IMPERIAL INDUSTRIES INC
Form 10-K
March 29, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

þ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the fiscal year ended December 31, 2011

Commission File Number 1-7190

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

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

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

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

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

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

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

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

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days. Yes þ No ¨

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during

the preceding 12 months (or such shorter period that the Registrant was required to submit and post such files). Yes þ No ¨

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

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

Large accelerated filer	o	Accelerated filer	o	Non-accelerated filer	o	Smaller reporting company	þ

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

The aggregate market value of the voting stock of the Registrant held by non-affiliates computed by reference to the closing price of the registrant's Common Stock ($.01 par value) on the NASDAQ Capital Market as of the last business day of the registrant's most recently completed second fiscal quarter (June 30, 2011) is: $1,486,846.

Number of shares of Imperial Industries, Inc. Common Stock ($.01 par value) outstanding on March 20, 2012 is 2,566,210.

DOCUMENTS INCORPORATED BY REFERENCE

None

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PART I

ITEM 1. BUSINESS

Special Note Regarding Forward-Looking Statements

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

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

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

General

Imperial Industries, Inc. (the “Company”) is a Delaware corporation, which, through its predecessor corporations, has been in existence since 1968. Our executive offices are located at 1259 NW 21st Street, Pompano Beach, Florida 33069 and the telephone number at our office is (954) 917-4114.

We are engaged in the manufacture and distribution of building materials through our wholly-owned subsidiary, Premix-Marbletite Manufacturing Co. (“Premix”) to building materials dealers and others located primarily in Florida, and to a lesser extent, other states in the Southeastern United States and the Carribean. We have two facilities. One facility is used primarily for producing, marketing and distributing our manufactured products. The other facility is

primarily used for marketing and distributing our manufactured products as well as products purchased from other manufacturers, in addition to manufacturing products. Such products are sold to building materials dealers, contractors and others.

The Premix facilities primarily produce and distribute pool finish coatings, roof tile mortar, stucco and plaster products. Pool finish products are applied as coatings for in-ground swimming pools. Roof tile mortar is used to adhere cement roof tiles to the roof. Stucco products are applied as a finishing coat to exterior surfaces and plaster customarily is used to finish interiors of structures.

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

During the second quarter of 2006, residential construction demand began to be impacted by a number of adverse factors, including higher interest rates, an increase in available inventory of unsold new and existing homes, and homebuilders reporting lower order rates for new homes. As a consequence, residential construction activity, and applications for building permits for new residential units, considered a strong sign for future construction activity, began to decline sharply in Florida in the last six months of 2006. Further, the significant decline in building permits in the Florida markets since 2006 indicates that future residential construction activity and demand for our products is expected to remain weak in such markets in 2012.

The challenging market conditions we faced in 2011 are continuing due generally to the following:

- High levels of new and existing home inventory available for sale;
- Low consumer confidence in the housing market;
- Reduced home affordability and loss of jobs;
- Contraction in the mortgage and credit markets.

Although the current Federal Reserve Board policy initiatives shows its determination to reverse the economy’s downward momentum and improve the bond and credit market conditions which would be beneficial to the residential and commercial construction industry, the depth and duration of the decline in construction activity as well as the strength of any recovery cannot be determined.

Discontinued Operations and Closed Facilities

Until June 11, 2009, we were engaged in the distribution of building materials to builders, contractors and sub-contractors in the Southeastern United States through our wholly-owned subsidiary, Just-Rite Supply, Inc. (“Just-Rite”). The Just-Rite facilities formerly sold gypsum wallboard, roofing, stucco, insulation, doors, windows, lumber and other related products, as well as products manufactured by Premix. Prior to the discontinuance of operations, Just-Rite accounted for approximately 76% of our consolidated net sales in 2008, including Premix products sold through Just-Rite.

On June 11, 2009, Just-Rite entered into an Assignment for the Benefit of Creditors (the “Assignment”) with Michael P. Phelan, Vice President of Michael Moecker and Associates (the “Assignee”). In connection with the Assignment, Just-Rite transferred all of its assets, subject to any liabilities thereof, to the Assignee, a non-affiliated party, who is winding down, selling and liquidating the assets of Just-Rite for the benefit of creditors in accordance with the laws of the State of Florida. We have not operated any of the assets or the business of Just-Rite since the date of the Assignment. As a result of the Assignment, Just-Rite operations are presented as discontinued operations in 2011 and 2010. All Just-Rite assets are considered held for sale and are reported in the financial statements as “Assets held for

sale by assignee", and all Just-Rite liabilities are reported in the financial statements as "Liabilities related to assets held for sale by assignee".

Just-Rite has not obtained either (a) a final court order for the conveyance of assets, (b) a settlement with creditors or (c) a court action granting Just-Rite relief from the creditor's claims. It cannot be determined when the Assignment will be completed. Also, since the Assignment process has not been completed, it is possible, although not likely, that the ultimate proceeds from the disposition of the assets held for sale by Assignee, and the settlement of liabilities related to sale by Assignee could be at amounts materially different than the carrying amounts, as adjusted during the fourth quarter of 2011, reflected in the accompanying consolidated financial statements. See Note 5 of Notes to the Consolidated Financial Statements.

Sales of Certain Assets

In April 2010, Just-Rite sold its property located in Tampa, Florida for net proceeds of $554,000. Just-Rite realized a gain of $230,000 from the sale of this parcel, which is included as part of the loss from discontinued operations in the statement of operations for the year ended December 31, 2010.

Premix

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

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, the majority of all roof tile mortar sales have been to customers in South Florida. We have expanded and are continuing to expand our marketing efforts for this product to other areas of Florida and other states in the Southern United States.

Growth Opportunities

While many industry forecasts do not indicate any material expected improvement in the construction industry in the near term, we are focusing our efforts on addressing new marketing opportunities, developing new products and broadening our geographic reach for certain products, including establishing arrangements with other manufacturers to produce our products for sale in other markets. We are continually working with our customers in an effort to identify new products to increase the breadth of our product line to increase sales.

Suppliers

The majority of Premix's raw materials and products are purchased from approximately thirty seven suppliers. While five suppliers account for approximately 43% of Premix's raw material purchases, Premix is not dependent on any one supplier for its requirements. Historically, equivalent materials have been available from other sources at similar prices. We have not experienced any raw material product shortages since the second quarter of 2006.

Sales and Marketing

Our sales and marketing strategy is to provide a wide range of products and superior service to our customers for the products we manufacture and distribute, as well as enlarging our product offerings through the development of new products, and to include additional complementary products and other building materials manufactured by other companies. The other building materials and complementary items are purchased by us and held in inventory, together with our manufactured products, for sale to customers. Currently, we are making an effort to extend our geographic territory and expand our product line at both of our facilities to increase sales by selling more products to existing customers and attracting new customers. Generally, sales orders are filled out of existing inventory within several days of receipt of the order. Our sales approach to the new and renovation construction markets is targeted at both the end user of our products, being primarily the contractor or subcontractor, and the distributor, principally building materials dealers who purchase products from us and sell to the end-user, and in some instances, retail customers.

While our manufactured products have typically been sold to distributors, we focus our marketing efforts on the contractor/sub-contractor end user to create a brand preference for our manufactured products. One customer accounted for 28% and 29%, and another customer accounted for 12% and 14%, of the Company's net sales from continuing operations for 2011 and 2010, respectively. The majority of sales of our manufactured products are sold directly by Premix to building materials distributors.

We believe that the loss of any one independent distributor would not cause a material loss in sales of our manufactured products because the brand preference contractors and subcontractors generally have for our products cause the user to seek a distributor who carries our manufactured products. However, the loss of the above noted significant customers, or our inability to successfully develop relationships with additional key customers could have a material adverse effect on our business, financial condition and results of operations. We market our products to distributors through Company salespeople and outside sales representatives located throughout the Southeastern United States.

Seasonality

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

Competition

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

Environmental Matters

Our operations are subject to various federal, state and local environmental laws and regulations in the normal course of our business. Although we believe that our manufacturing, handling, consuming, selling and disposing of our raw materials and products are in accordance with current environmental regulations, future developments could require us to make unforeseen expenditures relating to environmental matters. Increasingly strict environmental laws, standards and environmental policies may increase the risk of liability and compliance costs associated with our operations. Capital expenditures on environmental matters have not been material in past years, and expenditures for 2012 to comply with existing laws and regulations are also not expected to have a material effect on our financial position, results of operations or liquidity.

Employees

We had 25 full time employees at December 31, 2011. Employee relations are considered good and employees are not subject to any collective bargaining agreement.

Available Information

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

The content of our website is not, nor should it be deemed to be, incorporated by reference into this Form 10-K.

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

ITEM 1A. RISK FACTORS

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

We have experienced losses and negative cash flow in each of the past five years and expect to incur losses and negative cash flow in 2012. Without additional financing in 2012, it is not likely the Company will be able to continue operations in its current form.

We operate in the construction industry, which has been negatively impacted by economic conditions since 2007. As a result, the Company's sales have continued to decline and the Company's operations have generated negative cash flows since 2007. As of December 31, 2011, we had a cash balance of $636,000. In 2011, we had negative cash flow of $743,000 which included receipt of $825,000 from settlements of litigation. Without the receipt of such proceeds from the settlement of litigation, our negative cash flow would have been $1,568,000. Unless sales increase in future periods, we will continue to incur negative cash flows and will not have sufficient cash to operate our business over the next 12 months unless we are able to obtain financing. We cannot assure that our business will generate sufficient cash flow from operations or that future borrowing or other financings will be available to us in amounts sufficient to fund our needs, if at all. Any curtailment of operations, or reduction or delay in planned capital expenditures may materially and adversely affect our future revenue prospects.

In addition, we are guarantors of certain Just-Rite obligations, including obligations collateralized by assets being sold in the liquidation of that business through the Assignment process, and other obligations related to Just-Rite's obligations under noncancellable lease agreements. To the extent the proceeds realized from the assets sold are less than the amount of the guaranteed obligations, or the amounts claimed by lessors are in excess of the amounts we have estimated, it will result in a remaining obligation for the Company. At this date, it is uncertain what the amount of any remaining obligation will be after the sale of those collateralized assets, and the final disposition of our guarantee obligations under the leases. Many of these factors are beyond our control.

