

COLONIAL COMMERCIAL CORP  
Form 10-Q  
May 12, 2010

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2010

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 1-6663

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.)

275 Wagaraw Road, Hawthorne, New Jersey  
(Address of principal executive offices)

07506  
(Zip Code)

973-427-8224  
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting

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company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input type="radio"/>	Accelerated filer	<input type="radio"/>
Non-accelerated filer	<input type="radio"/>	Smaller reporting company	<input checked="" type="radio"/>

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at May 1, 2010
Common Stock, \$.05 par value per share	4,654,953 shares
Convertible Preferred Stock, \$.05 par value per share	293,057 shares

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## COLONIAL COMMERCIAL CORP. AND SUBSIDIARIES

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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

COLONIAL COMMERCIAL CORP. AND SUBSIDIARIES  
Condensed Consolidated Balance Sheets

	March 31, 2010 (Unaudited)	December 31, 2009
Assets		
Current assets:		
Cash	\$509,800	\$746,629
Accounts receivable, net of allowance for doubtful accounts of \$658,642 in 2010 and \$619,740 in 2009	8,673,827	9,468,123
Inventory	11,987,676	11,588,971
Prepaid expenses and other current assets	1,015,811	895,505
<b>Total current assets</b>	<b>22,187,114</b>	<b>22,699,228</b>
Property and equipment	1,234,932	1,349,679
Goodwill	1,416,929	1,416,929
Other intangibles	1,667	2,500
Other assets - noncurrent	122,513	134,205
	<b>\$24,963,155</b>	<b>\$25,602,541</b>
Liabilities and Stockholders' Equity		
Current liabilities:		
Trade payables	\$7,178,809	\$7,402,536
Accrued liabilities	1,655,661	1,559,880
Income taxes payable	-	4,374
Borrowings under credit facility - revolving credit	11,782,838	13,090,666
Convertible notes payable, related party	200,000	-
Notes payable - current portion; includes related party notes of \$782,009 in 2010 and \$32,009 in 2009	851,906	108,313
<b>Total current liabilities</b>	<b>21,669,214</b>	<b>22,165,769</b>
Convertible notes payable-related party	-	200,000
Notes payable, excluding current portion; includes related party notes of \$104,031 in 2010 and \$862,033 in 2009	2,194,505	966,563
<b>Total liabilities</b>	<b>23,863,719</b>	<b>23,332,332</b>
Commitments and contingencies		
Stockholders' equity:		
Redeemable convertible preferred stock, \$.05 par value, 2,500,000 shares authorized, 293,057 shares issued and outstanding in 2010 and 2009, liquidation preference of \$1,465,285 in 2010 and 2009	14,653	14,653
Common stock, \$.05 par value, 20,000,000 shares authorized, 4,654,953 shares issued and outstanding in 2010 and 2009	232,747	232,747
Additional paid-in capital	10,634,782	10,634,782
Accumulated deficit	(9,782,746)	(8,611,973)
<b>Total stockholders' equity</b>	<b>1,099,436</b>	<b>2,270,209</b>
	<b>\$24,963,155</b>	<b>\$25,602,541</b>

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



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COLONIAL COMMERCIAL CORP. AND SUBSIDIARIES  
Condensed Consolidated Statements of Operations  
(Unaudited)

	For The Three Months Ended March 31,	
	2010	2009
Sales	\$15,897,899	\$15,617,424
Cost of sales	11,575,573	11,224,245
Gross profit	4,322,326	4,393,179
Selling, general and administrative expenses, net	5,370,407	5,882,674
Operating loss	(1,048,081 )	(1,489,495 )
Other income	68,265	54,627
Interest expense, net; includes related party interest of \$16,790 in 2010 and \$14,188 in 2009	(190,957 )	(149,756 )
Net loss	\$(1,170,773 )	\$(1,584,624 )
Loss per common share:		
Basic and diluted	\$(0.25 )	\$(0.34 )
Weighted average shares outstanding:		
Basic and diluted	4,654,953	4,654,953

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

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COLONIAL COMMERCIAL CORP. AND SUBSIDIARIES  
Condensed Consolidated Statements of Cash Flows  
(Unaudited)

	For Three Months Ended March 31,	
	2010	2009
Cash flows from operating activities:		
Net loss	\$(1,170,773)	\$(1,584,624)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Stock-based compensation	-	6,677
Provision for doubtful accounts	77,081	214,311
Depreciation	114,747	138,576
Net gain on sale of fixed assets	-	(572 )
Amortization of intangibles	833	9,084
Changes in operating assets and liabilities		
Accounts receivable	717,215	672,440
Inventory	(398,705 )	(586,005 )
Prepaid expenses and other current assets	(120,306 )	30,980
Other assets - noncurrent	11,692	52,877
Trade payables	1,776,273	1,583,568
Accrued liabilities	95,781	185,731
Income taxes payable	(4,374 )	(558 )
Net cash provided by operating activities	1,099,464	722,485
Cash flows from investing activities:		
Additions to property and equipment	-	(23,017 )
Proceeds from disposal of property and equipment	-	14,900
Net cash used in investing activities	-	(8,117 )
Cash flows from financing activities:		
Repayments of notes payable; includes related party repayments of \$8,002 in 2010 and \$30,000 in 2009	(28,465 )	(93,968 )
Repayments under credit facility - revolving credit	(1,307,828)	(491,877 )
Net cash used in financing activities	(1,336,293)	(585,845 )
(Decrease) increase in cash	(236,829 )	128,523
Cash - beginning of period	746,629	417,387
Cash - end of period	\$509,800	\$545,910

