ACR GROUP INC
Form 10-Q
January 14, 2003

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

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended November 30, 2002

OR

[_] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ______________________ to ________________________

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	77042-6039
(Address of principal executive offices)	(Zip Code)

(713) 780-8532

(Registrant's telephone number, including area code)

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, and (2) has been subject to such filing requirements for the past 90 days. Yes X No___

Shares of Common Stock outstanding at December 31, 2002 - 10,681,294.

PART I - FINANCIAL INFORMATION

Item 1. - Financial Statements

ACR GROUP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands)

ASSETS

	November 30, 2002 (Unaudited)	February 2002
Current assets:		
Cash	$ 121	$
Accounts receivable, net	16,705	16
Inventory	23,596	25
Prepaid expenses and other	283	
Deferred income taxes	843	
Total current assets	41,548	43
Property and equipment, net of accumulated depreciation	5,085	5
Deferred income taxes	454	
Goodwill, net of accumulated amortization	5,258	5
Other assets	453	
	$ 52,798	$ 56

LIABILITIES AND SHAREHOLDERS' EQUITY

	November 30, 2002 (Unaudited)	February 2002
Current liabilities:		
Current maturities of long-term debt and capital lease obligations	$ 413	$
Accounts payable	16,943	19
Accrued expenses and other liabilities	2,561	2
Total current liabilities	19,917	22
Long-term debt and capital lease obligations, less current maturities	21,295	23
Total liabilities	41,212	46
Shareholders' equity:		
Common stock	107	
Additional paid-in capital	41,691	41
Accumulated deficit	(30,212)	(31
Total shareholders' equity	11,586	10

	$ 52,798	$ 56

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

ACR GROUP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share amounts)
(Unaudited)

	Nine months ended November 30,		Three months ended November 30,	
	2002	2001	2002	2001
Sales	$ 128,581	$ 123,226	$ 37,902	$ 37,007
Cost of sales	100,276	96,723	29,422	29,026
Gross profit	28,305	26,503	8,480	7,981
Selling, general and administrative expenses	(25,303)	(23,765)	(8,348)	(7,975)
Operating income	3,002	2,738	132	6
Interest expense	(1,339)	(1,646)	(423)	(463)
Other non-operating income	350	359	134	129
Income (loss) before income taxes	2,013	1,451	(157)	(328)
Provision (benefit) for income taxes:				
Current	97	147	(13)	8
Deferred	413	200	(36)	--
Income (loss) before cumulative effect of accounting change	1,503	1,104	(108)	(336)
Cumulative effect of change in accounting principle, net of tax	(483)	--	--	--
Net income (loss)	$ 1,020	$ 1,104	$ (108)	$ (336)
Basic and diluted earnings (loss) per share:				
Earnings (loss) per share before cumulative effect of accounting change	.14	.10	(.01)	(.03)

Cumulative effect of accounting change	(.04)	--	--	--
Earnings (loss) per share	$ .10	$ .10	$ (.01)	$ (.03)
Weighted average shares outstanding:				
Basic	10,681	10,681	10,681	10,681
Diluted	10,681	10,692	10,681	10,681

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

ACR GROUP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Nine months ended November 30,	
	2002	2001
Operating activities:		
Net income	$ 1,020	$ 1,104
Adjustments to reconcile net income to net cash provided by operating activities:		
Cumulative effect of change in accounting principle	483	-
Depreciation and amortization	895	1,068
Deferred income tax expense	413	200
Other	(13)	(20)
Changes in operating assets and liabilities:		
Accounts receivable	158	(2,534)
Inventory	2,391	(1,345)
Prepaid expenses and other assets	33	205
Accounts payable	(2,468)	3,719
Accrued expenses and other liabilities	534	705
Net cash provided by operating activities	3,446	3,102
Investing activities:		
Acquisition of property and equipment	(490)	(628)
Proceeds from disposition of assets	37	53
Net cash used in investing activities	(453)	(575)

