PETROBRAS - PETROLEO BRASILEIRO SA
Form 6-K
March 27, 2017

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 6-K**

**Report of Foreign Private Issuer**

**Pursuant to Rule 13a-16 or 15d-16 of the**

**Securities Exchange Act of 1934**

**For the month of March, 2017**

**Commission File Number 1-15106**

**PETRÓLEO BRASILEIRO S.A. - PETROBRAS**

**(Exact name of registrant as specified in its charter)**

**Brazilian Petroleum Corporation - PETROBRAS**

**(Translation of Registrant s name into English)**

**Avenida República do Chile, 65**

**20031-912 - Rio de Janeiro, RJ**

**Federative Republic of Brazil**

**(Address of principal executive office)**

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.

Form 20-F Form 40-F

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes No

**Petrobras informs name of candidates appointed by non-controlling shareholders to Fiscal Council**

Rio de Janeiro, March 27, 2017 Petróleo Brasileiro S.A.- Petrobras, as stated in Circular Letter CVM/SEP/Nº01/2017, informs that has received appointment of candidates to Fiscal Council (FC). Elections will take place at the Annual Shareholders Meeting to be held on April 27, 2017.

**I. Candidates for the position of Fiscal Council member appointed by minority shareholders**

**1) Candidates nominated by minority shareholders: *Fundo de Ações Dinâmica* and *Banclass Fundo de Investimento em Ações***

| Candidate | Position |
|---|---|
| Reginaldo Ferreira Alexandre | Member of FC minority (full member) |
| Marcelo Gasparino da Silva | Member of FC minority (alternate) |

**2) Candidates nominated by minority shareholders: Guilherme Affonso Ferreira**

| Candidate | Position |
|---|---|
| Francisco Vidal Luna | Member of FC minority (full member) |
| Manuelito Pereira Magalhães Júnior | Member of FC minority (alternate) |

**II. Candidates for the position of Fiscal Council member appointed by Preferred shareholders**

**1) Candidates nominated by preferred shareholders: *Fundo de Investimento em Ações Dinâmica Energia* and *Banclass Fundo de Investimento em Ações***

| Candidate | Position |
|---|---|
| Walter Luis Bernardes Albertoni | Member of FC preferred (full member) |
| José Pais Rangel | Member of FC preferred (alternate) |

**2) Candidates nominated by preferred shareholders:** ***Leblon Previdência Fundo de Investimento Multimercado*** **and** ***Ataulfo LLC***

| **Candidate** | **Position** |
|---|---|
| Sonia Julia Sulzbeck Villalobos | Member of FC preferred (full member) |
| Carlos Eduardo Lessa Brandão | Member of FC preferred (alternate) |

Find attached the curriculum of the appointed candidates.

CANDIDATES NOMINATED BY MINORITY SHAREHOLDERS: FUNDO DE AÇÕES DINÂMICA AND BANCLASS FUNDO DE INVESTIMENTO EM AÇÕES (I.1)

**Reginaldo Ferreira Alexandre,** Brazilian, economist, with eighteen years of experience in the area of investment analysis, as analyst, organizer and director of analysis teams, having held these positions successively at Citibank, Unibanco, BBA (now Itaú-BBA) And Itaú Corretora de Valores. He also worked as a corporate credit analyst (Citibank) and as a consultant in the areas of strategy (Accenture) and corporate finance (Deloitte). Today, he works for ProxyCon Consultoria Empresarial, a company that is engaged in advisory and service activities in the areas of capital markets, finance and corporate governance. Member of the Accounting Pronouncements Committee (CPC) body that formulates Brazilian accounting standards since its foundation in 2005. Vice Coordinator of Institutional Relations of the CPC. Certified Investment Analyst (CNPI). Securities manager accredited by the CVM. Member of the Fiscal Councils of the following publicly-held companies: BRF S.A (elected in April 2015 and re-elected in April 2016); CPFL Energia S.A (alternate, elected in February 2017); Iochpe Maxion S.A (elected in April 2013 and re-elected in April 2014, 2015 and 2016); Movida SA (elected in January 2017); Petrobras (elected in April 2013 and re-elected in April 2014.2015 and 2016); SER Educacional S.A (elected in April 2015 and re-elected in April 2016); Bradesco S.A (elected in march 2017); alternate Board Member of Mahle Metal Leve S.A (elected in April 2015 and re-elected in April 2016). One of the authors of the Brazilian Code of Corporate Governance Public Companies; Member of the Special Committee on Corporate Governance of the American Chamber of Commerce (Amcham); Member of the State Governance Committee, BMF & Bovespa.

**Marcelo Gasparino da Silva,** Member of the Boards of Directors and Fiscals and Chairman of the Board of Directors, member and coordinator of committees of finance, auditing, risks, legal and related parties in a public company. Specialist in Corporate Tax Administration by ESAG and MBA in Controllership, Audit and Finance (Coursing). Board Member of AES ELETROPAULO, BATTISTELLA, CEMIG and ETERNIT, and an alternate member of the Board of Directors of VALE. He was Chairman of the Board of Directors of Usiminas, members of the Boards of Directors of Bradespar, Celesc, Eletrobras, Tecnisa and SC Gás, as well as Usiminas. He was Fiscal Council Member of Bradespar, AES Eletropaulo, AES Tietê, Eletrobras and Renuka Brasil. He is the Coordinator of the Legal and Compliance Committee of ETERNIT, a member of the Finance, Audit and Risk Committee of CEMIG and the Related Parties Committee of AES Eletropaulo. He is the President of the Advisory Board of the Gasparino, Sachet, Roman, Barros & Marchiori Advogados, where he worked as a lawyer until 2006. He began his executive career as CELESC s Legal and Institutional Director in 2007. Participates in the CEO Program FGV 2016 (IBE/FGV/IDE). He attended the Executive Program on Mergers and Acquisitions at the London Business School and from specific courses in the financial and strategic areas at the IOD Institute of Directors in London. He is co-founder and Coordinator of the Santa Catarina Chapter, Certified Management Advisor and composes the IBGC Board of Directors. He is a member of the AMEC Technical Committee and spokesperson for the Corporate Governance Group GGC. With solid training in Corporate Governance and experience in boards of directors and tax, he contributed to IBGC and AMEC in the construction of the Brazilian Code of Corporate Governance CBGC and from its launch, inserted as a working tool in all the companies that it is acting, especially the APPLY OR EXPLAIN model, a system that recognizes the practice of corporate governance is a journey and should not be translated in a rigid model of regulation applicable equally to all companies. With passages in companies of the sectors of generation, transmission and distribution of energy, natural gas distribution, mining, steel and steel transformation, port, basic industry, civil construction, building materials and finishes, vehicle distribution and holding company acquired Knowledge in industry, commerce and services, skills that allow constructive contribution in the most diverse subjects and strategies that are dealt with in the boards that participate, such as turn around, capital structure, merger & acquisitions, sale of non-core assets, succession of Executives, among others.