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

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COLONIAL COMMERCIAL CORP. AND SUBSIDIARIES  
Notes to Condensed Consolidated Financial Statements  
March 31, 2010  
(Unaudited)

1. Summary of Significant Accounting Policies and Practices and Basis of Presentation

The condensed consolidated financial statements of Colonial Commercial Corp. and subsidiaries (the "Company") included herein have been prepared by the Company and are unaudited; however, such information reflects all adjustments (consisting solely of normal recurring adjustments), which are, in the opinion of management, necessary for a fair presentation of the financial position, results of operations, and cash flows for the interim periods to which the report relates. The results of operations for the period ended March 31, 2010 is not necessarily indicative of the operating results that may be achieved for the full year.

The financial statements have been prepared on a going concern basis. The Company has incurred a net loss of \$1,170,773 for the quarter ended March 31, 2010 and a net loss of \$3,343,696 for the year ended December 31, 2009. The Company's credit facility provides that financial covenants are to be determined on an annual basis by agreement between the Company and its lender. The Company and its lender have agreed on financial covenants for the period through December 31, 2010, and the Company is in compliance with these covenants as of March 31, 2010. The continuation of the credit agreement is conditioned on the Company and the lender reaching agreement on financial covenants and the Company complying with those covenants in the future. While the Company and the lender have reached mutually agreeable covenants in the past, there can be no assurance that they will be able to do so in the future. If these agreements are not reached, or the Company fails to achieve the agreed upon covenants, the lender may exert its rights under the credit agreement which may include terminating the credit agreement and demanding repayment of the Company's outstanding borrowings. This condition indicates that the Company may be unable to continue as a going concern. In response to such an event, the Company would pursue alternative financing arrangements but there can be no assurance that such financing may be available on acceptable terms, or at all. The accompanying financial statements do not include any adjustments that might be necessary as a result of the outcome of such uncertainty.

Certain information and footnote disclosures, normally included in consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America, have been condensed or omitted as permitted by the interim reporting requirements of the Securities and Exchange Commission. It is suggested that these condensed consolidated financial statements be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Form 10-K for the year ended December 31, 2009.

We have only one operating segment.

Inventory is comprised of finished goods and is stated at the lower of cost (first-in, first-out method) or market.

Certain prior year amounts have been reclassified to conform to the current year presentation.

2. Stock Options

The Company recognizes equity based compensation expense in accordance with established standards for transactions in which an entity exchanges its equity instruments for goods and services. This standard requires an entity to measure the cost of employee services received in exchange for an award of equity instruments based on the grant date fair value of the award.





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On September 29, 2006, the Company adopted the Colonial Commercial Corp. 2006 Stock Plan, (the “2006 Plan”). The 2006 Plan enables the Company to grant equity and equity-linked awards to our Directors, officers, employees and other persons who provide services to the Company. The 2006 Plan is intended to allow us to provide incentives that will (1) strengthen the desire of highly competent persons to provide services to us and (2) further stimulate their efforts on our behalf.

The following table summarizes information about stock options at March 31, 2010:

Range of Exercise Prices	Shares	Options Outstanding and Exercisable		Aggregate Intrinsic Value
		Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	
\$ 1.85	75,000	6.69	\$1.85	\$ 0

There were no stock options granted during the quarters ended March 31, 2010 and 2009. For the quarters ended March 31, 2010 and 2009, the amount of stock based compensation was \$0 and \$6,677, respectively. At December 31, 2009, this compensation cost has been fully amortized.

### 3. Equity Transactions

During the quarters ended March 31, 2010 and 2009, no shares of convertible preferred stock were converted into common stock.

No stock options were exercised during the quarters ended March 31, 2010 and 2009.

### 4. Supplemental Cash Flow Information

The following is supplemental information relating to the condensed consolidated statements of cash flows:

	For the Three Months Ended	
	March 31, 2010	March 31, 2009
Cash paid during the period for:		
Interest	\$ 238,524	\$ 162,135
Supplemental disclosure of non-cash financing activities:		
Conversion of accounts payable to notes payable	\$ 2,000,000	\$ 0

### 5. Net Loss Per Common Share

Employee stock options totaling 75,000 and 97,000 for the three months ended March 31, 2010 and 2009, respectively, were not included in the net loss per share calculation because their effect would have been anti-dilutive. Convertible preferred stock, convertible into 293,057 and 447,891 shares of common stock for the three months ended March 31, 2010 and 2009, respectively, was not included in the net loss per share because its effect would have been anti-dilutive. Convertible notes, in the principal amount of \$200,000 and \$337,500, convertible into 66,666 and 112,500 shares of common stock, respectively, were not included in the net loss per share calculation for the three months ended March 31, 2010 and 2009, respectively, because their effect would have been anti-dilutive.



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6. Financing Arrangements

The Company has a secured credit facility ("Agreement") with Wells Fargo Bank, National Association ("Wells") which expires August 1, 2012. Pursuant to an amendment dated March 4, 2010 ("Fourth Amendment"), the Company's secured credit facility was decreased from \$25 million to \$20 million which includes an inventory sublimit of \$9,000,000, with an inventory advance rate equal to the lesser of (a) 57% of cost or fair market value or (b) 100% of liquidation value of the eligible inventory, a letter of credit sublimit of \$250,000 and seasonal overadvances in 2010 of \$1,000,000. The interest rate under the facility for advances, other than overadvances, is three month LIBOR (as defined) plus 4.5% and the interest rate for overadvances is an additional .25%. Borrowings under the credit facility are secured by substantially all the assets of the Company, as defined in the Agreement.

