COLONIAL COMMERCIAL CORP
Form 10-Q
November 13, 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 SEPTEMBER 30, 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 October 31, 2001.

Common Stock, par value $.05 per share - 1,603,760 shares
Convertible Preferred Stock, par value $.05 per share - 1,464,286 shares

COLONIAL COMMERCIAL CORP. AND SUBSIDIARIES

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

PART 1.

COLONIAL COMMERCIAL CORP. AND SUBSIDIARIES
Consolidated Balance Sheets
September 30, 2001 and December 31, 2000

Assets	2001 (Unaudited)
Current assets:	
Cash and cash equivalents	$ 651,550
Accounts receivable, net of allowance for doubtful accounts of $741,000 in 2001 and $757,000 in 2000, respectively	11,559,653
Inventory	9,474,790
Prepaid expenses and other current assets	704,669
Deferred taxes	--
Total current assets	22,390,662
Deferred taxes	1,625,002
Property and equipment, net	1,835,443
Excess of cost over fair value of net assets acquired and other intangibles, net	1,476,716

Investment securities	100,444
	$ 27,428,267

Liabilities and Stockholders' Equity

Current liabilities:	
Accounts payable	$ 5,705,488
Accrued liabilities	1,673,178
Income taxes payable	10,803
Borrowings under credit facility	15,891,193
Notes payable - current portion	153,153
Net liabilities of discontinued operation	--
Total current liabilities	23,433,815
Notes payable, excluding current portion	128,208
Excess of acquired net assets over cost, net	414,048
Deferred compensation	100,444
Total liabilities	24,076,515
Stockholders' equity:	
Convertible preferred stock, $.05 par value, liquidation preference of $7,321,430 and $7,332,255 at September 30, 2001 and December 31, 2000, respectively. 2,468,860 shares authorized, 1,464,286 and 1,466,451 shares issued and outstanding at September 30, 2001 and December 31, 2000, respectively	73,214
Common stock, $.05 par value, 20,000,000 shares authorized, 1,603,760 and 1,601,595 shares issued and outstanding at September 30, 2001 and December 31, 2000, respectively	80,189
Additional paid-in capital	8,966,513
Accumulated deficit	(5,768,164)
Total stockholders' equity	3,351,752
Commitments and contingencies	
	$ 27,428,267

See accompanying notes to consolidated financial statements

COLONIAL COMMERCIAL CORP. AND SUBSIDIARIES

Consolidated Statements of Operations

Three Months ended September 30, 2001 and 2000
(Unaudited)

	2001	2000
Net sales	$ 13,373,114	15,085,034
Cost of sales	9,902,776	10,926,394
Gross profit	3,470,338	4,158,640
Selling, general and administrative expenses, net	3,844,563	3,873,672
Operating income (loss)	(374,225)	284,968
Interest income	2,078	139,997
Other income	134,683	147,245
Interest expense	(302,491)	(453,502)
Income (loss) from continuing operations before income taxes	(539,955)	118,708
Income taxes	(34,000)	361,288
Loss from continuing operations	(505,955)	(242,580)
Loss from operation of discontinued segment	--	(766,159)
Recovery of loss on disposal of discontinued segment, net	89,592	--
Net loss	$ (416,363)	(1,008,739)
Income (loss) per common share:		
Basic:		
Continuing operations	$ (0.32)	(0.16)
Loss from operation of discontinued segment	--	(0.49)
Recovery of loss on disposal of discontinued segment, net	0.06	--
Net loss per common share	$ (0.26)	(0.65)
Diluted:		
Continuing operations	$ (0.32)	(0.16)
Loss from operation of discontinued segment	--	(0.49)
Recovery of loss on disposal of discontinued segment, net	0.06	--
Net loss per common share	$ (0.26)	(0.65)
Weighted average shares outstanding:		
Basic	1,603,693	1,542,030
Diluted	1,603,693	1,542,030

See accompanying notes to consolidated financial statements.

