



Andrew Shapiro
President

September 17, 2010

To the Board Members of P&F Industries:

Lawndale Capital Management, LLC, through the funds it manages, has added to its investment in P&F Industries, Inc. ("P&F" or the "Company"), and remains one of your largest independent shareowners. Lawndale now owns 9.7% of the Company. As you know, Lawndale has major concerns regarding the management of P&F by Chairman and CEO Richard Horowitz, as well as the managerial oversight and compensation provided by this Board (excluding its new independent director, Howard Brownstein.). Our May 25, 2010 letter to the Board (the "May 2010 Letter") articulated the following concerns:

- Mr. Horowitz' repeated execution failures, the result of which has been essentially zero growth in the Company's tangible book value over his entire 14+ year tenure as Chairman and CEO.
- The Company's corporate governance, which has continued to egregiously compensate Mr. Horowitz, with no apparent accountability for his lengthy period of failure.

To further convey Lawndale's disapproval, at this past June's annual meeting of P&F shareowners, Lawndale voted its shares to "Withhold" on the re-election of your entire slate of directors. We have attached a copy of the May 2010 Letter to assist you in reviewing the rationale for our concerns and vote, the major points of which were as follows:

- For P&F's small size and holding company structure, Horowitz' compensation is wholly inappropriate
- The only shareowner to benefit from the Horowitz era has been Horowitz
- P&F's board requires increased independence by means of new directors from outside "the club"

Leading independent proxy advisory services Proxy Governance and RiskMetrics have both criticized P&F's corporate governance (and in the case of Proxy Governance, its excessive CEO compensation as well) and recommended Withhold votes for its clients. Voting results from the June 3, 2010 Annual Meeting showed roughly 30% of the votes cast for each of the nominees were voted Withhold. While this percentage is much higher than average for any company, it is more remarkable when considering that upwards of 35% of all of P&F shares are held by Mr. Horowitz, Board members, other affiliated entities, and family members of insiders.

We greatly appreciate the opportunity you provided us after the 2010 Annual Meeting to share our views with you in greater detail. Furthermore, we acknowledge that the Board, in response to our criticisms and suggestions, has taken some rudimentary steps towards improving P&F's corporate governance, as follows:

- Replaced all members of the Compensation Committee with other legacy directors who are not fellow Glen Oaks Country Club members with Mr. Horowitz
- Formed the position of Lead Independent Director
- Eliminated an outdated by-law *requiring* that P&F's Chairman be the CEO
- Added Howard Brownstein, one of the highly qualified and independent individuals recommended by Lawndale, to the Board

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However, we feel that, given the long tenure and social relationships of P&F's legacy directors with Mr. Horowitz, change is cosmetic until this Board:

- Takes more substantive steps in the near term to improve the Board's true independent composition
- Reduces or eliminates the egregious compensation terms provided to Mr. Horowitz under his current employment contract upon its expiration next year.

Improve the independent composition of P&F's Board by removing or replacing additional conflicted directors

It is inefficient for a company as small as P&F to maintain and compensate a nine-person board. While we are confident the addition of turnaround professional Howard Brownstein to the Board will be valuable and increase independence, P&F's overall board composition remains excessively large and conflicted. Three of the seven other non-management directors (Directors Dubofsky, Goldberg and Solomon) are long-time close personal friends of Mr. Horowitz, belonging to the same Glen Oaks Country Club. Directors Goldberg and Solomon comprised the entire Compensation Committee that structured Mr. Horowitz' employment contract. In addition, last year P&F paid \$545,000 in premiums and fees to Robert Dubofsky's insurance brokerage firm. A fourth director, Dennis Kalick, is one of Mr. Horowitz' personal tax advisors. From our review of tax returns of the foundations of Mr. Horowitz, his relatives, and other Company Board members, (some of which were signed by Director Kalick), we note that there exist many other identical charitable interests.

There is simply no justification for maintaining P&F's board size to accommodate Mr. Kalick. Mr. Kalick's personal tax advice for Mr. Horowitz should come from private offices, and not at shareowner expense, directly or indirectly. If indeed Mr. Kalick's skill set is essential to P&F's boardroom, then we can certainly find someone similarly experienced with no ties to Mr. Horowitz. This person could then serve on Board committees as an independent director. Furthermore, all of Mr. Horowitz' fellow country club members should be considered for near-term replacement with new directors who are truly independent of any social, financial and charitable connections to Mr. Horowitz.