On May 11, 2010, the Company and Wells entered into a Fifth Amendment to the Agreement (the "Fifth Amendment"), effective March 4, 2010. Pursuant to the Fifth Amendment, the interest rate for overadvances is LIBOR Advance Rate (as defined) plus .25%. A copy of the Fifth Amendment is attached hereto as Exhibit 10.06.

Availability under the credit facility was \$902,748 as of March 31, 2010 and is determined by a percentage of available assets as defined in the Agreement, less reserves. Reserves, as determined by the bank, reduce the availability of the credit facility by \$171,000. The balance outstanding under the credit facility was \$11,782,838 as of March 31, 2010.

Goodman Company, L.P. and certain of its affiliates ("Goodman") is a supplier to the Company. In connection with the Fourth Amendment, Wells and Goodman entered into an Amended and Restated Subordination Agreement dated March 4, 2010 (the "Subordination Agreement") pursuant to which, among other things, Goodman on March 24, 2010 converted \$2 million of 2010 purchases then owed to it by Universal into a secured term note (the "Note") that accrues interest payable monthly at the lesser of the highest lawful rate allowed or 8% per annum and is payable in monthly principal installments over a two-year period beginning September 24, 2010. If the Company defaults on its scheduled principal or interest payments, the interest on such default payments will be increased to as much as 18%. The amounts owed to Goodman at December 31, 2009 were paid to them in January 2010. The Subordination Agreement also sets forth among other things the relative priorities of the security interests of Wells and Goodman in the assets of the Company.

The Company believes that the credit facility is sufficient to finance its current operating needs. The business of the Company will be materially and adversely affected if the bank substantially reduces the amount of the credit availability under the terms of the loan or the bank demands payment of the loan and the Company is unable to refinance the loan, or if liquidity is otherwise substantially reduced.

In the event that Mr. Pagano no longer performs the duties of the President of Universal or the Vice President of RAL for any reason other than death or disability, the Company will be considered in default of its credit agreement with Wells unless a waiver is obtained. The credit facility contains covenants that are determined annually and compliance is required on a quarterly basis as it relates to net income, cash flows, tangible net worth, and annual capital expenditures. The credit facility also restricts the payment of dividends, subordinated debt and purchase of securities. The continuation of the credit facility is conditioned upon the Company and Wells reaching agreement on the covenants. While the Company and Wells have reached mutually agreeable covenants in the past, there is no assurance that they will be able to do so in the future. As of March 31, 2010, the Company was in compliance with all of its financial loan covenants.

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7. Litigation

a. Universal Supply Group, Inc.

Universal Supply Group, Inc., a wholly owned subsidiary of the Company, is a New York corporation (“Universal”). On June 25, 1999, Universal acquired substantially all of the assets of Universal Supply Group, Inc., a New Jersey corporation, including its name, pursuant to the terms of a purchase agreement. The Company filed a copy of the purchase agreement with the Securities and Exchange Commission on March 30, 1999 as Exhibit 10(g) on Form 10KSB, and the Company filed a copy of an amendment to the purchase agreement on July 9, 1999 as Exhibit 10(a)(ii) on Form 8-K. Subsequent to the acquisition, Universal Supply Group, Inc. (the selling corporation) formerly known as Universal Engineering Co., Inc., changed its name to Hilco, Inc. Hilco, Inc. acquired the assets of Amber Supply Co., Inc., formerly known as Amber Oil Burner Supply Co., Inc., in 1998, prior to Hilco’s sale of assets to Universal. Hilco, Inc. is hereinafter referred to as the “Universal Predecessor.” The majority shareholders of Hilco, Inc. were John A. Hildebrandt and Paul Hildebrandt.

The Company understands that the Universal Predecessor and many other companies have been sued in the Superior Court of New Jersey (Middlesex County) by plaintiffs filing lawsuits alleging injury due to asbestos. As of March 31, 2010, there existed 4 plaintiffs in these lawsuits relating to alleged sales of asbestos products, or products containing asbestos, by the Universal Predecessor. Subsequent to March 31, 2010, 1 plaintiff filed an action, which results in 5 remaining plaintiffs in these lawsuits. The Company never sold any asbestos related products.

Of the existing plaintiffs as of March 31, 2010, 1 filed an action in 2010, 2 filed actions in 2009, and 1 filed an action in 2007. There are 207 other plaintiffs that have had their actions dismissed and 15 other plaintiffs that have settled as of March 31, 2010 for a total of \$3,360,500. There has been no judgment against the Universal Predecessor.

Our Universal subsidiary was named by 37 plaintiffs; of these, 1 filed an action in 2010, 11 filed actions in 2007, 6 filed actions in 2006, 11 filed actions in 2005, 5 filed actions in 2001, 1 filed an action in 2000, and 2 filed actions in 1999. Thirty-three plaintiffs naming Universal have had their actions dismissed and, of the total \$3,360,500 of settled actions, 3 plaintiffs naming Universal have settled for \$27,500. No money was paid by Universal in connection with any settlement. Following these dismissed and settled actions, there existed 1 plaintiff that names Universal as of March 31, 2010.

