closing Date, the Company and the President of Nationwide, entered into a purchase agreement pursuant to which, among other things, the Company acquired 30,000 shares of the Company’s Class A Common Stock at the aggregate purchase price of $254,940 and options to acquire 6,667 shares of the Company’s Common Stock at an aggregate price of $16,597.

ITEM 6. Selected Financial Data

Not required.

ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

MANAGEMENT OVERVIEW

Overview

During 2016, our results of operations were impacted by a number of factors, some of which were:

- the sale of Nationwide effective February 11, 2016, for approximately $22.2 million;
- an impairment charge of $9.6 million on Hy-Tech's goodwill and other intangible assets, resulting primarily from the on-going downturn in the oil and gas exploration and extraction sector;
- the on-going slow-down in oil and gas exploration and extraction, which continues to negatively impact our Tools segment;
- a decision by a Major customer of Hy-Tech to begin to manufacture internally certain air tools that were formerly manufactured by Hy-Tech contributed to the reduction in Hy-Tech's total revenue;
- a significant reduction in orders from another major customer of Hy-Tech;
- a write-down of inventory at Hy-Tech of approximately $1 million due to weak demand, and;
- the sale of the real property in Tampa, Florida in November 2016 for approximately $3.75 million.

KEY INDICATORS

Economic Measures

Much of our business is driven by the ebbs and flows of the general economic conditions in both the United States and, to a lesser extent, abroad. Additionally, we track the number of drilling rigs, particularly those located in the Gulf of Mexico. Currently, we focus on a wide array of customer types including, but not limited to large retailers, automotive related customers, aerospace, and other resellers of pneumatic tools and parts.

A key economic measure relevant to us is the cost of the raw materials in our products. Key materials include metals, especially various types of steel and aluminum. Also important is the value of the (USD) in relation to the (TWD), as we purchase a significant portion of our products from Taiwan. Purchases from Chinese sources are made in USDs. However, if the RMB, were to be revalued against the USD, there could be a significant negative impact on the cost of our products. As the result of the UAT acquisition, we closely monitor the fluctuation in the Great British Pound ("GBP") to the USD, and the GBP to TWD, both of which can have an impact on the consolidated results.

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

Operating Measures

Key operating measures we use to manage our businesses are: orders; shipments; development of new products; customer retention; inventory levels and productivity. These measures are recorded and monitored at various intervals, including daily, weekly and monthly. To the extent these measures are relevant they are discussed in the detailed sections below for each operating segment.

Financial Measures

Key financial measures we use to evaluate the results of our businesses include: various revenue metrics; gross margin; selling, general and administrative expenses; earnings before interest taxes, depreciation and amortization ("EBITDA"); operating cash flows; return on sales; return on assets; days sales outstanding and inventory turns. These measures are reviewed at monthly, quarterly and annual intervals and are compared to historical periods as well as established objectives. To the extent that these measures are relevant, they are discussed in the detailed sections below for each business.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

We prepare our consolidated financial statements in accordance with accounting principles generally accepted in the United States of America (“GAAP”). Certain of these accounting policies require us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and the related disclosure of contingent assets and liabilities, revenues and expenses. On an ongoing basis, we evaluate estimates, including those related to bad debts, inventory reserves, goodwill and intangible assets, warranty reserves and taxes. We base our estimates on historical data and experience, when available, and on various other assumptions that are believed to be reasonable under the circumstances, the combined results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. Our critical accounting policies are further described below.

In addition to the Company’s significant accounting policies described in Note 1 to the Consolidated Financial Statements, P&F considers the following policies and estimates to be the most critical in understanding the judgments that are involved in the preparation of the Company’s consolidated financial statements and the uncertainties that could impact the Company’s financial position, results of operations and cash flows.

Revenue Recognition

We recognize revenue when persuasive evidence of an arrangement exists, delivery, which occurs either upon shipment by us or upon receipt by customers at the location specified in the terms of sale, or title has passed to our customer or services have been provided, the sale price is fixed or determinable, and collectability is reasonably assured. We sell our goods on terms which transfer title and risk of loss at a specified location, typically shipping point, port of loading or port of discharge, depending on the final destination of the goods. Other than standard product warranty provisions, our sales arrangements provide for no other post-shipment obligations. We do offer rebates and other sales incentives, promotional allowances or discounts, from time to time and for certain customers, typically related to customer purchase volume, all of which are fixed or determinable and are classified as a reduction of revenue and recorded at the time of sale. We periodically evaluate whether an allowance for sales returns is necessary. Historically, we have experienced minimal sales returns. If we believe there are material potential sales returns, we would provide the necessary provision against sales.

See Note 1 to our Consolidated Financial Statements for discussion on Topic 606 – Revenue Recognition.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are customer obligations due under normal trade terms. We sell our products to retailers, distributors and OEMs involved in a variety of industries. We perform continuing credit evaluations of our customers' financial condition, and although we generally do not require collateral, letters of credit may be required from customers in certain circumstances. Management reviews accounts receivable to determine if any receivables will potentially be uncollectible. Factors considered in the determination include, among other factors, number of days an invoice is past due, customer historical trends, available credit ratings information, other financial data and the overall economic environment. Collection agencies may also be utilized if management so determines.

We record an allowance for doubtful accounts based on specifically identified amounts that are believed to be uncollectible. We also may record as an additional allowance a certain percentage of aged accounts receivable, based on historical experience and our assessment of the general financial conditions affecting our customer base. If actual collection experience changes, revisions to the allowance may be required. We have a limited number of customers with individually large amounts due at any given consolidated balance sheet date. Any unanticipated change in the creditworthiness of any of these customers could have a material effect on our results of operations in the period in which such changes or events occur. After all reasonable attempts to collect an account receivable have failed, the amount of the receivable is written off against the allowance. Based on the information available, we believe that our allowance for doubtful accounts as of December 31, 2016 and 2015 were adequate. However, actual write-offs in future periods could exceed the recorded allowance.

