MID-STATE BANCSHARES
Form DEFM14A
March 26, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No. 1)

Filed by the Registrant x
Filed by a Party other than the Registrant o
Check the appropriate box:

o	Preliminary Proxy Statement
o	**Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
x	Definitive Proxy Statement
o	Definitive Additional Materials
o	Soliciting Material Pursuant to §240.14a-12

Mid-State Bancshares

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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o	No fee required.		
o	Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.		
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PROPOSED MERGER YOUR VOTE IS VERY IMPORTANT

To the Shareholders of Mid-State Bancshares:

The board of directors of Mid-State Bancshares, or Mid-State, has approved the acquisition of Mid-State by VIB Corp, a subsidiary of Rabobank Nederland, a Dutch financial services leader. The acquisition involves a series of mergers, including the merger of a subsidiary of VIB Corp with and into Mid-State, and the merger of Mid-State Bank & Trust into Rabobank, N.A., Rabobank s community banking subsidiary in California.

In the merger, shareholders of Mid-State will receive $37.00 in cash for each share of Mid-State common stock that they own.

Mid-State s common stock is listed on the NASDAQ Global Market under the symbol MDST. On March 22, 2007, Mid-State s common stock closed at $36.88 per share and on November 1, 2006, the last trading day before the announcement of the merger, Mid-State s common stock closed at $29.11 per share.

Mid-State is holding a special shareholders meeting at which its shareholders will be asked to approve the principal terms of the Agreement and Plan of Merger, dated November 1, 2006, by and between VIB Corp, Chardonnay Merger Sub Corp. and Mid-State Bancshares and the transactions contemplated thereby. Information about the special meeting is contained in this proxy statement. You are urged to read this document carefully and in its entirety.

YOUR BOARD OF DIRECTORS HAS DETERMINED THAT THE MERGER IS IN THE BEST INTERESTS OF MID-STATE AND ITS SHAREHOLDERS AND UNANIMOUSLY RECOMMENDS THAT YOU VOTE FOR APPROVAL OF THE PRINCIPAL TERMS OF THE MERGER AGREEMENT AND THE TRANSACTIONS CONTEMPLATED THEREBY.

We hope that you will attend the special meeting in person; however, we strongly encourage you to designate the proxies named on the enclosed proxy card to vote your shares. This will ensure that your common stock is represented at the special meeting. You will also be able to vote by telephone or by the Internet. The enclosed proxy card explains more about these voting procedures.

Whether or not you plan to attend the Mid-State special meeting, please vote as soon as possible to make sure that your shares are represented at the special meeting. If you do not vote, it will have the same effect as voting against the merger.

/s/ JAMES W. LOKEY
James W. Lokey
President and Chief Executive Officer
Mid-State Bancshares

This proxy statement is dated March 26, 2007 and is first being mailed to shareholders on or about March 26, 2007.

Sources of Additional Information

This document incorporates important business and financial information about Mid-State from documents that are not included in or delivered with this document. This information is available to you without charge upon your written or oral request. You can obtain documents related to Mid-State that are incorporated by reference in this document, without charge, through the website of the Securities and Exchange Commission, or SEC, at www.sec.gov, through Mid-State s website listed below, or by requesting them in writing or by telephone.

Mid-State Bancshares
Attn: Marlene Weeks, Vice President
P.O. Box 6002
Arroyo Grande, California 93420
(805) 473-6829
www.midstatebank.com

(The website address given in this document is for information only and is not intended to be an active link or to incorporate any website information into this document.)

Please note that copies of the documents provided to you will not include exhibits, unless the exhibits are specifically incorporated by reference into the documents or this document.

In order to receive timely delivery of requested documents in advance of the special meeting, you should make your request no later than April 11, 2007.

All information contained in this proxy statement with respect to Rabobank and its affiliates has been supplied by Rabobank. All information contained in this proxy statement with respect to Mid-State has been supplied by Mid-State.

You should rely only on the information provided or incorporated by reference in this proxy statement. We have not authorized anyone to provide you with different information. You should not assume that the information in this proxy statement is accurate as of any date other than the date on the front of the document.

See Where You Can Find More Information beginning on page 34.

Notice of Special Meeting of Mid-State Bancshares

- **Date: April 25, 2007**
- **Time: 7:30 p.m.**
- **Place: The Cliffs Resort, 2757 Shell Beach Road, Shell Beach, California**

To Mid-State Bancshares Shareholders:

We are pleased to notify you of, and invite you to, a special meeting of shareholders. At the meeting you will be asked to vote on the following matters:

- Proposal to approve the principal terms of the merger agreement, pursuant to which Mid-State Bancshares will be acquired by VIB Corp, and the transactions contemplated thereby as described in the attached proxy statement.

- Proposal to approve, if necessary, an adjournment of the special meeting to solicit additional proxies in favor of the principal terms of the merger agreement and the transactions contemplated thereby.

Only shareholders of record at the close of business on March 8, 2007 may vote at the special meeting.

Pursuant to California law, Mid-State Bancshares shareholders are not entitled to dissenting shareholders rights unless demands for payment are filed with respect to 5% or more of the outstanding shares. Further discussion of such law is contained in the attached proxy statement under the caption The Merger Dissenting Shareholders Rights. In addition, the text of the applicable provisions of California law relating to dissenting shareholders rights are attached as Appendix C to the proxy statement.

Section 2.11 of the Mid-State Bylaws provides for the nomination of directors as follows:

Nominations for election of members of the Board of Directors may be made by the Board of Directors or by any shareholder of any outstanding class of capital stock of the Corporation entitled to vote for the election of directors. Notice of intention to make any nominations (other than for persons named in the notice of the meeting at which such nomination is to be made) shall be made in writing and shall be delivered or mailed to the president of the Corporation by the later of the close of business 21 days prior to any meeting of shareholders called for the election of directors or 10 days after the date of mailing of notice of the meeting to shareholders. Such notification shall contain the following information to the extent known to the notifying shareholder: (a) the name and address of each proposed nominee; (b) the principal occupation of each proposed nominee; (c) the number of shares of capital stock of the corporation owned by each proposed nominee; (d) the name and residence address of the notifying shareholder; (e) the number of shares of capital stock of the proposed nominee, a copy of which shall be furnished with the notification, whether the proposed nominee has ever been convicted of or pleaded nolo contendere to any criminal offense involving dishonesty or breach of trust, filed a petition in bankruptcy, or been adjudged bankrupt. The notice shall be signed by the nominating shareholder and by the nominee. Nominations not made in accordance herewith shall be disregarded by the chairman of the meeting, and upon his instructions, the inspectors of election shall disregard all votes cast for each such nominee. The restrictions set forth in this paragraph shall not apply to nomination of a person to replace a proposed nominee who has died or otherwise become incapacitated to serve as a director between the last day for giving notice hereunder and the date of election of directors if the procedure called for in this paragraph was followed with respect to the nomination of the proposed nominee.

IT IS VERY IMPORTANT THAT EVERY SHAREHOLDER VOTE. WE URGE YOU TO SIGN AND RETURN THE ENCLOSED PROXY CARD AS PROMPTLY AS POSSIBLE, OR VOTE BY TELEPHONE OR INTERNET, WHETHER OR NOT YOU PLAN TO ATTEND THE MEETING IN PERSON. IF YOU DO ATTEND THE MEETING AND YOU WISH TO CHANGE YOUR VOTE, YOU MAY WITHDRAW YOUR PROXY PRIOR TO THE TIME IT IS VOTED AND VOTE IN PERSON OR BY FILING A LATER DATED PROXY.

PLEASE INDICATE ON THE PROXY CARD WHETHER OR NOT YOU EXPECT TO ATTEND THE MEETING SO WE CAN PROVIDE ADEQUATE ACCOMMODATIONS.

IF YOU PLAN TO ATTEND THE SPECIAL MEETING IN PERSON AND ARE A SHAREHOLDER OF RECORD, BRING WITH YOU A FORM OF GOVERNMENT-ISSUED PERSONAL IDENTIFICATION BEARING YOUR RECENT PHOTOGRAPH (SUCH AS A DRIVER S LICENSE, STATE-ISSUED IDENTIFICATION CARD OR PASSPORT) TO THE SPECIAL MEETING.

IF YOU OWN STOCK THROUGH A BANK, BROKER OR OTHER NOMINEE YOU WILL ALSO NEED PROOF OF OWNERSHIP AS OF THE RECORD DATE SUCH AS A BANK OR BROKERAGE STATEMENT TO ATTEND THE SPECIAL MEETING (WHICH YOU MUST ASK THEM OR THEIR AGENT TO PROVIDE TO YOU). IN ORDER TO VOTE YOUR SHARES AT THE MID-STATE SPECIAL MEETING, YOU MUST OBTAIN FROM THE NOMINEE A PROXY ISSUED IN YOUR NAME.

By order of the Board of Directors
/s/ JAMES G. STATHOS
James G. Stathos, *Secretary*

March 26, 2007

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QUESTIONS AND ANSWERS ABOUT VOTING

Q: Why have you sent me this document?

A: This document is being delivered to you because it is serving as a proxy statement for Mid-State Bancshares special meeting of shareholders.

This proxy statement contains important information regarding the proposed merger. It also contains important information about what Mid-State s board of directors and management considered when evaluating this proposed merger. Mid-State urges you to read this proxy statement carefully, including its appendices.

Q: What is happening in this merger?

A: Mid-State is being acquired by VIB Corp, a subsidiary of Rabobank Nederland, in a series of mergers. Initially, VIB Corp (which is owned and controlled by Rabobank) will cause its wholly owned subsidiary, Chardonnay Merger Sub Corp., to be merged with and into Mid-State Bancshares resulting in Mid-State Bancshares becoming a wholly owned subsidiary of VIB Corp. Immediately thereafter, Mid-State Bancshares will be merged with and into VIB Corp and following the merger of Mid-State Bancshares and VIB Corp, Mid-State Bank & Trust will be merged with and into Rabobank, N.A., the California-headquartered banking subsidiary of VIB Corp. As a result of such mergers, Mid-State Bancshares and Mid-State Bank & Trust will both cease to exist. These mergers are governed by the Agreement and Plan of Merger, dated November 1, 2006 (the merger agreement). A copy of the merger agreement is attached as Appendix A. Throughout this document, these various mergers are referred to simply as the merger.

Q: Why is the merger proposed?

A: Mid-State is proposing the merger because its board of directors believes that the merger is in the best interests of its shareholders. Mid-State believes that the price to be paid in the merger is fair.

Q: What are Mid-State s shareholders being asked to approve?

A: Mid-State s shareholders are being asked to approve the principal terms of the merger agreement and the transactions contemplated thereby, which approval must be obtained before the merger can be consummated.

Q: What will Mid-State shareholders receive if the merger is approved?

A: If the merger is approved, Mid-State shareholders will receive $37.00 in cash for each share of Mid-State common stock that they own. The holders of any options for Mid-State common stock that remain unexercised as of the closing will receive $37.00 minus the applicable exercise price of their option for each option that they hold.

Q: Will the receipt of cash by Mid-State shareholders in the merger be a taxable event?

A: Yes. In general, this will be a taxable sale for the shareholders of Mid-State. The exchange of shares of Mid-State common stock for cash in the merger will be treated as a sale of those shares for federal income tax purposes. See Summary Tax Effects of the Transaction on page 4 and THE Merger Material Federal Income Tax Consequences beginning on page 22.

Q: What should I do now?

A: Simply indicate your vote on your proxy card and then sign and mail your proxy card in the enclosed return envelope in time to be represented at the special shareholder s meeting. You will also be able to vote by telephone or by the Internet. The enclosed proxy card explains more about these voting procedures.

If you are a Mid-State shareholder, do not send your Mid-State stock certificates in the envelope provided for returning your proxy card. The stock certificates should only be forwarded to the exchange agent with the letter of transmittal form which will be mailed to you separately.

Q: If my shares are held in street name by my broker, will my broker vote my shares for me?

A: Your broker will vote your shares for you only if you provide your broker with instructions on how to vote. You should instruct your broker how to vote your shares, following the directions your broker provides. If you fail to instruct your broker how to vote your shares, your broker may not vote your shares and the effect will be the same as a vote against the merger.

Q: What happens if I don t vote?

A: If you fail to respond, your shares will not be counted to help establish a quorum at Mid-State s special meeting. Not voting also has the same effect as voting against the merger.

Q: Can I change my vote after I have mailed my signed proxy card?

A: Yes. You may change your vote at any time before your proxy is voted at the special meeting. If your shares are held in your name you may do this in one of three ways:

- Send a written notice to the Secretary of Mid-State stating that you are revoking your proxy;
- Complete and submit a new proxy card bearing a later date; or
- Attend the special meeting and vote in person (but only if you tell the Secretary before the voting begins that you want to cancel your proxy and vote in person). Simply attending the meeting, however, will not revoke your proxy.

If you choose either of the first two methods, you must submit your notice of revocation or your new proxy card to Mid-State at the address below.

Unless you decide to attend the meeting and vote your shares in person after you have submitted voting instructions to the proxies, we recommend that you revoke or amend your prior instructions in the same way you initially gave them that is, by telephone, Internet, or in writing. This will help to ensure that your shares are voted the way you have finally determined you wish them to be voted.

If you have instructed a broker to vote your shares, you must follow directions received from your broker to change your vote or to vote at the annual meeting.

Q: What is the vote needed to approve the merger?

A: Approval of the merger requires the affirmative vote of the holders of at least a majority of the shares of Mid-State common stock issued and outstanding on the record date.

Q: Am I entitled to dissenter s rights?

A: Under California law, no shareholder will be entitled to dissenter s rights unless 5% or more of all Mid-State shareholders submit to Mid-State written demand for payment pursuant to Chapter 13 of the California General Corporation Law. If 5% or more of all Mid-State shareholders make the appropriate written demand for payment and you chose to dissent, you will be entitled to receive an amount equal to the fair market value of your shares as of November 1, 2006 (determined by mutual agreement between Mid-State and you, or if not agreed upon, then determined by the Superior Court of San Luis Obispo

County), if, and only if, you properly comply with the provisions of Chapter 13 of the California General Corporation Law. To summarize the steps you must take to perfect your right to dissent, in the event dissenters rights are available in this transaction, you must: (a) on or before April 25, 2007, the date of the special meeting, provide a written demand to Mid-State for it to purchase your shares in accordance with Chapter 13 of the California General Corporation Law, (b) affirmatively vote against the merger whether you do so by proxy or otherwise, and (c) surrender your shares to Mid-State within the timeframe required by Chapter 13 of the California General Corporation Law. See THE MERGER Dissenting Shareholders Rights of Mid-State Shareholders beginning on page 23 and Appendix C.

Q: Who can help answer my questions?

A: If you have more questions about the merger or the special meeting, you should contact:

Mid-State Bancshares
Attn: Marlene Weeks, Vice President
P.O. Box 6002
Arroyo Grande, California 93420
(805) 473-6829

SUMMARY

This brief summary, together with the Questions and Answers on the preceding pages, highlights selected information from the proxy statement. This summary does not contain all of the information that is important to you. We urge you to read carefully the entire proxy statement and the other documents that are incorporated herein to understand fully the merger. See Where You Can Find More Information beginning on page 34. Unless we have stated otherwise, all references in this document to Mid-State , we , our or us are to Mid-State Bancshares; all references to Rabobank Nederland are to Cooperatieve Centrale Raiffeisen-Boerenleenbank B.A., Rabobank Nederland; all references to Rabobank, N.A. are to Rabobank, National Association; all references to Rabobank are to Rabobank Nederland and its affiliates; all references to the merger are to the merger of Chardonnay Merger Sub Corp. with and into Mid-State; all references to the merger agreement are to the Agreement and Plan of Merger by and among Mid-State, VIB Corp and Chardonnay Merger Sub Corp., dated as of November 1, 2006, a copy of which is attached as Appendix A to this document. Certain items in this summary contain a page reference directing you to a more complete description of that item.

The Companies

Mid-State Bancshares

Mid-State is the parent company of Mid-State Bank & Trust, its 100% owned principal subsidiary. Mid-State is registered as a bank holding company under the Bank Holding Company Act of 1956, as amended, and is subject to the supervision and regulation of the Board of Governors of the Federal Reserve System.

Mid-State Bank & Trust was incorporated under the laws of the State of California and commenced operations on June 12, 1961 as a California state chartered bank. The Bank s accounts are insured by the Federal Deposit Insurance Corporation, but it is not a member of the Federal Reserve System. At December 31, 2006, Mid-State had total assets of approximately $2.4 billion, total deposits of $2.0 billion and total shareholders equity of $282 million.

The Bank operates 41 full service retail-banking offices along the central coast of California in Santa Barbara, San Luis Obispo and Ventura counties. Mid-State s and the Bank s headquarters are located in Arroyo Grande. The headquarters street address is 1026 East Grand Avenue, Arroyo Grande, CA 93420. Its mailing address is P.O. Box 6002, Arroyo Grande, CA 93421-6002. The telephone number is: (805) 473-6829. Mid-State can also be reached through its internet address at www.midstatebank.com.

Important information concerning Mid-State s business and financial information is incorporated herein by reference in accordance with SEC rules. See Where You Can Find More Information beginning on page 34 to find out how you can obtain this information.

VIB Corp

VIB Corp, a California corporation and a registered bank holding company under the Bank Holding Company Act of 1956, as amended, was organized in 1997 with its headquarters in El Centro, California, to serve as the holding company for Valley Independent Bank, a California banking corporation. In December 2002, VIB Corp was acquired by an indirect U.S. subsidiary of Rabobank Nederland, and in early 2005 Valley Independent Bank, a wholly owned bank subsidiary of VIB Corp, converted from a state chartered bank to a national chartered bank and changed its name to Rabobank, N.A.

Chardonnay Merger Sub Corp., a California corporation and a wholly owned subsidiary of VIB Corp, has been organized by VIB Corp for the sole purpose of facilitating the merger. Merger Sub will disappear upon consummation of the merger.