Reduce or eliminate the egregious compensation terms paid to Mr. Horowitz through company sale or new contract

It is a sure sign of weakness in a company's corporate governance when its board approves unjustifiable compensation. As detailed in our May 2010 Letter, Mr. Horowitz' pay has extracted essentially all of P&F's income available to shareowners over his lengthy tenure as CEO. Arguably, such a long period of granting so much money to the exclusive benefit of the company's largest shareowner has been a selective dividend, or possibly even a case of fiduciary breach in the form of corporate waste. You can remedy this situation over the coming year, as Mr. Horowitz' employment contract expires.

P&F is structured as a holding company with discrete manufacturing, import and distribution businesses, each with its own divisional operating head. This very small company is also suffering under the weight of substantial fixed costs of being public. Prior to renewing Mr. Horowitz' contract, the Board ought to consider strategic alternatives, including the sale of the company for a control premium to a synergistic buyer, whose plans may not include Mr. Horowitz.

If the Board should decide to retain Mr. Horowitz and enter into a new employment contract, then that contract must contain several changes. First and foremost, 'guaranteed' base compensation must be drastically reduced from present levels to reflect both (a) the Company's small size and (b) the fact that Mr. Horowitz' performance has been sub-par at best. Furthermore, over the years, Mr. Horowitz has been provided substantial equity compensation, allowing him to become nearly a 30% shareowner. When someone owns this much equity, he should not require continuation of excessive profit sharing incentives to be retained or to perform better. In addition, a CEO with such a significant block of stock does not require the protection of "Golden Parachute" severance terms, paying several multiples of annual compensation upon a change of control.

As proxy advisor Proxy Governance discussed in their vote Withhold recommendation:

Far beyond the letter of the exchange standards, the spirit of director independence requires taking decisive action in the face of clear evidence there is a problem with management It seems clear that all shareholders other than the current CEO have long been poorly served by the incumbent board and management team.

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Perhaps if P&F Compensation Committee members and most other directors were to purchase and own a meaningful amount of P&F stock, executive compensation at the Company would become more shareowner friendly.

Earlier this year, Lawndale submitted five highly qualified and independent individuals for possible addition to P&F's Board. Most of these individuals remain ready and willing to serve. We would be happy to source additional director candidates to meet the evolving needs of your Board.

We believe it is in the best interests of P&F's shareowners for you to work with us to expeditiously improve the Board's composition. We trust that a more independent Board will make decisions regarding P&F's optimal path and Mr. Horowitz' future role on that path with all shareowners in mind. We request a meeting or conference call with you to discuss constructive actions to further improve corporate governance and maximize value for all P&F shareowners.

Thank you for your prompt consideration of these matters. We look forward to working with you.

Sincerely,

Andrew Shapiro
President

Attachment – Letter to P&F Board of Directors dated May 25, 2010



Andrew Shapiro
President

May 25, 2010

To the Board Members of P & F Industries:

As you know, for several years, Lawndale Capital Management, LLC, through the funds it manages, has been one of the largest independent shareowners of P & F Industries, Inc. ("P&F" or the "Company"). Lawndale presently owns 7.7% of the Company. Although for years we have generally been supportive of the stated plans and acquisitions of Chairman and CEO Richard Horowitz, we have become increasingly concerned with:

- 1) **Mr. Horowitz' repeated execution failures, the result of which has been essentially zero growth in the Company's tangible book value over his entire 14+ year tenure as Chairman and CEO, and**
- 2) **The Company's corporate governance, which has continued to egregiously compensate Mr. Horowitz, with no apparent accountability for his lengthy period of failure.**

As a result, and after considerable thought and review, **Lawndale is voting 272,812 shares (equal to 7.5% of eligible shares) to "WITHHOLD authority for ALL NOMINEES" on Proposal 1, Election of Directors** at your Annual Meeting. (As further discussed, below, leading independent proxy advisory services, Proxy Governance and RiskMetrics also recommended voting to "WITHHOLD ALL" and "WITHHOLD Dubofsky", respectively.)

The following excerpt from Proxy Governance's recommendation analysis explains their rationale to WITHHOLD ALL vote:

**"In each of the past two years we have recommended withhold votes against all directors standing for election, based on the company's poor performance versus peers, the board's apparent lack of urgency about rebuilding shareholder value, and the Compensation Committee's seemingly irrevocable commitment to paying the CEO several multiples of peer median regardless of the long-term decline in the company's performance.
... As it seems clear that all shareholders other than the current CEO have long been poorly served by the incumbent board and management team, we recommend – yet again - that shareholders withhold their votes from all the management nominees at this meeting."**

We have taken this step due to the following issues:

For P&F's Small Size And Business Structure, Horowitz' Compensation Is Wholly Inappropriate

Mr. Horowitz' employment agreement pays him a minimum of \$926,250 plus a significant bonus, depending on profits. This base salary represents over 12% of both P&F's current market value, as well as P&F's earnings-before-CEO-compensation when the agreement was signed, in early 2007. As a 29% shareholder, Mr. Horowitz should not require such extensive profit participation to entice him to stay on as CEO and perform better. Nor should a CEO with such a significant stake in the company require a "Golden Parachute" agreement providing for several multiples of annual compensation upon a change of control. Proxy Governance's compensation analysis of P&F found:

"The average three-year compensation paid to the CEO is 216% above the median paid to CEOs at peer companies and the average three-year compensation paid to the other named executives is 38% above the median paid to executives at peer companies."

