PALLET MANAGEMENT SYSTEMS INC
Form 10-Q
November 07, 2002

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

FORM 10-Q

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

For the thirteen-week period ended
September 28, 2002
Commission File Number 000-24405

PALLET MANAGEMENT SYSTEMS, INC.
(Exact name of registrant as specified in its charter)

Florida	59-2197020
(State or other jurisdiction of incorporation)	(IRS Employer Identification Number)

2855 University Drive, Suite 510, Coral Springs, Florida 33065
(Address of principal executive offices)

Registrant's telephone number, including area code:
(954) 340-1290

(Former name or address if changed since last report)

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 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 [X]   No [ ]

On November 6, 2002, the Registrant had outstanding 3,996,612 shares of common stock, $.001 par value.

PALLET MANAGEMENT SYSTEMS, INC.
CONSOLIDATED BALANCE SHEETS

	September 28, 2002 (unaudited)
ASSETS	
CURRENT ASSETS	
Cash	$ 70,492

Accounts receivable - trade, net of allowance for doubtful accounts	$ 2,675,655
Inventories	$ 1,285,134
Other current assets	$ 267,958
Total current assets	$ 4,299,239
Property and equipment - net of accumulated depreciation	$ 4,830,570
OTHER ASSETS	$ 59,342
Total assets	$ 9,189,151
LIABILITIES AND STOCKHOLDERS' EQUITY	
CURRENT LIABILITIES	
Current maturities of long-term debt	$ 4,240,138
Current portion of capital lease obligations	$ 143,326
Accounts payable	$ 2,202,881
Accrued liabilities	$ 214,754
Total current liabilities	$ 6,801,099
LONG TERM DEBT	
Long-term debt	$ 132,272
Capital lease obligations	$ 180,936
Total long-term liabilities	$ 313,208
Total liabilities	$ 7,114,307
STOCKHOLDERS' EQUITY	
Preferred stock, authorized 7,500,000 shares at $.001 par Value; no shares issued and outstanding	
Common stock, authorized 10,000,000 shares at $.001 par value; issued and outstanding 3,995,612 shares at June 29, 2002 and 3,996,612 shares at September 28, 2002	$ 3,997
Additional paid in capital	$ 7,148,784
Accumulated deficit	$(4,939,937)
Note receivable from stockholder	$ (138,000)
Total stockholders' equity	$ 2,074,844
Total liabilities and stockholders' equity	$ 9,189,151

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

PALLET MANAGEMENT SYSTEMS, INC.
CONSOLIDATED STATEMENT OF OPERATIONS
(Unaudited)

	13 Weeks Ended	
	Sept. 28, 2002	Sept. 29, 2001
Net sales	$ 10,659,924	$ 12,960,018
Cost of goods sold	$ 9,899,913	$ 12,448,577
Gross profit	$ 760,011	$ 511,441
Selling, general and administrative expense	$ 685,463	$ 821,095
Operating profit (loss)	$ 74,548	$ (309,654)8
Other income (expense)		
Other income (expense)	$ (6,963)	$ (54,990)3)
Interest expense	$ (86,927)	$ (114,992))
Total other income (expense)	$ (93,890)	$ (169,982))
Income (loss) before income tax expense	$ (19,342)	$ (479,636))
Income tax expense (benefit)	$ --	$ --
Net income (loss)	$ (19,342)	$ (479,636))
Net earnings (loss) per common share	$ (0.005)	$ (0.12)
Diluted earnings (loss) per common share	*	*

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* exercise of warrants and options would be anti-dilutive

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

PALLET MANAGEMENT SYSTEMS, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
(Unaudited)

