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IMPERIAL INDUSTRIES INC
Form 10-Q
November 13, 2002

FORM 10 - Q

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

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

For the quarterly period ended September 30, 2002

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 of other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

1259 Northwest 21st Street, Pompano Beach, Florida 33069-1428

(Address of principal executive offices) (Zip Code)

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

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 X NO

Indicate the number of shares of Imperial Industries, Inc. Common Stock (\$.01 par value) outstanding as of November 4, 2002: 9,235,434

Total number of pages contained in this document: 30

IMPERIAL INDUSTRIES, INC. AND SUBSIDIARIES

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IMPERIAL INDUSTRIES, INC. AND SUBSIDIARIES
Consolidated Balance Sheets

	September 30, 2002 ----- (unaudited)	December 31, 2001 -----
Assets		

Current assets:		
Cash and cash equivalents	\$ 1,510,000	\$ 1,368,000
Trade accounts receivable (less allowance for doubtful accounts of \$491,000 and \$453,000 at September 30, 2002 and December 31, 2001, respectively)	4,858,000	4,419,000

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Inventories	3,923,000	3,807,000
Deferred income taxes	479,000	523,000
Other current assets	371,000	294,000
	-----	-----
Total current assets	11,141,000	10,411,000
	-----	-----
Property, plant and equipment, at cost	4,415,000	4,197,000
Less accumulated depreciation	(2,036,000)	(1,749,000)
	-----	-----
Net property, plant and equipment	2,379,000	2,448,000
	-----	-----
Deferred income taxes	483,000	327,000
	-----	-----
Excess cost of investment over net assets acquired	--	1,272,000
	-----	-----
Other assets	154,000	133,000
	-----	-----
	\$ 14,157,000	\$ 14,591,000
	=====	=====
Liabilities and Stockholders' Equity		

Current liabilities:		
Notes payable	\$ 4,282,000	\$ 4,335,000
Current portion of long-term debt	751,000	669,000
Accounts payable	2,368,000	1,906,000
Obligation for appraisal rights	877,000	--
Payable to stockholders	262,000	286,000
Accrued expenses and other liabilities	741,000	735,000
	-----	-----
Total current liabilities	9,281,000	7,931,000
	-----	-----
Long-term debt, less current maturities	1,012,000	1,440,000
	-----	-----
Obligation for appraisal rights	--	877,000
	-----	-----
Commitments and contingencies (Note 10)	--	--
	-----	-----
Stockholders' equity:		
Common stock, \$.01 par value 40,000,000 shares authorized; 9,235,434 and 9,220,434 issued at September 30, 2002 and December 2001, respectively	92,000	92,000
Additional paid-in-capital	13,924,000	13,920,000
Accumulated deficit	(10,152,000)	(9,669,000)
	-----	-----
Total stockholders' equity	3,864,000	4,343,000
	-----	-----
	\$ 14,157,000	\$ 14,591,000
	=====	=====

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

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(unaudited)

	Nine Months Ended September 30,		Three Months September
	2002	2001	2002
Net Sales	\$ 27,575,000	\$ 30,481,000	\$ 9,423,000
Cost of Sales	18,892,000	20,972,000	6,450,000
Gross profit	8,683,000	9,509,000	2,973,000
Selling, general and administrative expenses	7,806,000	8,531,000	2,634,000
Operating income	877,000	978,000	339,000
Other income (expense):			
Interest expense	(403,000)	(646,000)	(135,000)
Miscellaneous income	203,000	116,000	31,000
	(200,000)	(530,000)	(104,000)
Income before taxes and cumulative effect of change in accounting principle for SFAS 142	677,000	448,000	235,000
Income tax expense	(371,000)	(166,000)	(82,000)
Net income before cumulative effect of change in accounting principle for SFAS 142	306,000	282,000	153,000
Cumulative effect of change in accounting principle for SFAS 142, net of tax benefit (Note 4)	(789,000)	--	--
Net (loss) income	\$ (483,000)	\$ 282,000	\$ 153,000
Basic earnings per share:			
Net income before cumulative effect of change in accounting principle	\$ 0.03	\$ 0.03	\$ 0.02
Cumulative effect of change in accounting principle	(0.08)	--	--
Net (loss) income	\$ (0.05)	\$ 0.03	\$ 0.02
Diluted earnings per share:			
Net income before cumulative effect of change in accounting principle	\$ 0.03	\$ 0.03	\$ 0.02
Cumulative effect of change in accounting principle	(0.08)	--	--
Net (loss) income	\$ (0.05)	\$ 0.03	\$ 0.02
Weighted average shares outstanding	9,226,808	9,211,941	9,235,434
Weighted average shares and potentially dilutive shares outstanding	9,226,808	9,213,138	9,235,434

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

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IMPERIAL INDUSTRIES, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows

	Nine Months Ended September 30,	
	2002	2001
	(Unaudited)	
Cash flows from operating activities:		
Net (loss) income	\$ (483,000)	\$ 282,000
Adjustments to reconcile net income to net cash (used in) provided by:		
Cumulative effect of change in accounting principle	789,000	--
Depreciation	340,000	377,000
Amortization	24,000	56,000
Debt issue discount	--	44,000
Provision for doubtful accounts	151,000	225,000
Provision for income tax	371,000	151,000
Compensation expense-issuance of stock	4,000	5,000
(Gain)loss on disposal of property and equipment	(4,000)	3,000
Other	(6,000)	--
(Increase) decrease in:		
Accounts receivable	(590,000)	(94,000)
Inventory	(116,000)	(70,000)
Prepaid expenses and other assets	(116,000)	(256,000)
Increase (decrease) in:		
Accounts payable	462,000	137,000
Accrued expenses and other liabilities	(18,000)	(138,000)
Total adjustments to net income	1,291,000	440,000
Net cash provided by operating activities:	808,000	722,000
Cash flows from investing activities:		
Purchases of property, plant and equipment	(301,000)	(53,000)
Proceeds received from sale of property and equipment	34,000	38,000
Payment on note payable for acquisitions	--	(100,000)