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

The building products industry is cyclical in nature and sensitive to changes in general economic conditions, including, in particular, conditions in the residential and commercial construction markets. Prices for our products and services are affected by overall supply and demand in the market for our products and for our competitors' products. The recent economic downturn has resulted in a prolonged period of weak demand and excess supply which has negatively affected our revenues and margins and adversely affected our liquidity, financial condition and operating results. Any future economic downturn could have the same effect on us.

The markets we serve, principally the residential housing and commercial construction markets, are significantly affected by the movement of interest rates. Significantly higher interest rates or lack of available credit could weaken demand for construction activities, which could lower demand for the Company's products. Other factors beyond our control may also impact demand for the Company's products, including, but not limited to new housing starts, which are influenced by availability of financing, housing affordability, demographic trends, employment levels, unforeseen inflationary pressures and consumer confidence. Since our operations occur in limited geographic markets in the

Southeast United States, our business is subject to the economic conditions in each such geographic market, particularly in the State of Florida.

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Beginning in the second quarter of 2006, residential construction demand began to be impacted by a number of factors, including higher interest rates, an increase in available inventory of unsold new and existing homes, and homebuilders reporting lower order rates for new homes. As a consequence, applications for building permits for new residential units, considered a strong sign for future construction activity, began to decline sharply in Florida in the last six months of 2006 and continued through 2009. While there was a modest increase in building permits for the construction of new residential units in Florida during 2010 and 2011, our current business environment remains depressed and we expect general construction activity in our principal trade area to continue to be slow for the foreseeable future. The depth and duration of the decline cannot be predicted. A continued depressed residential and commercial construction market has and is expected to continue to have an adverse effect on our liquidity, capital resources and results of operations.

Our independent registered public accounting firm has expressed substantial doubt about our ability to continue as a going concern.

Our independent registered public accounting firm issued its report dated March 29, 2012 in connection with the audit of our financial statements as of and for the year ended December 31, 2011 that included an explanatory paragraph describing the existence of conditions that raise substantial doubt about our ability to continue as a going concern. Our consolidated financial statements as of and for the year ended December 31, 2011 have been prepared under the assumption that we will continue as a going concern. We have taken and are taking several responsive steps, as set forth in Note 2 to the accompanying consolidated financial statements appearing elsewhere in the Form 10-K, that management hopes will be sufficient to allow the Company to continue as a going concern and to improve our operating results and financial condition. There can be no assurance that such actions will be effective. Our financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Additional adverse changes in economic conditions where we conduct our operations and where prospective customers live could further reduce the demand for our products and, as a result, could further reduce our results of operations and continue to adversely affect our financial condition.

Adverse changes in national, regional and local economic conditions where we conduct our operations and where prospective purchasers of our products live, have had and may continue to have a negative impact on our business. Adverse changes in employment levels, job growth, consumer confidence, interest rates and population growth, or an oversupply of already constructed homes for sale may further reduce demand and depress prices for our products. These adverse economic conditions could further reduce our results of operations and continue to adversely affect our financial condition.

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

We remain liable on guarantees of certain obligations of Just-Rite related to specific underlying assets, including noncancellable lease agreements, that were used in Just-Rite's former operations. To the extent the proceeds derived from the sale of such assets are less than those guaranteed obligations, or the amounts claimed by lessors are in excess of the amounts we have estimated we will be responsible for the short-fall. Such amount of these potential obligations cannot be determined until the assets are sold by the Assignee and the amount of deficiencies remaining to satisfy these obligations arising after said sale, if any, are known. During 2009, we established a loss contingency estimate of $529,000, of which, after subsequent settlement payments have been made for certain of the obligations, $172,000 remains in accrued expenses and other liabilities in the accompanying consolidated balance sheet as of December 31, 2011. The accrued loss contingency will continue to be adjusted in future periods as more current information is obtained.

The loss of any of our largest customers could have a material adverse effect on our business, financial condition and results of operations.

One customer accounted for 28% and 29% of the Company's net sales from continuing operations for 2011 and 2010, respectively. This customer's accounts receivable represented 35% and 23% of total accounts receivable at December 31, 2011 and 2010, respectively. Another customer accounted for 12% and 14% of the Company's net sales from continuing operations for 2011 and 2010, respectively. This customer's accounts receivable represented 12% and 17% of total accounts receivable at December 31, 2011 and 2010, respectively. Although we expect these customers to remain for the foreseeable future, there can be no assurance that we will be able to retain them, or that we would be able to recruit additional key customers to replace the loss of these customers. The loss of these customers, or our inability to successfully develop relationships with additional key customers could have a material adverse effect on our business, financial condition and results of operations.

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

A significant portion of our expenses are fixed costs, which do not fluctuate with variations in net sales. A decline in net sales is expected to cause a greater proportional decline in operating results. A continuing reduction in net sales could have an unfavorable effect on future operating results due to the negative operating leverage.

Our business is subject to intense competition.

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

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

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

Our products are currently obtainable from various sources and in sufficient quantities. However, from time to time it is possible we may experience shortages of building products as a result of unexpected demand or production difficulties as well as transportation limitations. In addition, we purchase products from many vendors under relationships that are terminable without cause or written notice which is customary in our industry. Any disruption in our sources of supply for raw materials or building materials could negatively impact our financial condition and results of operations. If shortages or disruptions in our supply of products from our vendors were to become severe and occur on a more frequent basis in the future, there could be a short-term adverse effect on our operations and a long-term adverse effect on our customer relationships and reputation if we were unable to obtain a sufficient allocation of products from other vendors. In addition, we have strategic relationships with several key vendors. In the event we are unable to maintain these relationships, we could lose some of the competitive advantages that those relationships offer us, which could, in turn, adversely affect our results of operations and financial condition.

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

We carry general liability, comprehensive property damage, workers' compensation and other insurance coverages for the protection of our assets and operations. There can be no assurance, however, that the coverage limits of such policies will be adequate to cover losses and expenses for lawsuits brought or which may be brought against us. Effective March 15, 2004, we were unable to renew our product liability coverage with coverage for alleged damages caused to building structures because of moisture intrusion due to the use of products formerly manufactured by our

subsidiary, DFH, for exterior insulation finish wall systems ("EIFS"), on single and multi-family residences, as well as commercial buildings. While no uninsured lawsuits have been filed against DFH to date, there can be no assurance that this fact will continue in the future.

Our subsidiary, Premix, is a defendant (together with our parent Company in certain claims), together with non-affiliated parties, in sixteen claims which allege bodily injury due to exposure to asbestos in products manufactured in excess of thirty (30) years ago. We believe we currently have more than adequate insurance coverage for these asbestos claims and such policies are not subject to self-insured retention. However, losses and expenses in excess of insurance coverage for the EIFS and asbestos product liability claims, as well as any uninsured lawsuits for EIFS product claims, in the future, could have a material adverse effect on our operating results and financial condition. See Item 3. – Legal Proceedings and Note 15 of Notes to Consolidated Financial Statements included elsewhere in the Report for further discussion of litigation matters.

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

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

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

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

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

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

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

As part of our growth strategy, we may add additional product lines or build additional plants. There are certain risks inherent in such growth strategy that could adversely affect our ability to achieve these objectives including, but not limited to the following:

- The potential disruption of our business;
- The uncertainty that new product lines will generate anticipated sales;
- The diversion of resources and management's time;
- The difficulty of managing the operations of a larger company;
- The risk of becoming involved in labor, commercial or regulatory disputes or litigation related to the new enterprise;

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

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

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

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

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

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

Our Common Stock is subject to “Penny Stock” rules and these regulations may limit the liquidity of our Common Stock.

Our common stock was listed in the NASDAQ Capital Market until January 27, 2010. Since that date our shares have been quoted in the Over-the-Counter Bulletin Board, under the symbol, “IPII.OB”.

The SEC has promulgated rules governing the over the counter trading in penny stocks, defined generally as securities trading below $5 per share that are not quoted on a securities exchange or which do not meet other substantive criteria. Under these rules, our common stock is currently classified as a penny stock. As a penny stock, our common stock is currently subject to rules promulgated by the SEC that impose additional sales practice requirements on broker-dealers that might sell such securities to persons other than established customers and institutional accredited investors. For transactions covered by the rule, the broker-dealer must make a special suitability determination for the purchaser and receive the purchaser’s written consent to the transaction prior to the sale. Further, if the price of the stock is below $5 per share and the issuer does not have $2.0 million or more net tangible assets or is not listed on a registered national securities exchange, sales of such stock in the secondary trading market are subject to certain additional rules promulgated by the SEC. These rules generally require, among other things, that brokers engaged in secondary trading of penny stocks provide customers with written disclosure documents, monthly statements of the market value of penny stocks, disclosure of the bid and asked prices, and disclosure of the compensation of the broker-dealer and the salesperson working for the broker-dealer in connection with the transaction. If a trading market for our common stock develops, these rules and regulations may affect the ability of broker-dealers to sell our common stock, thereby effectively limiting the liquidity of our common stock. These rules may also adversely affect the ability of persons that acquire our common stock to resell their securities in any trading market that may exist at the time of such intended sale.

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

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

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

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

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

Our certificate of incorporation, as amended, as well as Delaware law applicable to our company contain provisions which may delay or prevent other companies from completing transactions in which shareholders may receive a substantial premium for their shares over then-prevailing market prices. These provisions may also limit shareholders' ability to approve transactions they may otherwise believe are in their best interests. For example, our Board of Directors is divided into three classes of directors and as such is elected for staggered three-year terms. Normally this would make it difficult for another company to succeed in proxy contests to obtain control of the Board. However, as we have not had an annual meeting of stockholders for the last two years, all of our directors, regardless of class, will be up for election at the next annual meeting. The certificate of incorporation also permits the Board of Directors to issue, at any time without shareholder approval, shares of preferred stock, with such terms it may determine in the Board's discretion. These provisions and others could delay, prevent or allow the Board of Directors to resist an acquisition of our company, even if a majority of the shareholders favor such a transaction.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

We conduct operations through our subsidiaries from two facilities located in Florida. The location and size of our current facilities and the principal 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/Imperial
Winter Springs, FL (1)	26,000	Leased	Premix

(1) In November 2008, we sold our Winter Springs, Florida manufacturing facility under the terms of a sales-leaseback agreement. In connection with such closing, Premix entered into a five year lease. The lease contains two five year renewal options, and also provides the Company with an option to repurchase the facility at a price defined in the agreement at any time after two years, during the term of its lease period. As a result of the repurchase option, we accounted for the sale of the facility as a secured financing. See Note 6 of Notes to the Consolidated Financial Statements included elsewhere in this Report.

