

COLONIAL COMMERCIAL CORP  
Form 10-K  
April 15, 2005

---

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-K  
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended December 31, 2004  
Commission File No. 1-6663

COLONIAL COMMERCIAL CORP.  
(Exact Name of Registrant as Specified in its Charter)

New York  
(State or other jurisdiction of  
Incorporation or Organization)

11-2037182  
(I.R.S. Employer Identification  
No.)

120 New South Road, Hicksville, New York 11801  
(Address of Principal Executive Offices) (Zip Code)

Registrant's Telephone Number, Including Area Code: 516-681-4647

Securities Registered Pursuant to Section 12(b) of the Act:

Title of Class	Name of Exchange on Which Registered
None	NASD Bulletin Board

Securities Registered Pursuant to Section 12(g) of the Act:

Common Stock, Par Value \$.05 Per Share  
Convertible Preferred Stock, Par Value \$.05 Per Share  
(Title of Class)

Indicate by check mark whether 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 Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes x No o

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 Registrant's best knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. (x)

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Act).

Yes  No

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the Registrant on June 30, 2004 was \$3,047,739.

The number of shares outstanding of Registrant's Common Stock and Convertible Preferred Stock as of April 7, 2005:

	Outstanding
Common Stock \$.05 par value	4,172,520
Convertible Preferred Stock \$.05 par value	790,360

Documents Incorporated by Reference

See Index to Exhibits

---

PART I.

Forward-looking Statements

This Report on Form 10-K contains forward-looking statements relating to such matters as anticipated financial performance and business prospects. When used in this Report, the words “anticipates,” “expects,” “believes,” “may,” “intends” and similar expressions are intended to be among the statements that identify forward-looking statements. From time to time, the Company may also publish forward-looking statements. The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements. Forward-looking statements involve risks and uncertainties, including, but not limited to, the consummation of certain events referred to in this report, the availability of financing, technological changes, competitive factors, maintaining customer and vendor relationships, inventory obsolescence and availability, and other risks detailed in the Company’s periodic filings with the Securities and Exchange Commission, which could cause the Company’s actual results and experience to differ materially from the anticipated results or other expectations expressed in the Company’s forward-looking statements.

Item 1.

Business

(a)

The Company

Colonial Commercial Corp. (“Colonial”) is a New York corporation, which was incorporated on October 28, 1964. Unless otherwise indicated, the term “Company” refers to Colonial Commercial Corp. and its consolidated Subsidiaries. The Company’s operations are conducted through its wholly owned Subsidiaries, Universal Supply Group, Inc., (“Universal”), The RAL Supply Group, Inc. (“RAL”) and American Universal Supply, Inc. (“American”). The business operations of the Company are described below under “Narrative Description of Business.”

(b)

General Business Developments

During 2004, we raised a total of \$1,635,000 in equity and non-debt financing in several private placements described under the section below entitled, Item 7 “Liquidity and Capital Resources-Equity Transactions.” Of these funds, \$355,639 was used to purchase and retire 592,730 shares of escheated convertible preferred stock at \$0.60 per share, and the balance was used for working capital. We also completed a \$15,000,000 secured loan facility described under the section below entitled, Item 7 “Liquidity and Capital Resources-Credit Facility.”

In November, Universal opened a new location in Deptford, New Jersey. This location services the needs of our customers in central and southern New Jersey as well as in portions of eastern Pennsylvania. On May 28, 2004, Universal closed its Rochelle Park location.

(c)

Financial Information About Industry Segments

We have one continuing industry segment - wholesale distribution of heating, ventilation, air conditioning equipment and high-end plumbing fixtures.

(d)

Narrative Description of Business

Heating, Ventilation And Air Conditioning

## General

Through our three Subsidiaries, Universal, RAL and American, we distribute heating, ventilating and air conditioning equipment (HVAC), parts and accessories, climate control systems, and high-end plumbing supplies, primarily, in the New York metropolitan area.

Universal is the exclusive supplier of the Amana air conditioning and heating equipment line in New Jersey (exclusive of Cape May and Cumberland counties) and lower portions of New York State. It is also the non-exclusive supplier of the Goodman line of heating and air conditioning equipment in substantially the same trading area.

Universal distributes its products through seven locations in New Jersey, one location in New Hampton, New York, and an additional location in Willow Grove, Pennsylvania. Universal, through its energy management division, known as Universal Energy Products (“UEP”), specializes in the design and sale of energy conservation control systems and the fabrication of customized UL listed control panels. Universal also supplies indoor air quality components and systems.

American, through its locations in Elmsford and Hicksville, New York, distributes the American Standard line of heating, ventilating and air conditioning equipment, and related accessories in the lower portions of New York State, the five boroughs of Manhattan and Long Island, New York.