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Net cash (used in) investing activities	(267,000)	(115,000)
	-----	-----
Cash flows from financing activities		
Increase (decrease) in notes payable		
banks - net	(53,000)	(233,000)
Proceeds from issuance of long-term debt	210,000	8,000
Repayment of long-term debt	(556,000)	(600,000)
	-----	-----
Net cash (used in) financing activities	(399,000)	(825,000)
	-----	-----

- continued -

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

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IMPERIAL INDUSTRIES, INC. AND SUBSIDIARIES
 Consolidated Statements of Cash Flows
 -continued-

	Nine Months Ended September 30,	
	2002	2001
	(Unaudited)	
	-----	-----
Net increase(decrease)in cash and cash equivalentents	142,000	(218,000)
Cash and cash equivalentents beginning of period	1,368,000	1,853,000
	-----	-----
Cash and cash equivalentents end of period	\$ 1,510,000	\$ 1,635,000
	=====	=====
Non-cash transactions:		
Issuance of 15,000 shares of common stock to an employee of the Company in 2002 and 2001	\$ 4,000	\$ 5,000
	=====	=====

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

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IMPERIAL INDUSTRIES, INC. AND SUBSIDIARIES
 Notes to Consolidated Financial Statements

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(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 auditing standards generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. Operating results for the nine months ended September 30, 2002 are not necessarily indicative of the results that may be expected for the year ended December 31, 2002. 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, 2001.

(2) Description of Business and Summary of Significant Accounting Policies

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

a) Basis of presentation

The consolidated financial statements contain the accounts of the Company and its wholly-owned subsidiaries. All material intercompany accounts and transactions have been eliminated in consolidation.

b) Concentration of Credit Risk

Concentration of credit risk with respect to trade accounts receivable are limited due to the large number of entities comprising the Company's customer base. Trade accounts receivable represent amounts due from building materials dealers, contactors and sub-contractors, located principally in the Southeastern United States who have purchased products on an unsecured open account basis. At September 30, 2002, accounts aggregating

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(2) Description of Business and Summary of Significant Accounting Policies

(continued)

\$673,000, or approximately 12.6% of total gross trade accounts receivable, were deemed to be ineligible for borrowing purposes under the Company's borrowing agreement with its commercial lender, compared to \$669,000, or approximately 13.7%, of total gross trade receivables outstanding at December 31, 2001. See Note (5). The allowance for doubtful accounts at September 30, 2002 of \$491,000 is considered sufficient to absorb any losses which may arise from uncollectible accounts receivable.

The Company places its cash with commercial banks. At September 30, 2002, the Company has cash balances with banks in excess of Federal Deposit Insurance Corporation insured limits. 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.

e) Excess Cost of Investment Over Net Assets Acquired and Other

Intangible Assets

Licenses, trademarks and deferred financing costs are amortized on the straight-line basis over the estimated useful lives of the licenses and trademarks, or over the term of the related financing. Excess cost of investment over net assets acquired was amortized using the straight-line method over 40 years until December 31, 2001 and was net of \$57,000 accumulated amortization at December 31, 2001. (See Note 4 for goodwill accounting policy adopted January 1, 2002).

(2) Description of Business and Summary of Significant Accounting Policies

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(continued)

f) Income Taxes

The Company utilizes the liability method for determining its income taxes. Under this method, deferred taxes 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 assets that are not likely to be realized.

g) Earnings per share of stock

Basic earnings per share is computed by dividing net income, by the weighted-average number of shares of common stock outstanding each year. 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 year. (See Note (9) - Earnings Per Share).

h) 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 cash equivalents at September 30, 2002 and December 31, 2001 are short term time deposits of \$122,000 and \$121,000, respectively. Also included in cash and cash equivalents at September 30, 2002 and December 31, 2001 are \$770,000 and \$698,000, respectively, of customer payments that are required to be remitted to the Company's commercial lender upon their bank clearance under the terms of the Company's line of credit. Such amounts will reduce the outstanding balance on the line of credit, resulting in greater borrowing availability.

i) Revenue recognition policy

Revenue from sales transactions, net of discounts and allowances, is recorded upon delivery of inventory to the customer.

j) Stock based compensation

The Company measures compensation expense related to the grant of stock options and stock-based awards to employees in accordance with the provisions of Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to

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(2) Description of Business and Summary of Significant Accounting Policies

(continued)

Employees," under which compensation expense, if any, is generally based on the difference between the exercise price of an option, or the amount paid for an award, and the market price or fair value of the underlying common stock at the date of the award.

k) Accounting estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

l) Fair Value of Financial Instruments

The carrying amount of the Company's financial instruments principally notes payable and obligation for appraisal rights, approximates fair value based on discounted cash flows and because the borrowing rates are similar to the current rates offered to the Company.

m) Segment Reporting

The Company has adopted SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information. For the nine month periods ended September 30, 2002 and 2001, the Company has determined that it continues to operate in a single operating segment.

n) New Accounting Pronouncements

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations". SFAS No. 143, which is effective for fiscal years beginning after June 15, 2002, addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. The Company's adoption of this standard is not expected to have a material effect on its financial statements.