Inventories

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

Goodwill and Indefinite-Lived Intangible Assets

In accordance and compliance with authoritative guidance issued by the Financial Accounting Standards Board (“FASB”), we test goodwill for impairment on an annual basis as of the last day in November or more frequently if we believe indicators of impairment might exist. Goodwill is tested at a level of reporting referred to as "the reporting unit." The Company's reporting units are Hy-Tech and Florida Pneumatic. We have the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not (that is, a likelihood of more than 50%) that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events or circumstances, we determine it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary. The first step used to identify potential impairment compares the calculated fair value of a reporting unit with its carrying amount. If the carrying amount of the reporting unit is less than its fair value, no impairment exists and the second step is not performed. If the carrying amount of a reporting unit exceeds its fair value, the entity is required to perform the second step of the goodwill impairment test to measure the amount of the impairment loss, if any. The second step of the goodwill impairment test compares the implied fair value of the reporting unit goodwill with the carrying amount of that goodwill. If the carrying amount of the reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized for the excess. The Company also tests indefinite-lived intangible assets, consisting of acquired trade names, for impairment at least annually as of the last day of November. The evaluation of goodwill and indefinite-lived intangible assets requires that management prepare estimates of future operating results for each of the operating units. These estimates are made with respect to future business conditions and estimated expected future cash flows to determine estimated fair value. However, if, in the future, key drivers in our assumptions or estimates such as (i) a material decline in general economic conditions; (ii) competitive pressures on our revenue, or our ability to maintain margins; (iii) significant price increases from our vendors that cannot be passed through to our customers; and (iv) breakdowns in supply chain, or other possible factors beyond our control occur, an impairment charge against our intangible assets may be required.

Impairment of Long-Lived Assets

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

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

Income Taxes

We account for income taxes using the asset and liability approach. This approach requires the recognition of current tax assets or liabilities for the amounts refundable or payable on tax returns for the current year, as well as the recognition of deferred tax assets or liabilities for the expected future tax consequences of temporary differences that can arise between (a) the amount of taxable income and pretax financial income for a year, such as from net operating loss carryforwards and other tax credits, and (b) the tax bases of assets or liabilities and their reported amounts in the consolidated financial statements. Deferred tax assets and liabilities are measured using enacted tax rates. The impact on deferred tax assets and liabilities of changes in tax rates and laws, if any, is reflected in the consolidated financial statements in the period enacted. Further, we evaluate the likelihood of realizing benefit from our deferred tax assets by estimating future sources of taxable income and the impact of tax planning strategies. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion, or all, of the deferred tax assets will not be realized.

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

When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while other positions are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50% likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the accompanying consolidated balance sheets along with any associated interest and penalties that would be payable to the taxing authorities upon examination. Interest and penalties associated with unrecognized tax benefits are classified as income taxes in the consolidated statements of income and comprehensive income.

RESULTS OF OPERATIONS

2016 compared to 2015

Continuing operations

Unless otherwise discussed elsewhere in the Management's Discussion and Analysis, we believe that our relationships with our key customers and suppliers, given current economic conditions, remain satisfactory. We believe economic uncertainty, both domestically and abroad, continue to impact the overall U.S. general economy. Further, we also believe that the domestic and global oil and gas exploration and extraction markets continue to be adversely impacted by these uncertainties and other factors, all of which continue to negatively affect certain markets that both Hy-Tech, and to a lesser degree, Florida Pneumatic service. Additionally, we continue to encounter weakness in other markets that Hy-Tech serves, such as power generation and construction. Lastly, it should be noted that Hy-Tech is encountering growing pressure from Asian–sourced pneumatic tools.

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

During the first quarter of 2016, we sold Nationwide to an unrelated third party for approximately $22.2 million. As a result of this transaction, Nationwide's results are reported under discontinued operations, and are therefore excluded from continuing operations for all periods presented. Please see Note 2 - Discontinued Operations, to our Consolidated Financial Statements for additional information.

REVENUE

The tables set forth below provide an analysis of our revenue for the three months and years ended December 31, 2016 and 2015.

Consolidated

	Three months ended December 31, 2016	2015	Variance $	Variance %
Tools				
Florida Pneumatic	$ 10,012,000	$ 10,090,000	$ (78,000)	(0.8)%
Hy-Tech	2,495,000	3,681,000	(1,186,000)	(32.2)
Tools Total	$ 12,507,000	$ 13,771,000	$ (1,264,000)	(9.2)%

	Year ended December 31, 2016	2015	Variance $	Variance %
Tools				
Florida Pneumatic	$ 45,282,000	$ 44,076,000	$ 1,206,000	2.7 %
Hy-Tech	11,994,000	16,236,000	(4,242,000)	(26.1)
Tools Total	$ 57,276,000	$ 60,312,000	$ (3,036,000)	(5.0)%

Florida Pneumatic

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

	Three months ended December 31,					
	2016		2015		Increase (decrease)	
	Revenue	Percent of revenue	Revenue	Percent of revenue	$	%
Retail customers	$5,435,000	54.3 %	$4,865,000	48.2 %	$570,000	11.7 %
Automotive	3,240,000	32.4	3,682,000	36.5	(442,000)	(12.0)
Industrial/catalog	1,093,000	10.9	1,325,000	13.1	(232,000)	(17.5)
Other	244,000	2.4	218,000	2.2	26,000	11.9
Total	$10,012,000	100.0 %	$10,090,000	100.0 %	$(78,000)	(0.8)%