RAL distributes high-end plumbing fixtures through four showrooms located in Fishkill, Middletown, New Windsor and Suffern, New York. It also distributes heating, ventilating, and air conditioning supplies to contractors through these locations as well as through two additional locations in Poughkeepsie and Peekskill, New York.

We estimate that 85% of our sales are for replacement and/or renovation, and that the remaining 15% of sales are for new construction projects. We also estimate that 80% of our sales are for the residential market, and that the 20% balance of our sales are for the commercial market. The Company’s sales are comprised of approximately 42% HVAC equipment, 38% parts and accessories, 15% climate control systems, and 5% high end plumbing supplies.

Our in-house staff provides technical assistance and training to customers. In some cases, we also use vendors’ representatives and outside services.

## Distribution

We stock inventory in most of our 17 locations. We deliver products to customers with our fleet of 15 leased and 11 owned trucks and vans. We also make products available for pick-up at our facilities.

## Customers

We sell primarily to contractors serving the residential and commercial heating, ventilating, and air conditioning industry. These contractors purchase and install equipment and systems for residential, commercial and industrial users. We do not install any equipment or systems.

---

We had approximately 5,000 customers in 2004. No customer accounted for more than 2% of consolidated net sales in 2004. We believe that the loss of any one customer would not have a material adverse effect on its business.

We have no long term agreement with any customer. We deal with our customers on a purchase order by purchase order basis. We have no assured stability in our customer base.

#### Suppliers

We have no material long term agreements with any supplier. Certain of our supplier agreements limit the sale of competitive products in designated markets that we serve.

In 2004, two suppliers accounted for 38% of our purchases. The loss of one or both of these suppliers could have a material adverse effect on our business for a short-term period. We believe that the loss of any one of our other suppliers would not have a material adverse effect on our business.

#### Intellectual Property

We have no patent, intellectual property rights or proprietary technology.

#### Seasonality

Our business is affected by significant outdoor temperature swings. Our sales typically increase during peak heating and cooling demand periods. Demand related to the residential central air conditioning replacement market is highest in the second and third quarters with demand for heating equipment usually highest in the fourth quarter.

#### Insurance

We carry general liability, comprehensive property damage, workers compensation and product liability insurance in amounts that we consider adequate for our business. We maintain \$2,000,000 general liability coverage, plus a \$10,000,000 umbrella policy.

#### Competition

We operate in a highly competitive environment in our geographical region. We compete with a number of distributors and also with several air conditioning and heating equipment manufacturers that distribute a significant portion of their products through their own distribution organizations. There is no single manufacturer or distributor that dominates our market. Competition is based upon product availability, customer service, price and quality. We work to maintain a competitive edge by providing in-house training, technical sales support to our customers and by employing experienced personnel at our point-of-sale locations.

#### Regulatory Matters

No material regulatory requirements apply specifically to our business.

#### Employees

As of December 31, 2004, the Company had 141 non-union full-time employees. The Company believes its employee relations are satisfactory.

(e) Financial Information About Geographic Areas

The Company has no foreign operations and all sales, during the last three years, are to customers located in the United States, primarily in New Jersey and New York.

Item 2.

Properties

Our principal executive offices are located at 120 New South Road, Hicksville, New York 11801 in approximately 440 square feet of space.

Universal maintains an office and warehouse in Hawthorne, New Jersey and additional warehouses in Bogota, Augusta, North Brunswick, Cedar Knolls, Wharton and Deptford, New Jersey, New Hampton, New York, and Willow Grove, Pennsylvania, occupying approximately 182,500 square feet under leases expiring from 2004 to 2014, subject to renewal options, at current aggregate annual rentals of approximately \$1,223,000.

RAL maintains showrooms and warehouses at Middletown, Fishkill, New Windsor, Peekskill, Poughkeepsie and Suffern, New York, occupying approximately 81,000 square feet under leases expiring in 2008, subject to renewal options, at current aggregate annual rentals of approximately \$797,000.

American maintains showrooms and warehouses at Elmsford and Hicksville, New York, occupying approximately 48,270 square feet under leases expiring in 2006 and 2012, respectively, at current aggregate annual rentals of approximately \$495,000.

Our premises are suitable and adequate for their intended use and are adequately covered by insurance. As of December 31, 2004, we leased all our facilities.

Item 3.

Legal Proceedings

On January 28, 2002, Atlantic Hardware & Supply Corporation (“Atlantic”), a wholly-owned Subsidiary of the Company, filed a voluntary petition with the U. S. Bankruptcy Court for the Eastern District of New York to reorganize under Chapter 11 of the U. S. Bankruptcy Code. The proceedings are still on-going. Colonial Commercial Corp. and Universal are not part of the Chapter 11 filing. The Company does not believe that Atlantic will emerge from the reorganization with any value for the Company. The Company does not exercise significant influence over Atlantic’s operations and financial activities. As of the year ended December 31, 2002, Atlantic has been deconsolidated on the Company’s financial statements and its operations are being reported as “results from operations of discontinued segments.”

