IMPERIAL INDUSTRIES INC
Form 10-K
March 30, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ý ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934.

For the fiscal year ended December 31, 2006

Commission File Number 1-7190

IMPERIAL INDUSTRIES, INC.

(Exact name of Registrant as specified in its charter)

Delaware	**65-0854631**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

3790 Park Central Boulevard North, Pompano Beach, Florida 33064

(Address of principal executive offices)(Zip Code)

Registrant s telephone number, including area code: (954) 917-4114

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

Securities registered pursuant to Section 12(g) of the Act: Common Stock, $.01 par value

Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No ý

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. Yes ¨ No ý

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 ý No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K 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. ¨

Indicate by check mark whether the registrant is a large accelerated filer, and accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer ¨ Accelerated filer ¨ Non-accelerated filer ý

Indicate by check mark whether the registrant is a shell company (as defined in Exchange Act Rule 12b-2) Yes ¨ No ý

The aggregate market value of the voting stock of the Registrant held by non-affiliates computed by reference to the closing price of the registrant s Common Stock ($.01 par value) on the NASDAQ Capital Market as of June 30, 2006 is: $37,547,908

Number of shares of Imperial Industries, Inc. Common Stock ($.01 par value) outstanding on March 30, 2007: 2,506,502.

DOCUMENTS INCORPORATED BY REFERENCE

Certain information required for Part III of this Annual Report on Form 10-K is incorporated herein by reference to the Proxy Statement for the Registrant s 2007 Annual Meeting of Stockholders.

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PART I

Item 1.

Business

Special Note Regarding Forward-Looking Statements

This Form 10-K contains certain forward looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 with respect to the financial condition, results of operations and business of Imperial Industries, Inc., and its subsidiaries, including statements made under Management s Discussion and Analysis of Financial Condition and Results of Operations. When this report uses the words the Company , we , us , and our , they refer to Imperial Industries, Inc. and its subsidiaries, unless the context otherwise requires. These forward looking statements involve certain risks and uncertainties. No assurance can be given that any of such matters will be realized. Factors that may cause actual results to differ materially from those contemplated by such forward looking statements include, among others, the following: realization of tax benefits; impairment of long-lived assets; the ability to collect account or note receivables when due or within a reasonable period of time after they become due and payable; the increased cost of capital and related fees; the outcome of any current or future litigation; the adequacy or availability of insurance coverage for certain types of product damage claims; the competitive pressure in the industry; unexpected product shortages, or changes in the terms of purchasing products or raw materials that may not be favorable to us, or changes in policies of vendors that may not be favorable to us; general economic and business conditions may be less favorable than expected; unforeseen weather conditions in our market areas that adversely affects the construction industry; the effectiveness of business strategy and development plans; quality of management; business abilities and judgment of personnel; availability of qualified personnel; changes in accounting policies and practices in internal controls and related requirements as may be adopted by regulatory agencies, as well as the Financial Accounting Standards Board that adversely affect our costs and operations; and labor and employee benefit costs. See Item 1A Risk Factors for a more detailed discussion of some of the risks related to the Company and its business.

These risks are not exhaustive. We operate in a continually changing business environment, and new risks emerge from time to time. We cannot predict such risks nor can we assess the impact, if any, of such risks on our business or the extent to which any risk or combination of risks may cause actual results to differ from those projected in any forward-looking statements. For example, financial results for any quarter are not necessarily indicative of results to be expected for the full year, due in part to the effect weather can have on sales and production volume. Accordingly, investors and all others are cautioned not to place undue reliance on such forward-looking statements.

These forward-looking statements speak only as of the date of this document. We do not undertake any obligation to update or revise any of these forward-looking statements to reflect events or circumstance occurring after the date of this document or to reflect the occurrence of unanticipated events. Any forward-looking statements are not guarantees of future performance.

General

Imperial Industries, Inc., (the Company) is a Delaware corporation, which, through its predecessor corporations, has been in existence since 1968. Our executive offices are located at 3790 Park Central Boulevard North, Pompano Beach, Florida 33064 and the telephone number at our office is (954) 917-4114.

We, through our subsidiaries, are engaged in the manufacture and distribution of building materials to building materials dealers and others located primarily in Florida, Mississippi, Georgia and Alabama and to a lesser extent, other states in the Southeastern part of the United States. We have two manufacturing facilities for our products and 12 distribution facilities through which we market certain of our manufactured products and products of other manufacturers directly to builders, contractors, and sub-contractors.

Our business is directly related to the level of activity in the new and renovation construction market in the Southeast United States. Our products are used by developers, general contractors and subcontractors in the construction or renovation of residential, multi-family and commercial buildings and swimming pools. Demand for new construction is related to, among other things, population growth. Population growth, in turn, is principally a function of migration of new residents to our markets. When economic conditions reduce migration, demand for new construction would be expected to decrease. Construction activity is also affected by the size of the inventory of available housing units, mortgage interest rates, availability of financing and local government growth management policies. Our operations are directly related to the general economic conditions existing in the Southeastern part of the United States.

We manufacture products through our wholly-owned subsidiary, Premix-Marbletite Manufacturing Co. (Premix). We distribute building materials, including our own manufactured products and complementary products, through our wholly-owned subsidiary, Just-Rite Supply, Inc. (Just-Rite) and also sell our manufactured products through non-affiliated materials distributors. The manufacturing facilities primarily produce and distribute pool finish coatings, roof tile mortar, stucco and plaster products, while the distribution facilities expand our product line by offering gypsum wallboard, roofing and insulation products, as well as products manufactured by us. Pool finish products are applied as coatings for in-ground swimming pools. Roof tile mortar is used to adhere cement roof tiles to the roof. Stucco products are applied as a finishing coat to exterior surfaces and plaster customarily is used to finish interiors of structures.