We currently lease such properties from unaffiliated third parties. In the event we are unable to renew the above leases on acceptable terms, management believes there are other available facilities at each location and the cost of moving is not material other than the location for our manufacturing facility in Winter Springs, Florida. The Winter Springs facility lease expires October 31, 2013 but contains lease purchase and renewal options, as described above.

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

ITEM 3. LEGAL PROCEEDINGS

(a) Legal Proceedings

Asbestos Litigation

Premix is a defendant together with non-affiliated parties in sixteen claims (eight of which include Imperial as a defendant) which allege bodily injury due to exposure to asbestos contained in products manufactured in excess of thirty (30) years ago. The table below lists each of these pending claims, in addition to the court in which the action is pending and the date that Premix and/or Imperial was served with the complaint.

STYLE OF CASE	COURT/TRIBUNAL	CASE NUMBER	DATE OF SERVICE OF COMPLAINT
Marilyn Adair v. Premix, et al	15th Judicial Circuit - Palm Beach County	07-9343	June 29, 2007
Elaine Legault v. Premix, et al(1)	13th Judicial Circuit - Hillsborough County	08-10789	June 23, 2008
Edward Pryzbyla v. Premix, et al	17th Judicial Circuit-Broward County	09-053844-07	November 4, 2009
Nancy Henley v. Imperial, Premix, et al	13th Judicial Circuit - Hillsborough County	09-27856	March 12, 2010
Bruce Weisemann v. Premix, et al	13th Judicial Circuit - Hillsborough County	10-005365	March 17, 2010
Shirley Picklo v. Premix, et al	13th Judicial Circuit - Hillsborough County	10-000262-07	April 21, 2010
Betty Trowsse v. Imperial, Premix, et al	13th Judicial Circuit - Hillsborough County	10-02779	May 5, 2010
Edward Evans v. Imperial, Premix, et al	11th Judicial Circuit - Miami-Dade County	10-9106-CA-42	May 13, 2010
Herman Roberts v. Premix, et al	13th Judicial Circuit - Hillsborough County	10-006329	July 2, 2010
Lawrence McFarlin v. Premix, et al	13th Judicial Circuit - Hillsborough County	10-007786	August 5, 2010
Pauline Marley v. Imperial, Premix, et al	11th Judicial Circuit - Miami-Dade County	10-17557-CA-42	August 6, 2010
Isabel Perry v. Imperial, Premix, et al	17th Judicial Circuit-Broward County	10-23096	September 24, 2010

Craig Comes v. Imperial, Premix, et al	13th Judicial Circuit - Hillsborough County	10-014949	November 12, 2010
Claudia Fils-Aime v. Imperial, Premix, et al(1)	11th Judicial Circuit - Miami-Dade County	10-63197-CA-06	March 11, 2011
Hidelisa Cordovez v. Premix, et al(1)	11th Judicial Circuit - Miami-Dade County	11-08485-CA-24	April 13, 2011
Julius B. Sanders v. Imperial, Premix, et al	17th Judicial Circuit-Broward County	11-016176	August 17, 2011
James R. Williams v. Premix, et al	13th Judicial Circuit - Hillsborough County	11-8564Z	November 2, 2011

(1) During the first quarter of 2012 these cases were dismissed, which did not result in any additional costs to our insurance carriers or the Company.

The above chart depicts all asbestos cases that were pending against Premix and/or Imperial as of December 31, 2011. During the first quarter of 2012, two additional asbestos claims were filed, including Timmy King v. Imperial, Premix et al., which claim was filed in the 11th Judicial Circuit Court in and for Miami-Dade County, Case No.: 12-0075. Premix was served with a copy of the King Complaint on February 13, 2012, whereas Imperial was served with a copy of the King Complaint on February 20, 2012. In addition, on March 14, 2012, Premix was named in an asbestos lawsuit filed in the District Court of Dallas County, Texas, in the matter of Alan J. Hantak, et al. v. ABB, Inc., Case No. 12-02936. Premix has not yet been served with a copy of the Complaint in the Hantak matter.

We believe that Premix and the Company have meritorious defenses to each of the claims identified in the table above. We have identified at least ten (10) of our prior insurance carriers including both primary and excess/umbrella liability carriers that have provided liability coverage to us, including potential coverage for alleged injuries relating to asbestos exposure. Several of these insurance carriers have been and continue to provide a defense to Premix and the Company under a reservation of rights in all of the asbestos cases. Certain of these underlying insurance carriers have denied coverage to Premix and the Company on the basis that certain exclusions preclude coverage and/or that their policies have been exhausted. In June of 2009, one such carrier filed suit in Miami-Dade Circuit Court against Premix and Imperial, wherein the carrier sought a declaration from the Court that its insurance policies do not provide coverage for the asbestos claims against Premix and Imperial. We believed that we had meritorious defenses to these claims, and filed a counterclaim against the carrier for breach of contract. In December 2010, Premix, Imperial and this carrier resolved their dispute, with the carrier paying a settlement of $500,000 to Premix and Imperial. As part of the settlement, there is no longer coverage available under that disputed policy. The settlement was recorded as a receivable and included in other current assets in the accompanying condensed consolidated balance sheet as of December 31, 2010, and as income reflected as litigation settlement during the fourth quarter of 2010. We received payment of the $500,000 settlement during the first quarter of 2011. During the first quarter of 2011, we resolved a dispute with another carrier regarding primary-layer insurance coverage, which resulted in this carrier paying a settlement of $325,000 to Premix and Imperial, which was recorded as income reflected as litigation settlement during the first quarter of 2011. As part of the settlement, there is no longer coverage available under that disputed policy. Notwithstanding the foregoing, we believe, when considering that Imperial and Premix have substantial umbrella/excess coverage for these claims, that we have more than adequate insurance coverage for these asbestos claims and such policies are not subject to self-insured retention (“SIR”).

Other Litigation

Premix is a defendant in a lawsuit in Orange County, Florida brought by the parents of their minor daughter who was injured when she entered and hit the bottom of the swimming pool located at a resort in Orlando, Florida. Plaintiffs allege claims against the owner, operator, and manager of the resort, as well as the landscape architect, pool contractor and various subcontractors that were allegedly involved in the construction and/or supply of materials utilized in the construction of the pool. Notably, Plaintiffs did not seek to add Premix as a defendant until three (3) years after first filing suit against the other defendants named in the lawsuit. Premix believes that it has meritorious defenses to Plaintiffs’ claims, including but not limited to the fact that Premix’s products may not have been used in the construction of the pool. The Company’s carriers have retained counsel to defend Premix’s interests in this matter pursuant to policies of insurance that are not subject to SIR.

We are aggressively defending all of the lawsuits and claims described above, however, at the present time, we cannot assess the likely outcome or make an estimate of the possible loss, if any, related to these matters. While we do not believe the ultimate resolution of these aforementioned claims will have a material adverse effect on our operating results and financial condition, given the uncertainty and unpredictability of litigation, there can be no assurance that the ultimate resolution of such litigation would not have a material adverse effect.

We or our subsidiaries are also parties to other legal proceedings arising from time to time in the normal course of business. While litigation is subject to inherent uncertainties, our management currently believes that the outcome of these proceedings, individually or in the aggregate, will not have a material adverse effect on our financial position, cash flows or results of operations.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock has been quoted on the Over-the-Counter Bulletin Board since January 27, 2010 under the symbol "IPII". Prior to that date our common stock was traded on the NASDAQ Capital Market. The following table sets forth the high and low sales price per share for the common stock for each quarter during 2011 and 2010. 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 2011	High	Low
First Quarter	$ 0.81	$ 0.30
Second Quarter	1.01	0.40
Third Quarter	1.00	0.18
Fourth Quarter	0.70	0.20

Fiscal 2010	High	Low
First Quarter	$ 0.96	$ 0.25
Second Quarter	0.59	0.27
Third Quarter	0.55	0.21
Fourth Quarter	0.49	0.21

We have not paid any cash dividends on our Common Stock since 1980. We intend to retain earnings, if any, to finance the expansion of our business and do not anticipate paying any dividends in the foreseeable future. On March 20, 2012, the Common Stock was held by 525 stockholders of record.

As of March 20, 2012, the closing price of the Common Stock quoted on the Over-the-Counter Bulletin Board was $0.55 per share.

Purchases of Equity Securities

We did not purchase any shares of our common stock during the year ended December 31, 2011.

Securities Authorized for Issuance Under Equity Compensation Plans

The following table includes information as of December 31, 2011 about certain plans which provide for the issuance of common stock in connection with the exercise of stock options and other share-based awards.

	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants	Weighted Average Exercise Price of Outstanding Options	Number of Securities Remaining Available for Future Issuance Under Equity Compensation

	and Rights		Plans (Excluding Securities Reflected in Column (a))
	(a)	(b)	(c)
Equity Compensation plans approved by security holders:			
2006 Stock Award and Incentive Plan	123,250	$ 0.50	86,241
Equity compensation plans not approved by security holders	—	—	—
Total	123,250	$ 0.50	86,241

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ITEM 6. SELECTED FINANCIAL DATA

Not Applicable

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of the Company's financial condition should be read in conjunction with our consolidated financial statements and notes to the consolidated financial statements appearing elsewhere in this Form 10-K. This discussion contains forward-looking statements that involve significant risks and uncertainties. As a result of many factors, such as those set forth under "Risk Factors" and elsewhere in this Form 10-K, our actual results may differ materially from those anticipated in these forward-looking statements.

