P&F INDUSTRIES INC
Form 10-Q
November 13, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended September 30, 2014

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

For the transition period from to

Commission File Number 1 - 5332

P&F INDUSTRIES, INC.

(Exact name of registrant as specified in its charter)

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

(Address of principal executive offices) (Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, 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 to its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period the registrant was required to submit and post such files). Yes x No ¨

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

Large accelerated filer ¨	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company x

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

As of November 12, 2014 there were 3,584,370 shares of the registrant’s Class A Common Stock outstanding.

P&F INDUSTRIES, INC.

FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2014

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

P&F INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	September 30, 2014 (unaudited)	December 31, 2013 (See Note 1)
ASSETS		
CURRENT ASSETS		
Cash	$ 504,000	$ 413,000
Accounts receivable - net	14,645,000	8,739,000
Inventories - net	24,307,000	22,974,000
Deferred income taxes - net	1,168,000	1,168,000
Prepaid expenses and other current assets	2,163,000	829,000
TOTAL CURRENT ASSETS	42,787,000	34,123,000
PROPERTY AND EQUIPMENT		
Land	1,550,000	1,550,000
Buildings and improvements	7,669,000	7,626,000
Machinery and equipment	20,747,000	18,606,000
	29,966,000	27,782,000
Less accumulated depreciation and amortization	19,226,000	17,553,000
NET PROPERTY AND EQUIPMENT	10,740,000	10,229,000
GOODWILL	11,896,000	5,150,000
OTHER INTANGIBLE ASSETS - net	12,834,000	1,502,000
DEFERRED INCOME TAXES - net	479,000	1,594,000
OTHER ASSETS - net	588,000	643,000
TOTAL ASSETS	$ 79,324,000	$ 53,241,000

See accompanying notes to consolidated financial statements (unaudited).

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P&F INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	September 30, 2014 (unaudited)	December 31, 2013 (See Note 1)
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Short-term borrowings	$ 14,419,000	$ 360,000
Accounts payable	4,703,000	3,006,000
Accrued liabilities	5,702,000	3,520,000
Current maturities of long-term debt	1,460,000	460,000
TOTAL CURRENT LIABILITIES	26,284,000	7,346,000
Long–term debt, less current maturities	8,475,000	6,903,000
Deferred taxes payable	2,853,000	—
Other liabilities	251,000	262,000
TOTAL LIABILITIES	37,863,000	14,511,000
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 – 38,000 at September 30, 2014 and 4,038,000 at December 31, 2013	4,138,000	4,038,000
Class B - $1 par; authorized - 2,000,000 shares; no shares issued	—	—
Additional paid-in capital	12,648,000	11,798,000
Retained earnings	27,721,000	25,871,000
Treasury stock, at cost – 345,000 shares at September 30, 2014 and 344,000 shares at December 31, 2013	(2,983,000)	(2,977,000)
Accumulated other comprehensive loss	(63,000)	—
TOTAL SHAREHOLDERS' EQUITY	41,461,000	38,730,000
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 79,324,000	$ 53,241,000

See accompanying notes to consolidated financial statements (unaudited).

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P&F INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME (unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Net revenue	$22,932,000	$20,483,000	$57,132,000	$60,668,000
Cost of sales	14,904,000	13,428,000	36,466,000	38,777,000
Gross profit	8,028,000	7,055,000	20,666,000	21,891,000
Selling, general and administrative expenses	6,438,000	5,658,000	17,221,000	17,827,000
Operating income	1,590,000	1,397,000	3,445,000	4,064,000
Interest expense	158,000	116,000	335,000	386,000
Income before income taxes	1,432,000	1,281,000	3,110,000	3,678,000
Income tax expense	616,000	471,000	1,260,000	1,372,000
Net income	$816,000	$810,000	$1,850,000	$2,306,000
Basic earnings per share	$0.22	$0.22	$0.50	$0.63
Diluted earnings per share	$0.20	$0.20	$0.47	$0.59
Weighted average common shares outstanding:				
Basic	3,792,000	3,694,000	3,737,000	3,684,000
Diluted	3,968,000	3,912,000	3,917,000	3,888,000
Net income	$816,000	$810,000	$1,850,000	$2,306,000
Other comprehensive loss - foreign currency translation adjustment	(63,000)	—	(63,000)	—
Total comprehensive income	$753,000	$810,000	$1,787,000	$2,306,000

See accompanying notes to consolidated financial statements (unaudited).