Sale of Certain Assets and Closure of Manufacturing Facility

Until December 2005, we manufactured acrylic stucco products through our wholly-owned subsidiary DFH, Inc. (DFH), formerly known as Acrocrete, Inc. On July 25, 2005, DFH entered into an agreement with Degussa Wall Systems, Inc. and Degussa Construction Chemical Operations, Inc. (collectively, Degussa) to sell certain assets associated with DFH s manufacturing facility in Kennesaw, Georgia (the Degussa Sales Agreement). In connection with such sale, DFH agreed to cease the manufacture of acrylic stucco products that had been formerly used in exterior insulation finishing systems (EIFS) applications no later than December 31, 2005.

Pursuant to the Degussa Sales Agreement, Degussa acquired certain of the assets of DFH and DFH s affiliate, Premix. The sale was completed on September 30, 2005. The assets consisted of certain equipment, customer lists, trademarks, proprietary rights, including product formulas, code approval and books and records associated with DFH s manufacturing operations in Kennesaw, Georgia (the Assets). In addition, Degussa purchased certain of DFH s accounts receivable outstanding as of September 30, 2005. The aggregate sales price for the Assets was $1,320,000, prior to transaction costs of approximately $65,000. DFH closed its Kennesaw, Georgia facility in the fourth quarter of 2005 and ceased the manufacture of acrylic stucco products. As part of the transaction, Just-Rite entered into a three-year distribution agreement with Degussa (the Distribution Agreement) to sell Degussa manufactured acrylic stucco products to replace products previously manufactured and sold by DFH. (See Note 2 of Notes to Consolidated Financial Statements)

Premix

Premix, together with its predecessors, has been in business for approximately 50 years. The names Premix and Premix-Marbletite are among the registered trademarks of Premix. We believe the trade names of our manufactured products represent a substantial benefit to us because of industry recognition and brand preference. Premix manufactures swimming pool finishes, roof tile mortar, stucco and plaster coatings. The products manufactured by Premix basically are a combination of portland (or masonry) cement, sand, lime, marble and a plasticizing agent and other chemicals, including color-impregnating materials. The products are sold primarily to building materials distributors including Premix s affiliate, Just-Rite.

Premix products accounted for approximately 24%, 21% and 24% of our consolidated annual revenues in the fiscal years ended December 31, 2006, 2005 and 2004, respectively. This percentage calculation includes Premix products sold to Just-Rite and resold to its customers.

Premix has an exclusive license to manufacture and sell a roof tile mortar product throughout the State of Florida and certain foreign countries. To date, a majority of all roof tile mortar sales have been derived from South Florida. We have expanded our marketing efforts for this product to other areas of Florida.

Just-Rite

Just-Rite owns and operates our wholesale distribution facilities. As part of an expansion plan for our distribution operations during 2000, Just-Rite acquired nine additional building distribution facilities to diversify its product offering to the construction market to include gypsum, roofing, masonry, insulation products, as well as installation services for certain products beyond those supported by our manufacturing operations. Management believes the acquired distribution facilities positioned us to gain a greater market share for our manufactured products through a more direct sales approach to the end-user and to expand operations by distributing a wider range of building materials to the construction industry that are complementary to our existing product lines. In 2005, Just-

Rite opened two distribution facilities in Florida and closed a facility in Alabama. In 2006, Just-Rite opened facilities in Mobile, Alabama and Brooksville, Florida and closed facilities in Dallas, Georgia and Port St. Lucie, Florida. In March 2007, Just-Rite opened a facility in Ocala, Florida. Just-Rite now operates 12 distribution facilities.

Each distribution facility markets its own unique mix of products for sale based on demand in its respective geographic areas. The majority of products are delivered to customer job sites, principally by Just-Rite owned vehicles, usually within 50 miles of each distribution facility.

For the fiscal years ended December 31, 2006, 2005, and 2004, Just-Rite s sales, excluding the sale of Premix and DFH products to non-affiliated building materials distributors, accounted for approximately 81%, 66% and 58% of our consolidated annual revenues.

DFH

Until the closure of its manufacturing facility in December 2005, DFH, since 1988, manufactured acrylic stucco products under the trade name Acrocrete , protected by registered trademarks. DFH s products, used principally for exterior wall coatings, broadened and complemented the range of products produced and sold by Premix. For the fiscal years ended December 31, 2005 and 2004, DFH s sales accounted for approximately 13% and 18%, respectively, of our consolidated annual revenues.

The decline in DFH s sales as a percentage of our consolidated annual revenues for 2005 and 2004 was principally due to:

- Lower demand for acrylic stucco products within the construction industry compared to past periods;
- DFH s lack of building code approvals for certain product applications, as compared to certain other competitors, which caused market share limitations;
- The inability to obtain product liability insurance for certain types of product applications; and
- More intense competitive pressures within the industry.

In addition, DFH was unable to recover sharp increases in raw material costs from its customers or gain production efficiencies to offset increases in operating costs. As a result, DFH sold certain of its assets to Degussa and ceased manufacturing acrylic stucco products in 2005.

Company Growth Opportunities

We believe the gypsum, roofing and stucco building products distribution industries are fragmented and have the potential for consolidation in response to the competitive disadvantages faced by smaller distributors. We believe that these industries are characterized by a significant number of relatively small privately-owned, local, relationship-based companies that emphasize service, delivery and reliability, as well as competitive pricing and breadth of product line to their customers. The competitive environment for these distributors, in combination with the desire for owners of certain of these distributors to gain liquidity, provides an opportunity for expansion through acquisition. We believe that growth opportunities exist for a company with the ability to source and distribute products effectively to serve the building materials industry and to effect cost savings through economies of scale which can be applied to acquired companies.