Utrecht-America Holdings, Inc. is an indirect subsidiary of Rabobank Nederland, a cooperative banking association organized under the laws of the Netherlands. As of June 30, 2006, Rabobank

Nederland had consolidated assets of approximately 521 billion Euros. In the United States, Rabobank Nederland currently operates a state-licensed branch in New York, and representative offices in California, Georgia, Illinois, Texas, and Washington, D.C. Through these offices, Rabobank Nederland offers corporate banking services, primarily for the food and agriculture industry. U.S.-based subsidiaries of Rabobank Nederland offer leasing, agricultural and vendor financing, and a wide range of investment and advisory products. Rabobank Nederland is represented internationally with over 289 offices in 38 countries outside the Netherlands and offers a broad range of financial, insurance and asset management services across retail, corporate and commercial sectors. Rabobank Nederland is one of the largest banking organizations in the Netherlands and the largest mortgage lending and savings organization in the Netherlands by market share. It is one of the 25 largest banking institutions in the world in terms of assets, and enjoys one of the highest credit ratings of any financial institution in the world.

Originally organized in 1980 as a state-chartered bank, Rabobank, N.A. is a wholly owned subsidiary of VIB Corp. Rabobank, N.A. is headquartered in El Centro, California. Following the merger of Community Bank of Central California with and into Rabobank, N.A., which was consummated in January, 2006, Rabobank, N.A. now operates 41 branches located from California s Mexican border to the greater Sacramento metropolitan area. Rabobank, N.A. offers a wide range of commercial banking services including agricultural, commercial, U.S. Small Business Administration, real estate, construction, and consumer loans; checking, savings, NOW, money market, online banking and time deposits; and travelers checks, credit cards, and other customary non-deposit banking services. Rabobank, N.A. acts as a merchant depository for cardholder drafts and also operates several loan production offices. As of September 30, 2006, Rabobank, N.A. had assets of approximately $4.8 billion.

The Merger (Page 10 and Appendix A)

It is proposed that Mid State Bancshares and Mid-State Bank & Trust be acquired by VIB Corp in a series of mergers. Initially, VIB Corp (which is owned and controlled by Rabobank) will cause its wholly owned subsidiary, Chardonnay Merger Sub Corp., to be merged with and into Mid-State resulting in Mid-State becoming a wholly owned subsidiary of VIB Corp. Immediately thereafter, Mid-State will be merged with and into VIB Corp and immediately after the merger of Mid-State with and into VIB Corp, Mid-State Bank & Trust will be merged with and into Rabobank, N.A. As a result of these mergers, Mid-State and Mid-State Bank & Trust will both cease to exist. The acquisition of Mid-State by VIB Corp is governed by the merger agreement. The merger agreement contains certain conditions that must be met, or waived, in order for the merger to close, including but not limited to the condition to VIB Corp s obligation to consummate the merger that there be no more than 10% of Mid-State shareholders that dissent from the merger. VIB Corp. may waive this condition by a written waiver. A copy of the merger agreement is attached as Appendix A. Throughout this document, these various mergers are referred to as simply the merger.

Pursuant to the merger agreement, Mid-State s shareholders will receive $37.00 in cash for each share of Mid-State common stock they own.

The closing date will occur as soon as practicable after (i) the satisfaction or waiver of all conditions in the merger agreement, which are summarized below beginning on page 28, and (ii) receipt of approval of all required regulatory agencies. For a discussion of the required regulatory approvals, see The Merger Regulatory Approvals Required beginning on page 21. However, the closing date may be set on any other date on which the parties mutually agree. We are working toward completing the merger as quickly as possible. We currently expect to complete the merger during the second quarter of 2007 or as soon thereafter as possible, assuming all conditions set forth in the merger agreement are satisfied or waived.

The Special Meeting (Pages 7 - 8)

Date, Time and Place. Mid-State s special meeting of shareholders will be held at 7:30 p.m. on April 25, 2007, at The Cliffs Resort, 2757 Shell Beach Road, Shell Beach, California.

Purpose of the Special Meeting. At this special meeting, Mid-State s shareholders will be asked to approve the principal terms of the merger agreement and the transactions contemplated thereby.

Record Date; Shareholders Entitled to Vote. You are entitled to vote at the Mid-State special meeting if you owned Mid-State common stock as of the record date, March 8, 2007. As of that date, there were 22,293,915 shares of Mid-State outstanding, held by 5,849 shareholders of record. Each holder of Mid-State common stock is entitled to one vote per share on all matters that may properly come before the meeting.

Vote Required. Approval of the principal terms of the merger agreement and the transactions contemplated thereby requires the affirmative vote of at least a majority of the outstanding shares of Mid-State common stock. Not voting, voting abstain or failing to instruct your broker how to vote shares held for you in the broker s name will have the same effect as voting against the merger. If you submit a signed proxy card without indicating a vote with respect to the merger, that proxy card will be deemed a vote in favor of the principal terms of the merger agreement and the transactions contemplated thereby.

At close of business on the record date, certain of the directors and officers of Mid-State beneficially owned, in the aggregate, approximately 2,006,749 shares of Mid-State common stock, allowing them to exercise approximately 9.00% of the voting power of Mid-State common stock entitled to vote at the Mid-State special meeting (which includes shares issuable upon the exercise of stock options but not outstanding as of the record date). Carrol R. Pruett, James W. Lokey, Daryl L. Flood, Gregory R. Morris, H. Edward Heron, Stephen P. Maguire, Alan Rains, George H. Andrews, James G. Stathos and Harry Sackrider, each an officer or director of Mid-State, entered into separate voting agreements with VIB Corp. agreeing to vote their shares in favor of the principal terms of the merger agreement and the transactions contemplated thereby, as more fully described in The Merger Interests of Certain Persons in the Merger beginning on page 25.

Our Board of Directors Recommends that the Shareholders Approve the Merger (Pages 12 - 14)

Recommendation. Mid-State s board of directors has determined that the merger and the merger agreement are advisable and fair to, and in the best interests of Mid-State and its shareholders and recommends that Mid-State s shareholders vote **FOR** the merger agreement and the transactions contemplated thereby.

Factors Considered by Our Board. In determining whether to approve the merger, our board of directors consulted with our senior management and legal and financial advisors and considered the strategic, financial and other considerations referred to under The Merger Recommendation of, and Factors Considered by, Mid-State s Board of Directors.

Financial Advisor Gives Opinion That Merger Consideration Is Fair from a Financial Point of View (Page 14 and Appendix B)

Mid-State s financial advisor, Sandler O Neill & Partners, L.P. (Sandler O Neill), has provided an opinion to Mid-State s board of directors, dated as of November 1, 2006, that subject to and based on the limitations and considerations referred to in its opinion, the merger consideration of $37.00 per share in cash was fair to Mid-State s shareholders from a financial point of view. Sandler O Neill confirmed its November 1, 2006 opinion by delivering a written opinion as of the date of this proxy statement. The full text of Sandler O Neill s updated opinion, dated March 26, 2007, which includes a copy of the original opinion, is attached as Appendix B to this proxy statement. Mid-State urges its shareholders to read that opinion in its entirety.

Tax Effects of the Transaction (Page 22)

In general, the exchange of Mid-State common stock for cash pursuant to the merger will be a taxable transaction for federal income tax purposes and may also be a taxable transaction under applicable state, local and foreign tax laws. We recommend that you read the discussion in this proxy statement regarding federal income tax consequences and consult your tax advisor to determine the specific tax consequences to you of the receipt of cash in connection with the merger.

Benefits to Certain Officers and Directors in the Merger (Pages 25-27)

When considering the recommendation of the Mid-State board of directors, you should be aware that some Mid-State directors and officers have interests in the merger that differ from the interests of other Mid-State shareholders. These interests include:

- certain officers and directors have stock options that will become exercisable in full at the time of the merger, and will be cashed out if such options remain unexercised at the time of the closing of the merger for the difference between $37.00 and the applicable exercise price of the particular option in question. Assuming that none of the presently outstanding options are exercised before the closing of the merger, and a weighted average strike price of $20.267, the total consideration to be paid in cancellation of all outstanding options will be $28,797,694. As of November 1, 2006, the day the merger agreement was signed, and based on the difference between $37.00 and $25.2717 (the weighted average strike price of then-outstanding options), the total dollar value of unvested options equaled $7,625,072.

- James W. Lokey, the President and Chief Executive Officer of Mid-State and Mid-State Bank, has entered into an employment agreement with Mid-State Bank, which will be effective upon the closing of the merger. Mr. Lokey s employment agreement provides for annual compensation of $500,000. Further, if Mr. Lokey s employment is terminated by Rabobank without cause prior to the expiration of the term of his agreement, Mr. Lokey will be entitled to receive $2,265,000 plus continued health and life insurance benefits for a period of two years. If Mr. Lokey remains employed for the entire term of the employment agreement, he will be entitled to receive a lump sum of $15,000, payable upon termination of his employment, and a sum of $2,500,000, payable over 10 years, starting upon termination of his employment. This new employment agreement provides a $50,344 increase in annual pay over Mr. Lokey s present employment agreement. The severance payments provided for are substantially consistent with the amount of the payment Mr. Lokey would have received as a result of the proposed merger pursuant to the change-in-control agreement he agreed to cancel. Following the merger, Rabobank, N.A. will succeed Mid-State Bank as a party to the employment agreement, and Mr. Lokey will become a President of Rabobank, N.A.

- Lori Anderson, John Arellano, Jeff DeVine, John Ferebee, Mike Gibson, Steve Harding, Naomi Kinney, Stuart McCoy, Paul Mistele, Jeff Paul, Brantley Pettigrew, Dave Rounds, Leslie Love Stone, Debbie Zimmer, Roger Hager and Eldon Shiffman, Sandy Ferris, Don Nielsen, Clarence Cabreros, Linda Minton, John McNinch, Dan Snowden, William Racine, Scott Laycock, Mike Monro, Charles Osberg, Louise Schmelzer, and Kiersten Alfieri, each a director or officer of Mid-State, have entered into retention agreements with Mid-State, which will be of no further effect in the event the merger is not consummated. The retention agreements were entered into in exchange for the agreement of certain officers of Mid-State to cancel their change-in-control agreements, which would otherwise have required payment of benefits to those persons upon the closing of the merger. The retention agreements provide for a lump sum retention payment on the closing of the merger equal to one-half of or one times the employee s then base salary, depending on the employee s position, and another similar lump sum payment if the employee is still employed on the one-year anniversary of the closing of the merger. If the employee is terminated, other than for cause, between the closing of the merger and the one-year anniversary of the merger, the employee will receive a severance payment equal to either the employee s annual base salary or one-half of the employee s annual base salary, again based on position.

- directors and officers have continuing liability insurance protection and indemnification protections;
- Upon the consummation of the merger, James G. Stathos, Executive Vice President and Chief Financial Officer of Mid-State, and Harry Sackrider, Executive Vice President and Chief Lending Officer of Mid-State, neither of whom will remain employed by Mid-State after the merger, will receive payments of $1,087,609 and $932,237, respectively, in settlement of their change-in-control agreements.
- Upon the consummation of the merger, Carrol R. Pruett, the Chairman of Mid-State s Board, will receive a payment of $763,667 in settlement of his change-in-control agreement; and
- Mr. Pruett and Mr. Lokey, Mid-State board members, will become members of the Rabobank, N.A., board of directors after the closing of the merger.

See The Merger Interests of Certain Persons in the Merger beginning on page 25. Mid-State s board of directors was aware of these interests and considered them before approving the merger agreement.

Things We Must Do for the Merger to Occur (Page 28)

Completion of the merger is subject to various conditions, including:

- approval of the principal terms of the merger agreement and the transactions contemplated thereby by Mid-State s shareholders;
- receipt of all governmental and other consents and approvals that are necessary under the merger agreement; and
- other customary conditions.

Certain of these customary conditions to the merger may be waived by the parties under the merger agreement.

Regulatory Approvals Needed (Page 21)

We cannot complete the merger unless it is approved by the Comptroller of the Currency and the Board of Governors of the Federal Reserve System. Rabobank filed an application with the Comptroller of the Currency on December 20, 2006 and will also seek any necessary approvals from the Federal Reserve with respect to the merger. Rabobank does not expect the existence of the memorandum of understanding it entered into with the Comptroller of the Currency to prevent the receipt of the required regulatory approvals and it is taking steps to address the deficiencies identified in the memorandum of understanding in accordance with its terms. See The Merger Regulatory Approvals Required beginning on page 21.

We cannot be certain when or if we will obtain these regulatory approvals.

Litigation Relating to the Merger (Page 25)

A purported shareholder of Mid-State has filed a complaint seeking class action status against Mid-State and each of its directors alleging, among other things, that the Mid-State directors breached their fiduciary duties with regard to the proposed merger. Among other things, the complaint seeks class action status, a court order enjoining Mid-State and its directors from proceeding with or consummating the merger, and the payment of attorneys and experts fees. Mid-State intends to defend this lawsuit vigorously.

Termination of the Merger Agreement (Page 30)

The merger agreement may be terminated prior to the effective time of the merger for a variety of reasons, including by either party if the merger has not occurred by November 1, 2007, or if the other party breaches the agreement.

Termination Fees (Pages 29-30)

Certain cash payments may be required of Mid-State under the merger agreement in the event a party terminates the merger agreement in certain situations, including a payment by Mid-State to VIB Corp of $27.5 million if, among other things, Mid-State terminates the merger to pursue a superior proposal.

Dissenting Shareholders Rights (Pages 23-25 and Appendix C)

Shareholders of Mid-State will not have dissenting shareholders rights in the merger unless demands for payment are filed with respect to 5% or more of the outstanding shares. The text of the applicable provisions of California law relating to dissenting shareholders rights is attached as Appendix C.

Trading Price and Dividend Information

Mid-State common stock is listed on the NASDAQ Global Market System under the symbol MDST. The following table sets forth the high and low sales prices per share of Mid-State common stock as reported on the NASDAQ Global Market System from January 1, 2005 through March 22, 2007:

Quarter	High	Low
2005:		
First quarter	$ 28.89	$ 25.80
Second quarter	$ 28.94	$ 24.00
Third quarter	$ 31.29	$ 26.70
Fourth quarter	$ 29.61	$ 25.84
2006:		
First quarter	$ 29.80	$ 27.12
Second quarter	$ 29.74	$ 25.85
Third quarter	$ 28.36	$ 26.05
Fourth quarter	$ 36.61	$ 26.72
2007:		
First quarter (through March 22, 2007)	$36.90	$36.50

The following table sets forth the per share amount and month of payment for all cash dividends paid since January 1, 2005 by Mid-State to its shareholders.

Payable Date	Dividend
January 14, 2005	$ 0.16 per share
April 15, 2005	$ 0.16 per share
July 15, 2005	$ 0.16 per share
October 14, 2005	$ 0.16 per share
January 17, 2006	$ 0.18 per share
April 17, 2006	$ 0.18 per share
July 17, 2006	$ 0.18 per share
October 16, 2006	$ 0.18 per share
January 16, 2007	$ 0.18 per share

The merger agreement provides that Mid-State may continue to pay regular quarterly dividends provided that such dividends shall not exceed $0.18 per quarter. However, if the merger has not been consummated by April 30, 2007, Mid-State may pay dividends of an aggregate of $0.36

per share for the second quarter of 2007 and, if the merger has not been consummated by July 31, 2007, Mid-State may pay dividends of an aggregate of $0.36 per share for the third quarter of 2007.

THE SPECIAL MEETING

Proxy Statement

This proxy statement is being furnished to you in connection with the solicitation of proxies by Mid-State s board of directors in connection with its special meetings of shareholders.

This proxy statement is first being furnished to shareholders on or about March 26, 2007.

Date, Time and Place of the Special Meetings

The special meeting is scheduled to be held as follows:

Date:	April 25, 2007
Time:	7:30 p.m.
Place:	The Cliffs Resort 2757 Shell Beach Road Shell Beach, California

Purpose of the Special Meeting

At the Mid-State special meeting, Mid-State s shareholders will be asked to consider and vote upon a proposal to approve the principal terms of the merger agreement and the transactions contemplated thereby.

Proposals for Consideration

There are two scheduled proposals for the special meeting, which are as follows:

Proposal to Approve Merger Agreement. To approve the principal terms of the Agreement and Plan of Merger, dated as of November 1, 2006, pursuant to which Mid-State Bancshares will be acquired by VIB Corp, and the transactions contemplated thereby as described in the attached proxy statement.

Proposal to Approve an Adjournment. To approve, if necessary, an adjournment of the special meeting to solicit additional proxies in favor of the principal terms of the merger agreement and the transactions contemplated thereby.

We do not anticipate that there will be any other formal business conducted at the special meeting.

Record Date

Mid-State s board of directors has selected the close of business on March 8, 2007 as the record date for the determination of shareholders entitled to notice of, and to vote at, our special meeting. At that date, there were 22,293,915 outstanding shares of Mid-State common stock entitled to vote at Mid-State s special meeting.

Votes Required

The required quorum for the transaction of business at the Mid-State special meeting is a majority of the shares of Mid-State s common stock entitled to vote at the special meeting. The affirmative vote of holders of a majority of the shares of Mid-State common stock outstanding on the record date is required to adopt the merger agreement. Shares voted on a matter are treated as being present for purposes of establishing a quorum. Abstentions and broker non-votes (as described below) will be counted for determining a quorum, but will not be counted for purposes of determining the number of votes cast FOR or AGAINST any matter.

Proxies

All shares of Mid-State common stock represented by properly executed proxies received before or at the special meeting will, unless revoked, be voted in accordance with the instructions indicated on those proxies. If no instructions are indicated on a properly executed proxy card, the shares will be voted **FOR** approval of the merger. If you return a properly executed proxy card and have identified that you have abstained from voting, your Mid-State common stock represented by the proxy will be considered present

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at the special meeting for purposes of determining a quorum, but will be considered a vote against the merger. We urge you to mark the applicable box on the proxy card to indicate how to vote your shares.

