IMPERIAL INDUSTRIES INC
Form 10-Q
November 16, 2009

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

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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 September 30, 2009

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.)

1259 N W 21st Street, Pompano Beach FL 33069

(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 has submitted electronically and posted on its website, if any, every Interactive Data File required to be submitted and posted pursuit to Rule 405 of the Regulation S-T (corporate section 232.405 of this chapter) during the preceding 12 months (or such shorter period that the registrant was required to submit and post such files)Yes ¨ No ¨

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

Large accelerated filer ¨ Accelerated filer ¨ Smaller reporting company ý

Non-accelerated filer ¨ (Do not check if a smaller reporting company)

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 November 11, 2009 2,541,585.

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

		September 30, 2009		December 31, 2008
		(Unaudited)		
ASSETS				
Current assets:				
Cash and cash equivalents	$	755,000	$	381,000
Restricted cash		48,000		42,000
Trade accounts receivable, net		684,000		797,000
Inventories		994,000		1,136,000
Income tax receivable		35,000		1,079,000
Prepaid expenses and other current assets		177,000		26,000
Current assets held for sale by assignee		2,578,000		7,922,000
Total current assets		5,271,000		11,383,000
Property, plant and equipment, at cost, net		1,708,000		2,011,000
Assets held for sale by assignee		1,915,000		3,257,000
Other assets		148,000		448,000
Total assets	$	9,042,000	$	17,099,000
LIABILITIES AND STOCKHOLDERS EQUITY				
Current liabilities:				
Accounts payable	$	652,000	$	622,000
Payable to former preferred stockholders		50,000		56,000
Accrued expenses and other liabilities		785,000		359,000
Deferred compensation				255,000
Current liabilities related to assets held for sale by assignee		5,067,000		7,795,000
Current portion of long-term debt		127,000		275,000
Total current liabilities		6,681,000		9,362,000
Liabilities related to assets held for sale by assignee				680,000
Long-term debt, less current maturities		4,000		517,000

Secured financing		1,134,000		1,134,000
Total liabilities		7,819,000		11,693,000
Commitments and contingencies				
Stockholders equity:				
Common stock		25,000		25,000
Additional paid-in capital		14,905,000		14,850,000
Accumulated deficit		(13,707,000)		(9,469,000)
Total stockholders equity		1,223,000		5,406,000
Total liabilities and stockholders equity	$	9,042,000	$	17,099,000

See accompanying notes to consolidated financial statements.

IMPERIAL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

	Nine Months Ended September 30,		Three Months Ended September 30,	
	2009	**2008**	**2009**	**2008**
Net Sales	$ 6,864,000	$ 7,788,000	$ 2,186,000	$ 2,424,000
Cost of Sales	4,781,000	5,441,000	1,454,000	1,680,000
Gross profit	2,083,000	2,347,000	732,000	744,000
Selling, general and administrative expenses	2,988,000	3,176,000	980,000	1,010,000
Accrued loss contingency	627,000			
Operating loss	(1,532,000)	(829,000)	(248,000)	(266,000)
Other (expense) income				
Interest expense	(107,000)	(58,000)	(44,000)	(15,000)
Litigation settlement	193,000			
Miscellaneous (expense) income, net	6,000	(56,000)	18,000	(43,000)
	92,000	(114,000)	(26,000)	(58,000)
Loss before income taxes	(1,440,000)	(943,000)	(274,000)	(324,000)
Income tax benefit		385,000		
Loss from continuing operations	(1,440,000)	(558,000)	(274,000)	(324,000)
Loss from discontinued operations, net of taxes	(2,798,000)	(4,038,000)	(1,530,000)	(1,486,000)
Net loss	$ (4,238,000)	$ (4,596,000)	$ (1,804,000)	$ (1,810,000)

Loss per Common Share:								
Loss from continuing operations basic and diluted	$	(0.57)	$	(0.22)	$	(0.11)	$	(0.13)
Loss from discontinued operations basic and diluted		(1.10)		(1.61)		(0.60)		(0.59)
Net loss per share basic and diluted	$	(1.67)	$	(1.83)	$	(0.71)	$	(0.72)
Weighted average shares outstanding - basic and diluted		2,533,272		2,515,601		2,533,639		2,515,601

See accompanying notes to consolidated financial statements.

IMPERIAL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

	Nine Months Ended September 30, 2009	2008
Cash flows from operating activities:		
Net loss	$ (4,238,000)	$ (4,596,000)
Adjustments to reconcile net loss to net cash provided by (used in) operations:		
Depreciation	543,000	298,000
Amortization	19,000	9,000
Provision for doubtful accounts	276,000	18,000
Provision for deferred income taxes		694,000
(Gain) loss on disposal of fixed assets	(31,000)	25,000
Gain on litigation settlement	(193,000)	
Share-based compensation	55,000	59,000
Deferred compensation		(2,000)
Gain on sale of assets	(592,000)	(127,000)
Loss on disposal of assets held for sale by assignee	1,850,000	
Changes in operating assets and liabilities		
Trade accounts receivable	80,000	(208,000)
Inventories	142,000	(1,000)
Prepaid expenses and other current assets	42,000	35,000
Other assets	295,000	4,000
Accounts payable	30,000	340,000
Due to former shareholders	(6,000)	
Accrued expenses and other liabilities	426,000	(134,000)
Deferred compensation	(255,000)	
Income taxes receivable	1,044,000	(242,000)
Assets held for sale by assignee	3,957,000	(1,766,000)
Liabilities related to assets held for sale by assignee	(813,000)	2,100,000
Net cash provided by (used in) operating activities	2,631,000	(3,494,000)
Cash flows provided by (used in) investing activities:		
Purchase of property and equipment	(24,000)	(90,000)
Proceeds received from sale of property and equipment	144,000	55,000
Proceeds received from disposal of assets held for sale	885,000	

Net cash provided by (used in) investing activities		1,005,000		(35,000)
Cash flows(used in) provided by used in financing activities:				
Proceeds from notes payable line of credit		18,814,000		36,752,000
Repayments of notes payable line of credit		(21,409,000)		(33,236,000)
Repayment of long-term debt		(661,000)		(283,000)
(Increase) decrease in restricted cash		(6,000)		1,000
Net cash (used in) provided by financing activities		(3,262,000)		3,234,000
Net increase (decrease) in cash and cash equivalents		374,000		(295,000)
Cash and cash equivalents, beginning of period		381,000		583,000
Cash and cash equivalents, end of period	$	755,000	$	288,000

See accompanying notes to consolidated financial statements.

IMPERIAL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

	Nine Months Ended September 30,	
	2009	**2008**
Supplemental disclosure of cash flow information:		
Cash paid during the nine months for interest	$ 195,000	$ 336,000
Cash refunded during the nine months for income taxes	$ (1,044,000)	$
Non-cash transactions:		
Equipment financed	$	$ 164,000

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 three and nine months ended September 30, 2009 are not necessarily indicative of the results that may be expected for future fiscal quarters of 2009, for the year ending December 31, 2009, or for future periods. 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, 2008, and other Company filings with the Securities and Exchange Commission.

In June 2009, the FASB issued FAS No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles (FAS No. 168) to establish the FASB Accounting Standards Codification (FASB ASC) as the source of authoritative non-Securities and Exchange Commission (the FASB ASC does not supersede Securities and Exchange Commission rules or regulations) accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with U.S. generally accepted accounting principles (U.S. GAAP). In addition to establishing the FASB ASC, FAS No. 168 also modifies the GAAP hierarchy to include only two levels of GAAP: authoritative and non-authoritative. FAS No. 168 became effective for companies in periods ending after September 15, 2009 and will continue to be authoritative until integrated into the FASB ASC. The Company adopted FAS No. 168 in its fiscal period ending September 30, 2009, as set forth in the transition guidance found in the FASB ASC Generally Accepted Accounting Principles. As FAS No. 168 was not intended to change or alter existing GAAP, it had no impact upon the Company s financial condition, results of operations and cash flows. In all filings prior to this Quarterly Report on Form 10-Q, the Company made certain references to prior authoritative standards issued by the FASB using pre-Codification references. As a result of the adoption of FAS No. 168, the references in the Company s Notes to Unaudited Consolidated Financial Statements have been updated in this Quarterly Report on Form 10-Q.

(2)

Description of Business

Imperial Industries, Inc. (Imperial), and its wholly-owned subsidiaries, Just-Rite Supply, Inc. (Just-Rite), Premix-Marbletite Manufacturing Co. (Premix), 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 manufacture 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 until June 11, 2009, to customers located in 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. However, Just-Rite s assets were divested on June 11, 2009 through an Assignment for the Benefit of Creditors proceeding under Florida state law and, as a result, all of Just-Rite s assets and related liabilities as of June 11, 2009 are reflected in the September 30, 2009 and December 31, 2008 consolidated balance sheets as Assets held for sale and liabilities related to assets held for sale. Additionally, the related consolidated statement of operations and cash flows includes all Just-Rite business activity through June 11, 2009 and is reflected as Loss from Discontinued Operations, Net of Taxes. All material intercompany transactions and balances have been eliminated in consolidation.

IMPERIAL INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED)

(3)

Assignment for the Benefit of Creditors

On June 11, 2009, the Company s subsidiary, Just-Rite, entered into an Assignment for the Benefit of Creditors (the Assignment) with Michael P. Phelan, Vice President of Michael Moecker and Associates (the Assignee). The Assignment was considered an event of default under the Company s Line of Credit with its lender, resulting in the execution of a Forbearance and Amendment Agreement (the Forbearance Agreement) dated June 10, 2009 with its lender and three subsequent amendments to the Forbearance Agreement dated August 7, 2009, August 28, 2009 and September 30, 2009 (collectively the Forbearance Agreement), as described in Note 4.

In connection with the Assignment on June 11, 2009, Just-Rite transferred all of its assets, subject to any liabilities thereof, to the Assignee, a non-affiliated party, who is winding down, selling and liquidating the assets of Just-Rite for the benefit of creditors in accordance with the laws of the State of Florida. The Company no longer operates any of the assets or business of Just-Rite from the date of the Assignment. As a result of the Assignment, Just-Rite operations, which ended June 11, 2009, are presented as discontinued operations for the nine and three months ended September 30, 2009 and 2008 and all Just-Rite assets are considered held for sale and are reported on the financial statements as assets held for sale .

Since Just-Rite has not obtained a final court order for the conveyance of assets, a settlement with creditors or a court action granting Just-Rite relief from the creditor s claims, Just-Rite s liabilities continue to be recorded at full value on the Company s financial statements as liabilities related to assets held for sale by assignee .

As the Assignment process has not been completed, it is possible that the ultimate proceeds from the disposition of the assets held for sale by assignee, and the settlement of liabilities related to assets held for sale by assignee could be at amounts that are materially different than the carrying amounts reflected in the accompanying consolidated financial statements.