COLONIAL COMMERCIAL CORP. AND SUBSIDIARIES

Consolidated Statements of Operations

Nine Months ended September 30, 2001 and 2000
(Unaudited)

	2001	2000
Net sales	$ 41,393,978	42,869,474
Cost of sales	29,922,607	30,586,961
Gross profit	11,471,371	12,282,513
Selling, general and administrative expenses, net	11,150,834	11,535,470
Operating income	320,537	747,043
Interest income	9,767	243,970
Other income	220,799	176,933
Interest expense	(1,014,997)	(1,092,309)
Income (loss) from continuing operations before income taxes	(463,894)	75,637
Income taxes	--	60,688
Income (loss) from continuing operations	(463,894)	14,949
Loss from operation of discontinued segment	--	(1,826,831)
Recovery of loss on disposal of discontinued segment, net	89,592	--
Net loss	$ (374,302)	(1,811,882)
Income (loss) per common share:		
Basic:		
Continuing operations	$ (0.29)	0.01
Loss from operation of discontinued segment	--	(1.19)
Recovery of loss on disposal of discontinued segment, net	0.06	--
Net loss per common share	$ (0.23)	(1.18)
Diluted:		
Continuing operations	$ (0.29)	0.01
Loss from operation of discontinued segment	--	(0.57)

Recovery of loss on disposal of discontinued segment, net	0.06	--
Net loss per common share	$ (0.23)	(0.56)
Weighted average shares outstanding:		
Basic	1,602,984	1,529,589
Diluted	1,602,984	3,208,893

See accompanying notes to consolidated financial statements.

COLONIAL COMMERCIAL CORP. AND SUBSIDIARIES

Consolidated Statements of Cash Flows
Nine Months ended September 30, 2001 and 2000
(Unaudited)

	2001	2000
Reconciliation of net loss to net cash provided by (used in) operating activities:		
Net loss	$ (374,302)	(1,811,882)
Adjustments to reconcile net loss to cash used in operating activities:		
(Income) loss from discontinued operation	(89,592)	1,826,831
Provision for allowance for doubtful accounts	390,376	309,744
Depreciation	384,347	394,964
Amortization of intangibles	97,563	138,124
Amortization of excess of net assets over cost	(84,699)	(84,699)
Changes in assets and liabilities, net of effects of cash used in discontinued operation:		
Accounts receivable	2,338,132	(2,602,865)
Inventory	(114,748)	(2,567,162)
Prepaid expenses and other current assets	20,614	261,823
Accounts payable	(413,658)	4,834,307
Investment securities - trading	(20,208)	--
Accrued liabilities	(268,002)	(749,367)
Income taxes payable	(8,197)	17,474
Deferred compensation	20,208	--
Net cash provided by (used in) operating activities	1,877,834	(32,708)
Cash flows from investing activities:		
Purchase of licensing agreements	(4,800)	(22,000)
Payment for acquisition of Universal Supply Group, Inc., net of cash acquired	--	(141,299)

Payments received on notes receivable	--	316,069
Additions to property and equipment	(189,198)	(2,284,844)
Net cash used in investing activities	(193,998)	(2,132,074)
Cash flows from financing activities:		
Payments of notes payable	(113,120)	(125,414)
Exercise of employee stock options	--	30,999
Net borrowings (repayments) under credit facility	(1,232,719)	5,555,173
Net cash (used in) provided by financing activities	(1,345,839)	5,460,758
Net cash used in discontinued operation	(513,818)	(4,023,056)
Decrease in cash and cash equivalents	(175,821)	(727,080)
Cash and cash equivalents - beginning of period	827,371	1,759,954
Cash and cash equivalents - end of period	$ 651,550	1,032,874

See accompanying notes to consolidated financial statements.