If you hold your shares in your own name as a holder of record, you may instruct the proxies how to vote your common stock by using the toll free telephone number or the Internet voting site listed on the proxy card or by signing, dating, and mailing the proxy card in the postage paid envelope that we have provided to you. Of course, you can always come to the meeting and vote your shares in person. Specific instructions for using the telephone and Internet voting systems are on the proxy card.

If your shares are held in an account at a broker or a bank, you must instruct the broker or bank how to vote your shares. If an executed proxy returned by a broker or a bank holding shares indicates that the broker or bank does not have discretionary authority to vote on a particular matter, the shares will be considered present at the meeting for purposes of establishing a quorum, but will be considered a vote against the proposals. This is called a broker non-vote. Your broker or bank will vote your shares only if you provide instructions on how to vote by following the instructions provided to you by your broker or bank.

Because approval of the principal terms of the merger agreement and the transactions contemplated thereby by Mid-State requires the affirmative vote of a majority of the outstanding shares of Mid-State, abstentions, failures to vote and broker non-votes will have the same effect as a vote against the merger.

Mid-State does not expect that any matter other than the proposal to approve the principal terms of the merger agreement and the transactions contemplated thereby and the proposal to approve, if necessary, an adjournment of the special meeting to solicit additional proxies in favor of the principal terms of the merger agreement and the transactions contemplated thereby will be brought before its special meeting. If, however, other matters are properly presented, the persons named as proxies will vote in accordance with their judgment with respect to those matters, unless you withhold authority to do so on the proxy card or voting instruction card.

You may revoke a proxy at any time before it is voted by:

- filing with the secretary of Mid-State at 1026 East Grand Avenue, Arroyo Grande, CA 93420 an instrument revoking the proxy;

- returning a duly executed proxy bearing a later date; or

- attending the special meeting and voting in person, provided you notify the Secretary of Mid-State before voting begins that you are revoking your proxy and voting in person. Attendance at the special meeting will not by itself constitute revocation of a proxy.

Unless you decide to attend the meeting and vote your shares in person after you have submitted voting instructions to the proxies, we recommend that you revoke or amend your prior instructions in the same way you initially gave them that is, by telephone, Internet, or in writing. This will help to ensure that your shares are voted the way you have finally determined you wish them to be voted.

Solicitation of Proxies

In addition to soliciting proxies by mail, each of our officers, directors and employees, without receiving any additional compensation, may solicit proxies by telephone or fax, in person or by other means. Arrangements will also be made with brokerage firms and other custodians, nominees and fiduciaries to forward proxy solicitation materials to the beneficial owners of our common stock held of record by such persons, and such brokerage firms, custodians, nominees and fiduciaries will be reimbursed for reasonable out-of-pocket expenses incurred by them in connection therewith. Mid-State will pay all expenses related to printing and filing this proxy statement.

Do not send your Mid-State stock certificates in the envelope provided for returning your proxy card. The stock certificates should only be forwarded to the exchange agent with the letter of transmittal form which will be mailed to you separately.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

As of the record date, no person known to Mid-State owned more than five percent of the outstanding shares of its common stock.

The following table sets forth information as of the record date concerning the beneficial ownership of Mid-State s directors and executive officers and VIB Corp. Mid-State has only one class of shares outstanding, common stock. All information with respect to beneficial ownership is based on filings made by the respective beneficial owners with the SEC or information provided to Mid-State by such beneficial owners.

Name, Title and Address of Beneficial Owner(1)	Amount and Nature of Beneficial Ownership(2),(3)	Percent of Class(3)
George H. Andrews	83,566	*
Director		
Trudi G. Carey	49,140	*
Director		
Daryl L. Flood	194,939	*
Director		
H. Edward Heron	67,609	*
Director		
James W. Lokey	374,314	1.68%
President/CEO		
Stephen P. Maguire	347,243	1.56%
Director		
Michael Miner	22,593	*
Director		
Gregory R. Morris	40,000	*
Director		
Carrol R. Pruett	422,034	1.89%
Chairman of the Board		
Alan Rains	100,577	*
Director		
Harry H. Sackrider	108,086	*
Executive Vice President/CCO		
James G. Stathos	196,648	*
Executive Vice President/CFO		
Directors and Executive Officers as a group (12 persons)	2,006,749	9.00%
VIB Corp(4)	1,935,016	8.68%
* Indicates less than 1%		

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(1) The address for all persons listed is c/o Mid-State Bancshares, 1026 East Grand Avenue, Arroyo Grande, California 93420.

(2) Except as otherwise noted, includes shares held by each person s spouse and minor children; shares held by any other relative of such person who has the same home; shares held by a family trust as to which such person is a trustee with sole voting and investment power (or shares power with a spouse); or shares held in an individual retirement account as to which such person has pass-through voting rights and investment power.

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(3) Includes shares of common stock with respect to which such beneficial owner has the right to acquire beneficial ownership as specified in Rule 13d-(3)(1) and assumes vesting of all outstanding options held by the listed individuals.

(4) VIB Corp may be deemed to have beneficial ownership of the Mid-State common stock held by the signatories to certain voting and support agreements it entered into with each of Carrol R. Pruett, James W. Lokey, Daryl L. Flood, Gregory R. Morris, H. Edward Heron, Stephen P. Maguire, Alan Rains, George H. Andrews, James G. Stathos and Harry Sackrider. As indicated in its Schedule 13D filed with the SEC on November 9, 2006, however, no shares of Mid-State s common stock were purchased by VIB Corp pursuant to the Voting Agreements and VIB Corp disclaims beneficial ownership of all such shares. See The Merger Interests of Certain Persons in the Merger Voting Agreements beginning on page 25.

THE MERGER

Background of the Merger

From time to time, our board of directors has considered the business environment facing financial institutions generally and Mid-State in particular, as well as conditions and ongoing consolidation in the financial services industry. In connection therewith, our board of directors has discussed various strategic alternatives to enhance and to maximize shareholder value. These strategic alternatives have included continuing as an independent institution, establishing or acquiring additional branch offices and other financial institutions or complementary businesses, repurchasing our common stock, and business combinations with a similarly-sized or larger institution. Mid-State s board of directors has also recognized that, at some point, the sale of Mid-State Bancshares might be in the best interests of our shareholders. These evaluations were based on reviews of current and projected market conditions, reported business combination transactions and results of operations of Mid-State. Such reviews included the assistance of financial advisors from time to time.

In January, at the request of Rabobank, Mid-State s Chairman of the Board and CEO met with Rabobank representatives to discuss Rabobank s history and its plans to further expand in the California market. During the meeting Rabobank expressed a possible interest in exploring an acquisition of Mid-State. Mid-State conveyed to Rabobank that it was not actively pursuing a sale of the company and was, in fact, exploring its own acquisition opportunities.

Representatives of Sandler O Neill, Mid-State s financial advisor, met with Mid-State s Chairman and CEO in February, to discuss the company s performance and potential strategic initiatives. At that meeting, Rabobank s interest in Mid-State was discussed as well as Rabobank s recently completed acquisition in California and its continued interest in expanding in the state.

In March, Mid-State s board met for strategic planning purposes. Among other subjects, potential acquisition targets for Mid-State were discussed as well as 3 institutions identified by Sandler O Neill that might have an interest in acquiring Mid-State. The Chairman briefed the board on the challenges facing financial institutions generally, and Mid-State in particular, including the relative age of Mid-State s board and senior management and the succession planning issues presented, shrinking interest margins, slow deposit growth, increased competition from non-bank entities, increased regulatory and compliance costs, a potential slowdown in the economy, and increased interest rates, all of which have put pressure on pricing multiples for financial institutions, Mid-State included. The CEO briefed the board members on developments with Mid-State s acquisition targets, with the board then discussing the related challenges facing Mid-State s acquisition efforts including limited candidates in Mid-State s current markets, excessive and unreasonable pricing sought in the current acquisition market, and Mid-State s desire to avoid excessive dilution of earnings and shareholder s equity through payment of excessive prices. Additionally, the board discussed what Mid-State s reaction should be if an acquiror were to make an unsolicited offer for Mid-State. The board reiterated its position that Mid-State was not actively pursuing a sale of the company, but that, if an attractive offer was received, it would need to be considered.

In April, at the request of Rabobank, Mid-States Chairman and CEO and representatives of Sandler O Neill met with representatives of Rabobank and held further discussions regarding a possible acquisition by Rabobank. Mid-State again conveyed to Rabobank that it was not actively pursuing a sale of the company and was, in fact, exploring its own acquisition opportunities.

In May, a representative of Rabobank indicated to Mid-State s Chairman that Rabobank s board of directors had been consulted and had a high level of interest in pursuing an acquisition of Mid-State.

At the May 17, 2006 meeting of the Mid-State board of directors, the status of Mid-State acquisition prospects was again discussed. The board was also briefed on the meetings with the Rabobank representatives. The board also re-visited the subject of the possibility of an unsolicited offer from an acquiror, as well as Mid-State s competitive position, earnings estimates and stock values. Following these discussions, the Mid-State board authorized Mid-State management to expand preliminary discussions with Rabobank in order to gauge in greater detail the potential benefits of a possible business combination between the parties.

In June at Rabobank s request, Mid-State s Chairman and CEO met with Rabobank representatives in New York. Mid-State and Rabobank entered into a confidentiality agreement. Following that meeting, Rabobank proposed an all cash acquisition of Mid-State at $32.00 per share. The board of directors considered the proposal and instructed its financial advisor, Sandler O Neill to communicate to Rabobank that the proposal was inadequate.

On July 10, 2006, a special meeting of the board of directors of Mid-State was called to consider a revised cash proposal of $35.00 per share from Rabobank. The board reiterated that Mid-State continued not to be for sale but concluded a compelling proposal would be considered. On July 11, 2006, Mr. Pruett called representatives of Rabobank and indicated that a cash price of $35.00 was not compelling.

On July 13, 2006, Rabobank responded with a proposal of $36.00 per share in cash. The board of directors was polled by phone and unanimously agreed that it would not support a proposal at that price. On July 14th, Rabobank was told that $36.00 per share was not acceptable.

At the Mid-State board meeting on July 19, 2006, the status of a potential transaction with Rabobank was again discussed. Also discussed were the strategic challenges facing Mid-State, including shrinking margins, increased competition, slower deposit growth, enhanced regulatory burdens, an uncertain economy and its own uncertain expansion plans.

Discussions continued throughout July and concluded with Rabobank putting forth a proposal of $37.00 per share in cash which Mid-State s board of directors indicated that it was willing to support and recommend to shareholders. The board of directors invited Rabobank to proceed forward with due diligence and authorized the engagement of Mid-State s financial advisors. Sandler O Neill was formally engaged on July 24, 2006.

In early August, a special meeting of the board was held with the Company s financial advisor and counsel in attendance. At that meeting, Rabobank s most recent proposal was discussed in detail, including a presentation by Mid-State s financial advisor. After deliberation, the board agreed to proceed towards the negotiation of a definitive merger agreement. At that board meeting, Sandler O Neill discussed other potential acquirors of Mid-State and the likelihood that no other company could acquire Mid-State on more favorable terms. This discussion was based upon an assumed required internal rate of return for the other potential acquirers, publicly available information and other data. Mid-State elected to pursue further negotiations with Rabobank, and not to pursue an active auction or market-check process, in light of Sandler O Neill s discussion of other potential acquirors of Mid-State and the likelihood that no other company could acquire Mid-State on more favorable terms, the terms of Rabobank s proposal, Rabobank s apparent strong interest in a transaction, Mid-State s judgment as to the probable success of an auction or market-check process weighed against its significant risks (including confidentiality concerns, the impact of such a process on Mid-State s operations, resulting delay and the impact on Rabobank s willingness to continue pursuing its proposal) and Mid-State s expectation that it would be able to negotiate reasonable terms in a definitive agreement with Rabobank.

During September, the parties and their outside counsel began preliminary drafting of the merger agreement and related transaction documents. Mid-State s board were periodically updated by both the CEO and Chairman on the proposed merger agreement and possible resolutions of related issues.

In the course of mutual due diligence, Rabobank disclosed that Rabobank, N.A., its California headquartered banking subsidiary, had entered into a memorandum of understanding on July 25, 2006 with the Comptroller of the Currency, the federal banking agency regulating Rabobank, N.A., agreeing to take action to correct deficiencies in its Bank Secrecy Act compliance program and in certain other practices. As a result of such disclosure, Mid-State employed the law firm of Wachtell, Lipton, Rosen & Katz to assist in an evaluation of the impact of the deficiencies identified in the memorandum of understanding on Rabobank s ability to obtain required regulatory approvals on a timely basis.

On November 1, 2006, a special meeting of Mid-State s board of directors was held. All the directors were present except for one director who was traveling (who indicated to the board that he too was in favor). Mid-State s legal counsel, Reitner, Stuart & Moore, reviewed the legal aspects of the merger, the terms and provisions of the merger agreement and the directors duties and responsibilities in connection with the proposed transaction. Mid-State s special counsel, Wachtell, Lipton, Rosen & Katz, reviewed the regulatory issues surrounding Rabobank and discussed their possible impact on the merger and the merger agreement and the matters discussed by Reitner, Stuart & Moore. Sandler O Neill reviewed the financial aspects of the merger and delivered its opinion that the consideration to be received by the Mid-State shareholders in the merger was fair to those shareholders from a financial point of view.

Following these discussions, and review and discussion among the members of the Mid-State board of directors, including consideration of the factors described under Recommendation of, and Factors Considered by, Mid-State s Board of Directors the Mid-State board of directors determined that the merger, the merger agreement and the transactions contemplated by the merger agreement are advisable and in the best interests of Mid-State and its shareholders, and the directors present at the meeting voted unanimously to approve the merger with Rabobank and to approve and adopt the definitive merger agreement.

The merger agreement was executed on the evening of November 1, 2006, by the parties and the merger was publicly announced before the opening of the markets on November 2, 2006.

Recommendation of, and Factors Considered by, Mid-State s Board of Directors

Mid-State s board of directors believes that the terms of the merger are advisable and fair to, and are in the best interests of, Mid-State and its shareholders and recommends that the shareholders of Mid-State vote FOR the approval of the principal terms of the merger agreement and the transactions contemplated thereby.

At a meeting of Mid-State s board of directors on November 1, 2006, after due consideration, Mid-State s board:

- determined that the merger agreement and the merger are fair and in the best interests of Mid-State and its shareholders; and

- approved the merger agreement.

In reaching its conclusion to proceed with the merger, Mid-State s board of directors considered information and advice from several specialists, including investment bankers and legal counsel. All

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material facts considered by Mid-State s board of directors have been disclosed in this proxy statement. In approving the merger agreement, Mid-State s board of directors considered a number of factors, including the following:

- the $37.00 cash consideration provided for in the merger agreement represents fair consideration and offers a significant premium over the historical trading range of Mid-State;

- the terms of the merger agreement and other documents to be executed in connection with the merger, including the closing conditions and termination rights, are fair;

- the current and prospective economic environment, including declining net interest margins for many financial institutions, slower deposit growth, increased competition for loans, increasing regulatory and competitive burdens and constraints facing financial institutions generally, the uncertainty of Mid-State s own acquisition opportunities and the likely effect of these factors on Mid-State on both a stand-alone basis and in the context of the proposed merger;

- the consolidation occurring in the banking industry and the increased competition from other financial institutions in Mid-State s market areas;

- Mid-State s board s review, with its financial advisors, of alternatives to the merger, the range and possible value to Mid-State s shareholders obtainable though such alternatives and the timing and likelihood of such alternatives;

- Sandler O Neill s discussion of other potential acquirors of Mid-State and the likelihood that no other company could acquire Mid-State on more favorable terms;

- Mid-State s board s concern that, if Mid-State remained independent, the anticipated value of its common stock in the future, discounted to present value, would not equal or exceed the cash amount that its shareholders will receive upon completion of the merger; and

- the financial analysis and presentation of Mid-State s investment banking firm and its opinion that the merger consideration to be received is fair, from a financial point of view, to Mid-State s shareholders.

Mid-State s board of directors also identified and considered a number of risks and uncertainties in its deliberations concerning the merger, but concluded that the anticipated benefits of the merger outweighed these risks. The risks included:

- the possible disruption to Mid-State s business that may result from the announcement of the transaction and the resulting distraction of its management s attention from the day-to-day operations of Mid-State s business;

- the restrictions contained in the merger agreement on the operation of Mid-State s business during the period between the signing of the merger agreement and the completion of the merger;

- the regulatory issues facing Rabobank and their potential impact on the merger or its timing;

- the termination fee to be paid by Mid-State if the merger agreement is terminated under certain circumstances; and

- the possibility that the merger might not be completed and the effect of the resulting public announcement of the termination of the merger agreement on, among other things, Mid-State s operating results, particularly in light of the costs incurred in connection with the transaction.

Although each member of Mid-State s board of directors individually considered these and other factors, Mid-State s board of directors did not collectively assign any specific or relative weights to the factors considered and did not make any determination with respect to any individual factor. Mid-State s

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board collectively made its determination based on the conclusion reached by its members, in light of the facts that each of them considered appropriate, that the merger is in the best interests of Mid-State and its shareholders.

At the November 1, 2006 meeting, Mid-State s board of directors voted unanimously, with one director absent, to approve the merger agreement.

Mid-State s board of directors realized that there can be no assurance about future results, including results expected or considered in the factors listed above. However, Mid-State s board of directors concluded that the potential positive factors outweighed the potential risks of completing the merger.

For the reasons set forth above, Mid-State s board of directors determined that the merger, the merger agreement and the transactions contemplated by the merger agreement are advisable and in the best interests of Mid-State and its shareholders, and approved the merger agreement and the transactions contemplated thereby. Mid-State s board of directors recommends that Mid-State s shareholders vote FOR the approval of the principal terms of the merger agreement and the transactions contemplated thereby.