	Year Ended December 31,					
	2016		2015		Increase (decrease)	
	Revenue	Percent of revenue	Revenue	Percent of revenue	$	%
Retail customers	$24,847,000	54.9 %	$24,217,000	54.9 %	$630,000	2.6 %
Automotive	14,576,000	32.2	12,805,000	29.1	1,771,000	13.8
Industrial/catalog	4,936,000	10.9	6,000,000	13.6	(1,064,000)	(17.7)
Other	923,000	2.0	1,054,000	2.4	(131,000)	(12.4)
Total	$45,282,000	100.0 %	$44,076,000	100.0 %	$1,206,000	2.7 %

A primary factor for the increase in Florida Pneumatic's Retail revenue this quarter, compared to the fourth quarter of 2015, was a delay in receiving certain orders from Sears during the third quarter of 2016, which were received and fulfilled in the fourth quarter of 2016. Revenue attributable to The Home Depot improved approximately 1%, when comparing the fourth quarter of 2016 to 2015. The cause of the decline in Automotive revenue this quarter, compared to the same period in 2015, was primarily due to two AIRCAT major customers/distributors during the fourth quarter putting in place an internal inventory reduction plan, and a decline in revenue at our UAT subsidiary located in the United Kingdom. A portion of UAT's revenue is derived from the sale of pneumatic air tools to customers that are located in the North Sea region of Scotland, and whose businesses are primarily in the oil and gas sector. This region continues to feel the effects of the ongoing weakness in global oil and gas exploration. Lastly as relates to UAT, we are currently in the process of developing a marketing strategy that we believe should enable UAT to expand its presence into other Western European countries; however, no specific timetable has been established for the launch of this program. We continue to encounter weaknesses in the Industrial/catalog market, with the decline this quarter compared to the same period a year ago, occurring most notably in the aerospace and oil and gas exploration/production channels. Additionally, during the fourth quarter of 2015, we shipped special orders of approximately $124,000, while only shipping $43,000 during the fourth quarter of 2016.

When comparing Florida Pneumatic's full-year 2016 revenue to 2015, the most significant factor contributing to the increase is the growth in its Automotive tools product line, which increased 13.8% over the prior year. This increase was primarily driven by new and improved tools, as well as an expanded customer base. The average exchange rate after Brexit was 10.9% lower than the average exchange rate before Brexit. This decline effectively increased the price of all imported products into the UK, which in turn created a slowdown in consumer spending. It is difficult to ascertain the impact on UAT's revenue as a result of Brexit, however we believe that when UAT's second half of 2016 revenue was converted to USD, lost revenue during 2016 was approximately $154,000. Florida Pneumatic's Retail revenue improved when comparing full-year 2016 to 2015, due to higher sales from Sears in 2016, with 2016 revenue from The Home Depot effectively flat to that reported in 2015. The aforementioned increases were partially offset by the decline in revenue of its Industrial/catalog lines where the on-going oil and gas exploration and extraction, particularly in the Gulf of Mexico region, slowdown continues. Additionally, during 2015, we shipped approximately $767,000 of special orders, while shipping only $454,000 during 2016, which contributed to the decline in our Industrial/catalog revenue.

We have elected not to renew our supply agreement with Sears, which will expire on September 30, 2017. While Sears remains at or close to complying with its payment terms to Florida Pneumatic, this difficult decision was based on a number of factors including Sears' continuing financial difficulties, the sale of the Craftsman brand to Stanley Black & Decker and our level of working capital exposure in relation to our return on that investment with Sears. It is anticipated that our Sears inventory exposure should be eliminated by September 30, 2017 and that all accounts receivable should be collected by December 2017. However, at the present time, there can be no assurance that events may occur that would prevent our recovery of our working capital exposure.

Hy-Tech

Hy-Tech focuses primarily on the industrial sector of the pneumatic tools market. Hy-Tech manufactures and markets its own value-added line of air tools and parts, including the ATSCO product line, as well as distributes a complementary line of sockets, which in the aggregate are referred to as "ATP". Hy-Tech Machine also manufactures non-pneumatic products primarily marketed to the mining, construction and industrial manufacturing sectors. Hy-Tech Machine data below also includes sales of gears, and hydraulic stoppers.

	Three months ended December 31,					
	2016		2015		Increase (decrease)	
	Revenue	Percent of revenue	Revenue	Percent of revenue	$	%
ATP	$2,188,000	87.7 %	$3,310,000	89.9 %	$(1,122,000)	(33.9)%
Hy-Tech Machine	307,000	12.3	371,000	10.1	(64,000)	(17.3)
Total	$2,495,000	100.0 %	$3,681,000	100.0 %	$(1,186,000)	(32.2)%

	Year Ended December 31,					
	2016		2015		Increase (decrease)	
	Revenue	Percent of revenue	Revenue	Percent of revenue	$	%
ATP	$10,598,000	88.4 %	$13,990,000	86.2 %	$(3,392,000)	(24.2)%
Hy-Tech Machine	1,396,000	11.6	2,246,000	13.8	(850,000)	(37.8)
Total	$11,994,000	100.0 %	$16,236,000	100.0 %	$(4,242,000)	(26.1)%

There are three primary factors that contributed to the decline in this year's ATP fourth quarter revenue, compared to the same period a year ago. These factors are:

- Approximately $684,000 of the decline this quarter of ATP revenue is due to a large customer that was acquired in the ATSCO acquisition dramatically reducing its purchases. We believe this decline in orders from this customer is due primarily to excess inventory they acquired in 2015, and a slow recovery of the oil and gas exploration sector, which is its most significant sector.