COLONIAL COMMERCIAL CORP. AND SUBSIDIARIES

Notes To Consolidated Financial Statements

September 30, 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 periods ended September 30, 2001 are not necessarily indicative of the operating results that may be achieved for the full year.

Certain reclassifications have been made to the nine months ended September 30, 2000 information to conform to the corresponding current period's presentation. The results of operations for the three months and nine months ended September 30, 2000 have been restated to reflect the discontinued operation of Well-Bilt Steel Products, Inc. ("Well-Bilt") that was accounted for as such 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) Discontinued Operation

On January 12, 2001, the Board of Directors approved a plan to dispose of the Well-Bilt operations. The disposal was completed on February 1, 2001. The results of operations for Well-Bilt, as well as the loss on the disposition of Well-Bilt, have been shown as discontinued operations in the consolidated financial statements as of and for the year ended December 31, 2000.

During the third quarter of 2001, the Company, which had guaranteed certain liabilities of Well-Bilt, was able to reach favorable settlements on certain guarantees. As a result, the Company recorded an $89,592 net reduction of the loss on disposal of discontinued segment recorded at December 31, 2000.

(3) Supplemental Cash Flow Information

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

	Nine Months Ended September 30, 2001	Nine Months Ended September 30, 2000
Cash paid during the period for:		
Interest	$ 967,241	$ 1,141,859
Income taxes	$ 7,700	$ 98,695

During the nine months ended September 30, 2001 and 2000, the Company retired 2,165 and 36,986 shares, respectively, of convertible preferred stock, which were converted to a similar number of common shares.

During the nine months ended September 30, 2001 and 2000, notes payable of $18,493 and $41,525, respectively, were incurred for the purchase of automobiles.

(4) Comprehensive Income (Loss)

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.

(5) 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:

	Nine Months Ended September 30, 2001	Nine Months Ended September 30, 2000	Three Months End September 30 2001	Three Months End September 30 2000
Net loss - numerator	$ (374,302)	(1,811,882)	(416,363)	(1,008
Weighted average common shares (denominator for basic loss per share)	1,602,984	1,529,589	1,603,693	1,542
Effect of dilutive securities:				
Convertible preferred stock	--	1,529,735	--	
Employee stock options	--	149,569	--	
Weighted average common and potential common shares outstanding (denominator for diluted income per share)	1,602,984	3,208,893	1,603,693	1,542
Income (loss) per common share:				
Basic:				
Continuing operations	(0.29)	0.01	(0.32)	(
Loss from operation of discontinued segment	--	(1.19)	--	(
Recovery of loss on disposal of discontinued segment, net	0.06	--	0.06	
Net loss per common share	(0.23)	(1.18)	(0.26)	(

Diluted:				
Continuing operations	(0.29)	0.01	(0.32)	(
Loss from operation of discontinued segment	--	(0.57)	--	(
Recovery of loss on disposal of discontinued segment, net	0.06	--	0.06	
Net loss per common share	$ (0.23)	(0.56)	(0.26)	(

The diluted weighted average shares were used to calculate diluted loss per share for discontinued operations for the nine months ended September 30, 2000, in accordance with Statement of Financial Accounting Standards No. 128, "Earnings Per Share." Dilutive net loss per common share for the three and nine months ended September 30, 2001 and for the three months ended September 30, 2000 is the same as basic net loss per common share due to the antidilutive effect of the assumed conversion of preferred shares and exercise of stock options on income of continued operations.

Employee stock options totaling 300,600 and 236,333 for the three and nine months ended September 30, 2001 and 236,333 and 189,600 for the three and nine months ended September 30, 2000, were not included in the net income per share calculation because their effect would have been anti-dilutive.