Company Overview

We are engaged in the manufacture and distribution of building materials to building materials dealers and to a lesser extent, contractors and sub-contractors, located primarily in the Southeastern United States, principally Florida. We have two facilities through which we market our products. Our business is driven primarily by the level of residential and commercial construction activity in our trade markets, particularly in the state of Florida. The level of construction activity is dependent on many factors including, but not limited to, the general state of the economy, credit markets, population growth, job growth, inventory of available residential and commercial units, government growth policies and construction funding.

We have experienced five consecutive years of operating losses and reductions in sales when compared to prior years. Applications for building permits for construction of new residential units are considered a strong indicator for future construction activity. According to the U.S. Census Bureau, after significant declines in building permits in the Florida market from the second half of 2006 and through 2009, there was a modest increase in permits for the construction of new residential units in Florida during 2010 and 2011. Notwithstanding the modest increase in building permits the last two years, our current business environment continues to be depressed and we expect general construction activity to remain slow for the foreseeable future. The depth and duration of the decline cannot be predicted. A continued depressed residential and commercial construction market has and is expected to continue to have an adverse effect on our liquidity, capital resources and results of operations.

Our Ability to Continue as a Going Concern

Our independent registered public accounting firm issued its report dated March 29, 2012 in connection with the audit of our financial statements as of and for the year ended December 31, 2011 that included an explanatory paragraph describing the existence of conditions that raise substantial doubt about our ability to continue as a going concern. Our consolidated financial statements as of and for the year ended December 31, 2011 have been prepared under the assumption that we will continue as a going concern. We have taken and are taking several steps that management hopes will be sufficient to allow the Company to continue as a going concern as described in Note 2 to the accompanying consolidated financial statements appearing elsewhere in this Form 10-K. There can be no assurance that such actions will be effective. Our financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Critical Accounting Policies

The discussion and analysis of our results of operations, financial condition and liquidity are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally

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

Revenue Recognition and Allowance for Doubtful Accounts

We recognize revenue when the following four criteria are met:

- Persuasive evidence of an arrangement exists;
- Delivery has occurred or services have been rendered;
- Seller's price to the buyer is fixed or determinable; and
- Collectability is reasonably assured.

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

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

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

As discussed in Notes 3 and 5 to the consolidated financial statements, we transferred all assets of Just-Rite to the Assignee, including the Just-Rite accounts receivable, and discontinued operations of Just-Rite pursuant to the Assignment. Since the date of the Assignment, the Assignee has assisted our management in determining the amount of the allowance for doubtful accounts for the accounts receivables related to the former customers of Just-Rite based on the Assignee's experience collecting receivables from liquidating assets of closed businesses and collection efforts of the Just-Rite accounts during the period of the Assignment. As further discussed in Note 5 of Notes to Consolidated Financial Statements, we wrote off the remaining accounts receivable against the allowance for doubtful accounts

balance as of December 31, 2011 since the collectability of these balances cannot be reasonably assured.

Based on the above, Just-Rite wrote off the remaining accounts receivable with a gross balance of approximately $2,406,000 against the allowance for doubtful accounts balance as of December 31, 2011, resulting in no gain or loss.

Inventory Valuation

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

Litigation

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

Asset Impairment

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

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

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

Income Taxes

We account for income taxes using the liability method. This method requires that the deferred tax consequences of temporary differences between the amounts recorded in our Consolidated Financial Statements and the amounts included in our federal and state income tax returns be recognized in the balance sheet. Estimates are often required

with respect to, among other things, the appropriate state income tax rates to use in the various states in which we and our subsidiaries are required to file, the potential utilization of any operating and capital loss carry-forwards for both federal and state income tax purposes and valuation allowances required, if any, for tax assets that may not be realizable in the future. We believe that it is more likely than not that the amounts recorded as deferred income tax assets will not be recoverable through future taxable income generated by us. As a result, the Company recorded a 100% valuation allowance against our net deferred tax assets as of December 31, 2011. We believe the procedures and estimates used in our accounting for income taxes are reasonable and in accordance with established tax law.

Results of Operations

Year Ended December 31, 2011 compared to 2010

Net sales decreased approximately $981,000, or 11.9%, during 2011 compared to 2010. The decrease in net sales was primarily due to the continued slowdown in the residential and commercial construction markets in our principal trade areas and reduced demand for our products. We believe many other companies in our industry have experienced similar declines in sales.

Gross margin as a percentage of net sales was approximately 26.8% for 2011 compared to 31.5% for 2010. The decrease in gross margin is primarily related to an increase in material costs for certain products, and higher unabsorbed overhead resulting from the decline in sales during 2011. We expect to experience continued lower levels of demand for our products and intense competitive conditions arising from the continuing decline in construction activity and overall state of the economy. Our competitors, having excess capacity, may cause pressure on our gross margins for the foreseeable future.

Selling, general and administrative ("SG&A") expenses decreased $173,000 in 2011 compared to 2010. The decrease was primarily attributable to a decrease of $119,000 in professional fees including legal fees and audit related charges, a decrease in depreciation expense of $44,000 resulting from certain property and equipment becoming fully amortized, and a decrease of $84,000 in delivery and fuel related charges resulting from a reduction in net sales, offset by an increase of $51,000 in sales promotional and certain other sales related costs relating to increased efforts to promote products and expand geographical reach. There is no assurance that expenditures made to promote products and expand geographical reach will result in additional net sales. SG&A expenses as a percent of net sales was 46.9% in 2011 compared to 43.4% in 2010. The increased SG&A expenses as a percentage of net sales in 2011 versus 2010 are due primarily to a reduction in net sales.

During the first quarter of 2010, we received a demand notice from a lender for payment of certain obligations, resulting in an additional $42,000 of loss contingency expense during the quarter, relating to Imperial's guarantees of certain Just-Rite debt (see Note 16(b) of Notes to Consolidated Financial Statements). During the second quarter of 2010, we negotiated a reduced settlement with the same lender, resulting in a reduction of $74,000, or a net reduction of $32,000 for 2010, in the loss contingency. We did not record any additions or reductions in the loss contingency during 2011.

Interest expense amounted to $181,000 and $141,000 during 2011 and 2010, respectively. Interest expense primarily consisted of rental payments and carrying value adjustments to the secured financing liability related to a sale-leaseback transaction recorded in 2008 for our Winter Springs, Florida manufacturing facility. Interest expense related to our Winter Springs, Florida manufacturing facility increased to $171,000 in 2011 compared to $137,000 in 2010. The increase in 2011 was a result of a contractual adjustment related to a repurchase option on the facility and is tied to changes in the CPI index in the current period as compared to the CPI index in August 2008.

During the first quarter of 2011, we recognized a $325,000 gain on settlement of litigation against a former insurance carrier relating to policy coverage issues in prior policy years. During the fourth quarter of 2010, we recognized a $500,000 gain on settlement of litigation against another former insurance carrier relating to policy coverage issues in prior policy years. See Note 16(a) of Notes to Consolidated Financial Statements for further discussion.

As a result of the above factors, we had a loss from continuing operations of $1,310,000, or $0.51 per diluted share, in 2011 compared to a loss from continuing operations of $596,000, or $0.23 per diluted share, in 2010.

Discontinued Operations

We terminated the distribution operations of Just-Rite and all of its assets were divested on June 11, 2009 through the Assignment as described in Note 3 of Notes to the Consolidated Financial Statements. The Just-Rite distribution operations are accounted for as discontinued operations in 2011 and 2010. Just-Rite did not have any revenues during 2011 and 2010. We recorded income from discontinued operations of $4,063,000, or $1.59 per diluted share, in 2011, compared to a loss from discontinued operations of $638,000, or $0.25 per diluted share, in 2010. The income from discontinued operations recognized in 2011 resulted from a non-cash net gain of $4,378,000 recorded during the fourth quarter of 2011 relating to adjustments to reduce the carrying value of certain assets and liabilities, as discussed below, offset by a loss of $315,000 incurred during the year related to the Assignee's efforts to dispose of assets.

As further described in Note 5 of Notes to the Consolidated Financial Statements, during the fourth quarter of 2011, Just-Rite recorded adjustments, pursuant to the provisions of FASB ASC 450, Contingencies, to reduce the carrying value of certain assets to their estimated realizable value, and certain liabilities to their estimated amounts payable, resulting in a net non-cash gain of $4,378,000. The adjustments resulted from management's assessment during the fourth quarter of 2011, based on discussions with the Assignee and evaluation of other relevant facts and circumstances, that there is little, if any, likelihood that the Assignee will realize any further significant value from the disposal of these certain assets, and there is little likelihood, if any, of significant monies being available after liquidation of assets and finalization of the Assignment process, for Just-Rite to pay amounts due under these certain liabilities. The factors leading management to conclude during the fourth quarter of 2011 that these certain assets and liabilities required adjustments to carrying value as of December 31, 2011 consisted of the following:

Just-Rite had no cash as of December 31, 2011.

During the third and fourth quarters of 2011, the Assignee collected an insignificant amount of accounts receivable and has informed the Company that no further significant collections are expected.

The real property in Jacksonville, Florida, with a carrying value of $480,000, continues to have environmental issues that have precluded it from being sold, which has also prevented the Assignee from closing out the Assignment. The ultimate resolution of the environmental issues cannot be determined as of December 31, 2011. There is a mortgage payable on the property of $247,000 to be repaid upon the ultimate sale of the property. In March 2012, Just-Rite leased the property to an unaffiliated third party for a one year period. Annual rent for the property was $36,000, payable in equal monthly installments. The tenant was given a $6,000 rent credit to cover the cost of certain repairs to the improvements on the property. The tenant also has a right of first refusal to purchase the property for the purchase price of $650,000, which right may only be exercised within thirty days receipt of a No Further Action Letter from the State of Florida Department of Environmental Protection pertaining to the existing environmental issues on the property. If the Tenant does not exercise the Right of First Refusal, the Tenant would be required to vacate the property within three months thereafter; provided, however, if there is more than three months remaining on the lease, the tenant would be permitted to remain for the duration of the lease term.

The only future funds expected to be received by Just-Rite relate to the ultimate sale, if any, of the Jacksonville, Florida real property and real property located in Mississippi with a carrying value of $66,000. Upon realizing funds, if any, from the disposition of these assets, it is anticipated there will be little, if any, remaining funds for payment to secured and unsecured creditors after payment of the Jacksonville, Florida real property mortgage, except as noted below.