(4)

Forbearance Agreement

On June 10, 2009, the Company and Wachovia Bank, N.A. (the Lender), executed a Forbearance Agreement to the Company s Consolidating, Amended and Restated Financing Agreement dated as of January 28, 2000 (the Line of Credit). Under the Forbearance Agreement, the Lender agreed to forbear from exercising any of their rights in response to the occurrence of certain events of default under the Line of Credit, subject to the Company s compliance with certain requirements set forth in the terms of the Forbearance Agreement.

The Forbearance Agreement dated June 10, 2009, modified the Line of Credit principally as follows:

.

The grant of a security interest in additional collateral consisting of equipment and certain real property located in Jacksonville and Tampa, Florida.

.

The maximum credit available on the Line of Credit, based on eligible accounts receivable and inventory, was reduced from $3,500,000 to $2,500,000 immediately and until June 21, 2009, and thereafter was to be reduced $200,000 each week until the maximum credit equals $500,000;

.

The margin applicable to the interest rate under the Line of Credit was increased to, at the Company s option, either at prime rate plus 5%, or Libor plus 6% (with the Libor base rate to be no less than 1.5%); and

.

The sub-limit for the amount of eligible inventory available for borrowing under the Line of Credit was reduced from $1,750,000 to $1,000,000 until August 1, 2009, then further reduced to $350,000 thereafter.

IMPERIAL INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED)

The First Amendment to Forbearance Agreement dated August 7, 2009, amended the Forbearance Agreement as follows:

.

The Lender, in its sole and absolute discretion, may continue to make revolving loans under the line of credit without regard to the Company s compliance with the terms of the line of credit or existence of any event of default.

.

None of the assets of Just-Rite which were transferred to the Assignee pursuant to the Assignment are considered eligible collateral.

.

The addition of a restrictive loan covenant beginning July 31, 2009 and continuing each week thereafter which increased the borrowing availability reserve by $75,000 each week until the reserve reached an aggregate of $300,000.

The Second Amendment to Forbearance Agreement dated August 28, 2009, amended the First Amendment to Forbearance Agreement as follows:

.

Reduced the maximum credit by $50,000 each week beginning September 4, 2009 and ending September 25, 2009 at which point the maximum credit would be $300,000.

.

The lender implemented a reserve of 50% of any funds received by the Assignee from the Mississippi Department of Transportation and remitted to Lender.

.

Extended the date of the Forbearance Agreement from August 31, 2009 to September 30, 2009.

The Third Amendment to Forbearance Agreement dated September 30, 2009, amended the Second Amendment to Forbearance Agreement as follows:

.

Reduced the maximum credit by $25,000 on Friday each week beginning October 2, 2009 and ending November 30, 2009 at which point the maximum credit would be $75,000.

.

Released the 50% reserve of any funds received by the Assignee from the Mississippi Department of Transportation and remitted to Lender.

.

Extended the date of the Forbearance Agreement from September 30, 2009 to November 30, 2009.

As of the close of business on November 10, 2009, the outstanding balance on the line of credit was approximately $124,000.

(5)

Going Concern

The accompanying unaudited consolidated financial statements have been prepared and are presented assuming the Company s ability to continue as a going concern. The industry in which the Company is operating has been impacted by a number of adverse factors over the past three and a half years. As a result, the Company has incurred losses for the nine and three months ended September 30, 2009 and the year ended December 31, 2008. Our independent registered public accounting firm issued its report dated March 27, 2009, in connection with the audit of our financial statements as of December 31, 2008, that included an explanatory paragraph describing the existence of conditions that raise substantial doubt about our ability to continue as a going concern.

The accompanying unaudited consolidated financial statements do not include any adjustments relating to the recoverability and classification of asset carrying amounts or the amount and classification of liabilities that might result from the outcome of this uncertainty.

In order to address the need to satisfy its continuing obligations and realize its long term strategy, management has been reviewing various strategic alternatives and has taken several steps and is considering additional actions to improve its operating and financial results, which we hope will be sufficient to provide the Company with the ability to continue as a going concern. In connection therewith, we have taken the following actions:

IMPERIAL INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED)

.

We divested the entire Just-Rite operation as of June 11, 2009 via the Assignment which transferred all assets, subject to any liabilities thereof, of Just-Rite to the Assignee who is winding down, selling and liquidating the assets of Just-Rite for the benefit of creditors in accordance with the laws of the State of Florida. The Company no longer operates any of the assets or business of Just-Rite since the date of the Assignment.

.

We have implemented more stringent credit and collection procedures and controls in an attempt to reduce days outstanding of trade accounts receivable and improve working capital.

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We eliminated cash bonuses for all senior management in 2008 and reduced compensation for senior management and other employees in 2009. In addition, we have continued to make personnel reductions in our continued operations in 2009.

.

We have consolidated our manufacturing operations by shifting Premix manufacturing in Pompano Beach, Florida to Winter Springs, Florida and we moved our corporate office into the Premix distribution center in Pompano Beach to reduce costs. In addition, we are continuing to evaluate and implement cost reduction initiatives to reduce unnecessary costs in our operations and to conserve working capital.

In addition, we are seeking financing from other sources, including the possibility of an infusion of equity, to generate additional funds for operations and to take advantage of lower interest rates, including the retention of an investment banker to seek funding and evaluate other strategic alternatives.

There is no assurance that the above actions will allow the Company to continue as a going concern.

On November 6, 2009, the Worker, Homeownership and Business Assistance Act of 2009 was signed into law. The new law extended the time-frame, for certain companies of which we believe we qualify, to carry-back Net Operating Losses (NOL) from 2 years to 5 years. As a result, the Company may carry-back a portion of its 2008 and 2009 NOL to claim a refund of Federal taxes paid. Although the amount of the refund cannot yet be determined, we expect it to be no less than $800,000.

(6)

Discontinued Operations

We closed three Just-Rite distribution facilities located in Panama City Beach, Florida, Norcross, Georgia and Tampa, Florida in May 2008, September 2008 and November 2008, respectively. We closed two additional Just-Rite distribution facilities in Tallahassee, Florida and Mobile, Alabama in January 2009.

In addition, the Assignment discussed in Note 3 transferred all assets on June 11, 2009, subject to any liabilities thereof, of Just-Rite to the Assignee who is winding down, selling and liquidating these assets for the benefit of creditors in accordance with the laws of the State of Florida. The Company no longer operates any of the assets or business of Just-Rite from the date of the Assignment. Revenue for the three months ended September 30, 2009 was generated from the disposition of Just-Rite s inventory. As a result, Just-Rite s results of operations are presented as discontinued operations for the three and nine months ended September 30, 2009 and 2008.

Revenue and pretax loss from Just-Rite is reported as discontinued operations for the three and nine months ended September 30, 2009 and 2008 and is summarized as follows:

	Nine Months Ended September 30,		**Three Months Ended September 30,**	
	2009	**2008**	**2009**	**2008**
Revenue	$ 9,202,000	$ 15,611,000	$ 1,232,000	$ 8,758,000
Pretax Loss	$ 2,798,000	$ 4,038,000	$ 1,530,000	$ 1,486,000

IMPERIAL INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED)

The carrying amount of the major classes of Assets held for sale by assignee and Liabilities related to assets held for sale by assignee of Just-Rite that were transferred to the Assignee are as follows:

	September 30, 2009 (Unaudited)	December 31, 2008
Cash and cash equivalents	$ 97,000	$ 610,000
Accounts receivable, net	2,320,000	3,690,000
Inventories	105,000	3,429,000
Other current assets	56,000	193,000
Total current assets held for sale by assignee	2,578,000	7,922,000
Property, plant and equipment, at cost, net	1,827,000	3,193,000
Other assets	88,000	64,000
Total non-current assets held for sale by assignee	1,915,000	3,257,000
Total assets held for sale by assignee	$ 4,493,000	$ 11,179,000
Accounts payable and accrued expenses	3,421,000	4,412,000
Notes payable line of credit	283,000	2,879,000
Current portion of long term debt	1,363,000	504,000
Total current liabilities related to assets held for sale by assignee	5,067,000	7,795,000
Long-term debt related to assets held for sale assignee		680,000
Total liabilities related to assets held for sale by assignee	$ 5,067,000	$ 8,475,000

(7)

Sale of Certain Assets

On July 25, 2005, DFH entered into an agreement with Degussa Wall Systems, Inc. and Degussa Construction Chemical Operations, Inc. (collectively now known as BASF Construction Chemicals, LLC) (BASF) to sell certain assets associated with its manufacturing facility in Kennesaw, Georgia (the BASF Sales Agreement). BASF acquired certain 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). DFH also agreed to cease the manufacture of products by December 31, 2005 that had been formerly used in exterior insulation finish wall systems (EIFS) applications and closed that facility shortly thereafter.

As part of the transaction, Just-Rite entered into a three-year distribution agreement with BASF (the Distribution Agreement) to sell products previously manufactured and sold by DFH and now manufactured by BASF. Just-Rite agreed to purchase at least $16,000,000 of products manufactured by BASF under the Acrocrete brand name over the term of the Distribution Agreement. Because there were minimum purchase requirements, the failure of which to reach would have required a refund of a portion of the purchase price, we recorded a deferred gain of $1,035,000 on the sale to BASF. In the second quarter of 2007, we surpassed the minimum threshold and in the first quarter of 2008, we surpassed the $16,000,000 purchase requirement. We recognized income from the sale of the assets as a component of selling, general and administrative expenses of $-0- and $127,000 for the nine months ended September 30, 2009 and 2008, respectively, and the entire remaining amount of the deferred gain was recognized in fiscal 2008.

IMPERIAL INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED)

(8)

Reclassifications

Certain prior period amounts related to the discontinued operations have been reclassified to conform with the current year presentation.

(9)

Recent Accounting Pronouncements

On January 1, 2008, the Company adopted, on a prospective basis, the required provisions of new accounting guidance issued by the FASB on fair value measurements, which, among other things, defined fair value, established a framework for measuring fair value and enhanced disclosure requirements about fair value measurements with respect to its financial assets and financial liabilities. On January 1, 2009, the Company adopted the remaining provisions of the new guidance issued, as permitted by an amendment which delayed the effective date of the new accounting guidance for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). These nonfinancial items included, for example, reporting units required to be measured at fair value for annual goodwill impairment testing purposes and nonfinancial assets acquired and liabilities assumed in a business combination. Neither the adoption of the required provisions of the new guidance, nor the subsequent adoption of the remaining provisions of the new guidance as permitted by the amendment, had a material impact on the Company s consolidated financial statements.

On January 1, 2009, the Company adopted new guidance for the accounting, reporting and disclosure of non-controlling interests which requires, among other things, that non-controlling interests be recorded as equity in the consolidated financial statements. The implementation of this standard did not have a significant impact on the Company s financial condition, results of operations or cash flows.