Financing activities:		
Net payments on revolving credit facility	(2,487)	(2,721)
(Payments) proceeds on long-term debt	(514)	255
Net cash used in financing activities	(3,001)	(2,466)
Net (decrease) increase in cash	(8)	61
Cash at beginning of year	129	171
Cash at end of period	$ 121	$ 232
Supplemental disclosure of cash flow information:		
Cash paid for		
Interest	1,234	1,612
Income taxes	29	10

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

ACR GROUP, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1 - Basis of Presentation

The accompanying unaudited condensed historical financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States. Accordingly, they do not include all of the information and footnotes required for complete financial statements, and therefore should be reviewed in conjunction with the financial statements and related notes thereto contained in the Company's annual report for the year ended February 28, 2002 filed on Form 10-K with the Securities and Exchange Commission. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Actual operating results for the three-month and nine-month periods ended November 30, 2002, are not necessarily indicative of the results that may be expected for the fiscal year ended February 28, 2003.

2 - Summary of Significant Accounting Policies

For a description of these policies, refer to Note 1 of the Notes to Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended February 28, 2002.

3 - Contingent Liabilities

The Company has an arrangement with an HVACR equipment manufacturer and a bonded warehouse agent whereby HVACR equipment is held for sale in bonded

warehouses located at the premises of certain of the Company's operations, with payment due only when products are sold. The supplier retains legal title and substantial management control with respect to the consigned inventory. The Company is responsible for damage to and loss of inventory that may occur at its premises. The Company has the ability to return consigned inventory, at its sole discretion, to the supplier for a specified period of time after receipt of the inventory. Such inventory is accounted for as consigned merchandise and is not recorded on the Company's balance sheet. As of November 30, 2002, the cost of such inventory held in the bonded warehouses was $6,745,000.

The terms of the consignment agreement further provide that the Company may be required to purchase inventory not sold within a specified period of time. Historically, most consigned inventory is sold before the specified purchase date, and the supplier has never enforced its right to demand payment, instead permitting such inventory to remain on consignment. As of November 30, 2002, inventory of approximately $530,000 remained on consignment although it had been held in excess of the allowable period of time.

4 - New Accounting Pronouncements

Effective March 1, 2002, the Company adopted Statement of Financial Accounting Standards No. 144 (SFAS 144), "Accounting for the Impairment or Disposal of Long-Lived Assets." The new standard requires one model of accounting for long-lived assets to be disposed of and broadens the definition of discontinued operations to include a component of a segment. The adoption of SFAS 144 did not have any significant impact on its financial position or results of operations.

Effective March 1, 2002, the Company adopted SFAS No. 142, "Goodwill and Other Intangible Assets," which establishes new accounting and reporting requirements for goodwill and other intangible assets. Under SFAS No. 142, all goodwill amortization ceased effective March 1, 2002. Goodwill amortization for the three and nine-month periods ended November 30, 2002 would have otherwise been $57,000 and $171,000 respectively. Material amounts of recorded goodwill attributable to each of our applicable subsidiaries were tested for impairment by comparing the fair value of each subsidiary with its carrying value. Fair value was determined using both discounted cash flows and internal rates of return. These impairment tests must be performed upon adoption of SFAS No. 142 and at least annually thereafter. Significant estimates used in the methodologies include estimates of future cash flows and both future short-term and long-term growth rates. On an ongoing basis (absent any impairment indicators), we expect to perform our impairment tests during the fourth fiscal quarter of each year.

Based on our initial impairment tests, we recognized an after-tax charge of $483,000 ($0.04 per share) in the first quarter of fiscal 2003 to reduce the carrying value of goodwill of Lifetime Filter, Inc. to its implied fair value. This impairment is a result of adopting a fair value approach, under SFAS No. 142, to testing impairment of goodwill as compared to the previous method utilized in which evaluations of goodwill impairment were made by comparing estimated future discounted cash flows to the carrying amount of the assets. Under SFAS No. 142, the impairment adjustment recognized upon adoption of the new rules was reflected as a cumulative effect of change in accounting principle in our income statement for the first quarter of fiscal 2003. Impairment adjustments recognized after adoption, if any, generally are required to be recognized as operating expenses.