CANDIDATES NOMINATED BY MINORITY SHAREHOLDERS: GUILHERME AFFONSO FERREIRA (I.2)

**Francisco Vidal Luna**, Brazilian, married, Economist, Graduation in Economics from the University of São Paulo (1971) and PhD in Economics from the University of São Paulo (1980). Assistant Professor at the Faculty of Economics and Administration of the University of São Paulo between 1973 and 2003. Visiting Professor at the Social History Institute, Stanford University (2003). He is the author of dozens of articles and books on Brazilian society and economy, published in Brazil and abroad. Between 1988 and 2001, he served as Vice President at Banco InterAmerican Express SA, of which he was President in 2001 and 2002. In the public sector, he served as Chief of Economic Advisor of the São Paulo State Finance Department (1983) (1985/1986), Secretary of Planning of the Ministry of Planning (1985/1986), Special Secretary of Economic Affairs of the Ministry of Planning (1986/1987), Secretary Of Planning of the Municipality of São Paulo (2005/2007) and Secretary of Economy and Planning of the Government of the State of São Paulo (2007/2010). He has extensive experience as a director of publicly held companies and currently serves as a member of the Board of Directors of Desenvolvimento São Paulo Agência de Fomento, Sabesp Cia Saneamento de São Paulo and Gafisa SA He also currently serves as a member of the Board of Directors of Economy of the Federation of Industries of the State of São Paulo.

**Manuelito Pereira Magalhães Júnior**, Brazilian, married, economist, graduated in Economic Sciences from the Economics Institute of Unicamp (1992). It has a long history of action in the public sector, mainly in areas related to economics and planning. He is currently Director of Corporate Management of the Companhia de Saneamento Básic de São Paulo SABESP. Between November 2009 and February 2011, he was the Chief Executive Officer of Empresa Paulista de Planejamento Metropolitano EMPLASA. Between December of 2006 and November of 2009, he worked in the City Hall of São Paulo, occupying the position of Secretary of Planning. In 2005 and 2006, he was Deputy Secretary of the same body, when he participated in the reconstruction of the financial and investment capacity of the largest city in the country. In the area of health, he was ombudsman of the National Agency of Supplementary Health ANS, between 2003 and 2004, When he created and implemented the ANS Ombudsman s Office. Previously, he served as Special Advisor to the Ministry of Health, in the period of 1998 and 2002. Between 1997 and 1998, he served as Technical Advisor to the Federal Senate. Between 1996 and 1998, he was technical consultant of the Foundation State System of Data Analysis and Statistics of São Paulo SEADE. Between 1995 and 1996, he held various positions at the City Hall of Campinas, such as the Municipal Secretary of Finance, Technical Advisor and Director of the Department of Planning and Management of the Finance Department.

CANDIDATES NOMINATED BY PREFERRED SHAREHOLDERS: FUNDO DE INVESTIMENTO EM AÇÕES DINÂMICA ENERGIA AND BANCLASS FUNDO DE INVESTIMENTO EM AÇÕES (II.1)

**Walter Luis Bernardes Albertoni**, Brazilian, married, Bachelor of Laws (1992) by the Pontifical Catholic University of São Paulo, Post Graduated in Corporate Law and Tax Law (INSPER SP) and Civil Procedural Law (COGEAE PUC/SP), more than 20 years of law practice, with emphasis on corporate, civil, civil procedural law (1993/present), 10 years as legal advisor of AMEC-Investors Association in the Capital Market, acting in the institutional defense of the rights and interest of non-controlling shareholders (2006/present), Petrobras Tax Counselor, representing the preferred shareholders (2013-present), Board Member of Paranapanema SA (2016), Bradespar SA Fiscal Counselor (2016), alternate Fiscal Counselor for Ser Educacional (2015-present) , he was a member of the Board of Directors of the National Financial System (2011-2015), Consultant of the CAF Committee of Acquisitions and Mergers (2013-present), member of CODIM Committee for Disclosure of Information to the Market ( 2007/2009).

**José Pais Rangel,**Brazilian, Lawyer, with a solid career in publicly traded companies, he held the following functions at the Central Bank of Brazil: BACEN, Capital Markets Inspector, Capital Markets Supervision Supervisor, Public Debt, Market Operations Manager, Project Coordinator and implanter of the SELIC System in the Brazilian Financial Market, Founder and Member of the Board of Trustees of CENTRUS Central Bank of Private Pension Foundation, Coordinator of the Privatization Program of companies controlled by the Central Bank Of Brazil, Chairman of the Board of Directors of Cia. América Fabril, member of the Board of Directors of Cia.Fábrica de Tecidos Dona Isabel, Advisor to the Presidency of the Republic SEPLAN / Special Privatization Committee, Liquidator of the following state-owned companies: DIGIBRÁS (Empresa Digital Brasileira SA) DIGIDATA (Eletrônica SA) PROEL (Processes Eletrônicos Ltda.). Currently holds the positions of: Vice President of Banco Clássico SA, Member of the Board of Directors of Centrais Elétricas Brasileiras SA ELETROBRAS, Member of the Board of Directors of Companhia Distribuidora de Gas do Rio de Janeiro CEG, Board of Directors of Engie Brasil SA, Member of the Board of Directors of Kepler Weber SA and Member of the Board of Directors of Cia. Energética de Minas Gerais CEMIG (publicly-held companies). Member of the Board of Directors of Tractebel Energia S.A.He is an Investment Fund Manager, accredited by the CVM.

CANDIDATES NOMINATED BY PREFERRED SHAREHOLDERS: LEBLON PREVIDÊNCIA FUNDO DE INVESTIMENTO MULTIMERCADO AND ATAULFO LLC (II.2)

**Sonia Julia Sulzbeck Villalobos**, Brazilian citizen, married, administrator, Bachelor of Public Administration (1985) from EAESP  Getúlio Vargas Foundation and Master of Business Administration with specialization in Finance (2005) from EAESP  Getúlio Vargas Foundation. In 1994, she was the First Person in South America to receive the Chartered Financial Analyst  CFA credential, by the CFA Institute. She is Professor of Post-Graduation Lato Sensu, in the matters of Asset Management and Analysis of Financial Statements by Insper. He holds positions on the Boards of Directors of CEG  Distribuidora de Gas do Rio de Janeiro SA and Telefônica do Brasil SA He has extensive experience in the financial market, having served as Head of the investment analysis department of Banco de Investimentos Garantia SA (1989 to 1996 ), Where he was voted Best Analyst in Brazil by Institutional Investor magazine in 1992, 1993 and 1994. He served as Senior Vice President of Bassini, Playfair & Associates, LLC (1996 to 2002) and Latin America Manager of Larrain Vial SA (2005 to 2011). She was the founding Partner and Manager of Lanin Partners Ltd., responsible for Long / short and long-only funds of Latin American stocks (2012 to 2016).