Our primary focus in the past has been to complete the integration of the distribution outlets acquired in 2000 with our existing operations and to attempt to effect cost savings and gain productivity in the consolidation of these acquired operations. Since 2000, we have taken action to improve operating performance in our distribution facilities through (i) reductions in workforce; (ii) closure of under-performing distribution locations; (iii) elimination of installation services by our employees; and (iv) development of a consolidated purchasing program. While we continue to emphasize internal growth through gains in productivity, broadening product line offerings and the opening of new distribution facilities, of which several sites are under consideration, we believe there exists a number of possible acquisition candidates. We do not have any binding understanding, agreement or commitment regarding potential acquisitions but we may pursue acquisitions in the future if it is believed they will enhance our operations.

In 2004, we modernized the Premix manufacturing facility located in Winter Springs, Florida in an effort to both gain efficiencies in its manufacturing processes and provide production capacity for additional products. We are considering further expansion of the manufacturing capabilities of that facility and Premix s other manufacturing facility located in Pompano Beach, Florida.

Suppliers

Premix s raw materials and products are purchased from approximately 36 suppliers. While five suppliers account for approximately 68% of Premix s raw material purchases, Premix is not dependent on any one supplier for its requirements. Historically, equivalent materials have been available from other sources at similar prices. However, in 2005, we experienced some product shortages, which was an industry wide problem and not specific to any one supplier. Such shortages were alleviated during the first quarter of 2006. Since the second quarter of 2006, we have not experienced any raw material product shortages.

The Just-Rite distribution facilities sell products of many suppliers. Just-Rite purchases a significant amount of its products through buying group organizations, companies which consolidate product purchase orders from many independent distributors and order product from various vendors on the distributors behalf to gain consolidated purchasing efficiencies for each distributor. One such buying organization accounted for approximately 23%, 24% and 27% of Just-Rite purchases in 2006, 2005 and 2004. We do not believe the loss of this particular buying group would have an adverse impact on us as there are other buying organizations in which we believe we can obtain products at the same or similar prices.

In connection with DFH and Premix s sale of certain assets to Degussa, and the closing of the DFH manufacturing facility, Just-Rite entered into a distribution agreement with Degussa which requires Just-Rite to purchase a minimum of $16,000,000 of synthetic stucco products over a three-year period, commencing October 1, 2005. In 2006, Degussa products accounted for approximately 22% of Just-Rite purchases.

Marketing and Sales

Our marketing and sales strategy is to create a profit center for the products we manufacture, as well as enlarging our product offerings to include certain complementary products and other building materials manufactured by other companies. The other building materials and complementary items are purchased by us and held in inventory, together with our manufactured products, for sale to customers. Generally, sales orders are filled out of existing inventory within several days of receipt of the order. Our sales approach to the new and renovation construction markets is targeted at both the end user of our products, being primarily the contractor or subcontractor, and the distributor, principally building materials dealers who purchase products from us and sell to the end-user, and in some instances, retail customers.

While our manufactured products have typically been sold to distributors, we focus our marketing efforts on the contractor/sub-contractor end user to create a brand preference for our manufactured products. No one non-affiliated independent distributor has accounted for 10% or more of total sales during the past three years. Sales of our manufactured products through Just-Rite accounted for approximately 22%, 42% and 40% of the revenues generated from our manufacturing facilities for the years ended December 31, 2006, 2005 and 2004, respectively.

We believe the loss of any one independent distributor would not cause a material loss in sales because the brand preference contractors and subcontractors generally have for our products cause the user to seek a distributor who carries our manufactured products. We market our products to distributors through Company salesmen located throughout the Southeastern United States.

We opened our first distribution facility in 1994 when we opened a facility in Savannah, Georgia to sell our manufactured acrylic stucco products and certain complementary products manufactured by other companies to the end user. Over the following years we opened new distribution facilities and expanded our operations into other parts of Florida, as well as Alabama and Mississippi through acquisitions and startups to gain market share for both our manufactured products and building materials manufactured by other companies. Just-Rite currently has 12 distribution facilities in Florida, Georgia, Mississippi and Alabama and is considering the opening of additional facilities. Just-Rite sales to end-users, including our manufactured products, accounted for approximately 81% of total revenues in 2006.

Each of our distribution facilities consist of between approximately 7,700 to 29,000 square feet. The distribution facilities are designed to promote product brand preference to the contractor and sub-contractor, and

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also to improve service capabilities, increase market share, increase the sale of our manufactured products and to expand operations by distributing a wide range of products to the construction industry. Each distribution facility maintains its own unique mix of products for sale based on demand in its respective geographic trade areas.

Seasonality

The sale of our products in the construction market for the Southeastern United States is somewhat seasonal due in part to periods of adverse weather, with a lower rate of sales historically occurring in the period December through February compared to the rest of the year.

Competition

Our industry is highly competitive and varies depending on product line and geographic market. Our manufacturing facilities encounter significant competition from local, independent firms, as well as regional and national manufacturers of cement and plaster products, most of whom manufacture products similar to us. Our distribution facilities encounter significant competition from local independent distributors as well as regional and national distributors who sell similar products. Many of these competitors are larger, more established and better financed than we are. We compete with the other companies based primarily upon product performance and quality, customer service and pricing by striving to maintain lower overhead than larger national companies.

Environmental Matters

Our operations are subject to various federal, state and local environmental laws and regulation in the normal course of our business. Although we believe that our manufacturing, handling, consuming, selling and disposing of our raw materials and products are in accordance with current environmental regulations, future developments could require us to make unforeseen expenditures relating to environmental matters. Increasingly strict environmental laws, standards and environmental policies may increase the risk of liability and compliance costs associated with our operations. Capital expenditures on environmental matters have not been material in past years, and expenditures for 2007 to comply with existing laws and regulations are also not expected to have a material effect on our financial position, results of operations or liquidity.

Employees

We had 148 full time employees at December 31, 2006. Employee relations are considered good and employees are not subject to any collective bargaining agreement.