On January 1, 2009, the Company adopted new guidance on business combinations which expands the scope of acquisition accounting to all transactions under which control of a business is obtained. This guidance requires an acquirer to recognize the assets acquired and liabilities assumed at the acquisition date fair values with limited exceptions. Additionally, the guidance requires that contingent consideration be recorded at fair value on the acquisition date, that acquired in-process research and development be capitalized and recorded as intangible assets at the acquisition date, and also requires transaction costs and costs to restructure the acquired company be expensed. Transactions are now being accounted for under this new guidance. On April 1, 2009, additional guidance was issued further amending the accounting for business combinations to require that assets acquired and liabilities assumed in a business combination that arise from contingencies be recognized at fair value if fair value can reasonably be estimated. If the acquisition date fair value of an asset acquired or liability assumed that arises from a contingency cannot be determined, the asset or liability would be recognized if probable and reasonably estimable; if these criteria are not met, no asset or liability would be recognized. The implementation of this standard did not have a significant impact on the Company s financial condition, results of operations or cash flows.

On July 1, 2009, the Company adopted new guidance which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. In addition, the new guidance requires the disclosure of the date through which an entity has evaluated subsequent events and whether that date represents the date the financial statements were issued or were available to be issued. The implementation of this standard did not have a significant impact on the Company s financial condition, results of operations or cash flows.

In June 2009, the FASB issued an amendment to the accounting and disclosure requirements for transfers of financial assets, which is effective January 1, 2010. The amendment eliminates the concept of a qualifying special-purpose entity, changes the requirements for derecognizing financial assets and requires enhanced disclosures to provide financial statement users with greater transparency about transfers of financial assets, including securitization transactions, and an entity s continuing involvement in and exposure to the risks related to transferred financial assets. The Company is currently assessing the impact of adoption on its financial position and results of operations.

IMPERIAL INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED)

In June 2009, the FASB amended its guidance on variable interest entities (VIEs). The amended guidance changes how a company determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. It also requires a company to provide additional disclosures about its involvement with VIEs and any significant changes in risk exposure due to that involvement. The requirements of the amended accounting guidance are effective for interim and annual periods beginning after November 15, 2009, and early adoption is prohibited. The Company is currently assessing the impact the amended accounting guidance will have on its consolidated financial statements.

In October 2009, the FASB issued new guidance for revenue recognition with multiple deliverables, which is effective for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, although early adoption is permitted. This guidance eliminates the residual method under the current guidance and replaces it with the relative selling price method when allocating revenue in a multiple deliverable arrangement. The selling price for each deliverable shall be determined using vendor specific objective evidence of selling price, if it exists, otherwise third-party evidence of selling price shall be used. If neither exists for a deliverable, the vendor shall use its best estimate of the selling price for that deliverable. After adoption, this guidance will also require expanded qualitative and quantitative disclosures. The Company is currently assessing the impact of adoption on its financial position and results of operations.

(10)

Trade Account Receivables

Trade accounts receivable consisted of the following at:

	September 30, 2009	December 31, 2008
Accounts receivable, gross	$ 737,000	$ 849,000
Allowance for doubtful accounts	(53,000)	(52,000)
	$ 684,000	$ 797,000

(11)

Inventories

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

Inventories consisted of the following at:

	September 30, 2009	December 31, 2008
Raw Materials	$ 356,000	$ 389,000
Finished Goods	484,000	525,000
Packaging materials	154,000	222,000
Total inventory	$ 994,000	$ 1,136,000

IMPERIAL INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED)

(12)

Property, Plant and Equipment

Property, plant and equipment is stated at cost, less accumulated depreciation. Equipment under capital leases is stated at the present value of minimum lease payments at inception. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets.

Property, Plant and Equipment consisted of the following at:

	September 30, 2009	December 31, 2008	Estimated useful life (years)
Land	$ 1,000	$ 1,000	
Buildings and improvements	545,000	573,000	10-40
Machinery and equipment	2,810,000	2,813,000	3-20
Vehicles	119,000	271,000	2-8
Furniture, fixtures, and data processing equipment	613,000	613,000	3-12
	4,088,000	4,271,000	
Less accumulated depreciation	(2,380,000)	(2,260,000)	
	$ 1,708,000	$ 2,011,000	

(13)

Notes Payable Included in Liabilities Related to Assets Held For Sale by Assignee

At September 30, 2009 and December 31, 2008, notes payable represent amounts outstanding under a line of credit from a commercial lender. The line of credit is collateralized by accounts receivable and inventory of Premix only. Accounts receivable and inventory of Just-Rite are not considered eligible collateral. The line of credit bears interest at a variable rate at our option of prime or Libor plus the applicable margin (Libor + 6.0%), which is 7.5% at September 30, 2009. The interest rate is subject to change based on the maintenance of certain ratios defined in the credit agreement. The term of the line of credit expired on June 10, 2009 and was effectively replaced by the Forbearance Agreement. The Forbearance Agreement, as amended, terminates November 30, 2009. See Note 4 regarding the Forbearance Agreement for an explanation of the changes in terms in the line of credit. At September 30, 2009, the outstanding balance on the line of credit was $283,000. We were eligible to borrow $300,000 resulting in excess availability of $17,000.

(14)

Product Warranty

We provide our customers with limited warranties on certain manufactured products. Limited warranties generally range from 5 to 10 years. Warranty reserves are established based on known or probable claims, together with historical experience factors. Management periodically assesses the adequacy of its recorded warranty liability and adjusts the amount as necessary. The warranty reserve is included in the balance sheet in accrued expenses and other liabilities.

Product warranty accrual activity was as follows during the nine months ended:

	September 30,	
	2009	**2008**
Beginning balance	$ 41,000	$ 44,000
Warranty provision	22,000	22,000
Warranty payments	(13,000)	(31,000)
Ending balance	$ 50,000	$ 35,000

IMPERIAL INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED)

(15)

Long-Term Debt

Included in Liabilities related to assets held for sale is long-term debt of $1,363,000 which was the direct obligation of Just-Rite. These liabilities were transferred to the Assignee as described in Note 3. We may continue to be liable for certain long-term debt of Just-Rite due to our guarantee of these obligations. We are unable to estimate how much long-term debt will remain following the liquidation of all of Just-Rite s assets.

(16)

Share-Based Compensation

A summary of the stock option activity under our stock option plans as of September 30, 2009 presented in the following table:

	Number of Shares		Weighted Average Exercise Price Per Share	Weighted Average Remaining Life	Aggregate Intrinsic Value
Options outstanding at December 31, 2008	160,000	$	1.67		
Options Granted					
Options Exercised	(8,000)		0.79		
Options Cancelled	(59,000)	$	0.79		
Options Outstanding at September 30, 2009	93,000	$	2.30	1.19	
Options Exercisable at September 30, 2009	93,000	$	2.30	1.19	
Options Vested at September 30, 2009	93,000	$	2.30	1.19	

There were 8,000 stock options exercised during the nine months ended September 30, 2009 and zero stock options exercised during the same period in 2008.

(17)

Basic and Diluted (Loss) Earnings Per Share

Anti-dilutive common stock equivalents are not included in our loss per share calculations. Due to the losses, all common stock equivalents were excluded from the diluted per share calculation for the three and nine months ended

September 30, 2009 and 2008 because their inclusion would have been anti-dilutive. There were 93,000 and 100,000 anti-dilutive common stock equivalents at September 30, 2009 and 2008, respectively. These stock options have exercise prices ranging from $0.79 to $12.06 per share as of September 30, 2009.

(18)

Stockholders Equity

(a)

Preferred stock

At September 30, 2009 and December 31, 2008, we had authorized 2,000,000 shares of preferred stock, $0.01 par value per share, of which no shares were issued and outstanding.

(b)

Common stock

At September 30, 2009 and December 31, 2008, we had authorized 10,000,000 shares of common stock, $0.01 par value per share, of which 2,541,585 and 2,533,085, respectively, shares were issued and outstanding.

IMPERIAL INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED)

(19)

Commitments and Contingencies

(a)

Contingencies from Litigation

Legal proceedings - EIFS Claims

EIFS Litigation

Our subsidiary DFH (f/k/a Acrocrete), together with non-affiliated parties, are defendants in three lawsuits, including two in South Carolina and one in Florida. These cases are brought by homeowners, homeowners associations, contractors and subcontractors, claiming moisture intrusion damage as a result of the use of exterior insulation finish wall systems (EIFS), on single and multi-family residences. Our insurance carriers are providing a defense and have accepted coverage under a reservation of rights in all three of these cases. None of these claims are subject to any remaining self-insured retention (S.I.R.).

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.

In March of 2008, Imperial instituted an action for declaratory judgment and damages against its former insurance carrier after it denied coverage in certain EIFS cases (all of which have since been resolved) brought against the Company in South Carolina. In March of 2009, the Company and this carrier entered into a Settlement and Release Agreement, wherein the carrier agreed to pay the Company $193,250. In consideration of this settlement amount, the Company agreed to dismiss the action it filed, with prejudice, and the parties exchanged limited mutual releases pertaining to the prior matters where the insurer had denied coverage.

Asbestos Litigation

Premix is a defendant, together with non-affiliated parties, in nine claims (six of which include Imperial as a defendant) which allege bodily injury due to exposure to asbestos contained in products manufactured in excess of 30 years ago. We believe that Premix and the Company have meritorious defenses to such claims. The Company has identified at least 10 of its prior insurance carriers including both primary and excess / umbrella liability carriers that have provided product liability coverage to the Company including potential coverage for alleged injuries related to asbestos exposure. Several of these insurance carriers are providing a defense to Premix and the Company under a reservation of rights in all of these asbestos cases. Certain of these underlying carriers have denied coverage to Premix and the Company on the basis that certain exclusions preclude coverage and/or that their policies have been exhausted. In June of 2009, one such carrier filed suit in Miami-Dade Circuit Court against Premix and the Company, wherein the carrier seeks a declaration from the Court that its insurance policies do not provide coverage for the asbestos claims against Premix and the Company. The carrier also asserts a claim for reimbursement of defense costs and indemnity payments that it voluntarily made on the Company s behalf in prior asbestos claims. We believe that Premix and the Company have meritorious defenses to these claims. Furthermore, notwithstanding the positions asserted by these few carriers and pending declaratory judgment action, we believe, when considering that the Company and Premix have substantial umbrella/excess coverage for these claims, that Premix and the Company have more than adequate insurance coverage for these asbestos claims, and such policies are not subject to self-insured requirements (S.I.R.).

General

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

IMPERIAL INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED)

(19)

Commitments and Contingencies

(b)

Contingencies from Imperial s Guarantee of Certain Just-Rite Debt and Leases

Imperial is a guarantor of certain Just-Rite debt and leases aggregating approximately $1,237,000. We believe the sale of certain pieces of equipment may not generate sufficient proceeds to exceed the amount due on the respective notes or the leases resulting in an obligation to the Company.

Based on the estimated shortfall of the amount that may be realized on the sale of the assets compared to the amount of the payments and obligations guaranteed by Imperial, we have established a loss contingency of approximately $627,000 which is recorded in accrued expenses and other liabilities at September 30, 2009. Due to the uncertainty of the market value of these collateralized assets or the amount of proceeds to be realized from the sale, loss contingency estimates will continue to be adjusted in future periods based upon more current information, when applicable.