	13 Wks Ended	13 Wks Ended
	Sept. 28, 2002	Sept. 30, 200

Cash flows from operating activities:		
Net income (loss)	$ (19,342)	$ (479,636)
Adjustments to reconcile net income (loss) to net cash provided by/(used in) operating activities:		
Depreciation	$ 183,891	$ 156,116
Stock options issued for services	$ --	$ 17,158
(Increase) Decrease in operating assets:		
Accounts receivable	$ 828,095	$ 2,113,375
Inventories	$(186,188)	$ (989,941)
Other assets	$ (32,761)	$ (79,875)
Increase (Decrease) in operating liabilities:		
Accounts payable	$ 140,605	$ (360,960)
Other liabilities	$(211,749)	$ 2,313
Net cash provided by/(used in) operating activities	$ 702,551	$ 378,550
Cash flows from investing activities:		
Proceeds from sale of fixed assets	$ --	$ 37,086
Purchase of fixed assets	$ (20,403)	$ (27,139)
Net cash provided by/(used in) investing activities	$ (20,403)	$ 9,947
Cash flows from financing activities:		
Net Payments of long term debt	$(684,217)	$ (549,982)
Net cash provided by/(used in) financing activities	$(684,217)	$ (549,982)
Increase/(Decrease) in cash	$ (2,069)	$ (161,485)
Cash at beginning of period	$ 72,561	$ 232,635
Cash at end of period	$ 70,492	$ 71,150

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

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Pallet Management Systems, Inc.
Notes to Financial Statements
September 28, 2002

NOTE 1. CONSOLIDATED FINANCIAL STATEMENTS:

The consolidated balance sheet as of September 28, 2002 and the consolidated statements of operations and cash flows for the thirteen week periods ended September 28, 2002 and September 29, 2001 have been prepared by the Company without audit in accordance with accounting principles generally accepted in the United States for interim financial information and with instructions to Form 10-Q. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments necessary to present fairly the financial position, results of operations and cash flows for the periods reported have been made. Operating results for the thirteen weeks ended September 28, 2002 are not necessarily indicative of the results that may be expected for the year ended June 28, 2003. These consolidated financial statements should be read in conjunction with the financial statements and the notes thereto included in the Company's annual report filed on Form 10-K as of June 29, 2002.

Certain prior year amounts within the accompanying financial statements have been reclassified to conform to the current period presentation.

NOTE 2. GOING CONCERN

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which contemplates continuation of the Company as a going concern. Management believes that existing cash on hand, cash provided by future operations and services, additional borrowings under its current line of credit, and a net negative working capital of ($2.502) million as of September 28, 2002, may not be sufficient to finance its operations, expected working capital and capital expenditure requirements for the next twelve months. To have sufficient capital, an increase in the order rate in the Lawrenceville, Virginia operation needs to occur at a level twice that experienced in fiscal 2002, and continued, consistent ordering, with or without a contract renewal/extension with CHEP, needs to happen from them. If this does not occur, the Company may not be able to meet its obligations without additional financing during fiscal year 2003.

NOTE 3. DEBT AGREEMENT

The Company has a revolving loan and three term loans with La Salle Business Credit in a three year agreement, which commenced April 14, 2000. As of September 28, 2002 the Company was in full compliance with its covenants that were reset by the bank on October 9, 2002 due to the out of compliance conditions present on June 29, 2002. The Company can not ensure it will remain in compliance with the reset covenants in the coming months due to the fluctuations in pricing and demand. Because it is probable that the Company will not meet its covenants continuously in the next 12 months, the debt associated with La Salle Business Credit is classified as current in the financial statements. Additionally, the Company will need its Lawrenceville, Virginia operations to continue its trend of increasing revenues to enable the Company to reach its covenant levels. Should the Company not meet its covenants, the Company cannot ascertain how La Salle Business Credit will proceed in its ongoing relationship with the Company.

The Company also received an extension to its loans until October 15, 2003 with a condition that $350,000 be paid from the availability under the revolver towards the term debt. This was completed on October 15, 2002. All of our loans carry an interest rate of prime plus 2 (two) percent as of October 9, 2002 as part of the reset covenants, an increase of one-half of one percent.

Advances under the revolving agreement are based on the sum of 85% of eligible accounts receivable, plus the lesser of 55% of eligible inventories or $1,500,000. Interest is paid monthly at the bank's prime rate (plus 2 percent). Principal is due in October 2003, with possible year to year renewals thereafter. The revolving agreement is collateralized by substantially all of the assets of the Company. At September 28, 2002, the Company had $1,649,000 of availability under the revolving agreement.

The three term loans as of September 28, 2002 were at $1,053,000,

$1,192,000 and $791,000. These loans are collateralized by substantially all the assets of the Company.

