IMPERIAL INDUSTRIES INC
Form 10-K
March 30, 2004

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2003

Commission file number 1-7190

IMPERIAL INDUSTRIES, INC.
(Exact name of registrant as specified in its charter)

Delaware	65-0854631
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1259 Northwest 21st Street, Pompano Beach, Florida	33069-1417
(Address of principal executive offices)	(Zip Code)

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

Securities registered pursuant to Section 12 (b) of the Act:

Title of each class	Name of each exchange on which registered
None	None

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

Indicate by check mark whether the registrant(1) has filed all reports required to be filed by Section 13 of 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days. YES X NO _.

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

The aggregate market value of the voting stock of the Registrant held by non-affiliates computed by reference to the average bid and asked price of the registrant's Common Stock ($.01 par value) on March 19, 2004 is: $2,117,166

Number of shares of Imperial Industries, Inc. Common Stock ($.01 par value) outstanding on March 19, 2004: 9,235,434

Documents Incorporated by Reference

Certain information required for Part III of this Report is incorporated herein by reference to the Proxy Statement for the Registrant's 2004 Annual Meeting of Stockholders.

TABLE OF CONTENTS

PART I

		Page
Item 1	Business	3
Item 2	Properties	10
Item 3	Legal Proceedings	11
Item 4	Submission of Matters to a Vote of Security Holders	12

PART II

Item 5	Market for Registrant's Common Equity and Related Stockholders Matters	13
Item 6	Selected Financial Data	14
Item 7	Managements Discussion and Analysis of Financial Condition and Results of Operations	15
Item 7A	Quantitative and Qualitative Disclosures about Market Risk	31
Item 8	Financial Statements and Supplementary Data	32
Item 9	Changes in and Disagreement with Accountants on Accounting and Financial Disclosure	59
Item 9A	Controls and Procedures	59

PART III

Item 10	Directors and Executive Officers of the Registrant	60
Item 11	Executive Compensation	61
Item 12	Security Ownership of Certain Beneficial Owners and Management	61
Item 13	Certain Relationships and Related Transactions	61
Item 14	Principal Accounting Fees and Services	61

PART IV

Item 15	Exhibits, Financial Statement Schedules and Reports on Form 8-K	62
Signatures		64

PART I

Item 1. Business

Imperial Industries, Inc., (the "Company") is a Delaware corporation, which through its predecessor corporation has been in existence since 1968. The Company's executive offices are located at 1259 Northwest 21st Street, Pompano Beach, Florida 33069 and the telephone number at such offices is (954) 917-7665.

Merger

In December 1998, the Company approved a plan merging it into a wholly-owned subsidiary of the Company effective December 31, 1998, (the "Merger"). Upon consummation of the Merger, each share of common stock outstanding prior to the Merger was automatically converted to one share of common stock of the Company. Each share of preferred stock outstanding prior to the Merger was converted, at the holder's option, into either (a) $4.75 in cash and ten shares of the Company's common stock, or (b) $2.25 in cash, and 8% subordinated debenture, face value $8.00, and five shares of the Company's common stock.

In accordance with the Merger, the Company issued $984,962 of 8% Subordinated Debentures, 1,574,610 shares of common stock and was obligated to pay $732,550 in cash to the former preferred stockholders who did not elect dissenters' rights. The Debentures were retired in 2001.

Holders representing 81,100 preferred shares elected dissenters' rights under Delaware law. In April 2003, the Company and the dissenting preferred stockholders reached a settlement. In accordance with the settlement, the Company paid the dissenting preferred stockholders $12.00 per share in cash ($973,000) and issued a 5.6% promissory note for $10.00 per share ($811,000) due May 1, 2006. The principal balance of the note would be reduced to $7.00 per share ($567,700) in the event the Company prepays the note in full prior to November 1, 2004. On March 29, 2004, the Company prepaid $400,000 of the principal on the Note. (See "Note 1" of Notes to Consolidated Financial Statements.)

General

The Company, through its subsidiaries, is engaged in the manufacture and distribution of building materials to building materials dealers and others located primarily in Florida, Mississippi, Georgia and Alabama and to a lesser extent, other states in the Southeastern part of the United States, as well as foreign countries. The Company has three manufacturing facilities for its products and ten distribution outlets through which it markets certain of its

Item 1. Business (continued)

General (continued)

manufactured products and other purchased products directly to developers, builders, contractors, and sub-contractors.

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

The Company manufactures product through its wholly-owned subsidiaries, Premix-Marbletite Manufacturing Co. ("Premix") and Acrocrete, Inc. ("Acrocrete"). The Company distributes its own and complementary products through its wholly-owned subsidiary, Just-Rite Supply, Inc. ("Just-Rite"). The manufacturing facilities primarily produce and distribute stucco, roof tile mortar and plaster products, while the distribution facilities expand the Company's product line by distributing gypsum, roofing and insulation products, as well as products manufactured by the Company.

Stucco products are applied as a finishing coat to exterior surfaces and to swimming pools. Roof tile mortar is used to adhere cement roof tiles to the roof. Plaster customarily is used to finish interiors of structures.

Premix

Premix, together with its predecessors, has been in business for over 40 years. The names "Premix" and "Premix-Marbletite" are among the registered trademarks of Premix. The Company believes the trade names of its manufactured products represent a substantial benefit to the Company because of industry recognition and brand preference. Premix manufactures stucco, roof tile mortar, plaster and swimming pool finishes. The products manufactured by Premix basically are a combination of portland (or masonry) cement, sand, lime, marble and a plasticizing agent and other chemicals, including color-impregnating materials.

Item 1. Business (continued)

Premix (continued)

Premix products accounted for approximately 25%, 24% and 22% of the Company's consolidated annual revenues in the fiscal years ended December 31, 2003, 2002 and 2001, respectively.

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

Acrocrete

Acrocrete has manufactured synthetic acrylic stucco products since 1988. The Company's trade name "Acrocrete" and certain of its manufactured products are described by trade names protected by registered trademarks. Acrocrete's products, used principally for exterior wall coatings, broaden and complement the range of products produced and sold by Premix. Management believes acrylic stucco products have certain advantages over traditional cementitious stucco products for certain types of construction applications because synthetic acrylic products provide a hard durable finish with stronger color retention properties. Further, acrylic stucco products have improved flexibility characteristics, which minimizes the problems of cracking of cement coating. Acrocrete's product system provides for energy efficiency for both residential and commercial buildings.

For the fiscal years ended December 31, 2003, 2002 and 2001, Acrocrete's sales accounted for approximately 23%, 25% and 22%, respectively, of the Company's consolidated annual revenues.

Just-Rite

The Company's subsidiary Just-Rite owns and operates the Company's wholesale distribution outlets. Prior to 2000 these outlets were operated through Acrocrete. During 2000, Just-Rite acquired nine additional building distribution outlets to diversify its product offering to the construction market to include gypsum, roofing, masonry, insulation products, as well as installation services beyond those supported by the Company's manufacturing operation. Management believes the acquired distribution outlets position the Company to gain a greater market share for its manufactured products through a more direct sales approach to the end-user and to expand operations by distributing a wider range of building materials to the construction industry that are complementary to its existing product lines. In 2001, the Company closed

Item 1. Business (continued)

Just-Rite (continued)

three distribution outlets and eliminated installation services being provided at two other distribution outlets related to the acquired operations. In 2002, the Company closed another distribution outlet associated with the acquired operations and opened a new outlet in South Florida. In 2003, an additional distribution outlet associated with the acquired operations was closed.

For the fiscal years ended December 31, 2003, 2002,and 2001, Just-Rite's sales, excluding the sale of Premix and Acrocrete products, accounted for approximately 52%, 51% and 56% of the Company's consolidated annual revenues.

Acquisition Opportunities and Present Status

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

The Company's primary focus recently has been to complete the integration of the distribution outlets acquired in 2000 with its existing operations and to attempt to effect cost savings and gain productivity in the consolidation of these acquired operations. The Company has taken action to improve operating performance in the Company's distribution facilities through:(i) an approximate 32% reduction in workforce (68 employees) in 2001; (ii) closure of three under-performing distribution locations in Mississippi in 2001, one in Florida in 2002 and one in Alabama in 2003; (iii) elimination of installation services at two other locations; and (iv) development of a consolidated purchasing program in an attempt to realize greater savings from the purchase and resale of products. While the Company currently will emphasize internal growth through gains in productivity of operations, the Company believes there exists a number of possible acquisition candidates. The Company presently is not seeking any acquisitions and does not have any binding

Item 1. Business (continued)

Acquisition Opportunities and Present Status (continued)

understanding, agreement or commitment regarding any potential acquisition. The Company may pursue acquisitions in the future if such acquisitions will enhance Company operations. In 2004, the Company intends to seek financing to purchase equipment to modernize its manufacturing facilities in an effort to gain efficiencies and productivity in its manufacturing processes.

Suppliers

Premix's raw materials and products are purchased from approximately 35 suppliers. While seven suppliers account for approximately 74% of Premix's purchases, Premix is not dependent on any one supplier for its requirements. Equivalent materials are readily available from other sources at similar prices.

Acrocrete's raw materials are purchased from approximately 30 suppliers, of which five account for approximately 74% of Acrocrete's raw material purchases. However, equivalent materials are available from several other sources at similar prices and Acrocrete is not dependent on any one supplier for its requirements.

The Just-Rite distribution outlets sell products of many suppliers. Just-Rite purchases a significant amount of its products through buying group organizations, companies which consolidate product purchase orders from many independent distributors and order product from various vendors on the distributors' behalf to gain consolidated purchasing efficiencies for each distributor. One such buying organization accounted for approximately 28%, 23% and 25% of Just-Rite purchases in 2003, 2002 and 2001. However, there are other buying organizations in which the Company believes it can obtain product at the same or similar prices.

Marketing and Sales

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

Item 1. Business (continued)

Marketing and Sales (continued)

While the Company's manufactured sales have been typically to distributors, the Company focuses marketing efforts on the contractor/subcontractor end user to create a brand preference for the Company's manufactured products. No one distributor has accounted for 10% or more of total sales during the past three years. The Company believes the loss of any one distributor would not cause a material loss in sales because the brand preference contractors and subcontractors have developed for the Company's manufactured products generally cause the user to seek a distributor who carries the Company's products. The Company markets its products to distributors through Company salesmen located in the Southeastern United States who promote both Premix and Acrocrete products. However, direct sales of the Company's manufactured products and other building materials to end users through Just-Rite accounted for approximately 24% of total revenues in 2003.

The Company established its first distribution facility in 1994 when it opened an outlet in Savannah, Georgia to sell its Acrocrete products and certain complementary products manufactured by other companies to the end user.

Over the following several years the Company has opened new distribution outlets and expanded its distribution facilities into other parts of Florida, as well as Alabama and Mississippi to gain market share through acquisitions and start-ups. The Company currently has ten (10) distribution outlets in Florida, Georgia, Mississippi and Alabama.

Each facility contains between approximately 4,000 to 29,000 square feet. The distribution facilities are designed to promote product brand preference to the contractor and sub-contractor, and also to improve service capabilities, increase market share, increase profit margins from the sale of the Company's products and to expand operations by distributing a wide range of products to the construction industry.

Seasonality

The sale of the Company's products in the construction market for the Southeastern United States is somewhat seasonal due in part to periods of adverse weather, with a lower rate of sales historically occurring in the period December through February compared to the rest of the year. Primarily as a result of acquisitions consummated in 2000 located in Northwest Florida, Alabama and Mississippi, management believes the Company's sales are more subject to seasonal fluctuation than in previous periods.

Item 1. Business (continued)

Competition

The Company's business is highly competitive. Premix and Acrocrete encounter significant competition from local, independent firms, as well as regional and national manufacturers of acrylic, cement and plaster products, most of whom manufacture products similar to those of Premix and Acrocrete. The Company's distribution outlets encounter significant competition from local independent distributors as well as regional and national distributor who sell similar products. Many of these competitors are larger, more established and better financed than the Company. The Company believes it can compete with the other companies based upon product performance and quality, customer service and prices through maintaining lower overhead than larger national companies.