Based on the factors described above, Just-Rite wrote off the remaining accounts receivable with a gross balance of approximately $2,406,000 against the allowance for doubtful accounts balance as of December 31, 2011, resulting in no gain or loss. Certain property and equipment with a net book value of $396,000 was adjusted to a zero carrying value since there are underlying unpaid equipment notes payable related to the property and equipment, and thus no value is expected to be recovered. The adjustments to asset carrying values resulted in a non-cash loss of $396,000 recorded during the fourth quarter of 2011.

Total liabilities related to assets held for sale included $3,603,000 of unsecured accounts payables and accrued expenses, $963,000 of noncancellable lease commitments under operating leases, and $396,000 of secured debt related to certain property and equipment that has been written off as discussed above. The aggregate amount of these liabilities, amounting to $4,962,000, was adjusted to $188,000 as of December 31, 2011, representing the estimated excess funds that will be available to such creditors after liquidation of assets and less payment of the mortgage payable. Of the $188,000 adjusted liability amount, $128,000 represents unpaid costs incurred after the Assignment date, resulting in a remaining recorded liability amount of $60,000 estimated as available to creditors for

pre-assignment date liabilities. This amount may be further reduced as additional costs are incurred to formally conclude the Assignment process. These adjustments to liability amounts resulted in a non-cash gain of $4,774,000 recorded during the fourth quarter of 2011.

The above liabilities exclude $147,000 pertaining to charges incurred by Imperial after the Assignment date on behalf of the Assignee. The amounts payable by Just-Rite to Imperial are eliminated in consolidation.

The lack of liquidity and profitability for the foreseeable future of these operations due to the downturn in the residential and commercial construction industry was the main reason for termination of these operations.

Liquidity and Capital Resources

At December 31, 2011, we had working capital of $681,000, compared to a working capital deficit of $2,560,000 at December 31, 2010. The working capital deficit in 2010 included a deficit amount of $4,914,000 representing the current assets and liabilities of Just-Rite. During the fourth quarter of 2011, working capital increased by $4,774,000 relating to the non-cash adjustments to reduce the carrying values of certain assets and liabilities of Just-Rite. Excluding the current assets and current liabilities of Just-Rite, we had working capital of $681,000 and $2,354,000 as of December 31, 2011 and December 31, 2010, respectively.

Net cash used in operating activities was $580,000 during 2011, compared to net cash provided by operations of $814,000 during 2010. During 2010, we received cash of $1,610,000 from collection of an income tax refund. During 2011, we collected $825,000 in cash from certain legal settlements (of which $500,000 was recorded as an other receivable and included in other current assets at December 31, 2010) as further described in Note 16(a) of Notes to Consolidated Financial Statements.

Net cash used in investing activities was $133,000 during 2011, compared to net cash provided by investing activities of $435,000 during 2010. Just-Rite received proceeds of $554,000 from the sale of real property in Tampa, Florida during 2010.

Net cash used in financing activities was $30,000 and $393,000 during 2011 and 2010, respectively. Repayments of long-term debt were $413,000 during 2010 (including Just-Rite mortgage note payments by the Assignee related to the Tampa real property sale) compared to $30,000 during 2011. We had $2,810,000 of borrowings and $2,890,000 of repayments under our Line of Credit during 2010. On April 30, 2010, we fully repaid the outstanding principal balance due under the Line of Credit, and terminated the Line of Credit on May 11, 2010. We no longer have a line of credit.

During 2011 and 2010, we entered into $127,000 and $30,000 of capital lease obligations and notes payable for the acquisition of property, plant and equipment, respectively, which are not included as uses of cash in investing activities, or sources of cash in financing activities, but are reported as a supplemental disclosure in the accompanying Consolidated Statements of Cash Flows.

Future Commitments and Funding Sources

Historically, our primary sources of cash were proceeds from sales to customers and a line of credit. On April 30, 2010, we fully repaid the remaining outstanding principal balance due under the line of credit, and terminated the agreement effective May 11, 2010 (see Note 4 of Notes to Consolidated Financial Statements). We do not currently have a line of credit or other financing arrangement with a lender.

As further discussed in Note 5 of Notes to Consolidated Financial Statements, during the fourth quarter of 2011 Just-Rite recorded adjustments, pursuant to the provisions of FASB ASC 450,Contingencies, to reduce the carrying value of certain assets and liabilities to their estimated realizable value, resulting in a net non-cash gain of $4,378,000. The adjustments resulted from management’s assessment during the fourth quarter of 2011, based on discussions with the Assignee and evaluation of other relevant facts and circumstances, that there is little, if any, likelihood that the Assignee will realize any further value from the disposal of these certain assets, and there is little likelihood, if any, of any monies being available after liquidation of assets and finalization of the Assignment process, for Just-Rite to pay any amounts due under these certain liabilities, except as indicated. At December 31, 2011, the carrying value of “Total assets held for sale by assignee” prior to the carrying value adjustments was $978,000. Just-Rite recorded adjustments to reduce the carrying value to $582,000, resulting in a non-cash loss of $396,000. At December 31, 2011, the carrying value of “Total liabilities related to assets held for sale by assignee” prior to carrying value adjustments was $5,209,000. Just-Rite recorded adjustments to reduce the carrying value to $435,000, resulting in a non-cash gain $4,774,000. We did not receive any cash associated with the adjustments resulting in the net gain of $4,378,000 recorded in the Company’s financial statements.

Just-Rite has not obtained either (a) a final court order for the conveyance of assets, (b) a settlement with creditors or (c) a court action granting Just-Rite relief from the creditor’s claims. It cannot be determined when the Assignment will be completed. Also, since the Assignment process has not been completed, it is possible, although not likely, that the ultimate proceeds from the disposition of the assets held for sale by assignee, and the settlement of liabilities related to sale by assignee could be at amounts materially different than the carrying amounts, as adjusted during the

fourth quarter of 2011, reflected in the accompanying consolidated financial statements.

We presently are focusing our efforts on increasing Premix sales through geographic expansion, developing new product offerings, eliminating overhead where possible, preserving liquidity and obtaining additional debt or equity financing, as well as considering other strategic alternatives. We believe capital expenditures during the next twelve months could approximate up to $100,000 and will be funded primarily by our cash balances.

In the second quarter of fiscal 2011, we began the implementation phase of a new accounting software system. We believe the new accounting software system will provide more timely management reporting and aid production and inventory capabilities to better serve our customers. As of December 31, 2011, approximately $128,000 of costs related to the implementation project including related hardware costs were capitalized to property and equipment as assets not yet placed into service. Of this amount, $87,000 was financed under a capital lease. The conversion is anticipated to result in approximately $150,000 of capitalized costs upon completion. Delays in the implementation of, or difficulties in the proper functioning of the new system, could result in unanticipated increased costs of the implementation and/or interruptions to our operations.

The accompanying consolidated financial statements have been prepared and are presented assuming our ability to continue as a going concern. The industry in which we operate has been impacted by a number of adverse factors over the past several years. As a result, we have continued to incur losses from continuing operations for the past five fiscal years. Our independent registered public accounting firm issued its report dated March 29, 2012, in connection with the audit of our financial statements as of and for the year ended December 31, 2011 that included an explanatory paragraph describing the existence of conditions that raise substantial doubt about our ability to continue as a going concern.

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

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

- We are continuing to evaluate and implement additional cost reduction initiatives to reduce unnecessary costs in our operations and to conserve working capital.

- We are making greater efforts to increase sales in additional geographic markets by seeking new distributors, and we are investigating establishing arrangements with other manufacturers to produce and sell our products in certain markets.

- We are attempting to develop new product offerings as well as seeking new products from other manufacturers to expand our product lines.

- We are making efforts to establish arrangements with prospective customers to manufacture various products for them under private label arrangements.

We presently do not have a line of credit or other financing arrangement and do not have sufficient cash balances to sustain operations for the next twelve months. We are seeking possible financing from other sources, including but not limited to various equity and debt capital, to generate additional funds for operations.

There can be no assurance that the above actions will be successful. Further, it is not expected that cash on-hand will provide sufficient cash to fund continuing operations or that new financing will be available, or that if available, on satisfactory terms. The extent and duration of the construction industry’s continued unfavorable conditions due to the adverse economic conditions now existing in the general economy, its effect on demand for our products, and consequently our results of operations and our ability to maintain adequate liquidity to continue as a going concern cannot be determined.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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All 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 REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors
Imperial Industries, Inc.

We have audited the accompanying consolidated balance sheets of Imperial Industries, Inc. (a Delaware corporation) and subsidiaries as of December 31, 2011 and 2010, and the related consolidated statements of operations, changes in stockholders' equity (deficit) and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also 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, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Imperial Industries, Inc. and subsidiaries as of December 31, 2011 and 2010, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the financial statements, the industry in which the Company is operating has been impacted by a number of factors and accordingly, the Company has experienced a significant reduction in its sales volume. In addition, for the year ended December 31, 2011, the Company has a loss from continuing operations of approximately $1,310,000. These factors, among others, as discussed in Note 2 to the consolidated financial statements, raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 2. These consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ GRANT THORNTON LLP

Fort Lauderdale, Florida
March 29, 2012

IMPERIAL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	December 31, 2011	December 31, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	$ 636,000	$ 1,379,000
Trade accounts receivable, net	537,000	499,000
Inventories	688,000	967,000
Other current assets	69,000	543,000
Current assets held for sale by assignee	—	74,000
Total current assets	1,930,000	3,462,000
Property, plant and equipment, net	1,563,000	1,528,000
Assets held for sale by assignee	582,000	983,000
Other assets	155,000	144,000
Total assets	$ 4,230,000	$ 6,117,000
LIABILITIES AND STOCKHOLDERS’ EQUITY (DEFICIT)		
Current liabilities:		
Accounts payable	$ 433,000	$ 430,000
Payable to former preferred stockholders	48,000	50,000
Accrued expenses and other liabilities	292,000	546,000
Current liabilities related to assets held for sale by assignee	435,000	4,988,000
Current portion of long-term debt	41,000	8,000
Total current liabilities	1,249,000	6,022,000
Long-term debt, less current maturities	87,000	23,000
Secured financing	1,146,000	1,119,000
Total liabilities	2,482,000	7,164,000
Commitments and contingencies (Note 16)		
Stockholders’ equity (deficit):		
Preferred stock, $.01 par value; 2,000,000 shares authorized; none issued at December 31, 2011 and 2010	—	—
Common stock, $.01 par value; 10,000,000 shares authorized; 2,566,210 issued and outstanding at December 31, 2011 and 2,558,335 issued and outstanding at December 31, 2010	26,000	26,000
Additional paid-in capital	14,975,000	14,933,000
Accumulated deficit	(13,253,000)	(16,006,000)
Total stockholders’ equity (deficit)	1,748,000	(1,047,000)
Total liabilities and stockholders’ equity (deficit)	$ 4,230,000	$ 6,117,000

