

ACR GROUP INC
Form 10-Q
January 14, 2005
Table of Contents

**Quarterly Report Under Section 13 or 15(d)
of the Securities Exchange Act of 1934**

**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, 2004

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 State or other jurisdiction of incorporation or organization)	74-2008473 (I.R.S. Employer Identification No.)
3200 Wilcrest Drive, Suite 440, Houston, Texas (Address of principal executive offices)	77042-6039 (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 No

Indicate by check mark whether the registrant is an accelerated filer (as filed in Rule 12b-2 of the Exchange Act). Yes No

Shares of Common Stock outstanding at December 31, 2004 - 10,712,294.

Table of Contents

ACR GROUP, INC. AND SUBSIDIARIES

INDEX TO QUARTERLY REPORT ON FORM 10-Q

	Page
PART I	
<u>FINANCIAL INFORMATION</u>	
Item 1. <u>Financial Statements</u>	
<u>Condensed Consolidated Balance Sheets – November 30, 2004 (Unaudited) and February 29, 2004 (Restated)</u>	3
<u>Condensed Consolidated Statements of Operations (Unaudited) – Quarter and Nine Months Ended November 31, 2004 and November 30, 2003 (Restated)</u>	5
<u>Condensed Consolidated Statements of Cash Flows (Unaudited) – Nine Months Ended November 30, 2004 and November 30, 2003 (Restated)</u>	6
<u>Notes to Condensed Consolidated Financial Statements</u>	7
Item 2. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	13
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	19
Item 4. <u>Controls and Procedures</u>	19
PART II	
<u>OTHER INFORMATION</u>	
Item 1. <u>Legal Proceedings</u>	20
Item 4. <u>Items Submitted to a Vote of Security Holders</u>	20
Item 6. <u>Exhibits and Reports on Form 8-K</u>	20
<u>SIGNATURES</u>	21
CERTIFICATIONS	

Table of Contents**PART I - FINANCIAL INFORMATION****Item 1. - Financial Statements****ACR GROUP, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS****(In thousands)****ASSETS**

	November 30, 2004	February 29, 2004
	<u> </u>	<u> </u>
	(Unaudited)	
Current assets:		
Cash	\$ 2,130	\$ 52
Accounts receivable, net of allowance for doubtful accounts of \$1,379 and \$793	21,773	18,120
Inventory	30,509	27,833
Prepaid expenses and other	455	1,120
Deferred income taxes	1,225	1,167
	<u> </u>	<u> </u>
Total current assets	56,092	48,292
	<u> </u>	<u> </u>
Property and equipment, net of accumulated depreciation	4,021	4,461
Goodwill, net of accumulated amortization	5,258	5,258
Other assets	794	716
	<u> </u>	<u> </u>
Total assets	\$ 66,165	\$ 58,727
	<u> </u>	<u> </u>

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

Table of Contents

ACR GROUP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)

LIABILITIES AND SHAREHOLDERS' EQUITY

	November 30, 2004	February 29, 2004
	(Unaudited)	(Restated)
Current liabilities:		
Current maturities of long-term debt and capital lease obligations	\$ 229	\$ 407
Accounts payable	20,611	18,756
Accrued expenses and other liabilities	5,248	3,248
Total current liabilities	26,088	22,411
Long-term obligations:		
Revolving line of credit	21,000	21,086
Long-term debt and capital lease obligations, less current maturities	1,587	1,645
Interest derivative liabilities		464
Deferred income taxes	291	63
Total long-term obligations	22,878	23,258
Shareholders' equity:		
Common stock	118	107
Additional paid-in capital	43,989	41,691
Unearned compensation - restricted stock	(1,980)	
Accumulated deficit	(24,928)	(28,740)
Total shareholders' equity	17,199	13,058
Total liabilities and shareholders' equity	\$ 66,165	\$ 58,727

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

Table of Contents

ACR GROUP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)

(Unaudited)