NOTE 4. INVENTORIES

Inventories consisted of the following at September 28, 2002:

Raw material	$ 506,994
Work in process	$ 378,649
Finished goods	$ 399,491
TOTAL	$1,285,134

NOTE 5. NET EARNINGS (LOSS) PER SHARE OF COMMON STOCK:

Net earnings (loss) per share of common stock was determined by dividing net income (loss) applicable to common shares by the weighted average number of common shares outstanding during each period. Diluted earnings/(loss) per common share reflects the potential dilution that could occur assuming exercise of all issued and unexercised stock options. A reconciliation of the net income/(loss) and numbers of shares used in computing basic and diluted earnings/(loss) per common share is as follows (in thousands, except per share data):

	13 Weeks Ended September 28 2002	13 Weeks Ended September 29 2001
Basic earnings/(loss) per common share:		
Net income/(loss)	$ (19)	$ (480)
Weighted average common shares outstanding for the period	3,997	4,065
Basic earnings per share of common stock	$(0.005)	$ (0.12)
Diluted earnings/(loss) per common share:		
Net income/(loss)	$ (19)	$ (480)
Weighted average common shares outstanding for the period	3,997	4,065
Increase in shares which would result from exercise of stock options	*	*
Weighted average common shares, assuming conversion of the above securities	3,996	4,065
Diluted earnings/(loss) per share of common stock	*	*

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* exercise of warrants and options would be anti-dilutive

NOTE 6. LITIGATION

In June 1999, the Company was named as a co-defendant in a lawsuit whereby the plaintiff is alleging damages of up to $300,000 related to lost income from a facility and other property formerly leased to the Company in Jessup, Maryland. Management believes the claim is without merit and intends to vigorously contest the claim. St. Paul Insurance is currently paying defense costs. The outcome of the action as well as the extent of the Company's liability, if any, can not be determined at this time.

NOTE 7. REVENUE RECOGNITION

Sales revenue is generally recorded upon the delivery of goods or the acceptance of goods by the customer according to contractual terms and represents amounts realized, net of discounts and allowances.

NOTE 8. ACCOUNTING FOR SOFTWARE RELATED COSTS

The Company accounts for the costs of computer software developed or obtained for internal use in accordance with Statement of Position 98-1 which generally requires the capitalization of costs incurred during the application development stage of computer software meeting certain characteristics. All costs incurred during the preliminary project stage and post implementation / operation stage are expensed as incurred.

NOTE 9. NEW ACCOUNTING PRONOUNCEMENTS

In June 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 141, "Business Combinations" (SFAS 141), which applies to all business combinations initiated after June 30, 2001. This statement requires that all business combinations be accounted for by the purchase method and defines the criteria used to identify intangible assets to be recognized apart from goodwill.

In June 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" (SFAS 142), which is effective for fiscal years beginning after December 15, 2001, except goodwill and intangible assets acquired after June 30, 2001 are subject immediately to the non-amortization and amortization provisions of this Statement. Under the new rules, goodwill and intangible assets deemed to have indefinite lives will no longer be amortized but will be subject to annual impairment tests in accordance with the Statement. Other intangible assets will continue to be amortized over their useful lives.

In August 2001, the Financial Accounting Standards Board Issued Statement of Financial Accounting Standards No. 143 "Accounting for Asset Retirement Obligations", effective for fiscal years beginning after June 15, 2002. This statement addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated retirement costs.

In October 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 144 "Accounting for the Impairment or Disposal of Long-lived Assets", effective for fiscal years beginning after December 15, 2001. This statement addresses financial accounting and reporting for the impairment or disposal of long-lived assets.

The Company has adopted these statements in the current quarter and such adoption did not have a material affect on the Company's financial position and results of operations.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" (SFAS 146). This statement addresses accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force Issue No. 94-3. The statement is effective for exit or disposal costs initiated after December 31, 2002, with early application encouraged. The Company has not yet adopted this statement, and management has not determined the impact of this statement on the financial statements of the Company.

PART I
ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

The following discussion and analysis should be read in conjunction with the financial statements appearing as Item 1 to this Report and the Form 10-K for the year ended June 29, 2002. The financial statements in this Report reflect the consolidated operations of Pallet Management Systems, Inc. (the "Company" or "Pallet Management") for the thirteen-week periods ended September 28, 2002 and September 29, 2001.

