IMPERIAL INDUSTRIES INC
Form 10-Q
August 14, 2007

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 June 30, 2007

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	**65-0854631**
(State or Other Jurisdiction of Incorporation)	(I.R.S. Employer Identification No.)

3790 Park Central Boulevard North, Pompano Beach FL 33064

(Address of principal executive offices) (Zip Code)

(954) 917-4114

Registrant s telephone number, including area code

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (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 ý No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an 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

Indicate the number of shares of Imperial Industries, Inc. Common Stock ($.01 par value) outstanding as of August 10, 2007: 2,514,002

IMPERIAL INDUSTRIES, INC. AND SUBSIDIARIES

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PART I. FINANCIAL INFORMATION

Item 1.

Financial Statements

IMPERIAL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

		June 30, 2007		December 31, 2006
ASSETS		(Unaudited)		
Current assets:				
Cash and cash equivalents	$	873,000	$	850,000
Restricted cash		752,000		1,357,000
Trade accounts receivable (net of allowance for doubtful accounts of $962,000 and $1,077,000 at June 30, 2007 and December 31, 2006, respectively)		6,058,000		7,854,000
Inventories		5,727,000		6,279,000
Deferred income taxes		428,000		667,000
Other current assets		1,275,000		1,083,000
Total current assets		15,113,000		18,090,000
Property, plant and equipment, at cost		10,886,000		10,697,000
Less accumulated depreciation		(4,145,000)		(3,633,000)
Net property, plant and equipment		6,741,000		7,064,000
Deferred income taxes		220,000		220,000
Other assets		480,000		457,000
Total assets	$	22,554,000	$	25,831,000
LIABILITIES AND STOCKHOLDERS EQUITY				
Current liabilities:				
Accounts payable	$	2,118,000	$	2,180,000
Payable to former preferred stockholders		82,000		82,000
Accrued expenses and other liabilities		1,053,000		1,602,000
Notes payable line of credit		1,044,000		3,250,000
Current portion of long-term debt		963,000		951,000

Total current liabilities		5,260,000		8,065,000
Long-term debt, less current maturities		2,822,000		3,307,000
Deferred gain		747,000		1,035,000
Deferred compensation		239,000		189,000
Total liabilities		9,068,000		12,596,000
Commitments and contingencies				
Stockholders equity:				
Preferred stock, $.01 par value; 2,000,000 shares authorized; none issued at June 30, 2007 and at December 31, 2006, respectively				
Common stock, $.01 par value; 10,000,000 shares authorized; 2,514,002 shares issued at June 30, 2007 and 2,506,502 shares issues at December 31, 2006, respectively		25,000		25,000
Additional paid-in capital		14,691,000		14,669,000
Accumulated deficit		(1,230,000)		(1,459,000)
Total stockholders equity		13,486,000		13,235,000
Total liabilities and stockholders equity	$	22,554,000	$	25,831,000

See accompanying notes to consolidated financial statements.

IMPERIAL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

	Six Months Ended June 30, 2007	Six Months Ended June 30, 2006	Three Months Ended June 30, 2007	Three Months Ended June 30, 2006
Net Sales	$ 30,107,000	$ 40,469,000	$ 13,576,000	$ 20,436,000
Cost of Sales	21,140,000	28,518,000	9,605,000	14,430,000
Gross profit	8,967,000	11,951,000	3,971,000	6,006,000
Selling, general and administrative expenses	8,956,000	8,288,000	4,432,000	4,153,000
Operating income (loss)	11,000	3,663,000	(461,000)	1,853,000
Other income (expense):				
Interest expense	(224,000)	(366,000)	(116,000)	(196,000)
Gain on litigation settlement	183,000			
Gain on sale of assets	288,000		288,000	
Miscellaneous income	93,000	181,000	47,000	103,000
	340,000	(185,000)	219,000	(93,000)
Income (loss) before income tax expense	351,000	3,478,000	(242,000)	1,760,000
Income tax (expense) benefit	(122,000)	(1,281,000)	90,000	(644,000)
Net income (loss)	$ 229,000	$ 2,197,000	$ (152,000)	$ 1,116,000
Net income (loss) per common share - basic	$ .09	$ .89	$ (.06)	$ .45
Net income (loss) per common share - diluted	$ .09	$ .86	$ (.06)	$ .43

Weighted average shares outstanding - basic	2,509,748	2,471,239	2,512,958	2,474,204
Weighted average shares outstanding - diluted	2,535,620	2,563,843	2,512,958	2,574,440

See accompanying notes to consolidated financial statements.