In October 2001, the Financial Accounting Standards Board issued "Accounting for the Impairment of Disposal of Long-Lived Assets" (SFAS 144), which is effective for fiscal years beginning after December 15, 2001. SFAS 144 addresses accounting

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(2) Description of Business and Summary of Significant Accounting Policies

 (continued)

n) New Accounting Pronouncements (continued)

and reporting for the impairment or disposal of long-lived assets. This statement superseded SFAS 121, "Accounting for the Impairment of Long-Lived Assets to be Disposed Of". The Company's adoption of SFAS 144 on January 1, 2002 did not have a material effect on its consolidated financial statements.

In May 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections". SFAS 145 rescinds the automatic treatment of gains or losses from extinguishment of debt as extraordinary unless they meet the criteria for extraordinary items as outlined in APB Opinion No. 30, Reporting the Results of Operations, Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions. In addition, SFAS 145 also requires sale-leaseback accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions and makes various technical corrections to existing pronouncements. The provisions of SFAS 145 related to the rescission of FASB Statement 4 are effective for fiscal years beginning after May 15, 2002, with early adoption encouraged. All other provisions of SFAS 145 are effective for transactions occurring after May 15, 2002, with early adoption encouraged. The Company does not anticipate SFAS 145 having a material effect on their financial statements.

In June 2002, the FASB issued Statement No. 146, Accounting for Costs Associated with Exit or Disposal Activities (SFAS 146) and nullifies EITF Issue No. 94-3. SFAS 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred, whereas EITF No. 94-3 had recognized the liability at the date of an entity's commitment to an exit plan. The Company is required to adopt the provisions of SFAS 146 effective for exit or disposal activities initiated after December 31, 2002. The Company is currently evaluating the impact of adoption of this statement.

(3) Inventories

At September 30, 2002 and December 31, 2001 inventories consisted of:

	2002	2001
	-----	-----
Raw Materials	\$ 555,000	\$ 465,000
Finished Goods	3,158,000	3,062,000
Packaging materials	210,000	280,000
	-----	-----
	\$ 3,923,000	\$ 3,807,000
	-----	-----

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Notes to Consolidated Financial Statements -continued-

(4) Goodwill and Other Intangible Assets -----

Effective January 1, 2002 the Company adopted SFAS 141, "Business Combinations," and SFAS 142, "Goodwill and Other Intangible Assets". SFAS 141 was issued by the FASB in June 2001. SFAS 141 requires that the purchase method of accounting be used for all business combinations completed after June 30, 2001. SFAS 141 also specifies the types of acquired intangible assets that are required to be recognized and reported separately from goodwill and those acquired intangible assets that are required to be included in goodwill. The Company's adoption of this standard did not have any effect on its accounting for prior business combinations.

SFAS 142 requires that goodwill no longer be amortized, but instead be tested for impairment at least annually. SFAS 142 requires recognized intangible assets to be amortized over their respective estimated useful lives and reviewed for impairment in accordance with SFAS 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of". Any recognized intangible assets determined to have an indefinite useful life are not amortized, but instead tested for impairment in accordance with the standard until its life is determined to no longer be indefinite. If goodwill amortization had not been recorded in the first nine months and third quarter of 2001, net income would have been \$301,000 and \$145,000, respectively, with no impact on earnings per share.

In the second quarter of 2002, the Company completed its SFAS 142 transitional impairment review and determined that the goodwill ("excess cost of investment over net assets acquired") of \$1,272,000 associated with acquisitions of several distribution facilities in 2000 should be reduced to \$0. The impairment is the result of the under-performance of several of the acquired distribution facilities. The fair value of the distribution reporting unit was determined using the present value of expected future cash flows and other valuation measures.

The \$1,272,000 (\$789,000 net of related tax benefit) non-cash charge is reflected as a cumulative effect of an accounting change in the accompanying Consolidated Statements of Operations for the six-month period ended June 30, 2002. In accordance with SFAS 142 and SFAS 3, "Reporting Accounting Changes in Interim Financial Statements" ("SFAS 3"), when a transitional impairment loss for goodwill (cumulative effect type accounting change) is measured in other than the first interim reporting period, it shall be recognized in the first interim period irrespective

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IMPERIAL INDUSTRIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements
-continued-

(4) Goodwill and Other Intangible Assets (continued) -----

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of the period in which it is measured. The impact on the three-month period ended March 31, 2002 is as follows:

	Three Months Ended March 31, 2002		
	Net Income/(Loss)	Basic EPS	Diluted EPS
Reported Net Income	\$ 122,000	\$ 0.01	\$ 0.01
Less: Impairment Charge	\$ (789,000)	\$ (0.08)	\$ (0.08)
Adjusted Net Loss	\$ (667,000)	\$ (0.07)	\$ (0.07)

(5) Notes Payable

At September 30, 2002 and December 31, 2001, notes payable represent amounts outstanding under a \$6,000,000 line of credit from a commercial lender to the Company's subsidiaries. The line of credit is collateralized by the subsidiaries' accounts receivable and inventory, bears interest at prime rate plus 1/2% (5.25% at September 30, 2002), expires June 19, 2003, and is subject to annual review.