- The decision by a former major customer of Hy-Tech to source internally, certain impact wrenches and other products that it had formerly purchased from Hy-Tech. This action contributed to $309,000 of the decline in ATP revenue. We continue to sell to this customer; however the loss of the impact wrenches has negatively impacted gross margin as well as revenue.
- Lower current pricing of domestic oil and gas compared to prior years continues to negatively impact ATP product revenue. Additionally, Hy-Tech is encountering pricing competition from Asian-sourced parts and tools. As a result, revenue from the sale of ATP parts and tools, as well as from the complimentary line of sockets, has declined approximately $130,000 this quarter, compared to the same period in 2015. We believe that should the oil and gas sector remain at or near current levels of exploration and extraction, it is likely that future periods may not reflect an increase over comparable prior periods for some time, even if trending upwards, chronologically. According to Baker Hughes Incorporated, the total United States rig count has increased to 658 as of December 30, 2016, from 522 as of September 30, 2016. However, a significant portion of Hy-Tech's oil and gas sector revenue is driven by activity from rigs that operate off-shore, primarily in the Gulf of Mexico, where the rig count has remained relatively constant during the fourth quarter of 2016, ranging from 21 rigs to 24 rigs, whereas during the same period in 2015 the rig count in the Gulf of Mexico ranged from 23 to 34. Additionally, we believe that there has not been a meaningful increase or growth in the number of “turn-arounds” or plant maintenance activities, which tend to require the tools and parts that Hy-Tech manufactures and sells. Until such time as when major plant turn-arounds increase, and related activity levels return to recent historic levels, it is difficult to predict when this sector of the ATP category will improve. To combat this decline in revenue, in early 2016 we began to pursue alternate markets where we can exploit our manufacturing expertise, and develop different applications for our tools, motors and accessories. We believe the development of this new marketing strategy should provide Hy-Tech the ability to generate revenue from new markets in the foreseeable future that should complement its current markets such as oil and gas extraction and power generation. Revenue from new sources during the fourth quarter of 2016 was approximately $173,000, and is included in the ATP grouping.

When analyzing Hy-Tech's full year 2016 revenue compared to full year 2015, the primary causes were consistent with those occurring during the fourth quarter, namely:

- The decline throughout 2016 in shipments to a large ATSCO customer accounted for more than $1,204,000 of the shortfall in ATP revenue. We believe this decline in orders from this customer is due primarily to excess inventory they acquired in 2015, and a slow recovery of the oil and gas exploration sector, which is its most significant sector.
- The decision by a former major customer to replace most of the products previously manufactured by Hy-Tech with products manufactured internally. This decision resulted in a decline in 2016 ATP revenue of approximately $950,000, compared to the prior year.
- Revenue from ATP parts, tools and motors, as well as from the complimentary line of sockets, declined approximately $1,239,000 this year, compared to 2015. As noted above, Hy-Tech began recognizing revenue from its initiative to market its products and to new alternate markets. Revenue from these new sources during 2016 was approximately $274,000, and is included in the ATP grouping.

GROSS MARGIN

	Three months ended December 31,		Increase (decrease)	
	2016	2015	Amount	%
Florida Pneumatic	$ 3,604,000	$ 3,616,000	$ (12,000)	(0.3)%
As percent of respective revenue	36.0 %	35.8 %	0.2 % pts	
Hy-Tech	$ 301,000	$ 1,106,000	$ (805,000)	(72.8)
As percent of respective revenue	12.1 %	30.0 %	(17.9)% pts	
Total Tools	$ 3,905,000	$ 4,722,000	$ (817,000)	(17.3)
As percent of respective revenue	31.2 %	34.3 %	(3.1)% pts	

	Year Ended December 31,		Increase (decrease)	
	2016	2015	Amount	%
Florida Pneumatic	$ 16,674,000	$ 15,675,000	$ 999,000	6.4 %
As percent of respective revenue	36.8 %	35.6 %	1.2 % pts	
Hy-Tech	$ 2,257,000	$ 6,007,000	$ (3,750,000)	(62.4)
As percent of respective revenue	18.8 %	37.0 %	(18.2)% pts	
Total Tools	$ 18,931,000	$ 21,682,000	$ (2,751,000)	(12.7)
As percent of respective revenue	33.1 %	35.9 %	(2.8)% pts	

Florida Pneumatic's Gross margin for the fourth quarter 2016 was essentially the same as the fourth quarter of 2015, improving 0.2 percentage point, or twenty basis points. We determine fair value of Hy-Tech's inventory based on turnover ratio. Primarily the result of weak market conditions in key sectors serviced by Hy-Tech, such as oil and gas exploration and extraction and power generation, we determined that it was necessary to lower the carrying value of certain components of its inventory. This additional increase in Hy-Tech's obsolete and slow moving inventory ("OSMI") allowance this quarter of approximately $257,000 negatively impacted its fourth quarter of 2016's gross profit and gross margins. Further, Hy-Tech's gross margin this quarter is lower, compared to the same period in 2015, due in part to lower overhead absorption, which was due primarily to lower manufacturing activity, driven by the ongoing weakness in several key sectors as well as reduction in activity with key customers.

The primary factors contributing to the increase in Florida Pneumatic's gross margin for 2016, compared to 2015, include more favorable product mix, favorable foreign currency exchange rates, improved overhead absorption and slightly lower cost of product. Hy-Tech's gross margin during 2016 has been adversely affected by the effects of the ongoing weakness in several of the sectors in which it markets its products and services such as the oil and gas sector, power generation and manufacturing, sectors critical to Hy-Tech's revenue. This on-going weakness has caused Hy-Tech to significantly increase its OSMI. The additional increase in Hy-Tech's OSMI during 2016 was $1,001,000. Additionally, contributing to the decline of Hy-Tech's 2016 gross margin was the fact that during 2016 Hy-Tech manufactured and sold an extremely low gross margin product line to a key customer it acquired in the ATSCO acquisition. We do not intend to continue to manufacture this product line; however, it is likely there will be a residual effect on gross margin in 2017, as Hy-Tech sells its remaining related inventory. Lastly, until such time when the markets that Hy-Tech services improves, and associated revenue strengthens, it is possible that Hy-Tech could encounter additional OSMI charges.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