As set forth in more detail below, the Company has been indemnified against asbestos-based claims, and insurance companies are defending the interests of the Universal Predecessor and the Company in these cases.

Based on advice of counsel, the Company believes that none of the litigation that was brought against the Company’s Universal subsidiary through March 31, 2010 is material, and that the only material litigation that was brought against the Universal Predecessor through that date was Rhodes v. A.O. Smith Corporation, filed on April 26, 2004 in the Superior Court of New Jersey, Law Division, Middlesex County, Docket Number MID-L-2979-04AS. The Company was advised that the Rhodes case was settled for \$3,250,000 (“Settlement”) under an agreement reached in connection with a \$10,000,000 jury verdict that was rendered on August 5, 2005. The Company was not a defendant in the Rhodes case.

The Company believes that Rhodes differed from the other lawsuits in that plaintiff established that he contracted mesothelioma as a result of his occupational exposure to asbestos dust and fibers and that a predecessor of the Company was a major supplier of the asbestos containing products that allegedly caused his disease.



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i. Indemnification

John A. Hildebrandt, Paul Hildebrandt and the Universal Predecessor have jointly and severally agreed to indemnify our Universal subsidiary from and against any and all damages, liabilities and claims due to exposure to asbestos at any time prior to the June 25, 1999 closing of the purchase agreement referred to earlier. These agreements are set forth in the purchase agreement. Paul Hildebrandt, one of the indemnitors, was a Director of the Company from September 29, 2004 to January 28, 2005.

The indemnitors may use their own counsel to defend these claims. The indemnitors are not liable for any settlement effected without their consent. The indemnitors may settle and pay money claims without the consent of the Company. There is no indemnification unless claims aggregate \$50,000; once this trigger point is reached, indemnification is required for all claims, including the first \$50,000, but excluding claims of less than \$10,000. The indemnification requirement survives at least until 30 days after the running of any relevant statutes of limitation.

The obligation of the indemnitors is joint and several, so that the Company can have recourse against any one or more of these indemnitors, whether or not any other indemnitor has previously defaulted on its obligation to us. There are no other limitations to our rights to indemnification. The Company cannot be certain that the indemnitors have the financial wherewithal to meet their obligations to indemnify the Company.

ii. Insurance

The assets that the Universal Predecessor sold to us included its insurance policies and other agreements and contracts. The policies provide coverage for liability accruing during the periods for which premiums were paid. The Universal Predecessor was formed in 1940. Copies of policies are available for each year beginning in 1970 and ending with the closing under the purchase agreement in 1999. Copies of policies for the period from 1940 to 1969 are not available.

Insurance companies acknowledge coverage for potential asbestos claims under certain of these policies. Insurance companies under additional policies have reserved their right to deny coverage but have continued to defend and indemnify the Universal Predecessor and the Company under the contested policies.

There are periods during the years from 1940 to 1999 in which our Universal Predecessor did not have coverage for potential asbestos claims. Subject to litigation, insurance companies may maintain that the existence of these periods' results in coverage for only a portion of a particular injury that varies with the period during which there was asbestos coverage relating to the injury, and that the balance of any settlement or judgment is to be paid by the insured. As of March 31, 2010, no insurance company has claimed any contribution for a gap in coverage except for a claim for \$160 made by one insurance company to the Universal Predecessor in 1995. The Universal Predecessor asserted that it had no obligation to pay this amount and did not make any payment.

Insurance companies have, as of March 31, 2010, defended us and the Universal Predecessor, and have paid all settlement amounts and defense costs. Except for \$160 referred to above, the insurance companies have not requested any payments from us or from the Universal Predecessor.

Our Universal subsidiary has not engaged in the sale of asbestos products since its formation in 1997. Its product liability policies for all years since 1998 exclude asbestos claims.

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b. The RAL Supply Group, Inc.

The RAL Supply Group, Inc., a wholly owned subsidiary of the Company, is a New York corporation (“RAL”), formerly known as RAL Purchasing Corp. On September 30, 2003, RAL acquired substantially all of the assets of The RAL Supply Group, Inc., formerly known as The LAR Acquisition Corp., also a New York corporation, including its name, pursuant to the terms of a purchase agreement. Subsequent to the acquisition, The RAL Supply Group, Inc. (the selling corporation) changed its name to RSG, Inc. RSG, Inc. is hereinafter referred to as the “RAL Predecessor.”

The RAL Predecessor acquired certain assets from Dyson-Kissner-Moran Corporation (“RSG Predecessor”) in 1993, prior to the RAL Predecessor’s sale of assets to RAL.

c. General

Regardless of indemnification and insurance coverage, we do not in any event consider our Company to be liable for the asbestos-based lawsuits that name us or for any other claim that arises as a result of actions or omissions by the Universal Predecessor or RAL Predecessor companies. We expressly disclaimed the assumption of any liabilities when we purchased the assets of the Universal Predecessor and RAL Predecessor. It is our opinion that the existing asbestos litigation will not have a material adverse effect on the Company. Nevertheless, we could be materially and adversely affected if we are held liable for substantial asbestos claims or if the Company incurs substantial legal or settlement costs. This material and adverse effect would occur if indemnitors fail to honor their indemnification agreements and insurance is not available either because policy limits are exceeded, or because insurance companies successfully deny coverage or claim limitations on their liabilities by reason of gaps in coverage or otherwise.

