COLONIAL COMMERCIAL CORP
Form 10-Q
May 14, 2001

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarter Ended March 31, 2001 — Commission File No. 1-6663

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

New York	11-2037182
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)
3601 Hempstead Turnpike, Levittown, New York	11756-1315
(Address of Principal Executive Offices)	(Zip Code)

Company's Telephone Number, Including Area Code: 516-796-8400

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

Yes X No __

Indicate the number of shares outstanding of the Company's Common Stock and Convertible Preferred Stock as of May 7, 2001.

Common Stock, par value $.05 per share - 1,603,659 shares
Convertible Preferred Stock, par value $.05 per share - 1,464,387 shares

COLONIAL COMMERCIAL CORP. AND SUBSIDIARIES

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Item 1. Financial Statements

PART 1.

COLONIAL COMMERCIAL CORP. AND SUBSIDIARIES
Consolidated Balance Sheets
March 31, 2001 and December 31, 2000

Assets	2001 (Unaudited)
Current assets:	
Cash and cash equivalents	$ 648,145
Accounts receivable, net of allowance for doubtful accounts of $628,000 in 2001 and $757,000 in 2000, respectively	12,956,349
Inventory	10,349,676
Prepaid expenses and other current assets	636,921
Deferred taxes	30,940
Total current assets	24,622,031

Deferred taxes	1,581,162
Property and equipment, net	1,928,305
Excess of cost over fair value of net assets acquired and other intangibles, net	1,538,892
Investment securities	81,123
	$ 29,751,513

Liabilities and Stockholders' Equity

Current liabilities:	
Accounts payable	$ 5,830,268
Accrued liabilities	2,051,563
Income taxes payable	65,225
Borrowings under credit facility	17,170,486
Notes payable - current portion	173,603
Net liabilities of discontinued operation	--
Total current liabilities	25,291,145
Notes payable, excluding current portion	156,190
Excess of acquired net assets over cost, net	470,514
Deferred compensation	81,123
Total liabilities	25,998,972
Stockholders' equity:	
Convertible preferred stock, $.05 par value, liquidation preference of $7,332,180 and $7,332,255 at March 31, 2001 and December 31, 2000, respectively. 2,468,860 shares authorized, 1,466,436 and 1,466,451 shares issued and outstanding at March 31, 2001 and December 31, 2000, respectively	73,322
Common stock, $.05 par value, 20,000,000 shares authorized, 1,601,610 and 1,601,595 shares issued and outstanding at March 31, 2001 and December 31, 2000, respectively	80,081
Additional paid-in capital	8,966,513
Accumulated deficit	(5,367,375)
Total stockholders' equity	3,752,541
Commitments and contingencies	
	$ 29,751,513

See accompanying notes to consolidated financial statements.

COLONIAL COMMERCIAL CORP. AND SUBSIDIARIES

Consolidated Statements of Operations

Three Months ended March 31, 2001 and 2000
(Unaudited)

	2001	2000
Net sales	$ 13,702,367	11,604,330
Cost of sales	9,641,974	8,080,566
Gross profit	4,060,393	3,523,764
Selling, general and administrative expenses, net	3,648,165	3,716,194
Operating income (loss)	412,228	(192,430)
Interest income	4,683	23,148
Other income	39,867	14,440
Interest expense	(366,391)	(256,661)
Income (loss) from continuing operations before income taxes	90,387	(411,503)
Income taxes	63,900	(228,300)
Income (loss) from continuing operations	$ 26,487	(183,203)
Loss from operation of discontinued segment	--	(157,896)
Net income (loss)	$ 26,487	(341,099)
Income (loss) per common share:		
Basic:		
Continuing operations	$ 0.02	(0.12)
Loss on discontinued operation	--	(0.10)
Net income (loss) per common share	$ 0.02	(0.22)
Diluted:		
Continuing operations	$ 0.01	(0.12)
Loss on discontinued operation	--	(0.10)
Net income (loss) per common share	$ 0.01	(0.22)
Weighted average shares outstanding:		
Basic	1,601,595	1,523,216
Diluted	3,116,043	1,523,216

See accompanying notes to consolidated financial statements.

COLONIAL COMMERCIAL CORP.AND SUBSIDIARIES

Consolidated Statements of Cash Flows
Three Months ended March 31, 2001 and 2000
(Unaudited)