**Carlos Eduardo Lessa Brandão**, Brazilian, divorced, civil engineer, graduated from the Federal University of Rio de Janeiro (1983), with a master  s degree in energy planning from COPPE/UFRJ (1989), an MBA in finance from IBMEC (1993) and Philosophy of Science by HCTE/UFRJ (2009). He is a trustee of third party resources authorized by the CVM and an administration advisor certified by the IBGC. Since 2013 he has served as advisory consultant at Empreendimentos Itahyê (2013-2014), Fundo Ethical (since 2014) and Santa Ângela Urbanização e Construções (since 2016). Since 2016 he has been a member of the boards of directors of Progen and CEG. He worked as an executive in the areas of operations, finance and business development in subsidiaries of the Andrade Gutierrez (1986-1999) and Vale (2001-2004), Vesta Technologies (2000) and IBGC (2005-2008) subsidiaries. He was a board member of the IBGC (2010-2014) and the Ethos Institute (2013-2016). Partner of JFLB, business consultancy (since 2005).

The names nominated above:

In the last 5 years, they have not been subjected to criminal conviction, conviction in an administrative proceeding of the CVM and a final and unappealable conviction, in the judicial or administrative sphere, that has suspended or disqualified them for practicing professional or commercial activity;

Do not have a marital relationship, stable union or informationable parentage according to item 12.9 of the Reference Form;

They have no relationship of subordination with related parties of the Company.

Meet the independence criteria of the Brazilian Institute of Corporate Governance (IBGC).

They had the information provided by the Fiscal Counselor Registry of the Ministry of Planning, Development and Management analyzed by Petrobras and the Ministry of Finance, which concluded that the nominees are not subject to any impediment and have all the requirements set forth in the Law 6,404/1976, Law 13303/2016 and Decree 8.945/2016, according to the minutes of the Temporary Eligibility Committee of Petrobras, which will be disclosed at http://www.investidorpetrobras.com.br/en/governanca-corporativa/Governing bodies/committees, up to the date of the Annual General Meeting.

**www.petrobras.com.br/ir**

**Contacts:**

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**Av. República do Chile, 65 10th floor, 1002 B 20031-912 Rio de Janeiro, RJ | Phone: 55 (21) 3224-1510 / 3224-9947**

**FORWARD-LOOKING STATEMENTS**

**This press release may contain 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, as amended that are not based on historical facts and are not assurances of future results. No assurance can be given that the transactions described herein will be consummated or as to the ultimate terms of any such transactions. All forward-looking statements are expressly qualified in their entirety by this cautionary statement, and you**

**should not place reliance on any forward-looking statement contained in this press release. Petrobras undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information or future events or for any other reason.**

**The Company s actual results could differ materially from those expressed or forecast in any forward-looking statements as a result of a variety of assumptions and factors. These factors include, but are not limited to, the following: (i) failure to comply with laws or regulations, including fraudulent activity, corruption, and bribery; (ii) the outcome of ongoing corruption investigations and any new facts or information that may arise in relation to the Lava Jato Operation ; (iii) the effectiveness of the Company s risk management policies and procedures, including operational risk; and (iv) litigation, such as class actions or proceedings brought by governmental and regulatory agencies. A description of other factors can be found in the Company s Annual Report on Form 20-F for the year ended December 31, 2015, and the Company s other filings with the U.S. Securities and Exchange Commission.**

**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.

Date: March 27, 2017

**PETRÓLEO BRASILEIRO S.A PETROBRAS**

By: /s/ Ivan de Souza Monteiro

Ivan de Souza Monteiro

Chief Financial Officer and Investor Relations Officer

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Gross profit

38,558 35,673 33,570

Selling, general and administrative expenses

34,106 32,983 31,473

Operating income

4,452 2,690 2,097

Interest expense

1,510 1,731 2,086

Other non-operating (income)

(491) (474) (531)

Income before income taxes and cumulative effect of accounting change

3,433 1,433 542

Provision for income taxes:

Current

743 79 123

Deferred

510 251

Income before cumulative effect of accounting change

2,180 1,103 419

Cumulative effect of accounting change, net of taxes

(483)

Net income

$ 2,180 $620 $419

Basic and dilutive earnings per share:

Before cumulative effect of accounting change

$.20 $.10 $.04

Cumulative effect of accounting change

(.04)

$.20 $.06 $.04

The accompanying notes are an integral part of these financial statements

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**ACR GROUP, INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY**

**(in thousands, except share data)**

| | No. of shares outstanding | Par Value | Additional Paid-in Capital | Accumulated Deficit | Total |
|---|---|---|---|---|---|
| **Balance, February 28, 2001** | 10,681,294 | $ 107 | $ 41,691 | $ (31,651) | $ 10,147 |
| Net income | | | | 419 | 419 |
| **Balance, February 28, 2002** | 10,681,294 | 107 | 41,691 | (31,232) | 10,566 |
| Net income | | | | 620 | 620 |
| **Balance, February 28, 2003** | 10,681,294 | 107 | 41,691 | (30,612) | 11,186 |
| Net income | | | | 2,180 | 2,180 |
| **Balance, February 29, 2004** | 10,681,294 | $ 107 | $ 41,691 | $ (28,432) | $ 13,366 |