IMPERIAL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

	Six Months Ended June 30, 2007	Six Months Ended June 30, 2006
Cash flows from operating activities:		
Net income	$ 229,000	$ 2,197,000
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	560,000	455,000
Amortization	30,000	19,000
Provision for doubtful accounts	305,000	326,000
Provision for deferred income taxes	239,000	(20,000)
Tax benefit from exercise of stock options	15,000	
(Gain) loss on disposal of fixed assets	(2,000)	1,000
Gain on asset held for sale		(14,000)
Deferred compensation	50,000	30,000
Gain on sale of assets	(288,000)	
Changes in operating assets and liabilities		
Trade accounts receivable	1,491,000	(1,234,000)
Inventories	552,000	(1,538,000)
Other current assets	(192,000)	386,000
Other assets	(53,000)	(440,000)
Accounts payable	(62,000)	703,000
Accrued expenses and other liabilities	(549,000)	(350,000)
Income taxes payable		(593,000)
Net cash provided by (used in) operating activities	2,325,000	(72,000)
Cash flows from investing activities:		
Purchases of property, plant and equipment	(237,000)	(849,000)
Proceeds received from sale of property and equipment	2,000	1,000
Proceeds received from sale of asset held for sale		160,000
Net cash used in investing activities	(235,000)	(688,000)
Cash flows from financing activities:		

Proceeds from notes payable line of credit	31,550,000	42,596,000
Repayments of notes payable line of credit	(33,756,000)	(42,337,000)
Payment to former preferred stockholders		(110,000)
Proceeds from issuance of long-term debt		912,000
Proceeds from exercise of stock options	7,000	36,000
Repayment of long-term debt	(473,000)	(576,000)
Decrease in restricted cash	605,000	208,000
Net cash (used in) provided by financing activities	(2,067,000)	729,000
Net increase (decrease) in cash and cash equivalents	23,000	(31,000)
Cash and cash equivalents, beginning of period	850,000	974,000
Cash and cash equivalents, end of period	$ 873,000	$ 943,000

See accompanying notes to consolidated financial statements.

IMPERIAL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

	Six Months Ended June 30,	
	2007	**2006**
Supplemental disclosure of cash flow information:		
Cash paid during the six months for interest	$ 224,000	$ 365,000
Cash paid during the six months for income taxes	$	$ 1,894,000
Non-cash transactions:		
Asset acquisitions financed	$	$ 332,000

See accompanying notes to consolidated financial statements.

IMPERIAL INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

(1)

Interim Consolidated 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 six months and three months ended June 30, 2007 are not necessarily indicative of the results that may be expected for future fiscal quarters of 2007, or for the year ended December 31, 2007. 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, 2006.

(2)

Description of Business

Imperial Industries, Inc., (Imperial) and its wholly-owned subsidiaries, Just-Rite Supply, Inc. (Just-Rite), Premix-Marbletite Manufacturing Co. (Premix), and DFH, Inc. (DFH), formerly known as Acrocrete, Inc., and Triple I Leasing, Inc., collectively with Imperial (the Company , we , us , and our), are primarily involved in the manufactu and sale of exterior and interior finishing wall coatings and mortar products for the construction industry, as well as the purchase and resale of building materials from other manufacturers. Sales of the Company s and other products are made to customers primarily in Florida and the Southeastern United States through independent distributors and Company-owned distribution facilities.

The consolidated financial statements contain the accounts of Imperial and its wholly-owned subsidiaries, Just-Rite, Premix, DFH and Triple I Leasing, Inc. All material intercompany transactions and balances have been eliminated in the consolidation.

(3)

Accounting Change

We adopted the provisions of Financial Accounting Standards Board Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48), on January 1, 2007. Previously, we had accounted for tax contingencies in accordance with Statement of Financial Accounting Standards No. 5, Accounting for Contingencies (SFAS 5). As required by FIN 48, which clarifies Statement 109, Accounting for Income Taxes, we recognized the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority. At the adoption date, we applied FIN 48 to all tax positions for which the statute of limitations remained open.