P&F INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF SHAREHOLDERS’ EQUITY (unaudited)

		Class A Common Stock, $1 Par		Additional paid-in	Retained	Treasury stock	
	Total	Shares	Amount	capital	earnings	Shares	Am
Balance, January 1, 2014	$38,730,000	4,038,000	$4,038,000	$11,798,000	$25,871,000	(344,000)	$(2
Net income	1,850,000	—	—	—	1,850,000	—	—
Foreign currency translation adjustment	(63,000)	—	—	—	—	—	—
Exercise of stock options	741,000	97,000	97,000	650,000	—	(1,000)	(6
Restricted stock issuance	21,000	3,000	3,000	18,000	—	—	—
Stock-based compensation	182,000	—	—	182,000	—	—	—
Balance, September 30, 2014	$41,461,000	4,138,000	$4,138,000	$12,648,000	$27,721,000	(345,000)	$(2

See accompanying notes to consolidated financial statements (unaudited).

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P&F INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

	Nine months ended September 30, 2014	2013
Cash Flows from Operating Activities:		
Net income	$1,850,000	$2,306,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Non-cash charges:		
Depreciation and amortization	1,137,000	1,176,000
Amortization of other intangible assets	361,000	192,000
Amortization of debt issue costs	67,000	75,000
(Adjustment to) provision for losses on accounts receivable	(107,000)	46,000
Stock-based compensation	182,000	245,000
Loss on sale of fixed asset	7,000	—
Restricted stock-based compensation	21,000	30,000
Deferred income taxes-net	1,079,000	1,098,000
Changes in operating assets and liabilities - net of effects of acquisitions:		
Accounts receivable	(3,824,000)	(5,426,000)
Inventories	1,671,000	927,000
Prepaid expenses and other current assets	(419,000)	(313,000)
Other assets	54,000	44,000
Accounts payable	1,212,000	91,000
Accrued liabilities	(171,000)	515,000
Other liabilities	(12,000)	(12,000)
Total adjustments	1,258,000	(1,312,000)
Net cash provided by operating activities	3,108,000	994,000

See accompanying notes to consolidated financial statements (unaudited).

P&F INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

	Nine months ended September 30, 2014	2013
Cash Flows from Investing Activities:		
Capital expenditures	$(713,000)	$(428,000)
Proceeds from disposal of assets	8,000	—
Purchase of net assets Air Tool Service Company	(7,559,000)	—
Purchase of Exhaust Technologies, Inc.	(10,377,000)	—
Purchase of Universal Air Tool Company Limited, net of cash acquired of $104,000	(1,701,000)	—
Net cash used in investing activities	(20,342,000)	(428,000)
Cash Flows from Financing Activities:		
Proceeds from exercise of stock options	741,000	62,000
Proceeds from short-term borrowings	66,166,000	49,408,000
Repayments of short-term borrowings	(52,107,000)	(49,911,000)
Proceeds from term loan	3,000,000	—
Repayments of term loan	(428,000)	(345,000)
Bank financing costs	(65,000)	—
Net cash provided by (used in) financing activities	17,307,000	(786,000)
Effect of exchange rate changes on cash and cash equivalents	18,000	—
Net increase (decrease) in cash	91,000	(220,000)
Cash at beginning of period	413,000	695,000
Cash at end of period	$504,000	$475,000
Supplemental disclosures of cash flow information:		
Cash paid for:		
Interest	$236,000	$329,000
Income taxes	$126,000	$46,000
Supplemental disclosures of non cash investing and financing activities:		
Contingent Consideration on Acquisition	$425,000	$—

See accompanying notes to consolidated financial statements (unaudited).

P&F INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

NOTE 1 - SUMMARY OF ACCOUNTING POLICIES

Basis of Financial Statement Presentation

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

The consolidated balance sheet information as of December 31, 2013 was derived from the audited Consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2013. The interim financial statements contained herein should be read in conjunction with that Report.

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

Principles of Consolidation

The unaudited Consolidated financial statements contained herein include the accounts of P&F Industries, Inc. and its subsidiaries, ("P&F" or the "Company"). All significant intercompany balances and transactions have been eliminated in consolidation. Certain amounts in the financial statements and related footnotes have been reclassified to conform to classifications used in the current year.