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

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IMPERIAL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

	Years Ended December 31,	
	2011	2010
Net sales	$7,248,000	$8,229,000
Cost of sales	5,303,000	5,640,000
Gross profit	1,945,000	2,589,000
Selling, general and administrative expenses	3,396,000	3,569,000
Accrued (recovery) loss contingency	—	(32,000)
Operating loss	(1,451,000)	(948,000)
Other (expense) income:		
Interest expense	(181,000)	(141,000)
Litigation settlement	325,000	500,000
Miscellaneous expense	(3,000)	(7,000)
	141,000	352,000
Loss from continuing operations before income tax provision	(1,310,000)	(596,000)
Income tax provision	—	—
Loss from continuing operations	(1,310,000)	(596,000)
Income (loss) from discontinued operations, net of taxes	4,063,000	(638,000)
Net income (loss)	$2,753,000	$(1,234,000)
Income (loss) per Common Share:		
Loss from continuing operations – basic and diluted	$(0.51)	$(0.23)
Income (loss) from discontinued operations – basic and diluted	1.59	(0.25)
Net income (loss) per share – basic and diluted	$1.08	$(0.48)
Weighted average shares outstanding – basic and diluted	2,559,090	2,551,129

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

IMPERIAL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIT)

	Common Stock		Additional Paid-In	Accumulated	
	Shares	Amount	Capital	Deficit	Total
Balance at December 31, 2009	2,550,460	$25,000	$14,862,000	$(14,772,000)	$115,000
Issuance of common stock	—	—	34,000	—	34,000
Restricted stock release	7,875	1,000	37,000	—	38,000
Net loss	—	—	—	(1,234,000)	(1,234,000)
Balance at December 31, 2010	2,558,335	$26,000	$14,933,000	$(16,006,000)	$(1,047,000)
Issuance of stock options	—	—	7,000	—	7,000
Restricted stock release	7,875	—	35,000	—	35,000
Net income	—	—	—	2,753,000	2,753,000
Balance at December 31, 2011	2,566,210	$26,000	$14,975,000	$(13,253,000)	$1,748,000

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

IMPERIAL INDUSTRIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,	
	2011	2010
Cash flows from operating activities:		
Net income (loss)	$2,753,000	$(1,234,000)
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities:		
Depreciation	225,000	267,000
Amortization	2,000	3,000
Interest accretion on secured financing	27,000	(7,000)
(Recovery) provision for doubtful accounts	(5,000)	124,000
Recovery of loss contingency	—	(32,000)
Share-based compensation	42,000	71,000
Non-cash adjustments, net to the carrying value of assets held for sale by assignee and liabilities related to assets held for sale by assignee	(4,378,000)	196,000
Gain on disposal of assets held for sale by assignee, net	—	(155,000)
Changes in operating assets and liabilities:		
Trade accounts receivable	(56,000)	30,000
Inventories	279,000	(29,000)
Income tax receivable	—	1,610,000
Other current assets	461,000	(438,000)
Accounts payable	3,000	(184,000)
Payable to former preferred shareholders	(2,000)	—
Accrued expenses and other liabilities	(254,000)	4,000
Assets held for sale by assignee	101,000	735,000
Liabilities related to assets held for sale by assignee	222,000	(147,000)
Net cash (used in) provided by operating activities	(580,000)	814,000
Cash flows from investing activities:		
Purchases of property, plant and equipment	(133,000)	(119,000)
Proceeds received from sale of property and equipment	—	554,000
Net cash (used in) provided by investing activities	(133,000)	435,000
Cash flows from financing activities:		
Proceeds from notes payable Line of Credit	—	2,810,000
Repayments of notes payable Line of Credit	—	(2,890,000)
Repayment of long-term debt	(30,000)	(413,000)
Decrease in restricted cash	—	100,000
Net cash used in financing activities	(30,000)	(393,000)
Net (decrease) increase in cash and cash equivalents	(743,000)	856,000
Cash and cash equivalents, beginning of year	1,379,000	523,000
Cash and cash equivalents, end of year	$636,000	$1,379,000
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	$181,000	$165,000
Cash refunded during the year for income taxes	$—	$(1,610,000)
Non-cash investing and financing activities:		
Capital lease obligations and equipment notes for new equipment	$127,000	$30,000

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

IMPERIAL INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) The Company and Summary of Significant Accounting Policies

Imperial Industries, Inc. ("Imperial") through its wholly-owned subsidiary, Premix-Marbletite Manufacturing Co. ("Premix"), collectively with Imperial (the "Company", "we", "us", and "our") is primarily involved in the manufacture and sa of exterior and interior finishing wall coatings and mortar products for the construction industry, as well as the purchase and resale of building materials from other manufacturers. Sales of the Company's and other products are made to customers primarily in Florida and the Southeastern United States through distributors and company-owned distribution facilities. The Company has three other subsidiaries, Just-Rite Supply, Inc. ("Just-Rite"), DFH, Inc. ("DFH"), formerly known as Acrocrete, Inc. ("Acrocrete") and Triple I Leasing, Inc. None of these subsidiaries have any operations.

A summary of the significant accounting policies followed by us in the preparation of our consolidated financial statements is presented below.

(a) Consolidation

The consolidated financial statements contain the accounts of Imperial and its wholly-owned subsidiaries. However, Just-Rite's assets were assigned to a third party on June 11, 2009 through an Assignment for the Benefit of Creditors proceeding under Florida state law (see Note 3). As a result, the remaining balances of Just-Rite's assets and related liabilities as of June 11, 2009 are reflected in the December 31, 2011 and 2010 consolidated balance sheets as Assets held for sale by assignee and Liabilities related to assets held for sale by assignee. Additionally, the related consolidated statements of operations and cash flows include all Just-Rite business activity (liquidation of its assets) for all periods presented, which are reflected as Income (loss) from Discontinued Operations, Net of Taxes. All material intercompany transactions and balances have been eliminated in consolidation.

(b) Concentration of Credit Risk

We perform credit evaluations on customers prior to extending credit. Substantially all of our customers are affected by the current events in the construction industry. Trade accounts receivable are generally unsecured open accounts. The allowance for doubtful accounts is considered sufficient to absorb any losses which may arise from uncollectible accounts receivable. Concentration of trade accounts receivable is discussed further in Note 18.

We place our cash with commercial banks. At December 31, 2011 and 2010, we had cash balances with banks in excess of Federal Deposit Insurance Corporation insured limits. Management believes the credit risk related to these deposits to be minimal.

(c) Allowance for Doubtful Accounts

The allowance for doubtful accounts is evaluated monthly and is based on the collectability of customer accounts and the aging of customer invoices. Many factors are considered in evaluating collectability including, but not limited to, payment history, current economic condition and an assessment of our lien and bond rights for certain jobs. We review our accounts receivable aging on a monthly basis to identify slow paying or problem customers. All related write-offs are charged to the allowance for doubtful accounts.

As discussed in Notes 3 and 5, we transferred all assets of Just-Rite to the Assignee, including the Just-Rite accounts receivable, and discontinued operations of Just-Rite pursuant to the Assignment. Since the date of the Assignment, the

Assignee has assisted our management in determining the amount of the allowance for doubtful accounts for the accounts receivables related to the former customers of Just-Rite based on the Assignee's experience collecting receivables from liquidating assets of closed businesses and collection efforts of the Just-Rite accounts during the period of the Assignment. As further discussed in Note 5, the remaining balance in Just-Rite's accounts receivable and allowance for doubtful accounts have been adjusted to zero value as of December 31, 2011 since the collectability of these balances cannot be reasonably assured.

(1) The Company and Summary of Significant Accounting Policies – (Continued)

(d) Inventories

Inventories are valued at the lower of cost or market and cost is determined using the first-in, first-out cost basis. We record a provision to write down obsolete and slow moving inventory to estimated net realizable value when cost exceeds estimated net realizable value. The provision is determined by identifying obsolete and slow moving inventory by comparing quantity on hand to historical and projected sales activity. This information is aggregated and the estimated provision is determined. Judgment is required in evaluating these factors and in determining the appropriate amounts to record in the provision. Accelerating the disposal process or incorrect estimates of future sales potential may cause the actual results to differ from the estimates at the time such inventory is disposed or sold. We believe that our procedures for estimating such amounts are reasonable and historically have not resulted in material adjustments in subsequent periods. However, if actual market conditions are less favorable than those assumed by management, additional inventory write-downs may be required. As a result, our financial condition, results of operations and cash flow could be adversely affected. Finished goods include the cost of raw materials, freight in, direct labor and plant overhead.

(e) Property, plant and equipment

Property, plant and equipment is recorded at cost, less accumulated depreciation. Equipment under capital leases is recorded at the present value of minimum lease payments at inception. Leasehold improvements are depreciated over the useful life of the asset or the remaining lease term, whichever is shorter. Depreciation is calculated using the straight-line method over the estimated useful life of the asset. Repairs and maintenance that does not extend the useful of the asset is expensed as incurred.

(f) Income taxes

We utilize the liability method for determining our 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 deferred tax assets when our management determines it is more likely than not that the deferred tax asset will not be realized.

We recognize the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority.

There are no unrecognized tax benefits during fiscal years 2011 or 2010. We are no longer subject to U.S Federal or State tax examinations by tax authorities for the years before 2008 for Federal taxes and for the years before 2006 for State taxes.