The accompanying notes are an integral part of these financial statements

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**ACR GROUP, INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**(in thousands)**

| | February 29, | February 28, | |
|---|---|---|---|
| | 2004 | 2003 | 2002 |
| Operating activities: | | | |
| Net income | $ 2,180 | $ 620 | $ 419 |
| Adjustments to reconcile net income to net cash provided by (used in) | | | |
| Operating activities: | | | |
| Depreciation | 969 | 1,168 | 1,133 |
| Amortization | 13 | 94 | 300 |
| Provision for doubtful accounts | 696 | 418 | 704 |
| Gain on sale of assets | (27) | (7) | (21) |
| Deferred income taxes | 510 | | |
| Cumulative effect of accounting change | | 483 | |
| Changes in operating assets and liabilities: | | | |
| Accounts receivable | (3,614) | 1,238 | (1,586) |
| Inventory | (3,623) | 990 | (2,155) |
| Prepaid expenses and other assets | (315) | 114 | 238 |
| Accounts payable | 1,811 | (2,445) | 2,265 |
| Accrued expenses and other liabilities | 1,154 | 70 | 189 |
| Net cash provided by (used in) operating activities | (246) | 2,743 | 1,486 |
| Investing activities: | | | |
| Purchase of property and equipment | (528) | (636) | (766) |
| Proceeds from disposition of assets | 281 | 88 | 61 |
| Net cash used in investing activities | (247) | (548) | (705) |
| Financing activities: | | | |
| Proceeds from long-term debt | 914 | 191 | 888 |
| Payments on long-term debt | (473) | (2,411) | (1,711) |
| Net cash provided by (used in) financing activities | 441 | (2,220) | (823) |
| Net decrease in cash | (52) | (25) | (42) |
| Cash at beginning of year | 104 | 129 | 171 |
| Cash at end of year | $ 52 | $ 104 | $ 129 |
| Schedule of non-cash investing and financing activities: | | | |
| Sale of subsidiaries: | | | |
| Book value of assets sold | $ 22 | $ | $ |
| Book value of liabilities sold | 22 | | |

| | | | |
|---|---|---|---|
| Purchases of property and equipment | | | |
| For notes payable | | 52 | |
| Under capital leases | 218 | 20 | 19 |
| | | | |
| Supplemental cash flow information: | | | |
| Interest paid | $ 1,510 | $ 1,728 | $ 2,047 |
| Income taxes paid | 500 | 4 | 10 |

The accompanying notes are an integral part of these financial statements

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**ACR GROUP, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(in thousands, except per share data)**

**1 - Description of Business and Summary of Significant Accounting Policies**

*Description of Business*

ACR Group, Inc. s (the Company ) principal business is the wholesale distribution of heating, ventilating, air conditioning and refrigeration ( HVACR ) equipment, parts and supplies in the southeastern United States, Texas, Nevada, New Mexico, Colorado and California. Substantially all of the Company s sales are to contractor dealers and institutional end-users.

Statement of Financial Accounting Standards No. 131, Disclosures about Segments of an Enterprise and Related Information, allows the aggregation of an enterprise s segments if they are similar. The Company operates in different geographic areas; however, the Company has reviewed the aggregation criteria and determined that the Company operates as one segment based on the high degree of similarity of the following aspects of the Company s operations:

- nature of products and services
- customer markets served
- methods used to acquire and distribute products
- economic characteristics that influence the results of operations in different geographical areas

*Principles of Consolidation*

The consolidated financial statements include the accounts of ACR Group, Inc. and its subsidiaries, all of which are wholly owned. All significant intercompany accounts and transactions have been eliminated.

*Use of Estimates*

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

*Revenue Recognition*

The Company s revenues consist of sales of HVACR products. The Company recognizes revenue when the following criteria are met: (1) persuasive evidence of an arrangement exists, (2) delivery has occurred, (3) the amounts recognized are fixed and determinable, and (4) collectibility is reasonably assured.

*Inventories*

Inventories are valued at the lower of cost or market using the average cost method. Substantially all inventories represent finished goods held for sale. 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. The cost of consigned inventory held in the bonded warehouses was $5,466 at February 29, 2004 and $7,693 at February 28, 2003.

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**ACR GROUP, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(in thousands, except per share data)**

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 permitted such inventory to remain on consignment. As of February 29, 2004 and February 28, 2003, inventory of approximately $207 and $565, respectively, remained on consignment although it had been held in excess of the allowable period of time.

*Vendor Rebates*

The Company receives rebates from certain vendors based on the volume of product purchased from the vendor. The Company records rebates when they are earned, i.e. when specified purchase volume levels are reached. Vendor rebates attributable to unsold inventory are carried as a reduction of the carrying value of inventory until such inventory is sold, at which time the related rebates are used to reduce cost of sales.

*Property and Equipment*

Property and equipment are stated at cost. Depreciation and amortization are provided on the straight-line method over the following estimated useful lives.

| | |
|---|---|
| Buildings | 20-40 years |
| Leasehold improvements | Primary term of the lease |
| Furniture and fixtures | 5-7 years |
| Vehicles | 3-6 years |
| Other equipment | 3-10 years |

*Goodwill*

Goodwill represents the excess cost of companies acquired over the fair value of their tangible net assets. Prior to the adoption of Financial Accounting Standards ( SFAS ) No. 142, Accounting for Goodwill and Other Intangible Assets , goodwill was amortized on a straight-line basis over 40 years. Effective March 1, 2002, the Company adopted SFAS 142 which established new accounting and reporting requirements for goodwill and other intangible assets. Under SFAS 142, all goodwill amortization ceased effective March 1, 2002. Goodwill attributable to each of the Company s reporting units was tested for impairment by comparing the fair value of each reporting unit with its carrying value. These impairment tests are required to be performed at adoption of SFAS 142 and at least annually thereafter. On an ongoing basis (absent any impairment indicators), the Company performs the annual impairment test as of the end of its fiscal year.

Based on the Company s impairment tests performed upon the adoption of SFAS 142, the Company recognized a charge of $733, or $483 net of taxes, to reduce the carrying value of goodwill to its implied fair value. This charge has been recorded as a cumulative effect of change in accounting principle in the Company s first quarter of fiscal year 2003. The Company completed its annual impairment test as of February 29, 2004 in the fourth quarter of fiscal year 2004. This impairment test resulted in no additional impairment charges for the year ended February 29, 2004.

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**ACR GROUP, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(in thousands, except per share data)**

Effect of implementation of SFAS 142:

| | 2004 | 2003 | 2002 |
|---|---|---|---|
| Net income | $ 2,180 | $ 620 | $ 419 |
| Pro forma amortization expense, net of taxes | | | 183 |
| Pro forma net income | $ 2,180 | $ 620 | $ 602 |
| Earnings per share | $ .20 | $ .06 | $ .04 |
| Effect of implementation of SFAS 142 on earnings per share | | | .02 |
| Pro forma earnings per share | $ .20 | $ .06 | $ .06 |

*Income Taxes*

The Company and its subsidiaries file a consolidated federal income tax return. The Company uses the liability method in accounting for income taxes. Under the liability method, deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse.

*Stock-Based Compensation*

In accordance with the provisions of SFAS 123, Accounting for Stock-based Compensation , the Company has elected to follow the Accounting Principles Board Opinion ( APB ) 25, Accounting for Stock Issued to Employees , and related interpretations in accounting for its employees stock-based compensation plans. Under APB 25, if the exercise price of employee stock options equals or exceeds the fair value of the underlying stock on the date of grant, no compensation expense is recognized.