(c)

401(k) Plan

We have a profit sharing retirement plan for our employees that is qualified under Section 401(k) of the Internal Revenue Code. Matching contributions, if made, are based on a percentage of eligible employee compensation deferrals. When applicable, the contribution is made in cash to the plan on behalf of our employees. For the nine months ended September 30, 2009 and 2008, the aggregate contribution required by us to fund the plan was zero and $32,000 respectively, which have been fully funded. We eliminated matching contributions effective January 1, 2009.

(d)

Lease Commitments

At September 30, 2009, Imperial and Premix have certain property, plant and equipment under long-term operating leases. We will pay aggregate annual rent in 2009 of approximately $169,000 for these leases. The leases expire at various dates ranging from September 2010 to March 2014. Comparable properties at equivalent rentals are available for replacement of these facilities if any leases are not extended, other than the lease for our manufacturing facility in Winter Springs, Florida which expires October 31, 2013 and contains a purchase option and two five year renewal options. We do not expect to incur any material relocation expenses, if relocation is necessary.

(20)

Payable to Former Preferred Stockholders

As a result of the consummation of the December 31, 1998 merger with our wholly-owned subsidiary, we have a payable to former preferred stockholders who have not yet tendered their shares as required by the terms of such merger. Amounts payable to former stockholders in our consolidated balance sheets at September 30, 2009 and December 31, 2008 are $50,000 and $56,000, respectively.

(21)

Business and Credit Concentrations

For the nine months ended September 30, 2009 and 2008, two vendors in aggregate, accounted for 41% and 50% of total purchases and no single vendor accounted for more than 23% and 31%, respectively, of the Company s purchases. Management believes that alternative suppliers are available to meet the Company s purchasing needs at prices which would not significantly impair the Company s ability to compete effectively. One customer accounted for 27% and 25% of the Company s net sales for the nine and three months ended September 30, 2009 and the same customer accounted for 22% and 18% of the Company s net sales for the nine and three months ended September 30, 2008. In addition, this customer s accounts receivable represented 17% of total outstanding accounts receivable at September 30, 2009.

IMPERIAL INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED)

(22)

Related Party Transactions

We paid legal fees of $95,000 and $43,000 for the nine months and three months ended September 30, 2009, as compared to $129,000 and $59,000, respectively, for the same periods in 2008 to a law firm with which our Chairman of the Board is affiliated. We had amounts payable to this law firm of approximately $38,000 and $22,000 at September 30, 2009 and December 31, 2008, respectively. Such fees were for services rendered by members and associates of such law firm other than our Chairman.

The Chairman of the Board was entitled to receive deferred compensation of $30,000 per year plus the related investment income for the years 2004 through 2008. The outstanding balance of deferred compensation was paid to the Chairman of the Board in the first quarter of 2009.

The husband of a member of our board of directors and audit committee is an executive officer of one of Just-Rite s former vendors. Also, a former member of our board of directors was the chief financial officer of the same vendor. We purchased approximately $156,000 and $309,000 in materials from this vendor during the nine months ended September 30, 2009 and 2008, respectively.

(23)

Fair Value of Financial Instruments

Financial instruments consist of cash and cash equivalents, accounts receivable, net, accounts payable, the current portion of long-term debt, borrowings under the line of credit and debt instruments included in other long-term debt. At September 30, 2009 and December 31, 2008, the fair values of cash and cash equivalents, accounts receivable, net, accounts payable and the current portion of long-term debt approximated their carrying values due to the short-term nature of these instruments.

The Company s debt obligations consist of promissory notes and a credit facility which are not traded in an active market. As a result of the volatility of substantially all domestic credit markets that currently exist and the difficulty of the Company obtaining similar financing, the Company is unable, as of September 30, 2009, to determine the fair value of its debt.

(24)

Subsequent Events

The Company evaluated all events and transactions that occurred after September 30, 2009 up through November 13, 2009, the date the Company issued these financial statements. During this period, the Company had no unrecognizable subsequent events, other than the following:

On November 6, 2009, the Worker, Homeownership and Business Assistance Act of 2009 was signed into law. The new law extended the time-frame, for certain companies of which we believe we qualify, to carry-back Net Operating Losses (NOL) from 2 years to 5 years. As a result, the Company may carry-back a portion of its 2008 and 2009 NOL to claim a refund of Federal taxes paid. Although the amount of the refund cannot yet be determined, we expect it to be no less than $800,000.

Item 2.

Management s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion of the Company s financial condition should be read in conjunction with the Company s consolidated financial statements and notes thereto and related Management s Discussion and Analysis of Financial Condition and Results of Operations included in the Form 10-K as of and for the year ended December 31, 2008. This discussion contains forward-looking statements that involve significant risks and uncertainties. As a result of many factors, such as those set forth under Special Note Regarding Forward-Looking Statements and Item 1A Risk Factors and elsewhere in this Form 10-Q, the Company s actual results may differ materially from those anticipated in these forward-looking statements. As used in the Quarterly Report on Form 10-Q/A, the Company , we , us , and our refers to Imperial Industries, Inc. and its subsidiaries, unless the context otherwise requires.

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 our subsidiaries, including statements made under Management s Discussion and Analysis of Financial Condition 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, many of which are beyond our control, 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 future 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 our vendors that may not be favorable to us; general economic and business conditions; unforeseen weather conditions in our market areas that adversely affects the construction industry; the effectiveness of business strategies and development plans; estimates in capital expenditures; quality of management; business abilities and judgment of personnel; changes in accounting policies and practices in internal controls and requirements, and disclosure controls and procedures and related requirements as may be adopted by regulatory agencies, as well as the Financial Accounting Standards Board, that may adversely affect our costs and operations; the adequacy of our accounting estimates; availability of qualified personnel; labor and employee benefit costs;and the outcome of the Assignment for the Benefit of Creditors of Just-Rite, including the amount of loss contingency established for certain guarantees of Just-Rite indebtedness. (See Item 1A. Risk Factors contained in our 2008 Form 10-K Report and herein for a more complete description of risk factors.)

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 in future fiscal quarters or for the full year, due to any number of other factors, including the effect weather can have on construction activity. 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 circumstances 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. Investors should carefully consider the risks and uncertainties described below, together with all of the other information in this quarterly report on Form 10-Q and in other documents that the Company files 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 Company s common stock could decline, and investors could lose all or part of their investment in our Company s common stock.

Critical Accounting Policies

The discussion and analysis of our results of operations, financial condition and liquidity are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of such consolidated financial statements requires management to make estimates and assumptions. As with all estimates and assumptions, they are subject to an inherent degree of uncertainty. Management bases these estimates on historical estimates and assumptions on historical results and known trends, as well as, forecasts as to how these might change in the future. Actual results could differ from these estimates and assumptions. We believe the following critical accounting policies have a higher degree of judgment and complexity.

Revenue Recognition and Allowance for Doubtful Accounts

We recognize revenue when the following four criteria are met:

.

Persuasive evidence of an arrangement exists;

.

Delivery has occurred or services have been rendered;

.

Seller s price to the buyer is fixed or determinable; and

.

Collectability is reasonably assured.

We generally recognize revenue, net of discounts and allowances, at the point of sale or upon delivery to the customer s site. For goods shipped by third party carriers, we recognize revenue upon shipment since the terms are FOB shipping point.

Provisions for the estimated allowance for doubtful accounts are recorded in selling, general and administrative expense at the end of each reporting period. The allowance for doubtful accounts is based on an analysis of the aging of accounts receivables, the Company s collateral, if any, securing the amount due, the subsequent collections of the receivables, the current financial condition of the customers with aged receivables, including credit terms offered (most invoices are due within 30 days of receipt) payment history, purchase history and direct communication, and other factors that include changes in (1) general business conditions, such as competitive conditions in the market, and (2) the economic condition of the residential and commercial construction industry. The aging of accounts receivables is based on the number of days an invoice is past due and invoices in the same past due ranges are aggregated. At the end of each fiscal quarter, the Company identifies all customers with significant invoices more than 60 days past due. For each customer, the Company then evaluates each of the factors noted above to arrive at a specific reserve. The Company then considers historical bad debt rates to arrive at a reserve for receivables not over 60 days past due. The aggregate of the specific reserve for over 60 day past due receivables and the reserve for the receivables not yet over 60 days past due represents the Company s allowance for doubtful accounts as of the end of the reporting period. Additionally, at the end of each reporting period, we analyze the historical trend of various ratios including charges to bad debt expense compared to net sales, bad debt write-offs to net sales and the balance of the allowance for doubtful accounts to net sales to determine whether the calculated allowance appears adequate. The primary assumption we use for determining our allowance for doubtful accounts is the historical rate of bad debt write offs as a percentage of sales.

Judgment is required in evaluating all of these factors and in determining the appropriate amounts to record in the allowance for doubtful accounts. Additionally, such judgments may prove to be incorrect in the future. We believe that our procedures for estimating such amounts are reasonable and historically have not resulted in material adjustments in subsequent periods. However, if actual market conditions are less favorable than those assumed by management, or if the financial condition of customers were to unexpectedly deteriorate, resulting in an impairment of their ability to make payments, additional provisions may be required. As a result, our financial condition, results of operations and cash flow could be adversely affected.

Inventory Valuation

Inventories are valued at the lower of cost or market using the average cost basis. We record a provision to reserve for obsolete and slow moving inventory so that our inventory is reported at estimated net realizable value. The provision is determined by identifying obsolete and slow moving inventory by comparing quantity on hand to historical and projected sales activity. We also consider future sales and price levels at which certain high dollar inventory is expected to be sold in the normal course of business. This information is aggregated and the estimated provision is determined. Judgment is required in evaluating these factors and in determining the appropriate amounts to record in the provision because management must use judgment to estimate when the inventory will be sold and the quantities and prices at which the inventory will be sold in the normal course of business. Accelerating the disposal process or incorrect estimates of future sales potential may cause the actual results to differ from the estimates at the time such inventory is disposed or sold. We believe that our procedures for estimating such amounts are reasonable and historically have not resulted in material adjustments in subsequent periods. However, if actual market conditions are less favorable than those assumed by management, additional inventory write-downs may be required. As a result, our financial condition, results of operations and cash flow could be adversely affected.

Litigation

On an ongoing basis, we assess the potential liabilities related to any lawsuits or claims brought against us. While it is typically very difficult to determine the timing and ultimate outcome of such action, we use our best judgment to determine if it is probable that we will incur an expense related to the settlement or final adjudication of such matters and whether a reasonable estimation of such probable loss, if any, can be made. We accrue legal fees and a loss contingency when we believe a loss is probable and the amount of loss and legal fees can be reasonably estimated. Due to the inherent uncertainties related to the eventual outcome of litigation, it is possible that certain matters may be resolved for amounts materially different from any provisions or disclosures that have been previously made.

Asset Impairment

Whenever events or changes in circumstance indicate that the carrying amount of our assets may not be fully recoverable, we do an initial analysis of long-lived assets whereby we estimate the undiscounted future cash flow of these assets. If such analysis indicates that a possible impairment may exist, we are required to then estimate the fair value of the asset, principally determined either by third party appraisals, sales price negotiations or estimated discounted future cash flows, which includes estimating the timing of the future cash flows, discount rates and reflecting varying degrees of perceived risk.