There were no unrecognized tax benefits as a result of the implementation of FIN 48. There have been no material changes in unrecognized tax benefits during fiscal year 2007.

We are subject to income taxes in the U.S. federal jurisdiction and various states jurisdictions. Tax regulations within each jurisdiction are subject to the interpretation of the related tax laws and regulations and require significant judgment to apply. With few exceptions, we are no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for years before 2003.

The Internal Revenue Service (IRS) commenced an examination of our U.S. income tax returns for the year 2004 in the first quarter of 2007. As of June 30, 2007, the IRS has not proposed any adjustments to our tax positions. Currently, we do not anticipate any adjustments that would result in a material change to our financial position.

Our policy for interest accrued related to unrecognized tax benefits is to include interest expense and penalties in operating expenses for all periods presented.

There are no accruals for the payment of interest and penalties at January 1, 2007.

IMPERIAL INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

(4)

Sale of Certain Assets and Closure of Manufacturing Facility

On July 25, 2005, DFH entered into an agreement with Degussa Wall Systems, Inc. (Degussa) and Degussa Construction Chemical Operations, Inc. (DCCO and collectively with Degussa, the Purchasers) to sell certain assets associated with its manufacturing facility in Kennesaw, Georgia and also agreed to cease the manufacture of products prior to December 31, 2005 that had been formerly used in exterior insulation finish wall systems (EIFS) applications (the Degussa Sales Agreement). The Purchasers acquired certain of the assets of DFH and its affiliate, Premix. The assets consisted of certain equipment, customer lists, trademarks, proprietary rights, including product formulas, code approvals and books and records associated with DFH s manufacturing operations in Kennesaw, Georgia (the Assets).

As part of the transaction, Just-Rite entered into a three-year distribution agreement with Degussa (the Distribution Agreement) to sell products previously manufactured and sold by DFH and now manufactured by Degussa. Just-Rite agreed to purchase at least $16,000,000 of products manufactured by Degussa under the Acrocrete brand name over the term of the Distribution Agreement. In the event Just-Rite failed to purchase a minimum of $12,000,000, it would have been required to refund to Degussa $1,100,000 of the purchase price under the Degussa Sales Agreement plus $1,200,000. Once Just-Rite 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. Upon achieving $12,000,000 of purchases, Just-Rite has the option to extend the Distribution Agreement for an additional two years to meet the total purchase commitment. As a result, we had a deferred the gain of $1,035,000 on the Degussa Sales Agreement. In the second quarter of 2007, we surpassed the $12,000,000 threshold purchasing a total of approximately $13,100,000 of products manufactured by Degussa through June 30, 2007. As a result, we recognized income of approximately $288,000 in other income (expense) and a resulting decrease to deferred gain.

(5)

Inventories and Rebates

Inventories are stated at the lower of cost or market (net realizable value), on a first-in, first-out (FIFO) or average cost basis. The difference between FIFO and average cost for certain locations that changed from FIFO to average cost is immaterial. Finished goods include the cost of raw materials, freight in, direct labor and plant overhead.

Just-Rite has an arrangement with a buying group and certain vendors providing for inventory purchase rebates (vendor rebates) based principally upon achievement of certain volume purchasing levels during the year. Just-Rite accrues the estimated receipt of vendor rebates as a reduction of the cost of inventory purchases based on progress towards earning the vendor rebates taking into consideration cumulative purchases throughout the year.

Substantially all vendor rebate receivables are collected within three months following the fiscal year-end. Management believes Just-Rite will continue to receive rebates from the buying group and certain vendors in 2007 and thereafter. There can be no assurance that the buying group will continue to provide comparable vendor rebates in the future on products purchased by Just-Rite. We recorded vendor rebates in cost of sales of approximately $353,000 and $275,000 in the first six months of 2007 and 2006, respectively. At June 30, 2007 and December 31, 2006, we recorded rebates in a contra inventory account of approximately $12,000 and $12,000, respectively. Also, at June 30, 2007 and December 31, 2006, we recorded amounts due from vendors in other assets of $158,000 and $305,000, respectively.