IMPERIAL INDUSTRIES INC
Form 10-K
April 01, 2002

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

# FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED]
For the fiscal year ended December 31, 2001
OR
[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED]

For the transition period from ____________ to ____________

Commission file number 1-7190

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

| | |
|---|---|
| Delaware | 65-0854631 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| 1259 Northwest 21st Street, Pompano Beach, Florida | 33069-1417 |
| (Address of principal executive offices) | (Zip Code) |

Registrant's telephone number, including area code: (954)y917-4114

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

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

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

Common Stock, $.01 par value
(Title of Class)

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (S229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

The aggregate market value of the voting stock of the Registrant held by non-affiliates computed by reference to the average bid and asked price of the registrant's Common Stock ($.01 par value) on March 22, 2002 is: $1,140,300

Number of shares of Imperial Industries, Inc. Common Stock ($.01 par value) outstanding on March 22, 2002: 9,220,434

PART I

Item 1. Business

Imperial Industries, Inc., (the "Company") is a Delaware corporation which through its predecessor corporation has been in existence since 1968. The Company's executive offices are located at 1259 Northwest 21st Street, Pompano Beach, Florida 33069 and the telephone number at such offices is (954) 917-4114.

Merger

In December 1998, the Company approved a plan merging it into a wholly-owned subsidiary of the Company effective December 31, 1998, (the "Merger").

Upon consummation of the Merger, each share of common stock outstanding prior to the Merger was automatically converted to one share of common stock of the Company. Each share of preferred stock outstanding prior to the Merger was converted, at the holder's option, into either (a) $4.75 in cash and ten shares of the Company's common stock, or (b) $2.25 in cash, an 8% subordinated debenture, face value $8.00, and five shares of the Company's common stock. Holders representing 81,100 preferred shares have elected dissenters' rights, which, if perfected under Delaware law, would require the Company to pay to the holders the fair value of their stock in cash to be determined by the Delaware Chancery Court. Pursuant to Delaware law, the dissenting shareholders petitioned the Delaware Chancery Court to determine the fair value of their shares at the effective date of the Merger, exclusive of any element of value attributable to the Merger.

In accordance with the Merger, the Company issued $984,960 of 8% Subordinated Debentures, 1,574,610 shares of common stock and paid $732,550 in cash to the former preferred shareholders who did not elect dissenters' rights. The Company does not know the amount which would be payable to dissenting holders who ultimately perfect their dissenters rights. The Debentures were retired in 2001. For a more complete description of the Merger, see Note (1) of Notes to Consolidated Financial statements.

General

The Company, through its subsidiaries, is engaged in the manufacture and distribution of building materials to building materials dealers and others located primarily in Florida, Mississippi, Georgia, and Alabama and to a lesser extent, other states in the Southeastern part of the United States as well as foreign countries. The Company presently has eleven distribution outlets through which it markets certain of its manufactured products and other purchased products directly to developers, builders, contractors, and sub-contractors.

The Company's business is directly related to the level of activity in the new and renovation construction market in the

Item 1. Business (continued)

General (continued)

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

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

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

Premix

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

Premix accounted for approximately 22%, 23% and 39% of the Company's consolidated annual revenues in the fiscal years ended December 31, 2001, 2000 and 1999, respectively.

The Company is a party to a licensing agreement with an unaffiliated company to exclusively manufacture and sell a roof tile mortar product throughout the State of Florida and certain foreign countries.

Item 1. Business (continued)

Premix (continued)

To date, a majority of all roof tile mortar sales have been derived from South Florida. Until 1996, the Company's licensed roof tile mortar product was the only mortar product approved by Miami Dade County, Florida, building authorities for use to adhere all types of cement roof tiles to roofs. In 1997, the Company's roof tile mortar was approved by the Broward and Palm Beach County building authorities along with other competitive products. Other adhesive products used for similar purposes are also used by the industry. The Company has expanded its marketing efforts for this product to other areas of Florida based on product performance rather than only as required by building code requirements.

Acrocrete

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

For the fiscal years ended December 31, 2001, 2000 and 1999, Acrocrete's sales accounted for approximately 22%, 21% and 61%, respectively, of the Company's consolidated annual revenues. Prior to January 1, 2000, the Company's distribution operations were operated through Acrocrete.

Just-Rite

In January 2000, the Company established Just-Rite to own and operate its five wholesale distribution outlets formerly owned and operated by Acrocrete. During the first five months of 2000, Just-Rite acquired nine building material distribution outlets to diversify its product offering to the construction market to include gypsum, roofing, masonry, insulation products, as well as



Item 1. Business (continued)

Just-Rite (continued)

installation services beyond those supported by the Company's manufacturing operation. Management believes the acquired distribution outlets position the Company to gain a greater market share for its manufactured products through more direct sales to the end-user and to expand operations by distributing a wider range of building materials to the construction industry that are complementary to its existing product lines. In 2001, the Company closed three distribution outlets and eliminated installation services being provided at two other distribution outlets related to the acquired operations.

For the fiscal year ended December 31, 2001 and 2000, Just-Rite's sales, excluding the sale of Premix and Acrocrete products, accounted for approximately 56% and 56% of the Company's consolidated annual revenues.

Acquisition Opportunities and Present Status

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

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







seeking any acquisitions. Accordingly, it does not have any binding understanding, agreement or commitment regarding any potential acquisition. The Company may pursue acquisitions in the future if such acquisitions will enhance Company operations.

Suppliers
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Premix's raw materials and products are purchased from approximately 21 suppliers. While five suppliers account for approximately 64% of Premix's purchases, Premix is not dependent on any one supplier for its requirements. Equivalent materials are readily available from other sources at similar prices.

Acrocrete's raw materials are purchased from approximately 16 other suppliers, of which five account for approximately 67% of Acrocrete's raw material purchases. However, equivalent materials are available from several other sources at similar prices and Acrocrete is not dependent on any one supplier for its requirements.

The Company's Just-Rite distribution outlets sell products of many suppliers. Just-Rite purchases a significant amount of its products through buying group organizations, companies which consolidate product purchase orders from many independent distributors and order product from various vendors on the distributors behalf to gain consolidated purchasing efficiencies for each distributor. One such buying organization accounted for approximately 25% and 26% of Just-Rite purchases in 2001 and 2000. However, there are other buying organizations in which the Company believes it can obtain product at the same or similar prices.

Marketing and Sales

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

While the Company's manufactured sales have been typically to distributors, the Company focuses marketing efforts on the contractor/subcontractor end user to create a brand preference for the





Marketing and Sales (continued)
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Company's manufactured products. No one distributor has accounted for 10% or more of total sales during the past three years. The Company believes the loss of any one distributor would not cause a material loss in sales because the brand preference contractors and subcontractors have developed for the Company's manufactured products generally cause the user to seek a distributor who carries the Company's products. The Company markets its products to distributors through Company salesmen located in the Southeastern United States who promote both Premix and Acrocrete products. However, direct sales of manufactured products and other building materials to end users through Just-Rite accounted for approximately 70% of total revenues in 2001.

In 1994, the Company opened a distribution outlet in Savannah, Georgia to sell its Acrocrete products directly to the end user. The Company's products and certain complementary products manufactured by other companies were inventoried and sold from a leased warehouse distribution facility.