Fairness Opinion

By letter dated July 24, 2006, Mid-State retained Sandler O Neill to act as its financial advisor in connection with a possible business combination with a second party. Sandler O Neill is a nationally recognized investment banking firm whose principal business specialty is financial institutions. In the ordinary course of its investment banking business, Sandler O Neill is regularly engaged in the valuation of financial institutions and their securities in connection with mergers and acquisitions and other corporate transactions.

Sandler O Neill acted as financial advisor to Mid-State in connection with the proposed merger and participated in certain of the negotiations leading to the merger agreement. At the November 1, 2006 meeting at which Mid-State s board considered and approved the merger agreement, Sandler O Neill delivered to the board its oral opinion, subsequently confirmed in writing that, as of such date, the per share merger amount of $37.00 per share was fair to Mid-State s shareholders from a financial point of view. Sandler O Neill has confirmed its November 1, 2006 opinion by delivering to the board of Mid-State a written opinion dated as of the date of this proxy statement. In rendering its updated opinion, Sandler O Neill confirmed the appropriateness of its reliance on the analyses used to render its earlier opinion by reviewing the assumptions upon which its analyses were based, performing procedures to update certain of its analyses and reviewing the other factors considered in rendering its opinion. **The full text of Sandler O Neill s updated opinion is attached as Appendix B to this proxy statement. The opinion outlines the procedures followed, assumptions made, matters considered and qualifications and limitations on the review undertaken by Sandler O Neill in rendering its opinion. The description of the opinion set forth below is qualified in its entirety by reference to the opinion. Sandler O Neill urges Mid-State shareholders to read the entire opinion carefully in connection with their consideration of the proposed merger.**

Sandler O Neill s opinion speaks only as of the date of the opinion. The opinion was directed to the Mid-State board and is directed only to the fairness of the per share merger amount of $37.00 per share to Mid-State shareholders from a financial point of view. It does not address the underlying business decision of Mid-State to engage in the merger or any other aspect of the merger and is not a recommendation to any Mid-State shareholder as to how such shareholder should vote at the special meeting with respect to the merger or any other matter.

In connection with rendering its November 1, 2006 opinion, Sandler O Neill reviewed and considered, among other things:

(1) the merger agreement;

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(2) certain publicly available financial statements and other historical financial information of Mid-State that Sandler O Neill deemed relevant;

(3) certain publicly available financial statements and other historical financial information of VIB Corp, Rabobank, N.A. and Rabobank Nederland that Sandler O Neill deemed relevant in determining VIB Corp s financial capacity to undertake the merger;

(4) internal financial projections for Mid-State as provided by, and reviewed with, senior management of Mid-State;

(5) to the extent publicly available, the financial terms of certain recent business combinations in the commercial banking industry;

(6) the current market environment generally and the banking environment in particular; and

(7) such other information, financial studies, analyses and investigations and financial, economic and market criteria as Sandler O Neill considered relevant.

Sandler O Neill also discussed with certain members of senior management of Mid-State the business, financial condition, results of operations and prospects of Mid-State.

In performing its reviews and analyses, Sandler O Neill relied upon the accuracy and completeness of all of the financial and other information that was available to it from public sources, that was provided by Mid-State and VIB Corp or their respective representatives, or that was otherwise reviewed by Sandler O Neill and have assumed such accuracy and completeness for purposes of rendering the opinion. Sandler O Neill further relied on the assurances of management of Mid-State and VIB Corp that they were not aware of any facts or circumstances that would make any of the information provided by Mid-State and VIB Corp, respectively, inaccurate or misleading. Sandler O Neill has not been asked to undertake, and has not undertaken, an independent verification of any of such information and Sandler O Neill does not assume any responsibility or liability for the accuracy or completeness thereof. Sandler O Neill did not make an independent evaluation or appraisal of the specific assets, the collateral securing assets or the liabilities (contingent or otherwise) of Mid-State or VIB Corp or any of their subsidiaries, or the collectibility of any such assets, nor has Sandler O Neill been furnished with any such evaluations or appraisals. Sandler O Neill did not make an independent evaluation of the adequacy of the allowance for loan losses of Mid-State or VIB Corp nor has Sandler O Neill reviewed any individual credit files relating to Mid-State or VIB Corp. Sandler O Neill assumed, with Mid-State s consent, that the respective allowances for loan losses for both Mid-State and VIB Corp are adequate to cover such losses.

Sandler O Neill s opinion was necessarily based upon market, economic and other conditions as they existed on, and could be evaluated as of, the date of its opinion. Sandler O Neill assumed, in all respects material to its analysis, that all of the representations and warranties contained in the merger agreement and all related agreements are true and correct, that each party to such agreements will perform all of the covenants required to be performed by such party under such agreements and that the conditions precedent in the merger agreement are not waived. Sandler O Neill also assumed, with Mid-State s consent, that there has been no material change in Mid-State s, VIB Corp s, Rabobank, N.A. s and Rabobank Nederland s assets, financial condition, results of operations, business or prospects since the date of the last financial statements made available to them and that Mid-State and VIB Corp will remain as going concerns for all periods relevant to its analyses. Finally, with Mid-State s consent, Sandler O Neill relied upon the advice received from its legal, accounting and tax advisors as to all legal, accounting and tax matters relating to the merger agreement and the other transactions contemplated by the merger agreement.

In rendering its November 1, 2006 opinion, Sandler O Neill performed a variety of financial analyses. The following is a summary of the material analyses performed by Sandler O Neill, but is not a complete description of all the analyses underlying Sandler O Neill s opinion. The summary includes information presented in tabular format. **In order to fully understand the financial analyses, these tables must be read together with the accompanying text. The tables alone do not constitute a complete description of the financial analyses.** The preparation of a fairness opinion is a complex process involving subjective judgments as to the most appropriate and relevant methods of financial analysis and the application of those methods to the particular circumstances. The process, therefore, is not necessarily susceptible to a partial analysis or summary description. Sandler O Neill believes that its analyses must be considered as a whole and that selecting portions of the factors and analyses considered without considering all factors and analyses, or attempting to ascribe relative weights to some or all such factors and analyses, could create an incomplete view of the evaluation process underlying its opinion. Also, no company included in Sandler O Neill s comparative analyses described below is identical to Mid-State and no transaction is identical to the merger. Accordingly, an analysis of comparable companies or transactions involves complex considerations and judgments concerning differences in financial and operating characteristics of the companies and other factors that could affect the public trading values or merger transaction values, as the case may be, of Mid-State or VIB Corp and the companies to which they are being compared.

The internal projections used and relied upon by Sandler O Neill in its analyses for Mid-State were reviewed with the senior management of Mid-State who confirmed to Sandler O Neill that those projections reflected the best currently available estimates and judgments of such managements of the future financial performance of Mid-State. With respect to the projections used in its analyses, Sandler O Neill assumed that financial performance reflected in those projections would be achieved. Sandler O Neill expressed no opinion as to such projections or the assumptions on which they were based. These projections, as well as the other estimates used by Sandler O Neill in its analyses, were based on numerous variables and assumptions which are inherently uncertain and, accordingly, actual results could vary materially from those set forth in such projections. Further, these projections that Mid-State provided to Sandler were an internal financial model including earnings per share projections, based on various assumptions, for each of the fiscal years from 2006 through 2011. The model included earnings per share estimates for 2006, 2007, 2008, 2009, 2010, and 2011 of $1.57, $1.71, $1.89, $2.04, $2.20, and $2.36, respectively. The internal financial model was prepared solely for Mid-State management s internal planning purposes and not with a view toward public disclosure. The projections included in the model, and the assumptions underlying the model and the projections, are inherently subject to change as a result of various factors, many of which are beyond the control of Mid-State and Sandler O Neill and which may have changed since the original preparation of these projections, and will likely become more susceptible to change as more time passes from the date the projections were originally prepared. These projections did not, and do not, take into account any changes in the results of operations, business model, management team, business or capital structure of Mid-State, or general business conditions affecting the industry as a whole, which may have occurred following the date on which the projections were prepared, or which may result from the merger. Mid-State shareholders and investors are urged not to rely on these estimates to predict the future results of Mid-State. Please see Part 1 and Item 1A of Mid-State s Annual Report on Form 10-K for the year ended December 31, 2006, filed on March 16, 2007, and incorporated herein by reference for important cautionary language regarding the reliance on projections and estimates, and for factors which may cause actual results to differ from such estimates.

In performing its analyses, Sandler O Neill also made numerous assumptions with respect to industry performance, business and economic conditions and various other matters, many of which cannot be predicted and are beyond the control of Mid-State, VIB Corp, Rabobank, N.A., Rabobank Nederland and Sandler O Neill. The analyses performed by Sandler O Neill are not necessarily indicative of actual values or future results, which may be significantly more or less favorable than suggested by such analyses. Sandler O Neill prepared its analyses solely for purposes of rendering its opinion and provided such analyses to the Mid-State board at the board s November 1, 2006 meeting. Estimates on the values of companies do not purport to be appraisals or necessarily reflect the prices at which companies or their securities may actually be sold. Such estimates are inherently subject to uncertainty and actual values may be materially different. Accordingly, Sandler O Neill s analyses do not necessarily reflect the value of Mid-State s common stock or the price at which Mid-State s common stock may be sold at any time.

Summary of the Merger. Sandler O Neill reviewed the financial terms of the merger agreement. Using the $37.00 cash price for each share of Mid-State common stock and based upon per-share financial information for Mid-State for the twelve months ended September 30, 2006, Sandler O Neill calculated the following ratios:

Transaction Ratios

Transaction value / Last 12 months Earnings Per Share	23.4 x
Transaction value / Projected 2006 Earnings Per Share	23.6 x
Transaction value / Projected 2007 Earnings Per Share	21.6 x
Transaction value / Book Value Per Share	297 %
Transaction value / Tangible Book Value Per Share	369 %
Tangible book premium / Core Deposits(1)	35.6 %
One-Day Market Premium(2)	23.4 %

(1) Assumes core deposits of $1,766.4 million

(2) Based on Mid-State Bancshares closing stock price of $29.99 on October 31, 2006

For purposes of Sandler O Neill s analyses, earnings per share were based on fully diluted earnings per share. The aggregate transaction value was approximately $849.8 million, based upon 22,050,353 shares of Mid-State common stock outstanding, 28,170 shares of restricted stock and including the intrinsic value of options to purchase 1,930,404 shares of Mid-State common stock at a weighted average strike price of $19.98.

Comparable Company Analysis. Sandler O Neill used publicly available information to compare selected financial and market trading information for Mid-State with the following group of commercial banks located in California (the Composite Peer Group) selected by Sandler O Neill:

Capital Corp of the West
Farmers & Merchants Bancorp.
First Community Bancorp
First Regional Bancorp
Heritage Commerce Corp
Pacific Mercantile Bancorp
Placer Sierra Bancshares
Sierra Bancorp
Temecula Valley Bancorp Inc.
TriCo Bancshares
Vineyard National Bancorp
Westamerica Bancorporation

The analysis compared publicly available financial and market trading information for Mid-State and the peer group as of and for the twelve-month period ended September 30, 2006, if available, otherwise as of or for the twelve-month period ending June 30, 2006 with pricing data as of October 31, 2006. The data is summarized in the table below.

Comparable Group Analysis

	Mid-State Bancshares	Peer Group Median
Total Assets *(in millions)*	$ 2,367	$ 1,909
Tangible Equity / Tangible Assets	9.55 %	7.25 %
LTM Return on Average Assets	1.52 %	1.51 %
LTM Return on Average Equity	13.1 %	16.8 %
Price / Tangible book value	299 %	289 %
Price / LTM Earnings per Share	19.0 x	16.2 x
Price / Estimated 2006 Earnings per Share	19.2 x	16.0 x
Price / Estimated 2007 Earnings per Share	18.9 x	14.3 x
Market Capitalization *(in millions)*	$ 661	$ 358

Stock Trading History. Sandler O Neill reviewed the history of the reported trading prices and volume of Mid-State s common stock for the three-year period ended October 31, 2006. Sandler O Neill compared the relationship between the movements in the prices of Mid-State s common stock to movements in the prices of the NASDAQ Bank Index, the S&P 500 Index, the S&P Bank Index and the weighted average (by market capitalization) performance of the Composite Peer Group.

In the three-year period ended October 31, 2006, Mid-State generally traded in-line with the NASDAQ Bank Index, and the S&P Bank Index and underperformed the Composite Peer Group and the S&P 500.

Mid-State Bancshares Three-Year Stock Performance

	Beginning Index Value October 30, 2003	Ending Index Value October 31, 2006
Mid-State Bancshares	100.00 %	122.06 %
Composite Peer Group	100.00	143.83
S&P 500 Index	100.00	131.62
S&P Bank Index	100.00	125.52
NASDAQ Bank Index	100.00	119.40

Analysis of Selected Merger Transactions. Sandler O Neill reviewed the 43 merger transactions announced in the United States (the Nationwide Group) from January 1, 2004 through October 31, 2006 involving commercial banks as acquired companies with announced transaction values between $200 million and $2 billion. Sandler O Neill also separately reviewed the 8 merger transactions announced from January 1, 2004 through October 31, 2006 involving commercial banks as targets in the West (the Western Group) with announced transaction values between $200 million and $2 billion. Sandler O Neill reviewed the following multiples: transaction price at announcement to last twelve months earnings per share, transaction price to estimated earnings per share, transaction price to book value per share, transaction price to tangible book value per share, tangible book value premium to core deposits, and premium to current market price. Sandler O Neill computed a high, low, mean, and median multiple for the transactions. The median multiples from the Nationwide Group and the median multiples for the Western Group were applied to Mid-State s financial information as of and for the twelve months ended

September 30, 2006. As illustrated in the following table, Sandler O Neill derived imputed ranges of values per share for Mid-State s common stock of $30.96 to $36.85 based upon the median multiples for the commercial banks in the Nationwide Group and $26.61 to $36.09 based upon the median multiples for transactions in the Western Group.

Comparable Transaction Multiples

	Median Nationwide Group Multiple		**Implied Value**	**Median Western Group Multiple**		**Implied Value**
Transaction price/Last 12 months Earnings per Share	22.26	x	$ 35.10	19.63	x	$ 30.95
Transaction price/Est. 2006 Earnings per Share(1)	19.89	x	$ 31.03	17.06	x	$ 26.61
Transaction price/Book value	262.44	%	$ 32.68	260.36	%	$ 32.42
Transaction price/Tangible book value	331.73	%	$ 33.24	335.08	%	$ 33.57
Tangible book premium/Core deposits(2)	27.34	%	$ 30.96	31.17	%	$ 33.78
1-Day Market Premium(3)	22.88	%	$ 36.85	20.35	%	$ 36.09

(1) Assumes First Call median analysts EPS estimate of $1.56.

(2) Assumes Mid-State Bancshares total core deposits are $1,766 million as of September 30, 2006.

(3) Based on the closing price of Mid-State Bancshares s common stock of $29.99 on October 31, 2006.

Present Value Analysis. Sandler O Neill performed an analysis that estimated the net present value per share through December 31, 2011 of Mid-State common stock under various circumstances and assuming Mid-State performs in accordance with management s financial projections for 2006. For years 2006 through 2011, Sandler O Neill, in accordance with Mid-State management s guidance, assumed that Mid-State would meet their internal earnings per share estimates in each of those years, which represent earnings per share growth rates between 7-11% for those years. To approximate the terminal value of Mid-State s common stock at December 31, 2011, Sandler O Neill applied price/earnings multiples ranging from 12.0x to 22.0x and multiples of tangible book value ranging from 150% to 400%. The terminal values were then discounted to present values using different discount rates ranging from 10.0% to 16.0% chosen to reflect different assumptions regarding required rates of return of holders or prospective buyers of Mid-State common stock. As illustrated in the following tables, this analysis indicated an imputed range of values per share for Mid-State common stock of $16.68 to $35.68 when applying the price/earnings multiples and $13.47 to $37.15 when applying multiples of tangible book value.

Present Value Per Share Based on Price/Earnings; Net Present Value for Period Ending Dec. 31, 2011

Discount Rate	**12.0x**	**14.0x**	**16.0x**	**18.0x**	**20.0x**	**22.0x**
10.0%	$ 21.40	24.25	27.11	29.97	32.82	35.68
11.0	20.50	23.23	25.95	28.67	31.40	34.12
12.0	19.65	22.25	24.85	27.45	30.05	32.65
13.0	18.85	21.33	23.81	26.29	28.77	31.25
14.0	18.09	20.46	22.83	25.19	27.56	29.93
15.0	17.37	19 operating activities:				

Non-cash charges:		
Depreciation and amortization	1,383,000	1,309,000
Amortization of other	702,000	800,000

intangible assets		
Amortization of debt issue costs	95,000	64,000
Amortization of consideration payable to customer	122,000	—
Provision for doubtful accounts	121,000	66,000
Stock-based compensation	196,000	80,000
Restricted stock-based compensation	45,000	38,000
(Gain) loss on sale of fixed assets	(1,000)	21,000
Deferred income taxes	253,000	912,000
Fair value increase in contingent consideration	150,000	158,000
Changes in operating assets and liabilities:		
Accounts receivable	482,000	(1,384,000)
Inventories	(901,000)	1,913,000
Prepaid expenses and other current assets	83,000	1,857,000
Other assets	(988,000)	45,000
Accounts payable	317,000	40,000
Accrued compensation and benefits	395,000	120,000
Accrued other liabilities	(324,000)	(502,000)
Other liabilities	(20,000)	(19,000)
Total adjustments	2,110,000	5,518,000
	2,966,000	4,634,000

Net cash provided by operating activities

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

P&F INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years ended December 31,	
	2018	2017
Cash Flows from Investing Activities:		
Capital expenditures	$(1,878,000)	$(910,000)
Proceeds from disposal of assets	26,000	12,000
Purchase of net assets of Jiffy Air Tool, Inc.	—	(6,845,000)
Purchase of patents	—	(200,000)
Net cash used in investing activities	(1,852,000)	(7,943,000)
Cash Flows from Financing Activities:		
Dividend payments	(723,000)	(722,000)
Proceeds from exercise of stock options	806,000	62,000
Purchase of Class A Common Stock	(1,516,000)	(358,000)
Net proceeds from short-term borrowings	168,000	1,928,000
Repayments of notes payable	(47,000)	(14,000)
Payments of debt issue costs	(3,000)	(84,000)
Net cash (used in) provided by financing activities	(1,315,000)	812,000
Effect of exchange rate changes on cash	(41,000)	39,000
Net decrease in cash	(242,000)	(2,458,000)
Cash at beginning of year	1,241,000	3,699,000
Cash at end of year	$999,000	$1,241,000
Supplemental disclosures of cash flow information:		
Cash paid for:		
Interest	$130,000	$97,000
Income taxes	$86,000	$409,000
Supplemental disclosures of non-cash investing and financing activities:		
Contingent consideration on acquisition	$—	$692,000
Capital expenditures financed	$400,000	$—

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

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P&F INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE 1—SUMMARY OF ACCOUNTING POLICIES

Principles of Consolidation

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

The Company

P&F is a Delaware corporation incorporated on April 19, 1963. The Company conducts its 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. Effective April 5, 2017, the Company purchased substantially all of the operating assets, less certain payables of Jiffy Air Tool, Inc., through a wholly-owned subsidiary of Florida Pneumatic. See Note 2 to our consolidated financial statements for further discussion. Lastly, the business of Air Tool Service Company ("ATSCO") operates through a wholly-owned subsidiary of Hy-Tech.