Environmental Matters

The Company is subject to various federal, state and local environmental laws and regulation in the normal course of its business. Although the Company believes that its manufacturing, handling, using, selling and disposing of its raw materials and products are in accord with current environmental regulations, future developments could require the Company to make unforeseen expenditures relating to environmental matters. Increasingly strict environmental laws, standards and environmental policies may increase the risk of liability and compliance costs associated with the Company's operations. Capital expenditures for this purpose have not been material in past years, and expenditures for 2004 to comply with existing laws and regulations are also not expected to have a material effect on the Company's financial position, results of operations or liquidity.

Employees

The Company and its subsidiaries had 148 full time employees as of December 31, 2003. The Company considers its employee relations to be satisfactory. The Company's employees are not subject to any collective bargaining agreement.

Available Information

Copies of Imperial Industries, Inc.'s quarterly reports on Form 10-Q, annual report on Form 10-K and current reports on Form 8-K, and any amendments to the foregoing, will be provided without charge to any shareholder submitting a written request to the Secretary of the Company or by calling 954-917-7665. All of the Company's SEC filings are also available on the Company's website at www.imperialindustries.com as soon as reasonably practicable after having been electronically filed or furnished to the SEC. In addition, the Company's Code of Business Conduct is

Item 1. Business (continued)

Available Information (continued)

available at that website address and will be provided without charge to any shareholder submitting a written request.

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

Item 2. Properties

The Company and its subsidiaries conduct operations from a total of 13 facilities in Florida, Georgia, Mississippi and Alabama. The location and size of the Company's facilities and the nature of the operations in which such facilities are used, are as follows:

Location	Approximate Sq. Footage	Owned/ Leased	Company
Pompano Beach, FL	19,600	Leased	Premix
Winter Springs, FL	26,000	Owned	Premix
Kennesaw, GA	20,400	Leased	Acrocrete
Tampa, FL	8,470	Owned	Just-Rite
Jacksonville, FL	11,400	Leased	Just-Rite
Norcross, GA	12,200	Leased	Just-Rite
Dallas, GA	6,400	Leased	Just-Rite
Rainbow City, AL	10,000	Leased	Just-Rite
Destin, FL	7,680	Leased	Just-Rite
Panama City Beach, FL	9,540	Leased	Just-Rite
Tallahassee, FL	17,500	Leased	Just-Rite
Gulfport, MS	28,800	Leased	Just-Rite
Port St. Lucie, FL	4,000	Leased	Just-Rite

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

Except for the facility in Tallahassee, all leased properties are leased from unaffiliated third parties. The Tallahassee facility is leased from the former owner of Tallahassee Gypsum Dealers, Inc., who sold her business to Just-Rite in April 2000 and is currently an employee of the Company.

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

Item 3. Legal Proceedings

As of March 23, 2004, the Company's subsidiary Acrocrete, together with other parties, are defendants in 56 lawsuits pending in various Southeastern states, brought by homeowners, homeowner associations, contractors and subcontractors, or their insurance companies, claiming moisture intrusion damage as a result of the use of Exterior Insulation Finish Wall Systems ("EIFS"), on single and multi-family residences and one commercial project. The Company's insurance carriers have accepted coverage under a reservation of rights for 41 of these claims and are providing a defense. Acrocrete expects its insurance carriers will accept coverage for the other 15 recently filed lawsuits. Acrocrete is vigorously defending all of these cases and believes it has meritorious defenses, counter-claims and claims against third parties. Acrocrete is unable to determine the exact extent of its exposure or outcome of this litigation.

The allegations of defects in EIFS are not restricted to Acrocrete products used in an EIFS application, but rather are an industry-wide issue. There never has been any defect proven against Acrocrete. The alleged failure of these products to perform has generally been linked to improper application and the failure of adjacent building materials such as window, roof flashing, decking and the lack of caulking.

As insurance markets for moisture intrusion type coverage have all but disappeared, the Company was forced on March 15, 2004 to renew its existing products liability coverage with an exclusion for EIFS exposure. The Company's management is evaluating the creation of a self insurance fund for these types of claims, and believes that with existing coverage covering all potential claims for goods sold prior to March 15, 2004, that for the foreseeable future any uninsured claims should not have a material adverse effect on the Company's financial position. Sales of products used in EIFS applications are believed to represent less than 20% of the Company's revenues.

On June 15, 1999, the Company's subsidiary Premix was served with a complaint captioned Mirage Condominium Association, Inc. v. Premix, in the Eleventh Judicial Circuit in and for Miami-Dade County, Florida, Case No: 97-27544 (CA-11). The lawsuit raises a number of allegations against 12 separate defendants involving alleged construction defects, which as to Premix alleged that certain materials, purportedly provided by Premix to the Developers/Contractor and used to anchor balcony railings to the structure were defective. Premix believes it has meritorious defenses to these claims. The Company's insurance carrier has not made a decision regarding coverage to date. Since the inception of this matter in 1999 the insurance carrier has retained defense counsel on behalf of Premix and is paying defense costs. Premix expects the insurance carrier to eventually accept coverage. As discovery is not yet completed, Premix is unable to determine the exact extent of its exposure or the

Item 3. Legal Proceedings (continued)

outcome of this litigation, however the Company believes that its ultimate exposure, if any, is not material.

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

On April 23, 1999, certain dissenting preferred stockholders owning shares of the Company's preferred stock filed a petition for appraisal in the Delaware Chancery Court to determine the fair value of the shares at December 31, 1998, the effective date of the Company's Merger. On April 30, 2003, the Company reached a settlement with the dissenting preferred stockholders. (See Note (1) of the Consolidated Financial Statements.)

In March 2003, Just-Rite instituted litigation against a former employee, employed at the Company's Gulfport, Mississippi distribution facility, and others, due to alleged violations by the employee of his non-compete agreements related to the acquisition of the business at that location. The litigation against the former employee seeks to enjoin further violations of his non-compete agreement and for damages resulting from such actions. In connection with the litigation, Just-Rite discontinued payments on a promissory note with a remaining balance in the aggregate amount of $128,000, issued as partial consideration for the acquisition of the Gulfport, Mississippi facility. The beneficial holders of the promissory note (the former employee and the other former owner) have initiated claims against Just-Rite for payment of the obligation. In February 2004, the Court entered an Order ruling that the former employee had violated the terms of a preliminary injunction barring him from further competing against Just-Rite and ordered that certain sanctions be imposed.

The Company is aggressively defending all of the lawsuits and claims described above, and while the Company does not believe these claims will have a material adverse effect on the Company's financial position, given the uncertainty and unpredictability of litigation there can be no assurance of this.

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

None.

PART II

Item 5. Market for the Registrant's Common Equity and Related Stockholder Matters

The Company's Common Stock is traded in the

over-the-counter market, and reported on the OTC Bulletin Board. The following table sets forth the high and low bid quotations of the Common Stock for the quarters indicated, as reported by the National Quotation Bureau, Inc. Such quotations represent prices between dealers and do not include retail mark-up, mark-down, or commission, and may not necessarily represent actual transactions.

Fiscal 2002	High	Low
First Quarter	$.17	$.12
Second Quarter	.26	.15
Third Quarter	.22	.14
Fourth Quarter	.16	.12

Fiscal 2003	High	Low
First Quarter	$.15	$.13
Second Quarter	.20	.15
Third Quarter	.33	.16
Fourth Quarter	.30	.17

The Company has not paid any cash dividends on its Common Stock since 1980 and does not anticipate paying any in the foreseeable future.

On March 19, 2004, the Common Stock was held by 1,831 stockholders of record.

As of March 19, 2004, the closing bid and asked prices of the Common Stock was $.27 and $.35, respectively.

Item 6. Selected Financial Data

The following is a summary of selected financial data (in thousands except as to per share amounts) for each of the five years in the period ended December 31, 2003:

Statements of Operations Data	Year Ended December 31,			
	2003	2002	2001	20
Net Sales	$41,069	$36,504	$39,514	$40,
Cost of sales	28,438	25,099	27,254	28,
Selling, general and administrative expenses	11,457	10,564	11,367	10,
Interest expense	(454)	(531)	(825)	(
Impairment charge	-	(96)	(238)	

Miscellaneous income, net	218	129	77	
Income (Loss) before income taxes and cumulative effect of change in accounting principle for SFAS 142	938	343	(93)	
Income tax (expense) benefit, net	(298)	(448)	(128)	(
Cumulative effect of change in accounting principle for SFAS 142	-	(789)	-	
Net income (loss)	640	(894)	(221)	
Less: Provision for settlement of appraisal rights obligation	-	(313)	-	
Net income (loss) applicable to common stockholders	$ 640	$(1,207)	$ (221)	$
Net income (loss) per share applicable to common stockholders Basic	$ 0.07	$ (0.13)	$ (0.02)	$ 0
Diluted	$ 0.07	$ (0.13)	$ (0.02)	$ 0
Number of shares used in computation of income (loss) per share: Basic	9,235	9,229	9,214	8,
Diluted	9,290	9,229	9,214	9,

Balance Sheets Data	As of December 31,			
	2003	2002	2001	20
Working capital	$ 2,173	$ 1,432	$ 2,743	$ 1,
Total assets	$14,918	$13,707	$14,591	$16,
Long term debt, less current maturities	$ 848	$ 961	$ 1,440	$ 1,
Obligation for appraisal rights	$ 568	$ 1,541	$ 1,140	$
Common stock and other stockholders' equity	$ 3,780	$ 3,140	$ 4,343	$ 4,
Current ratio	1.2 to 1	1.1 to 1	1.4 to 1	1.2 t

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

General

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

Special Note Regarding Forward-Looking Statements

This Form 10-K contains certain forward looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 with respect to the financial condition, results of operations and business of the Company, and its 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, the following: realization of tax benefits; impairment of long-lived assets, including goodwill; the ability to collect our account or note receivables when due or within a reasonable period of time after they become due and payable; the cost of capital including interest rates and related fees and expenses may increase; 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; general economic and business conditions may be less favorable than expected; the ability to implement and the effectiveness of business strategy and development plans; quality of management; business abilities and judgment of personnel; availability of qualified personnel; changes in accounting policies and practices, as may be adopted by regulatory agencies as well as the Financial Accounting Standards Board; and labor and employee benefit costs.

These risks are not exhaustive. The Company operates in a continually changing business environment, and new risks emerge from time to time. We cannot predict such risks nor can we assess the impact, if any, of such risks on our business or the extent to which any risk, or combination of

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Special Note Regarding Forward-Looking Statements (continued)

risks may cause actual results to differ from those projected in any forward-looking statements.

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

Critical Accounting Policies

The Company prepares its consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, which require management to make estimates and assumptions (see Note 2 to the consolidated financial statements). As with all estimates and assumptions, they are subject to an inherent degree of uncertainty. Management bases these estimates and assumptions on historical results and known trends as well as its forecasts as to how these might change in the future. Actual results could differ from these estimates and assumptions. The Company believes that the following critical accounting policies involve a higher degree of judgment and complexity.

Revenue Recognition and Related Expenses

The Company primarily recognizes sales based upon shipment of products to its customers and has procedures in place at each of its subsidiaries to ensure that an accurate cut-off is obtained for each reporting period.

Provisions for the estimated costs for bad debt are recorded in selling, general and administrative expense at the end of each reporting period. The amounts recorded are generally based upon the payment histories of customers while also factoring in any changes in business conditions, such as competitive conditions in the market and deterioration in the economic condition of the construction industry, among other things, which may affect customers' ability to pay. As a result, significant judgment is required by the Company in determining the appropriate amounts to record and such judgments may prove to be incorrect in the future. The Company believes that its procedures for estimating such amounts are reasonable and historically have not resulted in material adjustments in subsequent periods when estimates are adjusted to the actual amounts. Misjudgments by the Company in estimating its allowance for doubtful accounts could have a material adverse affect on the Company's financial condition, results of operations and cash flow.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Inventory Valuation

The Company values inventories at the lower of cost or market using the first-in, first-out (FIFO) method. The Company will record provisions, as appropriate, to write- down obsolete and excess inventory to estimated net realizable value. The process for evaluating obsolete and excess inventory often requires the Company to make subjective judgments and estimates concerning future sales levels, quantities and prices at which such inventory will be able to 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. The Company believes that its procedures for estimating such amounts are reasonable and historically have not resulted in material adjustments in subsequent periods when the estimates are adjusted to the actual amounts. However, if actual market conditions are less favorable than those assumed by management, additional inventory write-downs may be required. As a result, the Company's financial condition, results of operations and cash flow could be adversely affected.

