

IMPERIAL INDUSTRIES INC  
Form 10-Q  
May 13, 2005

**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

**FORM 10-Q**

ý QUARTERLY REPORT PURSUANT TO SECTIONS 13 OR 15 (d) OF THE  
SECURITIES EXCHANGE ACT OF 1934.

**For the quarterly period ended March 31, 2005**

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 **1-7190**

**IMPERIAL INDUSTRIES, INC.**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or Other Jurisdiction  
of Incorporation)

**65-0854631**  
(I.R.S. Employer  
Identification No.)

**1259 Northwest 21<sup>st</sup> Street, Pompano Beach, Florida 33069-1428**

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: **(954) 917-7665**

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 whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). YES  No

Indicate the number of shares of Imperial Industries, Inc. Common Stock (\$.01 par value) outstanding as of May 2, 2005: 2,416,528

**IMPERIAL INDUSTRIES, INC. AND SUBSIDIARIES**

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**IMPERIAL INDUSTRIES, INC. AND SUBSIDIARIES****Consolidated Balance Sheets**

ASSETS	March 31, 2005 (Unaudited)	December 31, 2004
Current assets:		
Cash and cash equivalents	\$ 912,000	\$ 1,146,000
Restricted cash	1,133,000	1,075,000
Trade accounts receivable (less allowance for doubtful accounts of \$858,000 and \$874,000 at March 31, 2005 and December 31, 2004, respectively)	8,009,000	7,541,000
Inventories	5,456,000	5,258,000
Deferred income taxes	390,000	385,000
Asset held for sale	226,000	226,000
Other current assets	512,000	466,000
Total current assets	16,638,000	16,097,000
Property, plant and equipment, at cost	7,685,000	7,290,000
Less accumulated depreciation	(2,687,000 )	(2,597,000 )
Net property, plant and equipment	4,998,000	4,693,000
Other assets	174,000	143,000
	\$ 21,810,000	\$ 20,933,000
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Notes payable	\$ 5,097,000	\$ 5,957,000
Current portion of long-term debt	662,000	687,000
Accounts payable	4,198,000	3,767,000
Payable to former preferred stockholders	252,000	252,000
Accrued expenses and other liabilities	1,307,000	995,000
Income taxes payable	257,000	
Total current liabilities	11,773,000	11,658,000
Deferred income taxes	29,000	
Long-term debt, less current maturities	2,775,000	2,904,000
Commitments and contingencies (Note 10)		

Stockholders' equity:

Preferred stock, \$.01 par value; 5,000,000 shares authorized; none issued

Common stock, \$.01 par value; 40,000,000 shares authorized; 2,414,340 and 2,379,350 issued at March 31, 2005 and

December 31, 2004, respectively	24,000	24,000
Additional paid-in capital	14,148,000	14,117,000
Accumulated deficit	(6,939,000 )	(7,770,000 )
Total stockholders' equity	7,233,000	6,371,000
	\$ 21,810,000	\$ 20,933,000

The accompanying notes are an integral part of the consolidated financial statements.

**IMPERIAL INDUSTRIES, INC. AND SUBSIDIARIES**

**Consolidated Statements of Operations**

(unaudited)

	<b>Three Months Ended March 31,</b>	
	<b>2005</b>	<b>2004</b>
Net sales	\$ 16,592,000	\$ 11,923,000
Cost of sales	11,414,000	8,210,000
Gross profit	5,178,000	3,713,000
Selling, general and administrative expenses	3,793,000	2,993,000
Operating income	1,385,000	720,000
Other income (expense):		
Interest expense	(139,000 )	(115,000 )
Miscellaneous income	80,000	27,000
	(59,000 )	(88,000 )
Income before income taxes	1,326,000	632,000
Income tax expense	(495,000 )	(270,000 )
Net income	\$ 831,000	\$ 362,000
Basic income per common share	\$ 0.34	\$ 0.16
Diluted income per common share	\$ 0.33	\$ 0.15
Weighted average shares outstanding	2,413,924	2,308,858

Weighted average shares and potentially dilutive shares outstanding	2,501,842	2,352,587
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The accompanying notes are an integral part of the consolidated financial statements.



**IMPERIAL INDUSTRIES, INC. AND SUBSIDIARIES****Consolidated Statements of Cash Flows****(unaudited)**

	<b>Three Months Ended March 31,</b>	
	<b>2005</b>	<b>2004</b>
Cash flows from operating activities:		
Net income	\$ 831,000	\$ 362,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	138,000	116,000
Amortization	12,000	33,000
Provision for doubtful accounts	143,000	160,000
Provision for deferred income tax expense	24,000	157,000
Gain on disposal of fixed assets		(3,000 )
Gain on disposal of assets held for sale		(1,000 )
Increase in:		
Accounts receivable	(611,000 )	(1,383,000 )
Inventory	(198,000 )	(189,000 )
Prepaid expenses and other assets	(88,000 )	(25,000 )
Increase in:		
Accounts payable	431,000	964,000
Accrued expenses and other liabilities	297,000	292,000
Deferred compensation	15,000	
Income taxes payable	257,000	91,000
Total adjustments to net income	420,000	212,000
Net cash provided by operating activities:	1,251,000	574,000
Cash flows from investing activities:		
Purchases of property, plant and equipment	(445,000 )	(213,000 )

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(Increase) decrease in restricted cash	(58,000 )	357,000
Proceeds received from sale of property and equipment	2,000	3,000
Proceeds received from disposal of assets held for sale		14,000
Net cash used in investing activities	(501,000 )	161,000

- continued -

The accompanying notes are an integral part of the consolidated financial statements.