Since we regard as remote the potential payment of any asbestos-based claim, we have not accrued any balance for any period relating to asbestos claims, and we have not recorded any amount for asbestos claims for any period in any of our financial statements.

d. Other Litigation

The Company is periodically involved in other litigation in the ordinary course of business. The Company vigorously defends all matters in which the Company or its subsidiaries are named defendants and, for insurable losses, maintains significant levels of insurance to protect against adverse judgments, claims or assessments. Although the adequacy of existing insurance coverage or the outcome of any legal proceedings cannot be predicted with certainty, the Company does not believe the ultimate liability associated with any claims or litigation will have a material impact to its financial condition or results of operations.

8. Transactions with Related Persons, Promoters and Certain Control Persons

(a) A subsidiary of the Company leases a warehouse and store in Wharton, New Jersey comprising of 27,000 square feet from a company owned by Mr. Paul Hildebrandt under a lease that expires in July 31, 2017. The Company paid Mr. Hildebrandt’s company \$52,918 and \$58,484 during the quarters ended March 31, 2010 and 2009, respectively.

On June 1, 2009 the Company paid to Mr. Hildebrandt \$25,000 as the final payment under a convertible note dated December 31, 2004 in the initial principal amount of \$150,000. William Salek, the Company’s Chief Financial Officer, is the son-in-law of Mr. Hildebrandt. Mr. Hildebrandt served as a Director of the Company from July 2004 to January 2005.





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- (b) Pursuant to a secured note dated July 29, 2004, as amended by Amendment 1 dated March 27, 2008, Amendment 2 dated February 12, 2009, and further amended by Amendment 3 dated March 5, 2010, the Company owes Goldman Associates of New York, Inc. ("Goldman Associates"), the principal amount of \$750,000 collateralized by the assets of the Company. The secured note is subordinate to the borrowings under the credit facility, bears interest at the prime rate plus 2% and is due on January 1, 2011. Michael Goldman is the Chief Executive Officer and Chairman of the Board of Goldman Associates and is Chairman of the Board of the Company.
- (c) Oscar Folger and Jeffrey Folger, of the law firm Folger & Folger, are counsel to the Company. Rita Folger, a more than 5% shareholder of the Company, is the wife of Oscar Folger and the mother of Jeffrey Folger. Professional fees paid to Folger & Folger for the quarters ended March 31, 2010 and 2009 were \$1,950 and \$8,613, respectively.
- (d) Pioneer Realty Holdings, LLC, a New York limited liability company ("Pioneer"), is the owner of the premises located at 836 Route 9, Fishkill, New York, formerly known as 2213 Route 9, Fishkill, New York that is leased to a subsidiary of the Company under a lease that expires on March 31, 2017, subject to two five-year renewal options.

William Pagano, Chief Executive Officer and Director of the Company, has a 55% interest in Pioneer and each of Mrs. Folger and Jeffrey Folger has an 8% interest in Pioneer Realty Partners I, LLC, which has a 40% interest in Pioneer. The Company paid Pioneer \$68,259 and \$60,840 during the quarters ended March 31, 2010 and 2009, respectively.

- (e) Mr. Pagano and Mrs. Folger are each holders of convertible unsecured notes in the amount of \$100,000, issued pursuant to the terms of a private placement made on July 29, 2004, as amended by Amendment 1 dated March 27, 2008, Amendment 2 dated February 12, 2009, and further amended by Amendment 3 dated March 5, 2010. The convertible unsecured notes bear interest at the prime rate plus 2% and are due on January 1, 2011.

Interest expense on each of the notes held by Mr. Pagano and Mrs. Folger amounted to \$1,313 for each of the quarters ended March 31, 2010 and 2009.

Mr. Salek and the wife of Michael Goldman were holders of convertible unsecured notes in the amounts of \$25,000 and \$12,500, respectively, issued pursuant to the terms of a private placement made on July 29, 2004. The convertible unsecured notes bore interest at 11% and were due and paid on June 1, 2009.

Interest expense on the note held by Mr. Salek amounted to \$688 for the quarter ended March 31, 2009.

Interest expense on the note held by the wife of Michael Goldman amounted to \$344 for the quarter ended March 31, 2009.

- (f) Mr. Hildebrandt, Goldman Associates, Mr. Pagano and Mrs. Folger were each holders of unsecured notes in the amounts of \$90,000, \$171,033, \$35,000 and \$100,000, respectively, issued in connection with the Company's August 20, 2009 tender offer to purchase any and all shares of its convertible preferred stock at \$1.25 per share. The unsecured notes bear interest at 12% and are payable in twenty equal quarterly payments beginning October 10, 2009.

Subsequent to the expiration of the Company's tender offer, the Company repaid to Mr. Hildebrandt, Goldman Associates, Mr. Pagano and Mrs. Folger the unused portion of the above notes. These repayments amounted to \$50,947, \$96,818, \$19,813 and \$56,608, respectively. As a result of these repayments, Mr. Hildebrandt, Goldman Associates, Mr. Pagano and Mrs. Folger were each holders of unsecured notes in the amounts of \$39,053, \$74,215,

\$15,187 and \$43,392, respectively.