Had compensation expense been determined consistent with SFAS 123, the Company s net income and earnings per share would have been changed to the following pro forma amounts:

| | Year Ended February 29 or 28, | | |
|---|---|---|---|
| | **2004** | **2003** | **2002** |
| Net income applicable to common shareholders as reported | $ 2,180 | $ 620 | $ 419 |
| Total stock-based employee compensation expense under fair value method for all awards, net of tax | (19) | (41) | (157) |
| Pro forma income applicable to common shareholders | $ 2,161 | $ 579 | $ 262 |
| Basic and diluted earnings per share: | | | |
| As reported | $ .20 | $ .06 | $ .04 |
| Pro forma | .20 | .05 | .02 |

The fair value of each option grant under the Company plans for the three years ended February 29, 2004 was estimated using the Black-Scholes options pricing model using the following assumptions:

Expected life of 5 to 8 years

No expected dividend yield

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**ACR GROUP, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(in thousands, except per share data)**

Expected volatility of .669 for all years in which options were granted, representing 48 periods ending March 31, 2002.

Risk-free interest rate of 5.0% in each fiscal period in which options were granted, representing an approximate average yield over the option periods presented

No options were granted during fiscal 2004, 2003 or 2002.

*Supplier/Sources of Supply*

The Company currently purchases a majority of its HVACR equipment and repair parts from two primary suppliers. Purchases from such suppliers comprised 38% of all purchases made in fiscal 2004, 34% in fiscal 2003 and 36% in fiscal 2002. The Company has not encountered any significant difficulty to date in obtaining equipment and repair parts to support its operations at current or expected near-term future levels. Any significant interruption by such a manufacturer, or a termination of a distributor agreement, could temporarily disrupt the operations of certain subsidiaries. The Company believes that its relationships with suppliers of complementary equipment products are a mitigating factor against this risk.

*Reclassifications*

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

*Recent Accounting Issues*

In November 2002, the FASB issued Interpretation No. 45, Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others . The Interpretation requires certain guarantees to be recorded at fair value and also requires a guarantor to make certain disclosures regarding guarantees. The Interpretation s initial recognition and initial measurement provisions are applicable on a prospective basis to guarantees issued or modified after December 31, 2002. The disclosure requirements became effective for the Company s first quarter of 2004. The adoption of the statement had no material impact on the Company s financial position or results of operations.

In January 2003, the Emerging Issues Task Force (EITF) reached a final consensus on EITF Issue No. 02-16, Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor . EITF 02-16 clarifies certain aspects for accounting and recording of consideration received from vendors. Certain provisions of the EITF are effective for fiscal years beginning after December 15, 2002, and other provisions of the EITF are effective for arrangements entered into after November 21, 2003. The Company s accounting for consideration received from vendors is consistent with the provisions of EITF 02-16 as of February 29, 2004.

In January 2003, the FASB issued Interpretation 46, Consolidation of Variable Interest Entities. In general, a variable interest entity is a corporation, partnership, trust, or other legal structure used for business purposes that either (a) does not have equity investors with voting rights or (b) has equity investors that do not provide sufficient financial resources for the entity to support its activities. Interpretation 46 requires a variable interest entity to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity s activities or entitled to receive a majority of the entity s residual returns or both. The Interpretation is effective for all Variable Interest Entities created after January 31, 2003, and is effective for special purpose entities created before February 1, 2003 for the first reporting period after December 15, 2003 and for non-special purpose entities for the first reporting period beginning after March 15, 2004. The adoption of the Interpretation did not have nor is expected to have a material impact on its financial statements.

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**ACR GROUP, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(in thousands, except per share data)**

**2 - Property and Equipment**

Property and equipment consisted of the following at the end of February:

| | 2004 | 2003 |
|---|---|---|
| Land | $ 311 | $ 311 |
| Building and leasehold improvements | 3,759 | 3,684 |
| Furniture and fixtures | 276 | 262 |
| Vehicles | 1,089 | 1,150 |
| Other equipment | 5,322 | 5,379 |
| | 10,757 | 10,786 |
| Less: accumulated depreciation | (6,296) | (5,831) |
| Net property and equipment | $ 4,461 | $ 4,955 |

Capitalized lease assets of $562 and $586 together with accumulated amortization of $169 and $281 are included in property and equipment as of February 29, 2004 and February 28, 2003. Amortization expense is included with depreciation expense.

**3 - Debt**

Debt is summarized as follows at the end of February:

| | 2004 | 2003 |
|---|---|---|
| Revolving line of credit | $ 21,086 | $ 20,172 |
| Real estate loan | 529 | 607 |
| Equipment term loan | 419 | 627 |
| Note payable to sellers of real property | 757 | 778 |
| Notes payable to sellers of companies acquired | | 25 |

| | | |
|---|---|---|
| Other | 47 | 87 |
| | 22,838 | 22,296 |
| Less current maturities | (283) | (316) |
| Long-term debt, less current maturities | $ 22,555 | $ 21,980 |

The Company has a loan agreement ( Agreement ) with a commercial bank ( Bank ) that provides a $25 million revolving credit facility and additional credit facilities for the purchase of both real estate and capital assets. The Agreement terminates in May 2005, but is automatically extended for one-year periods unless either party gives notice of termination to the other. Restrictive covenants of the Agreement prohibit the Company from paying dividends, prepaying any subordinated indebtedness or incurring certain other debt without the Bank s consent, and also requires the Company to maintain certain financial ratios. As of February 29, 2004, the Company was in compliance with all of the required financial ratios.

The interest rate on borrowings under the revolving credit facility is based on either the Bank s prime rate or LIBOR and varies depending on the Company s leverage ratio, as defined, determined quarterly. As of February 29, 2004, the applicable interest rate was the prime rate or LIBOR plus 2.75%, and the Company had elected the LIBOR option for substantially all amounts outstanding under the facility. The Company has elected to fix the interest rate on $8 million of outstanding borrowings under the facility, and the balance of outstanding borrowings bears interest at a floating rate. At February 29, 2004, the average interest rate on all borrowings under the facility was 5.80%. Borrowings under the revolving credit facility are limited to 85% of eligible

**ACR GROUP, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(in thousands, except per share data)**

accounts receivable and 50% of eligible inventory amounts (which increases to 65% of eligible inventory amounts during certain specified months of the year). At February 29, 2004, the Company s available credit under the facility was approximately $2.3million.