	2001	2000
Reconciliation of net income (loss) to net cash used in operating activities:		
Net income (loss)	$ 26,487	(341,099)
Adjustments to reconcile net income (loss) to cash used in operating activities:		
Loss from discontinued operations	--	157,895
Deferred tax expense (benefit)	12,900	(188,000)
Provision for allowance for doubtful accounts	84,541	104,657
Depreciation	127,275	89,402
Amortization of intangibles	35,387	13,959
Amortization of excess of net assets over cost	(28,233)	(28,233)
Changes in assets and liabilities, net of effects of the purchase of Well-Bilt Steel Products, Inc.:		
Accounts receivable	1,247,271	1,163,737
Inventory	(989,634)	(2,273,106)
Prepaid expenses and other current assets	88,362	(144,414)
Accounts payable	(288,878)	945,073
Investment securities - trading	(887)	--
Accrued liabilities	110,383	(343,552)
Income taxes payable	46,225	(15,586)
Deferred compensation	887	--
Net cash provided by (used in) operating activities	472,086	(859,267)
Cash flows from investing activities:		
Purchase of licensing agreements	(4,800)	(22,000)
Payments received on notes receivable	--	316,069
Additions to property and equipment	(43,481)	(355,889)
Net cash used in investing activities	(48,281)	(61,820)
Cash flows from financing activities:		
Payments of notes payable	(46,195)	(40,042)
Net borrowings (repayments) under credit facility	46,574	3,230,884
Net cash provided by financing activities	379	3,190,842
Net cash used in discontinued operation	(603,410)	(1,934,011)
Increase (decrease) in cash and cash equivalents	(179,226)	335,744
Cash and cash equivalents - beginning of period	827,371	1,759,954
Cash and cash equivalents - end of period	$ 648,145	2,095,698

See accompanying notes to consolidated financial statements.

COLONIAL COMMERCIAL CORP. AND SUBSIDIARIES

Notes To Consolidated Financial Statements

March 31, 2001 and December 31, 2000
(Unaudited)

(1) The 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, 2001 are not necessarily indicative of the operating results that may be achieved for the full year.

Certain reclassifications have been made to the three months ended March 31, 2000 information to conform to the current quarter presentation. The results of operations for the three months ended March 31, 2000 have been restated to reflect the discontinued operation of Well-Bilt Steel Products, Inc. that was accounted for as of December 31, 2000.

Certain information and footnote disclosures, normally included in consolidated financial statements prepared in accordance with generally accepted accounting principles, have been condensed or omitted. It is suggested that these consolidated financial statements be read in conjunction with the consolidated financial statements and notes thereto included in the Company's 2000 Annual Report filed on Form 10-K.

(2) Supplemental Cash Flow Information

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

	Three Months Ended	
	March 31,2001	March 31, 2000
Cash paid during the period for:		
Interest	$ 366,391	$ 282,462
Income taxes	$ 7,700	$ 86,382

During the three months ended March 31, 2001 and 2000, the Company retired 15 and 458 shares, respectively, of convertible preferred stock, which were converted to a similar number of common shares.

(3) Comprehensive Income

The Company has no items of other comprehensive income; therefore, there is no difference between the Company's comprehensive income (loss) and net income (loss) for the periods presented.

(4) Net Income (Loss) Per Common Share

A reconciliation between the numerators and denominators of the basic and diluted income (loss) per common share is as follows:

	Three Months Ended March 31, 2001	Three Months Ended March 31, 2000
Net income (loss) numerator	$ 26,487	(341,099)
Weighted average common shares (denominator for basic income per share)	1,601,595	1,523,216
Effect of dilutive securities:		
Convertible preferred stock	1,466,451	--
Employee stock options	47,997	--
Weighted average common and potential common shares outstanding (denominator for diluted income per share)	3,116,043	1,523,216
Basic income (loss) per share	$ 0.02	(0.22)
Diluted income (loss) per share	$ 0.01	(0.22)

Employee stock options totaling 158,800 and 291,000 for the three months ended March 31, 2001 and 2000, respectively, were not included in the net income per share calculation because their effect would have been anti-dilutive.

(5) Industry Segments

The Company has two reportable segments: (1) door hardware and door distribution and (2) HVAC. Summarized financial information for each of the Company's segments for the three months ended March 31, 2001 and 2000 follows:

THREE MONTHS ENDED
MARCH 31, 2001

	Door hardware and door distribution	HVAC	Corporate and unallocated	Eliminatio
Net sales	$ 7,098,191	6,604,176	--	--
Operating income (loss)	694,591	(60,760)	(221,603)	--
Interest expense	179,666	186,725	--	--
Income (loss) before income taxes	452,525	(270,018)	(92,120)	--
Income (loss) from continuing operations, net of tax	314,525(a)	(270,018)(a)	(18,020)(a)(c)	--
Total assets	18,699,956	16,465,753	9,751,950(b)	(15,166,

THREE MONTHS ENDED
MARCH 31, 2000

	Door hardware and door distribution	HVAC	Corporate and unallocated	Elimination
Net sales	$ 4,336,499	7,267,831	--	--
Operating income (loss)	(52,283)	137,392	(277,539)	--
Interest expense	86,190	186,425	--	(15,
Income (loss) before income taxes	(206,776)	(96,373)	(113,777)	--
Income (loss) from continuing operations, net of tax	(169,022)(a)	(88,105)(a)	73,924(a)(c)	--
Total assets	16,611,002	16,691,871	12,281,853(b)	(9,401,

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

Forward-looking Statements

This report on Form 10-Q contains forward-looking statements relating to such matters as anticipated financial performance and business prospects. When used in this report, the words, "anticipates," "expects," "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, 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.