The unaudited results of operations presented below for the nine-month and

three-month periods ended November 30, 2002, and adjusted results of operations for the same periods ended November 30, 2001, reflect the operations of the Company had we adopted the non-amortization provisions of SFAS No. 142 effective March 1, 2001: (in thousands, except per share amounts)

	Nine months ended November 30,		Three months ended November 30,	
	2002	2001	2002	2001
Net income (loss)	$ 1,020	$ 1,104	$ (108)	$ (336)
Add: Cumulative effect of change in accounting principle, net of tax	483	-	-	-
Add: Goodwill amortization, net of tax	-	113	-	38
Adjusted net income (loss)	$ 1,503	$ 1,217	$ (108)	$ (298)
Basic and diluted earnings per share:				
Reported net income (loss)	.10	.10	(.01)	(.03)
Cumulative effect of change in accounting principle, net of tax	.04	-	-	-
Goodwill amortization, net of tax	-	.01	-	-
Adjusted net income (loss) per share	$ .14	$ .11	$ (.01)	$ (.03)

5 - Income Taxes

The provision for current income taxes consists principally of federal alternative minimum taxes and state income taxes. The provision for deferred taxes consists of a reduction of current deferred benefits expected to be realized as a result of the anticipated utilization of net operating loss carryforwards in fiscal 2003. The reduction is based on applying an effective tax rate of 21.3% to current year taxable income. The Company has net operating loss and tax credit carryforwards which offset substantially all of its federal taxable income.

6 - Debt

The Company has a credit arrangement with a commercial bank ("Bank") that includes both a revolving credit facility and a term loan facility for capital expenditures. The maximum amounts that may be borrowed under such facilities are $25 million and $1 million, respectively. At November 30, 2002, the Company had available credit under such facilities of $0.7 million and $0.1 million, respectively. The credit facilities mature in May 2004, and are automatically extended for one-year periods unless either party gives notice of termination to the other.

In October 2002, the Company prepaid its outstanding indebtedness to The Catalyst Fund, Ltd. ("Catalyst") and an affiliate of Catalyst. Such indebtedness amounted to $229,000, and would otherwise have been payable in January 2003. In December 2002, the Company paid Catalyst $45,000 to settle asserted claims and cancel all outstanding warrants held by Catalyst pertaining to 925,000 shares of

the Company's common stock. The amount was recorded as an expense in December 2002.

7 - Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per share for the nine months and three months ended November 30, 2002 and 2001 (in thousands, except earnings per share information):

	Nine Months Ended		Three Months
	November 30,		November 3
	2002	2001	2002
Numerator:			
Net income (loss)	$ 1,020	$ 1,104	($108)
Numerator for basic and diluted earnings (loss) per share - income available to common stockholders	$ 1,020	$ 1,104	($108)
Denominator:			
Denominator for basic earnings (loss) per share - weighted average shares	10,681	10,681	10,681
Effect of dilutive securities:			
Warrants	0	11	0
Dilutive potential common shares	0	11	0
Denominator for diluted earnings (loss) per share - adj weighted average shares and assumed conversions	10,681	10,692	10,681
Basic earnings (loss) per share	$ .10	$ .10	$ (0.01)
Dilutive earnings (loss) per share	$ .10	$ .10	$ (0.01)

ACR GROUP, INC. AND SUBSIDIARIES

Item 2. - Management's Discussion and Analysis of Financial Condition and Results of Operations

INTRODUCTION

ACR Group, Inc. and its subsidiaries (collectively, the "Company") is an independent distributor of heating, air conditioning and refrigeration ("HVACR") equipment and related parts and supplies. The Company is among the ten largest such distributors in the United States. Substantially all of the Company's sales are to contractor dealers and institutional end-users. Generally accepted accounting principles allow the aggregation of an enterprise's segment if they are similar. Although the Company operates in different geographic areas, we have reviewed the aggregation criteria and determined that the Company operates as a single segment based on the high degree of similarity of the Company's operations.