The Agreement provides a capital expenditure term loan facility of $1 million for capital assets. As of February 29 2004, the Company had borrowed $856 under the capital expenditure facility. Of such borrowings, $419 was outstanding at February 29, 2004, and is repaid in equal monthly principal installments of $14, plus interest. The Agreement also provides for financing the purchase of certain real estate and improvements. At February 29, 2004, the Company had indebtedness to the Bank for real estate loans of $529, secured by a deed of trust on both the land and building occupied by two branch facilities in the Houston area, which is repaid in equal monthly principal installments of $6, plus interest. Both the real estate and the capital expenditures facilities bear interest at a variable rate, which were the prime rate or LIBOR plus 2.75% at February 29, 2004.

In fiscal 2003, the Company repaid its outstanding indebtedness to The Catalyst Fund, Ltd. and an affiliate ( Catalyst ) in the amount of $469, all of which was subordinated to the Bank. Subsequent to the repayment of such indebtedness, the Company and Catalyst entered into a settlement with respect to warrants held by Catalyst for 925,000 shares of the Company s common stock.

In August 2000, the Company purchased real estate in Gainesville, Florida to be occupied as a branch operation for approximately $957. Of the purchase price, the sellers financed $825 for a term of 25 years at an interest rate of 8.25% per annum. The note is secured by a deed of trust on the real estate and all improvements.

A note payable to a seller incurred in connection with an acquisition, which was payable in installments over three years, was repaid in full during fiscal 2004.

Based upon the borrowing rates currently available to the Company for debt instruments with similar terms and average maturities, the carrying value of long-term debt approximates fair value.

Future maturities of debt are $283 in 2005 $21,395 in 2006, $180 in 2007, $107 in 2008, $109 in 2009, and $764 after 2010.

**4 - Lease Commitments**

The Company leases warehouse and office equipment and vehicles under capital leases. Future minimum lease payments under capital leases are as follows:

| Year ended February 28 or 29, | Capital lease payments |
|---|---|
| 2005 | $ 140 |
| 2006 | 106 |
| 2007 | 72 |
| 2008 | 6 |
| 2009 | 3 |
| Total minimum lease payments | 327 |
| Less amounts representing interest | (28) |
| Present value of future minimum lease payments | 299 |
| Less current maturities of capital lease obligations | (123) |
| Long-term obligations under capital leases | $ 176 |

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**ACR GROUP, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(in thousands, except per share data)**

Additionally, the Company leases its corporate offices, office and warehouse space occupied by its HVACR operations and office equipment and various vehicles under non-cancelable operating lease agreements that expire at various dates through 2012. The leases for its branch facilities often require that the Company pay the taxes, insurance and maintenance expenses related to the leased properties. Certain of the Company s lease agreements include renewal and/or purchase options. Future minimum lease payments under such leases are $5,195 in 2005, $4,177 in 2006, $3,243 in 2007, $2,402 in 2008 and $3,526 thereafter.

Rental expenses were $5,405, $4,444 and $4,668 in 2004, 2003 and 2002, respectively.

**5 - Income Taxes**

Federal and state income tax provisions are as follows:

| | Year Ended February 29 or 28, | | |
|---|---|---|---|
| | **2004** | **2003** | **2002** |
| Federal | | | |
| Current | $ 573 | $ 20 | $ 16 |
| Deferred | 510 | 227 | |
| State | | | |
| Current | 170 | 59 | 107 |
| Deferred | | 24 | |
| | $ 1,253 | $ 330 | $ 123 |

The difference between the income tax provision computed at the statutory federal income tax rate and the financial statement provision for taxes is summarized below:

**Year Ended**

| | February 29 or 28, | | |
|---|---|---|---|
| | 2004 | 2003 | 2002 |
| Tax at statutory rate | $ 1,167 | $ 487 | $ 184 |
| Increase (reduction) in tax expense Resulting from: | | | |
| Change in valuation allowance | (102) | (961) | (804) |
| Nondeductible expenses | 60 | 90 | 96 |
| State income taxes | 128 | 79 | 107 |
| Expired tax credits and expired NOL carryforwards | | 635 | 540 |
| Actual income tax provision | $ 1,253 | $ 330 | $ 123 |

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**ACR GROUP, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(in thousands, except per share data)**

The Company recognizes a tax benefit from a net operating loss carryforward if it is more likely than not that such benefit will ultimately be realized. Such a tax benefit is recorded on the balance sheet as a deferred tax asset. The deferred tax assets and liabilities consist of the following as of February 29, 2004 and February 28, 2003:

| | 2004 | 2003 |
|---|---|---|
| Deferred tax assets: | | |
| NOL carryforwards | $ 205 | $ 674 |
| Section 263A capitalization | 454 | 492 |
| Allowance for doubtful accounts | 365 | 274 |
| Alternative minimum tax credit | | 71 |
| Accrued vacation | 185 | 179 |
| Fixed asset depreciation | 164 | 114 |
| Accrued medical claims | 93 | |
| Other | 69 | 33 |
| Total deferred tax assets | 1,535 | 1,837 |
| Deferred tax liabilities: | | |
| Goodwill and other amortization | (472) | (162) |
| Net total temporary difference | 1,063 | 1,675 |
| Valuation allowance | (115) | (217) |
| Net deferred tax assets | $ 948 | $ 1,458 |

The Company applied net operating loss carryforwards of $1,300 to offset taxable income during the fiscal 2004. The Company has a valuation allowance of $115 to offset California state tax net operating loss carryforwards that have been suspended by the state.

**6 - Stock Option Agreements and Equity Transactions**

Pursuant to employment contracts that were effective in 1998, both the President and the Chief Financial Officer of the Company received options to purchase 300,000 and 100,000 shares of the Company s common stock ( Stock ), respectively, at $2.24 per share. Such options would have vested in 2006. Both officers forfeited their respective options, unexercised, in fiscal 2004.

Effective March 1, 2004, both the Chief Financial Officer and the General Counsel of the Company entered into employment contracts that each provide for the contingent issuance of 500,000 shares of Stock upon both continuation of employment and attainment of specified financial performance objectives by the Company. Up to 125,000 shares will vest for each officer on each of the four succeeding anniversary dates of the grant if the performance objectives are also satisfied. Any such shares not fully vested as of March 1, 2009, will be forfeited and returned to the Company. As of March 1, 2004, the Company had not attained any of the performance objectives required to vest Stock under the employment agreements. Effective March 1, 2004, the two outside directors of the Company each received restricted stock grants of 42,000 shares, subject to continuation of service as a director for four years. Such shares will vest annually pro-rata over such period.

The Company has a stock option plan for key employees and directors of the Company and its subsidiaries. The plan provides for the granting of up to 500,000 non-qualified and/or incentive stock options. At February 29, 2004, 227,500 shares of common stock were available for future grants. Options granted under the plan are vested ratably over three years.