At September 30, 2002, the line of credit limit available for borrowing based on eligible receivables and inventory aggregated \$5,152,000, of which \$4,282,000 was outstanding. The average amounts outstanding for the nine month periods ended September 30, 2002 and 2001 were \$4,760,000 and \$5,046,000, respectively.

(6) Long-Term Debt and Current Installments of Long-Term Debt

Included in long-term debt at September 30, 2002, are four mortgage loans, collateralized by real property, in the aggregate amount of \$867,000, less current installments aggregating \$259,000.

During 2000, the Company acquired certain assets and assumed certain liabilities of seven building materials distributors in which it issued \$850,000 uncollateralized 8% promissory notes as partial consideration. At September 30, 2002, the aggregate remaining notes of \$216,000 were classified as a current liability.

Other long-term debt in the aggregate amount of \$680,000, less current installments of \$276,000, relates principally to equipment financing. The notes bear interest at various rates ranging from 4.89% to 10.83%.

(7) Income Taxes

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At September 30, 2002, the net deferred tax asset of approximately \$962,000 consisted mostly of the tax effect of net operating loss carryforwards of \$353,000 and the tax effect of the goodwill written off of \$534,000 reflected in the \$353,000 is the effect of a second quarter 2002 valuation allowance recorded by the Company of \$319,000 against the net operating loss carryforwards for amounts expected to expire. The operating loss carryforwards expire in varying amounts through 2009.

In the nine months ended September 30, 2002 and 2001, the Company recognized an income tax benefit of \$112,000 and tax expense of \$166,000, respectively.

(8) Capital Stock

(a) Common Stock

At September 30, 2002, the Company had outstanding 9,235,434 shares of common stock with a \$.01 par value per share ("Common Stock"). The holders of common stock are entitled to one vote per share on all matters, voting together with the holders of preferred stock, if any. In the event of liquidation, holders of common stock are entitled to share ratably in all the remaining assets of the Company, if any, after satisfaction of the liabilities of the Company and the preferential rights of the holders of outstanding preferred stock, if any.

In June 2002 and 2001, the Company issued 15,000 shares of common stock as incentive compensation to an employee pursuant to the terms of an employment agreement.

(b) Preferred Stock

The authorized preferred stock of the Company consists of 5,000,000 shares, \$.01 par value per share. The preferred stock is issuable in series, each of which may vary, as determined by the Board of Directors, as to the designation and number of shares in such series, the voting power of the holders thereof, the dividend rate, redemption terms and prices, the voluntary and involuntary liquidation preferences, and the conversion rights and sinking fund requirements, if any, of such series. At September 30, 2002 and December 31, 2001, there were no shares of preferred stock outstanding.

(c) Warrants

At September 30, 2002, the Company had warrants outstanding to purchase 150,000 shares of the Company's common stock (the "Warrants"). Each Warrant entitles the holder to purchase one share at \$.38 per share until December 31, 2003.

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Notes to Consolidated Financial Statements -continued-

(d) Stock Option Plans

The Company has two stock option plans, the Directors' Stock Option Plan and the 1999 Employee Stock Option Plan (collectively, the "1999 Plans"). The 1999 Plans provide for options to be granted at generally no less than the fair market value of the Company's stock at the grant date. Options granted under the 1999 Plans have a term of up to 10 years and are exercisable six months from the grant date. The 1999 Plans are administered by the Compensation and Stock Option Committee (the "Committee"), which is comprised of three outside directors. The Committee determines who is eligible to participate and the number of shares for which options are to be granted. A total of 600,000 and 200,000 shares are reserved for issuance under the Employee and Directors' Plans, respectively.

During the nine months ended September 30, 2002 the Company granted options to purchase 80,000 shares at \$.22 per share for a five year period consisting of 40,000 shares under the Employee Stock Option Plan (the "Employee Plan") and 40,000 shares under the Directors' Stock Option Plan (the "Directors' Plan"). As of September 30, 2002, options for 360,000 shares were available for future grants under the Employee Plan. No shares are currently available for future grant under the Directors' Plan.

(9) Earnings Per Share

Below is a reconciliation between basic and diluted earnings per common share under FAS 128 for the nine months and three months ended September 30, 2002 and 2001 (in thousands except per share amounts):

	Nine Months -----					
	2002			2001		
	Loss	Shares	Per Share	Income	Shares	Per Share
	-----	-----	-----	-----	-----	-----
Net (loss) income	\$ (483)			\$ 282		
Basic earnings per share	\$ (483)	9,227	\$ (.05)	\$ 282	9,212	\$.03
	-----	-----	-----	-----	-----	-----
Effect of dilutive securities:						
Options/Warrants	--	--	--	--	1	--
	-----	-----	-----	-----	-----	-----
Diluted earnings per common share	\$ (483)	9,227	\$ (.05)	\$ 282	9,213	\$.03
	-----	-----	-----	-----	-----	-----

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	Three Months					
	2002			2001		
	Income	Shares	Per Share	Income	Shares	Per Share
Net income	\$ 153			\$ 139		
Basic earnings per share	\$ 153	9,235	\$.02	\$ 139	9,220	\$.02
Effect of dilutive securities:						
Options/Warrants	--	--	--	--	--	--
Diluted earnings per common share	\$ 153	9,235	\$.02	\$ 139	9,220	\$.02

For the nine months ended September 30, 2002 and 2001, 490,000 and 280,000 options and warrants were excluded from the diluted earnings per share computations, respectively, because they were anti-dilutive. For the quarter ended September 30, 2002 and 2001, 570,000 and 430,000 options and warrants were excluded from the diluted earnings per share computations, respectively, because they were anti-dilutive.