	Three Months Ended November 30,		Nine months Ended November 30,	
	2004	2003 (Restated)	2004	2003 (Restated)
Sales	\$ 47,339	\$ 42,187	\$ 156,922	\$ 136,047
Cost of sales	36,289	33,057	121,065	106,264
Gross profit	11,050	9,130	35,857	29,783
Selling, general and administrative costs	9,972	8,425	29,353	25,453
Operating income	1,078	705	6,504	4,330
Interest expense	252	262	787	805
Interest derivative loss (gain)	4	21	(19)	41
Other non-operating income	(121)	(139)	(434)	(365)
Income before income taxes	943	561	6,170	3,849
Provision for income taxes	325	220	2,358	1,462
Net income	\$ 618	\$ 341	\$ 3,812	\$ 2,387
Earnings per share:				
Basic	\$.06	\$.03	\$.36	\$.22
Diluted	\$.06	\$.03	\$.35	\$.22
Weighted average shares outstanding:				
Basic	10,707	10,681	10,690	10,681
Diluted	11,030	10,681	10,846	10,681

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

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

	Nine months ended November 30,	
	2004	2003
		(Restated)
Operating activities:		
Net income	\$ 3,812	\$ 2,387
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	700	744
Provision for doubtful accounts	586	476
Gain of sale of assets	(22)	
Market value of interest derivative	(464)	(281)
Deferred income taxes	170	763
Restricted stock compensation	291	
Changes in operating assets and liabilities:		
Accounts receivable, net	(4,239)	(4,592)
Inventory	(2,676)	(2,833)
Prepaid expenses and other assets	587	(292)
Accounts payable	1,855	662
Accrued expenses and other liabilities	2,001	1,742
Net cash provided by used in operating activities	2,601	(1,224)
Investing activities:		
Acquisition of property and equipment	(692)	(463)
Proceeds from disposition of assets	454	245
Net cash used in investing activities	(238)	(218)
Financing activities:		
Net (payments) borrowings on revolving credit facility	(86)	1,755
Payments on long-term debt and capital leases	(236)	(370)
Proceeds from exercise of stock options	37	
Net cash (used in) provided by financing activities	(285)	1,385
Net increase (decrease) in cash	2,078	(57)
Cash at beginning of year	52	104
Cash at end of period	\$ 2,130	\$ 47
Non-cash sale of subsidiaries inventory, property and equipment and other net assets	\$	\$ 804

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

Table of Contents

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 29, 2004 filed on Form 10-K/A 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. The results of operations for the quarter and nine months ended November 30, 2004 are not necessarily indicative of the results that may be expected for the fiscal year ended February 28, 2005.

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

2 - **Summary of Significant Accounting Policies**

For a detailed 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/A for the year ended February 29, 2004 and to Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations, below.

In accordance with the provisions of Statement of Financial Accounting Standards (SFAS) Number 123, Accounting for Stock-Based Compensation, as amended by SFAS 148, Accounting for Stock-Based Compensation Transition and Disclosure - an amendment of FASB Statement No. 123, 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.

Table of Contents

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:

Automatic Conversion	None currently. If the amendment to the Charter is approved, each share will convert automatically into 1/12th of a share of each of our Class A, Class B-1, Class B-2 and Class B-3 common stock upon the filing of the amendment to the Charter shortly before the Listing.	None. Each share will convert into one share of Class A common stock as follows: 180 days after the Listing Date, in the case of Class B-1 common stock; 270 days after the Listing Date, in the case of Class B-2 common stock; and on January 30, 2011 in the case of Class B-3 common stock. In addition, if it has not previously converted, each share will convert automatically into one share of Class A common stock on January 30, 2011.
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Listing of Our Common Stock

We intend to apply to list our Class A common stock (including shares of our Class A common stock held by our existing stockholders, shares of our Class A common stock that are converted automatically from shares of our Class B common stock, and shares of our Class A common stock we intend to sell in the Offering) on a national securities exchange. Our Class B common stock will not be listed on a national securities exchange.

Reasons for the Amendment to the Charter

As described above, our board of directors determined to amend the Charter to provide for the conversion of the common stock and to submit this amendment to stockholders for approval, in connection with the Listing. In preparing for the Listing and the potential Offering, our board of directors and J.P. Morgan Securities Inc. and Morgan Stanley & Co. Incorporated were concerned that a significant number of shares of common stock might be offered for sale by our stockholders immediately after the Listing, which would likely depress the trading price of the common stock for other stockholders. In addition, our board of directors and J.P. Morgan Securities Inc. and Morgan Stanley & Co. Incorporated were concerned that this potential for a decline in the price of the common stock immediately following the Listing would decrease the price per share that we will be able to

obtain in the Offering, if the Offering occurs. This in turn would impact our ability to raise equity capital in the Offering (if the Offering occurs) and in potential future public offerings at attractive prices. The board of directors believes that providing for the conversion of the common stock into shares that we expect will become listed over a period of time may reduce significant sales of our common stock immediately following the Listing. Our board of directors believes this may lessen any related decrease in the trading price of our common stock, and may allow us to achieve our capital raising objectives, if the Offering occurs. The conversion also may allow our existing stockholders liquidity over time, with full liquidity for their shares by January 30, 2011, the Current Liquidation Date.