In February 1998, the Company acquired a facility in Tampa, Florida that was engaged primarily in the distribution of landscape stone products. The Company utilized this distribution facility to gain market share for the sale of its products on the West Coast of Florida. The Company subsequently opened a distribution facility in the third quarter of 1998 in Dallas, Georgia, and one in Gadsden, Alabama in April 1999, which was subsequently moved to Rainbow City, Alabama in 2000. In January 2000, the Company acquired three additional outlets, one in Foley, Alabama, one in Pensacola, Florida and one in Destin, Florida. In March 2000 and April 2000, the Company acquired additional distribution outlets in Panama City Beach and Tallahassee, Florida. In May 2000 the Company acquired three distribution outlets located in Gulfport, Pascagoula and Hattiesburg, Mississippi. In October, 2000, the Company opened a new distribution outlet in Picayune, Mississippi. In 2001, the Company closed distribution outlets in Hattiesburg, Picayune and Pascagoula, Mississippi due to under-performance and competitive conditions in their local markets. The Company currently has eleven (11) distribution outlets in Florida, Georgia, Mississippi and Alabama.

Each facility contains between approximately 6,400 to 29,000 square feet. The distribution facilities are designed to promote product brand preference to the contractor and sub-contractor, and also to improve service capabilities, increase market share, and to increase profit margins from the sale of the Company's products and to expand operations by distributing a wide range of products to the construction industry. The Company sells Acrocrete, Premix and complementary products of other manufacturers at such distribution facilities.





## Seasonality

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

## Competition

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

## Environmental Matters

The Company is subject to various federal, state and local environmental laws and regulations in the normal course of its business. Although the Company believes that its manufacturing, handling, using, selling and disposing of its raw materials and products are in accord with current environmental regulations, future developments could require the Company to make unforeseen expenditures relating to environmental matters. Increasingly strict environmental laws, standards and environmental policies may increase the risk of liability and compliance costs associated with the Company's operations. Capital expenditures for this purpose have not been material in past years, and expenditures for 2002 to comply with existing laws and regulations are also not expected to have a material effect on the Company's financial position, results of operations or liquidity.

## Employees

The Company and its subsidiaries had 142 full time employees as of December 31, 2001. The Company considers its employee relations to be satisfactory. The Company's employees are not subject to any collective bargaining agreement.



## Item 2. Properties

The Company and its subsidiaries maintain a total of 14 facilities in Florida, Georgia, Mississippi and Alabama. The location and size of the Company's facilities and the nature of the operations in which such facilities are used, are as follows:

| Location | Approximate Sq. Footage | Owned/ Leased | Company |
|---|---|---|---|
| Pompano Beach, Fl. | 19,600 | Leased | Premix |
| Winter Springs, Fl. | 26,000 | Owned | Premix |
| Kennesaw, Ga. | 20,400 | Leased | Acrocrete |
| Tampa, Fl. | 8,470 | Owned | Just-Rite |

| | | | |
|---|---|---|---|
| Jacksonville, Fl. | 11,400 | Leased | Just-Rite |
| Norcross, Ga. | 12,200 | Leased | Just-Rite |
| Dallas, Ga. | 6,400 | Leased | Just-Rite |
| Rainbow City, Al. | 10,000 | Leased | Just-Rite |
| Pensacola, Fl. | 15,250 | Owned | Just-Rite |
| Destin, Fl. | 7,680 | Leased | Just-Rite |
| Foley, Al. | 9,000 | Leased | Just-Rite |
| Panama City Beach, Fl. | 9,540 | Leased | Just-Rite |
| Tallahassee, Fl | 17,500 | Leased | Just-Rite |
| Gulfport, Ms. | 28,800 | Leased | Just-Rite |

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

Except for the facilities in Tallahassee, Panama City Beach, and Gulfport, all leased properties are leased from unaffiliated third parties. The Tallahassee and Panama City Beach facilities are leased from the former owners of Tallahassee Gypsum Dealers, Inc, and Panhandle Drywall Supply, Inc., who sold their business interest to Just-Rite in March 2000 and April 2000 and are currently employees of the Company. The Gulfport locations are leased from an entity owned by the former owners of A&R Supply, Inc. and A&R Supply of Mississippi, Inc., who sold their businesses to Just-Rite, one of whom remains as a vice president and general manager of Just-Rite. The Pascagoula facility is leased from an entity solely-owned by the former owner of A&R Supply of Mississippi, Inc. The Pascagoula facility has been closed and sublet.

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



Item 3. Legal Proceedings

As of March 22, 2002, the Company's subsidiary Acrocrete and other parties are defendants in 25 lawsuits pending in various Southeastern states, by homeowners/homeowner associations, contractors and subcontractors, or their insurance companies, claiming moisture intrusion damages on single and multi-family family residences. The Company's insurance carriers have accepted coverage under a reservation of rights for 23 of these claims and are providing a defense. The Company expects its insurance carriers to accept coverage for the other 2 recently filed lawsuits. Acrocrete is vigorously defending all of these cases and believes it has meritorious defenses, counter-claims and claims against third parties. Acrocrete is unable to determine the exact extent of its exposure or outcome of this litigation.

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

On June 15, 1999, Premix was served with a complaint captioned Mirage Condominium Association, Inc. v. Premix Marbletite

Manufacturing Co., et al., in Miami-Dade County Florida. The lawsuit raises a number of allegations against 12 separate defendants involving alleged construction defects. Plaintiff has alleged only one count against Premix, which claims that certain materials, purportedly provided by Premix to the Developer/ Contractor and used to anchor balcony railings to the structure were defective. The Company's insurance carrier has not made a decision regarding coverage to date. In the interim, the insurance carrier has retained defense counsel on behalf of Premix and is paying defense costs. Premix expects the insurance carriers to eventually accept coverage. Premix is unable to determine the exact extent of its exposure or the outcome of this litigation.

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

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

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

The Company held its 2001 annual meeting of shareholders on November 14, 2001, (the "Annual Meeting").

(a) At the Annual Meeting, the Company's shareholders voted on the election of Class III directors as follows:

Two Class III directors were elected at the Annual Meeting with the votes as indicated below:

| | For | Withhold |
|---|---|---|
| S. Daniel Ponce | 5,948,471 | 480,201 |
| Lisa M. Brock | 5,944,771 | 483,901 |

(b) A proposal to amend the Company's Certificate of Incorporation in order to increase the number of authorized shares of Common Stock from 20,000,000 to 40,000,000 was approved by the Company's shareholders at the Annual Meeting by the following vote:

| | |
|---|---|
| For: | 5,574,384 |
| Against: | 824,626 |
| Abstain: | 29,662 |
| Not Voted: | 2,791,762 |

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PART II

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

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

| Fiscal, 2000 | High | Low |
|---|---|---|
| First Quarter | $.86 | $.54 |
| Second Quarter | .70 | .58 |
| Third Quarter | .71 | .51 |
| Fourth Quarter | .44 | .35 |

| Fiscal, 2001 | High | Low |
|---|---|---|
| First Quarter | $.43 | $.28 |
| Second Quarter | .39 | .26 |
| Third Quarter | .29 | .14 |
| Fourth Quarter | .21 | .17 |

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

On March 22, 2002, the Common Stock was held by 1,875 stockholders of record.

As of March 22, 2002, the closing bid and asked prices of the Common Stock was $.15 and $.19, respectively.