(10) Commitments and Contingencies

(a) Contingencies

As of November 1, 2002, one of the Company's subsidiaries, Acrocrete, Inc., and other parties are defendants in 38 lawsuits pending in various Southeastern states, by homeowners, homeowners associations, contractors and subcontractors, or their insurance companies, claiming moisture intrusion damages on single and multi-family residences. The Company's insurance carriers have accepted coverage for 37 of these claims and are providing a defense under a reservation of rights. Acrocrete expects its insurance carriers to accept coverage for the other 1 lawsuit. Acrocrete is vigorously defending all of these cases and believes it has meritorious defenses, counter-claims and claims against third parties. Acrocrete is unable to determine the exact extent of its exposure or outcome of this litigation.

The allegations of defects in synthetic stucco wall systems are not restricted to Acrocrete products but rather are an industry-wide issue. There has never been any defect proven against Acrocrete. 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.

On June 15, 1999, another of the Company's subsidiaries, Premix, was served with a complaint captioned Mirage Condominium Association, Inc. v. Premix Marbletite Manufacturing Co., et al., in Miami-Dade County Florida. The lawsuit raises a number of

IMPERIAL INDUSTRIES, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
-continued-

allegations against twelve separate defendants involving alleged construction defects. Plaintiff has alleged only one count against Premix, which claims that certain materials, purportedly provided by Premix to the Developer / Contractor and used to anchor balcony railings to the structure were defective. The Company's insurance carriers have not made a decision regarding coverage to date, but have retained counsel on behalf of Premix and are paying defense costs. The Company expects the insurance company to eventually accept coverage. Premix is unable to determine the exact extent of its exposure or the outcome of this litigation.

Premix and Acrocrete are both engaged in other legal actions and claims arising in the ordinary course of its business, none of which are believed to be material to the Company.

On April 23, 1999, certain Dissenting Shareholders owning shares of the Company's formerly issued preferred stock filed a petition for appraisal in the Delaware Chancery Court to determine the fair value of their shares at the effective date of Merger, exclusive of any element of value attributable to the merger. The Company recorded \$877,000 in the accompanying consolidated balance sheets at September 30, 2002 and December 31, 2001, as an estimate for the obligation for appraisal rights based on the estimated fair value of the consideration they could have received had they not elected dissenters' rights. The Chancery Court may determine fair value is greater than an aggregate of \$877,000. A trial for the appraisal rights was held in the Chancery Court of Delaware in June 2002. As of the date hereof, the trial court has not issued a ruling. The Company expects a judicial determination requiring the Company to make payment to the Dissenting Shareholders in the second quarter of 2003. At September 30, 2002 the obligation for appraisal rights was classified as a current liability.

(b) Lease Commitments

At September 30, 2002, certain property, plant and equipment were under lease by the Company under long-term leases. The Company will pay aggregate annual rent of approximately \$1,037,000 for its current operating leases. The leases expire at various dates ranging from December 31, 2002 to August 31, 2009. Comparable properties at equivalent rentals are available for replacement of these facilities if any leases are not extended. The Company does not expect to incur any material relocation expenses.

-continued-

(11) Recent Event

On July 19, 2002 at the Company's Annual Meeting of Shareholders, the Company's Shareholders approved a proposal for a one for five reverse common stock split ("Reverse Stock Split"). Pursuant to the terms of the proposal, the Reverse Stock Split was to become effective upon filing an appropriate certificate with the Secretary of State of Delaware. Notwithstanding the approval of the Reverse Stock Split, the Board of Directors reserved the right, without further action by the Shareholders, to elect not to proceed with the Reverse Stock Split if at any time prior to filing such certificate with the State of Delaware, the Board of Directors, in its sole discretion, determined that it was no longer in the best interests of the Company and its stockholders. In addition, the Board of Directors reserved the right to delay the Reverse Stock Split for up to twelve months following the stockholder approval.

The Board of Directors determined it was in the best interest of the Company to postpone the implementation of the Reverse Stock Split until a future date to be determined by the Board.

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Item 2 Management's Discussion and Analysis of Financial Condition

and Results of Operations

General

The Company's business is related primarily to the level of construction activity in the Southeastern United States, particularly the states of Florida, Georgia, Mississippi and Alabama. The majority of the Company's products are sold to contractors, subcontractors and building materials dealers located principally in these states who provide building materials for the construction of residential, commercial and industrial buildings and swimming pools. The level of construction activity is subject to population growth, inventory of available housing units, government growth policies and construction funding, among other things. Although general construction activity has remained strong in the Southeastern United States during the last several years, the duration of recent economic conditions and the magnitude of their effect on the construction industry are uncertain and cannot be predicted.

Special Note Regarding Forward-Looking Statements

This Form 10-Q 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 the Company, and its subsidiaries, including statements made under Management's Discussion and Analysis of Financial Condition

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and Results of Operations. 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, including goodwill; the outcome of litigation; the competitive pressure in the industry; general economic and business conditions; the ability to implement and the effectiveness of business strategy and development plans; quality of management; business abilities and judgment of personnel; availability of qualified personnel; and labor and employee benefit costs.

These risks may not be exhaustive. The Company operates 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.