At March 31, 2010 the remaining principal on the above notes were \$30,916, \$58,751, \$12,023 and \$34,351, respectively. Interest expense on the notes held by Mr. Hildebrandt, Goldman Associates, Mr. Pagano and Mrs. Folger amounted to \$982, \$1,866, \$382 and \$1,091, respectively, for the quarter ended March 31, 2010.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

We begin Management's Discussion and Analysis of Financial Condition and Results of Operations of Colonial Commercial Corp. and subsidiaries with a discussion of our business, and other business considerations, to provide a context for understanding. This is followed by a discussion of the "Critical Accounting Policies" that we believe are important to understanding the assumptions and judgments incorporated into our reported financial results which we discuss under "Results of Operations." We then provide an analysis of cash flows, and discuss our financial commitments under "Liquidity and Capital Resources." It is suggested that Management's Discussion and Analysis of Financial Condition and Results of Operations be read in conjunction with the consolidated financial statements and notes included in the Company's Form 10-K for the year ended December 31, 2009.

Forward-Looking Statements

This report on Form 10-Q contains forward-looking statements including estimates, projections, statements relating to our business plans, objectives, and expected operating results, and the assumptions upon which those statements are based, are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements generally are identified by the words "believe," "project," "expect," "anticipate," "estimate," "intend," "strategy," "plan," "may," "should," "will," "would," "will be," "will continue," "will likely result," and similar expressions. Forward-looking statements involve risks and uncertainties, including, but not limited to, 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. We undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events, or otherwise.

Company Overview

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 S&A Supply, Inc ("S&A"). We distribute heating, ventilating and air conditioning equipment (HVAC), parts and accessories, climate control systems, appliances, and plumbing and electrical fixtures and supplies, primarily in New Jersey, New York, Massachusetts and portions of eastern Pennsylvania, Connecticut and Vermont.

We supply the Amana air conditioning and heating equipment line in New Jersey (exclusive of Cape May and Cumberland counties), lower portions of New York State, and Western Massachusetts. At all our locations we also supply, on a non-exclusive basis, the Goodman line of heating and air conditioning equipment, Fraser-Johnston commercial air conditioning equipment, and Johnson Controls' Source 1 HVAC Service Parts. We distribute these products through seven sales locations in New Jersey, nine in New York State, two in Massachusetts and one location in Willow Grove, Pennsylvania. We also have an additional location in New Jersey that we use for warehousing purposes only. We use showrooms for the display and sale of kitchen, bathroom and electrical fixtures and accessories at our locations in Fishkill, Middletown, New Windsor and Suffern, New York and Great Barrington and Pittsfield, Massachusetts.

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We have developed a specialty in the design and sale of energy conservation control systems and the fabrication of customized UL listed control panels. We also supply indoor air quality components and systems.

Our in-house staff provides technical assistance and training to customers. In some cases, we also use vendors' representatives and outside services. We do not install any equipment or systems.

We distribute appliances, such as washers and dryers, to appliance dealers primarily in New York, New Jersey, and portions of Connecticut, Delaware and Pennsylvania.

Our objective is to become a leading provider of HVAC, plumbing and electrical equipment and accessories to the professional contractor in the northeastern United States by expanding our product offerings and increasing our customer technical and logistical support services.

### Other Business Considerations

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, while demand for heating equipment is usually highest in the fourth quarter. Our business is also affected by general economic conditions in the residential and commercial construction industries.

### Critical Accounting Policies

The accounting policies below are critical to the Company's business operations and the understanding of results of operations. The Company's discussion and analysis of its financial condition and results of operations are based upon the Company's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities as the date of the consolidated financial statements and the reported amount of revenue and expenses during the reporting period. The Company bases its estimates on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of asset and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Revenue for the Company primarily consists of sales of heating, ventilation and air conditioning equipment, climate control systems and plumbing and electrical fixtures and supplies. Revenue is recognized when the earnings process is complete, which is generally upon shipment or delivery of products, and the price is determined and collectability is reasonably assured, in accordance with agreed-upon shipping terms and when title and risk of loss transfers to the customer. The Company has no further obligations subsequent to shipment or delivery. Customers have the right to return defective products, which are substantially covered under the manufacturer's warranty. The customer receives a credit from the Company for defective products returned and the Company receives a corresponding credit provided by the manufacturer. The only warranty provided on products sold is the one provided by the manufacturer.

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The Company maintains an allowance for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. The Company establishes and monitors the allowance for doubtful accounts based on the credit risk of specific customers, customer concentrations, historical trends and other information. The Company had accounts receivable of \$8,673,827, net of an allowance for doubtful accounts of \$658,642, as of March 31, 2010. Although the Company believes its allowance is sufficient, if the financial condition of the Company's customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances would be required.

The Company writes down its inventories for estimated slow moving and obsolete goods in accordance with the lower of cost or market value, based upon assumptions about future demand and market conditions. A significant sudden increase in the demand for the Company's products could result in a short-term increase in the cost of inventory purchases, while a significant decrease in demand could result in an increase in the amount of excess inventory quantities on-hand. Additionally, the Company's estimates of future product demand may prove to be inaccurate, in which case the Company may have understated or overstated the write-down required for excess and obsolete inventory.

Goodwill and other intangibles are reviewed at least annually for impairment. In assessing the recoverability of the Company's goodwill and other intangibles, the Company must make assumptions regarding estimated future cash flows and other factors to determine the fair value of the respective assets and liabilities of the reporting unit. The impairment review process compares the fair value of the reporting unit in which goodwill resides to its carrying value. If the fair value of the reporting unit is less than its carrying value, an impairment loss is recorded to the extent that the implied fair value. Intangible assets determined to have finite lives are amortized over their remaining useful lives. The Company has determined Universal, RAL and S&A are reporting units. Goodwill and other intangible assets amounting to \$1,416,929 and \$1,667 at March 31, 2010, respectively, consist of assets arising from acquisitions.