Item 6. Selected Financial Data

The following is a summary of selected financial data (in thousands except as to per share amounts) for the five years ended December 31, 2001:

| Statements of Operations Data | Year Ended December 31, | | | |
|---|---|---|---|---|
| | 2001(2) | 2000(2) | 1999 | 1998 |
| Net sales | $ 39,514 | $ 40,730 | $ 22,604 | $ 18,739 |
| Cost of sales | 27,254 | 28,218 | 15,198 | 12,823 |
| Selling, general and administrative expenses | 11,367 | 10,985 | 5,932 | 4,645 |
| Interest expense | (825) | (806) | (475) | (272) |
| Merger costs | -- | -- | -- | (456) |

| | | | | |
|---|---|---|---|---|
| Goodwill impairment charge | (238) | -- | -- | -- |
| Miscellaneous income, net | 77 | 199 | 34 | 1,218 |
| (Loss) income before income taxes | (93) | 920 | 1,033 | 1,761 |
| Income tax (expense) benefit, net | (128) | (386) | 187 | 296 |
| Net (loss) income | (221) | 534 | 1,220 | 2,057 |
| Less: dividends on redeemable preferred stock | -- | -- | -- | (248) |
| Less: net charge for elimination of preferred stock | -- | -- | -- | (975) |
| Net (loss) income applicable to common stockholders | $ (221) | $ 534 | $ 1,220 | $ 834 |
| Net (loss) income per share applicable to common stockholders Basic | $ (.02) | $ .06 | $ .15 | $ .13 |
| Diluted | $ (.02) | $ .06 | $ .15 | $ .12 |
| Number of shares used in computation of (loss) income per share: Basic | 9,214 | 8,936 | 8,199 | 6,566 |
| Diluted | 9,214 | 9,070 | 8,390 | 6,715 |

| Balance Sheets Data | As of December 31, | | | | |
|---|---|---|---|---|---|
| | 2001(2) | 2000(2) | 1999 | 1998 | 1997 |
| Working capital | $ 2,480 | $ 1,607 | $ 3,447 | $ 2,439 | $ 1,995 |
| Total assets | $14,591 | $16,792 | $ 8,768 | $ 7,561 | $ 5,128 |
| Long-term debt, less current maturities | $ 1,440 | $ 1,402 | $ 1,328 | $ 1,316 | $ 819 |
| Obligation for appraisal rights | $ 877 | $ 877 | $ 877 | $ 877 | $ -- |
| Redeemable preferred stock | $ -- | $ -- | $ -- | $ -- | $ 3,001 |
| Preferred dividends in arrears(1) | $ -- | $ -- | $ -- | $ -- | $ 4,044 |
| Common stock and other stockholders' equity (deficit) | $ 4,343 | $ 4,559 | $ 3,514 | $ 2,281 | $(4,441) |
| Current ratio | 1.3 to 1 | 1.2 to 1 | 2.1 to 1 | 1.8 to 1 | 2.2 to 1 |

(1) No cash dividends were paid on the cumulative redeemable preferred stock since 1985. The preferred stock and all accumulated accrued unpaid dividends were eliminated at December 31, 1998, upon the effective date of the Merger.



Item 6. Selected Financial Data (continued)

(2) Four acquisition transactions were consummated during 2000 which significantly impacted the Balance Sheets and Statements of (See Note 14 in the accompanying financial statements.)

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

### General

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

### Special Note R egarding Forward-Looking Statements

This Form 10-K contains certain forward looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 with respect to the financial condition, results of operations and business of the Company, and its subsidiaries, including statements made under Management's Discussion and Analysis of Financial Condition and Results of Operations. These forward looking statements involve certain risks and uncertainties. No assurance can be given that any of such matters will be realized. Factors that may cause actual results to differ materially from those contemplated by such forward looking statements include, among others, the following: realization of tax benefits; impairment of long-lived assets, including goodwill; the outcome of litigation; the competitive pressure in the industry; general economic and business conditions; the ability to implement and the effectiveness of business strategy and development plans; quality of management; business abilities and judgement of personnel; availability of qualified personnel; and labor and employee benefit costs.

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

## Critical Accounting Policies

We prepare our consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, which require management to make estimates and assumptions (see Note 2 to the consolidated financial statements). Management bases these estimates and assumptions on historical results and known trends as well as our forecasts as to how these might change in the future. Actual results could differ from these estimates and assumptions. We believe that the following critical accounting policies involve a higher degree of judgement and complexity:

### Revenue Recognition and Related Expenses

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

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

### Inventory Valuation

The Company values inventories at the lower of cost or market using the first-in, first-out (FIFO) method. The Company will record provisions, as appropriate, to write-down obsolete and excess inventory to estimated net realizable value. The process for evaluating obsolete and excess inventory often requires the Company to make subjective judgments and estimates concerning future sales levels, quantities and prices at which such inventory will be able to be sold in the normal course of business. Accelerating the disposal process or incorrect estimates of future sales potential may cause the actual results to differ from the estimates at the time such inventory is disposed or sold. The Company believes that its procedures for estimating such amounts are reasonable and historically have not resulted in material

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Inventory Valuation (continued)

adjustments in subsequent periods when the estimates are adjusted to the actual amounts.

Asset Impairment

Our review of long-lived assets and goodwill requires us to initially estimate the undiscounted future cash flow of these assets, whenever events or changes in circumstances indicate that the carrying amount of these assets may not be fully recoverable. 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 making estimates of the timing of the future cash flows, discount rates and reflecting varying degrees of perceived risk.

The determination of fair value includes numerous uncertainties. For example, in determining fair value of goodwill utilizing discounted forecasted cash flows, significant judgments are made concerning future purchased and manufactured goods sale prices, operating, selling and administrative costs, interest and discount rates, technological changes, consumer demand, governmental regulations and the effects of competition. We believe that we have made reasonable estimates and judgments in determining whether our long-lived assets and goodwill 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.

Income Taxes

The Company accounts for income taxes using the liability method in accordance with SFAS No. 109 "Accounting for Income Taxes" ("SFAS No. 109"), which requires that the deferred tax consequences of temporary differences between the amounts recorded in the Company's Consolidated Financial Statements and the amounts included in the Company's federal and state income tax returns be recognized in the balance sheet. As the Company generally does not file their income tax returns until well after the closing process for the December 31 financial statements is complete, the amounts recorded at December 31 reflect estimates of what the final amounts will be when the actual income tax returns are filed for that fiscal year. In addition, estimates are often required with respect to, among other things, the appropriate state income tax rates to use in the various states that the Company and its subsidiaries are required to file, the potential utilization of

Income Taxes (continued)

operating and capital loss carry-forwards for both federal and state income tax purposes and valuation allowances required, if any, for tax assets that may not be realizable in the future. The Company believes that the amounts recorded as deferred income tax assets will be recoverable through future taxable income generated by the Company. Although there can be no assurance that all recognized deferred tax assets will be fully recovered, the Company believes the procedures and estimates used in its accounting for income taxes are reasonable and in accordance with established tax law. Our forecasted profits from future operations may be adversely affected by various factors including, but not limited to, declines in customer demand, increased competition, the deterioration in general economic and business conditions, as well as other factors, including those noted under "Special Note Regarding Forward-Looking Statements" and "Market Risks".

Results of Operations

Year Ended December 31, 2001 Compared to 2000

Net sales in 2001 decreased $1,216,000 or approximately 3.0% compared to 2000. Reduced market prices for gypsum wallboard, a major product line of the Company's distribution operations, closure of certain under-performing distribution operations, elimination of installation services at certain locations and reduced demand for certain of the Company's manufactured products, accounted for the sales decline in 2001 compared to 2000.

Gross profit as a percentage of net sales for 2001 was approximately 31.0% compared to 30.7% in 2000. The increase in gross profit margins was principally due to a slight improvement in gross profit margins realized by the Company's distribution operations. Although, the Company realized an increase in gross profit margins, the severe industry price declines in gypsum wallboard products was a primary factor in the total gross profits decrease from 2000 to 2001.