This report on Form 10-Q includes certain statements that may be deemed to be "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements include statements concerning plans, objectives, goals, strategies, future events or performance and underlying assumptions and other statements, which are other than statements of historical facts. Forward-looking statements involve risks and uncertainties that could cause actual results or outcomes to differ materially. Such risks and uncertainties may include the availability of debt or equity capital to fund the Company's working capital requirements, unusual weather conditions, the effects of competitive pricing, the strength of the construction market and general economic conditions. Our expectations and beliefs are expressed in good faith and we believe there is a reasonable basis for them, but there can be no assurance that our expectations, beliefs or projections will be achieved or accomplished. The forward-looking statements in this document are intended to be subject to the safe harbor protection provided under the securities laws. The Company assumes no obligation to publicly update or revise any forward-looking statements to reflect subsequent events or circumstances.

COMPARISON OF RESULTS OF OPERATIONS FOR THE NINE-MONTH AND THREE MONTH PERIODS ENDED NOVEMBER 30, 2002 AND NOVEMBER 30, 2001

Nine Months Ended November 30, 2002 compared to November 30, 2001

The Company recognized net income of $1,020,000 for the nine-month period ended November 30, 2002 (fiscal 2003) compared to net income of $1,104,000 for the nine-month period ended November 30, 2001 (fiscal 2002). Comparability between fiscal 2003 and fiscal 2002 is affected by two accounting developments. The Company adopted SFAS No. 142 as of March 1, 2002 (see New Accounting Pronouncements, below) and has recorded deferred income tax charges to reduce the Company's deferred tax assets. Excluding these items, net income in fiscal 2003 would have been $1,916,000, compared to $1,304,000 in fiscal 2002, an increase of 47%. The increase in such income was attributable to lower interest costs and an improvement in the Company's gross margin percentage in the current year.

Consolidated sales increased 4% during the nine-month period ended November 30, 2002 compared to the same period in 2001. Sales growth exceeded 20% in Tennessee and Florida, with single-digit percentage increases in all other trade areas except for Colorado. Fiscal 2003 sales at the Company's business unit based in Colorado declined 8% as continued economic weakness

curtailed new home starts and dampened demand for the Company's products. Same-store sales in the first eleven months of calendar 2002 increased 6% over 2001, compared to a 7% increase in industry-wide product shipments during the same period based on data compiled by a leading industry trade association.

The Company's gross margin percentage on sales was 22.0% for the nine-months ended November 30, 2002, compared to 21.5% for the same period in 2001. The increase in gross margin percentage was attributable to the Company's continuing efforts to reduce the net purchase cost of inventory through national buying arrangements and consolidation of decentralized purchasing to designated suppliers, and to refinements in customer pricing models. Gross margin improvement was particularly evident at certain branch operations opened in the past two years. These margin improvement initiatives were partially offset by reduced demand for sheet metal products manufactured by the Colorado business unit for use in new home construction. The lower demand resulted in a lower absorption rate of fixed manufacturing costs and, accordingly, a lower gross margin percentage. The aggregate gross margin percentage of all of the Company's other operations increased to 21.5% in the nine-month period ended November 30, 2002, compared to 20.2% in the preceding year.

Selling, general and administrative ("SG&A") expenses increased 6% in the nine-month period ended November 30, 2002 compared to the same period in 2001, principally from increased payroll, insurance costs and rent expense. Expressed as a percentage of sales, SG&A expenses increased in the nine-month period from 19.3% in 2001 to 19.7% in 2002.

Interest expense decreased 19% from 2001 to 2002 as a result of lower average interest rates on the Company's variable rate debt and a 5% decrease in average outstanding debt. As a percentage of sales, interest expense decreased to 1.0% in 2002 from 1.3% in 2001.