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

During the fourth quarter of 2016, our SG&A was $4,522,000, compared to $4,323,000 during the same three-month period in 2015. Significant items contributing to this increase include: (i) variable costs and expenses, which include such things as commissions, warranty costs, freight out and advertising/promotional fees, increased by $118,000 during the fourth quarter of 2016, compared to the same period in the prior year, driven primarily by the increase in our AIRCAT sales, and (ii) compensation, which is comprised of base salaries and wages, accrued performance-based bonus incentives, associated payroll taxes and employee benefits increased $244,000, when comparing the fourth quarter of 2016 to the same period in the prior year. During the fourth quarter of 2016, cash compensation paid to employees was relatively unchanged compared to the same period in the prior year. However, in connection with our reporting of the sale of Nationwide, we allocated a portion of our corporate overhead, which was attributable to Nationwide being accounted for as Discontinued operations, thus resulting in a lower expense in the fourth quarter of 2015. Partially offsetting the above increases was a reduction in amortization expense of $96,000, due primarily to the impairment of certain Hy-Tech intangible assets, lower professional fees and stock-based compensation of $21,000 and $12,000, respectively.

Our SG&A incurred for the full year 2016 was $19,610,000, compared to $19,157,000 incurred during the full-year 2015. For the year ended December 31, 2016, total variable costs and expenses increased over the prior year by $503,000. Variable costs include such expenses as advertising, freight-out, commissions and warranty. This increase was driven primarily by the $1,771,000 increase in Automotive sales, and to a lesser degree the $630,000 increase in Retail revenue. Additionally, compensation costs, as defined earlier, increased $321,000. Actual total compensation paid to employees was essentially unchanged from the prior period. However, $403,000 of 2015 total compensation costs was allocated to discontinued operations related to the sale of Nationwide. In 2016, we owned Nationwide for approximately a month and a half, and did not allocate any of the same compensation items. The above increases in our SG&A were partially offset by reductions in our amortization of intangible assets of $222,000 due primarily to the impairment charges recorded during the second and fourth quarter of this year, professional fees of $96,000, and stock-based compensation of $57,000.

IMPAIRMENT OF GOODWILL AND OTHER INTANGIBLE ASSETS

During the second quarter of 2016, we determined that an interim impairment analysis of the goodwill recorded in connection with Hy-Tech and ATSCO was necessary based upon consideration of a number of factors, which included: i) continued weakness in oil and gas exploration and extraction; ii) the recent loss of a major portion of revenue from one of its larger customers; and iii) recent significant reductions/guidance of forecasted purchases from the largest customer acquired in the ATSCO acquisition. As a result of the aforementioned it was determined that Hy-Tech's short and long-term projections indicated an inability to generate sufficient discounted future cash flows to support the recorded amounts of goodwill, other intangible assets and other long-lived assets necessitating the impairment charge. As a result, in accordance with current accounting literature, we recorded an impairment charge of $8,311,000 relating to goodwill and other intangible assets during the second quarter of 2016.

During our annual testing for impairment of our goodwill and other intangible assets, we determined that, primarily the result of further degradation in Hy-Tech's revenue, which in turn produced lower results of operations than had been previously re-forecast in May 2016, Hy-Tech's goodwill and other intangibles were impaired. The unforeseen further decline in their revenue began in October 2016 and continues into 2017. As a result, we re-examined Hy-Tech's projections and determined that it would not have the ability to generate sufficient discounted future cash flows to support the recorded amounts of goodwill and other intangible assets, thus necessitating an impairment charge. As a result, in accordance with current accounting literature, we recorded an impairment charge of $880,000 relating to goodwill and $390,000 to other intangible assets. We believe that while we continue to make positive modifications within Hy-Tech, which includes among other actions, changes in personnel and "go-to-market" strategies, should market conditions in the sectors in which Hy-Tech operates worsen, we could incur additional impairment charges in future periods. See Note 6 to our consolidated financial statements for further discussion.

GAIN ON SALE OF REAL PROPERTY

Effective November 1, 2016, we completed a transaction in which we sold real property, located in Tampa, Florida, for $3.75 million, resulting in a gain of approximately $1.7 million. This property is the headquarters of Nationwide, which we sold February 11, 2016. After deducting fees and expenses, we received approximately $3.5 million cash, which was used to pay down bank borrowings, with the balance remaining in a cash account.

OTHER INCOME - NET

The table below provides an analysis of our Other income-net from continuing operations for the three months and years ended December 31, 2016 and 2015:

	Three months ended December 31,		Year ended December 31,	
	2016	2015	2016	2015
Lease income-net	$ 25,000	$ 38,000	$ 100,000	$ 146,000
Fair value adjustment to contingent consideration - UAT	—	—	—	126,000
Total	$ 25,000	$ 38,000	$ 100,000	$ 272,000

Lease income-net is income net of related expenses incurred in connection with the lease discussed in Gain on Sale of Real Property, above and in Note 2 to our Consolidated Financial Statements. The fair value adjustment to contingent consideration – UAT reflects the adjustments relating to the carrying value of the additional consideration due to the sellers of UAT settled in 2015.