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**ACR GROUP, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(in thousands, except per share data)**

A summary of the Company s stock option activity and related information follows:

| | Year Ended February 29 or 28, | | | | | |
|---|---|---|---|---|---|---|
| | 2004 | | 2003 | | 2002 | |
| | Options | Weighted Average Exercise Price | Options | Weighted Average Exercise Price | Options | Weighted Average Exercise Price |
| Outstanding - | | | | | | |
| Beginning of year | 715,500 | $ 1.81 | 905,000 | $ 1.94 | 941.000 | $ 1.92 |
| Granted | | | | | | |
| Exercised | | | | | | |
| Forfeited | (443,000) | 2.16 | (189,500) | 2.40 | (36,000) | 1.53 |
| Outstanding - | | | | | | |
| End of year | 272,500 | 1.25 | 715,500 | 1.81 | 905,000 | 1.94 |
| Exercisable- | | | | | | |
| End of year | 272,500 | 1.25 | 646,833 | 1.89 | 322,667 | 1.98 |

Outstanding options at February 29, 2004 that are exercisable have a weighted average contractual life remaining of 1.75 years.

**7 - Profit Sharing Plan**

The Company has a qualified profit sharing plan ( Plan ) under Section 401(k) of the Internal Revenue Code. The Plan is open to all eligible employees. The Company matches 50% of the participant s contributions, not to exceed 3% of each participant s compensation. Company contributions to the Plan were $251, $261 and $258 for fiscal 2004, 2003 and 2002, respectively.

**8 - Earnings per Share**

The numerator used in the calculations of both basic and diluted earnings per share for all periods presented was net income. The denominator for each period presented was determined as follows:

| | Year ended February 29 or 28, | | |
|---|---|---|---|
| | 2004 | 2003 | 2002 |
| Denominator: | | | |
| Denominator for basic earnings per share- weighted average shares | 10,681,294 | 10,681,294 | 10,681,294 |
| Effect of dilutive securities: | | | |
| Employee stock options | | | |
| Warrants | | | 5,377 |
| Dilutive potential common shares | | | 5,377 |
| Denominator for diluted earnings per share adjusted weighted average shares and assumed conversions | 10,681,294 | 10,681,294 | 10,686,671 |

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**ACR GROUP, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(in thousands, except per share data)**

**9 - Quarterly Results (Unaudited)**

| | Quarter | | | |
|---|---|---|---|---|
| | **First** | **Second** | **Third** | **Fourth** |
| *Fiscal year ended February 29, 2004* | | | | |
| Sales | $ 42,316 | $ 51,543 | $ 42,187 | $ 38,307 |
| Gross profit | 9,305 | 11,348 | 9,130 | 8,776 |
| Net income | $ 488 | $ 1,479 | $ 286 | $ (73) |
| Earnings per common share basic and diluted | $ .05 | $ .13 | $ .03 | $ (.01) |
| *Fiscal year ended February 28, 2003* | | | | |
| Sales | $ 42,869 | $ 47,810 | $ 37,902 | $ 33,241 |
| Gross profit | 9,210 | 10,614 | 8,480 | 7,834 |
| Income before cumulative effect of accounting change | 459 | | | |
| Cumulative effect of accounting change, net of taxes | (483) | | | |
| Net income | $ (24) | $ 1,152 | $ (107) | $ (399) |
| Earnings per common share basic and diluted: | | | | |
| Before cumulative effect of accounting change | $ (.04) | $ .11 | $ (.01) | $ (.03) |
| Cumulative effect of accounting change | $ (.04) | $ | $ | $ |
| | $ | $ .11 | $ (.01) | $ (.03) |
| *Fiscal year ended February 28, 2002* | | | | |
| Sales | $ 39,709 | $ 46,509 | $ 37,007 | $ 32,265 |
| Gross profit | 8,602 | 9,920 | 7,981 | 7,426 |
| Net income | $ 396 | $ 1,044 | $ (336) | $ (685) |
| Earnings per common share basic and diluted | $ .04 | $ .10 | $ (.03) | $ (.06) |

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**Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.**

None

## PART III

**Item 10. Directors and Executive Officers of the Registrant.**

Incorporated by reference.

**Item 11. Executive Compensation.**

Incorporated by reference.

**Item 12. Security Ownership of Certain Beneficial Owners and Management.**

Incorporated by reference.

**Item 13. Certain Relationships and Related Transactions.**

Incorporated by reference.

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## PART IV

**Item 14. Controls and Procedures.**

As of February 29, 2004, 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 February 29, 2004. There have been no significant changes in the Company s internal controls or in other factors that could significantly affect internal controls subsequent to February 29, 2004.

**Item 15. Exhibits, Financial Statement Schedules, and Reports on Form 8-K.**

(a)(1) Financial Statements included in Item 8.

See Index to Financial Statements of ACR Group, Inc. set forth in Item 8, Financial Statements and Supplementary Data.

(a)(2) Index to Financial Statement Schedules included in Item 15.

The following financial statement schedule for the years ended February 29, 2004, February 28, 2003 and 2002 is included in this report:

Schedule II - Valuation and Qualifying Accounts

All other schedules are omitted because they are not applicable or the required information is included in the financial statements or notes thereto.

(a)(3) Exhibits

The following exhibits are filed with or incorporated by reference into this report. The exhibits which are denoted by an asterisk (*) were previously filed as a part of, and are hereby incorporated by reference from, either (a) Annual Report on Form 10-K for fiscal year ended June 30, 1991 (referred to as 1991 10-K ), or (b) Annual Report on Form 10-K for fiscal year ended February 28, 1993 (referred to as 1993 10-K ), or (c) Annual Report on Form 10-K for fiscal year ended February 28, 1998 (referred to as 1998 10-K ), or (d) Annual Report on Form 10-K for fiscal year ended February 29, 2000 (referred to as 2000 Form 10-K ), (e) Annual Report on Form 10-K for fiscal year ended February 28, 2001 (referred to as 2001 Form 10-K ) or (f) Annual Report on Form 10-K for fiscal year ended February 28, 2002 (referred to as 2002 Form 10-K )

| Exhibit Number | Description |
|---|---|
| * 3.1 | Restated Articles of Incorporation (Exhibit 3.1 to 1991 10-K) |
| * 3.2 | Articles of Amendment to Articles of Incorporation (Exhibit 3.2 to 1993 10-K) |
| * 3.3 | Amended and Restated Bylaws (Exhibit 3.2 to 1991 10-K) |
| * 3.4 | Amendment to Bylaws dated December 8, 1992 (Exhibit 3.4 to 1993 10-K) |
| * 4.1 | Specimen of Common Stock Certificate of ACR Group, Inc. (Exhibit 4.1 to 1993 10-K) |
| *10.1 | Employment Agreement between the Company and Alex Trevino, Jr. dated as of March 1, 1998 (Exhibit 10.1 to 1998 10-K) |
| *10.2 | Stock Option Agreement between the Company and Alex Trevino, Jr. dated as of March 1, 1998 (Exhibit 10.2 to 1998 10-K) |