In 2001, the aggregate gross profits derived by the Company's acquired distribution facilities were adversely affected by competitive conditions in the Company's distribution markets, primarily the sale of gypsum products manufactured by other companies. Market prices for gypsum wallboard were substantially lower in 2001 compared to the average prices realized in 2000. The decrease appeared to be the result of excess supply and increased competition among the gypsum wallboard manufacturers. However, the trend of lower gypsum wallboard pricing, which commenced in early 2000 and continued for six consecutive quarters through the first





Year Ended December 31, 2001 Compared to 2000 (continued) six months of 2001, began to rebound from historically low levels during the third quarter ended September 30, 2001. During the third quarter, certain manufacturers reduced production of gypsum wallboard and a seasonally strong demand for gypsum wallboard resulted in increased gypsum prices in the latter part of 2001, although at still significantly reduced prices from historical levels. The Company is unable to determine if such increased prices will be maintained or trend higher in 2002. However, additional price increases for gypsum wallboard have been announced for March 2002.

The results of operations of the Company's distribution operations had a negative impact on the Company's consolidated results in 2001 due in large part to reduced gross profits caused by lower gypsum wallboard prices and poor operating results at certain under-performing distribution facilities, including those facilities which were closed in 2001. In 2001, the Company's distribution operations realized sales of $27,597,000 and incurred an operating loss of $639,000 before any charges of corporate overhead and write-off of goodwill impairment charges, compared to sales of $28,464,000 and an operating profit of $171,000 in 2000. In addition, the Company incurred a $238,000 impairment charge to goodwill as a result of the under-performance of certain acquired distribution operations subsequent to the date of their acquisition.

Efforts are being made to increase sales and gross profits of distribution operations by focusing primarily on attaining increased sales of the Company's manufactured products through the Company's acquired distribution facilities and its manufacturing facilities, broadening the product line of the Company's existing distribution facilities in selected markets and decreasing reliance on sales of gypsum products in certain distribution locations.

Selling, general and administrative expenses as a percentage of net sales for 2001 were approximately 28.8% compared to 27.0% in 2000. The most significant reason for the increase in selling, general and administrative expenses as a percentage of sales in the year 2001 was the decrease in revenue resulting from the decline in gypsum wallboard prices and the recent closure of under-performing distribution facilities in 2001. Selling, general and administrative expenses increased $382,000 or approximately 3.5% in 2001, compared to 2000. The increase in expenses was primarily due to additional operating costs, including an increase in provision for bad debt expense of $92,000, primarily related to the distributors acquired at various times during 2000. In addition, the operating results of certain of the acquired distributors were not included for the entire twelve month period in 2000 due to the





Year Ended December 31, 2001 Compared to 2000 (continued)
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timing of their respective acquisitions.

The Company has taken action to improve operating performance in the Company's distribution operations through: (i) an approximate 32% reduction in workforce of 68 employees in 2001; (ii) closure of under-performing distribution locations in Hattiesburg, Picayune and

Pascagoula, Mississippi; (iii) elimination of installation services at two locations; and (iv) development of a consolidated purchasing program in an attempt to realize greater savings from the purchase and resale of products. The operations associated with the three closed distribution locations and eliminated installation services accounted for aggregate operating losses for 2001 and 2000 of approximately, $474,000 and $96,000 respectively. Additional charges attributed to the closed operations, including expenses arising from the sale of vehicles and closing of a leased facility, increased total losses associated with the closed operations in 2001 to approximately $592,000.

The Company had operating income of $655,000 in 2001 as compared to operating income of $1,527,000 in 2000. Due to the closing of certain acquired distribution facilities and the underperformance of another, the Company recorded a $238,000 impairment of goodwill in 2001. There was no corresponding charge against operating income in 2000.

Interest expense increased $19,000 in 2001 or approximately 2.4% compared to 2000. The increase in interest expense in 2001 was primarily due to additional borrowings related to the purchase and operation of the acquired distributors for a full year period in 2001, compared to 2000, offset by lower borrowing rates.

In the year ended 2001 the Company recognized income tax expense of $128,000, compared to $386,000 for 2000. Deferred income tax expense in 2001 is the result of the expiration of unused net operating loss carryforwards in 2001.

As a result of the above factors, the Company incurred a net loss of $221,000 or $.02 per fully diluted share for 2001, compared to net income of $534,000 or $.06 per share for 2000.

Year Ended December 31, 2000 Compared to 1999
---------------------------------------------

Net sales in 2000 increased $18,126,000, or approximately 80.2% compared to 1999. The increase in sales was derived from the sale of building materials generated by distributors acquired at various dates during the first five months of 2000. These sales primarily consisted of building materials purchased from other





Year Ended December 31, 2000 Compared to 1999 (continued)
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manufacturers, principally gypsum, roofing, insulation, metal studs, masonry and stucco products.

Gross profit as a percentage of net sales for 2000 was approximately 30.7% compared to 32.8% in 1999. The decrease in gross profit margins was principally due to a greater proportion of consolidated sales represented by products manufactured by other companies sold through the Company's acquired distribution facilities, as compared to the proportionate amount of sale of products manufactured by the Company with higher gross profit margins. Products manufactured by the Company accounted for approximately 43.4% of consolidated sales in 2000, compared to approximately 74.0% in 1999. The distribution facilities typically generate lower gross profit margins than the direct sale of the Company's manufactured products.

In 2000, gross profits derived by the Company's acquired distribution facilities were adversely affected by competitive conditions in the Company's distribution markets for sales of gypsum products manufactured by other companies. Gypsum products, principally wallboard, a major product line of the acquired distributors, suffered price deflation of approximately 40% in 2000, due to industry conditions.

The results of operations of the acquired distributors had a material impact on the Company's consolidated results in 2000 and will continue to impact results in 2001. The acquisitions were accounted for under the purchase method of accounting. Accordingly, results of operations of the acquired distributors have been consolidated since their respective acquisition dates in 2000.

Efforts are being made to increase sales and gross profits by focusing primarily on attaining increased sales of the Company's manufactured products through the Company's acquired distribution facilities, expanding the sale of installed products and broadening the product line of the Company's existing distribution facilities where suitable in selected markets.

Selling, general and administrative expenses as a percentage of net sales for 2000 was approximately 27.0% compared to 26.2% in 1999. Selling, general and administrative expenses increased $5,053,000 or approximately 85.2% in 2000, compared to 1999. The increase in expenses was primarily due to additional operating costs related to the acquired distributors acquired in 2000 and costs incurred to integrate the acquisitions. Certain growth initiatives in the Company's distribution operations resulted in increased expenses in 2000. Start-up costs were incurred to develop the sale of certain installed products at selected

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

Year Ended December 31, 2000 Compared to 1999 (continued)

distribution locations and for the opening of a new distribution location in Picayune, Mississippi in October 2000. In addition, the Company incurred additional costs to up-grade the delivery capabilities of its distribution facilities through the purchase and leasing of additional vehicles and added sales personnel in selected markets in an attempt to increase sales.

Efforts have been made to improve operating efficiency in the Company's distribution operations through: (i) a reduction in personnel in certain locations; (ii) closure of an acquired under-performing distribution location in Hattiesburg, Mississippi; (iii) the recent consolidation of the Company's distribution locations in Pensacola, Florida and Foley, Alabama, through a reduction and realignment of personnel; and (iv) an attempt to realize greater savings from the purchase and resale of products through a consolidated purchasing program.

Interest expense increased $331,000, or approximately 69.7% compared to 1999. The increase in interest expense was primarily due to additional borrowings related to the purchase and operations of the acquired distributors. Miscellaneous income for 2000 included a $75,000 settlement of a prior year product liability claim against a former vendor.