Asset Impairment

The Company's review of long-lived assets and goodwill requires the Company to initially estimate the undiscounted future cash flow of these assets, whenever events or changes in circumstance indicate that the carrying amount of these assets may not be fully recoverable. If such analysis indicates that a possible impairment may exist, the Company is 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 making estimates of the timing of the future cash flows, discount rates and reflecting carrying degrees of perceived risk.

The determination of fair value includes numerous uncertainties. For example, in determining fair value of goodwill utilizing discounted forecasted cash flows, significant judgments are made concerning future purchased and manufactured goods sale prices, operating, selling and administrative costs, interest and discount rates, technological changes, consumer demand, governmental regulations and the effects of competition. The Company believes that it has made reasonable estimates and judgments in determining whether its long-lived assets and goodwill have been impaired. However, if there is a material change in the assumptions used in the Company's determination of fair values or if there is a material change in the conditions or circumstances influencing fair value, the Company could be required to recognize a material non-cash impairment charge.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Income Taxes

The Company accounts for income taxes using the liability method in accordance with SFAS No. 109 "Accounting for Income Taxes" ("SFAS No. 109"), which requires that the deferred tax consequences of temporary differences between the amounts recorded in the Company's Consolidated Financial Statements and the amounts included in the Company's federal and state income tax returns be recognized in the balance sheet. As the Company generally does not file its income tax returns until well after the closing process for the December 31, financial statements is complete, the amounts recorded at December 31 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 that the Company and its subsidiaries are required to file, the potential utilization of 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. The Company believes that the amounts recorded as deferred income tax assets will be recoverable through future taxable income generated by the Company. Although there can be no assurance that all recognized deferred tax assets will be fully recovered, the Company believes the procedures and estimates used in its accounting for income taxes are reasonable and in accordance with established tax law. The Company's anticipated profits from future operations may be adversely affected by various factors including, but not limited to, declines in customer demand, increased competition, the deterioration in general economic and business conditions, as well as many other factors, including those noted under "Special Note Regarding Forward-Looking Statements" and "Market Risks".

Overview

The Company's net sales increased approximately 12.5% in 2003 as compared to 2002. Demand for products sold by the Company was strong in 2003 primarily due to strength in the new housing and commercial construction markets in the Company's trade area in the Southeastern United States and market share gains in selected territories. Management expects the strength in new construction activity to remain strong in the Company's principal markets in 2004.

The Company's gross margins in 2003 were similar to 2002. Selling, general and administrative expenses were adversely affected in 2003 by higher inflationary costs related primarily to fuel costs and delivery expenses, insurance expense and payroll costs. The Company expects these costs will continue to rise in 2004.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Overview (continued)

The Company had cash, cash equivalents and restricted cash of $1,870,000 as of December 31, 2003. In 2003, the Company increased its line of credit with its commercial lender from $6,000,000 to $7,000,000 to partially fund a $973,000 cash payment to former preferred stockholders in connection with the settlement of appraisal rights litigation and to finance increased working capital requirements because of increased business. On March 29, 2004 the Company prepaid $400,000 of the remaining $568,000 note due to the former preferred stockholders. Management believes that available liquidity plus expected operating cash flows will meet the Company's regular cash needs in 2004, including the cash requirements associated with its regular capital expenditures program and the balance due on the note payable to the former stockholders. In addition, the Company is presently evaluating a plant modernization capital expenditure project for its manufacturing facilities to enhance its manufacturing efficiency and productivity. New financing would be required for these capital expenditures, which is expected to aggregate approximately $1,000,000. There can be no assurance that funds would be available on terms acceptable to the Company, or available at all, to fund this capital project.

Results of Operations

Year Ended December 31, 2003 compared to 2002

Net sales in 2003 increased $4,565,000, or approximately 12.5% compared to 2002. The increase in sales is principally due to growth in the sales of the Company's manufactured products and increased sales at the Company's distribution facilities, including $1,175,000, in 2003, in increased sales generated from a new distribution facility opened in the third quarter of 2002 in Port St. Lucie, Florida. The increased sales of the new distribution facility were in part offset by a sales reduction of approximately $447,000 realized in 2002 from the Company's former Pensacola, Florida distribution facility closed in the third quarter of 2002.

Gross profit as a percentage of net sales for 2003 was approximately 30.8% compared to 31.2% in 2002. Increases in purchase discounts and vendor rebates resulting from improved programs with its suppliers in 2003 were not sufficient to offset cost increases of raw materials and the adverse affect of higher insurance costs of $136,000 associated with manufacturing expenses included in cost of sales during the year. The comparative gross profit margins for 2003 and 2002 reflect similar competitive conditions in the Company's markets for the sales of both its manufactured and distributed products.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Year Ended December 31, 2003 compared to 2002 (continued)

The Company is continuing its efforts to emphasize the sales of its higher gross profit margin manufactured products through its distribution facilities and other distributors and to decrease reliance on sales of products purchased from other manufacturers. The Company increased its sales force during 2002 to further promote the sales of its manufactured products to the end-user.

Selling, general and administrative expenses as a percentage of net sales in 2003 were approximately 27.9% compared to 28.9% in 2002. Selling, general and administrative expenses increased $893,000 in 2003, or approximately 8.5% compared to 2002. The newly opened Port St. Lucie distribution facility, net of the effect of the expenses associated with the Pensacola facility closed in 2002, accounted for $78,000 of the increase in expenses for 2003 compared to 2002. For the year ended December 31, 2003 the remaining increase in selling, general and administrative expenses of $825,000 was primarily attributable to higher sales and inflationary cost pressures which included a $189,000 increase in delivery and fuel charges, a $127,000 increase in insurance expense, a $89,000 increase in maintenance expenses, and a $386,000 increase in payroll costs. Increases in other operating expenses, primarily those associated with the increase in sales, accounted for the balance of the increase in operating expenses in 2003.

In 2003, the Company closed an unprofitable distribution facility in Foley, Alabama. The Foley operations including estimated allowances for the termination of a lease and disposal of inventory accounted for losses of approximately $379,000 in 2003 compared to $174,000 in 2002. In addition, the Company incurred losses of approximately $36,000 in 2003 related to the completion of the disposition of assets associated with a distribution facility closed in 2002.

Interest expense decreased $77,000 in 2003, or approximately 14.5%, compared to 2002. The decrease in interest expense in 2003 was primarily due to reduced borrowing rates under the Company's interest bearing obligations compared to 2002, principally the appraisal rights obligations incurred as a result of a settlement completed on April 30, 2003.

Miscellaneous income, net of expenses, increased $89,000 in 2003, compared to 2002. The increase in miscellaneous income in 2003 is attributed primarily to the Company recognizing greater income for late charges on past due accounts receivables and gains from the sale of certain property and equipment.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Year Ended December 31, 2003 compared to 2002 (continued)

In 2003, the Company recognized income tax expense of $298,000 compared to income tax expense (excluding tax impact of goodwill impairment) of $448,000 for 2002.

After giving effect to the above factors, the Company had net income of $640,000, or $.07 per fully diluted share, for 2003, compared to a net loss of $105,000 in 2002 before the cumulative effect of change in accounting principle (as discussed below)of $789,000 and a provision for settlement of appraisal rights obligation of $313,000.

The 2002 results were adversely impacted by a $1,272,000 ($789,000 net of related deferred tax benefit) non-cash goodwill impairment charge. The charge was related to the Company's required adoption of Statement of Financial Accounting Standards (SFAS) No. 142 "Goodwill and Other Intangible Assets". The Company has no remaining goodwill on its balance sheet at December 31, 2003 and 2002. The impairment of goodwill was attributable to the under-performance of the Company's distribution operations associated with the acquisition of certain building materials distributors in 2000. In accordance with SFAS No. 142, the Company reflected this impairment charge in 2002 financial results as a cumulative change in accounting principle.

As a result of the non-cash goodwill impairment charge and provision for settlement of appraisal rights obligation, the Company incurred a net loss of $1,207,000, or $.13 per fully diluted share, for 2002.

Year Ended December 31, 2002 compared to 2001

Net sales in 2002 decreased $3,010,000, or approximately 7.6% compared to 2001. The closure of certain under-performing distribution facilities, and the elimination of installation services and sale of gypsum wallboard at certain locations during 2001, accounted for the greatest amount of sales decline in 2002 compared to 2001. The closure of the under-performing operations in 2001 represented $2,054,000 of the sales decline, prior to giving any consideration to the elimination of gypsum wallboard at certain other locations, including the Company's distribution facility in Pensacola, Florida, which was subsequently closed in the third quarter of 2002. The closure of the Pensacola, Florida facility accounted for the remainder of the decrease in sales. Gross profit as a percentage of net sales for 2002 was approximately 31.2% compared to 31.0% in 2001. The comparative gross profit margins for 2002 and 2001 reflect similar competitive pressures in the Company's markets for the sales of both its manufactured and distributed products. The

Company increased its sales force in early 2002 to

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Year Ended December 31, 2002 compared to 2001 (continued)

further its efforts to build market share and to promote the sales of its higher gross profit margin manufactured products to the end-user and decrease reliance on sales of lower gross profit margin gypsum products and other products purchased from non-affiliated vendors.

Market prices for gypsum wallboard, a major product line purchased and sold by the Company's distribution facilities, were believed to be slightly higher in 2002 compared to the average prices realized in 2001. The trend of lower gypsum wallboard pricing, which commenced in early 2000 and continued for six consecutive quarters through the first six months of 2001, has rebounded from the historically low levels reached during the third quarter ended September 30, 2001. During that quarter, certain manufacturers reduced production of gypsum wallboard and a stronger demand for gypsum wallboard resulted in increased gypsum prices in the latter part of 2001, although at still significantly reduced prices from historical levels prior to 2000. The Company is unable to determine if the improvement in prices in 2002 will trend higher or even be maintained at current levels, during 2003.

Selling, general and administrative expenses as a percentage of net sales for 2002 were approximately 28.9%, compared to 28.8% in 2001. Selling, general and administrative expenses decreased $803,000, or approximately 7.1% in 2002, compared to 2001. The decrease in expenses was primarily due to a reduction in operating costs associated with closing under-performing distribution locations and Company-wide reductions in personnel costs to gain improved operating efficiencies, all of which took place during 2001 and 2002.

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

In 2002, the Company closed an additional unprofitable distribution location in Pensacola, Florida. The Pensacola operations, including estimated allowances for the planned sale of its facility and disposal of inventory, accounted for losses of approximately $374,000 (including a $96,000 impairment charge representing the write-down of the property held for sale) in 2002 compared to $221,000 in 2001. In addition, the Company incurred losses of approximately

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Year Ended December 31, 2002 compared to 2001 (continued)

$54,000 in 2002 related to the completion of the disposition of assets associated with the distribution facilities closed in 2001.

Interest expense decreased $294,000 in 2002, or approximately 35.6%, compared to 2001. The decrease in interest expense in 2002 was primarily due to a lower average amount outstanding under the Company's line of credit as a result of closing the distribution facilities in 2001, the payment of the Company's debentures at December 31, 2001, which had an effective annual interest rate of 16%, and lower interest rates under its variable rate borrowings.

Miscellaneous income for 2002 included insurance refunds of approximately $51,000 as a result of lower claims than provided for in the underlying insurance policies.

After giving effect to the above factors, the Company generated income before taxes, excluding the provisions for settlement of appraisal rights litigation and the write-off of goodwill, as discussed below, for 2002 of $343,000, compared to a loss of $93,000 for 2001.

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

In 2002, the Company recognized an income tax expense of $448,000 (excluding tax impact of goodwill impairment), compared to tax expense of $128,000 for 2001. Deferred income tax expense in 2002 and 2001 is the result of the expiration of unused net operating loss carryforwards.

In addition, in connection with the Company's settlement in principle of its litigation with dissenting preferred stockholders with appraisal rights, the Company incurred a $313,000 increase in net loss available to common stockholders in 2002. As a result of the above factors, the Company had a net loss of $1,207,000 or $.13 per fully

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Year Ended December 31, 2002 compared to 2001 (continued)

diluted share for 2002, compared to a net loss of $221,000 or $.02 per share, for 2001.