The provision for deferred taxes consists of a reduction of current deferred benefits expected to be realized as a result of the anticipated utilization of net operating loss carryforwards in fiscal 2003. Substantially all of the Company's net operating loss carryforward will either expire, or is expected to be utilized, by the end of fiscal 2004. The Company has estimated a tax rate of 21% to systematically amortize through fiscal 2004 the deferred tax asset related to its net operating loss carryforward. This estimated tax rate is likely to change periodically as the Company re-evaluates its estimate of taxable income through fiscal 2004.

The cumulative effect of the accounting change reflects the result of adopting the provisions of SFAS No. 142, "Goodwill and Other Intangible Assets" as of March 1, 2002. For further explanation, see New Accounting Pronouncements, below.

Three Months Ended November 30, 2002 compared to November 30, 2001

The Company recorded a net loss of $108,000 in the quarter ended November 30, 2002, compared to a net loss of $336,000 in the quarter ended November 30, 2001, a reduction of 68%. The Company recorded deferred tax benefits in the quarter ended November 30, 2002 of $36,000 to recognize the benefit of the Company's net operating loss generated in the current quarter. Excluding the effect of such non-cash deferred tax benefit, the Company's net loss for the third fiscal quarter decreased 57% from 2001 to 2002. As explained in the comparison of nine-month results above, the decline in loss before taxes for the third quarter was attributable to lower interest costs and an improvement in the gross margin percentage on sales.

Consolidated sales increased 2% during the quarter ended November 30, 2002 compared to the same quarter in 2001, while same store sales increased 3%

during the same comparative periods. The trends described above in the nine-month comparison also generally applied for the third fiscal quarter, except that sales in Georgia and Nevada also declined slightly compared to 2001.

The Company's gross margin percentage on sales was 22.4% for the quarter ended November 30, 2002, compared to 21.6% for the same period in 2001. The increase in the gross margin percentage was attributable to the same factors as mentioned earlier in the nine-month analysis.

Selling, general and administrative ("SG&A") expenses increased 5% in the quarter ended November 30, 2002 compared to the same period in 2001. This increase is consistent with the increase for the nine-month period analyzed above. Expressed as a percentage of sales, SG&A expenses increased in the quarter from 21.5% in 2001 to 22.0% in 2002.

Interest expense in the third quarter decreased 9% from 2001 to 2002 as a result of both lower average interest rates on the Company's variable rate debt and a 6% decrease in average outstanding debt. As a percentage of sales, interest expense decreased to 1.1% in 2002 from 1.3% in 2001.

LIQUIDITY AND CAPITAL RESOURCES

In the nine-month period ended November 30, 2002, the Company generated cash flow from operations of $3,446,000, compared to $3,102,000 in 2001. Gross accounts receivable represented 44 days of net sales as of November 30, 2002, compared to 49 days at November 30, 2001, reflecting a continuous focus on credit management and active collection efforts in the uncertain economic environment. Inventory at November 30, 2002 was 6% less than at November 30, 2001, reflecting management's concerted effort to control purchasing and inventory levels entering the fourth fiscal quarter, traditionally the slowest in the Company's fiscal year.

The Company has credit facilities with a commercial bank ("Bank") which include a $25 million revolving line of credit and a $1 million term loan facility for capital expenditures. Outstanding borrowings on the revolving credit line change daily depending on cash collections and disbursements. During the nine-month period ended November 30, 2002, the Company borrowed $243,000 from its capital expenditure facility. At November 30, 2002, the Company had available credit of $0.7 and $0.1 million under the revolving credit facility and the term loan facility, respectively. As of November 30, 2002, borrowings under both credit facilities bear interest at the prime rate or LIBOR plus 2.75%, and the Company had elected the LIBOR option on substantially all outstanding borrowings. Management believes that availability under the revolving credit facility will be adequate to finance the Company's working capital requirements of its existing operations for the foreseeable future.

