

Edgar Filing: PALLET MANAGEMENT SYSTEMS INC - Form 10-K/A

PALLET MANAGEMENT SYSTEMS INC
Form 10-K/A
April 10, 2002

U.S. SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K/A1

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D)
OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED JUNE 30, 2001

Commission file number 000-24405

PALLET MANAGEMENT SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

Florida

(State or Other Jurisdiction of
Incorporation or Organization)

59-2197020

(I.R.S. Employer
Identification Number)

2855 University Drive, Suite 510
Coral Springs, Florida

Address of Principal Executive Offices)

33065

(Zip Code)

Registrant's Telephone Number, Including Area Code: (954) 340-1290

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No
--- ---

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the Company is \$1,836,927 based on the closing price of \$ 0.72 per share as of October 5, 2001.

As of October 5, 2001, there were 4,065,612 shares of the issuer's Common Stock, \$.01 par value, outstanding.

PART III

ITEM 11. EXECUTIVE COMPENSATION.

The following table summarizes all compensation paid by the Company in each of the last three fiscal years for the Company's executive officers currently serving as such whose annual compensation exceeded \$100,000.

Name and Principal Position	Year	Annual Compensation		
		Salary (\$) (1)	Bonus (\$)	Other (\$) (2)
Zachary M. Richardson,	2001	170,878	0	83,200 (3)
President	2000	161,114	0	59,900 (4)
	1999	119,000	0	13,200
John C. Lucy, III	2001	172,262	0	14,348 (5)
Chief Executive Officer	2000	161,451	0	16,800 (6)
	1999	119,000	0	25,200

- (1) Includes medical insurance reimbursements.
- (2) Includes car allowances and other miscellaneous benefits.
- (3) Includes \$13,200 for car allowances. Also, Mr. Richardson sold his home at the request of the Company and incurred expenses in connection with this sale. In fiscal year 2001, the Company reimbursed Mr. Richardson \$70,000 for his out of pocket costs.
- (4) Includes \$13,200 for car allowances and \$16,800 for reimbursement of income taxes paid. Also, as noted in footnote 3 above, Mr. Richardson sold his home at the request of the Company and incurred expenses in connection with this sale. In fiscal year 2000, the Company reimbursed Mr. Richardson for closing costs in connection with this sale, which totaled \$29,900.
- (5) Includes \$13,200 for car allowances and other miscellaneous benefits, and \$1,148 for payment of Mr. Lucy's Guardian Life policy.
- (6) Includes \$13,200 for car allowances and other miscellaneous benefits, and \$3,600 for reimbursement of closing costs incurred in connection with the purchase of Mr. Lucy's home.

The following table sets forth information concerning individual grants

Edgar Filing: PALLET MANAGEMENT SYSTEMS INC - Form 10-K/A

of stock options made during the fiscal year ended June 30, 2001 to each of the Named Executive Officers:

OPTION GRANTS IN LAST FISCAL YEAR				
NAME	NUMBER OF SHARES UNDERLYING OPTIONS GRANTED (#)	% OF TOTAL OPTIONS GRANTED TO EMPLOYEES IN FISCAL YEAR	EXERCISE OR BASE PRICE (\$/SHARE)	EXPI
Zachary M. Richardson	40,556 (1)	34%	2.25	
John C. Lucy, III	40,556 (1)	34%	2.25	

(1) Options to purchase 8,111 shares vest each year, beginning July 1, 2001 and continuing through July 1, 2005.

AGGREGATED OPTION EXERCISES IN LAST FISCAL YEAR AND FY-END OPTION VALUES

Name	Shares Acquired On Exercise (#)	Value Realized (\$)	Number Of Securities Underlying Unexercised Options at FY-End (#) Exercisable/ Unexercisable
Zachary M. Richardson	0	0	529,426/76,819
John C. Lucy, III	0	0	523,394/76,819

COMPENSATION OF DIRECTORS

Starting in fiscal year 2001, the Chairman of the Board is paid a monthly retainer of \$1,000 and all other directors are paid a monthly retainer of \$500. The directors are paid \$1,000 per board meeting day and \$500 per teleconference meeting plus all related business expenses. All audit committee members are paid \$250 per quarter. All directors are granted 30,000 ten-year options when they are appointed or elected to the board and may be granted additional options for each additional year they are on the board at the then market value. These options vest over two years at fifty percent per year and when services are terminated, all unexercised options are forfeited. See also "Stock Option Plans."