**IMPERIAL INDUSTRIES, INC. AND SUBSIDIARIES****Consolidated Statements of Cash Flows****(unaudited)****-continued-**

	<b>Three Months Ended March 31,</b>	
	<b>2005</b>	<b>2004</b>
Cash flows from financing activities:		
Proceeds from note payable bank	16,121,000	11,022,000
Repayment of note payable bank	(16,981,000 )	(11,549,000 )
Proceeds from issuance of long-term debt	25,000	248,000
Proceeds received from exercise of stock options	50,000	
Payment for cancellation of fractional shares of common stock	(20,000 )	
Payment of obligation for appraisal rights		(400,000 )
Repayment of long-term debt	(179,000 )	(82,000 )
Net cash used in financing activities	(984,000 )	(761,000 )
Net decrease in cash and cash equivalents	(234,000 )	(26,000 )
Cash and cash equivalents, beginning of period	1,146,000	923,000
Cash and cash equivalents, end of period	\$ 912,000	\$ 897,000
Supplemental disclosure of cash flow information:		
Cash paid during the three months for		
Interest	\$ 141,000	\$ 115,000
Income taxes	\$ 90,000	\$ 22,000
Non-cash transactions:		
Asset acquisitions financed	\$ 25,000	\$ 148,000

The accompanying notes are an integral part of the consolidated financial statements.

**IMPERIAL INDUSTRIES, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

**(Unaudited)**

**(1)**

**Interim Financial Statements**

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments, consisting solely of normal recurring adjustments, considered necessary for a fair presentation have been included. Operating results for the three months ended March 31, 2005 are not necessarily indicative of the results that may be expected for the year ended December 31, 2005. The significant accounting principles used in the preparation of these unaudited interim consolidated financial statements are the same as those used in the preparation of the annual audited consolidated financial statements. These statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2004.

**(2)**

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

The Company and its subsidiaries are primarily involved in the manufacture and sale of exterior and interior finish wall coatings and mortar products for the construction industry, as well as the sale of building materials from other manufacturers. Sales of the Company's products as well as other manufacturers' products, are made to customers located primarily in Florida and other parts of the Southeastern United States through distributors and Company-owned distribution facilities.

*a)*

***Basis of Presentation***

The consolidated financial statements herein contain the accounts of Imperial Industries, Inc. and its wholly-owned subsidiaries, Acrocrete, Inc., Premix-Marbletite Manufacturing Co., and Just-Rite Supply, Inc. (collectively, the Company ). All material intercompany accounts and transactions have been eliminated in consolidation. For the three-month periods ended March 31, 2005 and 2004, the Company has determined that it continues to operate in a single operating segment.

*b)*

***Concentration of Credit Risk***

Concentration of credit risk with respect to trade accounts receivable is limited due to the large number of entities comprising the Company's customer base. Trade accounts receivable represent amounts due from building materials dealers, contractors and sub-contractors, located principally in the Southeastern United States who have purchased products on an unsecured open account basis.

The Company places its cash with commercial banks. At March 31, 2005, the Company had cash balances with banks in excess of Federal Deposit Insurance Corporation insured limits. However, management believes the credit risk related to these deposits is minimal.

*c)*

***Inventories***

Inventories are stated at the lower of cost or market (net realizable value), on a first-in, first-out basis. Finished goods include the cost of raw materials, freight in, direct labor and overhead.

*d)*

***Property, plant and equipment***

Property, plant and equipment is stated at cost, less accumulated depreciation. Depreciation is computed on the straight-line basis over the estimated useful lives of the depreciable assets. Expenditures for maintenance and repairs are charged to expense as incurred, while expenditures which extend the useful life of assets are capitalized. Differences between the proceeds received on the sale of property, plant and equipment and the carrying value of the assets on the date of sale is credited to or charged against net income, as applicable.



**IMPERIAL INDUSTRIES, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

**-continued-**

(2)

**Description of Business and Summary of Significant Accounting Policies (continued)**

*e)*

***Income Taxes***

The Company utilizes the liability method for determining its income taxes. Under this method, deferred tax assets and liabilities are recognized for the expected future tax consequences of events that have been recognized in the consolidated financial statements or income tax returns. Deferred tax assets and liabilities are measured using the enacted tax rates expected to apply to taxable income in the years in which temporary differences are expected to be realized or settled; valuation allowances are provided against tax assets that are not likely to be realized.

*f)*

***Earnings per share***

Basic earnings per share is computed by dividing net income by the weighted-average number of shares of common stock outstanding each period. Diluted earnings per share is computed by dividing net income by the weighted-average number of shares of common stock and common stock equivalents outstanding during each period. Earnings per share for the prior year has been adjusted and restated to reflect a one-for-four reverse common stock split effective March 23, 2005.

*g)*

***Cash and cash equivalents***

The Company has defined cash and cash equivalents as those highly liquid investments with original maturities of three months or less, and are stated at cost. Included in cash and c