Available Information

Copies of our quarterly reports on Form 10-Q, annual reports on Form 10-K and current reports on Form 8-K, and any amendments to the foregoing, will be provided without charge to any shareholder submitting a written request to the Secretary of the Company or by calling 954-917-4114. All of our SEC filings are also available on our website at www.imperialindustries.com as soon as reasonably practicable after having been electronically filed or furnished to the SEC. In addition, our Code of Business Conduct is available at that website address and will be provided without charge to any shareholder submitting a written request.

Additionally, materials we file with the SEC are available at the SEC s Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site (www.sec.gov) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

Item 1A.

Risk Factors

Our business, operations and financial condition are subject to various risks and uncertainties. You should carefully consider the risks and uncertainties described below, together with all of the other information in this annual report on Form 10-K and in other documents that we file with the SEC, before making any investment decision with respect to our securities. If any of the following risks or uncertainties actually occur or develop, our business, financial condition, results of operations and future growth prospects could change. Under these circumstances, the trading prices of our common stock could decline, and you could lose all or part of your investment in our common stock.

Our business is dependent on demand for construction, renovation and repair of residential and commercial buildings. Such demand is influenced by changes in the overall condition of the U. S. economy including interest rates, job formation, consumer confidence and other important factors.

The building products industry is cyclical in nature and sensitive to changes in general economic conditions, including, in particular, conditions in the residential and commercial construction markets. Prices for our products and services are affected by overall supply and demand in the market for our products and for our competitors products. In particular, market prices of building products historically have been volatile and cyclical, and we, like other companies, may have limited ability to control the timing and amount of pricing changes for our products. Future economic downturns could result in prolonged periods of weak demand or excess supply which could negatively affect our revenues and margins and adversely affect our liquidity, financial condition and operating results.

The markets we serve, including, principally the residential housing and commercial construction markets, are significantly affected by the movement of interest rates. Significantly higher interest rates could weaken demand for construction activities, which could lower demand for the Company s products. Other factors beyond our control may also impact demand for the Company s products, including, but not limited to new housing starts, which are influenced by availability of financing, housing affordability, demographic trends, employment levels, unforeseen inflationary pressures and consumer confidence. Since our operations occur in a variety of geographic markets in the Southeast United States, our businesses are subject to the economic conditions in each such geographic market. General economic downturns or localized downturns in the regions where we have operations could have a material adverse effect on our business, financial condition and operating results. During the second quarter of 2006, residential construction demand began to be impacted by a number of factors, including higher interest rates, an increase in available inventory of unsold new and existing homes, and homebuilders reporting lower order rates for new homes. As a consequence, residential construction activity, and applications for building permits for new residential units, considered a strong sign for future construction activity, declined sharply in Florida in the last six months of 2006. Further, the significant decline in building permits in the Florida market in 2006 compared to 2005 indicates that future residential construction activity and demand for our products will remain weak into 2007 in such market. The depth and duration of the decline in construction activity cannot be predicted. Construction activity in the Company s markets located in Mississippi and Alabama, benefiting from rebuilding activities in areas impacted by Hurricane Katrina, are expected to remain strong.

Our business is subject to intense competition.

We experience competition for our products and services from many distributors and manufacturers, including manufacturers that distribute a significant portion of their products through their own distribution organizations. Competition within any given geographic market is based on many factors, including, but not limited to customer classification, product line, product availability, customer service, technical product knowledge and expertise as to application and usage, price, quality and availability of credit. In addition, the barriers to entry for local competitors are relatively low. We may not be able to maintain our costs at a level sufficiently low for us to compete effectively. We may not be successful in responding effectively to competitive pressures, particularly from competitors with substantially greater financial and other resources than we have.

Our operating results are affected by fluctuations in our costs and the availability of raw materials and building material products from our vendors.

Prices of raw materials and building material products are historically volatile and are subject to fluctuations arising from changes in domestic and international supply and demand, labor costs, competition, market speculation, government regulations and periodic delays in delivery. Rapid and significant changes in product prices may affect sales as well as margins due to a limited ability to pass on short-term price changes. We do not use derivative financial instruments to hedge commodity price changes.

Generally, our products are obtainable from various sources and in sufficient quantities. However, from time to time we may experience shortages of building products as a result of unexpected demand or production difficulties as well as transportation limitations. Any disruption in our sources of supply for raw materials or building materials could negatively impact our financial condition and results of operations. If shortages were to become severe and occur on a more frequent basis in the future, there could be a short-term adverse effect on our operations and a long-term adverse effect on our customer relationships and reputation if we were unable to obtain a sufficient allocation of products from other vendors. In addition, we have strategic relationships with several key vendors. In the event we are unable to maintain these relationships, we could lose some of the competitive advantages that those relationships offer us, which could, in turn, adversely affect our results of operations and financial condition. For example, in the first six months of 2006, we experienced industry shortages for gypsum wallboard which is purchased for resale at certain of its distribution facilities. Due to a lack of supply of gypsum wallboard to fully meet customer demand, we believe sales were lost or delayed at several of our distribution facilities during that six-month period. However, subsequent to the second quarter of 2006, the significant decline in residential construction activity suffered throughout the United States reduced industry shortages of gypsum wallboard and now allows us to fully meet customer demand.

We are subject to continuing business risk related to insurance coverage. We have been unable to obtain product liability coverage for certain types of product applications since March 15, 2004. Losses from claims in excess of insurance coverage, or for matters not insured, could have a material adverse effect on our operating results and financial condition.