Florida Pneumatic imports and sells pneumatic hand tools, most of which are of its own design, primarily to the retail, industrial, automotive and aerospace markets. It 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 designs, manufactures and distributes industrial pneumatic tools, industrial gears, hydrostatic test plugs and a wide variety of parts under the brands ATP, ATSCO, OZAT, Numatx, Thaxton and Quality Gear.

Industries served include power generation, petrochemical, construction, railroad, mining, ship building and fabricated metals. Hy-Tech also manufactures components, assemblies, finished product and systems for various Original Equipment Manufacturers ("OEM") under their own brand names.

Basis of Financial Statement Presentation

The Company prepares its consolidated financial statements in accordance with accounting principles generally accepted in the United States ("US GAAP").

P&F INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE 1—SUMMARY OF ACCOUNTING POLICIES -Continued

Revenue Recognition

The Company’s significant accounting policy relating to revenue recognition reflects the impact of the adoption of ASC 606, defined below, effective January 1, 2018. The Company records revenue based on a five-step model in accordance with Accounting Standards Codification ("ASC") 606, *Revenue from Contracts with Customers* ("ASC 606"). The Company sells its goods on terms which transfer title and risk of loss at a specified location, which may be our warehouse, destination designated by our customer, 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. The Company offers rebates and other sales incentives, promotional allowances or discounts for certain customers, typically related to customer purchase volume, and are classified as a reduction of revenue and recorded at the time of sale, using the most likely amount approach. The Company periodically evaluates whether an allowance for sales returns is necessary. Historically, we have experienced minimal sales returns. If the Company believes there are material potential sales returns, it would provide the necessary provision against sales.

The Company's performance obligations underlying its core revenue sources remain substantially unchanged. Its revenue is generated through the sale of finished products, and is generally recognized at the point in time when merchandise is transferred to the customer with a fixed payment due generally within 30 to 90 days, and in an amount that considers the impacts of estimated allowances. Further, the Company has made a policy election to account for shipping and handling activities that occur after the customer has obtained control of the products as fulfillment costs rather than as an additional promised service. This election is consistent with the Company’s prior policy, and therefore the adoption of ASC 606 relating to shipping and handling activities did not have any impact on its financial results. Additionally, as the result of the adoption of ASC 606, the Company accounts for certain expenses that in prior periods were accounted for as a selling expense, which are now treated as an adjustment to gross revenue. Accordingly, during the full year 2018, the Company reduced its net revenue, gross margin and selling expenses by approximately $1,007,000. Additionally, at December 31, 2018, the Company included in its allowance for doubtful accounts approximately $105,000 that would have been accounted for in its current liabilities prior to the adoption of ASC 606. There are no remaining performance obligations as of December 31, 2018.

The Company analyzes its revenue as follows:

Revenue generated at Florida Pneumatic.

	Year Ended December 31,					
	2018		2017		Increase (decrease)	
	Revenue	Percent of revenue	Revenue	Percent of revenue	$	%
Retail customers	$18,234,000	35.9 %	$19,894,000	42.8 %	$(1,660,000)	(8.3)%
Automotive	14,430,000	28.5	13,901,000	29.9	529,000	3.8
Industrial/catalog	6,784,000	13.4	5,303,000	11.4	1,481,000	27.9
Aerospace	10,611,000	20.9	6,506,000	14.0	4,105,000	63.1
Other	661,000	1.3	867,000	1.9	(206,000)	(23.8)
Total	$50,720,000	100.0 %	$46,471,000	100.0 %	$4,249,000	9.1 %

Revenue generated at Hy-Tech.

	Year Ended December 31,					
	2018		2017		Increase (decrease)	
	Revenue	Percent of revenue	Revenue	Percent of revenue	$	%
ATP	$12,958,000	90.8 %	$11,116,000	88.9 %	$1,842,000	16.6 %
Other	1,317,000	9.2	1,387,000	11.1	(70,000)	(5.0)
Total	$14,275,000	100.0 %	$12,503,000	100.0 %	$1,772,000	14.2 %

P&F INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

December 31, 2018 and 2017

NOTE 1 – SUMMARY OF ACCOUNTING POLICIES – (Continued)

Shipping and Handling Costs

Expenses for shipping and handling costs are included in selling, general and administrative expenses, and totaled approximately $2,370,000 and $2,017,000, respectively, for the years ended December 31, 2018 and 2017.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash held in bank demand deposits. The Company considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents. There were no cash equivalents at December 31, 2018 and 2017.

Financial Instruments

The carrying amounts reported in the consolidated balance sheets for cash, accounts receivable, accounts payable and short-term debt approximate fair value as of December 31, 2018 and 2017 because of the relatively short-term maturity of these financial instruments. The carrying amounts reported for long-term debt approximate fair value as of December 31, 2018 and 2017 because, in general, the interest rates underlying the instruments fluctuate with market rates.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are customer obligations due under normal trade terms. The Company sells its products to retailers, distributors and original equipment manufacturers involved in a variety of industries. The Company performs continuing credit evaluations of its customers' financial condition, and although the Company generally does 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.

The Company records an allowance for doubtful accounts based on specifically identified amounts that are believed to be uncollectible. The Company also records as an additional allowance a certain percentage of aged accounts receivable, based on historical experience and the Company's assessment of the general financial conditions affecting its customer base. If actual collection experience changes, revisions to the allowance may be required. The Company has a limited number of customers with individually large amounts due at any given balance sheet date. Any unanticipated change in the creditworthiness of any of these customers could have a material effect on the Company's results of operations in the period in which such changes or events occur. After all reasonable attempts to collect an account receivable have failed, the amount of the receivable is written off against the allowance. Based on the information available, the Company believes that its allowance for doubtful accounts as of December 31, 2018 is adequate. However, actual write-offs might exceed the recorded allowance.

P&F INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE 1—SUMMARY OF ACCOUNTING POLICIES - Continued

Concentrations of Credit Risk

The Company places the majority of its cash with its primary bank, Capital One Bank, National Association ("Capital One"), which is insured by the Federal Deposit Insurance Corporation ("FDIC"). Significant concentrations of credit risk may arise from the Company's cash maintained at Capital One, as from time to time cash balances may exceed the FDIC limits.

Financial instruments that potentially subject the Company to concentration of credit risk consist principally of accounts receivable. The Company had one customer that accounted for 32.6% and 31.0% of our consolidated accounts receivable at December 31, 2018 and December 31, 2017, respectively. This customer accounted for 26.5% and 27.1% of the Company's consolidated revenue in 2018 and 2017, respectively. There was no other customer that accounted for more than 10% of our consolidated revenue in 2018 or 2017.

Inventories

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

Property and Equipment and Depreciation and Amortization

Property and equipment are stated at cost less accumulated depreciation and amortization. Generally, the Company capitalizes items in excess of $1,000. Minor replacements and maintenance and repair items are charged to expense as incurred. Upon disposal or retirement of assets, the cost and related accumulated depreciation are removed from the Company’s consolidated balance sheets.

Depreciation of buildings and machinery and equipment is computed by using the straight-line method over the estimated useful lives of the assets. Buildings are depreciated over periods ranging from 27.5 to 31 years, and machinery and equipment is depreciated over periods ranging from 3 to 10 years. Leasehold improvements are amortized over the life of the lease or the useful life of the related asset, whichever is shorter.

Long-Lived Assets

In accordance with authoritative guidance pertaining to the accounting for the impairment or disposal of long-lived assets, property and equipment and purchased intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Company’s assessment of recoverability of property and equipment is performed on an entity level. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of such asset to its estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of such asset exceeds its estimated undiscounted future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset.

Acquisitions

The Company accounts for acquired businesses using the purchase method of accounting, which requires that the assets acquired, liabilities assumed, and contingent consideration, if any, are recorded as of the date of the acquisition at their respective fair values. It further requires that acquisition-related costs be recognized separately from the acquisition and expensed as incurred and that restructuring costs be expensed in periods subsequent to the acquisition date. Generally, the Company engages third party valuation appraisal firms to assist it in determining the fair values and useful lives of the assets acquired and liabilities assumed. The Company records a preliminary purchase price allocation for its acquisitions and finalizes purchase price allocations as additional information relative to the fair values of the assets acquired become known.

P&F INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE 1—SUMMARY OF ACCOUNTING POLICIES - Continued

Goodwill, Intangible and Long-Lived Assets

Goodwill is carried at cost less any impairment charges. Goodwill and intangible assets with indefinite lives are not amortized but are subject to an annual test for impairment at the entity unit level (operating segment or one level below an operating segment) and between annual tests in certain circumstances. In accordance with authoritative guidance issued by the Financial Accounting Standards Board, ("FASB"), the Company tests goodwill for impairment on an annual basis. This test occurs in the fourth quarter or more frequently if the Company believes indicators of impairment exist. An entity has 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 the carrying amount of the reporting unit is less than its fair value, no impairment exists and no further action is required. If the carrying amount of a reporting unit exceeds its fair value, the entity will record an impairment charge based on the excess of a reporting unit's carrying amount over its fair value.

Intangible assets other than goodwill and intangible assets with indefinite lives, are carried at cost less accumulated amortization. Intangible assets are generally amortized on a straight-line basis over their respective useful lives, generally 3 to 20 years.

Long-lived assets and certain identifiable intangible assets to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Determination of recoverability is based on an estimate of undiscounted future cash flows resulting from the use of the asset and its eventual disposition. Measurement of any impairment loss for long-lived assets and certain identifiable intangible assets that management expects to hold and use is based on the amount by which the carrying value exceeds the fair value of the asset.

Warranty Liability

The Company offers certain warranties against product defects for periods ranging from one to three years. Certain products carry limited lifetime warranties. The Company's typical warranties require it to repair or replace the defective products during the warranty period at no cost to the customer. At the time the product revenue is recognized, the Company records a liability for estimated costs. The costs are estimated based on revenue and historical experience. The Company periodically assesses the adequacy of its warranty liability and adjusts the amounts as necessary. While the Company believes that its estimated liability for product warranties is adequate and that the judgment applied is appropriate, the estimated liability for the product warranties could differ materially in the future.

Income Taxes

The Company accounts 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, the Company evaluates 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.

The Company files a consolidated Federal tax return. P&F and certain of its subsidiaries file combined tax returns in New York, California 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 to the taxing authorities in the United Kingdom.

P&F INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE 1—SUMMARY OF ACCOUNTING POLICIES - Continued

Income Taxes - Continued

Tax benefits are recognized for an uncertain tax position when, in the Company's judgment, it is more likely than not that the position will be sustained upon examination by a taxing authority. For a tax position that meets the more likely-than-not recognition threshold, the tax benefit is measured as the largest amount that is judged to have a greater than 50% likelihood of being realized upon ultimate settlement with a taxing authority. The liability associated with unrecognized tax benefits is adjusted periodically due to changing circumstances and when new information becomes available. Such adjustments are recognized entirely in the period in which they are identified. The effective tax rate includes the net impact of changes in the liability for unrecognized tax benefits and subsequent adjustments as considered appropriate by the Company. Interest and penalties recognized on the liability for unrecognized tax benefits are recorded as income tax expense.

The authoritative guidance for income taxes requires a reduction of the carrying amounts of deferred tax assets by recording a valuation allowance if, based on the available evidence, it is more likely than not (defined as a likelihood of more than 50%) such assets will not be realized. The valuation of deferred tax assets requires judgment in assessing the likely future tax consequences of events that have been recognized in the Company's financial statements or tax returns and future profitability. The Company's accounting for deferred tax consequences represents its best estimate of those future events. Changes in the Company's estimates, due to unanticipated events or otherwise, could have a material effect on its financial condition and results of operations. The Company continually evaluates its deferred tax assets to determine if a valuation allowance is required.

Current accounting guidance requires entities to account for the effects of new income tax legislation in the same reporting period that the tax legislation is enacted. Staff Accounting Bulletin No. 118, Income Tax Accounting Implications of the Tax Cuts and Jobs Act, permits the Company to calculate and recognize provisional tax estimates for the fourth quarter of fiscal 2017 for the accounting related to the enactment of the U.S. Tax Cuts and Jobs Act of 2017 (the "Act"). As a result, we have recognized the provisional tax impacts related to deemed repatriated earnings and the revaluation of deferred tax assets and liabilities in our consolidated financial statements for the year ended December 31, 2017. During 2018, we finalized our computation of the impact of the Act. Additional information is contained in Note 10, Income Taxes, to the consolidated financial statements.

In January 2018, the FASB released guidance on the accounting for tax on the global intangible low-taxed income ("GILTI") provisions of the Act. The GILTI provisions impose a tax on foreign income in excess of a deemed return on tangible assets of foreign corporations. The guidance allows companies to make an accounting policy election to either (i) account for GILTI as a component of tax expense in the period in which they are subject to the rules (the period cost method), or (ii) account for GILTI in the Company's measurement of deferred taxes (the deferred method). After completing the analysis of the GILTI provisions, the Company elected to account for GILTI using the period cost method.

Use of Estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, possible disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. On an on-going basis P&F evaluates its estimates, including those related to collectability of accounts receivable, valuation of inventories, recoverability of goodwill and intangible assets, consideration payable to customer and income taxes. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not apparent from other sources. Actual results may differ from those estimates under different assumptions or conditions.

Advertising

The Company expenses its costs of advertising in the period in which they are incurred. Advertising costs for the years ended December 31, 2018 and 2017 were $1,375,000 and $1,276,000, respectively.

P&F INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE 1—SUMMARY OF ACCOUNTING POLICIES - Continued

Earnings Per Common Share

Basic earnings per common share exclude any dilution. It is based upon the weighted average number of shares of Common Stock outstanding during the year. Diluted earnings per common share reflect the effect of shares of Common Stock issuable upon the exercise of stock options, unless the effect on earnings is anti-dilutive.

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. The average market value for the period is used as the assumed purchase price.

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

	Years Ended December 31,	
	2018	2017
Numerator for basic and diluted earnings (loss) per common share:		
Net income (loss)	$ 856,000	$ (884,000)
Denominator:		
Denominator for basic income (loss) per share—weighted average common shares outstanding	3,628,000	3,606,000
Denominator for diluted income (loss) per share—adjusted weighted average common shares and assumed conversions	3,728,000	3,606,000

The average anti-dilutive options outstanding for the year ended December 31, 2018 was 12,000. For the year ended December 31, 2017, the Company experienced a net loss; as a result, there is no calculation of diluted earnings per share.

Share-Based Compensation

In accordance with US GAAP, the Company measures and recognizes compensation expense for all share-based payment awards based on estimated fair values. Share-based compensation expense is included in selling, general and administrative expense on the accompanying consolidated statements of operations and comprehensive income (loss).

With respect to stock options, US GAAP requires companies to estimate the fair value of share-based payment awards on the date of grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service periods in the Company's consolidated statements of operations and comprehensive income (loss). The Company records compensation expense ratably over the vesting periods. The Company estimates forfeitures at the time of grant and revises this estimate, if necessary, in subsequent periods if actual forfeitures differ from those estimates. The Company uses the Black-Scholes option-pricing model as its method of valuation for share-based awards granted. As such, the Company's determination of fair value of share-based payment awards is affected by the Company's stock price as well as assumptions regarding a number of complex and subjective variables. These variables include, but are not limited to the Company's expected stock price volatility over the term of the awards, relevant interest rates, and the expected term of the awards.

With respect to any issuance of its Common Stock, the Company determines fair value per share as the closing price of its Common Stock on the date of the grant of said shares.

P&F INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE 1—SUMMARY OF ACCOUNTING POLICIES - Continued

Foreign Currency Translation

The assets and liabilities of international operations are translated at the exchange rates in effect at the balance sheet date. Revenue and expense accounts are translated at the monthly average exchange rates. Adjustments arising from the translation of the foreign currency financial statements of the Company's international operations are reported as a component of "Accumulated other comprehensive loss" in the Company's consolidated balance sheets.

For foreign currency remeasurement from each local currency into the appropriate functional currency, monetary assets and liabilities are remeasured to functional currencies using current exchange rates in effect at the balance sheet date. Gains or losses from these remeasurements were not significant and have been included in the Company’s consolidated statements of operations and comprehensive income (loss). Non-monetary assets and liabilities are recorded at historical exchange rates, and the related remeasurement gains or losses are reported as a component of "Accumulated other comprehensive loss" in the Company's consolidated balance sheets.