The Company

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

Tools

The Company conducts its Tools business through a wholly-owned subsidiary, Continental Tool Group, Inc. (“Continental”), which in turn currently operates through its wholly-owned subsidiaries, Florida Pneumatic Manufacturing Corporation (“Florida Pneumatic”) and Hy-Tech Machine, Inc. (“Hy-Tech”). During the third quarter of 2014, the Company acquired Exhaust Technologies Inc. and Universal Air Tool Company Limited. Both companies are subsidiaries of Florida Pneumatic. Additionally, during the third quarter of 2014, the Company acquired substantially all the assets of Air Tool Service Company, which business operates through a company, which is a wholly-owned subsidiary of Hy-Tech. (See Note 3 – Acquisitions, for additional information relating to these acquisitions)

Florida Pneumatic is engaged in the importation and sale of pneumatic hand tools, primarily for the retail, industrial and automotive markets, and the importation and sale of compressor air filters. Florida Pneumatic also markets, through its Berkley Tool division (“Berkley”), a product line which includes pipe and bolt dies, pipe taps, wrenches, vises and stands, pipe and tubing cutting equipment, hydrostatic test pumps, and replacement electrical components for a widely-used brand of pipe cutting and threading machines.

Hy-Tech manufactures and distributes its own line of industrial pneumatic tools. Hy-Tech also produces and markets impact wrenches, grinders, drills, and motors. Further, it also manufactures tools to customer specifications. Its customers include refineries, chemical plants, power generation, heavy construction, oil and mining companies. In addition, Hy-Tech manufactures an extensive line of pneumatic tool replacement parts that are sold competitively to the original equipment manufacturer (“OEM”). It also manufactures and distributes high pressure stoppers for hydrostatic testing fabricated pipe, gears, sprockets, splines and racks and produces a line of siphons.

Hardware

The Company conducts its Hardware business through a wholly-owned subsidiary, Countrywide Hardware, Inc. (“Countrywide”). Countrywide conducts its business operations through its wholly-owned subsidiary, Nationwide Industries, Inc. (“Nationwide”). Nationwide is an importer and manufacturer of door, window and fencing hardware and accessories, including rollers, hinges, window operators, sash locks, custom zinc castings and door closers. Additionally, Nationwide marketed a Kitchen and Bath product line. However, effective November 12, 2013, Nationwide sold to an unrelated third party all inventory, intangibles and certain fixed assets attributable to its Kitchen and Bath product line.

Management Estimates

The preparation of financial statements and related disclosures in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses in those financial statements. Certain significant accounting policies that contain subjective management estimates and assumptions include those related to revenue recognition, inventory, goodwill, intangible assets and other long-lived assets, income taxes and deferred taxes. Descriptions of these policies are discussed in the Company’s Annual Report on Form 10-K for the year ended December 31, 2013. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment, and makes adjustments when facts and circumstances dictate. As future events and their effects cannot be determined with precision, actual results could differ significantly from those estimates and assumptions. Significant changes, if any, in those estimates resulting from continuing changes in the economic environment will be reflected in the Consolidated financial statements in future periods.

Recently Adopted Accounting Standards

Management does not believe that any recently issued, but not yet effective accounting standards, if currently adopted would have a material effect on our Consolidated financial statements.

NOTE 2 - EARNINGS PER SHARE

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

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

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

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Numerator for basic and diluted earnings per common share:				
Net income	$816,000	$810,000	$1,850,000	$2,306,000
Denominator:				
For basic earnings per share - weighted average common shares outstanding	3,792,000	3,694,000	3,737,000	3,684,000
Dilutive securities **(1)**	176,000	218,000	180,000	204,000
For diluted earnings per share - weighted average common shares outstanding	3,968,000	3,912,000	3,917,000	3,888,000

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

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At September 30, 2014 and 2013 and during the three and nine-month periods ended September 30, 2014 and 2013, there were outstanding stock options whose exercise prices were higher than the average market values of the underlying Class A Common Stock for the period. These options are antidilutive and are excluded from the computation of earnings per share. The weighted average antidilutive stock options outstanding were as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Weighted average antidilutive stock options outstanding	184,000	296,000	232,000	236,000

NOTE 3 – ACQUISITIONS

Exhaust Technologies Inc.