Finally, our board of directors believes that the conversion of the common stock, by reducing the number of shares of our common stock that are outstanding, may have the effect of increasing the price per share of our common stock relative to the trading price that would result if the conversion did not have the effect of a reverse stock split. In particular, our board of directors believes that an increased price per share may increase interest in the trading of our common stock and improve its marketability and liquidity. For example, our board of directors believes that some institutional investors and investment funds may be reluctant to invest, and in some cases may be prohibited from investing, in lower-priced stocks and that brokerage firms may be reluctant to recommend lower-priced stocks to their clients. The conversion of our common stock could increase the likelihood that its trading price following the Listing will remain at a level that would be viewed more favorably by potential investors. Further, brokerage commissions, as a percentage of the total transaction, tend to be higher for lower-priced stocks. As a result, certain investors also may be dissuaded from purchasing lower-priced stocks. A higher stock price after the conversion may reduce this concern. However, we cannot assure you that the trading price of our common stock following the conversion will be higher than the trading price would have been if we effected the conversion without also reducing the number of shares of our common stock issued and outstanding. The trading price of our common stock may vary based on other factors that are unrelated to the number of shares outstanding, including our future performance. Therefore, it is possible that the per share price of our common stock following the conversion may not result in a stock price that will attract (or satisfy the investment guidelines of) institutional investors, investment funds and certain other investors.

Recommendation of the Board of Directors

Our board of directors believes that the amendment to our Charter is advisable and in the best interests of Piedmont and our stockholders, and has unanimously approved the amendment to the Charter and unanimously recommends that you vote **FOR** the proposal to approve the amendment to our Charter to provide for the conversion of the common stock into our Class A and Class B-1, B-2 and B-3 common stock and the future conversion of our Class B-1, B-2 and B-3 common stock into our Class A common stock.

In reaching its conclusion, our board of directors consulted with our management, as well as with our legal advisors, J.P. Morgan Securities Inc. and Morgan Stanley & Co. Incorporated and Robert A. Stanger & Co., Inc., and considered a variety of factors weighing favorably towards the amendment, including, without limitation, the following:

the amendment may reduce concentrated sales of our stock at the time of the Listing that could depress the trading price of our common stock;

the amendment may make the shares of our Class A common stock that we offer to the public more attractive (in the event the Offering occurs), which may allow us to obtain a higher public offering price per share and achieve our capital raising objectives; and

the amendment may permit existing stockholders to access liquidity for a portion of their shares at the time of the Listing and for the remainder of their shares over time, with full access to liquidity by January 30, 2011, the Current Liquidation Date.

Our board of directors weighed these advantages and opportunities against the fact that our existing stockholders will not have full access to liquidity with respect to all of their existing shares before January 30,

2011, the Current Liquidation Date. After consideration of this factor, our board of directors determined that this disadvantage was significantly outweighed by the potential benefits to our stockholders of providing for the conversion of the common stock.

Although this discussion of the information and factors considered by our board of directors is believed to include the material factors considered by our board of directors, it is not intended to be exhaustive and may not include all of the factors considered by our board of directors. In reaching its determination to approve and recommend the amendment to our Charter to provide for the conversion of the common stock, our board of directors did not quantify or assign any relative or specific weights to the various factors that it considered in reaching its determination that the proposal is advisable and in the best interests of Piedmont and our stockholders. Rather, our board of directors based its position and recommendation on the totality of the information presented to, and factors considered by, the board of directors. In addition, individual members of our board of directors may have given differing weights to different factors.