EMPLOYMENT AGREEMENTS

In November 1998, the Company entered into five-year employment agreements (the "Employment Agreements") with Zachary M. Richardson and John C. Lucy, III. Pursuant to the terms of these Employment Agreements, each executive is entitled to receive (i) annual base compensation of \$156,000, with increases in future years by the percentage increase of the Consumer Price Index and (ii)

Edgar Filing: PALLET MANAGEMENT SYSTEMS INC - Form 10-K/A

a bonus up to 100% of base salary based on the increase in pretax earnings per share over the prior year. For the year ending June 30, 2001, Mr. Lucy agreed to waive the bonus with no other effect on the existing employment agreement, and Mr. Richardson informed the Board of Directors in October 2001 that he would be willing to forego the payment of a cash bonus for a greater equity incentive in the form of the grant of additional stock options with no other effect on the existing employment agreement. The Board agreed, and in this regard granted him options to purchase 209,344 shares of the Company's common stock. The Employment Agreements also provide for annual grants of common stock options commencing in fiscal 2000 equal to 1% of the then outstanding number of common shares at an exercise price of fair market value at date of grant, and the granting of 150,000 stock appreciation rights that vest only upon a "Change of Control" as defined in the Employment Agreements.

During the term of the Employment Agreements, should there be a Change of Control of the Company as that term is defined therein, the Company, at its sole option, may terminate the Employment Agreements upon 30 days prior written notice and thereafter will be obligated to pay the executives the balance of the compensation payable under the Employment Agreements, had they not been terminated prior to their expiration, together with an additional sum equal to 299% of Executives' annual base compensation. The Employment Agreements also contain non-competition and confidentiality provisions.

STOCK OPTION PLANS

Pallet Management has adopted two combined stock option and appreciation rights plans (the "Plans") to attract and to induce officers, directors and key employees of the Company to remain with the Company. The Plans provide for options which qualify as incentive stock options under Section 422(a) of the Internal Revenue Code of 1986, as amended (the "Code"), as well as nonstatutory options. No more than fifteen percent (15%) of the Common Stock outstanding will be reserved for issuance upon exercise of options to be granted from time-to-time. The 1997 Omnibus Stock Option Plan (the "1997 Plan") was approved in August, 1997. Pallet Management's 1998 Omnibus Stock Option Plan (the "1998 Plan") became effective on September 1, 1998. An aggregate of 250,000 shares is reserved for issuance under the 1997 Plan and 1,000,000 shares are reserved for issuance under the 1998 Plan.

As of September 21, 2001, an aggregate of 6,394 options were outstanding under the 1997 Plan with an exercise price of \$2.00, and an aggregate of 519,669 options were outstanding under the 1998 Plan with exercise prices ranging from \$2.25 to \$5.25. These options generally vest over a five-year period and expire ten years from date of grant. From 1997 through 2001, the Company granted Messrs. Lucy, III and Richardson options to acquire an aggregate of 600,215 and 606,247 shares, respectively. See Item 12, "Security Ownership of Certain Beneficial Owners and Management."

The Plans provide for a combined stock option and appreciation rights plan. The Plans provide for options which will qualify as incentive stock options under Section 422(a) of the Internal Revenue Code of 1986, as amended, as well as for options which do not so qualify. Incentive Awards may be granted under the Plans in the form of Options, Stock Appreciation Rights, Restricted Stock, and Performance Awards.

No more than 50,000 common shares may be allocated to Incentive Awards and no more than 300,000 common shares may be allocated to Non-Incentive Awards granted to any one employee during a single calendar year.

Edgar Filing: PALLET MANAGEMENT SYSTEMS INC - Form 10-K/A

All present and future employees of the Company or of any parent or subsidiary of the Company ("Employee") and any person retained to provide services to the Company (other than as an Employee, a member of the Board of Directors or a member of the board of directors of any subsidiary or parent of the Company), and who is selected by the committee, is eligible to receive Incentive Awards under the Plan.

All present and future Non-Employee Directors are eligible to receive Non-Statutory Options under the Plan. Non-Employee Directors shall not be entitled to receive any other form of Incentive Award under the Plan.

The exercise price of shares of Company Stock covered by an Incentive Stock Option cannot be less than 100% of the fair market value of such shares on the date of grant; provided that if an Incentive Stock Option is granted to an Employee who, at the time of the grant, is a 10% Shareholder, then the exercise price of the shares covered by the Incentive Stock Option will not be less than 110% of the fair market value of such shares on the date of grant. The exercise price of Nonstatutory Stock Options will not be less than 85% of fair market value of such shares on the date of grant.

Whenever the Board of Directors of the Company (the "Board") deems it appropriate, Stock Appreciation Rights may be granted in connection with all or any part of an Option, either concurrently with the grant of the Option or, if the Option is a Nonstatutory Stock Option, by an amendment to the Option at any time thereafter during the term of the Option. Stock Appreciation Rights may be exercised in whole or in part at such times and under such conditions as may be specified by the Committee in the participant's stock option agreement.

The Board may terminate or amend the Plans in such respects as it shall deem advisable. The Board may unilaterally amend the Plans and Incentive Awards as it deems appropriate to ensure compliance with Rule 16b-3 and to cause Incentive Awards to meet the requirements of the Code, including Code section 422, and regulations thereunder.