INTEREST EXPENSE

	Three months ended December 31,		Increase (Decrease)	
Interest expense attributable to:	2016	2015	Amount	%
Short-term borrowings	$ 4,000	$ —	$ 4,000	NA %
Term loans, including Capital Expenditure Term Loans	3,000	2,000	1,000	50.0
Amortization expense of debt issue costs	10,000	28,000	(18,000)	(64.3)
Total	$ 17,000	$ 30,000	$ (13,000)	(43.3)%

	Year Ended December 31,		Increase (Decrease)	
Interest expense attributable to:	2016	2015	Amount	%
Short-term borrowings	$ 45,000	$ —	$ 45,000	NA %
Term loans, including Capital Expenditure Term Loans	8,000	5,000	3,000	60.0
Amortization expense of debt issue costs	128,000	111,000	17,000	15.3
Total	$ 181,000	$ 116,000	$ 65,000	56.0 %

We received approximately $18.7 million cash from the sale of Nationwide, which eliminated our revolving loan balance and greatly reduced our term loans. In accordance with current accounting guidance we have included the short-term interest expense incurred in connection with the bank borrowings, and term loan interest expense incurred during the three months and year ended December 31, 2015 of $120,000 and $600,000, respectively, and for the period January 1, 2016 through the Closing Date of $60,000, which was the effective date of sale of Nationwide, in Discontinued operations. Additionally, we wrote down the debt issue costs associated with the repayment of those term loans. Further, $128,000 is included in amortization expense of debt issue costs in our interest expense for the full year ended December 31, 2016. See Notes 2 and 7 to our Consolidated Financial Statements for further discussion on the sale of Nationwide and the Amendment to our Credit Agreement. See Liquidity and Capital Resources elsewhere in this Management's Discussion and Analysis section for further information regarding our bank loans.

Primarily the result of the cash received from the sale of Nationwide and cash received from the sale of the real property in Tampa, Florida, our average balance of short-term borrowings during the three-month period ended December 31, 2016 was $685,000, significantly lower than $10,883,000, which was the average during the three-month period ended December 31, 2015. The average balance of our short-term borrowings during the year ended December 31, 2016 was $2,862,000, compared to $13,818,000 during the year of 2015.

See Liquidity and Capital Resources elsewhere in this Management's Discussion and Analysis section for further information regarding our bank loans.

INCOME TAX EXPENSE

The effective tax rates from continuing operations for the years ended December 31, 2016 and 2015 were (34.2%) and 30.8%, respectively. Primary factors affecting our 2016 effective tax rate were nondeductible expenses and state income taxes. The primary factors affecting the 2015 effective tax rate were nondeductible expenses, reversal of liability for contingent purchase price, and state income taxes. See Note 10 – Income Taxes, to Consolidated Financial Statements for further discussion and analysis.

DISCONTINUED OPERATIONS

Net income from Discontinued Operations as reported on our Consolidated Financial Statements represents Nationwide's results of operations for the period January 1, 2016 through the Closing Date, and for the twelve months ended December 31, 2015. The SG&A incurred during the period January 1, 2016 through the Closing Date, includes that of Nationwide plus $19,000 of expenses incurred at the corporate level that is specifically attributable to Nationwide. Nationwide's SG&A for the three months and year ended December 31, 2015, includes all of Nationwide plus approximately $163,000 and $461,000, respectively, of corporate expenses directly attributable to Nationwide. Further, in accordance with current accounting guidance, we have included, as part of discontinued operations, all interest expense incurred attributable to our Bank borrowings during the year ended December 31, 2015, and for the period January 1, 2016 through the Closing Date.

We recognized a gain of $12,512,000 on the sale of Nationwide which represents the difference between the adjusted net purchase price and the carrying book value of Nationwide. For income tax purposes, our tax basis in Nationwide was greater than the net proceeds resulting in a tax loss and thus recorded a tax benefit of $482,000. This tax loss can only be applied against future capital gain transactions. In November 2016, Countrywide completed the sale of the Tampa, Florida real property, which, for tax purposes is treated as a capital gain transaction and utilized the $482,000 tax benefit generated from the sale of Nationwide. See Note 2 in our Consolidated Financial Statements for further discussion.

LIQUIDITY AND CAPITAL RESOURCES

Our cash flows from operations can be somewhat cyclical, with the greatest demand for cash typically in the first and third quarters. We monitor such metrics as days' sales outstanding, inventory requirements, accounts payable and capital expenditures to project liquidity needs, as well as evaluate return on assets. Our primary sources of funds are operating cash flows and our Revolver Loan ("Revolver") with our bank.

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

	December 31,	
	2016	2015
Working capital	$28,373,000	$21,023,000
Current ratio	5.60 to 1	2.19 to 1
Shareholders' equity	$47,590,000	$43,642,000

Credit Facility

In October 2010, we entered into a Loan and Security Agreement ("Credit Agreement") with an affiliate of Capital One, National Association ("Capital One", or the "Bank"). The Credit Agreement, among other things, provides the ability to borrow funds under the Revolver arrangement. Revolver borrowings at December 31, 2016 are secured by the Company's accounts receivable, inventory, equipment and mortgages on real property located in Cranberry, PA and Jupiter, FL ("Real Property"). P&F and certain of its subsidiaries are borrowers under the Credit Agreement, and their obligations are cross-guaranteed by certain other subsidiaries.

At our option, Revolver borrowings bear interest at either LIBOR ("London InterBank Offered Rate") or the Base Rate, as the term is defined in the Credit Agreement, plus an Applicable Margin, as defined in the Credit Agreement. We are subject to limitations on the number of LIBOR borrowings.

In August 2014, we entered into an Amended and Restated Loan and Security Agreement (the "Restated Loan Agreement") with Capital One. 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 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.

Contemporaneously with the sale of Nationwide in February 2016, we entered into the Consent and Second Amendment to the Restated Loan Agreement (the “Amendment”) with Capital One. The Amendment, among other things; provided the Bank’s consent to the transactions contained in the Stock Purchase Agreement and the repurchase of certain shares and options discussed in Note 2 and 8 to the Consolidated Financial Statements, and amended the Restated Loan Agreement by: (a) reducing the aggregate Commitment (as defined in the Restated Loan Agreement) to $11,600,000; (b) reducing the Term Loan A to $100,000; (c) reducing the Revolver Commitment to $10,000,000 (less the new Term Loan A balance of $100,000); (d) reducing the Capex Loan Commitment to $1,600,000; (e) modifying certain financial covenants, (f) lowering interest rate margins and fee obligations; and (g) extending the expiration of the Credit Agreement to February 11, 2019. Additionally, the bank released the mortgage on our Tampa, FL Real Property. We believe that despite the reduction in the overall facility, our cash requirements to operate our business will be funded by operations and the Revolver. Further, we believe that should a need arise whereby the current credit facility is insufficient, we can borrow additional amounts against our Real Property or other assets.