In October 2002, the Company prepaid its outstanding indebtedness to The Catalyst Fund, Ltd. ("Catalyst") and an affiliate of Catalyst. Such indebtedness amounted to $229,000, and would otherwise have been payable in January 2003. In December 2002, the Company paid Catalyst $45,000 to settle asserted claims and cancel all outstanding warrants held by Catalyst pertaining to 925,000 shares of the Company's common stock. The amount was recorded as an expense in December 2002.

The Company has approximately $4.7 million in tax loss carryforwards, of which $3.4 million expires in fiscal 2003. Such operating loss carryforwards will substantially limit the Company's federal income tax liabilities in fiscal

2003.

SEASONALITY

The Company's sales volume and, accordingly, its operating income vary significantly during its fiscal year. The highest levels of sales occur during the times of the year when climatic conditions require the greatest use of air conditioning, since the Company's operations are concentrated in the warmer sections of the United States. Accordingly, sales will be highest in the Company's second quarter ending August 31, and will be lowest in its fourth quarter.

INFLATION

The Company does not believe that inflation has had a material effect on its results of operations in recent years. Generally, manufacturer price increases attributable to inflation uniformly affect both the Company and its competitors, and such increases are passed through to customers as an increase in sales prices.

NEW ACCOUNTING PRONOUNCEMENTS

Effective March 1, 2002, the Company adopted Statement of Financial Standards No. 142, (SFAS 142) "Goodwill and Other Intangible Assets," which establishes new accounting and reporting requirements for goodwill and other intangible assets. Under SFAS No. 142, all goodwill amortization ceased effective March 1, 2002. Goodwill amortization for the quarter and nine-month periods ended November 30, 2002 would have otherwise been $57,000 and $171,000, respectively. Material amounts of recorded goodwill attributable to each of our reporting units were tested for impairment by comparing the fair value of each reporting unit with its carrying value. Fair value was determined using discounted cash flows, internal rates of return and market multiples. These impairment tests are required to be performed at adoption of SFAS No. 142 and at least annually thereafter. Significant estimates used in the methodologies include estimates of future cash flows and both future short-term and long-term growth rates. On an ongoing basis (absent any impairment indicators), we expect to perform our impairment tests during our fourth fiscal quarter.

Utilizing the new criteria, the Company determined that it was appropriate to write off the entire unamortized amount of goodwill associated with its filter manufacturing operation that was acquired in 1997. We reached that conclusion upon consideration of the reporting unit's unprofitability for the last two fiscal years and a substantial shift in both its product sales mix and its customer base since the date of acquisition. Net of taxes, the writeoff amounted to $483,000, or $0.04 per share, and in accordance with the new standard, is reported in the income statement for the quarter ended November 30, 2002 as a cumulative effect of a change in accounting principle.

Effective March 1, 2002, the Company adopted SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." The new standard requires one model of accounting for long-lived assets to be disposed of, and broadens the definition of discontinued operations to include a component of a segment. The adoption of SFAS 144 did not have any significant impact on its financial position or results of operations.

CRITICAL ACCOUNTING POLICIES

The accounting policies discussed below are critical to the Company's business operations and an understanding of the Company's financial statements. The financial statements are prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires management to make assumptions and estimates that affect the reported amounts of assets, liabilities, revenues and expenses in each reporting period. Management bases its estimates on historical experience and other factors that are believed to be reasonable under the circumstances. Actual results, once known, may vary from management's estimates.

Revenue Recognition

The Company recognizes revenue in accordance with SEC Statement of Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements". Substantially all of the Company's revenues consist of sales of HVACR products that are purchased by the Company from suppliers; less than 5% of the Company's sales are of products that it manufactures. SAB 101 requires that four basic criteria must be met before revenue can be recognized: (1) persuasive evidence of an arrangement exists, (2) delivery has occurred or services have been rendered, (3) the amounts recognized are fixed and determinable, and (4) collectibility is reasonably assured. The Company records revenue after it receives an order from a customer with a fixed determinable price and the order is either shipped or delivered to the customer.