We carry general liability, comprehensive property damage, workers compensation and other insurance coverages for the protection of our assets and operations. There can be no assurance, however, that the coverage limits of such policies will be adequate to cover losses and expenses for lawsuits brought or which may be brought against us. Effective March 15, 2004, we were unable to renew our product liability coverage with coverage for alleged damages caused to building structures because of moisture intrusion due to the use of products formerly manufactured by our subsidiary, DFH, for exterior insulation finish wall systems, (EIFS), on single and multi-family residences, as well as commercial buildings. While no uninsured lawsuits have been filed against DFH to date, there can be no assurance that this fact will continue in the future. Losses and expenses in excess of insurance coverage, as well as for any uninsured lawsuits for EIFS product liability claims in the future, could have a material adverse effect on our operating results and financial condition.

Future litigation could adversely affect our operating results and financial condition.

The nature of our business exposes us to various litigation matters including product liability claims, employment matters, environmental matters, tort claims and contract disputes. We contest these matters vigorously and make insurance claims where appropriate. However, litigation is inherently costly and unpredictable, making it difficult to accurately estimate the outcome of existing or future litigation. Although we accrue liabilities as we believe warranted, the amounts we accrue could vary significantly from any amounts we actually pay due to the inherent uncertainties and shortcomings in the estimation process. Future litigation costs, settlements or judgments could materially and adversely affect our results of operations and financial condition.

We have minimum product purchase requirements under our Distribution Agreement with Degussa. If we are not able to achieve such minimum purchases, we would be required to make certain payments to Degussa.

Our subsidiary, Just-Rite, has agreed to purchase $16,000,000 of products manufactured by Degussa over the three-year term of a Distribution Agreement which commenced as of October 1, 2005. In the event Just-Rite fails to purchase a minimum of $12,000,000 of products, it will be required to refund to Degussa $1,100,000 of the purchase price Degussa paid for certain of our assets, plus $1,200,000. Once Just-Rite has purchased a minimum of $12,000,000, $1,100,000 of the purchase price becomes non-refundable and the $1,200,000 is reduced ratably down to zero until $16,000,000 of purchases are achieved. Failure to achieve the minimum purchase requirement under the Degussa Agreement could have an adverse effect on our financial position.

We depend on our senior management team and key personnel for their expertise and leadership. The loss of any member of our senior management could adversely affect our operations.

We believe that our ability to implement our business strategy and our continued success will largely depend upon the efforts, skills, abilities and judgment of our executive management team. Our success also depends upon our ability to recruit and retain highly knowledgeable and skilled sales, marketing, operations and other senior managers. We may not be successful in attracting and retaining these employees or in managing our growth successfully, which may in turn have an adverse effect on our results of operations and financial condition.

Because our business is working capital intensive, we rely on our ability to manage our product purchasing and customer credit policies. If we are not successful in managing our working capital, our financial condition would be adversely affected.

Our operations are working capital intensive, and our levels of inventories, accounts receivable and accounts payable are significant components of our net asset base. We manage our inventories and accounts payable through our purchasing policies and our accounts receivable through our customer credit policies. The large majority of our net sales are credit sales through open unsecured accounts with our customers. Our customers ability to pay may depend on the economic strength of the construction industry and regional economies. If we fail to adequately manage our product purchasing or customer credit policies, our working capital and financial condition may be adversely affected.

We are dependent on our information systems. Delays in the implementation of our new computer system, or interruptions in the proper functioning of our information system, could disrupt our operations and cause unanticipated increases in costs and adversely affect our operating results and financial condition.

We expect implementation of our new computer system to be completed by December 31, 2007. We believe that this time frame will enable us to reduce implementation-related risk, minimize customer disruption, reduce system outages and disruptions and spread implementation costs. Delays in the successful implementation of the new systems or their failure to meet our expectations could result in adverse consequences, including disruption of operations or unanticipated increases in costs. In addition, the proper functioning of our information systems is critical to the successful operation of our business. Although we protect our information systems through physical and logistical safeguards, these information systems are still vulnerable to natural disasters, power losses, telecommunications failures, physical or internet access intrusions and similar events. If our critical information systems fail or are otherwise unavailable, we would have to accomplish these functions manually, which could temporarily affect our ability to process orders, identify business opportunities, maintain proper levels of inventories, bill customers and pay vendors.

The seasonal nature of our operations may adversely affect our quarterly financial results. Fluctuations in our quarterly results may also have an adverse effect on the market price of our common stock.

Our operating results are somewhat seasonal. Historically, we have experienced lower operating results in the first and fourth quarters than in the second and third quarters of our fiscal year. Seasonal weather conditions, such as cold or wet weather, can also delay construction projects, further contributing to quarterly fluctuation in our operating results. If our financial results for a quarter fall below investors expectations, the market price of our common stock may decline, perhaps significantly

We have substantial fixed costs, and as a result, our operating income is sensitive to changes in our net sales. Declines in net sales would adversely affect operating results.

A significant portion of our expenses are fixed costs, which do not fluctuate with net sales. Consequently, a percentage decline in our net sales has a greater percentage effect on our operating income. Any decline in our net sales could cause our profitability to be adversely affected.

Implementation of our growth strategy has certain risks. If we are unable to effectively implement or manage our growth strategy, our operating results and financial condition could be materially and adversely effected.

As part of our growth strategy, we may open new facilities, expand existing facilities, build additional plants, or acquire businesses that complement our existing business. There are certain risks inherent in such growth strategy that could adversely affect our ability to achieve these objectives including, but not limited to the following:

- The potential disruption of our business;

- The uncertainty that a new or acquired business will achieve anticipated operating results;

- The diversion of resources and management s time;

- The difficulty of managing the operations of a larger company;

- The risk of becoming involved in labor, commercial or regulatory disputes or litigation related to the new enterprise;

- The difficulty of competing for acquisitions and other growth opportunities with companies having greater financial resources than we have,

- The difficulty of, and costs associated with, integration of acquired operations and personnel into our existing business; and

- Possible departures of key personnel from any acquired business.