Proposed Amendments

Our existing Charter is being amended in the Articles of Amendment to:

(1) provide that, immediately upon the acceptance for record of the Articles of Amendment by the SDAT (the Effective Time), each Common Share (as defined in the Charter) which was issued and outstanding immediately prior to the Effective Time shall be changed into 1/12th of a share of Class A Common Stock, 1/12th of a share of Class B-1 Common Stock, 1/12th of a share of Class B-2 Common Stock and 1/12th of a share of Class B-3 Common Stock, the Class A Common Stock, Class B-1 Common Stock, Class B-2 Common Stock and Class B-3 Common Stock having the respective preferences, conversion and other rights, voting powers, restrictions, limitations as to dividends and other distributions, qualifications, and terms and conditions of redemption set forth in the Charter upon the Effective Time; and

(2) add the following paragraphs to Section 7.2 of Article VII:

(vi) CLASSIFICATION. 600,000,000 Common Shares shall be classified as Class A Common Stock (the Class A Common Stock), 50,000,000 Common Shares shall be classified as Class B-1 Common Stock (the Class B-1 Common Stock), 50,000,000 Common Shares shall be classified as Class B-2 Common Stock (the Class B-2 Common Stock) and 50,000,000 Common Shares shall be classified as Class B-3 Common Stock (the Class B-3 Common Stock and, together with the Class B-1 Common Stock and the Class B-2 Common Stock, the Class B Common Stock).

(vii) CONVERSION. The Class A Common Stock is not convertible into or exchangeable for any other property or securities of the Company. Each issued and outstanding share of Class B Common Stock shall, automatically and without any action on the part of the holder thereof, convert into one (1) share of Class A Common Stock as follows: (a) one hundred eighty (180) days following the date of the listing of the Class A Common Stock of the Company on a national securities exchange or over-the-counter market (the Listing Date), in the case of the Class B-1 Common Stock; (b) two hundred seventy (270) days following the Listing Date, in the case of the Class B-2 Common Stock; and (c) on January 30, 2011, in the case of the Class B-3 Common Stock; provided, however, that each issued and outstanding share of Class B Common Stock shall, automatically and without any action on the part of the holder thereof, convert into one (1) share of Class A Common Stock on January 30, 2011.

(viii) GENERAL. Except as set forth in the immediately preceding subparagraph, the Class A Common Stock and Class B Common Stock shall have identical preferences, rights, voting powers, restrictions, limitations as to dividends and other distributions, qualifications, and terms and conditions of redemption.

Implementation of Amendments

If approved by our stockholders at the Special Meeting, the amendments reflected in the Articles of Amendment will be effected shortly before the Listing. We intend to effect these amendments by filing the

Articles of Amendment with the SDAT, which will become effective upon filing with and acceptance for record by the SDAT. We intend to effect certain other amendments previously approved by our stockholders at our April 11, 2007 special meeting by filing a Third Articles of Amendment and Restatement (which will include such amendments and the amendments contained in the Articles of Amendment) with the SDAT in connection with the Listing. Our stockholders' approval of the amendments reflected in the Articles of Amendment will also constitute approval of the inclusion of such amendments in the Third Articles of Amendment and Restatement.

Appraisal Rights

Under Maryland law and our Charter, you will not be entitled to rights of appraisal with respect to Amendment No. 3 to our Second Articles of Amendment and Restatement. Accordingly, to the extent that you object to Amendment No. 3 to our Second Articles of Amendment and Restatement, you will not have the right to have a court judicially determine (and you will not receive) the fair value for your shares of common stock under the provisions of Maryland law governing appraisal rights.

Vote Required

Approval of this proposal to amend our existing Charter requires the affirmative vote of the holders of at least a majority of our outstanding shares of common stock entitled to vote thereon. If you abstain from voting on the proposal, it will have the effect of a vote against the proposal. Proxies received will be voted **FOR** approval of this proposal unless stockholders designate otherwise.

Our board of directors has deemed it advisable and in the best interests of the Company and our stockholders to approve the amendment to the Charter to provide for the conversion of the common stock into our Class A and Class B-1, B-2 and B-3 common stock and the future conversion of our Class B-1, B-2 and B-3 common stock into our Class A common stock and has unanimously recommended that our stockholders approve this amendment to our Charter. Our board of directors unanimously approved the Articles of Amendment and recommends that you vote FOR this proposal.

PROPOSAL II:

PROPOSAL TO APPROVE AN ADJOURNMENT

OR POSTPONEMENT OF THE SPECIAL MEETING

The second proposal is to consider and vote upon the proposal to approve an adjournment or postponement of the Special Meeting, including, if necessary, to solicit additional proxies in favor of Proposal I if there are not sufficient votes for this proposal.

