

ACR GROUP INC
Form 11-K
June 28, 2004

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM 11-K

ANNUAL REPORT PURSUANT TO SECTION 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the year ended December 31, 2003

Commission File Number

0-12490

A. Full title of the plan and the address of the plan, if different from that of the issuer named below:

ACR GROUP, INC. 401(K) PLAN

B. Name of issuer of securities held pursuant to the plan and the address of its principal executive office:

ACR GROUP, INC.

3200 WILCREST DRIVE, SUITE 440

HOUSTON, TEXAS 77042-6039

ACR GROUP, INC. 401 (k) PLAN

FINANCIAL STATEMENTS

AND

SUPPLEMENTAL SCHEDULE

YEARS ENDED DECEMBER 31, 2003 AND 2002

INDEX

| | <u>Page</u> |
|--|-------------|
| <u>REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM</u> | 1 |
| FINANCIAL STATEMENTS: | |
| <u>STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS</u> | 2 |
| <u>STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS</u> | 3 |
| <u>NOTES TO FINANCIAL STATEMENTS</u> | 4 |
| SUPPLEMENTAL SCHEDULE: | |
| <u>SCHEDULE H LINE 4(i) SCHEDULE OF ASSETS (HELD AT END OF YEAR)</u> | 9 |

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Plan Administrator

ACR Group, Inc. 401(k) Plan

We have audited the accompanying statements of net assets available for benefits of the ACR Group, Inc. 401(k) Plan (the Plan) as of December 31, 2003 and 2002, and the related statement of changes in net assets available for benefits for the year ended December 31, 2003. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion of these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An

Edgar Filing: ACR GROUP INC - Form 11-K

audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Plan at December 31, 2003 and 2002, and changes in net assets available for benefits for the year ended December 31, 2003, in conformity with accounting principles generally accepted in the United States of America.

Our audits were performed for the purpose of forming an opinion of the financial statements taken as a whole. The accompanying supplemental schedule of assets (held at end of year) is presented for the purpose of additional analysis and is not a required part of the basic financial statements, but is supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. The supplemental schedule is the responsibility of the Plan's management. The supplemental schedule has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

/s/ Hein + Associates LLP

Houston, Texas

June 8, 2004

- 1 -

ACR GROUP, INC. 401(k) PLAN

STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS

| | DECEMBER 31, | |
|------------------------------|---------------------|------------------|
| | 2003 | 2002 |
| <u>ASSETS</u> | | |
| RECEIVABLES: | | |
| Employer contributions | \$ 22,319 | \$ 19,924 |
| Participant contributions | 45,818 | 46,741 |
| | 68,137 | 66,665 |
| INVESTMENTS | 5,521,434 | 3,646,864 |
| Total assets | 5,589,571 | 3,713,529 |
| <u>LIABILITIES</u> | | |
| DISTRIBUTIONS PAYABLE | 15,227 | 763 |

Edgar Filing: ACR GROUP INC - Form 11-K

| | | |
|-----------------------------------|--------------|--------------|
| Total liabilities | 15,227 | 763 |
| Net assets available for benefits | \$ 5,574,344 | \$ 3,712,766 |

See accompanying notes to these financial statements.

- 2 -

ACR GROUP, INC. 401(k) PLAN

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

YEAR ENDED DECEMBER 31, 2003

| | | |
|---|--|--------------|
| ADDITIONS: | | |
| Net appreciation in fair value of investments | | \$ 923,725 |
| Employer contributions | | 249,912 |
| Participant contributions | | 683,084 |
| Participant rollovers | | 123,284 |
| Transfers in | | 118,135 |
| Other income | | 117 |
| Total additions | | 2,098,257 |
| DEDUCTIONS: | | |
| Benefits paid to participants | | 221,529 |
| Corrective distributions | | 15,150 |
| Total deductions | | 236,679 |
| NET INCREASE | | 1,861,578 |
| NET ASSETS AVAILABLE FOR BENEFITS AT: | | |
| Beginning of year | | 3,712,766 |
| End of year | | \$ 5,574,344 |

See accompanying notes to these financial statements.

- 3 -

ACR GROUP, INC. 401(k) PLAN

Edgar Filing: ACR GROUP INC - Form 11-K

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2003 AND 2002

1. DESCRIPTION OF PLAN

General The ACR Group, Inc. 401(k) Plan (the Plan) is a defined contribution profit sharing plan covering all eligible employees of ACR Group, Inc. and its participating employers (collectively, the Company). The Plan was adopted effective March 1, 1991 and is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).