In 2000, the Company incurred $367,000 of deferred income tax expense. In 1999, the Company recognized a $574,000 tax benefit as a result of releasing a portion of the valuation allowance on the Company's deferred tax asset. The Company's Consolidated Statement of Operations for the year ended December 31, 1999, reflected a deferred income tax benefit of $213,000, comprised of taxes at the statutory rate of 35% less the tax benefit described above.

As a result of the above factors, the Company generated net income of $534,000, or $.06 per fully diluted share for 2000, compared to net income of $1,220,000, or $.15 per share for 1999.

## Liquidity and Capital Resources

### Sources and Uses of Cash

Our business provided approximately $1,185,000 and $19,000 of net cash from operations in 2001 and 2000, respectively. The increase in cash flow in 2001 was primarily attributable to reductions in accounts receivable and inventory as a result of closing certain distribution operations, eliminating installation operations and management's emphasis on improving working capital.





### Sources and Uses of Cash (continued)

During 2001, the net expenditures for investing activities were $112,000 compared to $2,693,000 in 2000. The larger expenditures in the prior year were the result of the purchase of seven building material distributors which accounted for the majority of the 2000 expenditures.

During 2001, we reduced our line of credit balance approximately $768,000. We also made principal payments on other debt totaling $1,538,000, including the payment of the 8% Subordinated Debentures due December 31, 2001. In 2001 we received proceeds of approximately $748,000 from collateralized borrowing agreements which were partially used to repay the 8% Subordinated Debentures.

Future Commitments and Funding Sources

At December 31, 2001, our contractual cash obligations, with initial or remaining terms in excess of one year, were as follows:

| Contractual Cash Obligations | Total | 2002 | 2003 | Payments Due by Fi 2004 |
|---|---|---|---|---|
| Long-term debt(a) | $2,109,000 | $ 669,000 | $ 620,000 | $ 729,000 |
| Operating leases(a) | 3,599,000 | 1,052,000 | 889,000 | 803,000 |
| Total contractual cash obligations | $5,708,000 | $1,721,000 | $1,509,000 | $1,532,000 |

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

At December 31, 2001, the Company had working capital of approximately $2,480,000 compared to working capital of $1,607,000 at December 31, 2000. The improvement in working capital was primarily a result of the payment of the $985,000 8% Subordinated Debentures due December 31, 2001 in part from proceeds derived from long-term financing agreements in the amount of $715,000. As of December 31, 2001, the Company had cash and cash equivalents of $1,368,000.

The Company's principal source of short-term liquidity is existing cash on hand and the utilization of a $6,000,000 line of credit with a commercial lender. The maturity date of the line of credit is June 19, 2002, subject to annual renewal. Premix, Acrocrete and Just-Rite borrow on the line of credit, based upon

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

Liquidity and Capital Resources (continued)

and collateralized by, their eligible accounts receivable and inventory. Generally, accounts not collected within 120 days are not eligible accounts receivable under the Company's borrowing agreement with its commercial lender. At December 31, 2001, $4,335,000 had been borrowed against the line of credit. Based on eligible receivables and inventory, the Company had, under its line of credit, total available borrowing, (including the amount outstanding of $4,335,000) of approximately $4,923,000 at December 31, 2001.

Trade accounts receivable represent amounts due from sub-contractors, contractors and building materials dealers located principally in Florida, Mississippi and Georgia who have purchased products on an unsecured open account basis and through Company owned warehouse distribution outlets. As of December 31, 2001, the Company owned and operated eleven distribution outlets. Accounts receivable, net of allowance, at December 31, 2001 was $4,419,000 compared to $4,866,000 at December 31, 2000. The decrease in receivables of $447,000, or approximately 9.2%, was primarily related to lower sales levels in the fourth quarter of 2001 compared to 2000, partially attributable to the closing of certain distribution locations and the elimination of installation services.

As a result of the consummation of the December 31, 1998 merger, among other things, the Company agreed to pay $733,000 in cash to the former preferred shareholders. At December 31, 2001, the Company had paid $685,000 of such cash amount. Amounts payable to such shareholders at December 31, 2001 results from their non- compliance with the conditions for payments.

Holders representing 81,100 preferred shares have elected dissenters' rights, which, under Delaware law, would require cash payments equal to the fair value of their stock, as of the date of the merger, to be determined in accordance with Section 262 of the Delaware General Corporation Law. The Company has recorded a liability for each share based on the fair value of $2.25 in cash, an $8.00 Subordinated Debenture and five shares of the Company's common stock since that is the consideration the dissenting holders would receive if they did not perfect their dissenters' rights under the law. Dissenting stockholders filed a petition for appraisal rights in the Delaware Chancery Court on April 23, 1999.

In the fourth quarter of 2001, the Company completed the refinancing of two mortgage loans and obtained secured equipment borrowings from a commercial lender which generated net proceeds of approximately $688,000 to help satisfy the 8% Debentures due December 31, 2001. At December 31, 2001, the Company paid the holders of the Debentures tendering their bonds $787,000. Amounts







payable to stockholders at December 31, 2001 on the Company's consolidated balance sheets includes $238,000 for former stockholder's who have not yet tendered their Debentures as required by the terms of such instrument.

The Company presently is focusing its efforts on the completion of the integration and consolidation of the acquired distributors' operations into the Company, reducing costs and expenses and improving working capital. The Company expects to incur various capital expenditures during the next twelve months to upgrade and maintain its equipment and delivery fleet to support operations. In addition, the Company is planning the implementation of an upgraded centralized management information system for its distribution operations. Capital needs associated with these capital projects cannot be estimated at this time, but management does not expect the cash investment portion of the expenditures for these projects to exceed $100,000.

The Company believes its cash on hand and the maintenance of its borrowing arrangement with its commercial lender will provide sufficient cash to meet its current obligations for its operations and support the cash requirements of its capital expenditure programs in 2002.

The ability of the Company to maintain and improve its long- term liquidity is primarily dependent on the Company's ability to successfully achieve and maintain profitable operations and resolve its appraisal rights litigation on terms favorable to the Company.

New Accounting Pronouncements
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In June 2001, SFAS 141, "Business Combinations," and SFAS 142, "Goodwill and Other Intangible Assets" was adopted by the FASB. SFAS 141 requires that the purchase method of accounting be used for all business combinations completed after June 30, 2001. SFAS 141 also specifies the types of acquired intangible assets that are required to be recognized and reported separately from goodwill and those acquired intangible assets that are required to be included in goodwill. SFAS 142 will require that goodwill no longer be amortized, but instead tested for impairment at least annually. SFAS 142 will also require recognized intangible assets be amortized over their respective estimated useful lives and reviewed for impairment in accordance with SFAS 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of". Any recognized intangible asset determined to have an indefinite useful life will not be amortized, but instead tested





New Accounting Pronouncements (continued)
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for impairment in accordance with the Standard until its life is determined to no longer be indefinite. SFAS 141 is effective for all business combinations initiated after June 30, 2001, while the provisions of SFAS 142 are effective for fiscal years beginning after December 15, 2001, and are effective for interim periods in the initial year of adoption.

The Company intends to adopt SFAS 142 in 2002. Accordingly, the Company will no longer amortize goodwill and will perform an impairment test of goodwill annually. The cessation of goodwill amortization will result in a reduction of $33,000 in annual goodwill amortization, assuming no future impairment of goodwill.

The SFAS No. 142 goodwill impairment review consists of a two-step of first determining the fair value of the reporting unit and comparing it to the carrying value of the net assets allocated to the reporting unit. If this fair value exceeds the carrying value, no further analysis is required. If the fair value of the reporting unit is less than the carrying value of the net assets, the implied fair value of the reporting unit is allocated to all underlying assets and liabilities, including both recognized and unrecognized tangible assets, based on their fair value. If necessary, goodwill is then written-down to its implied fair value. We must complete the first step of the transitional impairment review by June 30, 2002 and, if necessary, the second step by December 31, 2002. The Company is currently analyzing the effect the adoption of these standards will have on its consolidated financial statements.