Vote Required

Approval of the proposal to adjourn or postpone the Special Meeting, including, if necessary, to solicit additional proxies in favor of Proposal I if there are not sufficient votes for the proposal, requires the affirmative vote of a majority of the votes cast at the Special Meeting by the holders who are present in person or by proxy and entitled to vote. If you abstain from voting on the proposal, it will have no effect on the outcome of the vote. Proxies received will be voted **FOR** approval of this proposal unless stockholders designate otherwise.

Recommendation of the Board of Directors

Our board of directors unanimously recommends that you vote **FOR** the proposal to approve the postponement or adjournment of the Special Meeting.

STOCK OWNERSHIP

The following table sets forth certain information regarding the beneficial ownership of shares of our common stock as of September 30, 2009 by (1) each of our directors, (2) each of our named executive officers, (3) all of our directors and executive officers as a group and (4) each holder of 5% or more of each class of our common stock. This table shows both our existing stock ownership and also reflects the recapitalization following the conversion of our common stock, assuming the approval of Proposal I. Unless otherwise indicated, all shares of common stock are owned directly and the indicated person has sole voting and investment power.

Name of Beneficial Owner ⁽¹⁾	Existing Ownership			Ownership Following Recapitalization			
	Common Stock	Percentage	Total	Class A		Class B	
				Shares Beneficially Owned	Percentage	Shares Beneficially Owned	Percentage
Michael R. Buchanan	22,989 ⁽⁶⁾	*	7,663 ⁽²⁾	1,916	*	5,747	*
Wesley E. Cantrell	11,376	*	3,792	948	*	2,844	*
William H. Keogler, Jr.	94,956 ⁽⁷⁾	*	31,652 ⁽³⁾	7,913	*	23,739	*
Frank C. McDowell	21,489	*	7,163	1,791	*	5,372	*
Donald S. Moss	129,018 ⁽⁸⁾	*	43,006 ⁽⁴⁾	10,752	*	32,254	*
Jeffrey L. Swope	12,027	*	4,009	1,002	*	3,007	*
W. Wayne Woody	21,990 ⁽⁹⁾	*	7,330 ⁽⁵⁾	1,833	*	5,497	*
Donald A. Miller, CFA	174,273	*	58,091	14,523	*	43,568	*
Robert E. Bowers	65,598	*	21,866	5,467	*	16,399	*
Laura P. Moon	29,094	*	9,698	2,425	*	7,273	*
Raymond L. Owens	53,745	*	17,915	4,479	*	13,436	*
Carroll A. Reddic	28,860	*	9,620	2,405	*	7,215	*
All officers and directors as a group	665,415	*	221,805	55,454	*	166,351	*

* Less than 1% of the outstanding common stock.

(1) The address of each of the stockholders is c/o Piedmont Office Realty Trust, Inc., 11695 Johns Creek Parkway, Suite 350, Johns Creek, Georgia 30097.

(2) Includes options to purchase up to 2,167 shares of common stock, which are exercisable within 60 days of September 30, 2009.

(3) Includes options to purchase up to 3,167 shares of common stock, which are exercisable within 60 days of September 30, 2009.

(4) Includes options to purchase up to 3,167 shares of common stock, which are exercisable within 60 days of September 30, 2009.

(5) Includes options to purchase up to 1,833 shares of common stock, which are exercisable within 60 days of September 30, 2009.

(6) Includes options to purchase up to 6,500 shares of common stock, which are exercisable within 60 days of September 30, 2009.

(7) Includes options to purchase up to 9,500 shares of common stock, which are exercisable within 60 days of September 30, 2009.

(8) Includes options to purchase up to 9,500 shares of common stock, which are exercisable within 60 days of September 30, 2009.

(9) Includes options to purchase up to 5,500 shares of common stock, which are exercisable within 60 days of September 30, 2009.

