ACR GROUP INC
Form 10-K/A
October 15, 2004
Table of Contents

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-K/A

For Annual Reports Pursuant to Section 13 or 15(d)

of the Securities Exchange Act of 1934

For the Fiscal Year Ended February 29, 2004

Commission File Number 0-12490

ACR GROUP, INC.

(Exact name of registrant as specified in its Charter)

Texas	**74-2008473**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

3200 Wilcrest Drive, Suite 440, Houston, Texas 77042

(Address of principal executive offices) (Zip Code)

Registrant s telephone number, including area code: (713) 780-8532

Securities registered pursuant to Section 12(b) of the Act: None

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

Common Stock, par value $.01 per share

(Title of class)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

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

Indicate by check mark if the registrant is an accelerated filer (as defined in 12b-2 of the Securities Exchange Act of 1934) Yes ¨ No x.

The aggregate market value of the voting stock (common stock) held by non-affiliates of the registrant as of August 29, 2003, the last business day of the registrant s most recently completed second quarter was $4,717,327, based on the closing sale price on that date. For purposes of determining this number all executive officers and directors of the registrant as of August 31, 2003 are considered to be affiliates of the registrant. This number is provided only for purposes of the report on Form 10-K and does not represent an admission by either the registrant or any such person as to the status of such person.

The number of shares outstanding of the registrant s common stock as of April 30, 2004: 10,681,294 shares

DOCUMENTS INCORPORATED BY REFERENCE

The registrant s definitive Proxy Statement for its Annual Meeting of Shareholders to be held in August 2004 is incorporated by reference in answer to Part III of this report.

Table of Contents

TABLE OF CONTENTS

Table of Contents

EXPLANATORY NOTE

This Form 10-K/A is being filed to revise certain sections of the Form 10-K for the year ended February 29, 2004, which the Company previously filed with the Securities and Exchange Commission on June 1, 2004. The Company has concluded that it improperly accounted for certain interest rate derivative instruments that were originally entered into in September 2000 and April 2001. The Company did not properly record the fair value of the derivative instruments and the change to the fair value of the derivative instruments as derivative interest gain or loss in the statements of operations for the periods affected. The following sections are amended in this Form 10-K/A.

Item 6. Selected Financial Data is amended to revise Income Statement Data for the years ended February 28, 2002 and 2003, and February 29, 2004, and Balance Sheet Data as of February 28, 2002 and 2003, and February 29, 2004.

Item 7. Management s Discussion and Analysis of Financial Position and Results of Operations is amended under the captions Results of Operations, Critical Accounting Policies, and Liquidity and Capital Resources.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk is revised.

Item 8. Financial Statements and Supporting Data is revised to amend the consolidated balance sheets of ACR Group, Inc. and subsidiaries as of February 29, 2004 and February 28, 2003, and the related consolidated statements of operations, shareholders equity and cash flows for each of the three years in the period ended February 29, 2004. Also amended or added are the following Notes to Consolidated Financial Statements: 1 - Description of Business and Summary of Significant Accounting Policies, under the paragraphs Interest Rate Derivative Instruments and Stock-Based Compensation ; 2 Restatement; 6 Income Taxes; and 10 Quarterly Results (Unaudited).

As required by Rule 12b-15 under the Securities Exchange Act of 1934, as amended (the Exchange Act), new certifications by the Company s principal executive officer and principal financial officer are being filed as exhibits to this form 10-K/A under Item 15 of Part IV.

For purposes of this Form 10-K/A, and in accordance with Rule 12b-15 under the Exchange Act, each item of the Company s Annual Report on Form 10-K for the year ended February 29, 2004, as originally filed on June 1, 2004, that was affected by this amendment, has been amended and restated in its entirety. No attempt has been made in this Form 10-K/A to modify or update other disclosures as presented in the original Form 10-K, except as required to reflect such amendments.

Table of Contents

In connection with the restatement, the Company has reclassified payments made on derivative instruments from interest expense to interest derivative gain or loss; recorded changes in the fair value of such instruments as interest derivative gain or loss; and the related effect of such changes in fair value. The net effect of all the restatement adjustments is as follows:

	Fiscal year ended		
	February 29,	February 28,	
	2004	2003	2002
	(in thousands, except per share data)		
Increase (decrease) to net income before cumulative effect of accounting change due to restatement to record unrealized derivative gain (loss), (net of taxes)	$ 216	$ (103)	$ (208)
Cumulative effect of accounting change (net of taxes)			(212)
Increase (decrease) to net income due to restatement to record unrealized derivative gain (loss)	$ 216	$ (103)	$ (420)
Increase (decrease) to earnings (loss) per share basic and diluted:			
Before cumulative effect of accounting change:	$ .02	$ (.01)	$ (.02)
Cumulative effect of accounting change	$	$	$ (.02)
	$ .02	$ (.01)	$ (.04)

Table of Contents

PART I

Item 1. Business.