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

In October 2001, the Financial Accounting Standards Board issued "Accounting for the Impairment or Disposal of Long-Lived Assets" (SFAS 144"). SFAS 144 addresses accounting and reporting for the impairment or disposal of long-lived assets. This Statement supersedes SFAS 121, "Accounting for the Impairment of Long-Lived Assets to be Disposed Of". The Company is required to adopt this pronouncement. The Company does not believe that the adoption of SFAS 144 will have a material effect on its consolidated financial statements.



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

## Market Risks

### Residential and Commercial Construction Activity

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

Our first quarter revenues and, to a lesser extent, our fourth quarter revenues are typically adversely affected by winter construction cycles and weather patterns in colder climates as the level of activity in the new construction and home improvement markets decreases. Because much of our overhead and expense remains relatively fixed throughout the year, our profits also tend to be lower during the first and fourth quarters.

### Exposure to Interest Rates

We have two variable rate mortgages totaling $446,000 at December 31, 2001. The mortgages bear interest at prime plus 1% and are due October 2004. In Addition, our $6 million line of credit from a commercial lender bears an interest rate of prime plus 1/2%. A significant increase in the prime rate could have a material adverse effect on our operating results and financial condition.

Item 8. Financial Statement and Supplementary Data

See Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K for the Index to Financial Statements contained herein.

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

None.



Report of Independent Certified Public Accountants

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

In our opinion, the consolidated financial statements listed in the index appearing under Item 14(a)(1) on page 60 present fairly, in all material respects, the financial position of Imperial Industries, Inc. and its subsidiaries at December 31, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedules listed in the index appearing under Item 14(a)(2) on page 60 present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedules are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements and financial statement schedules based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PRICEWATERHOUSECOOPERS LLP
Miami, Florida
March 29, 2002

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IMPERIAL INDUSTRIES, INC. AND SUBSIDIARIES
Consolidated Balance Sheets

| Assets | December 31, 2001 | December 31, 2000 |
|---|---|---|
| Current assets: | | |
| Cash and cash equivalents | $ 1,368,000 | $ 1,853,000 |
| Trade accounts receivable (less allowance for doubtful accounts of $453,000 and $400,000 at December 31, 2001 and 2000, respectively) | 4,419,000 | 4,866,000 |
| Inventories | 3,807,000 | 4,387,000 |
| Deferred income taxes | 523,000 | 377,000 |
| Other current assets | 294,000 | 78,000 |
| Total current assets | 10,411,000 | 11,561,000 |
| Property, plant and equipment, at cost | 4,197,000 | 4,418,000 |
| Less accumulated depreciation | (1,749,000) | (1,444,000) |
| Net property, plant and equipment | 2,448,000 | 2,974,000 |
| Deferred income taxes | 327,000 | 589,000 |
| Excess cost of investment over net assets acquired | 1,272,000 | 1,551,000 |
| Other assets | 133,000 | 117,000 |
| | $ 14,591,000 | $ 16,792,000 |

| Liabilities and Stockholders' Equity | | |
|---|---|---|
| Current liabilities: | | |
| Notes payable | $ 4,335,000 | $ 5,203,000 |
| Current portion of long-term debt | 669,000 | 1,636,000 |

| | | |
|---|---|---|
| Accounts payable | 1,906,000 | 2,264,000 |
| Payable to stockholders | 286,000 | 48,000 |
| Accrued expenses and other liabilities | 735,000 | 803,000 |
| Total current liabilities | 7,931,000 | 9,954,000 |
| Long-term debt, less current maturities | 1,440,000 | 1,402,000 |
| Obligation for appraisal rights | 877,000 | 877,000 |
| Commitments and contingencies (Note 13) | -- | -- |
| Stockholders' equity: | | |
| Common stock, $.01 par value at December 31, 2001 and 2000; 40,000,000 shares authorized; 9,220,434 and 9,205,434 issued at December 31, 2001 and 2000, respectively | 92,000 | 92,000 |
| Additional paid-in-capital | 13,920,000 | 13,915,000 |
| Accumulated deficit | (9,669,000) | (9,448,000) |
| Total stockholders' equity | 4,343,000 | 4,559,000 |
| | $ 14,591,000 | $ 16,792,000 |

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



IMPERIAL INDUSTRIES, INC. AND SUBSIDIARIES

Consolidated Statements of Operations

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2001 | 2000 | 1999 |
| Net sales | $ 39,514,000 | $ 40,730,000 | $ 22,604,000 |
| Cost of sales | 27,254,000 | 28,218,000 | 15,198,000 |
| Gross profit | 12,260,000 | 12,512,000 | 7,406,000 |
| Selling, general and administrative expenses | 11,367,000 | 10,985,000 | 5,932,000 |
| Impairment charge | 238,000 | -- | -- |
| Operating income | 655,000 | 1,527,000 | 1,474,000 |

| | | | |
|---|---|---|---|
| Other income (expense): | | | |
| Interest expense | (825,000) | (806,000) | (475,000) |
| Miscellaneous income | 77,000 | 199,000 | 34,000 |
| | (748,000) | (607,000) | (441,000) |
| (Loss) income before income taxes | (93,000) | 920,000 | 1,033,000 |
| Income tax (expense) benefit: | | | |
| Current | (12,000) | (19,000) | (26,000) |
| Deferred | (116,000) | (367,000) | 213,000 |
| | (128,000) | (386,000) | 187,000 |
| Net (loss) income | $ (221,000) | $ 534,000 | $ 1,220,000 |
| Basic (loss) earnings per share | $ (.02) | $ .06 | $ .15 |
| Diluted (loss) earnings per share | $ (.02) | $ .06 | $ .15 |

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

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IMPERIAL INDUSTRIES, INC. AND SUBSIDIARIES

Consolidated Statements of Changes in Common Stock and Other Stockholders' Equi

Years ended December 31, 2001, 2000 and 1999

| | Common Stock Shares | Common Stock Amount | Additional paid-in capital | Accumulated deficit | Tr |
|---|---|---|---|---|---|
| Balance at December 31, 1998 | 8,182,571 | $ 82,000 | $ 13,507,000 | $(11,202,000) | $ |
| Issuance of common stock | 47,863 | -- | (93,000) | -- | |
| Net income | -- | -- | -- | 1,220,000 | |
| Balance at December 31, 1999 | 8,230,434 | 82,000 | 13,414,000 | (9,982,000) | |

| | | | | | |
|---|---|---|---|---|---|
| Issuance of common stock | 975,000 | 10,000 | 501,000 | -- | |
| Net income | -- | -- | -- | 534,000 | |
| Balance at December 31, 2000 | 9,205,434 | 92,000 | 13,915,000 | (9,448,000) | |
| Issuance of common stock | 15,000 | -- | 5,000 | -- | |
| Net loss | -- | -- | -- | (221,000) | |
| Balance at December 31, 2001 | 9,220,434 | $ 92,000 | $ 13,920,000 | $ (9,669,000) | $ |