The following discussion regarding Pallet Management and its business and operations contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act 1995. These statements consist of any statement other than a recitation of historical fact and can be identified by the use of forward-looking terminology such as "may," "expect," "anticipate," "estimate" or "continue" or the negative thereof or other variations thereon or comparable terminology. The reader is cautioned that all forward-looking statements are necessarily speculative and there are certain risks and uncertainties that could cause actual events or results to differ materially from those referred to in such forward looking statements, including the limited history of profitable operations, dependence on CHEP, competition, risks related to acquisitions, difficulties in managing growth, dependence on key personnel and other factors discussed under Risk Factors" in the Annual Report on Form 10-K for the year ended June 29, 2002. Pallet Management does not have a policy of updating or revising forward-looking statements and thus it should not be assumed that silence by management of Pallet Management over time means that actual events are bearing out as estimated in such forward looking statements.

Critical Accounting Policy

Options granted to employees under the Company's Stock Option Plan are accounted for by using the intrinsic method under APB Opinion 25, Accounting for Stock Issued to Employees (APB 25). In October 1995, the Financial Accounting Standards Board issued Statement No. 123, Accounting for Stock-Based Compensation (SFAS 123), which defines a fair value based method of accounting for stock options. The accounting standards prescribed by SFAS 123 are optional and the Company has continued to account for stock options under the intrinsic value method specified in APB 25. Pro forma disclosures of net earnings and earnings per share have been made in accordance with SFAS 123.

Results of Operations

General

Pallet Management has grown to be one of the largest pallet companies in the estimated $6 billion U.S. pallet industry, by providing value-added products and services to our customers. Our customer base has remained stable.

The majority of our revenues have traditionally been generated from providing high quality, specially engineered pallets to manufacturers, wholesalers and distributors. As supply chain logistics have become increasingly complex, our existing customers as well as prospective customers are seeking new ways to streamline distribution and reduce costs.

With this shift in focus toward services and cost efficiency, we are providing "state of the art" logistical services known as reverse logistics. Reverse logistics is simply defined as maximizing the use of transport packaging, the base of which is the pallet, by reusing assets to reduce the overall cost per trip.

This shift in focus toward supply chain efficiency by our customer base is by far our industry's most dramatic shift in focus and provides the most opportunity for our company. Driven mainly by economics, reusable packaging in a reverse logistics system also has environmental benefits.

"Reverse Logistics" is the opposite of direct distribution; it is moving products back up the supply chain to the original manufacturer. As a sub-industry of the logistics industry, it is estimated to have grown in the United States to over $7.7 billion in 2000 from $4.6 billion in 1997. It is rapidly growing and becoming more diverse and complex as its importance to the supply chain becomes more evident. The increasing importance of Reverse Logistics in the marketplace is a key factor in the dramatic changes taking place in the pallet industry.

The Company has two lines of revenue, manufacturing and services:

Manufacturing: Our Company has two primary categories of manufacturing: CHEP grocery pallets and specifically engineered niche market pallets. The Company has had a multi-year contract to manufacture high quality grocery pallets for CHEP, the world's largest pallet rental pool from our Plainfield, Indiana facility. In Plainfield, Indiana, our contract is set to end on March 1, 2003. The Company is currently negotiating a new agreement to begin prior to the end of the existing agreement.

Pallets that are specially engineered to transport a specific product are classified as niche market pallets. Our Company's customer base from our Virginia operation is primarily composed of customers who require niche pallets. Niche pallets are low volume and high margin pallets.

Pallet Management functions as a wholesale distributor of other various returnable transport packaging such as plastic and metal pallets; collapsible plastic bulk boxes; wood, plastic, and metal slave pallets; wooden boxes and crates; and various other products. Due to lack of demand, sales of pallets made from materials other than wood have been minimal.

Services: Our Company provides a variety of retrieval, sortation, repair, warehouse and return services that enable our customers to better utilize their packaging assets. Besides being environmentally friendly, a properly repaired used pallet will provide the customer significant savings over having to buy a new pallet. Despite recent increases in levels of automation, pallet return operations remain a labor-intensive process.

Pallet users currently discard a large portion of new pallets after one use. The condition and size of these pallets vary greatly. The pallets are sorted and repaired as needed, placed in storage and made available for return to service. Pallets that can be repaired have their damaged boards replaced with salvaged boards or boards from new stock inventoried at the facility.

Pallets that cannot be repaired are dismantled and the salvageable boards are recovered for use in repairing and building other pallets. Pallet Management sells the remaining damaged boards to be ground into wood fiber, which is used as landscaping mulch, fuel, animal bedding, gardening material and other items.