General

ACR Group, Inc. (which, together with its subsidiaries is herein referred to as the Company or ACRG) is a Texas corporation based in Houston. In 1990, the Company began to acquire and operate businesses engaged in the wholesale distribution of heating, ventilating, air conditioning and refrigeration (HVACR) equipment and supplies. The Company acquired its first operating company in 1990. Since 1990, ACRG has acquired or started seven additional HVACR distribution companies and now has 45 branch operations in nine states. The Company plans to continue expanding in the Sunbelt of the United States and in other geographic areas with a high rate of economic growth, through both acquisitions and internal growth.

The HVACR Industry

The Company sells supplies and equipment to installing contractors and dealers and to other technically trained customers responsible for the installation, repair and maintenance of HVACR systems. Maintenance of a large and diverse inventory base is an important element in the Company s sales.

The HVACR supply industry is segmented into discrete categories. First, it serves both commercial and residential HVACR businesses. Each of these segments is further divided into two markets - new construction sales and replacement and/or repair sales. Some companies choose to specialize in serving the new construction markets while others focus on the repair/replacement market, commonly referred to as the aftermarket. ACRG is not oriented toward any particular segment but instead concentrates on acquiring and developing profitable businesses in the Sunbelt region of the United States which have a significant market share within their segment of the HVACR distribution industry. The Company believes that its growth strategy is appropriate in view of the competitive nature of the HVACR industry and the continuing consolidation in that industry, discussed below.

There are many manufacturers of products used in the HVACR industry, and no single manufacturer dominates the market for a range of products. Some manufacturers limit the number and territory of wholesalers that may distribute their products, but exclusivity is rare. Many manufacturers will generally permit any distributor who satisfies customary commercial credit standards to sell their products. In addition, there are some manufacturers, primarily of equipment, that distribute their own products through factory branches. The widespread availability of HVACR products to distributors results in significant competition. There are an estimated three thousand HVACR wholesale distributors in the United States, and there is no single company or group of companies that dominates the HVACR distribution industry. The industry traditionally has been characterized by closely-held businesses with operations limited to local or regional geographic areas; however, a process of consolidation in this industry is ongoing, as many of these companies reach maturity and face strategic business issues such as ownership succession, changing markets and lack of capital to finance growth. Management s goal is to attract the present owners and management of such businesses by offering certain advantages related to economies of scale: lower cost of products from volume purchasing, new product lines, and financial, administrative and technical support.

Table of Contents

The Company believes that investing in the HVACR distribution industry has fewer economic risks than many other industries. Although the HVACR industry is affected by general economic conditions such as cycles in new home construction, sales of replacement equipment and repair parts for the existing base of installed air conditioning and heating systems provide a cushion against economic swings. The aftermarket is far less susceptible to changes in economic conditions than the new construction market and now represents approximately 70% of all units installed annually. This percentage should continue to increase as the base of installed systems expands. Much of the HVACR industry is also seasonal; sales of air conditioning and heating systems are generally largest during the times of the year when climatic conditions require the greatest use of such systems. Sales of refrigeration systems, which are generally to commercial customers, are subject to less seasonality.

The Company s operations are conducted through six business units that participate in the wholesale distribution of HVACR equipment and supplies:

ACR Supply

The Company acquired ACR Supply (ACRS) in 1993, after making an initial investment in the company in 1991. At the end of fiscal 2004, ACRS had fourteen branches in Texas and one in Louisiana. Many of ACRS s branches have attained market share leadership in their respective areas. In major metropolitan areas such as San Antonio and Houston, ACRS encounters significantly more competition than in smaller cities. However, through aggressive sales efforts, the Houston branches have achieved a significant, but not dominant, share of their local HVACR markets.

ACRS sells primarily to licensed contractors serving the residential and light commercial (restaurants, strip shopping centers, etc.) markets. The company s sales mix is approximately 31% equipment and 69% parts and supplies, with the equipment and parts generally directed to the aftermarket and the supplies used principally in new construction.

Heating and Cooling Supply

The Company acquired Heating and Cooling Supply (HCS) in 1990. HCS operates from one location in Las Vegas, Nevada. There are approximately 20 independent HVACR distributors in the Las Vegas area that compete with HCS. Management believes that HCS is among the top three of such distributors in terms of annual sales from branch operations in the local area.

Mirroring the rapid growth of the Las Vegas economy over the past decade, approximately 80% of HCS s sales are in the new construction market, and a majority of those sales are to the residential segment of the market. Unlike many HVACR distributors, HCS also has capabilities to service both the commercial plan and specifications market and the specialty products markets. The company is directing greater attention to the HVACR aftermarket in an effort to gain higher margin business and to diversify its customer base.