Liquidity and Capital Resources

As of December 31, 2003, the Company had cash and cash equivalents of $1,870,000, which included customer payments in the amount of $947,000 that are required to be remitted to the Company's commercial lender upon their bank clearance under the terms of the Company's line of credit. Upon remittance of such amount, the outstanding balance of the line of credit will be reduced by such amount and will increase the availability for future borrowing under the line. The Company has implemented a cash management program in an attempt to gain a more rapid clearance of customer payments deposited in its bank accounts.

Sources and Uses of Cash

The Company's operations generated approximately $362,000 of net cash from operations in 2003 compared to $244,000 in 2002. The increase in cash flow in 2003 was primarily attributable to net income of $640,000 in 2003 compared to a loss in 2002, and the favorable impact of increases in accounts payable and accrued expenses, which more than offset increases in accounts receivable and inventory associated with increased sales. During 2003, the net expenditures for investing activities were $307,000 compared to $100,000 in 2002. The increases in expenditures in 2003 compared to 2002 were primarily the result of a greater amount of purchases of equipment and vehicles to upgrade the Company's manufacturing operations and improve the job-site delivery capability to its customers. The Company is presently considering a plant modernization program for its manufacturing facilities which would require material capital commitments.

During 2003, the Company derived net cash of approximately $206,000 from its financing activities, compared to $97,000 in 2002. In 2003, the Company increased its borrowing under its line of credit by $1,556,000, compared to an increased borrowing of $579,000 in 2002, and made principal payments on other debt totaling $616,000. The increased line of credit was primarily utilized to pay the cash settlement of $973,000 for the appraisal rights obligation.

24

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Future Commitments and Funding Sources

At December 31, 2003, the Company's contractual cash obligations, with initial or remaining terms in excess of one year, were as follows:

Contractual Cash Obligations	Total	2004	Payments due by Fiscal 2005	2006	20
Long-term debt (a)	$1,273,000	$ 425,000	$ 249,000	$ 116,000	$ 61
Operating leases (a)	$2,086,000	$1,019,000	$ 625,000	$ 234,000	$133
Total contractual cash obligations	$3,359,000	$1,444,000	$ 874,000	$ 350,000	$194

(a) See Notes 7 and 13 in the accompanying financial statements for additional information regarding our debt and commitments.

At December 31, 2003, the Company had working capital of approximately $2,173,000 compared to working capital of $1,432,000 at December 31, 2002.

The Company's principal source of short-term liquidity is existing cash on hand and the utilization of a $7,000,000 line of credit with a commercial lender. The maturity date of the line of credit is June 19, 2004, subject to annual renewal. Premix, Acrocrete and Just-Rite borrow on the line of credit, based upon and collateralized by, their eligible accounts receivable and inventory. Generally, accounts not collected within 120 days are not eligible accounts receivable under the Company's borrowing agreement with its commercial lender. At December 31, 2003, $6,470,000 had been borrowed against the line of credit. Based on eligible receivables and inventory, the Company had, under its line of credit, total available borrowing, (including the amount outstanding of $6,470,000) of approximately $6,803,000 at December 31, 2003.

Trade accounts receivable represent amounts due from subcontractors, contractors and building materials dealers located principally in Florida, Alabama, Mississippi and Georgia who have purchased products on an unsecured open account basis and through Company owned warehouse distribution outlets. As of December 31, 2003, the Company owned and operated ten distribution outlets. Accounts receivable, net of allowance, at December 31, 2003 was $5,702,000 compared to $4,880,000 at December 31, 2002. The increase in receivables of $822,000, or approximately 16.8%, was primarily related to increased sales in 2003 (12.5%), particularly sales for the month of December 2003 as compared with December 2002, and some slowness in payments by certain

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Liquidity and Capital Resources (continued)

customers in 2003 compared to 2002. Inventories and accounts payable increased $677,000 and $214,000, respectively, at December 31, 2003 compared to 2002 due to the increased level of business.

As a result of the consummation of the December 31, 1998 merger, the Company agreed to pay $733,000 in cash to its former preferred stockholders. At December 31, 2003, the Company had paid $685,000 of such cash amount. Amounts payable to such stockholders at December 31, 2003 results from their non-compliance with the condition for payments.

Holders representing 81,100 preferred shares elected dissenters' rights under Delaware law. The Company recorded a liability for each share owned by the dissenting preferred stockholders based on the fair value of $2.25 in cash, an $8.00 Subordinated Debenture and five shares of the Company's common stock.

On April 30, 2003, the Company and the dissenting preferred stockholders ("Dissenting Stockholder") reached a settlement (the "Settlement"). In accordance with the Settlement, the Company paid the Dissenting Stockholders $12.00 per share in cash ($973,200) and issued a 5.6% promissory note (the "Note") for $10.00 per share ($811,000) due May 1, 2006. The principal balance of the Note would be reduced to $7.00 per share ($567,700) in the event the Company prepays the Note in full prior to November 1, 2004. If not paid by November 2004 the interest rate will increase from 5.6% to 8.0%. The Company satisfied the cash due at closing from cash on hand and borrowings from its amended line of credit with its commercial lender. At December 31, 2003, based on management's intention to prepay the Note in full prior to November 1, 2004, the appraisal rights obligation was recorded at $567,700 and classified as a short-term liability. On March 29, 2004 the Company elected to prepay $400,000 on the Note.

At December 31, 2003, the Company has paid the holders of the Subordinated Debentures tendering their bonds $808,000. Amounts payable to stockholders at December 31, 2002 and 2003 on the Company's consolidated balance sheets includes $213,000 payable to former debenture holders who have not yet tendered their Debentures as required by the terms of such instrument.

The Company presently is focusing its efforts on enhancing customer service, increasing operating productivity through reducing costs and expenses and improving working capital. The Company expects to incur various capital expenditures aggregating approximately $400,000 during the next twelve months to upgrade and maintain its equipment and

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Liquidity and Capital Resources (continued)

delivery fleet to support its distribution facilities and improve customer service. The Company expects to finance approximately $300,000 of these expenditures from various lenders with the balance funded by cash derived from operations.

Effective March 15, 2004 the Company was forced to renew its products liability coverage with an exclusion for EIFS exposure. Based on past experience for these types of claims, the Company does not expect any of these types of uninsured claims that may be alleged in the future to have a material effect on the Company's financial position within the next 18 to 24 months. 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. See "Item 3 Legal Proceedings".

The Company believes its cash on hand and the maintenance of its borrowing arrangement with its commercial lender will provide sufficient cash to meet current obligations for its operations and support the cash requirements of its regular capital expenditure program in 2004. The Company's regular capital expenditure program consists of the routine replacement of equipment and delivery fleet described above.

In addition, the Company is evaluating various types of alternative capital projects to expand and enhance its manufacturing capabilities to more effectively serve its customer base, to gain production efficiencies and provide the opportunity to broaden its manufactured product lines and enter new markets. The Company is assessing the merits and assumptions of these alternative projects, and the completion date of any such project, if adopted, is uncertain. The Company is presently seeking funds to first commence the capital project for modernization of its equipment at its Winter Springs, Florida manufacturing facility. Management believes the modernization project for the Winter Springs manufacturing facility could represent approximately $1,000,000 in capital expenditures. There can be no assurance that funds would be available on terms acceptable to the Company, if available at all, to fund these capital projects.

The ability of the Company to maintain and improve its long-term liquidity is primarily dependent on the Company's ability to successfully maintain profitable operations.

Recent Accounting Pronouncements

In October 2001, the Financial Accounting Standards Board issued "Accounting for the Impairment or Disposal of Long-Lived Assets" (SFAS 144"), which is effective for fiscal

years

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Recent Accounting Pronouncements (continued)

beginning after December 15, 2001. SFAS 144 addresses accounting and reporting for the impairment or disposal of long-lived assets. The Company's adoption of SFAS 144 on January 1, 2002 did not have a material effect on its consolidated financial statements.

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

In June 2002, the FASB issued Statement No. 146, Accounting for Costs Associated with Exit or Disposal Activities (SFAS 146) and nullifies EITF Issue No. 94-3. SFAS 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred, whereas EITF No. 94-3 had recognized the liability at the date of an entity's commitment to an exit plan. The adoption of SFAS 146 did not have a material effect on the Company's consolidated financial statements.

In November 2002, the FASB issued Interpretation No. 45 ("FIN No. 45"), "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." FIN No. 45 clarifies and expands on the existing disclosure requirements of guarantees. FIN No. 45 also requires recognition of a liability at fair value of a company's obligations under certain guarantee contracts. The disclosure requirements are effective for financial statements of interim or annual periods ending after December 15, 2002. The adoption of FIN No. 45 did not impact our consolidated financial statements.

In April 2003, SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities" was

issued. SFAS No. 149 amends and clarifies accounting for derivative

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Recent Accounting Pronouncements (continued)

instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS No. 133 SFAS No. 149 is effective for contracts entered into or modified after June 30, 2003 and for hedging relationships designated after June 30, 2003. The adoption of this statement did not impact our consolidated financial statements.

In May 2003, the FASB issued SFAS No, 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." SFAS No. 150 establishes standards for how companies classify and measure certain financial instruments with characteristics of both liabilities and equity. It requires companies to classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). SFAS No. 150 is effective immediately for financial instruments entered into or modified after May 15, 2003 and in the first interim period after June 15, 2003 for all other financial instruments. The adoption of this statement did not impact our consolidated financial statements.

In December 2003, Financial Accounting Standards Board Interpretation ("FIN") No. 46(R), "Consolidation of Variable Interest Entities (revised December 2003)", was issued. The interpretation revises FIN No. 146, "Consolidation of Variable Interest Entities", to exempt certain entities from the requirements of FIN No. 146. The interpretation requires a company to consolidate a variable interest entity ("VIE"), as defined, when the company will absorb a majority of the variable interest entity's expected losses, receive a majority of the variable interest entity's expected residual returns, or both. FIN No. 46(R) also requires consolidation of existing, non-controlled affiliates if the VIE is unable to finance its operations without investor support, or where the other investors do not have exposure to the significant risks and rewards of ownership. The interpretation applies immediately to a VIE created or acquired after January 31, 2003. For a VIE acquired before February 1, 2003, FIN No. 46(R) applies in the first interim period ending after March 15, 2004. The adoption of this interpretation did not impact our consolidated financial statements.

Goodwill and Other Intangible Assets

Effective January 1, 2002 the Company adopted SFAS 141, "Business Combinations," and SFAS 142, "Goodwill and Other Intangible Assets". SFAS 141 was issued by the FASB in June 2001. SFAS 141 requires that the purchase method of accounting be used for all business combinations completed

after June 30, 2001. SFAS 141 also specifies the types of acquired intangible assets that are required to be recognized and reported separately from goodwill and those acquired

intangible assets that are required to be included in goodwill. The Company's adoption of this standard did not have any effect on its accounting for prior business combinations.

SFAS 142 requires that goodwill no longer be amortized, but instead be tested for impairment at least annually. SFAS 142 requires recognized intangible assets to be amortized over their respective estimated useful lives and reviewed for impairment in accordance with SFAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". Any recognized intangible assets determined to have an indefinite useful life are not amortized, but instead tested for impairment in accordance with the standard until its life is determined to no longer be indefinite. If goodwill amortization had not been recorded in 2001 and 2000, the Company's net (loss) income would have been ($180,000) and $563,000, respectively, with no impact on earnings per share.

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

The $1,272,000 ($789,000 net of related tax benefit) non-cash charge is reflected as a cumulative effect of an accounting change in the accompanying Consolidated Statements of Operations for the year ended December 31, 2002.

Market Risks

Residential and Commercial Construction Activity

The Company's sales depend heavily on the strength of residential and commercial construction activity in the Southeastern United States. The strength of these markets depends on many factors beyond the Company's control. Some of these factors include interest rates, employment levels, availability of credit, prices and availability of raw materials and products purchased for resale, as well as consumer confidence. Downturns in the market that the Company serves or in the economy could have a material adverse effect

on the Company's operating results and financial condition. Reduced levels of construction activity may result in intense price competition among building materials suppliers, which may adversely affect the Company's gross margins and operating results.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Market Risks (continued)

The Company's first quarter revenues and, to a lesser extent, the Company's fourth quarter revenues are typically adversely affected by winter construction cycles and weather patterns in colder climates as the level of activity in the new construction and home improvement markets decreases. Weather conditions such as heavy rain or snow, will generally preclude customers from installing the Company's products on job sites. Because much of the Company's overhead and expense remains relatively fixed throughout the year, the Company's profits and operating results also tend to be lower and less favorable during the first and fourth quarters.