Pursuing our growth strategy may be required for us to remain competitive, but we may not be able to complete any such transactions or obtain financing, if necessary, for such transactions on favorable terms or at all. Future transactions may not improve the competitive position and business prospects as anticipated, and could reduce sales or profit margins, and, therefore, adversely affect our operating results and financial condition if they are not successful.

We are subject to environmental and safety regulations that are subject to change. Such regulations could cause us to make modifications to how we manufacture and distribute our products.

We are subject to federal, state and local laws and regulations governing the protection of the environment and occupational health and safety, including laws regulating air emissions, wastewater discharges, the management and disposal of hazardous materials and wastes, and the health and safety of our employees. We are also required to obtain permits from governmental authorities for certain operations. If we were to violate or fail to comply with these laws, regulations or permits, we could incur fines, penalties or other sanction. In addition, we could be held responsible for costs and damages arising from any contamination at our past or present facilities or at third-party waste disposal sites. We cannot completely eliminate the risk of contamination or injury resulting from hazardous materials.

Environmental laws tend to become more stringent over time, and we could incur significant expenses in the future relating to compliance with future environmental laws. In addition, the price and availability of certain of the raw materials that we use may vary in the future as a result of environmental laws and regulation affecting certain of our suppliers. An increase in the price of our raw materials, a decline in their availability or future costs relating to our compliance with environmental laws could negatively affect our operating margins or result in reduced demand for our products and adversely affect our financial condition.

Natural disasters could negatively affect our operating results and financial condition.

Future disasters caused by earthquakes, hurricanes, floods, or other similar events could have a significant adverse effect on the general economic and market conditions, which in turn could have a material adverse effect on our financial condition. In addition, natural catastrophes may cause our operating results to fluctuate from time to time due to increased demand or interruption of operations.

Actual and perceived vulnerabilities as a result of terrorist activities and armed conflict may adversely impact consumer confidence and our business.

Instability in the economy and financial markets as a result of terrorism or war may impact consumer confidence and result in a decrease in residential and commercial construction in our markets. Terrorist attacks may also directly impact our ability to maintain operations and may have a material adverse effect on our business.

We do not expect to pay dividends on our common stock for the foreseeable future. Dividends are payable at the discretion of our Board of Directors. The failure to declare and pay dividends may have an adverse effect on the market price of our common stock.

The payment of future dividends, if any, will be at the discretion of our Board of Directors, after taking into account various factors, including earnings, capital requirements and surplus, financial position, contractual restrictions and other relevant business considerations. In the future, we may become a party to debt instruments or agreements that further restrict our ability to pay dividends.

Our stock price may fluctuate substantially and decline.

Our common stock is traded on the NASDAQ Capital Market under the symbol IPII . The market price of our stock has fluctuated substantially in the past and could fluctuate substantially in the future, based on a variety of factors, including our operating results, availability of capital, changes in general condition in the economy, the financial markets, the construction industry, or other developments affecting us, our customers or our competitors, some of which may be unrelated to our performance or may be outside our control. Those fluctuations and demand for our products may adversely affect the price of our stock. In addition, if our results of operations fail to meet the expectations of investors, our stock price could decline.

Certain anti-takeover provisions may make our stock less attractive to investors.

Our certificate of incorporation, as amended, as well as Delaware law applicable to our company contain provisions which may delay or prevent other companies from completing transactions in which shareholders may receive a substantial premium for their shares over then-prevailing market prices. These provisions may also limit shareholders ability to approve transactions they may otherwise believe are in their best interests. For example, our Board of Directors is divided into three classes of directors and as such is elected for staggered three-year terms, making it difficult for another company to succeed in proxy contests to obtain control of the Board. The certificate of incorporation also permits the Board of Directors to issue, at any time without shareholder approval, shares of preferred stock, with such terms it may determine in the Board s discretion. These provisions and others could delay, prevent or allow the Board of Directors to resist an acquisition of our company, even if a majority of the shareholders favor such a transaction.

We expect to begin to comply with the requirements under Section 404 of the Sarbanes-Oxley Act of 2002 (SOX) in the first fiscal year ending on or after December 15, 2007

Under SOX, we will be required to document and test the Company s internal controls and opine as to the control s effectiveness. Complying with SOX may increase our audit implementation fees significantly and will require us to hire management consultants in 2007 to assist our compliance effort. As a result, complying with the requirements of SOX could have an adverse affect on our results of operations. If we are unable to conclude that we have effective internal controls over our financial reporting as required by Section 404 of Sarbanes-Oxley, investors could lose confidence in the reliability of our financial statements, which could result in a decrease in the value of our common stock.

Item 1B.

Unresolved Staff Comments

None.

Item 2.

Properties

We conduct operations through our subsidiaries from a total of 15 facilities in Florida, Georgia, Mississippi and Alabama. The location and size of our facilities and the principal nature of the operations in which such facilities are used, are as follows:

Location	Approximate Sq. Footage	Owned/Leased	Company
Corporate Facility			
Pompano Beach, FL	5,640	Leased	Imperial
Manufacturing Facilities			
Pompano Beach, FL	19,600	Leased	Premix
Winter Springs, FL	26,000	Owned	Premix
Winter Springs, FL (inventory storage)	7,240	Leased	Premix
Distribution Facilities			
Brooksville, FL	10,000	Leased	Just-Rite
Destin, FL	7,680	Leased	Just-Rite
Fort Walton Beach, FL	11,000	Leased	Just-Rite
Fort Walton Beach, FL (inventory storage)	1,400	Leased	Just-Rite
Gulfport, MS	28,800	Owned	Just-Rite
Jacksonville, FL	13,920	Owned	Just-Rite
Mobile, AL	22,500	Leased	Just-Rite
Norcross, GA	12,200	Leased	Just-Rite
Ocala, FL	9,000	Leased	Just-Rite
Panama City Beach, FL	9,540	Leased	Just-Rite
Panama City Beach, FL (inventory storage)	5,000	Leased	Just-Rite
St. Augustine, FL	18,000	Leased	Just-Rite
Tallahassee, FL	17,500	Leased	Just-Rite
Tampa, FL	13,470	Owned	Just-Rite

Just-Rite distribution facilities typically consist of a warehouse and supply yard for the inventory and sale of products directly to the end user.