As part of the Company's strategy to use the Internet to improve the effectiveness of its service offerings, it developed PalletNetTM , a service brand providing a logistics and information system that manages the flow of shipping platforms and containers throughout industrial supply chains (excluding the grocery industry). PalletNetTM creates a closed loop delivery, recovery and recycling system, which enables customers to treat pallets as assets rather than expendables.

The principal services PalletNetTM offers include reverse distribution, single source national contracts, high quality shipping platforms and transport packaging, recovery, repair, recycling and export packaging. These physical activities are supported by leading edge technology that enables users to improve shipping asset controls and reduce cost and waste from the supply chain, while reducing inventories and enhancing customer satisfaction. By coupling PalletNetTM with the Internet, the Company is creating value for the customer through substantially lower costs and improved efficiencies.

The PalletNetTM application is a web-based tracking and information system that manages the flow of pallets and other shipping platforms and containers throughout industrial supply chains. As part of the Company's strategy to use the Internet to enhance customer service, PalletNet provides Reverse Distribution information with a single source national contact.

PalletNetTM is a browser-based user interface combined with multiple levels of security management, which delivers safe and unlimited access to customers. Customers can view exactly where their shipping platforms and containers are in their supply chain at any given moment. The system, designed to be easily customizable, also offers a full range of personalization options, so each company can configure PalletNetTM to their specific operations. In addition, PalletNetTM has the capacity to use bar codes and integrate radio frequency identification ("RFID") tags to track individual pallets and the equipment transported on them.

These additional services provide the Company's customers the flexibility to meet almost any industrial needs in terms of Reverse Distribution and transport packaging, and an even higher level of customer service and improved supply chain efficiency.

Thirteen Weeks Ended September 28, 2002 compared to

Thirteen Weeks Ended September 29, 2001

For the thirteen-week period ended September 28, 2002, net sales decreased 18% to $ 10,660,000 from $12,960,000 for the thirteen-week period ending September 29, 2001. This decrease is attributable to the closing of our Alabama and Illinois facilities in the past 12 months which accounted for

$5,279,000 reduction in sales when compared to the thirteen week period ending September 29, 2001. Our Lawrenceville, Virginia operation, increased its sales for the thirteen week period ending September 28, 2002 by $582,000 when compared to the thirteen week period ending September 29, 2001. This increase was primarily due to more sales of our niche pallets as a result of the stronger economy and the Company's marketing efforts for the past 6 months. Additionally, our Indiana operation increased its sales by $2,315,000 over the same period in the prior year due to that facilities main customer having a strong order period.

During the thirteen-week period ended September 28, 2002, manufacturing sales decreased 19% to $ 10,203,000 from $12,564,000. This reduction is attributable to no sales from our Alabama and Illinois facilities due to those plants' closures in fiscal year 2002, that was partially offset by the increase in sales experienced at our Lawrenceville, Virginia facility as noted above. Service sales increased by 15% also to $457,000 from $ 396,000. This increase is primarily due to the repair services made at the Petersburg, Virginia facility as a result of strong demand from the facility's key customer.

Pallet Management had a 17% reduction in its selling, general and administrative expenses from $ 821,000 to $ 685,000 for the thirteen week period ended September 28, 2002 compared to the thirteen week period ended September 29, 2001. The selling, general and administrative expenses were reduced primarily due to the reduction in salaries due to layoffs experienced in the third and fourth quarters as well as reduction to 401K, telephone and recruiting expenses when compared to the period ending September 29, 2001.

A loss of ($19,000) or ($.005) per share was realized during this thirteen-week period ended September 28, 2002 compared to a net loss of ($480,000) or ($.12) per share recorded for the thirteen-week period last fiscal year. The near breakeven performance reflects the return of business to our Lawrenceville, Virginia facility, the strong orders from our primary customer out of our Indiana facility and our reductions to operating and selling, general and administrative expenses while having $2,300,000 less sales volume when compared to the same period in the prior year.