Exposure to Interest Rates

The Company had two variable rate mortgages totaling $387,000 at December 31, 2003. The mortgages bear interest at prime plus 1% and were due October 2004 as of December 31, 2003. The Company recently refinanced these obligations and they are now due in March, 2009. In addition, the Company's $7,000,000 line of credit from a commercial lender bears an interest rate of prime plus 1/2%. A significant increase in the prime rate could have a material adverse effect on the Company's operating results and financial condition.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Not Applicable.

Item 8. Financial Statement and Supplementary Data

CONSOLIDATED FINANCIAL STATEMENTS:

	Page
Report of Independent Certified Public Accountants	33
Consolidated Balance Sheets	34
Consolidated Statements of Operations	35
Consolidated Statements of Changes in Stockholders' Equity	36

Consolidated Statements of Cash Flows 37

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1.	Merger	39
2.	Description of Business and Summary of Significant Accounting Policies	40
3.	Inventories	47
4.	Property, Plant and Equipment	47
5.	Notes Payable	47
6.	Accrued Expenses and Other Liabilities	48
7.	Long-Term Debt	48
8.	Income Taxes	49
9.	Capital Stock	50
10.	Miscellaneous Income	52
11.	Earnings (Loss) Per Common Share	53
12.	Related Party Transactions	54
13.	Commitments and Contingencies	54
14.	Impairment Charge	56
15.	Obligation for Appraisal Rights	57

Schedule II - Valuation and Qualifying Accounts 58

All other schedules have been omitted because they are not required, are not applicable or the information is included in the consolidated financial statements or notes thereto.

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors and Stockholders of
Imperial Industries, Inc.

In our opinion, the consolidated financial statements listed in the index appearing under Item 15(a) (1) on page 62 present fairly, in all material respects, the financial position of Imperial Industries, Inc. and its subsidiaries (the "Company") at December 31, 2003 and 2002, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2003 in conformity with accounting principals generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 15(a) (2) on page 62 presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and the financial statement schedule are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements and the financial statement schedule based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United State of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 2(p) to the Consolidated Financial Statements, effective January 1, 2002, the Company changed its method of accounting for goodwill in

accordance with Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets.

PRICEWATERHOUSECOOPERS LLP
Miami, Florida
March 29, 2004

33

IMPERIAL INDUSTRIES, INC. AND SUBSIDIARIES
Consolidated Balance Sheets

	December 31,	
Assets	2003	2002
Current assets:		
Cash and cash equivalents	$ 1,870,000	$ 1,609,000
Trade accounts receivable (less allowance for doubtful accounts of $556,000 and $477,000 at December 31, 2003 and 2002, respectively)	5,702,000	4,880,000
Inventories	4,290,000	3,613,000
Deferred income taxes	157,000	383,000
Other current assets	444,000	553,000
Total current assets	12,463,000	11,038,000
Property, plant and equipment, at cost	4,228,000	4,051,000
Less accumulated depreciation	(2,397,000)	(2,068,000
Net property, plant and equipment	1,831,000	1,983,000
Deferred income taxes	470,000	509,000
Other assets	154,000	177,000
	$ 14,918,000	$13,707,000
Liabilities and Stockholders' Equity		
Current liabilities:		
Notes payable	$ 6,470,000	$ 4,914,000
Current portion of long-term debt	425,000	690,000
Accounts payable	2,066,000	1,852,000
Obligation for Appraisal Rights	568,000	1,541,000
Payable to stockholders	261,000	262,000
Accrued expenses and other liabilities	478,000	340,000
Income taxes payable	22,000	7,000
Total current liabilities	10,290,000	9,606,000

Long-term debt, less current maturities	848,000	961,000
Commitments and contingencies (Note 13)	-	-
Stockholders' equity:		
Common stock, $.01 par value at December 31, 2003 and 2002; 40,000,000 shares authorized; 9,235,434 and 9,235,434 issued at December 31, 2003 and 2002, respectively	92,000	92,000
Additional paid-in-capital	13,924,000	13,924,000
Accumulated deficit	(10,236,000)	(10,876,000
Total stockholders' equity	3,780,000	3,140,000
	$ 14,918,000	$13,707,000

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

34

IMPERIAL INDUSTRIES, INC. AND SUBSIDIARIES
Consolidated Statements of Operations

	Year Ended December	
	2003	2002
Net sales	$ 41,069,000	$36,504,000
Cost of sales	28,438,000	25,099,000
Gross profit	12,631,000	11,405,000
Selling, general and administrative expenses	11,457,000	10,564,000
Impairment charge	--	96,000
Operating income	1,174,000	745,000
Other (expense) income:		
Interest expense	(454,000)	(531,000)
Miscellaneous income, net	218,000	129,000
	(236,000)	(402,000)
Income (loss) before income taxes and cumulative effect of change in accounting principle for SFAS 142	938,000	343,000

Income tax expense:		
Current	(33,000)	(7,000)
Deferred	(265,000)	(441,000)
	(298,000)	(448,000)
Income (Loss) before cumulative effect of change in accounting principle for SFAS 142	$ 640,000	$ (105,000)
Cumulative effect of change in accounting principle for SFAS 142, net of deferred tax benefit of $483,000 (Note 2)	-	(789,000)
Net income (loss)	640,000	(894,000)
Less: Provision for settlement of appraisal rights obligation	-	(313,000)
Net income (loss) available to common stockholders	$ 640,000	$(1,207,000)
Basic and diluted income (loss) earnings per share before cumulative effect of change in accounting principle	$ 0.07	$ (0.01)
Cumulative effect of change in accounting principle	$ -	$ (0.09)
	0.07	(0.10)
Basic and diluted income (loss) earnings per share before provision for settlement of appraisal rights litigation		
Less: Provision for settlement of appraisal rights obligation	-	(0.03)
Basic and diluted income (loss) earnings per share before cumulative effect of change in accounting principle	$ 0.07	$ (0.13)

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

IMPERIAL INDUSTRIES, INC. AND SUBSIDIARIES

Consolidated Statements of Changes in Stockholders' Equity

Years Ended December 31, 2003, 2002 and 2001

	Common Stock		Additional paid-in capital	Accumulated deficit
	Shares	Amount		
Balance at January 1, 2001	9,205,434	92,000	13,915,000	(9,448,000)
Issuance of common stock	15,000	-	5,000	-
Net loss	-	-	-	(221,000)
Balance at December 31, 2001	9,220,434	92,000	13,920,000	(9,669,000)
Issuance of Common Stock	15,000	-	4,000	-
Provision for settlement of appraisal rights obligation	-	-	-	(313,000)
Net loss	-	-	-	(894,000)
Balance at December 31, 2002	9,235,434	92,000	13,924,000	(10,876,000)
Net income	-	-	-	640,000
Balance at December 31, 2003	$9,235,434	$92,000	$13,924,000	$(10,236,000)

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

36

IMPERIAL INDUSTRIES, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

	Year Ended Decem	
	2003	2002
Cash flows from operating activities:		
Net income (loss)	$ 640,000	$ (894,00
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		

Cumulative effect of change in accounting principle	-	789,00
Depreciation	481,000	464,00
Amortization	36,000	28,00
Write-down of goodwill	-	
Debt issue discount	-	
Provision for doubtful accounts	318,000	268,00
Provision for writedown of assets	11,000	96,00
Provision for deferred income taxes	265,000	441,00
(Gain) loss on disposal of fixed assets	(48,000)	5,00
Compensation expenses - issuance of stock	-	4,00
(Increase) decrease in:		
Accounts receivable	(1,140,000)	(729,00
Inventory	(677,000)	194,00
Prepaid expenses and other assets	109,000	(331,00
Increase (decrease) in:		
Accounts payable	214,000	(54,00
Interest on obligation for appraisal rights	-	88,00
Accrued expenses and other liabilities	138,000	(125,00
Income taxes payable	15,000	-
Total adjustments to net income (loss)	(278,000)	1,138,00
Net cash (used in) provided by operating activities	362,000	244,00
Cash flows from investing activities		
Purchase of property, plant and equipment	(380,000)	(142,00
Payment on notes payable A&R acquisitions	-	
Proceeds received from sale of property and equipment	26,000	42,00
Proceeds received from insurance settlement	47,000	
Net cash used in investing activities	(307,000)	(100,00

- continued -

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

IMPERIAL INDUSTRIES, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows
(continued)

Year Ended Dece

	2003	2002
Cash flows from financing activities		
Increase (decrease) in notes payable banks - net	1,556,000	579,000
Payable to stockholders	(1,000)	(24,000
Payment of obligation for appraisal rights	(973,000)	-
Proceeds from issuance of long-term debt	240,000	246,000
Repayment of long-term debt	(616,000)	(704,000
Net cash provided by (used in) financing activities	206,000	97,000
Net increase (decrease) in cash and cash equivalents	261,000	241,000
Cash and cash equivalents, beginning of year	1,609,000	1,368,000
Cash and cash equivalents, end of year	$ 1,870,000	$1,609,000
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	$ 446,000	$ 455,000
Cash paid during the year for income taxes	17,000	10,000
Non-cash transactions:		
Issuance of 15,000, shares of common stock to an employee of the Company in each of 2002 and 2001	-	4,000
Capital lease obligations	48,000	51,000
Asset acquisitions financed	193,000	202,000
Reclassification of property, plant and equipment to other current assets (See Note 14)	$ 13,000	$ 240,000

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

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

(1) Merger

Effective December 31, 1998, (the "Effective Date"), the Company merged into a wholly-owned subsidiary, (the "Merger"). At the Effective Date, each share of the Company's $.10 par value common stock outstanding before the Merger was converted into one share of $.01 par value common stock. Also at the Effective Date, 300,121 outstanding shares of preferred stock, with a carrying value of $3,001,000 were retired and $4,292,000 of accrued

dividends on such shares were eliminated.

In connection with the elimination of the preferred stock, the Company was required to pay cash of $733,000, of which $685,000 has been paid as of December 31, 2003. In addition, the Company issued $985,000 face value of 8% Debentures due December 31, 2001 with a fair value of $808,000, and 1,574,610 shares of $.01 par common stock with a fair value of $630,000 based on the market price of $.40 per share of the Company's common stock at the Effective Date. At December 31, 2003, the Company paid $808,000 of the $985,000 to Debenture holders who had tendered their bonds as required by such instruments. Amounts payable to stockholders at December 31, 2002 and 2003 on the Company's consolidated balance sheets includes $213,000 payable to former debenture holders who have not yet tendered their Debentured as required by the terms of such instrument.

Holders of 81,100 shares of preferred stock (the "Dissenting Stockholders"), with a carrying value of $811,000, elected to exercise their appraisal rights, pursuant to Delaware law. A trial for the appraisal rights was held in the Chancery Court of Delaware in June 2002. In February 2003, the Company and the Dissenting Stockholders reached a settlement in principle. As of December 31, 2002, the Company recorded $1,541,000 in the accompanying consolidated balance sheet as an estimate for the obligation for appraisal rights based on the estimated fair value of the settlement.

On April 30, 2003, the Company and the Dissenting Stockholders finalized the settlement. In accordance with the settlement, the Company paid the holders of appraisal rights $12.00 per share in cash ($973,200) and issued a 5.6% Promissory Note (the "Note")for $10.00 per share ($811,000) due May 1, 2006. The principal balance of the Note would be reduced to $7.00 per share ($567,700) in the event the Company repays the Note in full prior to November 1, 2004. At December 31, 2003, based on management's intention to prepay the Note in full prior to November 1, 2004, the appraisal rights obligation was recorded in the amount of $567,700 and is classified as a current liability in the accompanying consolidated balance sheets. On March 29, 2004 the Company paid $400,000 related to the Note.

In connection with the Merger, all then outstanding stock purchase warrants were automatically converted into warrants with identical terms exercisable for shares of the Company's common stock.

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

The Company and its subsidiaries are primarily involved in the manufacturing and sale of exterior and interior finishing wall coatings and mortar products for the construction industry, as well as the purchasing and sale of other building materials from

other manufacturers. Sales of the Company's products are made to customers primarily in Florida and the Southeastern United States through distributors and company-owned distribution facilities.