(6) 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 and nine months ended September 30, 2001 and 2000 follows:

THREE MONTHS ENDED SEPTEMBER 30, 2001

	Door hardware and door distribution	HVAC	Corporate and unallocated	Eliminations
Net sales	$ 5,478,311	7,894,803	--	--
Operating income (loss)	(466,374)	276,569	(184,420)	--
Interest expense	140,746	161,745	--	--
Income (loss) before income taxes	(669,520)(a)	93,184(a)	36,381(a)	--

Income (loss) from continuing operations, net of tax	(581,520)(a)	93,184(a)	(17,619)(a)(b)	--
Total assets	$16,252,158	16,526,685	9,531,978(c)	(14,882,554)(d)

NINE MONTHS ENDED SEPTEMBER 30, 2001

	Door hardware and door distribution	HVAC	Corporate and unallocated	Eliminations
Net sales	$ 19,218,409	22,175,569	--	--
Operating income (loss)	460,674	463,623	(603,760)	--
Interest expense	496,103	518,894	--	--
Loss before income taxes	(222,629)(a)	(115,595)(a)	(125,670)(a)	--
Loss from continuing operations, net of tax	(222,629)(a)	(115,595)(a)	(125,670)(a)(b)	--
Total assets	$16,252,158	16,526,685	9,531,978(c)	(14,882,554)(d)

THREE MONTHS ENDED SEPTEMBER 30, 2000

	Door hardware and door distribution	HVAC	Corporate and unallocated	Eliminations
Net sales	$ 7,341,738	7,743,296		
Operating			--	--
income (loss)	393,846	244,104		
Interest expense	281,145	207,492	(352,982)	--
Income (loss)			--	(35,135)(e)
before income taxes	179,860(a)	25,901(a)		
Income (loss)			(87,053)(a)	--
from continuing operations, net of tax	103,790(a)	15,643(a)	(362,013)(a)(b)	--
Total assets	23,776,823	17,183,693	12,047,278(c)	(12,988,936)(d)

NINE MONTHS ENDED
SEPTEMBER 30, 2000

	Door hardware and door distribution	HVAC	Corporate and unallocated	Eliminations
Net sales	$19,199,907	23,669,567	--	--
Operating income (loss)	1,003,200	740,916	(997,073)	--
Interest expense	561,165	599,648	--	(68,504)(e)
Income (loss) before income taxes	446,171(a)	36,597(a)	(407,131)(a)	--
Income (loss) from continuing operations, net of tax	291,171(a)	21,669(a)	(297,891)(a)(b)	--
Total assets	23,776,823	17,183,693	12,047,278(c)	(12,988,936)(d)

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 September 30, 2001 and 2000

The Company reported a net loss of $416,363 for the third quarter of 2001, which includes a net loss of $581,520 from Atlantic Hardware and Supply Corporation ("Atlantic"), net income of $93,184 from Universal Supply Group, Inc. ("Universal") and an $89,592 recovery of the loss on disposal of discontinued operations of Well-Bilt Steel Products, Inc. ("Well-Bilt"), as compared to a net loss of $1,008,739 for the third quarter of 2000, which included $103,790 of net income from Atlantic, $15,643 of net income from Universal and $766,159 of net loss from the discontinued operations of Well-Bilt.

During the third quarter of 2001, the Company, which had guaranteed certain liabilities of the discontinued segment, Well-Bilt, was able to reach favorable settlements on certain guarantees. As a result, the Company recorded an $89,592 net reduction in the loss on disposal of discontinued segment that had been recorded at December 31, 2000.

Sales decreased $1,711,920 (11.3%) to $13,373,114 as compared to the prior year's quarter due primarily to a decrease in sales at Atlantic of $1,863,427 (25.4%). The decrease in Atlantic's sales was partly due to the World Trade Center disaster on September 11, 2001. Many of Atlantic's New York City jobs suspended work for two weeks while unions supplied tradesmen to assist in the recovery efforts. In addition, difficulties in making deliveries to our New York City and New Jersey customers slowed sales during the last week of September and continued into October. Atlantic only had one contract in lower Manhattan, which has been temporarily delayed. The balance of the decrease in sales was due to the timing of shipments from Atlantic's backlog of confirmed contracts. Cost of goods sold increased as a percentage of sales when compared to the prior year's quarter due to additional costs incurred by Atlantic in finalizing certain older projects.