Table of Contents

Total Supply

Total Supply (TSI) has operated as an HVACR wholesale distributor in Georgia since 1992. Since 1993, TSI has distributed the Goodman brand of HVACR equipment in Georgia and now has the Goodman distribution rights to almost the entire state of Georgia. In 1999, TSI gained the distribution rights for Goodman equipment in the Nashville Tennessee trade area. TSI sells almost exclusively to the residential market, and management estimates that sales are approximately evenly split between new construction and the aftermarket. The company s sales mix is approximately 66% equipment and 34% parts and supplies. In addition to its branch in Nashville, TSI has four branches located in the Atlanta metropolitan area, one branch in Warner Robins, a suburb of Macon and another in Savannah, Georgia.

Florida Cooling Supply

In 1996, the Company organized Florida Cooling Supply, Inc. (FCS) and opened four branch operations in west central Florida, of which three remain open. The state of Florida is among the three largest in the United States in terms of installed HVACR systems. The Company s sales mix is approximately 40% equipment and 60% parts and supplies. In fiscal 2001, the Company opened branch operations in Gainesville and Jacksonville, Florida expanding its sales territory outside the Tampa Bay area of Florida. In fiscal 2004 the Company opened branches in Ft. Myers and Orlando and will open a branch in Sarasota in the second quarter of fiscal 2005. Management believes that Florida will continue to offer exceptional opportunities to open additional branch operations.

ACH Supply

In 1997, the Company acquired the operating assets and liabilities of ACH Supply, Inc. (ACH). ACH had two branches located east of Los Angeles. From 1999 through 2003, ACH opened six additional branches including two in central California markets and four in southern California markets. ACH sells primarily HVACR parts and supplies, with equipment comprising approximately 30% of total sales. In addition to Florida, management believes that significant expansion opportunities remain in California.

Contractors Heating & Supply (CHS)

In 1997, CHS acquired certain of the assets, and assumed certain of the liabilities, of Contractors Heating and Supply Company, an HVACR distributor based in Denver, with branch operations in Colorado Springs and Newcastle, Colorado, and in Albuquerque, New Mexico. CHS has operated in Denver since 1945, in Colorado Springs since 1959 and in Albuquerque since 1960, and is considered among the market leaders in each of its trade areas. CHS also operates a sheet metal shop in Colorado Springs, where products are fabricated for distribution through CHS s wholesale operations. Approximately 15% of CHS s total sales are products that it manufactures. In 1999, CHS opened a distribution branch in Fort Collins, Colorado, and, in 2000, acquired International Comfort Supply, Inc., a wholesale distributor based in El Paso, Texas. In fiscal 2001, the Company obtained the rights to distribute the Goodman line of equipment in all of its trade areas. In 2001 CHS opened a branch operation and distribution center in east Denver which was closed subsequent to fiscal year-end 2004.

Table of Contents

Executive Officers of the Registrant

The Company s executive officers are as follows:

Name	Age	Position with the Company
Alex Trevino, Jr.	67	Chairman of the Board and President
Anthony R. Maresca	53	Senior Vice President, Treasurer and Chief Financial Officer
A. Stephen Trevino	41	Senior Vice President, Secretary and General Counsel

Alex Trevino, Jr. has served as Chairman of the Board since 1988 and as President and Chief Executive Officer of the Company since July 1990.

Anthony R. Maresca has been employed by the Company since 1985. In November 1985 he was elected Senior Vice President, Chief Financial Officer and Treasurer. Mr. Maresca is a certified public accountant.

A. Stephen Trevino has been employed by the Company since March 1999, initially serving as General Counsel and directing various administrative functions. He was elected Senior Vice President and Secretary in August 2000.

Employees

As of February 29, 2004, the Company and its subsidiaries had approximately 422 full-time employees. Neither the Company nor its subsidiaries routinely use temporary labor. There are no Company employees represented by any collective bargaining units. Management considers the Company s relations with its employees to be good.

Website Access to Company Reports

The Company s annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports are available free of charge on the Company s website at www.acrgroup.com as soon as reasonably practical after such material is electronically filed with or furnished to the Securities and Exchange Commission.

Also, copies of the Company s annual report will be made available free of charge upon written request.

Table of Contents

Item 2. Properties.

The Company and its subsidiaries occupy office and warehouse space under operating leases with various terms. Generally, a branch location will contain 10,000 to 25,000 square feet of showroom and warehouse space. Branch locations that include a subsidiary s corporate office will be larger. The Company owns the facilities occupied by the Pasadena, Texas branch of ACRS, the Gainesville, Florida branch of FCS and a building and land leased to the company that purchased ACRG s filter manufacturing operations in 2004.