All leased properties are leased from unaffiliated third parties. However, the Tallahassee facility was leased from the former owner of Tallahassee Gypsum Dealers, Inc., until its sale by the former owner to a non-affiliated party on November 1, 2006. She sold her business to Just-Rite in April 2000 and is currently an employee of the Company.

Management believes that our facilities and equipment are well-maintained, in good operating condition and sufficient for its present operating needs.

Item 3.

Legal Proceedings

EIFS Claims

Our subsidiary DFH (f/k/a Acrocrete), together in three instances with affiliates of DFH and in all instances with non-affiliated parties, are defendants in 23 lawsuits pending in various Southeastern states, brought by homeowners, homeowners associations, contractors and subcontractors, or their insurance companies, claiming moisture intrusion damage as a result of the use of exterior insulation finish wall systems (EIFS), on single and multi-family residences and to a limited extent, commercial buildings. Our insurance carriers are providing a defense and have accepted coverage under a reservation of rights for 16 of these claims and are providing a defense in three other cases, for which DFH expects its carriers will eventually accept coverage. In one other recent claim, DFH s insurance carriers have been placed on notice and are expected to provide a defense. With respect to two claims, the insurance carrier is expected to accept coverage and to pay all defense and indemnity costs once the self insured retention has been exhausted.

In one other pending EIFS claim, DFH is a defendant in a lawsuit styled Anthony Derck and Mary Derck v. Stalnaker Construction, Inc. et al. v. Atrium Aluminum Production and Acrocrete Inc. in the Circuit Court of the First Judicial Circuit in and for Walton County, Florida, Case No. 99-0423-CA. The lawsuit involved claims by plaintiffs against DFH for negligent misrepresentation, fraudulent misrepresentation, violation of Florida s Unfair and Deceptive Trade Practices Act and breach of warranty for damages from DFH for moisture damages allegedly caused by DFH s EIFS products. DFH was granted summary judgment on all claims other than negligent misrepresentation and fraudulent misrepresentation. Our insurance carrier provided a defense and accepted coverage under a reservation of rights.

In late January 2005, all defendants except DFH reached a settlement with the Dercks in the amount of $535,000. In February 2005, the case proceeded to a jury trial with DFH as the lone defendant. The jury rendered a verdict in favor of the Dercks and against DFH for compensatory damages in the amount of $523,200, and for punitive damages in the amount of $1. Subsequent to the entry of the jury verdict, the Court reduced the jury verdict from $523,200 to $209,562. The Court thereafter added $10,972 in prejudgment interest and $60,731 in costs, bringing the total judgments to $281,265.

On January 26, 2006, DFH filed notices of appeal of the underlying judgments. On August 8, 2006, the appellate court, in a per curiam decision, reversed the lower court s judgments and remanded the case for a new final hearing. As a result of the reversal, the judgments entered against DFH are null and void and of no legal effect. During a scheduling conference in September 2006, the trial judge scheduled the re-trial to take place in August 2007. DFH has filed a motion for summary judgment on all of the Derks claims which is scheduled to be heard on April 5, 2007. If DFH does not prevail on its motion for summary judgment, the parties are expected to attend mediation before May 4, 2007, the deadline set by the trial judge for the parties to attend mediation. DFH s insurance carrier has agreed to provide a defense to DFH, and has retained trial counsel on DFH s behalf.

Subsequent to the filing of the notice of appeal and as a direct result of the insurance carrier s failure to pay the judgments when entered, DFH filed a notice with the Florida Department of Insurance which is required to commence the statutory waiting period before DFH is permitted to file suit against the insurance carrier for failure to pay the judgments.

Following receipt of DFH s statutory notice, the insurance carrier, Liberty Mutual Insurance Company (Liberty Mutual), filed a declaratory judgment action against DFH in federal court in the Southern District of Florida styled Liberty Mutual Insurance Company vs. DFH, Inc. et al Case No: 06-60262, in which Liberty Mutual requested the federal court declare as a matter of law that the subject insurance policy does not provide coverage for the underlying compensatory damages judgment entered against DFH in the Derck case. DFH timely asserted cross claims against Liberty Mutual for payment of the judgments. The federal court had not yet ruled on the matter prior to the entry of the appellate court s August 8, 2006 decision described above.

While DFH believes that Liberty Mutual s declaratory judgment action is without merit, at this time it remains uncertain what the effect of the August 8, 2006 appellate court decision will have on the declaratory judgment action. Notwithstanding DFH s dispute with Liberty Mutual over coverage, Liberty Mutual has paid all attorney s fees and costs that were incurred on appeal of the judgments, and continues to pay for all attorney s fees and costs incurred in the re-trial of this matter.

The six more recent EIFS claims that have been filed against DFH are subject to insurance policies that have $50,000 self-insured retention requirements (S.I.R.) that did not exist in previous insurance policies with other carriers. Pursuant to the S.I.R. requirement, DFH is required to make payments towards either the defense or indemnity of these claims, including but not limited to the payment of attorneys fees, costs and settlement payments up to the S.I.R. limit. Once the S.I.R. limit has been satisfied, the applicable insurance carrier is required to defend and indemnify

DFH. Any additional costs that are incurred, whether in the form of defense or indemnity payments, are thereafter the sole responsibility of the insurance carrier up to policy limits.