P&F is structured as a holding company; it has discrete manufacturing, import and distribution businesses, each with its own divisional operating head. Yet, as illustrated in Figure 1, showing pretax income before

CEO compensation for the most recent 10-year period, Richard Horowitz took home an astounding 68% of this entire income.

Given the percentage of income that has been paid to Mr. Horowitz for “running” P&F, you would think the Company was a Wall Street bank and Mr. Horowitz was its main income-producing asset. Yet, P&F’s own Wall Street lenders, Citibank and HSBC, as a condition to extending their loans, required Mr. Horowitz’ cash payout to be capped at \$750,000 as long as their loans were outstanding.

You know someone’s compensation is really out of line when “Wall Street” thinks it’s too high.

It should be noted that, in further disservice to his fellow shareholders, Mr. Horowitz required this compensation be deferred until after Citibank and HSBC were gone, rather than be truly cut (as is common among executives of similarly distressed businesses).

The Only Shareowner That Has Benefited From The Horowitz Era Has Been Horowitz

Over 14 years ago, Richard Horowitz was promoted to Chairman & CEO, taking over these roles from his father, Sidney, in November 1995. From December 31, 1995 to the end of March, 2010 with Mr. Horowitz at the operating helm, (the “Horowitz Era”), P&F has acquired and then divested multiple companies with little, if any, tangible value created. Further, relatively large amounts of Goodwill and Intangible Assets have been written off over time, reflecting a pattern of overpaying for or mismanaging acquisitions.

As illustrated in Figure 2, over the last ten calendar years, P&F’s shareowner value has been destroyed, while Mr. Horowitz has been awarded a total of \$13.5MM in cash by a Compensation Committee chaired by director nominee Alan Goldberg. During the full 14 1/4 year Horowitz Era, he has been awarded \$17.6MM of cash compensation *plus* additional “other” compensation of \$804,400 and 670,000 options (which by themselves represent over 15% of the Company on a fully-diluted basis).

Over the last ten calendar years, P&F’s total shareholder equity has *fallen* by \$3.4MM and PFIN’s market capitalization has dropped a staggering \$13.8MM (-59.5%). Over the entire Horowitz Era, tangible book value increased by only \$779 thousand, or less than 0.4% compounded annually.

The Proxy Governance analysis, in their WITHHOLD ALL recommendation noted:

“... over the past three years, while the CEO has collected salary and cash incentives worth approximately half the company's current market capitalization, shareholders have lost 76% in the market value of their investment. Shareholder's equity has fallen by more than 50% - yet shares now trade at a 70% discount to even those reduced circumstances.”

Mr. Horowitz’ pay has extracted essentially all of P&F’s income available to shareholders. It may be argued that such a long period of granting so much money to the exclusive benefit of the company’s largest shareholder has been a selective dividend, or possibly even a case of fiduciary breach in the form of corporate waste.

Perhaps, if P&F Compensation Committee members and most other directors were to purchase and own a meaningful amount of P&F stock, executive compensation at the Company would become shareowner aligned.

P&F’s Board Requires Increased Independence Via New Directors From Outside “The Club”

We find it disturbing that of P&F’s eight-member Board, four directors (Mr. Horowitz, Mr. Goldberg, Mr. Solomon and Mr. Dubofsky) are close friends and sourced from the same Glen Oaks Country Club of Old Westbury, New York, and ALL members of the Compensation Committee, chaired by Mr. Goldberg, are club members. We hope social and financial status pressures in the Club did not serve as justification for the outsized compensation. However, we note from our review of the tax returns of the foundations of Mr. Horowitz, his relatives, and other Company Board members, that there are many shared common interests as well as an enormous investment loss suffered at the hands of Bernard Madoff. These circumstances raise additional concerns: P&F shareowners shouldn’t have to be made to pay for a golf foursome’s charitable and wealth rebuilding priorities.