Our policy for interest and penalties related to unrecognized tax benefits is to include interest expense and penalties in operating expenses for all periods presented. There are no accruals for the payment of interest and penalties at December 31, 2011 and 2010.

(g) Share-based compensation

We recognize stock based compensation expense using the fair value method. Accordingly, we recognize the cost of employee services received in exchange for awards of equity instruments based upon the grant date fair value of those awards. We use a Black-Scholes option valuation model to estimate the fair value of each option awarded. The impact of forfeitures that may occur prior to vesting is also estimated and considered in the amount recognized.

(1) The Company and Summary of Significant Accounting Policies – (Continued)

(h) Basic and diluted earnings per share

Basic earnings per share is computed by dividing net income available to common stockholders by the weighted-average number of common shares outstanding. Diluted earnings per share is computed by dividing net income available to common stockholders by the weighted-average number of shares outstanding plus the additional dilutive effect of common stock equivalents outstanding during the year. The dilutive effect of options and warrants is calculated using the treasury stock method.

(i) Cash and cash equivalents

Cash and cash equivalents are those highly liquid investments with original maturities when purchased of three months or less.

(j) Revenue recognition policy

We recognize revenue when the following four criteria are met.

- Persuasive evidence of an arrangement exists;
- Delivery has occurred or services have been rendered;
- The seller's price to the buyer is fixed or determinable; and
- Collectability is reasonably assured.

Revenue is recognized net of discounts and allowances, at the point of sale or upon delivery to our customer's site. For goods shipped by third party carriers, we recognize revenue upon shipment since the terms are FOB shipping point. We record sales taxes collected from customers on a net basis.

(k) Use of estimates

Management uses estimates and assumptions relating to reporting assets and liabilities, the disclosure of contingent assets and liabilities, and the recording of revenues and expenses to prepare our financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ from those estimates. Significant estimates include the allowance for doubtful accounts, inventory reserve, litigation reserves and asset impairment.

(l) Fair value of Financial Instruments

Financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable, the current portion of long-term debt, borrowings under a line of credit and debt instruments included in other long-term debt. At December 31, 2011 and 2010, the fair values of cash and cash equivalents, accounts receivable and accounts payable approximated their carrying values due to the short-term nature of these instruments.

Our debt obligations consist of promissory notes which are not traded in an active market. As a result of the volatility of substantially all domestic credit markets that currently exist and our difficulty obtaining similar financing, we are unable, as of December 31, 2011 and 2010, to determine the fair value of our debt.

(m) Advertising and Promotional Costs

Advertising costs are expensed as incurred. Advertising expense amounted to $9,000 for 2011 and 2010, and is included in selling, general and administrative expenses.

(n) Shipping and Handling

Shipping and handling costs associated with inbound freight are capitalized to inventories and relieved through cost of sales as inventories are sold. Shipping and handling costs associated with the delivery of products are included in selling, general and administrative expenses. Shipping and handling fees charged to customers are recorded in revenue. Shipping and handling costs, included in selling, general and administrative expenses, were $606,000 and $655,000 for the years ended December 31, 2011 and 2010, respectively.

(1) The Company and Summary of Significant Accounting Policies – (Continued)

(o) Segment Reporting

For the years ended December 31, 2011 and 2010, management has determined that we operated in a single operating segment, manufacturing and distribution of building materials.

(p) Litigation

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

(q) Impairment of Long-Lived Assets

Impairment losses are recorded on long-lived assets used in operations when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amounts. If such assets are considered to be impaired, the impairment to be recognized is the total by which the carrying amounts of the assets, if any, exceed the fair values determined using a discounted cash flow model. As of December 31, 2011 and 2010, an impairment analysis of the long-lived assets associated with our continuing operations was performed which resulted in no impairment charge.

(r) Product Warranty

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

Product warranty accrual activity for the years ended December 31, 2011 and 2010 is as follows:

	2011	2010
Beginning balance	$76,000	$40,000
Warranty provision	28,000	68,000
Warranty payments	(61,000)	(32,000)
Ending balance	$43,000	$76,000

(2) Going Concern

The accompanying consolidated financial statements have been prepared and are presented assuming the Company's ability to continue as a going concern. The construction industry in which the Company is operating has been impacted by a number of adverse factors over the past four years. As a result, the Company has continued to incur losses from continuing operations for the years ended December 31, 2011 and December 31, 2010. Our independent registered public accounting firm issued its report dated March 29, 2012, in connection with the audit of our financial

statements as of December 31, 2011 that included an explanatory paragraph describing the existence of conditions that raise substantial doubt about our ability to continue as a going concern.

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

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(2) Going Concern – (Continued)

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

- We are continuing to evaluate and implement additional cost reduction initiatives to reduce unnecessary costs in our operations and to conserve working capital.

- We are making greater efforts to increase sales in additional geographic markets by seeking new distributors, and we are investigating establishing arrangements with other manufacturers to produce and sell our products in certain markets.

- We are attempting to develop new product offerings as well as seeking new products from other manufacturers to expand our product lines.

- We are making efforts to establish arrangements with prospective customers to manufacture various products for them under private label arrangements.

We presently do not have a line of credit or other financing arrangement and do not have sufficient cash balances to sustain operations for the next twelve months. Therefore, we are seeking possible financing from third party sources, including but not limited to various equity and debt capital, to generate additional funds for operations.

There can be no assurance that the above actions will be successful. It is not expected that cash on-hand will provide sufficient cash to fund continuing operations through the remainder of 2012. There is no assurance that new financing will be available or that if available on satisfactory terms. The extent and duration of the construction industry's continued unfavorable conditions due to the adverse economic conditions now existing in the general economy, its effect on demand for our products, and consequently our results of operations and our ability to maintain adequate liquidity to continue as a going concern cannot be determined.

(3) Assignment for the Benefit of Creditors

On June 11, 2009, Just-Rite entered into an Assignment for the Benefit of Creditors (the "Assignment") with Michael P. Phelan, Vice President of Michael Moecker and Associates (the "Assignee"). In connection with the Assignment, Just-Rite transferred all of its assets, subject to any liabilities thereof, to the Assignee, a non-affiliated party, who is winding down, selling and liquidating the assets of Just-Rite for the benefit of creditors in accordance with the laws of the State of Florida. We have not operated any of the assets or the business of Just-Rite since the date of the Assignment. As a result of the Assignment, Just-Rite operations are presented as discontinued operations for the years ended December 31, 2011 and 2010. All remaining Just-Rite assets are considered held for sale and are reported on the financial statements as "Assets held for sale by assignee".

Just-Rite has not obtained either (a) a final court order for the conveyance of assets, (b) a settlement with creditors or (c) a court action granting Just-Rite relief from the creditor's claims. It cannot be determined when the Assignment will be completed. Also, since the Assignment process has not been completed, it is possible, although not likely, that the ultimate proceeds from the disposition of the assets held for sale by assignee, and the settlement of liabilities related to sale by assignee could be at amounts materially different than the carrying amounts, as adjusted during the fourth quarter of 2011, reflected in the consolidated financial statements. See Note 5 for a discussion of the 2011 adjustment to the carrying value of certain assets and liabilities of Just-Rite.

(4) Terminated Line of Credit

On April 30, 2010, we fully repaid the remaining outstanding principal balance due under our line of credit (the “Line of Credit”), and the Line of Credit was terminated effective May 11, 2010. We no longer have a line of credit.

(5) Discontinued Operations

Effective with the Assignment, we discontinued all of Just-Rite's operations, and Just-Rite became a non-operating subsidiary. The Assignee is winding down, selling and liquidating the assets for the benefit of creditors in accordance with the laws of the State of Florida. Cash proceeds associated with Just-Rite assets for the years ended December 31, 2011 and 2010 were primarily generated from collections of Just-Rite's accounts receivable, as well as the sale of certain real property during the second quarter of 2010. As a result, all of Just-Rite's results of operations are presented as discontinued operations for the years ended December 31, 2011 and 2010.

Just-Rite did not have any sales during 2011 or 2010. Pretax income (loss) amounted to $4,063,000 (including a net non-cash gain of $4,378,000 recorded during the fourth quarter of 2011), and ($638,000) during 2011 and 2010, respectively, and were reported as discontinued operations. No income taxes were allocated to these losses for any of the respective periods.

The carrying amount of the remaining major classes of "Assets held for sale by assignee" and "Liabilities related to assets held for sale by assignee" of Just-Rite that were transferred to the Assignee are as follows at December 31:

	2011	2010
Cash and cash equivalents	$—	$7,000
Accounts receivable, net of allowance for doubtful accounts of $0 and $2,429,000 as of December 31, 2011 and 2010, respectively	—	67,000
Total current assets held for sale by assignee	—	74,000
Property, plant and equipment, at cost, net of accumulated depreciation of $48,000 and $499,000 at December 31, 2011 and 2010, respectively	546,000	943,000
Other assets	36,000	40,000
Total non-current assets held for sale by assignee	582,000	983,000
Total assets held for sale by assignee	$582,000	$1,057,000
Accounts payable and accrued expenses	188,000	4,346,000
Current portion of long term debt	247,000	642,000
Total current liabilities related to assets held for sale by assignee	$435,000	$4,988,000

During the fourth quarter of 2011, Just-Rite recorded adjustments, pursuant to the provisions of FASB ASC 450, Contingencies, to reduce the carrying value of certain assets to their estimated realizable value, and certain liabilities to their estimated amounts payable, resulting in a net non-cash gain of $4,378,000. The adjustments resulted from management's assessment during the fourth quarter of 2011, based on discussions with the Assignee and evaluation of other relevant facts and circumstances, that there is little, if any, likelihood that the Assignee will realize any further significant value from the disposal of these certain assets, and there is little likelihood, if any, of significant monies being available after liquidation of assets and finalization of the Assignment process, for Just-Rite to pay amounts due under these certain liabilities. The factors leading management to conclude during the fourth quarter of 2011 that these certain assets and liabilities required adjustments to carrying value as of December 31, 2011 consisted of the following:

(5) Discontinued Operations – (Continued)

Just-Rite had no cash as of December 31, 2011.