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

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IMPERIAL INDUSTRIES, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2001 | 2000 | 1999 |
| Cash flows from operating activities: | | | |
| Net (loss) income | $ (221,000) | $ 534,000 | $ 1,220,000 |
| Adjustments to reconcile net (loss) income to net cash provided by: | | | |
| Depreciation | 525,000 | 445,000 | 225,000 |
| Amortization | 71,000 | 38,000 | 21,000 |
| Write-down of goodwill impairment | 238,000 | -- | -- |
| Debt issue discount | 59,000 | 59,000 | 59,000 |
| Provision for doubtful accounts | 375,000 | 283,000 | 177,000 |
| Provision for writedown of assets held for sale and lease | 61,000 | -- | -- |
| Provision (benefit) for income taxes | 116,000 | 367,000 | (213,000) |
| Loss (gain) on disposal of fixed assets | 32,000 | (1,000) | 5,000 |
| Compensation expense - issuance of stock | 5,000 | 60,000 | 13,000 |
| (Increase) decrease in: | | | |
| Accounts receivable | 72,000 | (2,921,000) | (319,000) |
| Inventory | 580,000 | (526,000) | (649,000) |
| Prepaid expenses and other assets | (302,000) | (75,000) | (47,000) |
| Increase (decrease) in: | | | |
| Accounts payable | (358,000) | 1,362,000 | (398,000) |
| Payable to stockholders | -- | -- | (685,000) |
| Accrued expenses and other liabilities | (68,000) | 394,000 | 257,000 |

| | | | |
|---|---|---|---|
| Total adjustments to (net loss) net income | 1,406,000 | (515,000) | (1,554,000) |
| Net cash provided by (used in) operating activities | 1,185,000 | 19,000 | (334,000) |
| Cash flows from investing activities | | | |
| Purchase of property, plant and equipment | (92,000) | (525,000) | (415,000) |
| Acquisition of businesses | -- | (2,033,000) | -- |
| Payment on notes payable A&R acquisitions | (100,000) | (195,000) | -- |
| Proceeds received from sale of property and equipment | 80,000 | 40,000 | 31,000 |
| Proceeds from exercise of warrants and stock options | -- | 20,000 | -- |
| Net cash used in investing activities | (112,000) | (2,693,000) | (384,000) |



IMPERIAL INDUSTRIES, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2001 | 2000 | 1999 |
| Cash flows from financing activities | | | |
| Increase (decrease) in notes payable banks - net | (768,000) | 3,577,000 | 746,000 |
| Proceeds from issuance of long-term debt | 748,000 | 273,000 | 459,000 |
| Repayment of long-term debt | (1,538,000) | (442,000) | (465,000) |
| Net cash (used in) provided by financing activities | (1,558,000) | 3,408,000 | 740,000 |
| Net (decrease) increase in cash and cash equivalents | (485,000) | 734,000 | 22,000 |
| Cash and cash equivalents, beginning of year | 1,853,000 | 1,119,000 | 1,097,000 |
| Cash and cash equivalents, end of year | $ 1,368,000 | $ 1,853,000 | $ 1,119,000 |
| Supplemental disclosure of cash flow information: | | | |
| Cash paid during the year for interest | $ 692,000 | $ 622,000 | $ 283,000 |

Non-cash transactions:
Issuance of an aggregate of 15,000 and

| | | | |
|---|---|---|---|
| 775,000 shares, respectively, of common stock related to acquisitions and to an officer of the Company | $ 5,000 | $ 490,000 | $ -- |
| Issuance of notes related to the acquisitions | $ -- | $ 950,000 | $ -- |

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



IMPERIAL INDUSTRIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2001, 2000 and 1999

(1) Merger

Effective December 31, 1998, (the "Effective Date"), the Company merged into a wholly-owned subsidiary, (the "Merger").

At the Effective Date, each share of the Company's $.10 par value common stock outstanding before the Merger was converted into one share of $.01 par value common stock. Also at the Effective Date, 300,121 outstanding shares of preferred stock, with a carrying value of $3,001,000 were retired and $4,292,000 of accrued dividends on such shares, were eliminated as described in the following paragraphs.

In connection with the elimination of the preferred stock, the Company was required to pay cash of $733,000, of which $685,000 has been paid as of December 31, 2001. In addition, the Company issued $985,000 face value of Debentures due December 31, 2001 with a fair value of $808,000, and 1,574,610 shares of $.01 par common stock with a fair value of $630,000 based on the market price of $.40 per share of the Company's common stock at the Effective Date. At December 31, 2001, the Company paid $787,000 of the $985,000 to Debenture holders who had tendered their bonds as required by such instruments.

Holders of 81,100 shares of preferred stock (the "Dissenting Shareholders"), with a carrying value of $811,000, elected to exercise their appraisal rights with respect to the stock. Pursuant to Delaware law, the Dissenting Shareholders petitioned the Delaware Chancery Court on April 23, 1999 to determine the fair value of their shares at the Effective Date, exclusive of any element of value attributable to the Merger. The Company recorded $877,000 in the accompanying consolidated balance sheets at December 31, 2001 and 2000, as an estimate for the obligation for appraisal rights based on the estimated fair value of the consideration they could have received had they not elected dissenters' rights. The Chancery Court may determine fair value is less than, equal to, or greater than an aggregate of $877,000. The Company does not expect a final judicial determination requiring the Company to make payment to Dissenting Shareholders' in the year ended December 31, 2002. Accordingly, the obligation is classified as long-term.

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





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

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

### (a) Basis of presentation

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

### (b) Concentration of Credit Risk

Concentrations of credit risk with respect to trade accounts receivable are limited due to the large number of entities comprising the Company's customer base. Trade accounts receivable represent amounts due from building materials dealers, contractors and sub-contractors, located principally in the Southeastern United States who have purchased products on an unsecured open account basis. At December 31, 2001, accounts aggregating $669,000, or approximately 14% of total gross trade accounts receivable were deemed to be ineligible for borrowing purposes under the Company's borrowing agreement with its commercial lender. See Note (5). The allowance for doubtful accounts at December 31, 2001 of $453,000 is considered sufficient to absorb any losses which may arise from uncollectible accounts receivable.

The Company places its cash with commercial banks. At December 31, 2001, the Company has cash balances with banks in excess of Federal Deposit Insurance Corporation insured limits. Management believes the credit risk related to these deposits is minimal.

### (c) Inventories

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



IMPERIAL INDUSTRIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements
-continued-

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

(d) Property, plant and equipment

Property, plant and equipment is stated at cost, less accumulated depreciation. Depreciation is computed on the straight-line basis over the estimated useful lives of the depreciable assets. Expenditures for maintenance and repairs are charged to expense as incurred, while expenditures which extend the useful life of assets are capitalized. Differences between the proceeds received on the sale of property, plant and equipment and the carrying value of the assets on the date of sale is credited or charged to net income.

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

Licenses, trademarks and deferred financing costs are amortized on the straight-line basis over the estimated useful lives of the licenses and trademarks, or over the term of the related financing. Excess cost of investment over net assets acquired was amortized using the straight -line method over 40 years and is net of $57,000 and $28,000 of accumulated amortization at December 31, 2001 and 2000, respectively. (See Note 2 (n) New Accounting Pronouncements for goodwill accounting policy).

(f) Income taxes

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

(g) Earnings per share of common stock

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





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

(h) Cash and cash equivalents

The Company has defined cash and cash equivalents as those highly liquid investments with original maturities of three months or less, and are stated at cost. Included in cash and cash equivalents at December 31, 2001 and 2000 are short term time deposits of $121,000 and $285,000, respectively.

(i) Revenue recognition policy

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

(j) Stock based compensation

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

(k) Accounting estimates

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

(l) Fair Value of Financial Instruments

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





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

(m) Segment Reporting

The Company has adopted SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information. For the years ended December 31, 2001, 2000 and 1999, the Company has determined that it operates in a single operating segment.