The following description of the Plan provides only general information. Participants should refer to the Summary Plan Description for a more complete description of the Plan's provisions, a copy of which is available from the Company.

The Plan's record keepers are Hartford Life Insurance Company and Texas Pension Consultants.

Effective May 8, 2001, the ACR Stock Fund was frozen. No new contributions may be invested in this fund option by participants, and participants are currently restricted from transferring their prior investment out of this fund.

Effective August 13, 2001, an officer of the Company became trustee of the Plan.

Eligibility Each salaried or hourly employee of the Company who has completed at least six months of service and is at least 19 years of age is eligible to participate in the Plan.

Contributions Participants may contribute, with certain limitation, up to 100% of their eligible annual compensation on a pretax basis. Qualified rollover contributions are also accepted by the Plan at the discretion of the Company.

The Company may determine annually what percent of the first 6% of a participant's pretax contributions will be matched. For the 2003 plan year, the Company elected to match 50% of the first 6% of a participant's contribution. Also, at its sole discretion, the Company may elect to make an additional contribution to the Plan from time to time. No additional contribution was made for 2003.

All participant contributions and employer matching contribution accounts are participant-directed.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2003 AND 2002

1. DESCRIPTION OF PLAN (continued)

Administrative Expenses Certain administrative expenses of the Plan are paid by the Company. In 2003 the Company paid \$18,644 of administrative expenses related to the Plan.

Vesting Participants are immediately 100% vested in their contributions plus earnings thereon.

Vesting in the Company contributions portion of their account plus actual earnings thereon is based on years of credited service at 25% per year with 100% vesting after four years. Participants also become 100% vested upon death, disability, or the attainment of normal retirement age of 65. Forfeitures of account balances by participants not fully vested are used to reduce future employer contributions.

Benefit Payments To meet certain financial hardships as defined by the Internal Revenue Service (IRS), participants may make withdrawals from the portion of their accounts attributable to employee pretax contributions and the vested employer contributions. Distributions of a participant's accrued benefits are also made upon termination of employment, total and permanent disability, or death. Participants may elect to receive distributions in a lump-sum payment or rolled over to an IRA or a qualified plan.

Plan Termination Although there is no current intention to do so, the Company has the right to discontinue its contributions at any time and to terminate the Plan subject to the provisions of ERISA. In the event the Plan is terminated, participants will become 100% vested in their accounts.

- 5 -

ACR GROUP, INC. 401(k) PLAN

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2003 AND 2002

2. SUMMARY OF ACCOUNTING POLICIES

Edgar Filing: ACR GROUP INC - Form 11-K

Basis of Accounting The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Benefits are recorded when paid.

Use of Estimates The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates that affect the amounts reported in the financial statements and accompanying notes and supplemental schedule. Actual results could differ from those estimates.

Investment Valuation and Income Recognition The Company's common stock is stated at fair value based on quoted market prices. The investments in the pooled separate accounts are stated at fair value as determined by the issuer based on quoted market values of the underlying investments.

Short-term investments are stated at cost which approximates fair value. The fixed income account is stated at contract value. Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

Risk and Uncertainties The Plan provides for various investments in common stock, short-term investments, pooled separate accounts, and an investment contract. Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility risk. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of net assets available for benefits and participant account balances.

- 6 -

ACR GROUP, INC. 401(k) PLAN

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2003 AND 2002

3. INVESTMENTS

The following table presents the fair value of the Plan's investment securities at December 31, 2003 and 2002:

| | DECEMBER 31, | |
|---|---------------------|-------------|
| | 2003 | 2002 |
| Hartford Life Insurance pooled separate accounts: | | |
| American Century Income & Growth Fund* | \$ 308,550 | \$ 194,974 |

Edgar Filing: ACR GROUP INC - Form 11-K

| | | |
|---|---------------------|---------------------|
| American Century Ultra Fund* | 183,893 | 114,472 |
| Franklin Small Mid Cap Growth Fund* | 559,077 | 265,551 |
| Dividend & Growth Fund* | 625,769 | 387,954 |
| Bond Fund* | 463,950 | 535,609 |
| Small Midcap Fund* | 916,606 | 425,541 |
| Money Market Fund* | 242,165 | 217,997 |
| Janus Balanced Fund* | 389,580 | 290,692 |
| Janus Twenty Fund* | 447,906 | 280,759 |
| Fidelity VIP Overseas | 118,647 | 60,133 |
| Hartford Life Insurance Fixed Income Account* | 977,315 | 742,221 |
| ACR Group Common Stock | 269,079 | 102,367 |
| Schwab Money Market Fund | 18,897 | 28,594 |
| | | |
| Total | \$ 5,521,434 | \$ 3,646,864 |

* Investment represents 5% or more of the Plan's net assets at December 31, 2003 or 2002.