During the third and fourth quarters of 2011, the Assignee collected an insignificant amount of accounts receivable and has informed the Company that no further significant collections are expected.

The real property in Jacksonville, Florida, with a carrying value of $480,000, continues to have environmental issues that have precluded it from being sold, which has also prevented the Assignee from closing out the Assignment. The ultimate resolution of the environmental issues cannot be determined as of December 31, 2011. There is a mortgage payable on the property of $247,000 to be repaid upon the ultimate sale of the property. In March 2012, Just-Rite leased the property to an unaffiliated third party for a one year period. Annual rent for the property was $36,000, payable in equal monthly installments. The tenant was given a $6,000 rent credit to cover the cost of certain repairs to the improvements on the property. The tenant also has a right of first refusal to purchase the property for the purchase price of $650,000, which right may only be exercised within thirty days receipt of a No Further Action Letter from the State of Florida Department of Environmental Protection pertaining to the existing environmental issues on the property. If the Tenant does not exercise the Right of First Refusal, the Tenant would be required to vacate the property within three months thereafter; provided, however, if there is more than three months remaining on the lease, the tenant would be permitted to remain for the duration of the lease term.

The only future funds expected to be received by Just-Rite relate to the ultimate sale, if any, of the Jacksonville, Florida real property and real property located in Mississippi with a carrying value of $66,000. Upon realizing funds, if any, from the disposition of these assets, it is anticipated there will be little, if any, remaining funds for payment to secured and unsecured creditors after payment of the Jacksonville, Florida real property mortgage, except as noted below.

Based on the factors described above, Just-Rite wrote off the remaining accounts receivable with a gross balance of approximately $2,406,000 against the allowance for doubtful accounts balance as of December 31, 2011, resulting in no gain or loss. Certain property and equipment with a net book value of $396,000 was adjusted to a zero carrying value since there are underlying unpaid equipment notes payable related to the property and equipment, and thus no value is expected to be recovered. The adjustments to asset carrying values resulted in a non-cash loss of $396,000 recorded during the fourth quarter of 2011.

Total liabilities related to assets held for sale included $3,603,000 of unsecured accounts payables and accrued expenses, $963,000 of noncancellable lease commitments under operating leases, and $396,000 of secured debt related to certain property and equipment that has been written off as discussed above. The aggregate amount of these liabilities, amounting to $4,962,000, was adjusted to $188,000 as of December 31, 2011, representing the estimated excess funds that will be available to such creditors after liquidation of assets and less payment of the mortgage payable. Of the $188,000 adjusted liability amount, $128,000 represents unpaid costs incurred after the Assignment date, resulting in a remaining recorded liability amount of $60,000 estimated as available to creditors for pre-assignment date liabilities. This amount may be further reduced as additional costs are incurred to formally conclude the Assignment process. These adjustments to liability amounts resulted in a non-cash gain of $4,774,000 recorded during the fourth quarter of 2011.

The above liabilities exclude $147,000 pertaining to charges incurred by Imperial after the Assignment date on behalf of the Assignee. The amounts payable by Just-Rite to Imperial are eliminated in consolidation.

Excluding the combined non-cash loss and non-cash gain described, which amounted to a net non-cash gain of $4,378,000, Just-Rite incurred a loss of $315,000 during 2011, compared to a loss of $638,000 during 2010, relating to the Assignee's liquidation of assets. The loss in 2010 is net of a gain of $230,000 realized upon the sale of real property located in Tampa, Florida for net proceeds of $554,000.

Certain vehicles and equipment, for which there remains debt outstanding, were repossessed by the lenders pending liquidation of the assets and settlement of the obligations. As discussed above, the carrying amounts of the repossessed assets and the related debt were adjusted to zero as of December 31, 2011. See Note 16(b) for discussion of a loss contingency recorded by Imperial as result of being a guarantor of certain Just-Rite obligations.

(5) Discontinued Operations – (Continued)

Long-term debt owed by Just-Rite represented (i) amounts outstanding under various mortgage and equipment notes payable totaling $516,000 at December 31, 2011 and 2010, at various interest rates ranging from 6.87% to 8.0% per annum, and (ii) amounts outstanding under capitalized lease obligations amounting to $126,000 at December 31, 2011 and 2010, at various rates ranging from 7.75% to 8.0%. These notes payable and capitalized lease obligations are in default due to non-payment and/or as a result of the Assignment and, as a result, have been classified as current liabilities. As noted above, except for a mortgage payable of $247,000 relating to the Jacksonville, Florida real property, the remaining long-term secured debt amounts were adjusted to zero as of December 31, 2011.

As of December 31, 2011, Just-Rite had noncancellable lease commitments under operating leases amounting to $963,000, representing the aggregate of unpaid amounts under such leases from the date of Assignment through the respective lease termination dates. As noted above, the amounts payable under such lease commitments were adjusted to zero as of December 31, 2011.

Just-Rite has not obtained either (a) a final court order for the conveyance of assets, (b) a settlement with creditors or (c) a court action granting Just-Rite relief from the creditor's claims. It cannot be determined when the Assignment will be completed. Also, since the Assignment process has not been completed, it is possible, although not likely, that the ultimate proceeds from the disposition of the assets held for sale by assignee, and the settlement of liabilities related to sale by assignee could be at amounts materially different than the carrying amounts, as adjusted during the fourth quarter of 2011, reflected in the consolidated financial statements.

(6) Sale-Leaseback of Manufacturing Facility

In November 2008, we sold our Winter Springs, Florida manufacturing facility under the terms of a sale-leaseback agreement for the gross sales price of $1,290,000. We generated net cash of approximately $692,000 from the sale of the facility, after paying off the existing mortgages, closing costs and other adjustments. In connection with such closing, we entered into a five year lease for this property. The lease contains two five year renewal options, and also provides us with an option to repurchase the facility at a price defined in the agreement at any time after two years, during the term of its lease period. The purchase price under the repurchase option includes adjustments based on increases in CPI, as well as a monthly credit of $621, from commencement date through closing of the option. Since we have an option to repurchase the property, the sale has been treated as a financing and the net sales proceeds of $1,134,000 were recorded as secured financing as of the date of the transaction, with adjustments to be recorded from period to period relating to the purchase price adjustments as noted above (offset to interest expense). The secured financing amount recorded was $1,146,000 and 1,119,000 as of December 31, 2011 and 2010, respectively, and will remain as a long-term obligation until the lease expires or the option to purchase is exercised. As a result, the property will remain an asset and will continue to be depreciated for financial statement purposes. The net book value of the property as of December 31, 2011 and 2010 is $166,000 and $100,000, respectively.

(7) Trade Accounts Receivables

Trade accounts receivable consisted of the following at December 31:

	2011	2010
Accounts receivable, gross	$592,000	$541,000
Allowance for doubtful accounts	(55,000)	(42,000)
	$537,000	$499,000

(8) Inventories

Inventories consisted of the following at December 31:

	2011	2010
Raw materials	$288,000	$428,000
Finished goods	292,000	435,000
Packaging materials	124,000	145,000
Gross inventory	704,000	1,008,000
Provision for obsolete and slow moving inventory	(16,000)	(41,000)
	$688,000	$967,000

(9) Property, Plant and Equipment

Property, plant and equipment consisted of the following at December 31:

	2011	2010	Estimated useful life (years)
Land	$1,000	$1,000	—
Buildings and leasehold improvements	624,000	556,000	5 – 40
Machinery and delivery equipment	2,946,000	2,941,000	3 – 15
Vehicles	142,000	99,000	3 – 10
Furniture, fixtures, and data processing equipment	186,000	537,000	3 – 10
Assets not yet placed into service	128,000	—	—
	4,027,000	4,134,000	
Less accumulated depreciation	(2,464,000)	(2,606,000)	
	$1,563,000	$1,528,000	

During the second quarter of fiscal 2011, we began the implementation phase of a new accounting software system. We are recording costs related to the software implementation pursuant to Financial Accounting Standards Board ASC 350-40, Intangibles – Goodwill and Other – Internal-Use Software ("FASB ASC 350-40"). FASB ASC 350-40 provides for the capitalization of certain internal payroll and payroll-related costs and other costs that are directly related to the development of certain systems for the internal use of the Company. All costs that are not capitalized under FASB ASC 350-40 are recorded as an operating expense as incurred.

As of December 31, 2011, approximately $128,000 of costs related to the software implementation project including related hardware costs were capitalized to property and equipment as assets not yet placed into service. Of this amount, $87,000 was financed under a capital lease (see Note 10). Under FASB ASC 350-40, interest costs incurred under the capital lease will be capitalized to property and equipment during the application development phase of the software implementation project.

The net book value of property, plant and equipment pursuant to capital lease agreements aggregated $170,000 and $35,000 at December 31, 2011 and 2010, respectively. Depreciation expense includes depreciation of property, plant and equipment pursuant to capital lease agreements.

(10) Long-Term Debt

Long-term debt consisted of the following at December 31:

	2011	2010
Capitalized lease obligations, interest at various rates ranging from 11.9% to 13.4% per annum, principal and interest payable monthly expiring at various dates through August 2015	$94,000	$31,000
Equipment notes payable, interest at 3.9% per annum, principal and interest payable monthly expiring in April 2016	34,000	—
	128,000	31,000
Less current maturities	(41,000)	(8,000)
Long-term portion	$87,000	$23,000

Long-term debt matures as follows:

Year ending December 31,	Amount
2012	$ 52,000
2013	52,000
2014	31,000
2015	14,000
2016	3,000
	152,000
Less amount representing interest	(24,000)
	128,000
Less current portion	(41,000)
Long-term portion	$ 87,000

(11) Income Taxes

Deferred tax assets and liabilities consisted of the following at December 31:

	2011	2010
Allowance for doubtful accounts	$20,000	$16,000
Inventory reserve	6,000	16,000
Closure costs	—	273,000
Loss contingency	64,000	83,000
Other	32,000	21,000
Current deferred tax asset	122,000	409,000
Valuation allowance	(122,000)	(409,000)
Net current deferred tax asset	$—	$—

	2011	2010
State net operating loss carryforward	$520,000	$465,000
Federal net operating loss carryforward	821,000	314,000
Tax credit carryforwards	120,000	120,000
Share-based compensation		