Results of Operations - Three Months Ended March 31, 2001 and 2000

The Company reported a net profit of $26,487 for the first quarter of 2001, which includes net income of $314,525 from Atlantic Hardware and Supply Corporation ("Atlantic") and a net loss of $270,018 from Universal Supply Group, Inc. ("Universal"), as compared to net loss of $341,099 for the first quarter of 2000, which included $169,022 of net loss from Atlantic, $88,105 of net loss from Universal and $157,895 of net loss from the discontinued operations of Well-Bilt Steel Products ("Well-Bilt").

Sales increased $2,098,037 (18.1%) to $13,702,367 as compared to the prior year's quarter, principally due to increased sales at Atlantic of $2,761,692 (63.7%) offset by a decrease in sales at Universal of $663,655 (9.1%). Sales increased at Atlantic due to the timing of shipments from its backlog of confirmed contracts. Atlantic's backlog of firm contracts decreased $1,500,000 to $11,500,000 from December 31, 2000 and $3,700,000 from March 31, 2000 due to timing of shipments during the first quarter of the 2001-year. Universal's sales declined due to the uncertainty of economic conditions in its geographical region, principally New Jersey.

Selling, general and administrative expenses, net, decreased $68,029 (1.8%) due to a net reduction of various operating expenses including the reversal of an accrual for Atlantic's year 2000 discretionary profit sharing plan contribution, based upon management's recent decision not to make the contribution.

Interest expense increased $109,730 principally due to increased borrowings relating to the acquisition and operation of Well-Bilt in the year 2000. Other income increased due to increased finance charges collected on Universal's accounts receivable.

During the first quarter of 2001, the Company provided for an estimated federal tax expense as well as a state tax expense aggregating $63,900. The state tax expense is associated with the taxable income of Atlantic. During the 2000 quarter, the Company provided for a federal and state tax benefit of $228,000.

Liquidity and Capital Resources

As of March 31, 2001, the Company had $648,145 in cash and cash equivalents compared with $827,371 at December 31, 2000.

Cash flows provided by operations was $472,086 during the three months ended March 31, 2001. Accounts receivable declined due to a decrease in sales at Universal and increased collections at Atlantic. Inventory increased as a result of the stage of completion of Atlantic's current contracts and the purchase of a large volume of air conditioners and related accessories by Universal in preparation for the upcoming summer season. Accounts payable also decreased due to the Company's concentrated efforts at Atlantic to pay the outstanding payables to vendors.

Cash flows used in investing activities of $48,281 during the three months ended March 31, 2001 were primarily due to $43,481 for the purchase of property and equipment.

Net cash used in discontinued operation of $603,410 for the quarter ended March 31, 2001 reflects the results of the disposal of Well-Bilt. Net cash used of $1,934,011 for the quarter ended March 31, 2000 reflects the acquisition and operating losses of Well-Bilt.

At March 31, 2001, amounts outstanding under the credit facility were $17,170,486 of which $2,829,000 represents amounts under a term loan, payable in 60 equal monthly installments of $76,500. Although the term loan is payable over 60 months, the Bank can demand payment at any time. As monthly repayments are made on the term loan, the available line of credit portion of the facility increases by the amount of the principal repayment. At March 31, 2001, the amount of unused available credit was $829,514.

The Company believes that the remaining credit available under the credit facility is sufficient to finance its current operating needs, however, the Company's ability to finance future growth in operations or non-operating activities through the credit facility is limited.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Company's pre-tax earnings and cash flow are exposed to changes in interest rates as borrowings under its credit facility bear interest at the prime rate, plus 1%. A hypothetical 10% adverse change in such rates would reduce pre-tax earnings and cash flow by approximately $155,000 over a one-year period, assuming the borrowing level remains consistent with the outstanding borrowings as of March 31, 2001. The fair value of the borrowings under the credit facility is not significantly affected by changes in market interest rates.

The Company's remaining interest-bearing obligations are at fixed rates of interest and as such do not expose pre-tax earnings and cash flows to changes in market interest rates. The change in fair value of the Company's fixed rate obligations resulting from a hypothetical 10% adverse change in interest rates would not be material.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings - None

Item 6. Exhibits and Reports on Form 8-K -

(a) Reports on Form 8-K. During the three months ended March 31, 2001, the Registrant filed a report on Form 8-K dated February 1, 2001 relative to the disposition of Well-Bilt Steel Products, Inc.

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 15, 2001 COLONIAL COMMERCIAL CORP.

/s/ Bernard Korn
Bernard Korn,
Chairman of the Board and President

/s/ James W. Stewart

James W. Stewart,
Executive Vice President and Treasurer