The net funds provided by the sale of Nationwide of approximately $18.7 million were used to pay down the Revolver, the Cap-Ex loans and the Term Loan A; however, the Amendment provided for $100,000 to remain outstanding under the Term Loan A. Leaving this balance will simplify potential future increases to the term loan, should the Company require and should Capital One be willing to provide such funding.

Short–Term Borrowings

At December 31, 2016, the Company did not have any borrowings against its Revolver line, whereas at December 31, 2015, it had borrowings of $9,623,000. Applicable Margin rates at December 31, 2016 for LIBOR and Base Rates were 1.50% and 0.50%, respectively, and at December 31, 2015, Applicable Margin Rates were 2.00% and 1.00%, respectively, for LIBOR and Base Rate.

	LIBOR %	Base Rate %
Range of Applicable Margins added to Revolver borrowings during:		
2016	1.50 points to 2.0 points	0.50 points to 1.00 points
2015	2.00 points to 2.50 points	1.00 points to 1.50 points

We purchase vehicles for use by our UAT salesforce. The current portion of the balance due on these loans applicable to these purchased vehicles was $13,000 at December 31, 2016 and $31,000 at December 31, 2015.

We provide to Capital One among other things, monthly financial statements, monthly borrowing base certificates and quarterly certificates of compliance with various financial covenants. We believe we are in compliance with all financial and non-financial covenants. As part of the Restated Loan Agreement, if an event of default occurs, the interest rate would increase by two percent per annum during the period of default, in addition to other remedies provided to Capital One.

At December 31, 2016, we had $9,836,000 of open order commitments, compared to $10,224,000 at December 31, 2015.

On March 8, 2016, our Board of Directors announced that it approved the initiation of a dividend policy under which we intend to declare a cash dividend to our stockholders in the amount of $0.20 per share per annum, payable in equal quarterly installments. Based upon the current number of shares of our Class A Common Stock outstanding at December 31, 2016, each quarterly cash dividend will require approximately $180,000. The Company continues to maintain the dividend policy; however, the declaration of dividends under this policy going forward is dependent upon the Company's financial condition, results of operations, capital requirements and other factors deemed relevant by the Company's board of directors.

Cash Flows

At December 31, 2016, cash used in operating activities for the year was $1,158,000, compared to cash provided by operating activities for the year ended December 31, 2015 of $6,573,000. At December 31, 2016, our net cash balance was $3,699,000, compared to $927,000 at December 31, 2015. As discussed above, with respect to daily cash flows, we operate under the terms and conditions of the Revolver. As a result, all domestic cash receipts are remitted to Capital One lock-boxes. At December 31, 2016, cash on hand consisted of a portion of the funds from the sale of the real property in Tampa, Florida, cash disbursements that have not yet cleared our operating accounts at Capital One, and funds residing in lock-boxes which have not yet been applied. As the result of the sale of Nationwide in February and the sale of the real property in Tampa, Florida and cash flows from operations, we were able to reduce our total bank debt to $100,000 at December 31, 2016 from $16,066,000 at December 31, 2015, which resulted in our total debt to total book capitalization (total debt divided by total debt plus equity), percentage falling to 0.2% at December 31, 2016 from 26.9% at December 31, 2015. We anticipate being able to generate cash from operations during 2017.

Capital spending during the year ended December 31, 2016 was $1,066,000, compared to $1,261,000 in 2015. Capital expenditures currently planned for 2017 is approximately $723,000, which we expect will be financed through our Restated Loan Agreement and with repayments being made through cash flows. The major portion of these planned capital expenditures will be for equipment and other capital requirements at Hy-Tech, with the balance for capital requirements, such as tooling, etc., required for new product development at Florida Pneumatic.

Customer concentration

At Florida Pneumatic we have two retail customers that at December 31, 2016 accounted for 14.2% and 39.3%, respectively, of our consolidated accounts receivable compared to 11.4% and 35.6%, at December 31, 2015. To date, these customers, with minor exceptions, are current in their payments. Further, these two customers accounted for 13.6% and 29.8%, respectively, of our 2016 consolidated revenue, compared to 11.7% and 28.5%, respectively, in 2015.

IMPACT OF INFLATION

We believe that the effects of changing prices and inflation on our consolidated financial position and our results of operations are immaterial.

ENVIRONMENTAL MATTERS

Although it is difficult to identify precisely the portion of capital expenditures or other costs attributable to be in compliance with environmental laws and regulations, we do not expect such expenditures or other costs to have a material adverse effect on our consolidated financial position and results of operations.

NEW ACCOUNTING PRONOUNCEMENTS

Refer to Note 1, "Summary of Accounting Policies", to our consolidated financial statements for a discussion of recent accounting standards and pronouncements.

We are currently evaluating the impact of the adoption of ASU 2016-02, *Leases*, on its consolidated financial condition, results of operations and cash flows. Other than the aforementioned, we do not believe that any other recently issued, but not yet effective accounting standard, if adopted, will have a material effect on our consolidated financial statements.