PROPOSALS YOU MAY VOTE ON

WHETHER YOU PLAN TO ATTEND THE MEETING AND VOTE IN PERSON OR NOT, WE URGE YOU TO HAVE YOUR VOTE RECORDED. STOCKHOLDERS HAVE THE FOLLOWING THREE OPTIONS FOR SUBMITTING THEIR VOTES BY PROXY: (1) VIA THE INTERNET, (2) BY TELEPHONE OR (3) BY MAIL, USING THE ENCLOSED PROXY CARD. BECAUSE WE ARE A WIDELY-HELD REIT WITH APPROXIMATELY 107,000 STOCKHOLDERS, **YOUR VOTE IS VERY IMPORTANT!** YOUR IMMEDIATE RESPONSE WILL HELP AVOID POTENTIAL DELAYS AND MAY SAVE PIEDMONT SIGNIFICANT ADDITIONAL EXPENSES ASSOCIATED WITH SOLICITING STOCKHOLDER VOTES.

STOCKHOLDER PROPOSALS

In order to be eligible for presentation at our 2010 annual meeting, our current Bylaws require that written notice of any director nominations or other stockholder proposals must be received by our Secretary no earlier than June 17, 2010 and no later than July 17, 2010 at the following address: Robert E. Bowers, Secretary, Piedmont Office Realty Trust, 11695 Johns Creek Parkway, Suite 350, Johns Creek, Georgia 30097. Pursuant to Rule 14a-8 under the Exchange Act, stockholder proposals submitted for inclusion in our proxy statement for the 2010 Annual Meeting must be received by March 24, 2010.

HOUSEHOLDING

The SEC has adopted a rule concerning the delivery of disclosure documents. The rule allows us to send a single annual report, Proxy Statement, Proxy Statement combined with a prospectus, or information statement to any household at which two or more stockholders reside if they share the same last name or we reasonably believe they are members of the same family. This procedure is referred to as Householding. This rule benefits both you and Piedmont. It reduces the volume of duplicate information received at your household and helps Piedmont reduce expenses. Each stockholder subject to Householding will continue to receive a separate proxy card or voting instruction card.

If any stockholders in your household wish to receive a separate annual report and a separate proxy statement, they may call us at 1-800-557-4830 or write to Piedmont Investor Services Department at P.O. Box 2828, Norcross, Georgia 30091-2828. If you are a stockholder that receives multiple copies of our proxy materials, you may request Householding by contacting us in the same manner and requesting a householding consent.

OTHER MATTERS

As of the date of this Proxy Statement, we know of no business that will be presented for consideration at the Special Meeting other than the items referred to herein. If any other matter is properly brought before the meeting for action by stockholders, proxies in the enclosed form returned to us will be voted in accordance with the recommendation of the board of directors or, in the absence of such a recommendation, in accordance with the discretion of the proxy holder.

APPENDIX A

PRELIMINARY COPY

PIEDMONT OFFICE REALTY
TRUST, INC.

YOUR VOTE IS IMPORTANT
AUTHORIZE YOUR PROXY BY
INTERNET/TELEPHONE

24 HOURS A DAY,
7 DAYS A WEEK

INTERNET

TELEPHONE

MAIL

Go to the Web site address shown above.

Have your proxy card ready.

Follow the simple instructions that appear on your computer screen.

O

R

Use any touch-tone telephone.

Have your proxy card ready.

Follow the simple recorded instructions.

O

R

Mark, sign, and date your proxy card.

Detach your proxy card.

Return your proxy card in the postage-paid envelope provided.

Authorizing your proxy via the Internet or telephone saves postage costs.
Internet and telephone proxy authorizations must be received by January 20, 2010 in order for your votes to be certified in the final tabulation. In the event that the Special Meeting is adjourned, Internet and telephone proxy authorizations must be received by the day the meeting is resumed.

CALL TOLL-FREE TO AUTHORIZE YOUR PROXY

DETACH PROXY CARD HERE IF YOU ARE NOT AUTHORIZING YOUR PROXY BY TELEPHONE OR INTERNET

(Please sign, date, and return

this proxy card in the

enclosed envelope.)

X

Votes must be indicated

(x) in Black or Blue ink.

OUR BOARD RECOMMENDS THAT YOU VOTE FOR ALL PROPOSALS, AS DESCRIBED IN THE PROXY STATEMENT.

TO VOTE, MARK BLOCKS BELOW IN BLUE OR BLACK INK.

I: Amendment to the Charter to provide for the conversion of the common stock into our Class A and Class B-1, B-2 and B-3 common stock and the

To change your address, please mark this box and "

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future conversion of our Class B-1, B-2 and B-3 common stock into our Class A common stock. see the reverse side to record your new address.