(a) Basis of presentation

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

(b) Concentration of Credit Risk

Concentrations of credit risk with respect to trade accounts receivable are limited due to the large number of entities comprising the Company's customer base. Trade accounts receivable represent amounts due form building materials dealers, contractors and subcontractors, located principally in the Southeastern United States who have purchased products on an unsecured open account basis. At December 31, 2003, accounts aggregating $537,000, or approximately 8.6% of total gross trade accounts receivable were deemed to be ineligible for borrowing purposes under the Company's borrowing agreement with its commercial lender. See Note (5). The allowance for doubtful accounts at December 31, 2003 of $556,000 is considered sufficient to absorb any losses which may arise from uncollectible accounts receivable.

The Company places its cash with commercial banks. At December 31, 2003, the Company had cash balances with banks in excess of Federal Deposit Insurance Corporation insured limits. Management believes the credit risk related to these deposits is minimal.

(c) Inventories

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

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

(d) Property, plant and equipment

Property, plant and equipment is stated at cost, less accumulated depreciation. Depreciation is computed on the straight-line basis over the estimated useful lives of the depreciable assets. Expenditures for maintenance and repairs are charged to expense as incurred, while expenditures which extend

the useful life of assets are capitalized. Differences between the proceeds received on the sale of property, plant and equipment and the carrying value of the assets at the date of sale is credited or charged to net income.

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

Licenses, trademarks and deferred financing costs are amortized on the straight-line basis over the estimated useful lives of the licenses and trademarks, or over the term of the related financing. Excess cost of investment over net assets acquired was amortized using the straight-line method over 40 years until December 31, 2001 and was net of $57,000 accumulated amortization at December 31, 2001. (See Note 2 (n) Recent Accounting Pronouncements and Note 2 (o) Goodwill and Other Intangible Assets).

(f) Income taxes

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

(g) Earnings per share of common stock

Basic earnings per common share is computed by dividing net income, by the weighted-average number of shares of common stock outstanding each year. Diluted earnings per common share is computed by dividing net income applicable to common stockholders by the weighted-average number of shares of common stock and common stock equivalents outstanding during each year. (See Note (11) - Earnings Per Common Share).

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

(h) Cash and cash equivalents

The Company defines cash and cash equivalents as those highly liquid investments with original maturities of three months or less, and are stated at cost. Included in cash and cash equivalents at December 31, 2003 and 2002 are short-term time

deposits of $123,000 and $122,000, respectively. Also included in cash and cash equivalents at December 31, 2003 and 2002 are $947,000 and $713,000, respectively, of customer payments that are required to be remitted to the Company's commercial lender upon their bank clearance under the terms of the Company's line of credit. Such amounts when remitted to the lender will reduce the outstanding balance of the line of credit, resulting in greater borrowing availability.

(i) Revenue recognition policy

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

(j) Purchase rebates

The Company has an arrangement with a buying group organization providing for inventory purchase rebates ("vendor rebates") based principally upon achievement of certain volume purchasing levels during the year. The Company accrues the estimated receipt of vendor rebates as part of its cost of sales for products sold based on progress towards earning the vendor rebates taking into consideration cumulative purchases throughout the year. Substantially all vendor rebate receivables are collected within three months immediately following fiscal year-end. While management believes the Company will continue to receive consideration from the buying group in 2004 and thereafter, there can be no assurance that the buying group will continue to provide comparable amounts of vendor rebates in the future.

(k) Stock based compensation

The Company measures compensation expense related to the grant of stock options and stock-based awards to employees in accordance with the provisions of Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," under which compensation expense, if any, is generally based on the difference between the exercise price of an option, or the amount paid for an award, and the market price or fair value of the underlying common stock at the date of the award (See Note 9).

42

IMPERIAL INDUSTRIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements
(continued)

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

(k) Stock based compensation (continued)

Pursuant to SFAS No. 123, as amended by SFAS No. 148 "Accounting for Stock-Based Compensation Transition and

Disclosure" the Company has elected to use the intrinsic value method of accounting for employee awards, stock based compensation awards. Accordingly, the Company has not recognized compensation expense for its noncompensatory employee stock options.

The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value-recognition provisions of Financial Standards Board (FASB) Statement No. 123, Accounting for Stock-Based Compensation, to stock-based employee compensation (in thousands, except per share amounts):

	Year Ended Decembe	
	2003	2002
Net income (loss) available to common stockholders, as reported	$ 640	$(1,207)
Deduct: Total stock-based employee compensation expense determined under fair-value-based method for all awards, net of related tax effects	(12)	(31)
Pro forma net income (loss)	$ 628	$(1,238)
Earnings (loss) per share:		
Basic as reported	$ 0.07	$ (0.13)
Basic pro forma	$ 0.07	$ (0.13)
Diluted as reported	$ 0.07	$ (0.13)
Diluted pro forma	$ 0.07	$ (0.13)

(l) Accounting estimates

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

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

(m) Fair Value of Financial Instruments

The carrying amounts of the Company's financial instruments principally notes payable, debentures, obligation for appraisal rights and long-term debt, approximate fair value based on discounted cash flows and because the borrowing rates are similar to the current rates available to the Company.

(n) Segment Reporting

The Company adopted SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information. For the years ended December 31, 2003, 2002 and 2001, the Company determined that it operated in a single operating segment.

(o) Recent Accounting Pronouncements

In October 2001, the Financial Accounting Standards Board issued "Accounting for the Impairment of Disposal of Long-Lived Assets" (SFAS 144"), which is effective for fiscal years beginning after December 15, 2001. SFAS 144 addresses accounting and reporting for the impairment or disposal of long-lived assets. This statement superseded SFAS 121, "Accounting for the Impairment of Long-Lived Assets to be Disposed Of". The Company's adoption of SFAS 144 on January 1, 2002 did not have a material effect on its consolidated financial statements.

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

In June 2002, the FASB issued Statement No. 146, Accounting for Costs Associated with Exit or Disposal Activities (SFAS 146) and nullifies EITF Issue No. 94-3. SFAS 146 requires that a

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

(o) Recent Accounting Pronouncements (continued)

liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred, whereas EITF No. 94-3 had recognized the liability at the date of an entity's commitment to an exit plan. The adoption of SFAS 146 did not have a material effect on the Company's consolidated financial statements.

In November 2002, the FASB issued Interpretation No. 45 ("FIN No. 45"), "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." FIN No. 45 clarifies and expands on he existing disclosure requirements for guarantees. FIN No. 45 also requires recognition of a liability at fair value of a company's obligations under certain guarantee contracts. The disclosure requirements are effective for financial statements of interim or annual periods ending after December 15, 2002. The adoption of FIN No. 45 did not impact our consolidated financial statements.

In April 2003, SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities" was issued. SFAS No. 149 amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS No. 133 SFAS No. 149 is effective for contracts entered into or modified after June 30, 2003 and for hedging relationships designated after June 30, 2003. The adoption of this statement did not impact our consolidated financial statements.

In May 2003, the FASB issued SFAS No, 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." SFAS No. 150 establishes standards for how companies classify and measure certain financial instruments with characteristics of both liabilities and equity. It requires companies to classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). SFAS No. 150 is effective immediately for financial instruments entered into or modified after May 15, 2003 and in the first interim period after June 15, 2003 for all other financial instruments. The adoption of this statement did not impact our consolidated financial statements.

In December 2003, Financial Accounting Standards Board Interpretation ("FIN") No. 46(R), "Consolidation of Variable Interest Entities (revised December 2003)", was issued. The interpretation revises FIN No. 146, "Consolidation of Variable Interest Entities", to exempt certain entities from the requirements of FIN No. 146. The interpretation requires a company to consolidate a variable interest entity ("VIE"), as

(continued)

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

(o) Recent Accounting Pronouncements (continued)

defined, when the company will absorb a majority of the variable interest entity's expected losses, receive a majority of the variable interest entity's expected residual returns, or both. FIN No. 46(R) also requires consolidation of existing, non-controlled affiliates if the VIE is unable to finance its operations without investor support, or where the other investors do not have exposure to the significant risks and rewards of ownership. The interpretation applies immediately to a VIE created or acquired after January 31, 2003. For a VIE acquired before February 1, 2003, FIN No. 46(R) applies in the first interim period ending after March 15, 2004. The adoption of this interpretation did not impact our consolidated financial statements.

(p) Goodwill and Other Intangible Assets

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

SFAS 142 requires that goodwill no longer be amortized, but instead be tested for impairment at least annually. SFAS 142 requires recognized intangible assets to be amortized over their respective estimated useful lives and reviewed for impairment in accordance with SFAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". Any recognized intangible assets determined to have an indefinite useful life are not amortized, but instead tested for impairment until its life is determined to no longer be indefinite. If goodwill amortization had not been recorded in 2001, net (loss) would have been $(180,000) with no impact on earnings per share.

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

Notes to Consolidated Financial Statements
(continued)

(p) Goodwill and Other Intangible Assets (continued)

present value of expected future cash flows and other valuation measures.

The $1,272,000 ($789,000 net of related tax benefit) non-cash charge was reflected as a cumulative effect of an accounting change in the accompanying Consolidated Statements of Operations for the year ended December 31, 2002.

(3) Inventories

At December 31, 2003 and 2002, inventories consist of:

	2003	2002
Raw materials	$ 667,000	$ 490,000
Finished goods	3,353,000	2,856,000
Packaging materials	270,000	267,000
	$4,290,000	$ 3,613,000

(4) Property, Plant and Equipment

A summary of the cost of property, plant and equipment at

December 31, 2003 and 2002 is as follows:

	2003	2002	Estim useful (yea
Land	151,000	$ 151,000	
Buildings and improvements	641,000	632,000	10
Machinery and equipment	2,074,000	1,860,000	3
Vehicles	1,024,000	1,051,000	2
Furniture and Fixtures	338,000	357,000	3
	$4,228,000	$4,051,000	

The net book value of property, plant and equipment pledged as collateral under notes payable and various long-term debt agreements aggregated $1,378,000 and $1,976,000 at December 31, 2003 and 2002, respectively. See "Note 7."

(5) Notes Payable

At December 31, 2003 and 2002, notes payable represent amounts outstanding under a $7,000,000 line of credit from a commercial lender to the Company's subsidiaries. The line of credit is collateralized by the subsidiaries' accounts receivable and inventory, bears interest at prime plus 1/2% (4.50% at December

31, 2003), expires June 19, 2004, and is subject to annual renewal. The weighted average effective interest rate on the line of

(5) Notes Payable (continued)

credit was 5.08%. 5.80%, and 8.36% during years ended December 31, 2003, 2002 and 2001, respectively.

At December 31, 2003, the line of credit limit available for borrowing based on eligible receivables and inventory aggregated $6,803,000, of which $6,470,000 was outstanding. The average amounts outstanding during 2003 and 2002 were $5,623,000, and $4,782,000, respectively. The maximum amounts outstanding at any month-end during 2003 and 2002 were $6,470,000 and $5,537,000, respectively.

(6) Accrued Expenses and Other Liabilities

Accrued expenses and other liabilities at December 31, 2003 and 2002 are summarized as follows:

	2003	2002
Employee compensation related items	$161,000	$164,000
Taxes, other than income taxes	161,000	118,000
Product warranty	57,000	15,000
Interest	22,000	7,000
Other	77,000	36,000
	$478,000	$340,000

(7) Long-Term Debt

Long-term debt of the Company is as follows:

	2003
Uncollateralized note issued for acquisition, interest at 8% per annum, originally scheduled to mature on September 2003. (A)	$ 128,000
Mortgage note payable, interest at prime + 1% principal and interest payable monthly in the amount of approximately $1,127, with a balloon payment of approximately $137,000 due March 10, 2009. (B)	207,000

Mortgage note payable, interest at prime + 1%, principal payments of $800 plus interest payable monthly, with a balloon payment of approximately $76,000 due March 10, 2009. (B)	125,000
Mortgage note payable, interest at prime + 1%, principal payments of $1,678 plus interest payable monthly, with a balloon payment of approximately $160,000 due March 10, 2009. (B)	262,000

IMPERIAL INDUSTRIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements
(continued)

(7) Long-Term Debt (continued)

	2003
Mortgage note payable, interest at 8 3/4%, principal and interest payable monthly in the amount of approximately $2,415, was paid in 2003.	-
Equipment notes payable, interest at various rates ranging from 0.0% to 11.40%, per annum, principal and interest payable monthly expiring at various dates through October 2007.	551,000
	1,273,000
Less current maturities	(425,000)
	$ 848,000

(A) Note payments have been suspended pending the outcome of litigation. See Note 13.