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Item 2 Management's Discussion and Analysis of Financial Condition

and Results of Operations (continued)

Results of Operations

Nine Months and Three Months Ended September 30, 2002 Compared to 2001

Net Sales for the nine months and three months ended September 30, 2002 decreased \$2,906,000 and \$133,000 or approximately 9.5% and 1.4%, respectively compared to the same periods in 2001. The closure of certain under-performing distribution facilities, and the elimination of installation services and sales of gypsum wallboard at certain locations during 2001, accounted for the principal amount of the sales decline in the nine months and third quarter in 2002 compared to the same periods in 2001. The closure of the under-performing operations in 2001 accounted for \$2,080,000 and \$304,000 of the sales decline in the nine months and third quarter 2002 comparable periods, prior to giving any consideration to the elimination of gypsum wallboard at certain other locations, including the Company's distribution location in Pensacola, Florida, which was closed in the third quarter of 2002. Third quarter sales were also adversely impacted by an unusual large amount of rain in September in certain of the Company's markets on the Gulf Coast due to the threat of a hurricane and resulting tropical storm which slowed construction and consequently reduced demand for the Company's products during the month.

Gross profit as a percentage of net sales for the nine months and three months ended September 30 of 2002 was approximately 31.5% and 31.6%, compared to 31.2% and 32.8% for the same periods in 2001. The comparative gross profit margins for the 2002 and 2001 periods reflect similar competitive conditions in the Company's markets for the sales of both its manufactured and distributed products. The Company

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increased its sales force in early 2002 to further its efforts to promote the sales of its higher gross profit margin manufactured products to the end-user and decrease reliance on sales of lower gross profit margin gypsum products.

Market prices for gypsum wallboard, a major product line purchased and sold by the Company's distribution operations, were believed to be slightly higher in the nine months ended September 30, 2002 compared to the average prices realized for the same period in 2001. The trend of lower gypsum wallboard pricing, which commenced in early 2000 and continued for six consecutive quarters through the first six months of 2001, has rebounded to a certain extent from the historically low levels during the third quarter ended September 30, 2001. During that quarter, certain

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Item 2 Management's Discussion and Analysis of Financial Condition

and Results of Operations (continued)

Nine Months and Three Months Ended September 30, 2002 Compared to 2001

(continued)

manufacturers reduced production of gypsum wallboard and a stronger demand for gypsum wallboard resulted in increased gypsum prices in the latter part of 2001, although at still significantly reduced prices from historical levels prior to 2000. The Company is unable to determine if the improvement in prices will trend higher or even be maintained at current levels, during the remainder of 2002.

Selling, general and administrative expenses as a percentage of net sales for the nine months and third quarter of 2002 were approximately 28.3% and 28.0%, compared to 28.0% and 29.0% in 2001. Selling, general and administrative expenses decreased \$725,000 and \$138,000, or approximately 8.5% and 5.0% in 2002, compared to the same periods 2001. The decrease in expenses was primarily due to a reduction in operating costs associated with closing under-performing distribution locations and Company-wide reductions in manpower to gain improved operating efficiencies, which took place during 2001.

During 2001 the Company took action to improve operating performance of the Company's distribution locations through: (i) an approximate 32% reduction in workforce; (ii) closure of under-performing distribution locations in Hattiesburg, Picayne and Pascagoula, Mississippi; (iii) elimination of installation services at two additional locations; and (iv) development of a consolidated purchasing program in an attempt to realize greater savings from the purchase and resale of products.

Interest expense decreased \$243,000 and \$62,000 in the nine months and third quarter of 2002, or approximately 37.6% and 31.5%, compared to the same periods in 2001. The decrease in interest expense in the 2002 periods was primarily due to a lower average amount outstanding under the Company's line of credit as a result of closing

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the distribution facilities in 2001, the payment of the Company's debentures at December 31, 2001, which had an effective annual interest rate of 16%, and lower interest rates under its variable rate borrowings. Miscellaneous income for the nine months ended September 30, 2002, included insurance refunds of approximately \$95,000 as a result of lower claims than provided for in the underlying insurance policies.

After giving effect to the above factors, the Company generated income before taxes and the write-off of goodwill, as discussed below, for the nine months and third quarter ended September 30, 2002 of \$677,000 and \$235,000, respectively, compared to \$448,000 and \$228,000, for the same periods in 2001.

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Item 2 Management's Discussion and Analysis of Financial Condition

and Results of Operations (continued)

The net loss for the nine months ended September 30, 2002 includes the impact of a \$1,272,000 (\$789,000 net of related tax benefit) non-cash goodwill impairment charge. The charge is related to the Company's required adoption of Statement of Financial Accounting Standards (SFAS) No. 142 "Goodwill and Other Intangible Assets". The goodwill impairment charge is a one time event and does not affect the operating results of the Company. The Company doesn't have any remaining goodwill on its balance sheet which may be impaired for future periods. The impairment of goodwill is attributable to the under-performance of the Company's distribution operations associated with the acquisition of certain building materials distributors in 2000. In accordance with SFAS No. 142, the Company reflected this impairment charge in its nine month financial results as a cumulative change in accounting principle.

In the nine months and third quarter of 2002, the Company recognized an income tax benefit of \$112,000 and an expense of \$82,000, respectively, compared to tax expense of \$166,000 and \$89,000 for the same periods for 2001.

As a result of the above factors, the Company had a net loss of \$483,000 and net income of \$153,000, or a loss of \$.05 per fully diluted share for the nine months, and earnings per diluted share of \$.02 for the third quarter of 2002, compared to net income of \$282,000 and \$139,000, or \$.03 and \$.02 per share, for 2001.