On July 1, 2014, the Company acquired Exhaust Technologies, Inc. (“ETI”), a developer and distributor of pneumatic tools, through a merger between a newly formed wholly-owned subsidiary of Florida Pneumatic and ETI. ETI markets its AIRCAT and NITROCAT brand pneumatic tools primarily to the automotive market. ETI’s business will operate through Florida Pneumatic. The purchase price for this acquisition consisted of $10,377,000 in cash plus the assumption of certain payables. The Company financed this acquisition from the Company's Revolver Loan (“Revolver”) provided for within the Credit Agreement with Capital One Business Credit Corp. (“COBC”), which is further described in Note 8 to these Consolidated Financial Statements

Universal Air Tool Company Limited

On July 29, 2014, the Company acquired all of the outstanding shares of Universal Air Tool Company Limited (“UAT”), a distributor of pneumatic tools. The purchase price for this acquisition consisted of approximately $1,950,000 in cash and is subject to a post-closing working capital adjustment. In addition, there is a potential contingent consideration payment due to the former shareholders of UAT of a maximum of approximately $400,000. UAT, located in High Wycombe, England, markets pneumatic tools to the automotive market sector primarily in the United Kingdom and Ireland. The Company financed this acquisition from the Company's Revolver.

Air Tool Service Company

On August 13, 2014, the Company, through a newly formed wholly owned subsidiary of Hy-Tech, acquired substantially all of the assets comprising the business of Air Tool Service Company (“ATSCO”), an Ohio based corporation engaged in the design, manufacture and distribution of pneumatic tools and parts. The purchase price consisted of approximately $7,659,000 in cash and the assumption of certain payables and liabilities, and is subject to a post-closing working capital adjustment. The Company financed this acquisition from the Company's Revolver and a new Term Loan provided for within the Credit Agreement with COBC, which is further described in Note 8 to these Consolidated Financial Statements

The purchase price for the acquisitions completed during the three-month period ended September 30, 2014 was as follows:

	ETI	UAT	ATSCO	Total
Cash paid at closing	$9,850,000	$1,947,000	$7,659,000	$19,456,000
Estimated net asset adjustments	527,000	(142,000)	(100,000)	285,000
Fair Value of Contingent Consideration	—	425,000	—	425,000
Total estimated purchase price	$10,377,000	$2,230,000	$7,559,000	$20,166,000

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

	ETI	UAT	ATSCO	TOTAL
Cash	$—	$104,000	$—	$104,000
Accounts receivable	1,086,000	732,000	190,000	2,008,000
Inventories	1,669,000	772,000	600,000	3,041,000
Other current assets	911,000	5,000	—	916,000
Property and equipment	140,000	167,000	651,000	958,000
Identifiable intangible assets:				
Customer relationships	4,560,000	334,000	3,260,000	8,154,000
Trademarks and trade names	1,160,000	478,000	240,000	1,878,000
Non-compete agreements	115,000	134,000	130,000	379,000
Engineering drawings	—	—	120,000	120,000
Patents	1,205,000	—	—	1,205,000
Total assets acquired	10,846,000	2,726,000	5,191,000	18,763,000
Less: liabilities assumed	1,489,000	626,000	345,000	2,460,000
Deferred taxes payable	2,708,000	189,000	—	2,897,000
Total fair value of net assets acquired	6,649,000	1,911,000	4,846,000	13,406,000
Goodwill	3,728,000	319,000	2,713,000	6,760,000
Total estimated purchase price	$10,377,000	$2,230,000	$7,559,000	$20,166,000

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

	ETI	UAT	ATSCO
Customer relationships	12 years	12 years	12 years
Trademarks and trade names	Indefinite	Indefinite	Indefinite
Non-compete agreements	4 years	3 years	5 years
Engineering drawings	—	—	5 years
Patents	3-10 years	—	—

In connection with one of the aforementioned transactions, the Company, in accordance the Accounting Standards Codification 740-10, recorded in Accrued liabilities an uncertain tax position of $866,000 on its Consolidated Balance Sheet as of September 30, 2014. The parties to such transaction entered into a tax exposure-related escrow agreement which the Company believes adequately covers the entire potential exposure related to the uncertain tax position, and as a result, such liability was offset by an indemnification asset recorded in Prepaid expenses and other current assets in the Consolidated Balance Sheet.

The following unaudited pro-forma combined financial information gives effect to the acquisition of ETI, UAT and ATSCO as if they were consummated January 1, 2013. This unaudited pro-forma financial information is presented for information purposes only, and is not intended to present actual results that would have been attained had the acquisitions been completed as of January 1, 2013 (the beginning of the earliest period presented) or to project potential operating results as of any future date or for any future periods.