ACCELERATED OPTIONS

In August 1997, the Company jointly granted 1,000,000 options to Messrs. Richardson and Lucy to re-allocate to other members of the Company's management. Messrs. Richardson and Lucy immediately re-allocated approximately one-third of these options to other members of the Company's management. If an employee terminated employment with the company, for any reason or no reason, the options allocated to them would immediately revert back to Messrs. Richardson and Lucy. The options provided that vesting would accelerate if the Company achieved specified income before taxes, depreciation, amortization and certain other charges at different measurement dates, which milestones were determined based on management's internal projections through fiscal 1999. All three milestones were met and the options vested according to the accelerated schedule. The options expire in August 2002. See Item 12, "Security Ownership of Certain Beneficial Owners and Management."

5

The following table summarizes the terms of these vested but unexercised options:

NAME ----	EXERCISE PRICE -----	VESTED -----	EXPIRATION DATE -----
Zachary M. Richardson	\$1.50	172,412	August 20, 2002

Edgar Filing: PALLET MANAGEMENT SYSTEMS INC - Form 10-K/A

	\$1.75	128,613	
	\$2.25	135,400	
John C. Lucy, III	\$1.50	172,412	August 20, 2002
	\$1.75	128,613	
	\$2.25	135,400	
Other Employees	\$1.50	55,175	August 20, 2002
	\$1.75	42,775	
	\$2.25	29,200	

		1,000,000	

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION IN COMPENSATION DECISIONS

The Company created its Compensation Committee during fiscal 2001. Philip D. Feltman, as Chairman, and Robert L. Steiler served on during fiscal 2001, and currently comprise, the Board's Compensation Committee. Mr. Steiler is also the sole owner of a company that provides consulting services to the Company for compensation. See "Item 13, Certain Relationships and Related Transactions." Mr. Steiler abstains from voting on issues concerning such compensation.

BOARD COMPENSATION COMMITTEE REPORT ON EXECUTIVE COMPENSATION

General Compensation Policy. The three principal components of the Compensation Committee's executive compensation are salary, bonus and stock options. The components are designed to facilitate fulfillment of the compensation objectives of the Compensation Committee, which objectives include (i) attracting and retaining competent management, (ii) recognizing individual initiative and achievement, (iii) rewarding management for short and long term accomplishments and (iv) aligning management compensation with the achievement of the Company's goals and performance.

The Compensation Committee endorses the position that equity ownership by management is beneficial in aligning management's and shareholders' interest in the enhancement of shareholder value. Base salaries for new management employees are determined initially by evaluating the responsibilities of the position held and the experience of the individual, and by reference to the competitive marketplace for managerial talent, including a comparison of base salaries for comparable position at similar companies of comparable sales and capitalization. Annual salary adjustments are determined by evaluating (i) the performance of and responsibilities assumed by the executive, (ii) the competitive marketplace and (iii) the performance of the Company. The Compensation Committee does not utilize any specific formula to determine compensation based on Company performance.

6

The Compensation Committee periodically reviews the Company's existing management compensation programs on an ongoing basis, including (i) meetings with the President to consider and set mutually agreeable performance standards and goals for members of senior management and/or the Company, as appropriate or as otherwise required pursuant to any such officer's employment agreement and (ii) modifications to such compensation programs as appropriate, to ensure alignment with the philosophy and established standards and goals of the Compensation Committee.

Compensation of President and Chief Executive Officer. The Company has

Edgar Filing: PALLET MANAGEMENT SYSTEMS INC - Form 10-K/A

entered into employment agreements with both Mr. Zachary M. Richardson, its President, and Mr. John C. Lucy, III, its Chief Executive Officer. Each of their employment agreements provide for bonuses of up to 100% of base salary based on the increase in pretax earnings per share over the prior year. See "Employment Agreements." Aside from Company performance, other factors which influence the compensation paid to Messrs. Richardson and Lucy include executive responsibilities and performance, and compensation levels at comparable companies.

Philip D. Feltman, Chairman
Robert L. Steiler

PERFORMANCE GRAPH

COMPARE CUMULATIVE TOTAL RETURN AMONG PALLET MANAGEMENT SYSTEMS, INC., NASDAQ MARKET INDEX AND SIC CODE INDEX

	1996 ----	1997 ----	1998 ----	1999 ----	2000 ----
Pallet Management Systems, Inc.	100.00	70.00	430.00	210.00	125.00
SIC Code Index	100.00	144.49	151.84	114.39	85.48
NASDAQ Market Index	100.00	120.46	159.68	223.77	336.71

Assumes \$100 invested on July 1, 1996
Assumes Dividend Reinvested
Fiscal Year Ending June 30, 2001

[GRAPHIC OMITTED]

7

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Amendment No. 1 to the Report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized.

PALLET MANAGEMENT SYSTEMS, INC.

Date: April 10, 2002

By: /s/ Marc S. Steinberg

Marc S. Steinberg, Vice President
and Chief Financial Officer

8