Liquidity and Capital Resources

Pallet Management had $70,500 cash on hand on September 28, 2002, versus $72,500 at the beginning of the fiscal year. The change in cash was primarily attributed to the decrease in accounts receivable due to stronger collections which was offset primarily by payments of our revolver debt caused by the timing of borrowings and presentments of outstanding checks at September 28, 2002 as compared with June 29, 2002. The company also experienced an increase in its finished goods inventory levels in anticipation of a heavy order period in October 2002 as well the associated increase in accounts payable at the end of the quarter. Subsequent to the thirteen week period ending September 28, 2002, the Company has experienced a tightening in the supply for hardwood lumber. This has caused an upward movement of raw material costs associated with some of the customers serviced by the Company, and may decrease profitability associated with those customers.

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Management believes that existing cash on hand, cash provided by future operations and services, additional borrowings under its current line of credit, and a net negative working capital of ($2.502) million as of September 28, 2002, may not be sufficient to finance its operations, expected working capital and capital expenditure requirements for the next twelve months. To have sufficient capital, an increase in the order rate in the Lawrenceville, Virginia operation needs to occur at a level twice that experienced in fiscal 2002, and continued, consistent ordering, with or without a contract renewal/extension with CHEP, needs to happen from them. If this does not occur, the Company may not be able to meet its obligations without additional financing during fiscal year 2003.

PART I
ITEM 4. CONTROLS AND PROCEDURES

The Chief Executive Officer and the Chief Financial Officer of the Company have reviewed the disclosure controls of the Company. This review entailed participation in the audit committee review, review of the minutes of meetings of the Board of Directors, full review of the financial information, direct involvement in all facets of the business of the Company and participation in the quarterly audit review of our financial statements. The Company will be drafting policies and procedures for disclosure controls, and is currently following unwritten informal controls. These controls include, but are not limited to, immediate communication of material issues with the Chairman of the Board, weekly updates of all activities from each key member of the management team, a review of each draft copy of this report, and a review of any material transaction or occurrence within a short time frame. Due to the size of the Company, just over 200 employees of which less than 20 are in a salaried, supervisory role, the Chief Executive Officer and the Chief Financial Officer of the Company believe that these controls have been effective to accumulate the information about the Company required to be disclosed in the Company's reports filed or submitted pursuant to the Securities Exchange Act of 1934 and to communicate that information to the management of the Company, as appropriate, to allow timely decisions regarding the required disclosure.

There have not been significant changes in the Company's internal controls regarding financial reporting or in other factors that could significantly affect those internal controls subsequent to the date of the foregoing evaluation.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

In June 1999, the Company was named as a co-defendant in a lawsuit whereby the plaintiff is alleging damages of up to $300,000 related to lost income from a facility and other property formerly leased to the Company in Jessup, Maryland. Management believes the claim is without merit and intends to vigorously contest the claim. St. Paul Insurance is currently paying defense costs. The outcome of the action as well as the extent of the Company's liability, if any, can not be determined at this time.

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.

PALLET MANAGEMENT SYSTEMS, INC.

Dated: November 7, 2002 By: /s/ John C. Lucy, III

John C. Lucy III, Chief Executive Officer

Dated: November 7, 2002 By: /s/ Marc S. Steinberg

Marc S. Steinberg, Chief Financial Officer,
Vice President, Treasurer and Secretary

CERTIFICATION BY PRINCIPAL EXECUTIVE OFFICER

I, John C. Lucy, III, the Chief Executive Officer of Pallet Management Systems, Inc., a Florida corporation (the "Registrant"), certify that:

1. I have reviewed this quarterly report on Form 10-Q for the fiscal quarter ended September 28, 2002, of the Registrant (the "Report").

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

3. Based on my knowledge, the financial statements, and other financial information included in the Report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in the Report.

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

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

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

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

The Registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the Registrant's auditors and the Audit Committee of the Registrant's Board of Directors:

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

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

The Registrant's other certifying officers and I have indicated in the Report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

/s/ John C. Lucy, III

Name: John C. Lucy, III
Title: Chief Executive Officer
(Chief Executive Officer)

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CERTIFICATION BY PRINCIPAL FINANCIAL OFFICER

I, Marc S. Steinberg, a Vice President and the Chief Financial Officer of the Registrant, certify that:

1. I have reviewed the Report.

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

3. Based on my knowledge, the financial statements, and other financial information included in the Report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in the Report.

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

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

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

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

The Registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent function):

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

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

The Registrant's other certifying officers and I have indicated in the Report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

/s/ Marc S. Steinberg

Name: Marc S. Steinberg
Title: Vice President and
Chief Financial Officer
(Chief Financial Officer)