The Company accounts for income taxes in accordance with the asset and liability approach for financial accounting and reporting of income taxes. The realization of future tax benefits of deductible temporary differences and operating loss or tax credit carryforwards will depend on whether the Company will have sufficient taxable income of an appropriate character within the carryback and carryforward period permitted by the tax law to allow for utilization of the deductible amounts and carryforwards. Without sufficient taxable income to offset the deductible amounts and carryforwards, the related tax benefits will expire unused. The Company evaluates both positive and negative evidence in making a determination as to whether it is more likely than not that all or some portion of the deferred tax asset will not be realized. As of March 31, 2010, the Company had a deferred tax asset of approximately \$10,900,000, primarily relating to net operating loss carryforwards, and has provided a full valuation allowance due to its inability to use it in the near term.

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Results of Operations

Results of Operations for the Quarters Ended March 31, 2010 and 2009

Sales increased by 1.8%, or \$280,475, to \$15,897,899 for the quarter ended March 31, 2010 from \$15,617,424 for the same period in 2009. The increase in sales was solely related to the re-opening of our Hicksville, New York location in July 2009. Same-store sales were essentially unchanged from the prior year.

Gross profit decreased by 1.6%, or \$70,853, to \$4,322,326 for the quarter ended March 31, 2010 from \$4,393,179 for the same period in 2009. Gross profit expressed as a percentage of sales decreased to 27.2% in 2010 compared to 28.1% for the comparable period in 2009. The decline in gross profit and the decrease in gross margins expressed as a percentage of sales were primarily caused by reduced cash discounts taken on purchases, the results of a more competitive marketplace, and an increase in our commercial equipment sales, which is sold at lower margins. Cost of sales excludes the distribution costs of incoming freight, purchasing, receiving, inspection, warehousing and handling costs, as these costs are included in our selling, general and administrative expenses. Our gross margins may not be comparable to those of other entities since some entities include these distribution costs in the cost of sales. These distribution costs were \$125,244 and \$118,841 for the quarters ended March 31, 2010 and 2009, respectively.

Selling, general and administrative expenses decreased by 8.7%, or \$512,267, to \$5,370,407 for the quarter ended March 31, 2010 from \$5,882,674 for the same period in 2009. The decrease in selling, general and administrative expense is primarily related to a \$153,526 reduction in payroll and benefit costs, a \$137,230 reduction in bad debt expense, a \$73,250 reduction in rent, a \$58,324 reduction in facility expense, a \$56,044 reduction in advertising expenses, and a \$32,080 reduction in depreciation and amortization.

Net interest expense increased by 27.5%, or \$41,201, to \$190,957 for the quarter ended March 31, 2010 from \$149,756 for the same period in 2009. The net interest expense increase is primarily the result of the increase in the interest rate of the Company's credit facility offset by decreased borrowings under the credit line.

The Company's net loss decreased by 26.1%, or \$413,851 to a net loss of \$1,170,773 for the quarter ended March 31, 2010, compared to a net loss of \$1,584,624 for the same period in 2009. The decrease in net loss is primarily the result of the \$512,267 decrease in selling, general and administrative expense, offset by the \$70,853 decrease in gross profit and the \$41,201 increase in net interest expense.

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The following table summarizes information derived from the Company's consolidated statements of operations expressed as a percentage of sales for the quarters ended March 31, 2010 and 2009.

	For the Quarter Ended March 31,	
	2010	2009
Sales	100.0 %	100.0 %
Cost of sales	72.8	71.9
Gross profit	27.2	28.1
Selling, general and administrative expenses	33.8	37.6
Operating loss	(6.6 )	(9.5 )
Other income	0.4	0.4
Interest expense, net	(1.2 )	(1.0 )
Net loss	(7.4 ) %	(10.1 ) %

## Liquidity and Capital Resources

The Company has a secured credit facility ("Agreement") with Wells Fargo Bank, National Association ("Wells") which expires August 1, 2012. Pursuant to an amendment dated March 4, 2010 ("Fourth Amendment"), the Company's secured credit facility was decreased from \$25 million to \$20 million which includes an inventory sublimit of \$9,000,000, with an inventory advance rate equal to the lesser of (a) 57% of cost or fair market value or (b) 100% of liquidation value of the eligible inventory, a letter of credit sublimit of \$250,000 and seasonal overadvances in 2010 of \$1,000,000. The interest rate under the facility for advances, other than overadvances, is three month LIBOR (as defined) plus 4.5% and the interest rate for overadvances is an additional .25%. Borrowings under the credit facility are secured by substantially all the assets of the Company, as defined in the Agreement.

On May 11, 2010, the Company and Wells entered into a Fifth Amendment to the Agreement (the "Fifth Amendment"), effective March 4, 2010. Pursuant to the Fifth Amendment, the interest rate for overadvances is LIBOR Advance Rate (as defined) plus .25%. A copy of the Fifth Amendment is attached hereto as Exhibit 10.06.