(B) Effective March 10, 2004 the Company refinanced these obligations in accordance with the terms set forth above.

As of December 31, 2003, long-term debt matures as follows:

Year ended December 31,	Amount
2004	$ 425,000
2005	249,000
2006	116,000
2007	61,000
2008 and thereafter	422,000
	$1,273,000

(8) Income Taxes

The deferred tax asset of $627,000 and $892,000, at December 31, 2003 and 2002, respectively, consist of the tax effect of the following:

	2003	2002
Net operating loss carryforwards	$ 88,000	$ 292,000
Goodwill amortization	470,000	510,000
Other	69,000	90,000
	$ 627,000	$ 892,000

The Company has net operating losses of approximately $232,000 that will expire in varying amounts from 2011 through 2014.

49

IMPERIAL INDUSTRIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements
(continued)

(8) Income Taxes (continued)

The deferred tax asset net decrease of $265,000 for 2003 was primarily due to the use of net operating loss carry forwards. The ultimate realization of the remaining deferred tax assets is largely dependent on the Company's ability to generate sufficient future taxable income.

The current income tax expense represents state taxes and alternative minimum taxes payable for the years ended December 31, 2003, 2002 and 2001.

A reconciliation of the Federal statutory rate to the effective tax is as follows:

	Year Ended December 31,		
	2003	2002	2001
U.S. statutory rate	35%	(35%)	(35%
Expiring net operating losses	0%	29%	0%
Reversal of 1999 items	0%	0%	173%
Other	(3%)	2%	0%
Effective rate	32%	(4%)	138%

(9) Capital Stock

(a) Common Stock

At December 31, 2003 and 2002, the Company had outstanding 9,235,434 shares of common stock with a $.01 par value per share ("Common Stock"). The holders of common stock are entitled to one vote per share on all matters, voting together with the holders of preferred stock, if any. In the event of liquidation, holders of common stock are entitled to share ratably in all the remaining assets of the Company, if any, after satisfaction of the liabilities of the Company and the preferential rights of the holders of outstanding preferred stock, if any.

In 2002 and 2001, the Company issued 15,000 shares of common stock each year as incentive compensation to an employee pursuant to the terms of an employment agreement associated with a 2000 acquisition.

(b) Preferred Stock

The authorized preferred stock of the Company consists of 5,000,000 shares, $.01 par value per share. The preferred stock is issuable in series, each of which may vary, as determined by

50

(9) Capital Stock (continued)

(b) Preferred Stock (continued)

the Board of Directors, as to the designation and number of shares in such series, the voting power of the holders thereof, the dividend rate, redemption terms and prices, the voluntary and involuntary liquidation preferences, and the conversion rights and sinking fund requirements, if any, of such series. At December 31, 2003, 2002 and 2001, there were no shares of preferred stock outstanding.

(c) Warrants

At December 31, 2002 and 2001, the Company had warrants outstanding to purchase 150,000 shares of the Company's common stock issued to its investment banker for financial advisory services in connection with the Merger (the "Investment Banker Warrants"). The Investment Banker Warrants expired December 31, 2003.

(d) Stock Option Plans

The Company has two stock option plans, the Directors' Stock Option Plan and the 1999 Employee Stock Option Plan (collectively, the "1999 Plans"). The 1999 Plans provide for options to be granted at generally no less than the fair market value of the Company's stock at the grant date. Options granted under the 1999 Plans have a term of up to 10 years and are exercisable six months

from the grant date. The 1999 Plans are administered by the Compensation and Stock Option Committee (the "Committee"), which is comprised of three directors. The Committee determines who is eligible to participate and the number of shares for which options are to be granted. A total of 600,000 and 200,000 shares were reserved for issuance under the Employee and Directors' Plans, respectively. As of December 31, 2003, options for 210,000 shares were available for future grants under the 1999 Employee Plan. All shares available for issuance under the Director's Plan are subject to outstanding options.

A summary of the activity and status of our stock option plans was as follows:

	Weighted Average Exercise Price Per Share			
	2003	2002	2001	2003
Outstanding Options - Beginning of year	$ 0.37	$ 0.41	$ 0.57	440,000
Options Granted	$ 0.18	$ 0.22	$ 0.21	150,000
Options Exercised	$ -	$ -	$ -	-
Options Cancelled	$ -	$ -	$ -	-
Options Outstanding - End of Year	$ 0.32	$ 0.37	$ 0.41	590,000
Options Exercisable - End of Year	$ 0.32	$ 0.37	$ 0.57	590,000

IMPERIAL INDUSTRIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements
(continued)

Information with respect to outstanding and exercisable stock options at December 31, 2003 was as follows:

		Options Outstanding		Options Exercis	
Exercise Price	Shares	Weighted Average Remaining Life (Years)	Weighted Average Exercise Price (A)	Shares	Wei Av Exe P
$ 0.18	150,000	4.38	$ 0.18	150,000	$
$ 0.20	120,000	2.87	$ 0.20	120,000	$
$ 0.22	80,000	3.38	$ 0.22	80,000	$
$ 0.24	45,000	2.71	$ 0.24	45,000	$
$ 0.57	195,000	0.96	$ 0.57	195,000	$
Total	590,000		$ 0.32	590,000	$

(A) All options were granted at market price and no compensation cost has been recognized in connection with these options.

Pursuant to SFAS No. 123,as amended by SFAS No. 148 "Accounting for Stock-Based Compensation Transition and Disclosure" the Company has elected to use the intrinsic value method of accounting for employee stock-based compensation awards. Accordingly, the Company has not recognized compensation expense for its noncompensatory employee stock option awards.

The weighted average fair value of the Company's Options granted during 2003, 2002 and 2001 were $.13, $.18 and $.15 per share, respectively, at the date of grant. The fair value of the Options was estimated using the Black-Scholes option pricing model with the following weighted average assumptions for 2003, 2002 and 2001; no expected dividend yield; expected volatility of 103%, 130% and 112%; risk free interest rate of 2.3%, 4.8% and 5.9%; and an expected option life of four years for each period.

(10) Miscellaneous income

A summary of miscellaneous income (expense) for the years ended December 31, 2003, 2002 and 2001 is as follows:

	2003	2002
Interest income	$ 3,000	$ 4,000
Insurance premium dividends	57,000	51,000
Late charge income	114,000	56,000
Gain (loss) on disposal of property, plant and equipment	38,000	(5,000)
Other, net	6,000	23,000
	$218,000	$129,000

52

IMPERIAL INDUSTRIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

(11) Earnings (Loss) Per Common Share

Below is a reconciliation between basic and diluted earnings (loss) per common share under SFAS 128 for the years ended December 31, 2003, 2002 and 2001 (in thousands except per share amounts):

	2003			2002		
	Income	Shares	Per Share	Loss	Shares	Per Sha
Basic earnings (loss):						
Income (loss) before cumulative effect of change in accounting principle for SFAS 142	$640	9,235	$0.07	$ (105)	9,229	$(0.01)
Cumulative effect of change in accounting principle for SFAS 142, net of tax benefit	$ -	-	$ -	$ (789)	9,229	$(0.09)
Net income (loss)	$640	9,235	$0.07	$ (894)	9,229	$(0.10)
Less: Provision for settlement of appraisal rights obligation	$ -	-	$ -	(313)	9,229	(0.03)
Net income (loss) available to common stockholders	$640	9,235	$0.07	$(1,207)	9,229	$(0.13)
Effect of Dilutive Securities: Options	-	55	-	-	-	-
Diluted earnings (loss):						
Income (loss) before cumulative effect of change in accounting principle for SFAS 142	$640	9,290	$0.07	$ (105)	9,229	$(0.01)
Cumulative effect of change in accounting principle for SFAS 142, net of tax benefit	$ -	-	$ -	$ (789)	9,229	$(0.09)
Net income (loss)	$640	9,290	$0.07	$ (894)	9,229	$(0.10)
Less: Provision for settlement of appraisal rights obligation	$ -	-	$ -	(313)	9,229	$(0.03)
Net income (loss)available to common stockholders	$640	9,290	$0.07	$(1,207)	9,229	$(0.13)

Options and warrants to purchase 345,000, 590,000, and 550,000 shares of common stock as of December 31, 2003, 2002 and 2001, respectively, were not included in the computation of diluted earnings per share for the respective years because the exercise price of the options was greater than the average market price of the Corporation's common stock.

IMPERIAL INDUSTRIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(continued)

(12) Related Party Transactions

The Company and its subsidiaries paid legal fees of approximately $193,000, $78,000 and $275,000 in 2003, 2002 and 2001, respectively, to a law firm with which two directors, including the Company's Chairman of the Board are affiliated. Such fees were primarily for services rendered by members and associates of such law firm other than the two directors. In addition, the Company paid annual lease payments of $94,000 for use of a distribution facility in each of 2003, 2002 and 2001, to the former owner of a business acquired by the Company's subsidiary, who is currently employed by the Company.

(13) Commitments and Contingencies

(a) Contingencies

As of March 23, 2004, the Company's subsidiary Acrocrete, together with other parties, are defendants in 56 lawsuits pending in various Southeastern states, brought by homeowners, homeowner associations, contractors and subcontractors, or their insurance companies, claiming moisture intrusion damage as a result of the use of Exterior Insulation Finish Wall Systems ("EIFS"), on single and multi-family residences. The Company's insurance carriers have accepted coverage under a reservation of rights for 41 of these claims and are providing a defense. Acrocrete expects its insurance carriers will accept coverage for the other 15 recently filed lawsuits. Acrocrete is vigorously defending all of these cases and believes it has meritorious defenses, counter-claims and claims against third parties. Acrocrete is unable to determine the exact extent of its exposure or outcome of this litigation.

The allegations of defects in EIFS are not restricted to Acrocrete products used in an EIFS application, but rather are an industry-wide issue. There never has been any defect proven against Acrocrete. The alleged failure of these products to perform has generally been linked to improper application and the failure of adjacent building materials such as window, roof flashing, decking and the lack of caulking.

As insurance markets for moisture intrusion type coverage have all but disappeared, the Company was forced on March 15, 2004 to renew its existing products liability coverage with an exclusion for EIFS exposure. The Company's management is evaluating the creation of a self insurance fund for these types of claims, and believes that with existing coverage covering all potential claims for goods sold prior to March 15, 2004, that for the foreseeable future any uninsured claims should not have a material adverse

(continued)

(13) Commitments and Contingencies

(a) Contingencies (continued)

effect on the Company's financial position. Sales of products used in EIFS applications are believed to represent less than 20% of the Company's revenues.

On June 15, 1999, the Company's subsidiary Premix was served with a complaint captioned Mirage Condominium Association, Inc. v. Premix, in the Eleventh Judicial Circuit in and for Miami-Dade County, Florida, Case No: 97-27544 (CA-11). The lawsuit raises a number of allegations against 12 separate defendants involving alleged construction defects, which as to Premix alleged that certain materials, purportedly provided by Premix to the Developers/Contractor and used to anchor balcony railings to the structure were defective. Premix believes it has meritorious defenses to these claims. The Company's insurance carrier has not made a decision regarding coverage to date. Since the inception of this matter in 1999 the insurance carrier has retained defense counsel on behalf of Premix and is paying defense costs. Premix expects the insurance carrier to eventually accept coverage. As discovery is not yet completed, Premix is unable to determine the exact extent of its exposure or the outcome of this litigation, however the Company believes that its ultimate exposure, if any, is not material.

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

On April 23, 1999, certain dissenting preferred stockholders owning shares of the Company's preferred stock filed a petition for appraisal in the Delaware Chancery Court to determine the fair value of the shares at December 31, 1998, the effective date of the Company's Merger. On April 30, 2003, the Company reached a settlement with the dissenting preferred stockholders. (See Note (1) of the Consolidated Financial Statements.)