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| Exhibit Number | Description |
|---|---|
| *10.3 | Employment Agreement between the Company and Anthony R. Maresca dated as of March 1, 1998 (Exhibit 10.3 to 1998 10-K) |
| 10.3A | Employment Agreement between the Company and Anthony R. Maresca dated as of March 1, 2004 |
| *10.4 | Stock Option Agreement between the Company and Anthony R. Maresca dated as of March 1, 1998 (Exhibit 10.4 to 1998 10-K) |
| *10.5 | Registration Rights Agreement by and between the Company, Alex Trevino, Jr. and Anthony R. Maresca (Exhibit 10.5 to 1998 10-K) |
| *10.6 | Note Agreement between The Catalyst Fund, Ltd., as Lender, and the Company, ACR Supply, Inc., Fabricated Systems, Inc. and Heating and Cooling Supply, Inc., as Borrowers, dated as of May 27, 1993 (Exhibit 10.18 to 1993 10-K) |
| *10.7 | First Amendment to Note Agreement by and among The Catalyst Fund, Ltd., the Company, ACR Supply, Inc., Total Supply, Inc. f/k/a Fabricated Systems, Inc., Heating and Cooling Supply, Inc. and West Coast HVAC Supply, Inc., dated as of April 14, 1997 (Exhibit 10.7 to 1998 10-K) |
| *10.8 | Second Amendment and Restated Note Agreement by and between the Company, all subsidiaries of the Company, The Catalyst Fund, Ltd., and Southwest/Catalyst Capital, Ltd., dated as of January 28, 1998 (Exhibit 10.8 to 1998 10-K) |
| *10.9 | Warrant for the Purchase of 750,000 Shares of Common Stock of the Company issued to The Catalyst Fund, Ltd. dated January 28, 1998 (Exhibit 10.9 to 1998 10-K) |
| *10.10 | Warrant for the Purchase of 50,000 Shares of Common Stock of the Company issued to The Catalyst Fund, Ltd. dated January 28, 1998 (Exhibit 10.10 to 1998 10-K) |
| *10.11 | Warrant for the Purchase of 125,000 Shares of Common Stock of the Company issued to Southwest/Catalyst Capital, Ltd. dated January 28, 1998 (Exhibit 10.11 to 1998 10-K) |
| *10.12 | Registration Rights Agreement between The Catalyst Fund, Ltd. and the Company dated as of January 28, 1998 (Exhibit 10.12 to 1998 10-K) |
| *10.13 | Registration Rights Agreement between Southwest/Catalyst Capital, Ltd. and the Company dated as of January 28, 1998 (Exhibit 10.13 to 1998 10-K) |
| *10.14 | Amended and Restated Loan and Security Agreement between the Company and Bank of America, N.A. dated as of May 25, 2000. (Exhibit 10.15A to 2000 10-K) |
| *10.15 | First Amendment to Amended and Restated Loan and Security Agreement between the Company and Bank of America, N.A. dated as of March 30, 2001. (Exhibit 10.15 to 2001 10-K) |
| *10.15A | Second Amendment to Amended and Restated Loan and Security Agreement between the Company and Bank of America, N.A. dated as of November 30, 2001. (Exhibit 10.15A to 2002 10-K) |
| *10.16 | 1996 Stock Option Plan of ACR Group, Inc. (Exhibit 4 to RS 333-16325) |
| 10.17 | Director Restricted Stock Agreement between the Company and Roland H. St. Cyr dated as of March 1, 2004. |
| 10.18 | Director Restricted Stock Agreement between the Company and Alan D. Feinsilver dated as of March 1, 2004 |

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| Exhibit Number | Description |
|---|---|
| 10.19 | Employment Agreement between the Company and A. Stephen Trevino dated as of March 1, 2004 |
| 21.1 | Subsidiaries of the Company |
| 23.1 | Consent of Independent Auditors |
| 31.1 | Certificate of the Chief Executive Officer pursuant to Securities Exchange Act Rules 13a-15(e) and 15d-15(e) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 dated January 14, 2004, |
| 31.2 | Certificate of the Chief Financial Officer pursuant to Securities Exchange Act Rules 13a-15(e) and 15d-15(e) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 dated January 14, 200414, 2003, |
| 32.1 | Certification from the Chief Executive Officer of ACR Group, Inc. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2 | Certification from the Chief Financial Officer of ACR Group, Inc. 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.

No report on form 8-K was filed during the period from December 1, 2003 to February 29, 2004.

(c) Exhibits

See Item 14(a)(3), above.

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**SCHEDULE II**

**ACR GROUP, INC. AND SUBSIDIARIES**

**VALUATION AND QUALIFYING ACCOUNTS**

**(in thousands)**

| Description | Balance at beginning of period | Charged to costs and expenses | Allowance written off | Balance at end of period |
|---|---|---|---|---|
| **Year ended February 29, 2004:** | | | | |
| Allowance for doubtful accounts: | | | | |
| Accounts receivable | $ 685 | $ 696 | $ 588 | $ 793 |
| **Year ended February 28, 2003:** | | | | |
| Allowance for doubtful accounts: | | | | |
| Accounts receivable | $ 844 | $ 418 | $ 577 | $ 685 |
| **Year ended February 28, 2002:** | | | | |
| Allowance for doubtful accounts: | | | | |
| Accounts receivable | $ 670 | $ 704 | $ 530 | $ 844 |

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## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.**

Date: June 1, 2004

By: /s/ ANTHONY R. MARESCA

**Anthony R. Maresca**

**Senior Vice President and**

**Chief Financial Officer**

Pursuant to the requirement of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| **Signature** | | |
|---|---|---|
| /s/ ALEX TREVINO, JR. | Chairman of the Board, | June 1, 2004 |
| **Alex Trevino, Jr.** | President and Chief Executive Officer (Principal executive officer) | |
| /s/ ANTHONY R. MARESCA | Senior Vice President, Chief Financial Officer and Director (Principal financial and accounting officer) | June 1, 2004 |
| **Anthony R. Maresca** | | |
| /s/ A. STEPHEN TREVINO | Senior Vice President, General Counsel and Director | June 1, 2004 |
| **A. Stephen Trevino** | | |
| /s/ ALAN D. FEINSILVER | Director | June 1, 2004 |
| **Alan D. Feinsilver** | | |
| /s/ ROLAND H. ST. CYR | Director | June 1, 2004 |
| **Roland H. St. Cyr** | | |