Availability under the credit facility was \$902,748 as of March 31, 2010 and is determined by a percentage of available assets as defined in the Agreement, less reserves. Reserves, as determined by the bank, reduce the availability of the credit facility by \$171,000. The balance outstanding under the credit facility was \$11,782,838 as of March 31, 2010.

Goodman Company, L.P. and certain of its affiliates ("Goodman") is a supplier to the Company. In connection with the Fourth Amendment, Wells and Goodman entered into an Amended and Restated Subordination Agreement dated March 4, 2010 (the "Subordination Agreement") pursuant to which, among other things, Goodman on March 24, 2010 converted \$2 million of 2010 purchases then owed to it by Universal into a secured term note (the "Note") that accrues interest payable monthly at the lesser of the highest lawful rate allowed or 8% per annum and is payable in monthly principal installments over a two-year period beginning September 24, 2010. If the Company defaults on its scheduled principal or interest payments, the interest on such default payments will be increased to as much as 18%. The amounts owed to Goodman at December 31, 2009 were paid to them in January 2010. The Subordination Agreement also sets forth among other things the relative priorities of the security interests of Wells and Goodman in the assets of the Company.





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The Company believes that the credit facility is sufficient to finance its current operating needs. The business of the Company will be materially and adversely affected if the bank substantially reduces the amount of the credit availability under the terms of the loan or the bank demands payment of the loan and the Company is unable to refinance the loan, or if liquidity is otherwise substantially reduced.

In the event that Mr. Pagano no longer performs the duties of the President of Universal or the Vice President of RAL for any reason other than death or disability, the Company will be considered in default of its credit agreement with Wells unless a waiver is obtained. The credit facility contains covenants that are determined annually and compliance is required on a quarterly basis as it relates to net income, cash flows, tangible net worth, and annual capital expenditures. The credit facility also restricts the payment of dividends, subordinated debt and purchase of securities. The continuation of the credit facility is conditioned upon the Company and Wells reaching agreement on the covenants. While the Company and Wells have reached mutually agreeable covenants in the past, there is no assurance that they will be able to do so in the future. As of March 31, 2010, the Company was in compliance with all of its financial loan covenants.

As of March 31, 2010, the Company had \$509,800 in cash compared with \$746,629 at December 31, 2009.

Net cash provided by operating activities was \$1,099,464 for the quarter ended March 31, 2010. The net cash provided by operating activities for the 2010 period is primarily a result of cash provided by operating assets and liabilities of \$2,077,576 and non-cash charges of \$192,661, offset by a net loss of \$1,170,773. The decrease in accounts receivable of \$717,215 is primarily related to the reduced sales volume during the quarter ended March 31, 2010 compared to the quarter ended December 31, 2009. The increase in trade payables of \$1,776,273 includes \$2 million in accounts payable that was converted to a note payable.

Cash flows used in financing activities of \$1,336,293 for the quarter ended March 31, 2010 consisted of \$1,307,828 in repayments under the credit facility-revolving credit and repayments of notes payable in the amount of \$28,465.

### Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not applicable.

### Item 4T. Controls and Procedures

#### Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this report, under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, management has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities and Exchange Act of 1934 (the Exchange Act)). Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this Quarterly Report, our disclosure controls and procedures were effective.

#### Changes in Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) or 15d-15(f) under the Exchange Act) during the last fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.



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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

The Company's Legal Proceedings are incorporated by reference from Part I Financial Information, Item 1 Financial Statements, Note 8 Litigation, of this Report on Form 10-Q.

Items 1A, 2, 3, and 4 are not applicable and have been omitted.

Item 5. Other Information.

As noted in the Liquidity and Capital Resources section set forth in Item 2 of Part I, titled "Management's Discussion and Analysis of Financial Condition and Results of Operations," the Company and Wells entered into a Fifth Amendment to the Credit and Security Agreement, dated May 11, 2010 (the "Fifth Amendment"). Pursuant to the Fifth Amendment, effective March 4, 2010, the interest rate for overadvances is LIBOR Advance Rate (as defined) plus .25%.

The description of the amendment is qualified by reference to Exhibit 10.06 attached as an exhibit hereto.

Item 6. Exhibits

Exhibit No. Description

10.01 Credit Security Agreement dated July 28, 2004 between American/Universal Supply, Inc., The RAL Supply Group, Inc. and Universal Supply Group, Inc. to Wells Fargo Business Credit, Inc. ("Credit Security Agreement"), incorporated herein by reference from Exhibit 10.1 to the Company's Form 10-Q filed on August 16, 2004.

10.02 First Amendment to the Credit Security Agreement, incorporated herein by reference from Exhibit 10.02 to the Company's Form 8-K filed on June 27, 2006.

10.03 Second Amendment to the Credit Security Agreement, incorporated herein by reference from Exhibit 10.08 to the Company's Form 8-K filed on September 14, 2007.

10.04 Third Amendment to the Credit Security Agreement, incorporated herein by reference from Exhibit 10.04 to the Company's Form 10-Q filed on November 13, 2009.

10.05 Fourth Amendment to the Credit Security Agreement, incorporated herein by reference from Exhibit 10.04 to the Company's Form 8-K filed on March 10, 2010

10.06 Fifth Amendment to the Credit Security Agreement, filed herewith.

31.01 Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.02 Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.01

Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.02

Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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SIGNATURES

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

Dated: May 12, 2010

COLONIAL COMMERCIAL CORP.

/s/ William Pagano  
William Pagano,  
Chief Executive Officer

/s/ William Salek  
William Salek,  
Chief Financial Officer