The determination of fair value includes numerous uncertainties. We believe that we have made reasonable estimates and judgments in determining whether our long-lived assets have been impaired. However, if there is a material change in the assumptions used in our determination of fair values or if there is a material change in the conditions or circumstances influencing fair value, we could be required to recognize a material non-cash impairment charge.

As the Assignment process has not been completed, it is possible that the ultimate proceeds from the disposition of the assets held for sale by assignee, and the settlement of liabilities related to assets held for sale by assignee could be at amounts that are materially different than the carrying amounts reflected in the accompanying consolidated financial statements.

Income Taxes

We account for income taxes using the liability method. This method requires that the deferred tax consequences of temporary differences between the amounts recorded in our Consolidated Financial Statements and the amounts included in our federal and state income tax returns be recognized in the balance sheet. As we generally do not file our income tax returns until after the closing process for the year end financial statements is complete, the amounts recorded at year end reflect estimates of what the final amounts will be when the actual income tax returns are filed for that fiscal year. In addition, estimates are often required with respect to, among other things, the appropriate state income tax rates to use in the various states in which we and our subsidiaries are required to file, the potential utilization of any operating and capital loss carry-forwards for both federal and state income tax purposes and valuation allowances required, if any, for tax assets that may not be realizable in the future. We believe that it is more likely than not that the amounts recorded as deferred income tax assets will not be recoverable through future taxable income generated by us. As a result, the Company recorded a 100% valuation allowance against its net deferred tax assets. We believe the procedures and estimates used in our accounting for income taxes are reasonable and in accordance with established tax law.

Recent Accounting Pronouncements

In June 2009, the FASB issued FAS No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles (FAS No. 168) to establish the FASB Accounting Standards Codification (FASB ASC) as the source of authoritative non-Securities and Exchange Commission (the FASB ASC does not supersede Securities and Exchange Commission rules or regulations) accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with U.S. generally accepted accounting principles (U.S. GAAP). In addition to establishing the FASB ASC, FAS No. 168 also modifies the GAAP hierarchy to include only two levels of GAAP: authoritative and non-authoritative. FAS No. 168 became effective for companies in periods ending after September 15, 2009 and will continue to be authoritative until integrated into the FASB ASC. The Company adopted FAS No. 168 in its fiscal period ending September 30, 2009, as set forth in the transition guidance found in the FASB ASC Generally Accepted Accounting Principles. As FAS No. 168 was not intended to change or alter existing GAAP, it had no impact upon the Company s financial condition, results of operations and cash flows. In all filings prior to this Quarterly Report on Form 10-Q, the Company made certain references to prior authoritative standards issued by the FASB using pre-Codification references. As a result of the adoption of FAS No. 168, the references in the Company s Notes to Unaudited Consolidated Financial Statements have been updated in this Quarterly Report on Form 10-Q.

The Company accounts for its uncertain tax positions in accordance with FASB ASC 740, Income Taxes . We recognize 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.

On January 1, 2008, the Company adopted, on a prospective basis, the required provisions of new accounting guidance issued by the FASB on fair value measurements, which, among other things, defined fair value, established a framework for measuring fair value and enhanced disclosure requirements about fair value measurements with respect to its financial assets and financial liabilities. On January 1, 2009, the Company adopted the remaining provisions of the new guidance issued, as permitted by an amendment which delayed the effective date of the new accounting guidance for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). These nonfinancial items included, for example, reporting units required to be measured at fair value for annual goodwill impairment testing purposes and nonfinancial assets acquired and liabilities assumed in a business combination. Neither the adoption of the required provisions of the new guidance, nor the subsequent adoption of the remaining provisions of the new guidance as permitted by the amendment, had a material impact on the Company s consolidated financial statements.

On January 1, 2009, the Company adopted new guidance for the accounting, reporting and disclosure of non-controlling interests which requires, among other things, that non-controlling interests be recorded as equity in the consolidated financial statements. The implementation of this standard did not have a significant impact on the Company s financial condition, results of operations or cash flows.

On January 1, 2009, the Company adopted new guidance on business combinations which expands the scope of acquisition accounting to all transactions under which control of a business is obtained. This guidance requires an acquirer to recognize the assets acquired and liabilities assumed at the acquisition date fair values with limited exceptions. Additionally, the guidance requires that contingent consideration be recorded at fair value on the acquisition date, that acquired in-process research and development be capitalized and recorded as intangible assets at the acquisition date, and also requires transaction costs and costs to restructure the acquired company be expensed. Transactions are now being accounted for under this new guidance. On April 1, 2009, additional guidance was issued further amending the accounting for business combinations to require that assets acquired and liabilities assumed in a business combination that arise from contingencies be recognized at fair value if fair value can reasonably be estimated. If the acquisition date fair value of an asset acquired or liability assumed that arises from a contingency cannot be determined, the asset or liability would be recognized if probable and reasonably estimable; if these criteria are not met, no asset or liability would be recognized. The implementation of this standard did not have a significant impact on the Company s financial condition, results of operations or cash flows.

On July 1, 2009, the Company adopted new guidance which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. In addition, the new guidance requires the disclosure of the date through which an entity has evaluated subsequent events and whether that date represents the date the financial statements were issued or were available to be issued. The implementation of this standard did not have a significant impact on the Company s financial condition, results of operations or cash flows.

In June 2009, the FASB issued an amendment to the accounting and disclosure requirements for transfers of financial assets, which is effective January 1, 2010. The amendment eliminates the concept of a qualifying special-purpose entity, changes the requirements for derecognizing financial assets and requires enhanced disclosures to provide financial statement users with greater transparency about transfers of financial assets, including securitization transactions, and an entity s continuing involvement in and exposure to the risks related to transferred financial assets. The Company is currently assessing the impact of adoption on its financial position and results of operations.

In June 2009, the FASB amended its guidance on VIEs. The amended guidance changes how a company determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. It also requires a company to provide additional disclosures about its involvement with VIEs and any significant changes in risk exposure due to that involvement. The requirements of the amended accounting guidance are effective for interim and annual periods beginning after November 15, 2009 and early adoption is prohibited. The Company is currently assessing the impact the amended accounting guidance will have on its consolidated financial statements.

In October 2009, the FASB issued new guidance for revenue recognition with multiple deliverables, which is effective for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, although early adoption is permitted. This guidance eliminates the residual method under the current guidance and replaces it with the relative selling price method when allocating revenue in a multiple deliverable arrangement. The selling price for each deliverable shall be determined using vendor specific objective evidence of selling price, if it exists, otherwise third-party evidence of selling price shall be used. If neither exists for a deliverable, the vendor shall use its best estimate of the selling price for that deliverable. After adoption, this guidance will also require expanded qualitative and quantitative disclosures. The Company is currently assessing the impact of adoption on its financial position and results of operations.

General and Recent Developments

As a result of the Assignment signed June 11, 2009, all assets, subject to any liabilities thereof, of Just-Rite were transferred to the Assignee, a non-affiliated party, who is in the process of winding down the operations of Just-Rite and liquidating all the assets and using such proceeds for expenses and reduction of Just-Rite s liabilities in accordance with the laws of the State of Florida. Additionally, with the liquidation of Just-Rite, the Company no longer operates distribution facilities which sold a wide range of building products and no longer operates distribution facilities outside the state of Florida.

Through our subsidiary, Premix, we are engaged in the manufacture and distribution of building materials to primarily building materials dealers located primarily in Florida. We have one manufacturing plant in Winter Springs, Florida and one distribution facility in Pompano Beach, Florida. The Company s corporate office is located in Premix s distribution facility.

Our business is driven mainly by the level of residential and commercial construction activity in our markets, particularly in the state of Florida. The level of construction activity is dependent on many factors including, but not limited to, the general state of the economy, credit markets, population growth, inventory of available residential and commercial units, government growth policies and construction funding.

We operate in the residential and commercial construction industry which is down sharply over the past 13 quarters. In addition, the current credit crisis in the United States and global recession is expected to further negatively impact the condition of our industry for an extended period of time. As a result, our current business environment is depressed and we expect construction activity to continue to be slow. The depth and duration of the decline cannot be predicted. A continued depressed residential and commercial construction market has and is expected to continue to have an adverse effect on our liquidity, capital resources and results of operations.

Our Ability to Continue as a Going Concern

The accompanying unaudited consolidated financial statements have been prepared and are presented assuming the Company s ability to continue as a going concern. The industry in which the Company is operating has been impacted by a number of adverse factors over the past 13 quarters. As a result, the Company has incurred losses for the nine months and three months ended September 30, 2009 and the year ended December 31, 2008. Our independent registered public accounting firm issued its report dated March 27, 2009, in connection with the audit of our financial statements as of December 31, 2008, that included an explanatory paragraph describing the existence of conditions that raise substantial doubt about our ability to continue as a going concern.

The accompanying unaudited consolidated financial statements do not include any adjustments relating to the recoverability and classification of asset carrying amounts or the amount and classification of liabilities that might result from the outcome of this uncertainty.

In order to address the need to satisfy its continuing obligations and realize its long term strategy, management has been reviewing various strategic alternatives and has taken several steps and is considering additional actions to improve its operating and financial results, including the following:

.

We divested the entire Just-Rite operation as of June 11, 2009 via the Assignment which transferred all assets, subject to any liabilities thereof, of Just-Rite to the Assignee who is winding down, selling and liquidating the assets of Just-Rite for the benefit of creditors in accordance with the laws of the State of Florida. The Company no longer operates any of the assets or business of Just-Rite since the date of the Assignment.

.

We have implemented more stringent credit and collection procedures and controls in an attempt to reduce days outstanding of trade accounts receivable and improve working capital.

.

We eliminated cash bonuses for all senior management in 2008 and reduced compensation for senior management and other employees. In addition, we have continued to make personnel reductions in 2009.

.

We have consolidated our manufacturing operations by shifting the manufacturing in Pompano Beach, Florida to Winter Springs, Florida and we moved our corporate office into the distribution center in Pompano Beach to reduce costs. In addition, we are continuing to implement cost reduction initiatives to reduce unnecessary costs in our operations and to conserve working capital.

In addition, we are seeking financing from other sources, including the possibility of an infusion of equity, to generate additional funds for operations and to take advantage of lower interest rates, including the retention of an investment banker to seek funding and evaluate other strategic alternatives.

There is no assurance that the above actions will allow the Company to continue as a going concern.

On November 6, 2009, the Worker, Homeownership and Business Assistance Act of 2009 was signed into law. The new law extended the time-frame, for certain companies of which we believe we qualify, to carry-back Net Operating Losses (NOL) from 2 years to 5 years. As a result, the Company may carry-back a portion of its 2008 and 2009 NOL to claim a refund of Federal taxes paid. Although the amount of the refund cannot yet be determined, we expect it to be no less than $800,000.

Discontinued Operations

We closed three Just-Rite distribution facilities located in Panama City Beach, Florida, Norcross, Georgia and Tampa, Florida in May 2008, September 2008 and November 2008, respectively. We closed two additional Just-Rite distribution facilities in Tallahassee, Florida and Mobile, Alabama in January 2009.