In March 2003, Just-Rite instituted litigation against a former employee, employed at the Company's Gulfport, Mississippi distribution facility, and others, due to alleged violations by the employee of his non-compete agreements related to the acquisition of the business at that location. The litigation against the former employee seeks to enjoin further violations of his non-compete agreement and for damages resulting from such actions. In connection with the litigation, Just-Rite discontinued payments on a promissory note with a remaining balance in the aggregate amount of $128,000, issued as partial consideration for the acquisition

Notes to Consolidated Financial Statements
(continued)

(13) Commitments and Contingencies

(a) Contingencies (continued)

of the Gulfport, Mississippi facility. The beneficial holders of the promissory note (the former employee and the other former owner) have initiated claims against Just-Rite for payment of the obligation. In February 2004, the Court entered an order ruling that the former employee had violated the terms of a preliminary injunction barring him from his further competing against Just-Rite and ordered that certain sanctions be imposed.

The Company is aggressively defending all of the lawsuits and claims described above, and while the Company does not believe these claims will have a material adverse effect on the Company's financial position, given the uncertainty and unpredictability of litigation there can be no assurance of this.

(b) Lease Commitments

At December 31, 2003 certain property, plant and equipment were leased by the Company under long-term leases. Future minimum lease commitments as of December 31, 2003, for all noncancellable leases are as follows:

December 31,	
2004	$1,019,000
2005	625,000
2006	234,000
2007	133,000
2008 and thereafter	75,000
	$2,086,000

Rental expense incurred for operating leases were approximately $1,152,000, $1,096,000 and $1,242,000, for the three years ended December 31, 2003, 2002 and 2001, respectively.

(14) Impairment Charges

In 2002, the Company closed an under-performing distribution facility. As a result of closing this facility, the Company recorded an impairment charge of $96,000 to write-down the carrying value of the property held for sale to $240,000, its estimated realizable value. The property has been reclassified from property, plant and equipment to other current assets (asset held for sale) in the accompanying December 31, 2002 balance sheet.

During 2001, the Company reviewed its long-lived assets and goodwill for which there were indications of possible impairment. The assets the Company reviewed were primarily those

IMPERIAL INDUSTRIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements
(continued)

(14) Impairment Charges (continued)

associated with the Company's distribution operations acquired in 2000, since the Company experienced losses from certain of these operations, closed several locations, restructured operations and made changes to management. Based on these reviews, the Company recorded an impairment charge of $238,000 in the fourth quarter of 2001. This charge represented a write-down of the excess cost of investment over net assets acquired related to the January 1, 2000 and May 1, 2000 acquisitions. The fair values of the goodwill were primarily based on the Company's estimates of discounted future cash flows.

(15) Obligation for Appraisal Rights

(a) On April 30, 2003, the Company and former holders of 81,100 shares of Preferred Stock who elected appraisal rights in connection with the Company's 1998 Merger ("Dissenting Stockholders") reached a settlement (the "Settlement"). In accordance with the Settlement, the Company paid the Dissenting Stockholders $12.00 per share in cash ($973,200) and issued a 5.6% promissory note (the "Note") for $10.00 per share ($811,000) due May 1, 2006. The principal balance of the Note would be reduced to $7.00 per share ($567,700) in the event the Company prepays the Note in full prior to November 1, 2004. If the Note is not paid in full prior to November 1, 2004, the interest rate will increase from 5.6% to 8.0%. The Company satisfied the cash due at closing of the Settlement from cash on hand and borrowings from its amended line of credit with its commercial lender based on an increase to its inventory borrowing base. At December 31, 2003 and 2002, based on management's intention to prepay the Note in full prior to November 1, 2004, the appraisal right obligation was recorded at $567,700 and $1,541,000, respectively, on the accompanying consolidated balance sheets. As a result of the completion of the Settlement, the $567,700 Obligation for Appraisal Rights was classified as a short-term liability at December 31, 2003. On March 29, 2004 the Company paid $400,000 related to the Note.

In 2002, the Company recognized a $313,000 increase in net loss available to common stockholders as a result of reaching a settlement in principle with the Dissenting Stockholders in February 2003. The $313,000 loss was due to the excess of the $1,541,000 settlement over the $1,228,000 carrying value of the obligation at the time of settlement, including accrued interest of $351,000.

Schedule II

IMPERIAL INDUSTRIES, INC. AND SUBSIDIARIES
Valuation and Qualifying Accounts

Years ended December 31, 2003, 2002 and 2001

Description	Balance beginning of period	Charged to cost and expenses	Charged to other accounts-describe	Deducti descr
Year Ended December 31, 2003:				
Reserves and allowances deducted from asset accounts;				
Allowance for doubtful accounts:				
Trade	$ 477,000	$318,000	$ -	$ 239,00
Year Ended December 31, 2002:				
Reserves and allowances deducted from asset accounts;				
Allowance for doubtful accounts:				
Trade	$ 453,000	$268,000	$ -	$ 244,00
Year Ended December 31, 2001:				
Reserves and allowances deducted from asset accounts;				
Allowance for doubtful accounts:				
Trade	$ 400,000	$375,000	$ -	$ 322,00

(A) Uncollectable accounts written off, net of recoveries.

58

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

a. Evaluation of disclosure controls and procedures

The Company has established disclosure controls and procedures to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to the officer who certify the Company's financial reports, as well as to other members of senior management and the Board of Directors.

The Company's management, under the supervision of the Company's Chief Executive Officer ("CEO")/Chief Financial Officer ("CFO"), has evaluated the effectiveness of the Company's 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. Management has concluded that the Company's disclosure controls and procedures are effective to ensure that information the Company is required to disclose in reports that it files or submits under the Securities Exchange Act is communicated to management, including the CEO/CFO, 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.

b. Changes in internal controls.

There were no significant changes in the Company's internal controls or in other factors that could significantly affect the Company's internal controls subsequent to the Evaluation Date.

59

PART III

Item 10. Directors and Executive Officers of the Registrant

Information regarding the Company's Board of Directors appearing under the caption "Election of Directors" and "Board of Directors and its Committees" in the Company's Proxy Statement for its 2004 Annual Meeting of Stockholders is hereby incorporated by reference.

The following table sets forth certain information with respect to the executive officers of the Company:

Name	Age	Position With Company
Howard L. Ehler, Jr.	60	Principal Executive Officer, Executive Vice President and Secretary
Gary J. Hasbach	59	President, Premix, Acrocrete and Just-Rite
Betty J. Murchison	64	Chief Accounting Officer, Assistant Vice President

Subject to certain contractual rights, each officer serves at the discretion of the board of directors.

Howard L. Ehler, Jr. Mr. Ehler has been Principal Executive Officer of the Company since March 1990 and Executive Vice President, Chief Financial Officer and Secretary of the Company since April 1988. Prior thereto he was Vice President, Chief Financial Officer and Assistant Secretary of the Company for over five years.

Gary J. Hasbach. Mr. Hasbach has been President of Premix and Acrocrete since March 2001, and President of Just-Rite, since February 2000. Prior thereto, he had been Executive Vice President of Sales and Marketing for Premix and Acrocrete since January 1, 1999. Mr. Hasbach was formerly President of Premix and Acrocrete form September 1990 to May 1996.

Betty J. Murchison. Ms. Murchison has been the Company's Chief Accounting Officer since June 1995.

Reports Pursuant to Section 16 (a) of the Securities and Exchange Act of 1934

The Company's officers and directors are required to file Forms 3, 4 and 5 with the Securities and Exchange Commission in accordance with Section 16 (a) of the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder. Based solely on a review of such reports furnished to the Company as required by Rule 16a-3 (e), in 2003 no officer or director filed any report untimely, or failed to file a required report.

60

PART III

Code of Business Conduct and Ethics

Information regarding the Company's Business Conduct and Ethics is included in the Company's Proxy Statement for its 2004 Annual Meeting of Stockholders and is hereby incorporated by reference.

Item 11. Executive Compensation

Information appearing under the caption "Executive Compensation" in the Company's Proxy Statement for its 2004 Annual Meeting of Stockholders is hereby incorporated by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management

Information setting forth the security ownership of certain beneficial owners and management appearing under the caption "Stock Ownership" in the Company's Proxy Statement for its 2004 Annual Meeting of Stockholders is hereby incorporated by reference.

Item 13. Certain Relationships and Related Transactions

Information regarding certain relationships and related transactions appearing under the caption "Certain Transaction" in the Company's Proxy Statement for its 2004 Annual Meeting of Stockholders is hereby incorporated by reference.

Item 14. Principal Accounting Fees and Services

Information regarding principal accounting fees and services appearing under the caption "Independent Certified Public Accountant" in the Company's Proxy Statement for its 2004 Annual Meeting of Stockholders is hereby incorporated by reference.

61

PART IV

Item 15. Exhibits, Financial Statement Schedules and Reports on Form 8-K

(a) 1. and 2. The consolidated financial statements and supplemental financial statement schedule

See Part II, Item 8. Financial Statements and Supplementary Data for an index of the Corporation's consolidated financial statements and supplementary data schedule.

3. 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
2.1	Agreement and Plan of Merger, by and between Imperial Industries, Inc. and Imperial Merger Corp. dated October 12, 1998 (Form S-4 Registration Statement, Exhibit 2).
2.2	Asset Purchase Agreement entered into as of December 31, 1999 between Just-Rite Supply, Inc., Imperial Industries, Inc., A&R Supply, Inc., A&R Supply of Foley, Inc., A&R of Destin, Inc., Ronald A. Johnson, Rita E. Ward and Jaime E. Granat (Form 8-K dated January 19, 2000, File No. 1-7190, Exhibit 2.1).
2.3	Asset Purchase Agreement dated June 5, 2000 between Just-Rite Supply, Inc., Imperial Industries, Inc., A&R Supply of Mississippi, Inc., A&R Supply of Hattiesburg, Inc., Ronald A. Johnson, Dennis L. Robertson and Richard Williamson, (Form 8-K dated June 13, 2000, File No. 1-7190, Exhibit 2.1.
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.
3.2	By-Laws of the Company, (Form S-4 Registration Statement, Exhibit 3.2).
4.1	Form of Common Stock Purchase Warrant issued to Auerbach, Pollak & Richardson, Inc., (Form S-4 Registration Statement, Exhibit 4.1).
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.

Item 15. Exhibits, Financial Statement Schedules and Reports of Form 8-K (continued)

3. EXHIBITS
(continued)

10.2 Employment Agreement dated July 26, 1993 between Howard L. Ehler, Jr. and the Company. (Form 8-K dated July 26, 1993)

10.3 License Agreement between Bermuda Roof Company and Premix-Marbletite Manufacturing Co., (Form S-4 Registration Statement, Exhibit 10.5).

10.4 Employee Stock Option Plan (Annual Report on Form 10-K for the year ended December 31, 2000).

10.5 Directors Stock Option Plan (Annual Report on Form 10-K for the year ended December 31, 2000).

*14.1 Imperial Industries, Inc. Code of Business Conduct.

*21 Subsidiaries of the Company.

*31 Certification of the Company's Chief Executive Officer/Chief Financial Officer pursuant to Rule 13a - 14(a).

*32 Certification of the company's Chief Executive Officer/Chief Financial Officer pursuant to Section 1350.

(b) Reports on Form 8-K:

A Form 8-K was filed on November 12, 2003 announcing the issuance of a press release setting forth a summary of the Company's sales and operating results for the third quarter and nine months ended September 30, 2003.

SIGNATURES

Pursuant to the requirements of Section 13 or 15 (d) of the Securities 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.

March 29, 2004 By: /s/ Howard L. Ehler, Jr.

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

Pursuant to the requirements of the Securities and Exchange Act of 1934, this Report has been signed below by the following persons and behalf

of the Registrant and in the capacities and on the dated indicated.

Signature	Title	Date
/s/ Daniel Ponce -------------------- S. Daniel Ponce	Chairman of the Board of Directors	March 29, 2004
/s/ Lisa M. Brock ------------------ Lisa M. Brock	Director	March 29, 2004
/s/ Milton J. Wallace ----------------------- Milton J. Wallace	Director	March 29, 2004
/s/ Morton L. Weinberger ------------------------ Morton L. Weinberger	Director	March 29, 2004
/s/ Howard L. Ehler, Jr. -------------------------- Howard L. Ehler, Jr.	Director, Executive Vice President, Principal Executive Officer, Chief Financial Officer and Secretary	March 29, 2004
/s/ Betty J. Murchison ------------------------ Betty J. Murchison	Assistant Vice President and Chief Accounting Officer	March 29, 2004