	For the three months ended September 30, 2013 (Unaudited)	For the nine months ended September 30, 2013 (Unaudited)	For the three months ended September 30, 2014 (Unaudited)	For the nine months ended September 30, 2014 (Unaudited)
Revenues	$ 24,072,000	$ 73,776,000	$ 23,500,000	$ 66,915,000
Net income	$ 1,415,000	$ 5,107,000	$ 775,000	$ 4,148,000
Earnings per share - basic	$ 0.38	$ 1.39	$ 0.20	$ 1.11
Earnings per share - diluted	$ 0.36	$ 1.31	$ 0.20	$ 1.06

NOTE 4 - STOCK-BASED COMPENSATION

During the three and nine-month periods ended September 30, 2014 and 2013, the Company did not grant any stock options.

The following is a summary of the changes in outstanding options during the nine-month period ended September 30, 2014:

	Option Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Outstanding, January 1, 2014	633,188	$ 6.76	4.8	$951,000
Granted	—	—		
Exercised	(96,188)	7.76		
Forfeited	—	—		
Expired	(26,500)	8.06		
Outstanding, September 30, 2014	510,500	$ 6.51	5.0	$1,303,505
Vested September 30, 2014	449,494	$ 6.38	4.6	$1,261,239

The following is a summary of changes in non-vested options for the nine months ended September 30, 2014:

	Option Shares	Weighted Average Grant-Date Fair Value
Non-vested options, January 1, 2014	121,500	$ 5.38
Granted	—	—
Vested	(60,494)	4.62
Forfeited	—	—
Non-vested options, September 30, 2014	61,006	$ 6.14

The number of shares of Common Stock available for issuance under the 2012 Stock Incentive Plan as of September 30, 2014 was 194,517. At September 30, 2014, there were 113,500 options outstanding, issued under the 2012 Stock Incentive Plan and 397,000 options outstanding issued, under the 2002 Stock Incentive Plan.

Treasury Stock

On March 31, 2014, the Company received 792 shares of its Common Stock, tendered as payment for the exercise of options to purchase 1,500 shares of Common Stock. The value of the tendered shares of Common Stock, was approximately $6,000, and was based on the fair value of such shares, determined by closing price of the Company's Common Stock on the day prior. The Company recorded this transaction as an increase to its Treasury Stock.

Restricted Stock

On May 21, 2014, the Company granted 666 restricted shares of its common stock to each non-employee member of its Board of Directors totaling 3,330 restricted shares. These restricted shares cannot be traded earlier than the first anniversary of the grant date. The Company determined the fair value of these shares to be $7.43, which was the closing price of the Company's Common Stock on the date of the grant. As a result of the aforementioned grants, the Company will recognize non-cash director fees expense of approximately $2,100 per month in its selling, general and administrative expenses through May 2015.

NOTE 5 - ACCOUNTS RECEIVABLE AND ALLOWANCE FOR DOUBTFUL ACCOUNTS

Accounts receivable - net consists of:

	September 30, 2014	December 31, 2013
Accounts receivable	$ 14,810,000	$ 8,975,000
Allowance for doubtful accounts	(165,000)	(236,000)
	$ 14,645,000	$ 8,739,000

NOTE 6 - INVENTORIES

Inventories - net consist of:

	September 30, 2014	December 31, 2013
Raw material	$ 2,048,000	$ 1,836,000
Work in process	952,000	475,000
Finished goods	23,678,000	22,924,000
	26,678,000	25,235,000
Reserve for obsolete and slow-moving inventories	(2,371,000)	(2,261,000)
	$ 24,307,000	$ 22,974,000

NOTE 7 - GOODWILL AND OTHER INTANGIBLE ASSETS

The changes in the carrying amounts of goodwill, which resulted from the acquisitions of ETI, UAT and ATSCO, for the nine-months ended September 30, 2014, are as follows:

	Consolidated	Tools	Hardware
Balance, January 1, 2014	$5,150,000	$3,278,000	$1,872,000
Acquisition of ETI, UAT and ATSCO	6,746,000	6,746,000	—
Balance, September 30, 2014	$11,896,000	$10,024,000	$1,872,000

Other intangible assets were as follows:

September 30, 2014	December 31, 2013

Cost	Accumulated amortization	Net book value