Going concern assessment

In accordance with current accounting literature, the Company assesses going concern uncertainty in its financial statements to determine if it will have sufficient cash on hand and working capital, including available borrowings on loans, to operate for a period of at least one year from the date the financial statements are issued or available to be issued, which is referred to as the “look-forward period”, as defined in the current accounting guidance. As part of this assessment, based on conditions that are known and reasonably knowable to the Company, it will consider various scenarios, forecasts, projections, estimates and will make certain key assumptions, including the timing and nature of projected cash expenditures or programs, and its ability to delay or curtail expenditures or programs, if necessary, among other factors. Based on this assessment, as necessary or applicable, the Company will make certain assumptions around implementing curtailments or delays in the nature and timing of programs and expenditures to the extent the Company deems probable those implementations can be achieved and it will have the proper authority to execute them within the look-forward period. Our assessment determined the Company is a going concern.

New Accounting Pronouncements

Recently Adopted

In January 2017, the FASB issued Accounting Standards Update ("ASU") No. 2017-04, *Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment ("ASU 2017-04"),* which simplified the testing of goodwill for impairment by eliminating Step 2 from the goodwill impairment test. Step 2 measured a goodwill impairment loss by comparing the implied fair value of a reporting unit's goodwill with the carrying amount of that goodwill. ASU 2017-04 is effective for public companies for annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019, with early adoption permitted. The Company concluded that ASU 2017-04 is preferable to the current guidance due to efficiency, since ASU 2017-04 eliminates the requirement to determine the fair value of individual assets and liabilities of a reporting unit to measure goodwill impairment. The Company adopted ASU 2017-04 in 2017, in conjunction with its annual impairment test of goodwill for all reporting units. The adoption of ASU 2017-04 did not have a material impact on the Company's financial results.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230) - Classification of Certain Cash Receipts and Cash Payments*. The amendments in ASU 2016-15 are intended to add or clarify guidance on the classification of certain cash receipts and payments in the statement of cash flows, with the intent of reducing diversity in practice for the eight types of cash flows identified. ASU 2016-15 is effective for public companies' fiscal years, including interim periods within those fiscal years, beginning after December 15, 2017. The adoption of ASU 2016-15 as of January 1, 2018 had no material effect on the Company's financial position, results of operations or cash flows.

The Company adopted ASC 606 on the first day of fiscal 2018. Its underlying principle is to use a five-step analysis of transactions to recognize revenue when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. The Company has elected to use the modified retrospective approach. As the Company did not have any sales contracts that were not completed as of January 1, 2018, there is no adjustment required to its retained earnings. The adoption of ASC 606 did not have an effect on the Company's cash flows. The adoption of ASC 606 did however, require the Company to classify certain expenses previously classified as selling and general and administrative expenses prior to the adoption to a reduction of gross revenue and gross margin. The adoption of ASC 606 had no material effect on the Company's income before taxes.

P&F INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE 1—SUMMARY OF ACCOUNTING POLICIES - Continued

New Accounting Pronouncements

Not Yet Adopted

In February 2016, the FASB issued ASU 2016-02, *Leases*. This ASU is a comprehensive new leases standard that amends various aspects of existing guidance for leases and requires additional disclosures about leasing arrangements. It will require companies to recognize lease assets and lease liabilities by lessees for those leases classified as operating leases under previous US GAAP. ASC Topic 842 retains a distinction between finance leases and operating leases. The classification criteria for distinguishing between finance leases and operating leases are substantially similar to the classification criteria for distinguishing between capital leases and operating leases in the previous leases' guidance. The ASU is effective for annual periods beginning after December 15, 2018, including interim periods within those fiscal years; earlier adoption is permitted. The ASU offers two transition methods: (1) a modified retrospective approach, in which leases shall be measured and recognized at the beginning of the earliest comparative period presented with an adjustment to equity in the financial statements in which the ASU is first applied or (2) a prospective approach, in which a company is allowed to initially apply the new lease standard at the adoption date. The Company will use the prospective approach. Practical expedients are available for election. The Company has completed its assessment of all leases and the impact the adoption of this standard will have on its consolidated financial statements and related disclosures. Thus far the Company believes the adoption of this standard will not have a material effect on its consolidated financial statements.

In February 2018, the FASB issued No. ASU 2018-02, *Income Statement – Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income* ("ASU 2018-02"). Under ASU 2018-02, an entity may elect to reclassify the income tax effects of the Tax Reform Act on items within accumulated other comprehensive income to retained earnings. ASU 2018-02 is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted in any interim period. The Company is evaluating what impact, if any, adoption of ASU 2018-02 may have on its consolidated financial statements.

The SEC has recently issued a final rule ("Rule") that amends certain of their disclosure requirements that have become redundant, duplicative, overlapping, outdated, or superseded, in light of other SEC disclosure requirements, or changes in the information environment. A financial reporting implication of the Rule addresses interim disclosure changes in stockholders' equity and non-controlling interests.

Under the requirements in SEC Regulation S-X, Rules 8-03(a)(5) and 10-01(a)(7), as amended by the Rule, registrants must now analyze changes in stockholders' equity, in the form of a reconciliation, for the current and comparative year-to-date interim periods, with subtotals for each interim period.

The Rule is effective for all filings submitted on or after November 5, 2018. However, the SEC issued guidance that provides some relief to registrants that file Form 10-Q shortly after the Rule's effective date. It clarifies that the SEC Staff would not object if a filer's first presentation of changes in shareholders' equity is included in its Form 10-Q for the quarter that begins after the final rule's November 5, 2018 effective date given that date's close proximity to the filing date for most filers' quarterly reports.

Other than the aforementioned, the Company does 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.

P&F INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE 2 –ACQUISITION

On April 5, 2017 (the “Jiffy Closing Date”), Bonanza Holdings Corp. (now known as Jiffy Air Tool, Inc.), a Delaware corporation and newly formed wholly-owned subsidiary (“Jiffy”) of Florida Pneumatic, Jiffy Air Tool, Inc. a Nevada corporation (“Jiffy Seller”), The Jack E. Pettit—1996 Trust, the sole shareholder of Jiffy Seller and Jack E. Pettit, entered into an Asset Purchase Agreement (the “Asset Purchase Agreement”), pursuant to which, among other things, Jiffy acquired (the “Jiffy Acquisition”) substantially all of the operating assets of Jiffy Seller for $5,950,000, in addition to the assumption of certain payables and contractual obligations as set forth in the Asset Purchase Agreement. Jiffy manufactures and distributes pneumatic tools and components, primarily sold to aerospace manufacturers. The purchase price was $5,950,000, less a post-closing working capital adjustment of $155,000, which was paid by Jiffy Seller to the Company in June 2017.

Additionally, Jiffy Seller may be entitled to up to $1,000,000 in additional consideration, which is contingent upon Jiffy achieving certain revenue thresholds and other criteria as set forth in the Asset Purchase Agreement within two defined measurement periods occurring within approximately the first two years following the Jiffy Closing Date. The Company estimated that as of December 31, 2018, Jiffy will meet the revenue thresholds and other criteria and has accordingly accrued the $1,000,000 contingent consideration payable to the Jiffy Seller. Additionally, the Company recorded $150,000 and $158,000 in 2018 and 2017, respectively, as adjustments to the fair value of the contingent consideration.

In connection with the Asset Purchase Agreement, a separate Purchase and Sale Agreement and Joint Escrow Instructions (the “Purchase and Sale Agreement” and together with the Asset Purchase Agreement, the “Agreements”) were entered into between Jiffy Seller and Bonanza Properties Corp. (“Bonanza Properties”), a Delaware corporation and newly formed wholly-owned subsidiary of Florida Pneumatic, pursuant to which Bonanza Properties purchased certain real property of Jiffy Seller. Pursuant to the Purchase and Sale Agreement, the purchase price for the real property was $1,050,000.

The initial total consideration ($5,950,000 plus $1,050,000) was paid by Jiffy to Jiffy Seller from funds available under the Revolver, as defined in Note 7, less certain amounts escrowed pursuant to, among others, the terms of the Agreements.

	Total
Cash paid at closing	$7,000,000
Less working capital adjustment	(155,000)
Fair value of contingent consideration	692,000
Total estimated purchase price	$7,537,000

The following table presents purchase price allocation:

Accounts receivable	$789,000
Inventories	1,571,000
Other current assets	45,000
Land	131,000
Building	919,000
Machinery and equipment	1,196,000
Identifiable intangible assets:	
Customer relationships	1,670,000
Trademarks and trade names	790,000
Non-compete agreements	17,000
Liabilities assumed	(125,000)
Goodwill	534,000
Total estimated purchase price	$7,537,000

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 will be amortized over 15 years for tax purposes, but not deductible for financial reporting purposes. The intangible assets subject to amortization will be amortized over 15 years for tax purposes. For financial reporting purposes, useful lives have been assigned as follows:

Customer relationships	15 years
Trademarks and trade names	Indefinite
Non-compete agreements	4 years

P&F INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE 2 – ACQUISITION - Continued

The following unaudited pro-forma combined financial information gives effect to the Jiffy Acquisition as if the Jiffy Acquisition was consummated January 1, 2017. 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 Jiffy Acquisition been completed as of January 1, 2017 (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 Year Ended December 31, 2017
Revenue	$ 60,451,000
Net loss from continuing operations	$ (779,000)
Loss per share – basic	$ (0.22)
Loss per share – diluted	$ (0.22)

NOTE 3—FAIR VALUE MEASUREMENTS

Accounting guidance defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Under this guidance, the Company is required to classify certain assets and liabilities based on the following hierarchy:

Level 1: Quoted prices for identical assets or liabilities in active markets that can be assessed at the measurement date.

Level 2: Inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Inputs reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date. The inputs are unobservable in the market and significant to the instrument's valuation.

The guidance requires the use of observable market data if such data is available without undue cost and effort.

As of December 31, 2018 and 2017, the carrying amounts reflected in the accompanying consolidated balance sheets for current assets and current liabilities approximated fair value due to the short-term nature of these accounts.

Assets and liabilities measured at fair value on a non-recurring basis include goodwill and intangible assets. Such assets are reviewed quarterly for impairment indicators. If a triggering event has occurred, the assets are re-measured when the estimated fair value of the corresponding asset group is less than the carrying value. The fair value measurements, in such instances, are based on significant unobservable inputs (Level 3).

NOTE 4—ACCOUNTS RECEIVABLE AND ALLOWANCE FOR DOUBTFUL ACCOUNTS

Accounts receivable - net consists of:

	December 31, 2018	December 31, 2017
Accounts receivable	$ 9,847,000	$ 10,199,000
Allowance for doubtful accounts, sales discounts and chargebacks	(273,000)	(152,000)
	$ 9,574,000	$ 10,047,000

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P&F INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE 5—INVENTORIES

Inventories consist of:

	December 31, 2018	December 31, 2017
Raw materials	$ 1,963,000	$ 1,871,000
Work in process	1,924,000	1,556,000
Finished goods	16,609,000	16,230,000
	$ 20,496,000	$ 19,657,000

NOTE 6—GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill and other intangible assets with indefinite lives are tested annually or whenever events or circumstances indicate the carrying value of these assets may not be recoverable. In accordance with authoritative guidance issued by the FASB, the Company performed an annual impairment test of goodwill and indefinite-lived intangible assets during the fourth quarter based on conditions as of November 30, 2018. For both 2018 and 2017, with respect to Florida Pneumatic and Hy-Tech, the Company determined their fair value using the income approach methodology of valuation, which considers the expected present value of future cash flows. As an integral part of the valuation process the Company utilizes its latest cash flows forecasts for the next four fiscal years, and then applies projected minimal growth for all remaining years, based upon available statistical data and management's estimates.

The result of the Company's impairment test for Florida Pneumatic determined that its fair value exceeded the carrying value and, as such, no impairment to Goodwill and other intangible assets was recorded in 2018.

Changes in the carrying amount of goodwill are as follows:

Balance, January 1, 2018	$4,447,000
Currency translation adjustment	(11,000)
Balance, December 31, 2018	$4,436,000

Other intangible assets were as follows:

	December 31, 2018			December 31, 2017		
	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
Other intangible assets:						
Customer relationships (1)	$6,821,000	$2,135,000	$4,686,000	$6,836,000	$1,570,000	$5,266,000
Trademarks and trade names (1)	2,308,000	—	2,308,000	2,329,000	—	2,329,000
Trademarks and trade names	200,000	32,000	168,000	200,000	19,000	181,000
Engineering drawings	330,000	202,000	128,000	330,000	175,000	155,000
Non-compete agreements (1)	233,000	223,000	10,000	239,000	210,000	29,000
Patents	1,405,000	905,000	500,000	1,405,000	832,000	573,000
Totals	$11,297,000	$3,497,000	$7,800,000	$11,339,000	$2,806,000	$8,533,000

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

P&F INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE 6—GOODWILL AND OTHER INTANGIBLE ASSETS - Continued

Changes in the carrying amount of other intangibles are as follows:

	Cost	Accumulated amortization	Net book value
Balance, January 1, 2018	$11,339,000	$ 2,806,000	$ 8,533,000
Amortization	—	702,000	(702,000)
Currency translation adjustment	(42,000)	(11,000)	(31,000)
Balance, December 31, 2018	$11,297,000	$ 3,497,000	$ 7,800,000

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

	December 31, 2018	December 31, 2017
Customer relationships	9.3	10.1
Trademarks and trade names	12.5	13.5
Engineering drawings	7.7	8.1
Non-compete agreements	2.3	1.8
Patents	7.9	8.8

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

Year ended December 31,	
2018	2017
$ 702,000	$ 800,000

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

2019	$682,000
2020	643,000
2021	635,000
2022	634,000
2023	634,000
Thereafter	2,264,000
	$5,492,000

P&F INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE 7—DEBT

In October 2010, the Company 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, as amended from time to time, among other things, provides the ability to borrow funds under a Revolver arrangement. Revolver borrowings are secured by the Company's accounts receivable, inventory, equipment and real property. Additionally, there is a $1,600,000 line available for capital expenditures ("Capex line"). The Credit Agreement includes a $100,000 Term Loan, as defined in the Credit Agreement. This Term Loan remains in place to enable the Company and Capital One to facilitate future term loan borrowings more efficiently and in a less costly manner. P&F and certain of its subsidiaries are borrowers under the Credit Agreement, and their obligations are cross-guaranteed by certain other subsidiaries. The Credit Agreement had an expiration date of February 11, 2019. The Company and the bank extended the Credit Agreement to February, 2024. See Note 12 – Subsequent events, for further discussion.

At the Company's 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.

Applicable Margins rates at December 31, 2018 and 2017 were 1.50% and 1.75%, respectively. The Applicable Margin added to the Base Rate borrowings at December 31, 2018 and 2017 were 0.50% and 0.75%, respectively.

Contemporaneously, with the acquisition of the Jiffy business discussed in Note 2 to the consolidated financial statements, we entered into a Second Amended and Restated Loan and Security Agreement (the "2017 Agreement") with Capital One. The 2017 Agreement, among other things, amended the Credit Agreement by: (1) increasing the maximum amount we can borrow under the Revolver Commitment (as defined) to $16,000,000, subject to certain borrowing base criteria, and (2) modifying certain borrowing base criteria as well as financial and other covenants. We incurred approximately $84,000 of debt issue costs in connection with the 2017 Agreement.

The Company provides Capital One monthly financial statements, borrowing base certificates and certificates of compliance with various financial covenants. Should an event of default occur the interest rate would increase by two percent per annum during the period of default, in addition to other remedies provided to Capital One.

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.

At December 31, 2018, our short-term or Revolver borrowing was $2,096,000, compared to $1,928,000, at December 31, 2017. Applicable Margin Rates, at December 31, 2018 for LIBOR and Base Rates were 1.50% and 0.50%, respectively, and 1.75% and 0.75%, respectively at December 31, 2017. Additionally, at December 31, 2018 and 2017, there was approximately $12,024,000 and $12,450,000, respectively, available to the Company under its Revolver arrangement.

The average balance of short-term borrowings during the years ended December 31, 2018 and 2017, were $3,113,000 and $3,092,000, respectively.

	LIBOR %	Base Rate %
Range of Applicable Margins added to Revolver borrowings during 2018 and 2017	1.50 points to 1.75 points	0.50 points to 0.75 points

P&F INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE 7—DEBT - Continued

There is a $100,000 Term Loan that is secured by mortgages on the real property, accounts receivable, inventory and equipment. The Term Loan borrowings can be at either LIBOR, or at the Base Rate, or a combination of the two plus the Applicable Margins. At December 31, 2018 and 2017 the total borrowing of this Term Loan was at LIBOR. The Applicable Margin for LIBOR at December 31, 2018 and 2017 was 1.5%.

In April 2018, the Company borrowed $400,000 against the Capex line. This borrowing is to be repaid in equal principle installments of approximately $6,700, payable monthly, with the balance due at its Maturity Date as defined in the Credit Agreement. $300,000 of this borrowing is at LIBOR plus Applicable Margin, with the balance of $100,000 at the Base Rate, or prime rate plus Applicable Margin. The Applicable Margin added to the all Base Rate, and LIBOR borrowings were 1.50% and 0.50%, respectively. At December 31, 2018, the balance due on the Capex loan was $354,000 and is included in Current Liabilities on its Consolidated Financial Statement.