Allowance for Doubtful Accounts

The Company records an allowance for doubtful accounts for estimated losses resulting from the inability to collect accounts receivable from customers. The Company establishes the allowance based on historical experience, credit risk of specific customers and transactions, and other factors. Management believes that the lack of customer concentration is a significant factor that mitigates the Company's accounts receivable credit risk. Two customers represent approximately 3 1/2% of consolidated sales, and no other customer comprises as much as 1% of sales. The number of customers and their distribution across the geographic areas served by the Company help to reduce the Company's credit exposure to a single customer or to economic events that affect a particular geographic region. Although the Company believes that its allowance for doubtful accounts is adequate, any future condition that would impair the ability of a broad section of the Company's customer base to make payments on a timely basis may require the Company to record additional allowances.

Inventory

Inventories consist of HVACR equipment, parts and supplies and are valued at the lower of cost or market value using the average cost method. Substantially all inventories represent finished goods held for sale. Raw materials represent less than 2% of inventories. When necessary, the carrying value of obsolete or excess inventory is reduced to estimated net realizable value. The process for evaluating the value of obsolete or excess inventory requires estimates by management concerning future sales levels and the quantities and prices at which such inventory can be sold in the ordinary course of business.

Item 3. - Quantitative and Qualitative Disclosures About Market Risk

The Company is subject to market risk exposure related to changes in

interest rates on its senior credit facility, which includes revolving credit and term notes. These instruments carry interest at a pre-agreed upon percentage point spread from either the prime interest rate or LIBOR. Under its senior credit facility the Company may, as its option, fix the interest rate for certain borrowings based on a spread over LIBOR for 30 days to 6 months. At November 30, 2002 the Company had $20.0 million outstanding under its credit facilities with the bank, of which $10.0 million is subject to variable interest rates. Based on this balance, an immediate change of one percent in the interest rate would cause a change in interest expense of approximately $100,000, or $.01 per share, on an annual basis.

Item 4. - Statement Regarding Disclosure Controls and Procedures

As of November 30, 2002, an evaluation was performed under the supervision and with the participation of the Company's management, including the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on that evaluation, the Company's management, including the Chief Executive Officer and the Chief Financial Officer, concluded that the Company's disclosure controls and procedures were effective as of November 30, 2002. There have been no significant changes in the Company's internal controls or in other factors that could significantly affect internal controls subsequent to November 30, 2002.

PART II - OTHER INFORMATION

Item 6. - Exhibits and Reports on Form 8-K

(a) Exhibits

99.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

99.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K. None

SIGNATURES

Pursuant to the requirements 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.

ACR GROUP, INC.

January 14, 2003	/s/ Anthony R. Maresca
Date	Anthony R. Maresca Senior Vice-President and Chief Financial Officer

CERTIFICATIONS

I, Alex Trevino, Jr., certify that:

(1). I have reviewed this quarterly report on Form 10-Q of ACR Group, Inc.;

(2) Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

(3) Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

(4) The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

(5) The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors:

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

(6) The registrant's other certifying officer and I have indicated in this quarterly report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent

evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

January 14, 2003	/s/ Alex Trevino, Jr.
Date	Alex Trevino, Jr. President and Chief Executive Officer

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I, Anthony R. Maresca, certify that:

(1). I have reviewed this quarterly report on Form 10-Q of ACR Group, Inc.;

(2) Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

(3) Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

(4) The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

(5) The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors:

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal

controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

(6) The registrant's other certifying officer and I have indicated in this quarterly report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent

evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

January 14, 2003	/s/ Anthony R. Maresca
Date	Anthony R. Maresca Senior Vice-President and Chief Financial Officer

EXHIBIT INDEX

Exhibit Number	Description
99.1	CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350 AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES - OXLEY ACT OF 2002
99.2	CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350 AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES - OXLEY ACT OF 2002