Liquidity and Capital Resources -----

Sources and Uses of Cash -----

The Company's operations provided approximately \$808,000 and \$722,000 of net cash from operations in the first nine months of 2002 and 2001, respectively. In the first nine months of 2001 the Company's net cash flow benefited from the closing of certain under-performing distribution operations and elimination of installation services, which had the effect of reducing receivables and inventory formerly attributable to those operations. As a result, the Company realized a

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net increase of only \$164,000 in receivables and inventory in the 2001 period, compared to an increase of \$706,000 in 2002.

During the first nine months of 2002, the net expenditures for investing activities were \$267,000 compared to \$115,000 in 2001. The purchase of equipment to up-grade the Company's manufacturing equipment and to expand and up-grade the Company's delivery capabilities accounted for the majority of the 2002 expenditures.

During the nine months ended September 30, 2002, the line of credit balance decreased approximately \$53,000. The Company made principal payments on other debt totaling \$556,000 during the first nine months of 2002. In addition, the Company

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Item 2 Management's Discussion and Analysis of Financial Condition

and Results of Operations (continued)

Liquidity and Capital Resources (continued)

Sources and Uses of Cash (continued)

incurred additional long-term debt of \$210,000 to finance the major portion of its capital expenditures.

Future Commitments and Funding Sources

At September 30, 2002, the Company's contractual cash obligations, with initial or remaining terms in excess of one year, remained generally unchanged compared to December 31, 2001 except for the items described more fully in the following paragraph. See Notes 6 and 10 in the accompanying financial statements for additional information regarding the Company's commitments.

At September 30, 2002, the Company had working capital of approximately \$1,860,000 compared to working capital of \$2,480,000 at December 31, 2001. The net reduction in working capital was primarily attributable to the reclassification of appraisal rights obligation (\$877,000) and a mortgage note (\$204,000 due June 2003) from long-term debt at December 31, 2001 to a current liability at September 30, 2002.

As of September 30, 2002, the Company had cash and cash equivalents of \$1,510,000, which included customer payments in the amount of \$770,000 that are required to be remitted to the Company's commercial lender upon their bank clearance under the terms of the Company's line of credit. Upon remittance of such amount, the outstanding balance of the line of credit will be reduced by such amount and will increase the availability for the future borrowing. The Company has implemented a cash management program in an attempt to gain a more rapid clearance of customer payments deposited in its bank accounts.

The Company's principal source of short-term liquidity is existing cash on hand and the utilization of a \$6,000,000 line of credit with a commercial lender. The maturity date of the line of

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credit is June 19, 2003, subject to annual renewal. Premix, Acrocrete and Just-Rite borrow on the line of credit, based upon and collateralized by, their eligible accounts receivable and inventory. Generally, accounts receivable outstanding more than 120 days are not eligible under the agreement. At September 30, 2002 the line of credit available for borrowing based on eligible receivables and inventory aggregated to \$5,152,000, of which \$4,282,000 was outstanding.

Trade accounts receivable represent amounts due from sub-contractors, contractors and building materials dealers located principally in Florida, and the Southeastern States who have purchased products on an unsecured open account basis and through Company owned warehouse distribution outlets. As of September 30, 2002, the Company owned and operated eleven

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Item 2 Management's Discussion and Analysis of Financial Condition

and Results of Operations (continued)

Liquidity and Capital Resources (continued)

distribution outlets. Accounts receivable, net of a \$491,000 allowance, at September 30, 2002 was \$4,858,000 compared to \$4,419,000 (net of a \$453,000 allowance) at December 31, 2001.

As a result of the consummation of the December 31, 1998 merger, among other things, the Company agreed to pay \$733,000 in cash to the former preferred shareholders and issued \$985,000 face value Debentures due December 31, 2001. Amounts payable to such shareholders at September 30, 2002 on the Company's consolidated balance sheets of \$262,000 results from certain former preferred stock holders continued non-compliance with the conditions for payment.

Holdings representing 81,100 preferred shares have elected dissenter's rights, which under Delaware law, would require cash payments equal to the fair value of their stock, as of the date of the merger, to be determined in accordance with Section 262 of the Delaware General Corporation Law. The Company has recorded a liability for each share based on the fair value of \$2.25 in cash, an \$8.00 Subordinated Debenture and five shares of the Company's common stock since that is the consideration the dissenting holders would have received if they did not perfect their dissenters' rights under the law. Dissenting stockholders filed a petition for appraisal rights in the Delaware Chancery Court on April 23, 1999. A trial for the appraisal rights was held in the Chancery Court of Delaware in June 2002. As of the date hereof, the trial court has not issued a ruling. The Company expects a judicial determination requiring the Company to make payment to the Dissenting Shareholders in the second quarter of 2003.

The Company presently is focusing its efforts on building market share for the sale of its manufactured products, reducing costs and expenses and improving working capital. The Company expects to incur various capital expenditures during the next twelve months to upgrade and maintain its equipment and delivery fleet to support operations and for the recent opening of a distribution facility in Port St. Lucie, Florida. In addition, the Company is implementing an upgraded centralized management information system for its distribution

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operations. Capital needs associated with these capital projects cannot be estimated at this time, but management does not expect the cash portion of the expenditures for these projects to exceed \$150,000 during the twelve months subsequent to September 30, 2002.