The Company's Term loan borrowings are:

	December 31, 2018	December 31, 2017
Term Loan	$ 100,000	$ 100,000
Capex borrowing	354,000	—
Debt issue costs	(1,000)	(6,000)
	453,000	94,000
Less current maturities	453,000	—
	$—	$ 94,000

NOTE 8—STOCK OPTIONS – STOCK COMPENSATION

The Company’s stockholders approved the P&F Industries, Inc. 2012 Stock Incentive Plan (the “2012 Plan”). The 2012 Plan authorizes the issuance to employees, consultants and non-employee directors of nonqualified stock options, stock appreciation rights, restricted stock, performance shares, performance units, and other stock-based awards. In addition, employees are eligible to be granted incentive stock options under the 2012 Plan. The 2012 Plan is currently administered by the compensation committee of the Company’s Board of Directors (the “Committee”). The aggregate number of shares of the Company’s Class A Common Stock (“Common Stock”) that may be issued under the 2012 Plan may not exceed 325,000 shares; provided, however, that any shares of Common Stock that are subject to a stock option, stock appreciation right or other stock-based award that is based on the appreciation in value of a share of Common Stock in excess of an amount equal to at least the fair market value of the Common Stock on the date such other stock-based award is granted (each an “Appreciation Award”) will be counted against this limit as one share for every share granted. Any shares of restricted stock or shares of Common Stock that are subject to any other award other than Appreciation Award will be counted against this limit as 1.5 shares for every share granted.

The maximum number of shares of Common Stock with respect to which any award of stock options, stock appreciation rights or other Appreciation Award that may be granted under the 2012 Plan during any fiscal year to any eligible employee or consultant will be 100,000 shares per type of award. The maximum number of shares of Common Stock subject to any award of performance shares for any performance period, other stock-based awards that are not Appreciation Awards, or shares of restricted stock for which the grant of such award or the lapse of the relevant restriction period is subject to the attainment of specified performance goals that may be granted under the 2012 Plan during any fiscal year to any eligible employee or consultant will be 65,000 shares per type of award. The maximum number of shares of Common Stock for all such types of awards to any eligible employee or consultant will be 165,000 shares during any fiscal year. There are no annual limits on the number of shares of Common Stock with respect to an award of restricted stock that is not subject to the attainment of specified performance goals to eligible employees or consultants. The maximum value at grant of performance units which may be granted under the 2012 Plan during any fiscal year will be $1,000,000. The maximum number of shares of Common Stock subject to any award which may be granted under the 2012 Plan during any fiscal year of the Company to any non-employee director will be 35,000 shares.

P&F INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE 8—STOCK OPTIONS – STOCK COMPENSATION - Continued

With respect to stock options, the Committee determines the number of shares of Common Stock subject to each option, the term of each option, which may not exceed ten years (or five years in the case of an incentive stock option granted to a 10% stockholder), the exercise price, the vesting schedule (if any), and the other material terms of each option. No stock option may have an exercise price less than the fair market value of the Common Stock at the time of grant (or, in the case of an incentive stock option granted to a 10% stockholder, 110% of fair market value). With respect to all other permissible grants under the 2012 Plan, the Committee will determine their terms and conditions, subject to the terms and conditions of the 2012 Plan.

The 2012 Plan, which terminates in May 2022, is the successor to the Company's 2002 Stock Incentive Plan ("Previous Plan") – see below. Stock option awards made under the Previous Plan will continue in effect and remain governed by the provisions of that plan.

The Company's Previous Plan authorized the issuance to employees and directors of options to purchase a maximum of 1,100,000 shares of Common Stock. These options had to be issued within ten years of the effective date of the Previous Plan and are exercisable for a ten-year period from the date of grant, at prices not less than 100% of the closing market value of the Common Stock on the date the option is granted. In the event options granted contained a vesting schedule over a period of years, the Company recognized compensation cost for these awards ratably over the service period.

The Company did not issue any options to purchase shares of its Common Stock during 2018.

On September 5, 2017, the Committee authorized the issuance of options to purchase 89,000 shares of the Company's Common Stock. This grant was comprised of an aggregate of 55,000 options issued to the Company's Chief Executive Officer and its Chief Operating and Financial Officer, with the balance of 34,000 options being issued to non-executive employees. All options within this grant have an exercise price of $7.09. The options granted vest as to one third on each of the anniversary dates in 2018, 2019 and 2020. All the options granted have a ten-year life.

The following table contains information on the status of the Company's stock options:

	Number of Shares	Weighted Average Exercise Price per share	Aggregate Intrinsic Value
Outstanding, January 1, 2017	423,817	$ 5.68	
Granted	89,000	7.09	
Exercised	(16,722)	3.65	
Forfeited	(6,793)	7.86	
Expired	(71,069)	10.72	
Outstanding, December 31, 2017	418,233	5.17	
Granted	-		
Exercised	(200,158)	4.02	
Forfeited	-		
Expired	-		
Outstanding, December 31, 2018	218,075	$ 6.22	$ 335,310
Vested, December 31, 2018	158,742	$ 5.90	$ 297,337

P&F INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE 8—STOCK OPTIONS – STOCK COMPENSATION - Continued

The following is a summary of changes in non-vested shares, all of which are expected to vest:

	December 31, 2018		2017	
	Option Shares	Weighted Average Grant-Date Fair Value	Option Shares	Weighted Average Grant-Date Fair Value
Non-vested shares, beginning of year	89,000	4.41	—	$ —
Granted	—	—	89,000	4.41
Vested	29,667	4.41	—	—
Forfeited	—	—	—	—
Non-vested shares, end of year	59,333	4.41	89,000	$ 4.41

Stock-based compensation expense recognized for the years ended December 31, 2018 and 2017 was approximately $196,000 and $80,000, respectively. The Company recognizes stock-based compensation cost over the requisite service period. However, the exercisability of the respective non-vested options, which are at predetermined dates, does not necessarily correspond to the periods in which straight-line amortization of compensation expenses is recorded.

The following table summarizes information about stock options outstanding and exercisable at December 31, 2018:

Options Outstanding			Options Exercisable		
Number outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number exercisable	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price
17,244	2.0	$ 2.92	17,244	2.0	$ 2.92

18,812	2.4	$ 4.37	18,812	2.4	$ 4.37
2,090	3.4	$ 4.29	2,090	3.4	$ 4.29
41,809	3.5	$ 4.74	41,809	3.5	$ 4.74
49,120	4.3	$ 7.86	49,120	4.3	$ 7.86
89,000	8.7	$ 7.09	29,667	8.7	$ 7.09
218,075	5.6	$ 6.22	158,742	4.4	$ 5.90

Other Information

At December 31, 2018 and 2017, there were 79,437 and 88,812 shares available for issuance under the 2012 Plan. At December 31, 2018, there were 183,575 options outstanding issued under the 2012 Plan and 34,500 options outstanding issued under the Previous Plan.

P&F INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE 8—STOCK OPTIONS – STOCK COMPENSATION - Continued

Restricted Stock

The Company, in May 2018, granted 1,250 restricted shares of its Common Stock to each non-employee member of its Board of Directors, totaling 6,250 restricted shares. The Company determined that the fair value of these shares was $8.43 per share, which was the closing price of the Company’s Common Stock on the date of the grant. These shares cannot be traded earlier than the first anniversary of the grant date. The Company will ratably amortize the total non-cash compensation expense of approximately $53,000, which is included in its selling, general and administrative expenses through May 2019.

The Company, in May 2017, granted 1,000 restricted shares of its Common Stock to each non-employee member of its Board of Directors, totaling 5,000 restricted shares. The Company determined that the fair value of these shares was $6.17 per share, which was the closing price of the Company’s Common Stock on the date of the grant. These shares could not have been traded earlier than the first anniversary of the grant date. As such, the Company ratably amortized the total non-cash compensation expense of approximately $30,000 in its selling, general and administrative expenses, through May 2018.

Treasury Stock

On August 9, 2017, the Company’s Board of Directors authorized the Company to repurchase up to 100,000 shares of its Common Stock over a period of up to twelve months (the “2017 Repurchase Program”). On August 24, 2017, it announced that, pursuant to the 2017 Repurchase Program, it had adopted a written trading plan in accordance with the guidelines specified under Rule 10b5-1 under the Securities Exchange Act of 1934. A plan under Rule 10b5-1 allows the Company to repurchase shares at times when it might otherwise be prevented from doing so by securities laws or because of self-imposed trading blackout periods. Repurchases made under the plan are subject to the SEC’s regulations, as well as certain price, market, volume, and timing constraints specified in the plan. Under the 2017 Repurchase Program, the Company repurchased 94,600 shares of its Common Stock at an aggregate cost of approximately $753,000.

On September 12, 2018, subsequent to the expiration of the 2017 Repurchase Program, the Company's Board of Directors authorized the Company to repurchase up to 100,000 additional shares of its Common Stock (the "2018 Repurchase Program") from time to time over the next twelve months through a 10b5-1 trading plan, and potentially through open market purchases, privately-negotiated transactions, or otherwise in compliance with Rule 10b-18 under the Securities Exchange Act of 1934. On September 14, 2018, the Company announced that, pursuant to the 2018 Repurchase Program, it had adopted a written trading plan in accordance with the guidelines specified under Rule 10b5-1 under the Securities Exchange Act of 1934. Repurchases made under the plan, that commenced on September 17, 2018, are subject to the SEC's regulations, as well as certain price, market, volume, and timing constraints specified in the plan. Since the inception of the 2018 Repurchase Program through December 31, 2018, the Company repurchased 33,398 shares of its Common Stock at an aggregate cost of approximately $272,000.

In June 2018 and November 2018, the Company purchased 18,140 shares and 85,791 shares of its Common Stock in two separate, privately negotiated transactions. These transactions were outside of the 2018 Repurchase Program and the 2017 Repurchase Program, pursuant to additional authorization of the Company's Board of Directors at a total cost of $150,000 and $698,000, respectively. The June 2018 purchase price per share was equal to five percent below the average of the closing price of its Common Stock for the three days prior to the transaction, with the November 2018 purchase price based on the average closing price over the three days prior to the date of transaction.

P&F INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE 9—DIVIDENDS

In March 2016, our Board of Directors approved the initiation of a dividend policy under which the Company intends to declare quarterly cash dividends to its stockholders in the amount of $0.05 per quarter. During 2018, our Board of Directors approved the payment of dividends of $0.05 per common share to the shareholders of record in February 2018, May 2018, August 2018, and November 2018. During 2017, our Board of Directors voted to approve the payment of four quarterly dividends. As such, in February 2017, May 2017, August 2017, and November 2017, the Company paid a $0.05 per share dividend to the shareholders of record. The aggregate of such dividend payments was approximately $723,000 and $722,000 for the year ended December 31, 2018 and 2017, respectively.

Our Board of Directors expects to maintain this dividend policy; however, the future declaration of dividends under this policy is dependent upon several factors, which include such things as our overall financial condition, results of operations, capital requirements and other factors our board may deem relevant.

NOTE 10—INCOME TAXES

Income tax expense (benefit) from continuing operations in the consolidated statements of operations and comprehensive income (loss) consists of:

	Years Ended December 31,	
	2018	2017
Current:		
Federal	$ (39,000)	$ (373,000)
State and local	24,000	36,000
Foreign	19,000	62,000
Total current	4,000	(275,000)
Deferred:		
Federal	268,000	980,000
State and local	(15,000)	(63,000)

Foreign	(4,000)	(7,000)
Total deferred	249,000	910,000
Totals	$ 253,000	$ 635,000

At December 31, 2018, the Company had Federal net operating loss carryforwards of approximately $1,617,000 which do not expire. The Company has state net operating loss carryforwards of approximately $4,084,000, which expire through 2038.

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 (the “Act”) was signed into law making significant changes to the Internal Revenue Code. Changes included, but are not limited to, a corporate tax rate decrease from 35% to 21%, effective for tax years beginning after December 31, 2017, the transition of U.S international taxation from a worldwide tax system to a territorial system, and a one-time transition tax on the mandatory deemed repatriation of cumulative foreign earnings as of December 31, 2017. The Staff of the Securities and Exchange Commission issued Staff Accounting Bulletin No. 118 (“SAB 118”) to address the application of US GAAP in situations when a registrant does not have the necessary information available, prepared or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the Act. The Company calculated its best estimate of the impact of the Act as it related to the revaluation of deferred tax assets and liabilities and the deemed repatriated earnings in its consolidated financial statements for the year ended December 31, 2017. During 2018, the Company finalized its computation of the impact of the Act.

As a result of the Act, the Company remeasured its U.S. Federal deferred tax assets and liabilities at the rate they are expected to reverse in the future. The Company recorded a cumulative charge of $588,000 ($0 in 2018 and $588,000 charge in 2017), The Act requires a mandatory deemed repatriation of post-1986 undistributed foreign earnings, which results in a one-time transition tax. The Company recorded a cumulative charge of $16,000 ($39,000 benefit in 2017 and $55,000 charge in 2017).

In January 2018, the FASB released guidance on the accounting for tax on the global intangible low-taxed income (“GILTI”) provisions of the Act. The GILTI provisions impose a tax on foreign income in excess of a deemed return on tangible assets of foreign corporations. The guidance allows companies to make an accounting policy election to either (i) account for GILTI as a component of tax expense in the period in which they are subject to the rules (the period cost method), or (ii) account for GILTI in the Company’s measurement of deferred taxes (the deferred method). After completing the analysis of the GILTI provisions, the Company elected to account for GILTI using the period cost method.

P&F INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE 10—INCOME TAXES – Continued

Deferred tax assets (liabilities) consist of:

	December 31,	
	2018	2017
Deferred tax assets:		
Bad debt reserves	$ 17,000	$ 15,000
Inventory reserves	615,000	570,000
Warranty and other reserves	78,000	121,000
Stock-based compensation	184,000	240,000
Goodwill	940,000	1,066,000
Acquisition costs	170,000	58,000
Net operating losses - federal	340,000	—
Net operating losses - state	91,000	66,000
Other	18,000	8,000
	2,453,000	2,144,000
Deferred tax (liabilities):		
Prepaid expenses	(373,000)	(152,000)
Depreciation	(732,000)	(481,000)
Intangibles	(720,000)	(639,000)
Net deferred tax assets	$ 628,000	$ 872,000

The components of income (loss) before income taxes consisted of the following:

	Years ended December 31,	
	2018	2017
United States operations	$ 1,004,000	$ (476,000)
International operations	105,000	227,000
Income before tax	$ 1,109,000	$ (249,000)

A reconciliation of the Federal statutory rate to the total effective tax rate applicable to income (loss) is as follows:

	Years ended December 31,	
	2018	2017
Federal income tax computed at statutory rates	21.0 %	(34.0)%
(Decrease) increase in taxes resulting from:		
State and local taxes, net of Federal tax benefit	0.6	(7.2)
Permanent differences - net	5.2	11.6
Foreign rate differential	(0.7)	(9.2)
Tax Cuts and Jobs Act of 2017	(3.4)	257.6
Share based compensation	—	46.4
Other	0.1	(10.2)
Income tax expense	22.8 %	255.0 %

P&F INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE 10—INCOME TAXES - Continued

The Company follows the authoritative guidance issued by the FASB that pertains to the accounting for uncertain tax matters. A reconciliation of the beginning and ending amounts of unrecognized tax benefits is as follows:

Balance January 1, 2017	$311,000
Lapse of statute of limitations	(311,000)
Balance at January 1, 2018	—
Lapse of statute of limitations	—
Balance December 31, 2018	$—

In connection with one of the acquisitions that occurred in 2014, the Company, in accordance with the ASC 740-10, had recorded an uncertain tax position. The parties to such transaction entered into a tax exposure-related escrow agreement, which together with the indemnity obligations of the seller, the Company believed adequately covered the entire potential exposure related to the uncertain tax position. As a result, such liability was offset by an indemnification asset recorded in Prepaid expenses and other current assets in the consolidated balance sheet. During 2017, the statute of limitations lapsed and the Company no longer has a liability for an uncertain tax position.

The Company files a consolidated Federal tax return. The Company and certain of its subsidiaries file tax returns in various U.S. state jurisdictions. Its foreign subsidiary, UAT, files in the United Kingdom. With few exceptions, the years that remain subject to examination are the years ended December 31, 2015 through December 31, 2018. During the current year, the Internal Revenue Service completed the examination of the Company’s tax return for the year ended December 31, 2015 which resulted in the tax return being accepted as filed.

Interest and penalties, if any, related to income tax liabilities are included in income tax expense.

NOTE 11—COMMITMENTS AND CONTINGENCIES

(a) The Company maintains a contributory defined contribution plan that covers all eligible employees. All contributions to this plan are discretionary. Amounts recognized as expense for contributions to this plan were $380,000 and $353,000 for the years ended December 31, 2018 and 2017, respectively.

(b) At December 31, 2018 and 2017, the Company had open purchase order commitments totaling approximately $6,700,000 and $7,138,000, respectively.

(c) From time to time, the Company may be a defendant or co-defendant in actions brought about in the ordinary course of conducting our business.

(d) The Company leases certain facilities and equipment through 2023. Generally, the facility leases carry renewal provisions and require the Company to pay maintenance costs. Rental payments may be adjusted for increases in taxes and insurance above specified amounts. Operating lease expense for 2018 and 2017 was $389,000 and $388,000, respectively. Future minimum payments under non-cancelable operating leases with initial or remaining terms of more than one year as of December 31, 2018 were as follows:

2019	$333,000
2020	131,000
2021	42,000
2022	13,000
2023	4,000
	$523,000

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P&F INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE 12—SUBSEQUENT EVENTS

On February 8, 2019, the Company entered into Amendment No. 5 to the Second Amended and Restated Loan and Security Agreement with Capital One (the "2019 Amendment"). The 2019 Amendment, among other things, extended the termination date of the Credit Agreement to February 8, 2024, set the Capex line to $2,000,000, increased the Eligible Inventory (as defined in the Credit Agreement) to $10,000,000 from $8,000,000, and reduced certain fees and charges.

On February 14, 2019, the Company entered into an agreement to repurchase 389,909 shares of its common stock from certain funds and accounts advised or sub-advised by Fidelity Management & Research Company or one of its affiliates in a privately negotiated transaction at approximately $7.62 per share for a total purchase price of $2,971,000. On February 15, 2019, the Company completed this transaction. Further, on February 14, 2019, the Company enter into Amendment No. 6 to the Second Amended and Restated Loan and Security Agreement with Capital One which permitted the Company to complete the above transaction.