Item 3. Legal Proceedings.

As of February 29, 2004 the Company was not a party to any pending legal proceeding that is deemed to be material to the Company and its subsidiaries.

Item 4. Submission of Matters to a Vote of Security Holders.

No matters were submitted to a vote of security holders during the fourth quarter of the fiscal year ended February 29, 2004.

PART II

Item 5. Market for the Registrant s Common Equity and Related Stockholder Matters.

The Company s common stock is traded on the over-the-counter market under the symbols ACRG , ACRG.OB or ACRG.BB , depending on the source of the quote.

The table below sets forth the high and low sales prices based upon actual transactions.

	High	**Low**
Fiscal Year 2004:		
1st quarter ended 5/31/03	$ 0.58	$ 0.32
2nd quarter ended 8/31/03	0.58	0.45
2nd quarter ended 11/30/03	0.97	0.46
4th quarter ended 2/29/04	1.49	0.85
Fiscal Year 2003:		
1st quarter ended 5/31/02	$ 0.59	$ 0.38

2nd quarter ended 8/31/02	0.52	0.36
2nd quarter ended 11/30/02	0.55	0.38
4th quarter ended 2/28/03	0.44	0.34

As of April 30, 2004, there were 463 holders of record of the Company s common stock. This number does not include the beneficial owners of shares held in the name of a broker or nominee.

Table of Contents

The Company has never declared or paid cash dividends on its common stock. The Company s loan agreement with its senior lender expressly prohibits the payment of dividends by the Company. See Management s Discussion and Analysis of Financial Condition and Results of Operations-Liquidity and Capital Resources, and Note 4 of Notes to Consolidated Financial Statements.

Item 6. Selected Financial Data.

The following selected financial data of the Company have been derived from the audited consolidated financial statements. This summary should be read in conjunction with the audited consolidated financial statements and related notes included in Item 8 of this Report. Since February 28, 2000, the increase in sales has resulted principally from internal expansion, as discussed in Management s Discussion and Analysis of Financial Condition and Results of Operations in Item 7. of this Report. The Company has never paid any dividends.

Certain reclassifications were made to the prior years financial statements to conform with current year presentation.

The Company has not recorded a current provision for income taxes other than federal alternative minimum taxes and state income taxes for fiscal years 2000 through 2003 because of previously incurred net operating losses for which a tax benefit had not previously been recorded. In fiscal 2003, the Company recorded deferred federal income tax expense of $251,000 to reduce the carrying value of the net deferred tax asset that related to the benefit realized from the utilization of its net operating loss carryforward. In fiscal 2004, the Company increased its federal tax rate to 34% to provide for current taxes due and to offset the current tax asset realized primarily from the operating loss carryforward. See Management Discussion and Analysis of Financial Condition and Results of Operations and Note 6 of Notes to Consolidated Financial Statements.

Table of Contents

Selected Financial Data

(in thousands, except per share data)

	Year Ended February 28 or 29,				
	2004	2003	2002	2001	2000
	(Restated)	(Restated)	(Restated)		
Income Statement Data:					
Sales	$ 174,353	$ 161,822	$ 155,490	$ 136,433	$ 126,468
Gross profit	38,558	35,673	33,570	29,452	28,135
Operating income	4,452	2,690	2,097	772	4,077
Income before income taxes	3,759	1,277	227	(1,341)	2,482
Provision for income taxes	(1,364)	(277)	(16)	(137)	(255)
Cumulative effect of accounting change		(483)	(212)		
Net income (loss)	$ 2,395	$ 517	$ (1)	$ (1,478)	$ 2,227
Earnings (loss) per common share:					
Basic:					
Before cumulative effect of accounting change	$ .22	$ .09	$ .02	$ (.14)	$ .21
Cumulative effect of accounting change		(.04)	(.02)		
	$ .22	$ .05	$ .00	$ (.14)	$ .21
Diluted:					
Before cumulative effect of accounting change	$ .22	$ .09	$ .02	$ (.14)	$ .20
Cumulative effect of accounting change		(.04)	(.02)		
	$ .22	$ .05	$ .00	$ (.14)	$ .20

	As of February 28 or 29,				
	2004	2003	2002	2001	2000
Balance Sheet Data:					
Working capital	$ 25,881	$ 22,605	$ 21,400	$ 21,170	$ 18,072
Total assets	58,727	52,728	56,630	54,582	44,842
Long-term obligations	23,258	22,855	24,148	24,494	17,499
Shareholders equity	13,058	10,663	10,146	10,147	11,630

Table of Contents

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

Results of Operations

Net income (loss) was $2,395,000 ($0.22 per share), $517,000 ($0.48 per share), ($1,000) ($0.00 per share) in fiscal 2004, 2003 and 2002, respectively. An