YES NO

I plan to attend the special meeting. " "

FOR " AGAINST " ABSTAIN "

S C A N L I N E

Please sign exactly as name appears on this proxy card. When shares of common stock are held by joint tenants, both should sign. When signing as attorney, executor, administrator, trustee, or guardian, please give full title as such. If a corporation, please sign in full corporate name by President or other authorized officer. If a partnership, please sign in partnership name by general partner or other authorized person.

II: Proposal to approve an adjournment or postponement of the Special Meeting, including, if necessary, to solicit additional proxies in favor of the foregoing proposal if there are not sufficient votes for the proposal.

Date Share Owner sign here Co-Owner sign here

FOR " AGAINST " ABSTAIN "

AUTHORIZE YOUR PROXY ONLINE, AUTHORIZE YOUR PROXY NOW!

A-1

Enclosed in this packet with your proxy card is your Piedmont proxy statement with a concise overview of the proposals, plus a full copy of the proxy statement. Piedmont must cover the costs of sending updates and reminders to any investor who does not vote. To help keep these costs to a minimum, please vote as soon as you can.

And as an extra cost savings, consider authorizing your proxy online or by calling the toll-free voting number.

Read the material to understand the items to be voted on and have your proxy card in hand.

Go to the Web site: or call toll-free to authorize your proxy by phone.

Follow the on-screen or recorded directions.

Do not mail your proxy card if you authorize your proxy by Internet or phone.

Relax. You've helped Piedmont save money!

A-2

PROXY

PROXY

PIEDMONT OFFICE REALTY TRUST, INC.

SPECIAL MEETING OF STOCKHOLDERS JANUARY 20, 2010

THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS

The undersigned stockholder hereby appoints Donald A. Miller, CFA and Robert E. Bowers, and each of them, as proxy and attorney-in-fact, each with the power to appoint his substitute, on behalf and in the name of the undersigned, to attend the Special Meeting of stockholders of PIEDMONT OFFICE REALTY TRUST, INC. to be held on January 20, 2010, and any adjournments or postponements thereof, to cast on behalf of the undersigned all votes that the undersigned would be entitled to cast if personally present, as indicated on the reverse side of this card, and otherwise to represent the undersigned at the meeting with all powers possessed by the undersigned if personally present. The undersigned acknowledges receipt of the notice of the Special Meeting of stockholders and the Proxy Statement, the terms of which are incorporated by reference, and revokes any proxy heretofore given with respect to such meeting.

The votes entitled to be cast by the undersigned, when this proxy is properly executed, will be cast in the manner directed herein. If this proxy is executed but no instruction is given, the votes entitled to be cast by the undersigned will be cast FOR the Amendment to the Charter to provide for the conversion of the common stock into our Class A and Class B-1, B-2 and B-3 common stock and the future conversion of our Class B-1, B-2 and B-3 common stock into Class A common stock and FOR an adjournment or postponement of the Special Meeting, including, if necessary, to solicit additional proxies in favor of the foregoing proposal. The votes entitled to be cast by the undersigned will be cast upon such other matters as may properly come before the meeting or any adjournments or postponements thereof in accordance with the recommendation of the board of directors or, in the absence of such a recommendation, in the proxies discretion, including, but not limited to, the power and authority to adjourn the meeting to a date not more than 120 days after the record date in the event that a quorum is not obtained by the January 20, 2010 meeting date.

(Continued, and to be dated and signed on the reverse side.)

ADDRESS CHANGE

PIEDMONT OFFICE REALTY TRUST, INC.

P.O. BOX 11375

NEW YORK, N.Y. 10203-0375

TO VOTE BY MAIL PLEASE MARK, SIGN, DATE, AND RETURN THE PROXY CARD PROMPTLY USING THE ENCLOSED ENVELOPE.

APPENDIX B

ARTICLES OF AMENDMENT

OF

PIEDMONT OFFICE REALTY TRUST, INC.