ITEM 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosures

None.

ITEM 9A. Controls and Procedures

Evaluation of disclosure controls and procedures

The Company's management, with the participation of the Company's CEO and CFO, evaluated, as of December 31, 2018, the effectiveness of the Company's disclosure controls and procedures, which were designed to be effective at the reasonable assurance level. The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of the Company's disclosure controls and procedures as of December 31, 2018, the Company’s management, including its CEO and CFO, concluded that the Company's disclosure controls and procedures were effective at the reasonable assurance level at that date.

Management’s Report on Internal Control over Financial Reporting

The Company’s Management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) of the Exchange Act). This system is designed by, or under the supervision of, the Company’s principal executive officer and principal financial officer, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with generally accepted accounting principles.

The Company’s internal control over financial reporting includes those policies and procedures that:

Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the Company’s transactions and dispositions of its assets;

Provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with generally accepted accounting principles, and that the Company’s receipts and expenditures are being made only in accordance with the authorizations of its management and directors; and

Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company’s assets that could have a material effect on the consolidated financial statements.

The Company carried out an evaluation, under the supervision and with the participation of its Management, including its CEO and CFO, of the effectiveness of the design and operation of its internal control over financial reporting, as of December 31, 2018. Management based this assessment on criteria for effective internal control over financial reporting described in “Internal Control—Integrated Framework 2013” issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that evaluation, the Company’s Management, including its CEO and CFO concluded that its internal control over financial reporting was effective at December 31, 2018.

Because of its inherent limitations, internal controls may not prevent or detect misstatements. A control system, no matter how well designed and operated, can only provide reasonable, not absolute, assurance that the control system’s objectives will be met. Also, projections of any evaluation of effectiveness as to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with policies and procedures may deteriorate.

This annual report on Form 10-K does not include an attestation report of the Company’s independent registered public accounting firm regarding internal control over financial reporting. Management’s report was not subject to attestation by the Company’s independent registered public accounting firm pursuant to the rules of the Securities and Exchange Commission that permit the Company to provide only Management’s report in this annual report.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting during the most recently completed quarter ended December 31, 2018 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. Other Information

None

PART III

ITEM 10. Directors, Executive Officers and Corporate Governance

The information required by Part III (Items 10, 11, 12, 13 and 14) of this Annual Report on Form 10-K is incorporated by reference to the Company's definitive proxy statement in connection with its Annual Meeting of Stockholders scheduled to be held in May 2019, to be filed with the Securities and Exchange Commission within 120 days following the end of the Company's year ended December 31, 2018.

ITEM 11. Executive Compensation

See Item 10.

ITEM 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

See Item 10.

ITEM 13. Certain Relationships and Related Transactions, and Director Independence

See Item 10.

ITEM 14. Principal Accounting Fees and Services

See Item 10.

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PART IV

ITEM 15. Exhibits and Financial Statement Schedules

The following exhibits are either included in this report or incorporated herein by reference as indicated below:

Exhibit Number	Description of Exhibit
2.1	Asset Purchase Agreement, dated as of April 5, 2017, by and among Bonanza Holdings Corp. (now known as Jiffy Air Tool, Inc.), Jack E. Pettit, Jiffy Air Tool, Inc. (now known as Jack E. Pettit Enterprises, Inc.) and The Jack E. Pettit—1996 Trust. (Incorporated by reference to Exhibit 2.1 to the Registrant's Current Report on Form 8-K dated April 5. 2017).
2.2	Purchase and Sale Agreement and Joint Escrow Instructions, dated as of April 5, 2017, by and among Jiffy Air Tool, Inc. (now known as Jack E. Pettit Enterprises, Inc.) and Bonanza Properties Corp. (Incorporated by reference to Exhibit 2.2 to the Registrant's Current Report on Form 8-K dated April 5. 2017).
3.1	Restated Certificate of Incorporation of the Registrant (Incorporated by reference to Exhibit 3.1 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2004).
3.2	By-laws of the Registrant (as amended on September 19, 2016) (Incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K dated September 19, 2016).
10.1	Amended and Restated Loan and Security Agreement dated as of August 13, 2014, by and among the Registrant, Florida Pneumatic Manufacturing Corporation, Hy-Tech Machine, Inc., Nationwide Industries, Inc., ATSCO Holdings Corp., Continental Tool Group, Inc., Countrywide Hardware, Inc., Embassy Industries, Inc., Exhaust Technologies, Inc., Green Manufacturing, Inc., Pacific Stair Products, Inc., WILP Holdings, Inc., Woodmark International, L.P., and Capital One Business Credit Corporation, as lender and agent (Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated August 13, 2014).

10.2	Second Amended and Restated Revolver Note dated as of August 13, 2014 by the Registrant, Florida Pneumatic Manufacturing Corporation, Hy-Tech Machine, Inc., Nationwide Industries, Inc. and ATSCO Holdings Corp., in favor of and Capital One Business Credit Corporation (Incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K dated August 13, 2014).
10.3	Tranche A Term Loan Note dated as of August 13, 2014 by the Registrant, Florida Pneumatic Manufacturing Corporation, Hy-Tech Machine, Inc., Nationwide Industries, Inc. and ATSCO Holdings Corp in favor of and Capital One Business Credit Corporation (Incorporated by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K dated August 13, 2014).
10.4	Tranche B Term Loan Note dated as of August 13, 2014 by the Registrant, Florida Pneumatic Manufacturing Corporation, Hy-Tech Machine, Inc., Nationwide Industries, Inc. and ATSCO Holdings Corp in favor of and Capital One Business Credit Corporation (Incorporated by reference to Exhibit 10.4 to the Registrant's Current Report on Form 8-K dated August 13, 2014).
10.5	Amended and Restated Capex Loan Note dated as of August 13, 2014 by the Registrant, Florida Pneumatic Manufacturing Corporation, Hy-Tech Machine, Inc., Nationwide Industries, Inc. and ATSCO Holdings Corp in favor of and Capital One Business Credit Corporation. (Incorporated by reference to Exhibit 10.5 to the Registrant's Current Report on Form 8-K dated August 13, 2014).

Exhibit Number	Description of Exhibit
10.6	Waiver and Amendment No. 1 to the Amended and Restated Loan and Security Agreement, dated as of October 14, 2014, by and among the Registrant, Florida Pneumatic Manufacturing Corporation, Hy-Tech Machine, Inc., Nationwide Industries, Inc., ATSCO Holdings Corp, Continental Tool Group, Inc., Countrywide Hardware, Inc., Embassy Industries, Inc., Exhaust Technologies, Inc., Green Manufacturing, Inc., Pacific Stair Products, Inc., WILP Holdings, Inc., Woodmark International, L.P., and Capital One Business Credit Corporation, as lender and agent (Incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K dated October 14, 2014).
10.7	Consent and Second Amendment to Amended and Restated Loan and Security Agreement, dated as of February 11, 2016, by and among the Registrant, Florida Pneumatic Manufacturing Corporation, Hy-Tech Machine, Inc., Nationwide Industries, Inc., ATSCO Holdings Corp, Continental Tool Group, Inc., Countrywide Hardware, Inc., Embassy Industries, Inc., Exhaust Technologies, Inc., Green Manufacturing, Inc., Pacific Stair Products, Inc., WILP Holdings, Inc., Woodmark International, L.P. and Capital One, National Association, as lender and agent (Incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K dated February 11, 2016).
10.8	Third Amendment to Amended and Restated Loan and Security Agreement, dated as of March 31, 2016, by and among the Registrant, Florida Pneumatic Manufacturing Corporation, Hy-Tech Machine, Inc., Nationwide Industries, Inc., ATSCO Holdings Corp, Continental Tool Group, Inc., Countrywide Hardware, Inc., Embassy Industries, Inc., Exhaust Technologies, Inc., Green Manufacturing, Inc., Pacific Stair Products, Inc., WILP Holdings, Inc., Woodmark International, L.P. and Capital One, National Association, as lender and agent (Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated March 31, 2016).
10.9	Second Amended and Restated Loan and Security Agreement dated as of April 5, 2017, by and among the Registrant, Florida Pneumatic Manufacturing Corporation, Hy-Tech Machine, Inc., ATSCO Holdings Corp, Jiffy Air Tool, Inc. (formerly known as Bonanza Holdings Corp.), Bonanza Properties Corp., Continental Tool Group, Inc., Countrywide Hardware, Inc., Embassy Industries, Inc., Exhaust Technologies, Inc., Green Manufacturing, Inc., Pacific Stair Products, Inc., WILP Holdings, Inc., Woodmark International, L.P. and Capital One, National Association, as lender and agent (Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated April 5, 2017).
10.10	Third Amended and Restated Revolver Note dated as of April 5, 2017, by the Registrant, Florida Pneumatic Manufacturing Corporation and Hy-Tech Machine, Inc. in favor of Capital One, National Association (Incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K dated April 5, 2017).
10.11	Amended and Restated Tranche A Term Loan Note dated as of April 5, 2017 by the Registrant, Florida Pneumatic Manufacturing Corporation and Hy-Tech Machine, Inc. in favor of Capital One, National Association (Incorporated by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K dated April 5, 2017).
10.12	Second Amended and Restated Capex Loan Note dated as of April 5, 2017 by the Registrant, Florida Pneumatic Manufacturing Corporation and Hy-Tech Machine, Inc. in favor of Capital One, National

	Association (Incorporated by reference to Exhibit 10.4 to the Registrant's Current Report on Form 8-K dated April 5, 2017).
10.13	Amendment No. 1 to Second Amended and Restated Loan and Security Agreement, dated as of August 9, 2017, by and among the Registrant, Florida Pneumatic Manufacturing Corporation, Hy-Tech Machine, Inc., ATSCO Holdings Corp, Jiffy Air Tool, Inc. (formerly known as Bonanza Holdings Corp.), Bonanza Properties Corp., Continental Tool Group, Inc., Countrywide Hardware, Inc., Embassy Industries, Inc., Exhaust Technologies, Inc., Green Manufacturing, Inc., Pacific Stair Products, Inc., WILP Holdings, Inc., Woodmark International, L.P, and Capital One, National Association, as lender and agent (Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated September 20, 2017).
10.14	Amendment No. 2 to Second Amended and Restated Loan and Security Agreement, dated as of June 21, 2018, by and among the Registrant, Florida Pneumatic Manufacturing Corporation, Hy-Tech Machine, Inc., ATSCO Holdings Corp, Jiffy Air Tool, Inc., Bonanza Properties Corp., Continental Tool Group, Inc., Countrywide Hardware, Inc., Embassy Industries, Inc., Exhaust Technologies, Inc., Green Manufacturing, Inc., Pacific Stair Products, Inc., WILP Holdings, Inc., Woodmark International, L.P, and Capital One, National Association, as lender and agent (Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated June 27, 2018).
10.15	Amendment No. 3 to Second Amended and Restated Loan and Security Agreement, dated as of October 1, 2018, by and among the Registrant, Florida Pneumatic Manufacturing Corporation, Hy-Tech Machine, Inc., ATSCO Holdings Corp, Jiffy Air Tool, Inc., Bonanza Properties Corp., Continental Tool Group, Inc., Countrywide Hardware, Inc., Embassy Industries, Inc., Exhaust Technologies, Inc., Green Manufacturing, Inc., Pacific Stair Products, Inc., WILP Holdings, Inc., Woodmark International, L.P, and Capital One, National Association, as lender and agent (Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated October 1, 2018).

Exhibit Number	Description of Exhibit
10.16	Amendment No. 4 to Second Amended and Restated Loan and Security Agreement, dated as of November 16, 2018, by and among the Registrant, Florida Pneumatic Manufacturing Corporation, Hy-Tech Machine, Inc., ATSCO Holdings Corp, Jiffy Air Tool, Inc., Bonanza Properties Corp., Continental Tool Group, Inc., Countrywide Hardware, Inc., Embassy Industries, Inc., Exhaust Technologies, Inc., Green Manufacturing, Inc., Pacific Stair Products, Inc., WILP Holdings, Inc., Woodmark International, L.P. and Capital One, National Association, as lender and agent (Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated November 16, 2018).
10.17	Amendment No. 5 to Second Amended and Restated Loan and Security Agreement, dated as of February 8, 2019, by and among the Registrant, Florida Pneumatic Manufacturing Corporation, Hy-Tech Machine, Inc., ATSCO Holdings Corp, Jiffy Air Tool, Inc., Bonanza Properties Corp., Continental Tool Group, Inc., Countrywide Hardware, Inc., Embassy Industries, Inc., Exhaust Technologies, Inc. and Capital One, National Association, as lender and agent (Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated February 8, 2019).
10.18	Third Amended and Restated Capex Loan Note dated as of February 8, 2019 by the Registrant, Florida Pneumatic Manufacturing Corporation and Hy-Tech Machine, Inc. in favor of Capital One, National Association (Incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K dated February 8, 2019).
10.19	Purchase Agreement, dated as of February 14, 2019, by and among the Registrant and the Fidelity Puritan Trust: Fidelity Low-Priced Stock Fund, Fidelity Low Priced Stock Commingled Pool and Fidelity Puritan Trust: Fidelity Low-Priced Stock K6 Fund (Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated February 14, 2019).
10.20	Amendment No. 6 to Second Amended and Restated Loan and Security Agreement, dated as of February 14, 2019, by and among the Registrant, Florida Pneumatic Manufacturing Corporation, Hy-Tech Machine, Inc., ATSCO Holdings Corp, Jiffy Air Tool, Inc., Bonanza Properties Corp., Continental Tool Group, Inc., Countrywide Hardware, Inc., Embassy Industries, Inc., Exhaust Technologies, Inc. and Capital One, National Association, as lender and agent (Incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K dated February 14, 2019).
10.21	*Agreement, dated February 14, 2019, between Richard A. Horowitz and the Board of Directors of the Registrant (Incorporated by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K dated February 14, 2019).
10.22	*Executive Employment Agreement, dated as of January 1, 2015, between the Registrant and Richard A. Horowitz (Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated January 5, 2015).
10.23	*Executive Employment Agreement, dated as of January 1, 2019, between the Registrant and Richard A. Horowitz (Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated October 24, 2018).

10.24	*2002 Stock Incentive Plan of the Registrant (Incorporated by reference to Exhibit 10.5 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2002).

Exhibit Number	Description of Exhibit
10.25	*2012 Stock Incentive Plan of the Registrant (Incorporated by reference to Appendix A to the Registrant's Definitive Proxy Statement with respect to the Registrant's 2012 Annual Meeting of Stockholders).
10.26	*Amended and Restated Executive 162(m) Bonus Plan of the Registrant effective as of May 20, 2015 (Incorporated by reference to Appendix A to the Registrant's Definitive Proxy Statement with respect to the Registrant's 2015 Annual Meeting of Stockholders).
10.27	*Executive Employment Agreement, dated as of January 1, 2015, between the Registrant and Joseph A. Molino, Jr. (Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated April 2, 2015).
10.28	*Executive Employment Agreement, dated as of January 1, 2018, between the Registrant and Joseph A. Molino, Jr. (Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated January 30, 2018).
10.29	*Amendment No. 1 to Executive Employment Agreement, dated as of March 5, 2019, between the Company and Joseph A. Molino, Jr. (Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated March 5, 2019).
21	Subsidiaries of the Registrant (Filed herein).
23.1	Consent of Independent Registered Public Accounting Firm (Filed herein).
31.1	Certification of Richard A. Horowitz, Principal Executive Officer of the Registrant, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Filed herein).
31.2	Certification of Joseph A. Molino, Jr., Principal Financial Officer of the Registrant, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Filed herein).
32.1	Certification of Richard A. Horowitz, Principal Executive Officer of the Registrant, Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Filed herein).
32.2	Certification of Joseph A. Molino, Jr., Principal Financial Officer of the Registrant, Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Filed herein).
101	** XBRL Interactive Data
	Certain instruments defining the rights of holders of the long-term debt securities of the Registrant may be omitted pursuant to Section (b)(4)(iii)(A) of Item 601 of Regulation S-K. The Registrant agrees to furnish supplemental copies of these instruments to the Commission upon request.

* Management contract or a compensatory plan or arrangement required to be filed as an exhibit.

** Attached as Exhibit 101 to this Annual Report on Form 10-K are the following, each formatted in Extensible Business Reporting Language ("XBRL"): (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Operations and Comprehensive (Loss) Income, (iii) Consolidated Statements of Shareholders' Equity, (iv) Consolidated Statements of Cash Flows and (v) Notes to Consolidated Financial Statements.

A copy of any of the foregoing exhibits to this Annual Report on Form 10-K may be obtained, upon payment of the Registrant's reasonable expenses in furnishing such exhibit, by writing to P&F Industries, Inc., 445 Broadhollow Road, Suite 100, Melville New York 11747, Attention: Corporate Secretary.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

P&F INDUSTRIES, INC.

(Registrant)

By:	/s/ Richard A. Horowitz Richard A. Horowitz *Chairman of the Board* *President* *Principal Executive Officer* Date: March 29, 2019	By:	/s/ Joseph A. Molino, Jr. Joseph A. Molino, Jr. *Vice President* *Principal Financial and* *Accounting Officer* Date: March 29, 2019

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

Name	**Title**	**Date**
/s/ Richard A. Horowitz Richard A. Horowitz	Director	March 29, 2019
/s/ Jeffrey D. Franklin Jeffrey D. Franklin	Director	March 29, 2019
/s/ Howard Brod Brownstein Howard Brod Brownstein	Director	March 29, 2019
/s/ Kenneth M. Scheriff Kenneth M. Scheriff	Director	March 29, 2019
/s/ Mitchell A. Solomon Mitchell A. Solomon	Director	March 29, 2019
/s/ Richard Randall Richard Randall	Director	March 29, 2019