In addition, the Assignment discussed in Note 3 transferred all remaining assets on June 11, 2009, subject to any liabilities thereof, of Just-Rite to the Assignee who is winding down, selling and liquidating these assets for the benefit of creditors in accordance with the laws of the State of Florida. The Company no longer operates any of the assets or business of Just-Rite from the date of the Assignment. As a result, Just-Rite s results of operations are presented as discontinued operations for the three and nine months ended September 30, 2009 and 2008.

Nine and Three Months Ended September 30, 2009 compared to 2008

Net sales decreased $924,000 and $238,000 for the nine and three months ended September 30, 2009, or 11.9% and 9.8%, respectively, compared to the same periods in 2008. The decrease in net sales was principally due to a reduction in demand for our products in the residential and commercial construction industries related to the decline in construction activity in the Southeast United States. Gross profit was approximately 30.3% and 33.5% for the nine months and three months ended September 30, 2009 compared to 30.1% and 30.7% for the same period of 2008. The increase in the margin for the three months ended September 30, 2009 was due primarily to moving the production of a certain product from the Pompano Beach facility to the Winter Springs facility in May 2009 to reduce manufacturing costs by consolidating production and improving plant utilization. Manufacturing expenses were approximately $85,000 less for the three months ended September 30, 2009.

Selling, general and administrative expenses include the amortization of a previously deferred gain from the sale of certain assets of $127,000 in the first quarter of 2008. This deferred gain was fully amortized in the first quarter of 2008. Excluding the offset of this gain, selling, general and administrative expenses decreased $315,000 and $157,000 for the nine and three months ended September 30, 2009 compared to the same periods in 2008.

The decrease in selling, general and administrative expenses for the nine months ended September 30, 2009 was due primarily to a decrease in payroll and related costs of $169,000 due to a reduction in personnel and pay cuts, a decrease in professional fees of $132,000, a decrease in delivery costs of $82,000 and a decrease in travel and entertainment expenses of $45,000. These decreases were partially offset by an increase of $131,000 in restructuring fees related to the discontinued operations of Just-Rite and an increase of $116,000 in distribution costs remaining after the Pompano Beach facility transferred production of a certain product from the Pompano Beach facility to the

Winter Springs facility. The decrease in selling, general and administrative expenses for the three months ended September 30, 2009 was due primarily to a decrease in payroll and related costs of $30,000, a decrease in professional fees of $18,000, a decrease in delivery costs of $41,000 and a decrease in travel and entertainment expenses of $8,000. These decreases were partially offset by an increase of $85,000 in distribution costs associated with consolidating production at our Winter Springs, Florida facility noted above.

Selling, general and administrative expenses as a percentage of net sales for the nine months and three months ended September 30, 2009 were 43.5% and 44.8% compared to 40.8% and 41.7% for the same periods in 2008.
The percentage increases in both the nine months and three months ended September 30, 2009 was due primarily to certain fixed costs being spread over lower sales volume and reclassification of certain expense items from cost of sales to selling, general and administrative expenses. A significant portion of our selling, general and administrative expenses are fixed in nature which do not fluctuate directly with changes in net sales.

For the nine months ended September 30, 2009, we recognized an accrued loss contingency expense of $627,000 associated with our guarantee of certain Just-Rite obligations transferred to the Assignee which may remain outstanding after the liquidation of the underlying collateralized assets.

Interest expense increased $49,000 and $29,000 for the nine and three months ended September 30, 2009, respectively, compared to the same periods in 2008. The increase was due primarily to the increased interest rates on our line of credit.

Other (expense) income increased $206,000 and $32,000 for the nine and three months ended September 30, 2009 compared to the same periods in 2008. The increase for the nine month period is due primarily to the recognition of $193,000 of other income from the settlement of pending litigation against DFH s insurance carrier in the first quarter in 2009 compared to zero in the same period in 2008.

Income tax benefit decreased $385,000 for the nine months ended September 30, 2009 compared to the same period in 2008. The decrease is due to the Company not recording a tax benefit in 2009 related to its net operating loss carryforwards due to the uncertainty of realization of the benefit.

As a result of the above factors, we had a net loss from continuing operations of $1,440,000 and $274,000 or $0.57 and $0.11 per share for the nine and three months ended September 30, 2009, respectively. Additionally, we had a net loss from discontinued operations of $2,798,000 and $1,530,000 or $1.10 and $0.60 per share for the nine and three months ended September 30, 2009, respectively

Liquidity and Capital Resources

At September 30, 2009, we had negative working capital of $1,410,000 compared to working capital of $2,021,000 at December 31, 2008. The decrease in working capital was due primarily to the decrease in current assets held for sale as a result of the Assignment. At September 30, 2009, we had cash and cash equivalents and restricted cash of $803,000 compared to cash and cash equivalents and restricted cash of $423,000 at December 31, 2008.

Net cash provided by operating activities for the nine months ended September 30, 2009 was $2,631,000 compared to net cash used in operations of $3,494,000 for the same period of 2008.

Net cash provided by investing activities for the nine months ended September 30, 2009 was $1,005,000 compared to net cash used in investing activities of $35,000 for the same period of 2008. The increase in cash provided by investing activities was due primarily to the proceeds from the disposal of assets held for sale.

Net cash used in financing activities in the nine months ended September 30, 2009 was $3,262,000 compared to net cash provided by financing activities of $3,234,000 for the same period of 2008. The decrease in cash provided by investing activities was due primarily to the repayment of debt.

Future Commitments and Funding Sources

Our primary sources of cash are proceeds from sales to customers and our line of credit. As a result of the Assignment, on June 10, 2009, management, the Assignee and our lender executed a Forbearance and Amendment Agreement to the Company s Consolidating, Amended and Restated Financing Agreement dated as of January 28, 2000 (the Line of Credit). The Forbearance Agreement and subsequent three amendments effectively extended the

Line of Credit until November 30, 2009. Under the Forbearance Agreement and amendments, the lender agreed to forbear from exercising any of its rights in response to the occurrence of certain events of default under the Line of Credit, subject to our compliance with certain requirements set forth in the Forbearance Agreement and amendments, and agreed to continue to fund the Line of Credit.

The Forbearance Agreement dated June 10, 2009 initially modified the Line of Credit principally as follows:

.

The grant of a security interest in additional collateral consisting of equipment and certain real property located in Jacksonville and Tampa, Florida.

.

The maximum credit available on the Line of Credit, based on eligible accounts receivable and inventory, was reduced from $3,500,000 to $2,500,000 immediately and until June 21, 2009, and thereafter was to be reduced $200,000 each week until the maximum credit equals $500,000;

.

The margin applicable to the interest rate under the Line of Credit was increased to, at the Company s option, either at prime rate plus 5%, or Libor plus 6% (with the Libor base rate to be no less than 1.5%); and

.

The sub-limit for the amount of eligible inventory available for borrowing under the Line of Credit was reduced from $1,750,000 to $1,000,000 until August 1, 2009, then further reduced to $350,000 thereafter.

The First Amendment to Forbearance Agreement dated August 7, 2009, amended the Forbearance Agreement as follows:

.

The Lender, in its sole and absolute discretion, may continue to make revolving loans under the line of credit without regard to the Company s compliance with the terms of the line of credit or existence of any event of default.

.

None of the assets of Just-Rite which were transferred to the Assignee pursuant to the Assignment are considered eligible collateral.

.

The addition of a restrictive loan covenant beginning July 31, 2009 and continuing each week thereafter which increased the borrowing availability reserve by $75,000 each week until the reserve reached an aggregate $300,000.

The Second Amendment to Forbearance Agreement dated August 28, 2009, amended the First Amendment to Forbearance Agreement as follows:

.

Reduced the maximum credit by $50,000 each week beginning September 4, 2009 and ending September 25, 2009 until it reached a balance of $300,000.

.

The lender implemented a reserve of 50% of any funds received by the Assignee from the Mississippi Department of Transportation and remitted to Lender.

.

Extended the date of the Forbearance Agreement from August 31, 2009 to September 30, 2009.

The Third Amendment to Forbearance Agreement dated September 30, 2009, amended the Second Amendment to Forbearance Agreement as follows:

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Reduced the maximum credit by $25,000 on Friday each week beginning October 2, 2009.

.

Released the 50% reserve of any funds received by the Assignee from the Mississippi Department of Transportation and remitted to Lender.

.

Extended the date of the Forbearance Agreement from September 30, 2009 to November 30, 2009.

As of the close of business on November 10, 2009, the outstanding balance on the line of credit was approximately $124,000.

The Line of Credit, as expressed by the Forbearance Agreement and three amendments, continues to be collateralized by the eligible accounts receivable and inventory of Premix. The line of credit is further collateralized by certain equipment and real property transferred to the Assignee. Our accounts receivable represent amounts due primarily from building materials dealers located principally in Florida that have purchased products on unsecured open accounts from us. Our accounts receivable, net of allowance, was approximately $684,000 and $797,000 at September 30, 2009 and December 31, 2008, respectively. Collections of accounts receivable slowed during 2008 and continued to significantly worsen through the third quarter of 2009 primarily due to the financial difficulties our former Just-Rite customers were experiencing, who generally were small to midsize subcontractors, because of the deteriorating condition in the residential and commercial construction industry, the overall condition of the economy and the financial crisis the United States is experiencing. In addition, the Assignee continues to experience difficulty collecting receivables from former customers of closed facilities. Generally, accounts not collected within 90 days and slow moving inventory are not eligible under our borrowing agreement. The Line of Credit bears interest at a variable rate based on Libor plus the applicable margin (7.5% at September 30, 2009). Annualized interest expense based on the outstanding balance of the Line of Credit would be approximately $21,000.

In the second quarter of 2009, we received an income tax refund of $1,044,000 which was recorded as an income tax receivable at December 31, 2008.

In October 2008, we received an offer from the Mississippi Department of Transportation (the MDOT) under the laws of eminent domain to purchase two parcels of property that comprised our Gulfport, Mississippi facility for $2,812,000. One parcel was sold in November 2008 for $1,947,000, of which $407,000 was used to pay-off the existing mortgage on both properties, resulting in net cash proceeds to us of approximately $1,540,000. We realized a gain of $1,364,000 from the sale of this parcel in the fourth quarter of 2008. The second parcel was sold to the MDOT in February 2009 and resulted in net cash proceeds to us of $865,000. We realized a gain of $573,000 from the sale of this parcel in the first quarter of 2009 and this gain is reflected in loss from discontinued operations in the statement of operations for the nine months ended September 30, 2009. All of the remaining Gulfport assets were transferred to the Assignee on June 11, 2009.