Universal Supply Group, Inc. is a New York corporation (“Universal”). In June 1999, Universal acquired substantially all of the assets of Universal Engineering Co., Inc. and Universal Supply Group, Inc., a New Jersey corporation, including its name. The name of Universal Supply Group, Inc. (the selling corporation) was subsequently changed to Hilco, Inc. In 1998, Hilco, Inc. acquired the assets of Amber Supply Co., Inc., previously known as Amber Oil Burner Supply Co., Inc., Universal Engineering Co., Inc., Amber Supply Co., Inc., Amber Oil Burner Supply Co., Inc. and Hilco, Inc. are referred to as the “Predecessors.” The majority shareholders of the predecessors are John A. Hildebrandt and Paul Hildebrandt. Paul Hildebrandt was a director of the Company from September 29, 2004 to January 28, 2005.

Universal has been joined as a defendant with Predecessors and many other companies in numerous product liability lawsuits brought in the Superior Court of New Jersey (Middlesex County) that allege injury due to asbestos. These actions have been managed by the Predecessor's historic product liability insurance carriers, and all claims, including all defense and settlement costs, to date have been covered and paid by those carriers. Counsel representing the Company in these matters has advised that they are not aware of any material pending or threatened litigation, claims or assessments, except for one matter of which any verdict or settlement will be covered by insurance. John A. Hildebrandt, Paul Hildebrandt and the Predecessors have also indemnified Universal against all asbestos claims. The asbestos claims that have been filed to date stem primarily from products sold by the Predecessors prior to 1999 that were manufactured and/or packaged by a third party, which allegedly contained asbestos. The Company does not believe that it will be materially adversely affected by these lawsuits.

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

The Company held its Annual Meeting on September 29, 2004. The results of matters voted at that Meeting were reported in Part II, Item 4 of the Company's Form 10-Q for the period ended September 30, 2004.

PART II

Item 5 Market for the Registrant's Common Stock, Convertible Preferred Stock and Related Stockholder Matters

(a) Price Range of Common Stock and Convertible Preferred Stock

From July 11, 2002 through March 30, 2004, the Company's common stock was traded on the Over the Counter (OTC) - Pink Sheets market. Commencing March 31, 2004, the Company's common stock and convertible preferred stock were traded on the Over the Counter (OTC)-Bulletin Board market. The following table sets forth the quarterly high and low bid prices during 2004 and 2003. The quotations set forth below represent inter-dealer quotations, which exclude retail markups, markdowns and commissions and do not necessarily reflect actual transactions.

<u>2004</u>	Common Stock		Convertible Preferred Stock	
	High	Low	High	Low
First Quarter	\$ 1.95	\$ .50	\$ 1.05	\$ .60
Second Quarter	1.85	1.20	1.50	.95
Third Quarter	2.05	1.16	2.00	1.20
Fourth Quarter	1.78	1.35	1.80	1.30
<u>2003</u>				
First Quarter	\$ .15	\$ 0	Not Available	Not Available
Second Quarter	.15	.10	Not Available	Not Available
Third Quarter	.98	.50	\$.50	\$.35
Fourth Quarter	1.05	.13	.60	.55

## (b) Approximate number of common and convertible preferred stockholders:

Title of Class	Approximate Number of Record Holders (as of April 7, 2005)
Common stock par value \$.05 per share	278
Convertible preferred stock par value \$.05 per share	1062

## (c) Dividends

The Company does not contemplate common stock dividend payments in the near future and is restricted from paying any dividends under its credit facility.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

Period	(a) Total Number of Shares (or Units) Purchased (1)	(b) Average Price Paid per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Be Purchased Under the Plans or Programs
February 12, 2004	592,730	\$ 0.60	0	0

On February 12, 2004, the Company completed a private placement, pursuant to Regulation D of the Securities Exchange Act of 1933. The Company raised \$360,000 through the issuance of 600,000 shares of common stock at \$0.60 per share. The Company used substantially all of the proceeds from the February 12, 2004 private placement to purchase 592,730 shares of escheated convertible preferred stock at \$0.60 per share from the State of Ohio. The Company retired these convertible preferred shares.

Item 6.

## Selected Financial Data

	Years Ended December 31,				
	2004	2003	2002	2001	2000
Sales	\$ 61,454,128	\$ 44,671,136	\$ 36,998,800	\$ 31,080,398(1)	\$ 32,342,160(1)(2)
Operating income	1,717,812	1,296,597	226,567	519,860	(58,036)
Income (loss) from continuing operations	1,661,156	1,320,263	(106,310)	(1,610,810)	(1,323,627)
Income (loss) from operations of discontinued segment	-	-	3,300,695(3)	(6,098,023)	(2,977,916)
Income (loss) on disposal of discontinued operation	-	-	-	106,509	(3,731,654)
Income (loss) on discontinued operation	-	-	-	-	-