



Andrew Shapiro
President

May 24, 2011

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 just short of 10% of the Company. Lawndale continues to have major concerns regarding the failed management of P&F by Chairman and CEO Richard Horowitz, as well as the lack of managerial accountability and excessive executive compensation provided by this Board (excluding its new independent director, Howard Brownstein.). At this week's Annual Meeting of shareholders, **Lawndale is voting 359,710 shares (equal to almost 10% of eligible shares) "AGAINST" approval of Proposal 3, the Executive 162(m) Bonus Plan and to "WITHHOLD" authority on NOMINEE 02, MITCHELL A. SOLOMON, on Proposal 1, Election of Directors**

We have attached copies of our September 17, 2010 and May 25, 2010 letters to the Board (the "2010 Letters") to remind you of the rationale for our concerns, our vote last year to "Withhold" on the re-election of your slate of directors and Lawndale's view that P&F's governance "reforms", to date, are merely cosmetic. We ask that you re-read closely our 2010 Letters, where we detailed ways in which the Board could both:

- **Eliminate Mr. Horowitz' egregious compensation through P&F's sale or a greatly reduced contract.**
- **Improve the independent composition of P&F's Board by removing or replacing conflicted directors**

At last year's annual meeting of P&F shareholders, Lawndale voted its shares to "Withhold" on the re-election of the slate of directors comprised of: Mr. Horowitz, Mr. Goldberg, P&F's then Compensation Committee Chairman, and Mr. Dubofsky, whose insurance brokerage received \$545,000 of premiums and fees from P&F. Mr. Goldberg and Mr. Dubofsky have been long-time close personal friends of Mr. Horowitz **sourced from his Glen Oaks Country Club of Old Westbury, New York as is former Compensation Committee member, Mr. Solomon.** We note that roughly 30% of the votes cast for the nominees voted "withhold." This was a remarkable tally when considering Lawndale did not solicit other shareholder proxies and Mr. Horowitz, Board members, other affiliated entities and insider family members held upwards of 35% of all of P&F's shares.

P&F's 2010 base compensation of \$926,250 for Mr. Horowitz as CEO and \$332,500 for Mr. Molino as COO/CFO remains excessive for a small holding company, especially having its own divisional operational heads, and poor long-term performance. It was pointed out on P&F's most recent conference call that **the participants of the Executive 162(m) Bonus Plan have been exclusively Mr. Horowitz and Mr. Molino.** Thus, one of the best ways to send a renewed message to this Board that more substantive change (such as outlined in our 2010 Letters) is required is by voting **"AGAINST"**

approval of Proposal 3, the Executive 162(m) Bonus Plan. We also find it appalling that the Plan terms allow bonus grants as large as \$2.75 million. Unlike a precatory “withhold” vote, a vote AGAINST the Executive 162(m) Bonus Plan may garner the Board’s greater attention, as the Plan requires a majority of votes cast to pass. Should you address the compensation abuses, discussed herein and in our 2010 Letters, Lawndale is prepared to support a new bonus plan with lower annual grant caps on next year’s proxy.

Mr. Horowitz’ employment contract expires at the end of this year. P&F is structured as a holding company with discrete businesses, each with its own divisional operating head. This 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.**

Should the Board decide to retain Mr. Horowitz and enter into a new employment contract, **Mr. Horowitz’ new contract ought to contain several changes** addressing the following issues:

1. ‘Guaranteed’ base compensation must be drastically reduced from present levels to reflect both (a) the Company’s small size, (b) holding company structure and (c) the fact that Mr. Horowitz’ long-term performance has been sub-par at best.
2. Over the years, Mr. Horowitz has been provided substantial equity compensation, allowing him to become nearly a 30% shareowner. With this much equity, he should no longer require such excessive profit sharing incentives to remain with P&F or to perform better.
3. A CEO with a significant block of stock should not require the protection of “Golden Parachute” severance terms, which pay several multiples of annual compensation upon a change of control.

We note that Mr. Molino’s contract is at will and that, after his years at the company, he owns outright an incredibly low 500 shares, while continually receiving and sitting on a substantial amount of options with the anachronistic duration of 10 years. While he should be afforded some change of control protections (unlike Mr. Horowitz), **Mr. Molino’s compensation package should be restructured lower** in base salary, with some taxable direct equity grants provided only upon achievement of appropriate performance targets and with option grants having much shorter durations such as 3-5 years after which a holding period on exercised option stock should be required.

We appreciate that if the Executive Bonus Plan does not pass, P&F would not be able to treat certain bonus payments creating compensation above \$1 million as tax deductible. However, the participants of the Executive 162(m) Bonus Plan have been exclusively Mr. Horowitz and Mr. Molino, two executives who have been continually excessively paid. Furthermore, in light of the guaranteed base compensation of Mr. Horowitz under his current egregious and excessive contract is at or near \$1 million/year, much, if any, bonus provided to Mr. Horowitz would likely not be deductible for P&F. We would like to put this Board on notice that providing any executive a bonus that exceeds tax-deductible limitations gives rise to potential for breach of fiduciary duty and corporate waste claims. If Mr. Horowitz would like to leave the company because he receives little, if any, bonus, we hope you will show him the door. Our 2010 Letters clearly illustrate Mr. Horowitz has already extracted plenty from P&F’s shareowners, year in and year out, in good years and bad.

P&F Board of Directors
May 24, 2011

Last year, leading independent proxy advisory services Proxy Governance and RiskMetrics/ISS 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. As Proxy Governance discussed in their vote Withhold recommendation last year:

“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.”

We note that, next year, the term of P&F Director and Mr. Horowitz' personal tax advisor, Dennis Kalick, will expire. There is no justification for maintaining P&F's large 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 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 retirement or replacement with new directors who are truly independent of any social, financial and charitable connections to Mr. Horowitz. Hence our **“WITHOLD” vote on Mr. Solomon.**

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 and compensation structure. Last year, Lawndale submitted five highly qualified and independent individuals for possible addition to P&F's Board. Several of these individuals and others remain ready and willing to replace your conflicted directors. This year, we again did not conduct any proxy solicitation campaign. Rest assured, if the Board continues its egregious and dilutive executive compensation program and remains bloated with 3 staggered classes of 9 directors, with a majority arguably conflicted, Lawndale is quite capable of successfully waging a contest forcing more radical changes to create a more independent board. A more independent Board will make decisions regarding P&F's optimal path and Mr. Horowitz' future role on that path considering all shareowners rather than just Mr. Horowitz.

We request a meeting or conference call with the Independent board members in the immediate future 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 – 2010 Letters to P&F Board of Directors