ITEM 7A. Quantitative and Qualitative Disclosures About Market Risk

Not Required

ITEM 8. Financial Statements and Supplementary Data

P&F INDUSTRIES, INC. AND SUBSIDIARIES

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and

Shareholders of P&F Industries, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheets of P&F Industries, Inc. and Subsidiaries as of December 31, 2016 and 2015, and the related consolidated statements of income and comprehensive income, shareholders' equity and cash flows for the years then ended. P&F Industries, Inc. and Subsidiaries' management is responsible for these consolidated financial statements. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of P&F Industries, Inc. and Subsidiaries as of December 31, 2016 and 2015, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ CohnReznick LLP
Jericho, New York
March 29, 2017

P&F INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	December 31, 2016	December 31, 2015
ASSETS		
CURRENT ASSETS		
Cash	$ 3,699,000	$ 927,000
Accounts receivable — net	7,906,000	8,477,000
Inventories	19,901,000	19,783,000
Prepaid expenses and other current assets	3,030,000	1,032,000
Assets of discontinued operations	—	8,435,000
TOTAL CURRENT ASSETS	34,536,000	38,654,000
PROPERTY AND EQUIPMENT		
Land	1,150,000	1,550,000
Buildings and improvements	5,209,000	7,677,000
Machinery and equipment	19,401,000	18,736,000
	25,760,000	27,963,000
Less accumulated depreciation and amortization	18,671,000	18,491,000
NET PROPERTY AND EQUIPMENT	7,089,000	9,472,000
GOODWILL	3,897,000	10,154,000
OTHER INTANGIBLE ASSETS — net	6,606,000	11,098,000
DEFERRED INCOME TAXES — net	1,793,000	—
OTHER ASSETS — net	130,000	234,000
TOTAL ASSETS	$ 54,051,000	$ 69,612,000

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

P&F INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	December 31, 2016	December 31, 2015
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Short-term borrowings	$ —	$ 9,623,000
Accounts payable	2,398,000	2,791,000
Accrued compensation and benefits	1,733,000	1,718,000
Accrued other liabilities	2,019,000	1,666,000
Current maturities of long-term debt	13,000	491,000
Liabilities of discontinued operations	—	1,342,000
TOTAL CURRENT LIABILITIES	6,163,000	17,631,000
Long-term debt, less current maturities	88,000	5,936,000
Deferred tax liabilities – net	—	2,175,000
Other liabilities	210,000	228,000
TOTAL LIABILITIES	6,461,000	25,970,000
COMMITMENTS AND CONTINGENCIES		
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 - 4,181,000 at December 31, 2016 and 4,170,000 at December 31, 2015	4,181,000	4,170,000
Class B - $1 par; authorized - 2,000,000 shares; no shares issued	—	—
Additional paid-in capital	12,906,000	12,884,000
Retained earnings	36,061,000	31,495,000
Treasury stock, at cost - 584,000 shares at December 31, 2016 and 554,000 shares at December 31, 2015	(4,821,000)	(4,566,000)
Accumulated other comprehensive loss	(737,000)	(341,000)
TOTAL SHAREHOLDERS' EQUITY	47,590,000	43,642,000
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 54,051,000	$ 69,612,000

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

P&F INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

	Years ended December 31,	
	2016	2015
Net revenue	$57,276,000	$60,312,000
Cost of sales	38,345,000	38,630,000
Gross profit	18,931,000	21,682,000
Selling, general and administrative expenses	19,610,000	19,157,000
Impairment of goodwill and other intangible assets	9,581,000	—
Operating (loss) income	(10,260,000)	2,525,000
Other income - net	100,000	272,000
Gain on sale of building	1,703,000	—
Interest expense	(181,000)	(116,000)
(Loss) income before income taxes	(8,638,000)	2,681,000
Income tax (benefit) expense	(2,955,000)	825,000
Net (loss) income from continuing operations	(5,683,000)	1,856,000
Discontinued operations (Note 2)		
Net income from discontinued operations, net of tax of $38,000 and $1,001,000 for the years ended December 31, 2016 and 2015, respectively	72,000	1,688,000
Gain on sale of discontinued operations, net of tax benefit of $482,000	12,512,000	—
Net income from discontinued operations, net of tax	12,584,000	1,688,000
Net income	$6,901,000	$3,544,000
Basic (loss) earnings per share		
Continuing operations	$(1.58)	$0.51
Discontinued operations	3.50	0.47
Net income	$1.92	$0.98
Diluted (loss) earnings per share		
Continuing operations	$(1.58)	$0.49
Discontinued operations	3.50	0.45
Net income	$1.92	$0.94
Weighted average common shares outstanding:		
Basic	3,598,000	3,607,000
Diluted	3,598,000	3,771,000
Net income	$6,901,000	$3,544,000
Other comprehensive loss - foreign currency translation adjustment	(396,000)	(113,000)

Total comprehensive income	$6,505,000	$3,431,000

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

P&F INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

		Class A Common Stock, $1 Par		Additional paid-in	Retained	Treasury stock	
	Total	Shares	Amount	capital	earnings	Shares	Amo
Balance, January 1, 2015	$39,991,000	4,139,000	$4,139,000	$12,695,000	$ 27,951,000	(554,000)	$(4,5
Net income	3,544,000	—	—	—	3,544,000	—	—
Exercise of stock options	73,500	23,500	23,500	50,000	—	—	—
Issuance of restricted common stock	42,500	7,500	7,500	35,000	—	—	—
Stock-based compensation	86,000	—	—	86,000	—	—	—
Tax benefit on stock-based compensation	18,000	—	—	18,000	—	—	—
Foreign currency translation adjustment	(113,000)	—	—	—	—	—	—
Balance, December 31, 2015	43,642,000	4,170,000	4,170,000	12,884,000	31,495,000	(554,000)	(4,5
Net income	6,901,000	—	—	—	6,901,000	—	—
Exercise of stock options	23,000	6,000	6,000	17,000	—	—	—

Issuance of restricted common stock	50,000	5,000	5,000	45,000	—	—	—

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.

	LG.Philips LCD Co., Ltd. (Registrant)	
Date: October 11, 2005	By:	/s/ Ron H. Wirahadiraksa
		(Signature)
	Name:	Ron H. Wirahadiraksa
	Title:	Joint Representative Director/ President & Chief Financial Officer