(n) New Accounting Pronouncements

In June 2001, SFAS 141, "Business Combinations," and SFAS 142, "Goodwill and Other Intangible Assets" was adopted by the FASB. SFAS 141 requires that the purchase method of accounting be used for all business combinations completed after June 30, 2001. SFAS 141 also specifies the types of acquired intangible assets that are required to be recognized and reported separately from goodwill and those acquired intangible assets that are required to be included in goodwill. SFAS 142 will require that goodwill no longer be amortized, but instead tested for impairment at least annually. SFAS 142 will also require recognized intangible assets be amortized over their respective estimated useful lives and reviewed for impairment in accordance with SFAS 121, "Accounting for the Impairment of Long- Lived Assets and for Long-Lived Assets to be Disposed Of". Any recognized intangible asset determined to have an indefinite useful life will not be amortized, but instead tested for impairment in accordance with the Standard until its life is determined to no longer be indefinite. SFAS 141 is effective for all business combinations initiated after June 30, 2001, while the provisions of SFAS 142 are effective for fiscal years beginning after December 15, 2001, and are effective for interim periods in the initial year of adoption.

The Company intends to adopt SFAS 142 in 2002. Accordingly, the Company will no longer amortize goodwill and will perform an impairment test of goodwill annually. The cessation of goodwill amortization will result in a reduction of $33,000 in annual goodwill amortization, assuming no future impairment of goodwill. Goodwill amortization was $41,000, $29,000 and $0 in 2001, 2000 and 1999, respectively.

The SFAS No. 142 goodwill impairment review consists of two steps. The first is determining the fair value of the reporting unit and the second is comparing it to the carrying value of the net assets allocated to the reporting unit. If this fair value exceeds the carrying value, no



IMPERIAL INDUSTRIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements
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(2) Description of Business and Summary of Significant Accounting Policies (continued)

(n) New Accounting Pronouncements (continued)

further analysis is required. If the fair value of the reporting unit is less than the carrying value of the net assets, the implied fair value of the reporting unit is allocated to all underlying assets and liabilities, including both recognized and unrecognized tangible assets, based on their fair value. If necessary, goodwill is then written-down to its implied fair value. We must complete the first step of the transitional impairment review by June 30, 2002 and, if necessary, the second step by December 31, 2002. The Company is currently analyzing the effect the adoption of these standards will have on its consolidated financial statements.

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

In October 2001, the Financial Accounting Standards Board issued "Accounting for the Impairment or Disposal of Long-Lived Assets" (SFAS 144"), which is effective for fiscal years beginning after December 15, 2001. SFAS 144 addresses accounting and reporting for the impairment or disposal of long-lived assets. This Statement supersedes SFAS 121, "Accounting for the Impairment of Long-Lived Assets to be Disposed Of". The Company is required to adopt this pronouncement. The Company does not believe that the adoption of SFAS 144 will have a material effect on its consolidated financial statements.

(3) Inventories

At December 31, 2001 and 2000, inventories consist of:

| | 2001 | 2000 |
|---|---|---|
| Raw materials | $ 465,000 | $ 562,000 |
| Finished goods | 3,062,000 | 3,560,000 |
| Packaging materials | 280,000 | 265,000 |
| | $3,807,000 | $4,387,000 |

IMPERIAL INDUSTRIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements
-continued-

## (4) Property, Plant and Equipment

A summary of the cost of property, plant and equipment at December 31, 2001 and 2000 is as follows:

| | 2001 | 2000 | Estimated useful life (years) |
|---|---|---|---|
| Land | $ 191,000 | $ 191,000 | - - - |
| Buildings and improvements | 963,000 | 965,000 | 10 - 40 |
| Machinery and equipment | 1,672,000 | 1,658,000 | 3 - 10 |
| Vehicles | 1,011,000 | 1,253,000 | 2 - 8 |
| Furniture and Fixtures | 360,000 | 351,000 | 3 - 12 |
| | $4,197,000 | $4,418,000 | |

The net book value of property, plant and equipment pledged as collateral under notes payable and various long-term debt agreements aggregated $2,024,000 and $1,898,000 at December 31, 2001 and 2000, respectively. See "Note 7."

## (5) Notes Payable

At December 31, 2001 and 2000, notes payable represent amounts outstanding under a $6,000,000 line of credit from a commercial lender to the Company's subsidiaries and included at December 31, 2000 was $100,000 in uncollateralized notes payable at 8% issued in connection with the January 1, 2000 purchase of three building materials distributors. The line of credit is collateralized by the subsidiaries' accounts receivable and inventory, bears interest at prime rate plus 1/2% (5.25% at December 31, 2001), expires June 19, 2002, and is subject to annual renewal. The weighted average effective interest rate on the line of credit was 8.36%, 11.62%, and 14.09% during the years ended December 31, 2001, 2000 and 1999, respectively.

At December 31, 2001, the line of credit limit available for borrowing based on eligible receivables and inventory aggregated $4,923,000, of which $4,335,000 remained outstanding. The average amounts outstanding during 2001 and 2000 were $4,894,000, and $3,511,000, respectively. The maximum amounts outstanding at any month-end during 2001 and 2000 were $5,453,000 and $5,103,000, respectively.

IMPERIAL INDUSTRIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements
-continued-

## (6) Accrued Expenses and Other Liabilities

Accrued expenses and other liabilities at December 31, 2001 and 2000 are summarized as follows:

| | 2001 | 2000 |
|---|---|---|
| Employee compensation related items | $183,000 | $156,000 |
| Taxes, other than income taxes | 109,000 | 166,000 |
| Income taxes | 12,000 | -- |
| Interest | 283,000 | 261,000 |
| Other | 148,000 | 220,000 |
| | $735,000 | $803,000 |

## (7) Long-term Debt

Long-term debt of the Company is as follows:

| | 2001 | 2 |
|---|---|---|
| Uncollateralized notes issued for acquisitions, interest at 8% per annum, principal and interest payable through September 2003 | $ 492,000 | $ 8 |
| Mortgage note payable, interest at 7 1/2% per annum, principal and interest payable monthly through January 2002 | -- | |
| Subordinated Debentures due December 31, 2001, stated interest at 8% payable annually commencing July 1, 1999, principal payable in the amount of $985,000 at maturity | -- | 9 |
| Mortgage note payable, interest at 8 3/4%, principal and interest payable monthly in the amount of approximately $3,760, with a balloon payment of approximately $187,000 due October 4, 2004 | 256,000 | 2 |
| Mortgage note payable, interest at prime + 1%, principal payments of $800 plus interest payable monthly, with a balloon payment of approximately $118,000 due October 4, 2004 | 144,000 | |
| Mortgage note payable, interest at prime + 1%, principal payments of $1,678 plus interest payable monthly, with a balloon payment of approximately $247,000 due October 4, 2004 | 302,000 | |

IMPERIAL INDUSTRIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements
-continued-

(7) Long-term Debt (continued)

| | | |
|---|---|---|
| Mortgage note payable, interest at 8 3/4%, principal and interest payable monthly in the amount of approximately $2,415, with a balloon payment of approximately $198,000 due June 16, 2003 | 212,000 | 2 |
| Equipment notes payable, interest at various rates ranging from 4.89% to 10.83%, per annum, principal and interest payable monthly expiring at various dates through September 2006. (Includes obligations for capital leases of $104,000) | 703,000 | 7 |
| | 2,109,000 | 3,0 |
| Less current maturities | (669,000) | (1,6 |
| | $ 1,440,000 | $ 1,4 |

As of December 31, 2001, long-term debt matures as follows:

| Year ended December 31, | Amount |
|---|---|