It is a sure sign of weakness in a company's corporate governance structure when its board approves unjustifiable compensation. This weakness is likely to interfere with other oversight responsibilities such as reigning in excessively high fixed overhead costs from overstaffing, inefficient purchasing or excess manufacturing capacity.

The independent proxy advisory firm, Riskmetrics, highlighting the \$545,000 of premiums and fees paid by P&F to Robert Dubofsky's insurance brokerage firm, has recommended that P&F's shareholders vote WITHHOLD on director Dubofsky. Riskmetrics believes, as do we and most shareowners, that key board committees should include only independent directors to ensure independent oversight of management and that such payments make Mr. Dubofsky an "Affiliated Outsider" and not sufficiently independent.

As proxy advisor Proxy Governance discussed the failure of accountability at P&F:

"Far beyond the letter of the exchange standards, the spirit of director independence requires taking decisive action in the face of clear evidence there is a problem with management it seems clear that all shareholders other than the current CEO have long been poorly served by the incumbent board and management team."

Lawndale Has Provided P&F Several Outstanding Independent & Qualified Nominees

In response to a December, 2009 request by Nominating Committee Chairman Mark Utay, Lawndale submitted five highly qualified and independent individuals for possible addition to P&F's Board. Although our nominations were made long before the deadline for setting P&F's slate and proxy for the upcoming June 3 Annual Meeting, none of our suggested nominees appeared on the final proxy.

We raised concerns over increasing the Company's Board size and instead suggested that its legacy directors be scrutinized for replacement with new highly qualified directors who are truly independent of affiliations with management. Not only should legacy directors who lack technical independence, such as Dennis Kalick, one of Mr. Horowitz' personal tax advisors, be prime candidates for replacement, but also some or all of the three P&F directors from the Glen Oaks Club. They likely lack independence due to very strong social, financial and charitable interlocks to Mr. Horowitz – all the more reason for Lawndale's WITHHOLD votes on ALL director nominees (and Glen Oaks Club members) Alan Goldberg, Robert Dubofsky and Richard Horowitz.

Our decision at this time to limit our actions to a "withhold" vote was made with the belief that the P&F Board will work with us to expeditiously to improve the Board's structure. We request a meeting with you personally to discuss constructive actions you can take to improve corporate governance and maximize value for all P&F shareholders.

Thank you for your prompt consideration of the matters outlined in this communication. We look forward to working with you.

Sincerely,

Andrew Shapiro
President

Figure 1:

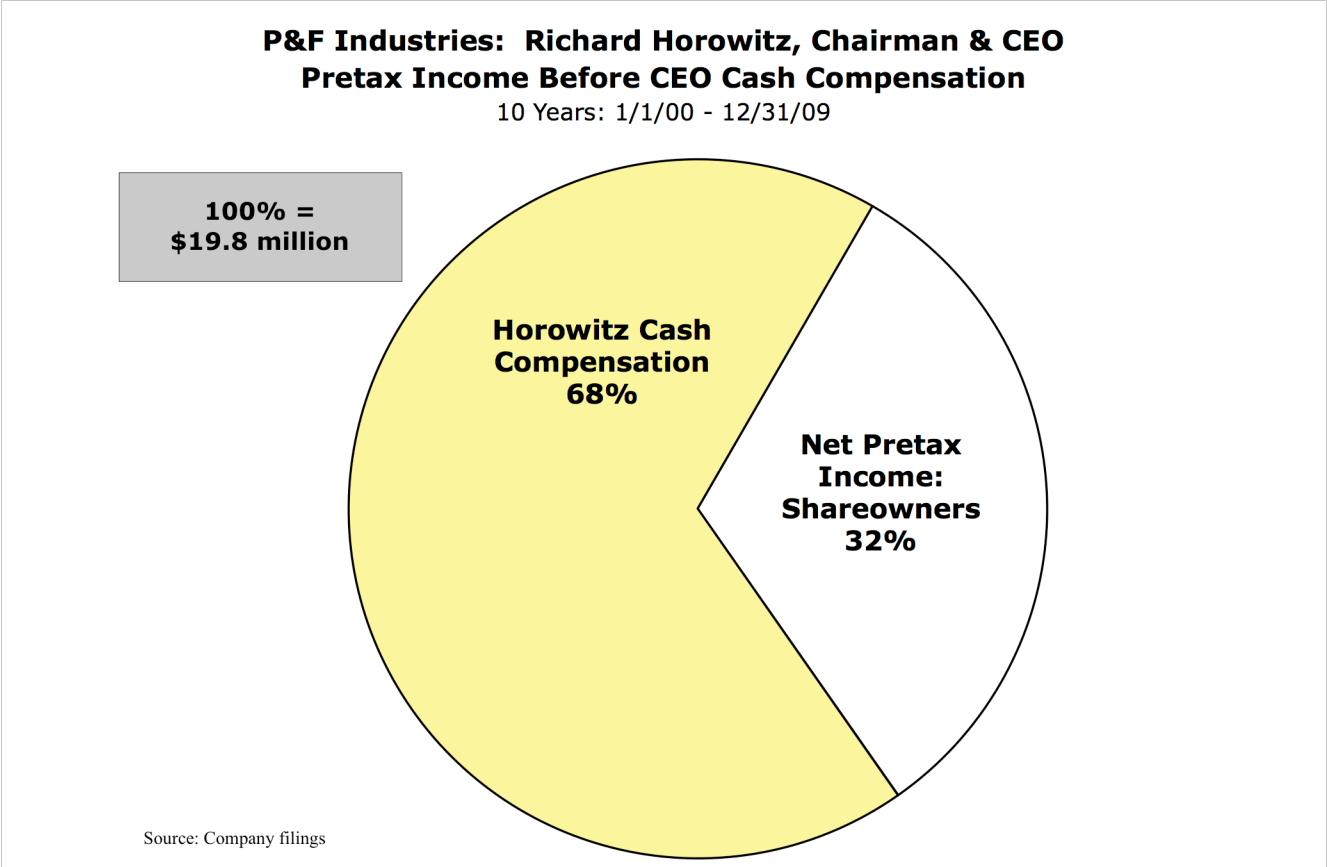
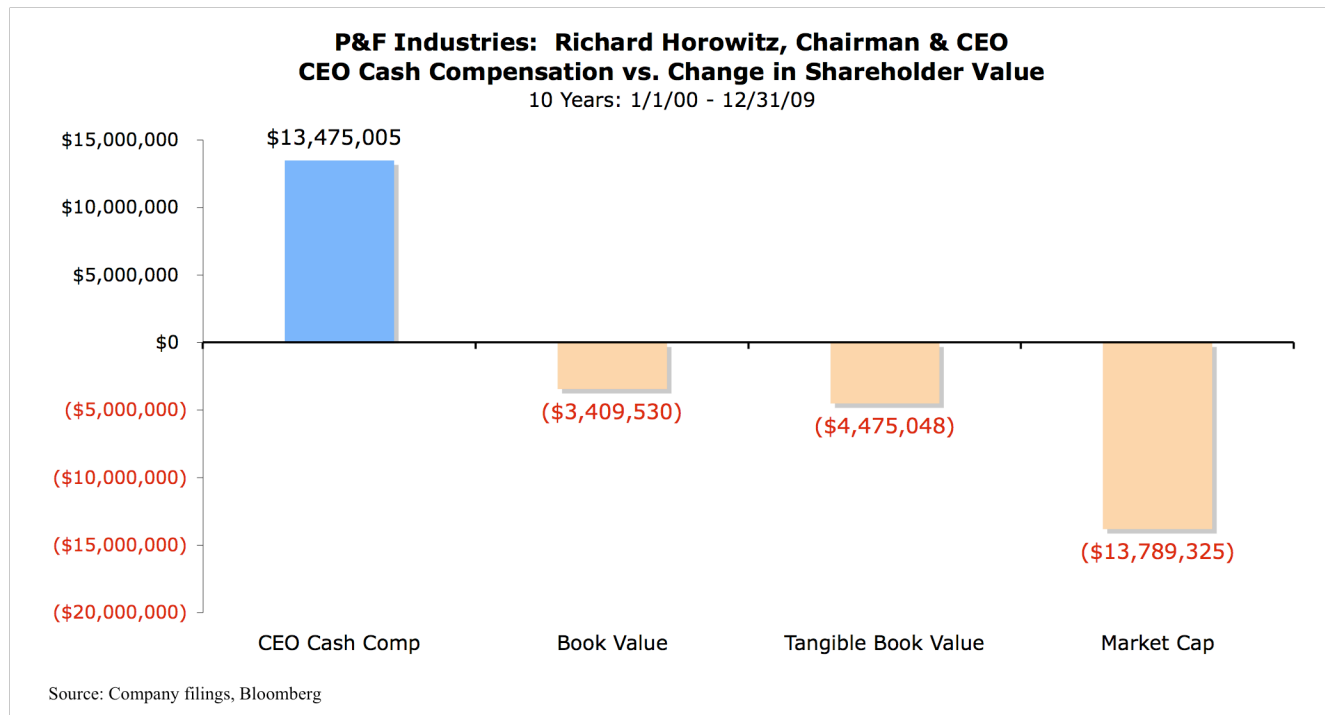


Figure 2:

A)



B)