Four of the cases subject to the S.I.R. have been settled. With respect to the two remaining EIFS cases, DFH s applicable insurance carrier is expected to accept coverage and to pay all defense and indemnity costs once the S.I.R. has been exhausted. Notwithstanding acceptance of such coverage, we believe that all such claims are covered by insurance policies issued by another carrier which do not contain an S.I.R. While this prior insurance

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carrier has initially denied coverage, we believe that discovery in the case will establish facts that will prove that coverage is afforded under these policies and that the prior insurance carrier will be required to defend and indemnify DFH for these claims. We believe that this will occur well before the applicable S.I.R. will have been exhausted by DFH or that DFH will thereafter be reimbursed for any expenses paid.

The allegations of defects in EIFS are not restricted to DFH products used in an EIFS application, but rather are an industry-wide issue. The alleged failure of these products to perform has generally been linked to improper application and the failure of adjacent building materials such as windows, roof flashing, decking and the lack of caulking.

As insurance markets for moisture intrusion type coverage have all but disappeared, we were forced on March 15, 2004 to renew our existing products liability coverage with an exclusion for EIFS exposure. However, DFH has made a concerted effort to limit its exposure in any such future EIFS claims. For example, DFH instructed its salesmen and independent distributors not to sell acrylic stucco products for EIFS applications to end users in the residential construction market and eliminated warranties of acrylic stucco products used in such applications. In addition, we no longer manufactures such products following the closure of the DFH manufacturing facility in Kennesaw, Georgia in the fourth quarter of 2005, further reducing future exposure to EIFS claims. Following the closure of the DFH manufacturing facility, Just-Rite became a distributor of acrylic stucco products manufactured by Degussa under the Acrocrete brand. As part of the Distribution Agreement, Degussa has agreed to indemnify Just-Rite for any product liability claims for such products.

To date, DFH has not experienced any EIFS claims for any periods that would not be covered by insurance. Due to the uncertainty and unpredictability of litigation, there can be no assurance as to when, or if any future uninsured claims may be filed, and if they were, to not be material.

Non-EIFS Claims

DFH is a named defendant in four claims alleging moisture intrusion damage to buildings resulting from the use of acrylic stucco products in non-EIFS applications. DFH s insurance carriers are providing a defense and have accepted coverage under a reservation of rights for these non-EIFS Claims. Of these four claims, one has no S.I.R., while each of the other three claims is subject to a $10,000 S.I.R. DFH has exhausted the $10,000 S.I.R. for these claims.

General

Just-Rite, Premix and DFH are engaged in other legal actions and claims arising in the ordinary course of its business, none of which are believed to be material to us.

We are aggressively defending all of the lawsuits and claims described above. While we do not believe these aforementioned claims will have a material adverse effect on our financial position, given the uncertainty and unpredictability of litigation there can be no assurance of no material adverse effect.

Item 4.

Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of our security holders during the fourth quarter of the year.

PART II

Item 5.

Market for the Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common stock is traded on the NASDAQ Capital Market under the symbol IPII . The following table sets forth the high and low sales price per share for the common stock for each quarter during the fiscal 2006 and 2005. The shares have traded on the NASDAQ Capital Market since May 2, 2005. Prior thereto, our common stock was traded in the over-the-counter market, and reported on the OTC Bulletin Board. The following table sets forth the high and low bid quotations of the Common Stock for the periods prior to May 2, 2005, for the quarters indicated, as reported by the National Quotation Bureau, Inc. Such quotations represent prices between dealers and do not include retail mark-up, mark-down, or commission, and may not necessarily represent actual transactions.

Fiscal 2005	**High**	**Low**
First Quarter	$ 8.20	$ 5.40
Second Quarter	22.35	6.05
Third Quarter	30.69	15.50
Fourth Quarter	22.72	11.52

Fiscal 2006	**High**	**Low**
First Quarter	$ 16.78	$ 13.00
Second Quarter	29.24	16.00
Third Quarter	19.25	10.39
Fourth Quarter	12.16	7.80

We have not paid any cash dividends on our Common Stock since 1980. We intend to retain earnings, if any, to finance the expansion of our business and do not anticipate paying any in the foreseeable future. On March 5, 2007, the Common Stock was held by 1,534 stockholders of record.

As of March 27, 2007, the closing price of the Common Stock on the NASDAQ Capital Market was $7.87 per share.

Performance Graph

The following graph compares the cumulative total stockholder return of our common stock from January 1, 2002 to December 31, 2006 with (a) the Russell 2000 Stock Index; and (b) a Peer Group Index. The Graph assumes that $100 was invested on January 1, 2002 in the Company s stock, the Russell 2000 Stock Index and the Peer Group Index and that all dividends were reinvested. The Peer Group Index on the graph includes the common stock of thirty-two (32) publicly traded companies in the building materials industry. Past performance is not necessarily an indicator of future results.

COMPARE 5-YEAR CUMULATIVE TOTAL RETURN

AMONG IMPERIAL INDUSTRIES, INC.,

RUSSELL 2000 INDEX AND HEMSCOTT GROUP INDEX

	2001	**2002**	**2003**	**2004**	**2005**	**2006**
Imperial Industries	100.00	68.42	157.88	815.76	1,702.56	1,068.36
Peer Group Index	100.00	97.07	131.46	162.49	173.85	213.25
Russell 2000 Index	100.00	78.42	114.00	133.94	138.40	162.02

Purchases of Equity Securities

We made no purchases of our common stock during the year ended December 31, 2006.

Securities Authorized for Issuance Under Equity Compensation Plans

The following table includes information as of December 31, 2006 about certain plans which provide for the issuance of common stock in connection with the exercise of stock options and other share-based awards.

	Number of Securities to be Issued Upon Exercise of Outstanding Options (a)	Weighted Average Exercise Price of Outstanding Options (b)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans Excluding Securities Reflected in Column (a) (c)
Equity Compensation plans approved by security holders:			
Directors Stock Option Plan	55,000	$5.89	
1999 Employee Stock Option Plan	52,971	$9.96	