We presently are focusing our efforts on increasing Premix sales, eliminating overhead where possible, preserving liquidity and obtaining additional debt or equity financing, as well as considering other strategic alternatives. We expect capital expenditures for the next 12 months to approximate up to $80,000 and to be funded by the Company s cash balances, or our line of credit, assuming the Company is able to replace its current line of credit with a line of credit from another financial institution. On November 6, 2009, the Worker, Homeownership and Business Assistance Act of 2009 was signed into law. The new law extended the time-frame, for certain companies of which we believe we qualify, to carry-back Net Operating Losses (NOL) from 2 years to 5 years. As a result, the Company may carry-back a portion of its 2008 and 2009 NOL to claim a refund of Federal taxes paid. Although the amount of the refund cannot yet be determined, we expect it to be no less than $800,000.

Beginning March 15, 2004, we were forced to renew our products liability coverage with an exclusion for EIFS exposure. Due to the uncertainty and unpredictability of litigation, there can be no assurances as to when or if any future uninsured claims may be filed, and if they are, to not be material. While we do not believe the outstanding insured EIFS claims against DFH will have a material effect on our financial position, there can be no assurance of this because of the uncertainty of litigation. See Part II, Item 1 Legal Proceedings .

The accompanying unaudited consolidated financial statements have been prepared and are presented assuming the Company s ability to continue as a going concern. The industry in which the Company is operating has been impacted by a number of adverse factors over the past thirteen quarters. As a result, the Company has incurred losses for the nine months and three months ended September 30, 2009 and the year ended December 31, 2008. Our independent registered public accounting firm issued its report dated March 27, 2009, in connection with the audit of our financial statements as of December 31, 2008, that included an explanatory paragraph describing the existence of conditions that raise substantial doubt about our ability to continue as a going concern.

The accompanying unaudited consolidated financial statements do not include any adjustments relating to the recoverability and classification of asset carrying amounts or the amount and classification of liabilities that might result from the outcome of this uncertainty.

In order to address the need to satisfy its continuing obligations and realize its long term strategy, management has been reviewing various strategic alternatives and has taken several steps and is considering additional actions to improve its operating and financial results, which we hope will be sufficient to provide the Company with the ability to continue as a going concern, including the following:

.

We divested the entire Just-Rite operation as of June 11, 2009 via the Assignment which transferred all assets, subject to any liabilities thereof, of Just-Rite to the Assignee who is winding down, selling and liquidating the assets of

Just-Rite for the benefit of creditors in accordance with the laws of the State of Florida. The Company no longer operates any of the assets or business of Just-Rite since the date of the Assignment.

.

We have implemented more stringent credit and collection procedures and controls in an attempt to reduce days outstanding of trade accounts receivable and improve working capital.

.

We eliminated cash bonuses for all senior management in 2008 and reduced compensation for senior management and other employees. In addition, we have continued to make personnel reductions in our continuing operations in 2009.

.

We have consolidated our manufacturing operations by shifting the manufacturing in Pompano Beach, Florida to Winter Springs, Florida and we moved our corporate office into the distribution center in Pompano Beach to reduce costs. In addition, we are continuing to evaluate and implement cost reduction initiatives to reduce unnecessary costs in our operations and to conserve working capital.

In addition, we are seeking financing from other sources, including the possibility of an infusion of equity, to generate additional funds for operations and to take advantage of lower interest rates, including the retention of an investment banker to seek funding and evaluate other strategic alternatives.

There is no assurance that the above actions will allow the Company to continue as a going concern.

Based upon the steps outlined above being successful, we hope our cash on hand and the maintenance of our borrowing arrangement with our commercial lender will provide sufficient cash to meet current obligations for our operations and support the cash requirements of our capital expenditure programs to allow the Company to continue as a going concern. Our line of credit, which was effectively extended by the Forbearance Agreement and three amendments, expires November 30, 2009 and there is a risk the line of credit will not be further extended or, if extended, on terms that will be acceptable to us. Our ability to maintain and improve our long-term liquidity is primarily dependent on our ability to extend our line of credit with our commercial lender, or replace the line of credit with another commercial lender, on terms satisfactory to us, successfully achieve profitable operations, maintain favorable terms with our suppliers, the Assignee s ability to liquidate the Just-Rite s assets in adequate amounts to limit the Company s contingent liabilities pursuant to guarantees of certain obligations, obtain additional financing and resolve litigation on terms favorable to us.

There can be no assurance that the actions will be successful and any such new financing will be available or that we could obtain any such financing on terms suitable to us. The extent of the construction industry s unfavorable conditions continue to deteriorate due to the unprecedented adverse economic conditions now existing in the general economy and its effect on demand for our products and results of operations and our ability to maintain adequate liquidity cannot be determined.

Item 3.

Quantitative and Qualitative Disclosures About Market Risks

Our business is subject to certain risks, including, but not limited to, differing economic conditions, competition, loss of significant customers, customers inability to make required payments, changes in political climate, differing tax structures, changes in accounting rules and requirements, and other governmental regulations and restrictions. Our future results could be materially and adversely impacted by changes in these or other factors. (See also Part I, Item 1.A, Risk Factors and Risk Factors in the Company s 2008 Form 10-K filed with the Securities and Exchange Commission for a description of some, but not all, of our financial exposure.)

Market Risks

Residential and Commercial Construction Activity

Our sales depend heavily on the strength of residential and commercial construction activity in the Southeastern United States, principally in the Florida trade area. The strength of these markets depends on many factors beyond our control. Some of these factors include interest rates, employment levels, availability of credit, supply of unsold residential housing units, real estate prices, weather conditions and availability of raw materials and products purchased for resale, as well as consumer confidence. Downturns in the markets that we serve or in the economy could have a material adverse effect on our operating results and financial condition. Reduced levels of construction activity has resulted in increasingly intense price competition among building materials companies, which have and may continue to adversely affect our gross margins and operating results.

Our first quarter revenues and, to a lesser extent, our fourth quarter revenues are typically adversely affected by winter construction cycles and weather patterns in colder climates as the level of activity in the residential and commercial construction markets decrease. Weather conditions such as heavy rain, will generally preclude customers from installing our products on job sites. Because much of our overhead and expense remains relatively fixed throughout the year, our profits and operating results also tend to be lower and less favorable during the first and fourth quarters of the year. However, in view of the recent downward trend in general construction demand for our products, it is not possible to predict if historical construction trends and sales patterns will persist in the near term due to the inherent uncertainty of these factors.

Exposure to Interest Rates

All our debt has fixed interest rates except for our line of credit. At September 30, 2009, we had $283,000 outstanding on the line of credit. Our line of credit, from a commercial lender, bears interest at a variable rate at our option of prime or Libor plus the applicable margin. A significant increase in the market index rates could have a material adverse effect on our operating results and financial condition. In addition, future increases in interest rates could have an adverse effect on residential and commercial construction activity and demand for our products. If the average interest rate on our variable rate debt increased or decreased 1%, annual interest expense would increase or decrease by approximately $21,000 based on the outstanding balances of our variable rate debt as of September 30, 2009.

Item 4.

Controls and Procedures

a.

Evaluation of disclosure controls and procedures

We have established disclosure controls and procedures to ensure that material information relating to us, including our consolidated subsidiaries, is made known to the officers who certify our financial reports, as well as to other members of senior management and the Board of Directors.

Our management, under the supervision of our Principal Executive Officer and Chief Financial Officer, have evaluated the effectiveness of our disclosure controls and procedures as defined in Securities and Exchange Commission (SEC) Rule 13a-15(e) as of the end of the period covered by this report (Evaluation Date). Management has concluded that our disclosure controls and procedures were not effective as of September 30, 2009 because of the identification of a material weakness in our internal control over financial reporting which is identified below. Such controls and procedures are intended to ensure that information we are required to disclose in reports that we file or submit under the Securities Exchange Act is communicated to management, including the Principal Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure and is recorded, processed, summarized, and reported within the time periods specified in the SEC s rules and forms. Because of inherent limitations, a system of internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate due to change in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

b.

Changes in internal controls

Our material weakness referenced above relates to the following:

Due to our recent financial condition, we had significantly reduced our workforce in an effort to reduce expenses. These reductions included certain accounting personnel which have historically been involved in the preparation and filing of our financial statements. In addition, we entered into a complex transaction during the interim period whereby one of our operating subsidiaries, Just-Rite Supply, Inc. executed an Assignment for the Benefit of Creditors.

This transaction created additional presentation and disclosure considerations during this interim period which caused a significant utilization of our remaining accounting resources. These circumstances created an environment in which our accounting resources did not have the capacity to dedicate the appropriate amount of time and effort to ensure our interim financial statements were filed timely and accurately. As a result, the Form 10-Q for the quarter ended June 30, 2009 incorrectly classified certain of the Company s liabilities.

As reported in our Form 8-K filed on September 3, 2009, the above errors were discovered in our Form 10-Q and Amendment No. 1 to such Form 10-Q which resulted in restatement of such financial statements in Amendment No. 2 to such Form 10-Q. Management believes that it has adequately addressed the issue set forth above.

PART II. OTHER INFORMATION

Item 1.

Legal Proceedings

See notes to Consolidated Financial Statements, Note 16 (a), set forth in Part I Financial Information.

Item 1A.

Risk Factors

We have included in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2008, a description of certain risks and uncertainties that could affect our business, future performance or financial condition (the Risk Factors). The Risk Factors are hereby incorporated in Part II, Item 1A of this Form 10-Q. Investors should consider the Risk Factors prior to making an investment decision with respect to our stock. There have been no material changes in Risk Factors as documented in the Company s Annual Report on Form 10-K for the year ended December 31, 2008, except as follows:

If we are unable to meet the financial covenants under our Forbearance Agreement as amended, extend the maturity date of the Forbearance Agreement or otherwise obtain a new line of credit, the lender could elect to accelerate the repayment of the outstanding balance. In that event, we would be forced to seek alternate sources of financing.

On June 10, 2009, we executed a Forbearance and Amendment Agreement to our line of credit with our principal lender. The lender agreed to forbear from exercising any of its rights in response to the occurrence of certain events of default, subject to our compliance with certain requirements set forth in the Forbearance Agreement and extended the maturity date to August 31, 2009. The Forbearance Agreement was amended three times and the Third Amendment to Forbearance Agreement extended the maturity date to November 30, 2009.

On June 11, 2009, our subsidiary, Just-Rite, entered into an Assignment for the Benefit of Creditors, which was considered an event of default under the line of credit, resulting in execution of the Forbearance Agreement . Subsequent to June 11, 2009, the Company was advised by the lender that it was not in compliance with certain requirements of the Forbearance Agreement principally as a result of the activities involved in the wind-down of Just-Rite. As a result, the Forbearance Agreement was amended effective August 7, 2009 to facilitate the continued funding of the line of credit, was subsequently amended by a Second Amendment as of August 28, 2009 and further amended by a Third Amendment effective September 30, 2009, which extended the maturity date to November 30, 2009. The outstanding balance of the line of credit at the close of business on November 10, 2009 was $124,000.