During 2003, the Plan's investments of pooled separate accounts (including investments bought, sold, and held during the year) appreciated in fair value by \$923,725.

The Plan has a group annuity contract with Hartford Life Insurance Company (Hartford) which includes a fixed income account. The crediting interest rate may be changed from time to time by Hartford. The interest rates for 2002 and 2003 were guaranteed at 5.65% and 5.15%, respectively. The crediting interest rate was 5.15% at December 31, 2003. The average yield for 2003 was 5.28%.

- 7 -

ACR GROUP, INC. 401(k) PLAN

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2003 AND 2002

4. INCOME TAX STATUS

The Plan has received an opinion letter from the IRS dated September 4, 2001, stating that the written form of the underlying volume submitter plan document is qualified under Section 401(a) of the Internal Revenue Code (IRC), and that under certain conditions, employers adopting this form of the Plan will be considered to have a plan qualified under the IRC. The Company believes those circumstances have been met and that the operation of the Plan is in compliance with the plan document and the IRC. Therefore, the Company believes that the Plan is qualified and the related trust is exempt from taxation under Section 501(a) of the IRC.

5. PARTY-IN-INTEREST TRANSACTIONS

Edgar Filing: ACR GROUP INC - Form 11-K

The Plan engages in investment transactions with Funds managed by The Hartford. The Hartford is affiliated with Hartford Life Insurance Company, the Recordkeeper. These transactions are covered by an exemption from the prohibited transaction provision of ERISA and IRC.

The Plan owns investments in shares of the Company's common stock. As the Company is the sponsor of the Plan, these transactions qualify as party-in-interest transactions which are exempt under ERISA.

- 8 -

SUPPLEMENTAL SCHEDULE

ACR GROUP, INC. 401(k) PLAN

SCHEDULE H LINE 4(i) SCHEDULE F ASSETS (HELD AT END OF YEAR)

DECEMBER 31, 2003

EIN: 74-2008473 PN: 001

(a) (b)

| IDENTITY OF ISSUE BORROWER, | (c) | (e) |
|-----------------------------|---------------------------------------|---------------|
| LEASER OR SIMILAR PARTY | DESCRIPTION OF INVESTMENT | CURRENT VALUE |
| Charles Schwab | Schwab Money Market Fund | \$ 18,897 |
| * ACR Group, Inc. | 292,477 Shares of Common Stock | 269,079 |
| * Hartford Life Insurance | American Century Income & Growth Fund | 308,550 |
| * Hartford Life Insurance | American Century Ultra Fund | 183,893 |
| * Hartford Life Insurance | Fixed Income Account | 977,315 |
| * Hartford Life Insurance | Franklin Small Mid Cap Growth Fund | 559,077 |
| * Hartford Life Insurance | Fidelity VIP Overseas Fund | 118,647 |
| * Hartford Life Insurance | Bond Fund | 463,950 |
| * Hartford Life Insurance | Dividend & Growth Fund | 625,769 |
| * Hartford Life Insurance | Small Midcap Fund | 916,606 |
| * Hartford Life Insurance | Money Market Fund | 242,165 |
| * Hartford Life Insurance | Janus Balanced Fund | 389,580 |
| * Hartford Life Insurance | Janus Twenty Fund | 447,906 |
| | | \$ 5,521,434 |

* Party-in-interest

- 9 -

SIGNATURES

Edgar Filing: ACR GROUP INC - Form 11-K

Pursuant to the requirements of the Securities Exchange Act of 1934, the trustee has duly caused this annual report to be signed on its behalf by the undersigned hereunto duly authorized.

Date: June 28, 2004

ACR Group, Inc. 401(k) Plan

/s/ A. Stephen Trevino

A. Stephen Trevino
Secretary

- 10 -