Selling, general and administrative expenses decreased $29,109 (0.8%) from last year principally due to an increase in bad debt expense due to the finalization of certain older projects offset by a reduction in commissions and bonuses.

Interest expense decreased $151,011 principally due to lower outstanding borrowings on the credit line, as well as a reduction in the applicable interest rate on outstanding borrowings from the comparable period. The lower outstanding borrowings were attributable to increased collections on trade receivables. Interest income decreased $137,919 due to lower average invested cash balances resulting from the additional cash utilized in the Company's investment in Well-Bilt subsequent to September 30, 2000. Other income decreased $12,562 due to a decrease in finance charges collected on Universal's accounts receivable.

During the three months ended September 30, 2001, the Company did not record any federal tax expense, as the Company is in a year-to-date federal book tax loss position. As Atlantic is in a state tax loss position for the nine-month period ended September 30, 2001, the Company recorded a current net state tax benefit of $34,000 for the quarter, which represents the reversal of the state tax provision recorded in the first half of 2001. During the 2000 quarter, the Company provided for a federal and state tax expense of $361,288.

Results of Operations - Nine Months Ended September 30, 2001 and 2000

The Company reported a net loss of $374,302 for the nine months ended September 30, 2001, which includes a net loss of $222,629 from Atlantic, a net loss of $115,595 from Universal, and an $89,592 recovery of the loss on disposal of discontinued operations of Well-Bilt, as compared to a net loss of $1,811,882 for the third quarter of 2000, which included $291,171 of net income from Atlantic, $21,669 of net income from Universal and $1,826,831 of net loss from the discontinued operations of Well-Bilt.

Sales decreased $1,475,496 (3.4%) to $41,393,978 principally due to a decrease in sales at Universal of $1,493,998 (6.3%). Universal's sales declined due to the uncertainty of economic conditions in its geographical region, principally New Jersey. Atlantic's backlog of firm contracts decreased $900,000 to $12,100,000 from December 31, 2000 and $2,326,000 from September 30, 2000 due to the timing of shipments during the nine months ended September 30, 2001, as well as softer economic conditions. Cost of goods sold increased as a percentage of sales when compared to the prior year, due to additional costs incurred by Atlantic in finalizing certain older projects.

Selling, general and administrative expenses decreased $384,636 (3.3%) from last year principally due to reductions in commissions resulting from revisions to the Company's compensation program, as well as reductions in bonuses and advertising and promotions, partially offset by increases in employee benefits (due to increased health insurance claims) and bad debt expense due to the finalization of certain older projects.

Interest expense decreased $77,312 principally due to lower outstanding borrowings on the credit line, as well as a reduction in the applicable interest rate on outstanding borrowings. The lower outstanding borrowings were attributable to increased collections on trade receivables. Interest income decreased $234,203 due to lower average invested cash balances resulting from the additional cash utilized in the Company's investment in Well-Bilt, subsequent to September 30, 2000. Other income increased $43,866 due to increased finance charges collected on Universal's accounts receivable.

During the nine months ended September 30, 2001, the Company did not record any state or federal tax provision, as the Company is in a year-to-date book tax loss position. During the nine months ended September 30, 2000, the Company provided for state taxes in the amount of $60,688 and no federal taxes, as they were in a federal book tax loss position.

Liquidity and Capital Resources

As of September 30, 2001, the Company had $651,550 in cash and cash equivalents compared with $827,371 at December 31, 2000.

Cash flows provided by continuing operations was $1,877,834 during the nine months ended September 30, 2001. Accounts receivable declined due primarily to increased collections at Atlantic. 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 $193,998 during the nine months ended September 30, 2001 were primarily due to $189,198 for the purchase of property and equipment.