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Item 2 Management's Discussion and Analysis of Financial Condition

and Results of Operations (continued)

Liquidity and Capital Resources (continued)

The Company believes its cash on hand and the maintenance of the borrowing arrangement with its commercial lender will provide sufficient cash to meet current obligations for its day-to-day operations and support the cash requirements of its capital expenditure programs. However, the ability of the Company to maintain and or improve its liquidity is primarily dependent on the Company's ability to increase profitable operations, to obtain its projected cash flow and resolve its outstanding appraisal rights litigation on a basis favorable to the Company. The Company will be required to obtain additional financing to fund the resolution of such litigation expected in the second quarter of 2003. While the Company does not presently have arrangements for such sources of financing, the Company believes that it will be able to obtain the necessary financing through additional borrowings from its current lender, and/or banks and others through the issuance of debt or equity. Such financing may be dilutive to existing shareholders. There can be no assurance such financing will be available on terms reasonably satisfactory to the Company. The inability to obtain such financing could have a material adverse effect on the Company's future operations and financial performance.

Item 3 Market Risks

Residential and Commercial Construction Activity

The Company's sales depend heavily on the strength of residential and commercial construction activity in the Southeastern United States. The strength of these markets depends on many factors beyond the Company's control. Some of these factors include interest rates, employment levels, availability of credit, prices of raw materials and consumer confidence. Downturns in the markets that the Company serve or in the economy generally could have a material adverse effect on the Company's operating results and financial condition. Reduced levels of construction activity may result in intense price competition among building materials suppliers, which may adversely affect the Company's gross margins.

The Company's first quarter revenues and, to a lesser extent, its fourth quarter revenues are typically adversely affected by winter construction cycles and weather patterns in colder climates as the level of activity in the new construction and home improvement markets

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decreases. Because much of the Company's overhead and expense remains relatively fixed throughout the year, Company profits also tend to be lower during the first and fourth quarters.

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Item 3 Market Risks (continued)

Exposure to Interest Rates

The Company has two variable rate mortgages totaling \$424,000 at September 30, 2002. The mortgages bear interest at prime plus 1% and are due October 2004. In addition, the Company's \$6,000,000 line of credit from a commercial lender bears an interest rate of prime plus 1/2%. A significant increase in the prime rate could have a material adverse effect on the Company's operating results and financial condition.

Item 4 Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports that we file or submit, is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms.

Our Chief Executive Officer/Chief Financial Officer has evaluated our disclosure controls and procedures as of November 13, 2002 and believe they are in effect.

Changes in Internal Controls

Not applicable.

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IMPERIAL INDUSTRIES, INC. AND SUBSIDIARIES

PART II. Other Information

Item 1. Legal Proceedings

See notes to Consolidated Financial Statements, Note 10 (a), set forth in Part I Financial Information.

Item 4. Submission of Matters to a Vote of Security Holders

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 The Company held its 2002 annual meeting of shareholders on July 19, 2002 (the "Annual Meeting").

- (a) At the Annual Meeting, the Company's shareholders voted on the election of one Class I director as follows:

	For ---	Withheld -----
Howard L. Ehler, Jr.	6,713,606	405,197

- (b) The Company's proposal for a one for five reverse stock split ("Reverse Stock Split") was approved by the Company's Shareholders at the Annual Meeting by the following votes:

For:	6,309,797
Against:	771,090
Abstain:	37,916
Not Voted:	2,101,631

The Board of Directors reserved the right to delay the Reverse Stock Split for up to twelve months following stockholder approval. The Board of Directors has determined it was in the best interest of the Company to postpone the implementation of the Reverse Stock Split until a future date to be determined by the Board.

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IMPERIAL INDUSTRIES, INC. AND SUBSIDIARIES

PART II. Other Information - continued

Item 6. Exhibits and Reports on Form 8-K

Exhibit No. -----	Description -----
2.1	Agreement and Plan of Merger, by and between Imperial Industries, Inc. and Imperial Merger Corp. dated October 12, 1998 (Incorporated by reference to Form S-4 Registration Statement, Exhibit 2).
3.1	Certificate of Incorporation of the Company, (Incorporated by reference to Form S-4 Registration Statement, Exhibit 3.1).
3.2	Amendment to Certificate of Incorporation of the Company (Incorporated by reference to Form 10-K dated December 31, 2001, Exhibit 3.2).
3.3	By-Laws of the Company, (Incorporated by reference to Form S-4 Registration Statement, Exhibit 3.2).
10.1	Consolidating, Amended and Restated Financing Agreement by and between

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Congress Financial Corporation and Premix-Marbletite Manufacturing Co., Acrocrete, Inc. and Just-Rite Supply, Inc. dated January 28, 2000. (Incorporated by reference to Form 10-K dated December 31, 1999, File No. 1-7190, Exhibit 10-1).

- 10.2 Employee Stock Option Plan (Incorporated by reference to Form 10-K dated December 31, 2000, Exhibit 10.4).
 - 10.3 Directors Stock Option Plan (Incorporated by reference to Form 10-K dated December 31, 2000, Exhibit 10.5).
 - 99.1 Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002.
- (b) Reports on Form 8-K

None.

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IMPERIAL INDUSTRIES, INC. AND SUBSIDIARIES

SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on it behalf by the undersigned thereunto duly authorized.

IMPERIAL INDUSTRIES, INC.
By: /S/ Howard L. Ehler, Jr.

Howard L. Ehler, Jr.
Executive Vice President/
Principal Executive Officer

By: /S/ Betty Jean Murchison

Betty Jean Murchison
Chief Accounting Officer/
Assistant Vice President

November 13, 2002

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