As a result of the risks we face in our business, we can give no assurances that (a) we will be able to achieve sufficient financial results necessary to remain in compliance with the financial covenants of the Forbearance Agreement as amended (b) the Assignee will liquidate the Just-Rite assets timely and for adequate amounts in relation to the liabilities associated with the assets, including the line of credit, or (c) extend the maturity date of the Forbearance Agreement beyond November 30, 2009. If we were unable to comply with the financial covenants, or we are unable to extend the maturity date we would be in default and our lender would have the right, but not the obligation, to terminate the loan and demand payment of the entire amount outstanding under the line of credit. The lender could also foreclose on our assets that secure our line of credit. In that event, we would be forced to seek alternative sources of financing which may not be available on terms acceptable to us, or at all.

If we are unable to satisfy certain financial obligations assigned to the Assignee which remain outstanding after the sale and liquidation of the underlying collateralized assets, principally certain fixed assets of Just-Rite guaranteed by our parent company, it would have a material adverse effect on our financial condition.

We remain liable for certain obligations of Just-Rite associated with our guarantee of obligations related to specific underlying assets used in its former operations. To the extent the proceeds derived from the sale of such collateralized assets of Just-Rite are less than those obligations we guaranteed, we will be responsible for the short-fall. Such amount of these potential obligations cannot be determined until the assets are sold by the Assignee and the amount of deficiencies remaining to satisfy these obligations arising after said sales, if any, are known. At September 30, 2009, we established a loss contingency estimate of $627,000 which will continue to be adjusted in future periods as more current information is obtained.

If we lost our largest customer, this could have a material adverse effect on our business financial condition and results of operations.

One customer accounts for approximately 27% of our net sales for the nine months ended September 30, 2009 and this customer s accounts receivable represented 17% of total accounts receivable at September 30, 2009. Although we expect this customer to remain for the foreseeable future, there can be no assurance that we will be able to retain our largest customer, or that we would be able to recruit additional key customers to replace the loss of that customer. The loss of this customer, or our inability to successfully develop relationships with additional key customers could have a material adverse effect on our business financial condition and results of operations.

Our business has substantial fixed costs, and as a result, our operating income is sensitive to changes in net sales. Declines in net sales adversely affect operating results.

A significant portion of our expenses are fixed costs, which do not fluctuate with variations in net sales. A decline in net sales is expected to cause a greater proportional decline in operating income. For example, for the nine months ended September 30, 2009, sales and operating income decreased significantly compared to the same period in 2008. The reduction in operating income is attributable to selling, general and administrative expenses not decreasing at the same proportion as sales. A continuing reduction in net sales may have an unfavorable effect on future operating income due to the negative operating leverage.

We require a significant amount of liquidity to service our debt, fund operations and meet cash requirements of capital expenditures.

We require a significant amount of liquidity to service our indebtedness and fund operations and capital expenditures. Our ability to fund our operations, capital expenditures and other corporate expenses, including repayment of our indebtedness, depends on our ability to generate cash through future operating performance, which is subject to economic, financial, competitive and other factors. Also, we are guarantors of the line of credit attributable to Just-Rite and certain Just-Rite obligations collateralized by assets being sold in the liquidation of that business through the Assignment process. To the extent the proceeds realized for the assets sold are less than the amount of the obligation, it will result in an obligation to the Company. At this date, it is uncertain what the amount of any remaining obligation will be after the sale of those collateralized assets. Many of these factors are beyond our control. We cannot assure that our business will generate sufficient cash flow from operations or that future borrowings will be available to us in an amount sufficient to fund our needs.

Any curtailment of operations, reduction or delay in planned capital expenditures may materially and adversely affect our future revenue prospects. In addition, we cannot assure that we will be able to raise additional equity capital, restructure or refinance any of our indebtedness or obtain additional financing on commercially acceptable terms or at all.

Our Common Stock may not meet minimum listing requirements to remain on the NASDAQ Capital Market in the future.

Our Common Stock is traded on the NASDAQ Capital Market under the symbol IPII . Rule 4130 of the NASDAQ Stock Market sets forth certain criteria in order for securities, including our common stock, to continue to qualify for listing in the NASDAQ Capital Markets. These criteria include among other things, (a) the requirement to maintain a minimum bid price per share of $1.00 for a period of 30 consecutive days; (b) either (i) stockholder s equity of $2.5 million; (ii) market value of listed securities of $35 million; or (iii) net income from continued operations of

$500,000 in the most recently completed fiscal year or in two of the last three most recently completed fiscal year or in two of the last three most recently completed fiscal years; and (c) the requirement to hold an Annual Meeting of Stockholders each fiscal year.

The bid price of our common stock has been less than $1.00 per share during various parts of 2009 and the aggregate market value of our common stock is less than $35 million. The price for our common stock has been adversely affected by a number of factors, including operating results, conditions in the construction industry and financial markets, among many other items, some of which may be unrelated to our performance, or outside our control. Due to the recent turmoil in the global stock markets, on October 16, 2008, NASDAQ suspended the enforcement of the minimum per share bid price requirement as well as the requirement to maintain the minimum market value of publically held shares until July 20, 2009 as to all NASDAQ listed securities. There can be no assurance the Company will be able to meet the minimum per share bid price requirement sense reinstatement on July 20, 2009 of such criteria by NASDAQ, or the other continued listing requirements, in order for our common stock to remain listed on NASDAQ. We would have a period of time following any determination that the common stock does not satisfy such requirements (180 days following notification of such failure if it is for the failure to maintain the minimum bid price).

At September 30, 2009, our stockholders equity was $1,223,000. There can be no assurance that we will be able to maintain our stockholders equity greater than $2,500,000 in the future. In addition, we have not held an Annual Meeting of Stockholders in 2009 due to our need to conserve cash and maintain our liquidity. As a result, our common stock may be de-listed from NASDAQ and our stock price could be adversely affected and decline.

Item 6.

Exhibits

Certain of the following exhibits, designated with an asterisk (*), are filed herewith. The exhibits not so designated have been filed previously with the Commission, and are incorporated herein by reference to the documents indicated in parentheses following the descriptions of such exhibits.

Exhibit No.	Description
3.1	Certificate of Incorporation of the Company, (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, (Form S-4 Registration Statement, Exhibit 3.2).
3.4	Amendment to Certificate of Incorporation of the Company. (Incorporated by reference to Form 10-K dated December 31, 2004, Exhibit 3.4)
3.5	Amendment to Certificate of Incorporation of the Company (Incorporated by reference to Form 10-Q for the quarter ended September 30, 2007, Exhibit 3.5).
10.1	Consolidating, Amended and Restated Financing Agreement by and between 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 for the year ended December 31, 1999, Exhibit 10.1)
10.2	Employment Agreement dated July 26, 1993 between Howard L. Ehler, Jr. and the Company. (Form 8-K dated July 26, 1993)
10.6	Distribution Agreement between Degussa Wall Systems, Inc. and Just-Rite Supply, Inc. dated July 25, 2005, effective as of October 1, 2005. (Incorporated by reference to Form 8-K dated June 11, 2008, Exhibit 10.1)

10.7	Amendment No.8 to Consolidating, Amended and Restated Financing Agreement by and between Wachovia Bank, National Association, successor by merger to Congress Financial Corporation, and Premix-Marbletite Manufacturing Co., DFH, Inc., formerly Acrocrete, Inc, and Just-Rite Supply, Inc. (Incorporated by reference to Form 10-K/A dated December 31, 2007, Exhibit 10.15)
10.8	2006 Stock Award and Incentive Plan (Incorporated by reference to Form 8-K dated June 1, 2007).
10.9	Amendment No. 9 to Consolidating, Amended and Restated Financing Agreement by and between Wachovia Bank, National Association, successor by merger to Congress Financial Corporation, and Premix-Marbletite Manufacturing Co., DFH, Inc., formerly Acrocrete, Inc, and Just-Rite Supply, Inc. (Incorporated by reference to Form 10-K dated December 31, 2008, Exhibit 10.18)

Exhibit No.	Description
10.10	Amendment No. 10 to Consolidating, Amended and Restated Financing Agreement by and between Wachovia Bank, National Association, successor by merger to Congress Financial Corporation, and Premix-Marbletite Manufacturing Co., DFH, Inc., formerly Acrocrete, Inc, and Just-Rite Supply, Inc. (Incorporated by reference to Form 10-K dated December 31, 2008, Exhibit 10.19)
10.11	Amendment No. 11 to Consolidating, Amended and Restated Financing Agreement by and between Wachovia Bank, National Association, successor by merger to Congress Financial Corporation, and Premix-Marbletite Manufacturing Co., DFH, Inc., formerly Acrocrete, Inc, and Just-Rite Supply, Inc. (Incorporated by reference to Form 8-K dated May 29, 2009, Exhibit 10.1)
10.12	Forbearance and Amendment Agreement dated June 10, 2009 by and between Imperial Industries, Inc., Premix-Marbletite Manufacturing Co., DFH, Inc., Just-Rite Supply, Inc. and Wachovia Bank, N.A. (Incorporated by reference to Form 8-K dated June 10, 2009, Exhibit 10.1)
10.13	Assignment for the Benefit of Creditors Agreement dated June 11, 2009 from Just-Rite Supply, Inc. in favor of Michael P. Phelan (Incorporated by reference to Form 8-K dated June 10, 2009, Exhibit 10.2)
10.14	First Amendment to Forbearance Agreement dated August 7, 2009 by and between Imperial Industries, Inc., Premix-Marbletite Manufacturing Co., DFH, Inc., Just-Rite Supply, Inc., Michael Phelan as assignee for the benefit of creditors of Just-Rite and Wachovia Bank, N.A. (Incorporated by reference to Form 8-K dated August 7, 2009, Exhibit 10.1)
10.15	Second Amendment to Forbearance Agreement dated August 28, 2009 by and between Imperial Industries, Inc., Premix-Marbletite Manufacturing Co., DFH, Inc., Just-Rite Supply, Inc., Michael Phelan as assignee for the benefit of creditors of Just-Rite and Wachovia Bank, N.A. (Incorporated by reference to Form 8-K dated September 2, 2009, Exhibit 10.1)
10.16	Third Amendment to Forbearance Agreement dated September 30, 2009 by and between Imperial Industries, Inc., Premix-Marbletite Manufacturing Co., DFH, Inc., Just-Rite Supply, Inc., Michael Phelan as assignee for the benefit of creditors of Just-Rite and Wachovia Bank, N.A. (Incorporated by reference to Form 8-K dated October 2, 2009, Exhibit 10.1)
21	Subsidiaries of the Company.
*31.1	Certification of the Company s Chief Operating Officer/Principal Executive Officer pursuant to Rule 13a 14(a).
*31.2	Certification of the Company s Chief Financial Officer/Principal Accounting Officer pursuant to Rule 13a 14(a).
*32.1	Certification of the Company s Chief Operating Officer/Principal Executive Officer pursuant to Section 1350.
*32.2	Certification of the Company s Chief Financial Officer/Principal Accounting Officer pursuant to Section 1350.

SIGNATURES

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

IMPERIAL INDUSTRIES, INC.

By: /s/ HOWARD L. EHLER, JR.
Howard L. Ehler, Jr.
Chief Operating Officer/
Principal Executive Officer

By: /s/ STEVEN M. HEALY, CPA
Steven M. Healy, CPA
Chief Financial Officer/
Principal Accounting Officer

November 13, 2009