Cash flows used in financing activities of $1,345,839 were primarily for repayments made on the credit facility. These repayments were principally the result of increased collections on trade receivables.

Net cash used in discontinued operation of $513,818 for the nine months ended September 30, 2001 reflects the results of the disposal of Well-Bilt, net of an $89,592 recovery of the loss on disposal of discontinued segment, recorded in the third quarter of 2001. Net cash used of $4,023,056 for the nine months ended September 30, 2000 reflects the acquisition and operating losses of Well-Bilt.

In June 1999, the Company entered into a loan and security agreement with the Bank ("the agreement") related to a $16,000,000 credit facility. As of December 31, 2000, the agreement had been amended to increase the amount of the credit facility to $18,000,000. As of September 30, 2001, the agreement had been further amended to decrease the amount of the credit facility to $16,000,000.

At September 30, 2001, amounts outstanding under the $16,000,000 credit facility were $15,891,193, of which $2,370,000 represents amounts under a term loan payable in 31 remaining equal monthly installments of approximately $76,500. Although the term loan is payable over the remaining 31 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 September 30, 2001, the amount of unused available credit was $108,807. The Company may not achieve the required level of net income in the fourth quarter to be in compliance with the tangible net worth covenant at December 31, 2001. The Company will pursue, and believes will obtain, a waiver for such violation, if necessary, similar to the one received for the year ended December 31, 2000.

The Company has implemented an overall cost containment strategy. In addition, the Company is in the process of restructuring certain internal procedures, which will result in additional cost savings. At the same time, the Company has increased efforts to expand its internal growth and expects these efforts will improve liquidity and bolster future anticipated profits. The Company believes that 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.

Recent Accounting Pronouncements

In July 2001, the Financial Accounting Standards Board (FASB) issued Statement 141, "Business Combinations" (Statement 141) and Statement No. 142, "Goodwill and Other Intangible Assets" (Statement 142). Statement 141 requires companies to account for acquisitions entered into after June 30, 2001 using the purchase method and establishes criteria to be used in determining whether acquired intangible assets are to be recorded separately from goodwill. These

criteria are to be applied to business combinations completed after June 30, 2001. Statement 141 will require, upon adoption of Statement 142, that the Company evaluate its existing intangible assets and goodwill that were acquired in a prior purchase business combination, and make any necessary reclassifications in order to conform with the new criteria in Statement 141 for recognition apart from goodwill. The Company does not believe that implementation of Statement 141 will have an impact on the Company's financial position and results of operations.

Statement 142 requires that goodwill and intangible assets with indefinite useful lives no longer be amortized, but rather will be tested for impairment at least annually. Statement 142 also requires that intangible assets with definite useful lives be amortized over their respective estimated useful lives to their estimated residual values and reviewed for impairment in accordance with SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." Upon adoption of Statement 142, the Company will be required to perform an assessment of whether there is an indication that goodwill is impaired as of the date of adoption. To accomplish this, the Company must identify its reporting units and determine the carrying value of each reporting unit by assigning the assets and liabilities, including the existing goodwill and intangible assets, to those reporting units as of the date of adoption. Statement No. 142 also requires that any unamortized negative goodwill existing at the date Statement No. 142 is adopted, must be written off as a cumulative effect of a change in accounting principle. The Company is required to adopt the provisions of Statement 142 effective January 1, 2002 and, accordingly, will reverse into income the unamortized negative goodwill, which will approximate $385,815 at December 31, 2001. In addition, the Company will cease the amortization of the goodwill acquired in the acquisition of Universal. The Company has not yet determined any additional impact that the adoption of Statement 142 will have on its financial position or results of operations.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Company's pre-tax earnings and cash flows 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 $111,000 over a one-year period, assuming the borrowing level remains consistent with the outstanding borrowings as of September 30, 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.

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: November 13, 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