Piedmont Office Realty Trust, Inc., a Maryland corporation (the Company), hereby certifies to the State Department of Assessments and Taxation of Maryland (the SDAT) that:

FIRST: Pursuant to Section 2-602(b)(8) of the Maryland General Corporation Law (the MGCL), the charter of the Company (the Charter) is hereby amended to provide that, immediately upon the acceptance for record of these Articles of Amendment by the SDAT (the Effective Time), each Common Share (as defined in the Charter) which was issued and outstanding immediately prior to the Effective Time shall be changed into 1/12th of a share of Class A Common Stock, 1/12th of a share of Class B-1 Common Stock, 1/12th of a share of Class B-2 Common Stock and 1/12th of a share of Class B-3 Common Stock, the Class A Common Stock, Class B-1 Common Stock, Class B-2 Common Stock and Class B-3 Common Stock having the respective preferences, conversion and other rights, voting powers, restrictions, limitations as to dividends and other distributions, qualifications, and terms and conditions of redemption set forth in the Charter upon the Effective Time.

SECOND: The charter of the Company is hereby further amended by adding the following paragraphs to Section 7.2 of Article VII:

(vi) **CLASSIFICATION.** 600,000,000 Common Shares shall be classified as Class A Common Stock (the Class A Common Stock), 50,000,000 Common Shares shall be classified as Class B-1 Common Stock (the Class B-1 Common Stock), 50,000,000 Common Shares shall be classified as Class B-2 Common Stock (the Class B-2 Common Stock) and 50,000,000 Common Shares shall be classified as Class B-3 Common Stock (the Class B-3 Common Stock and, together with the Class B-1 Common Stock and the Class B-2 Common Stock, the Class B Common Stock).

(vii) **CONVERSION.** The Class A Common Stock is not convertible into or exchangeable for any other property or securities of the Company. Each issued and outstanding share of Class B Common Stock shall, automatically and without any action on the part of the holder thereof, convert into one (1) share of Class A Common Stock as follows: (a) one hundred eighty (180) days following the date of the listing of the Class A Common Stock of the Company on a national securities exchange or over-the-counter market (the Listing Date), in the case of the Class B-1 Common Stock; (b) two hundred seventy (270) days following the Listing Date, in the case of the Class B-2 Common Stock; and (c) on January 30, 2011, in the case of the Class B-3 Common Stock; provided, however, that each issued and outstanding share of Class B Common Stock shall, automatically and without any action on the part of the holder thereof, convert into one (1) share of Class A Common Stock on January 30, 2011.

(viii) **GENERAL.** Except as set forth in the immediately preceding subparagraph, the Class A Common Stock and Class B Common Stock shall have identical preferences, rights, voting powers, restrictions, limitations as to dividends and other distributions, qualifications, and terms and conditions of redemption.

THIRD: Upon any restatement of the Charter, including any restatement that also includes amendments as permitted by Section 2-609(b) of the MGCL, the provisions set forth in paragraphs SECOND and THIRD above shall become part of the restated or amended and restated Charter, with any necessary or appropriate renumbering or relettering of the sections or subsections thereof.

FOURTH: The amendments to the Charter as set forth above have been duly advised by the Board of Directors and approved by the stockholders of the Company entitled to vote thereon as required by law.

FIFTH: The total number of shares of stock which the Company had authority to issue immediately prior to the foregoing amendments to the Charter was 1,000,000,000, consisting of 750,000,000 Common Shares, all of

one class, 100,000,000 Preferred Shares (as defined in the Charter) and 150,000,000 Shares-in-Trust (as defined in the Charter). The aggregate par value of all shares of stock having par value was \$7,500,000.

SIXTH: The total number of shares of stock which the Corporation has authority to issue pursuant to the foregoing amendments to the Charter is 1,000,000,000, consisting of 750,000,000 Common Shares, of which 600,000,000 are classified as Class A Common Stock, 50,000,000 are classified as Class B-1 Common Stock, 50,000,000 are classified as Class B-2 Common Stock and 50,000,000 are classified as Class B-3 Common Stock, and 100,000,000 Preferred Shares and 150,000,000 Shares-in-Trust. The aggregate par value of all shares of stock having par value was \$7,500,000.

SEVENTH: The undersigned acknowledges these Articles of Amendment to be the corporate act of the Company and, as to all matters or facts required to be verified under oath, the undersigned acknowledges that, to the best of his knowledge, information and belief, these matters and facts are true in all material respects and that this statement is made under the penalties for perjury.

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IN WITNESS WHEREOF, the Company has caused these Articles of Amendment to be signed in its name and on its behalf by its President and attested to by its Secretary on this day of , 2010.

ATTEST:

PIEDMONT OFFICE REALTY TRUST, INC.

Name:
Title: Secretary

By: _____ (SEAL)
Name:
Title: President

B-3