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COLONIAL COMMERCIAL CORP
Form 10-K
November 18, 2003

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002 COMMISSION FILE NO. 1-6663

COLONIAL COMMERCIAL CORP.

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

NEW YORK

11-2037182

(State or other jurisdiction of
Incorporation or Organization)

(I.R.S. Employer Identification No.)

3601 HEMPSTEAD TURNPIKE, LEVITTOWN, NEW YORK

11756-1315

(Address of Principal Executive Offices)

(Zip Code)

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

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

TITLE OF CLASS

NAME OF EXCHANGE ON WHICH REGISTERED

None

None

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

Common Stock, Par Value \$.05 Per Share

CONVERTIBLE PREFERRED STOCK, PAR VALUE \$.05 PER SHARE

(Title of Class)

Indicate by check mark whether Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes No X
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Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes No X
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The aggregate market value of voting and non-voting stock held by non-affiliates of the Registrant was approximately \$2,709 as of June 28, 2002.

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

The number of shares outstanding of Registrant's Common Stock and Convertible Preferred Stock as of November 11, 2003.

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	OUTSTANDING

Common Stock \$.05 par value	2,405,804
Convertible Preferred Stock \$.05 par value	1,464,242

Documents Incorporated by Reference

None

PART I.

FORWARD-LOOKING STATEMENTS

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

ITEM 1 BUSINESS

(a) GENERAL DEVELOPMENT OF BUSINESS

Colonial Commercial Corp. (the "Company" or "Registrant" or "Colonial") is a New York corporation, which was incorporated on October 28, 1964. Unless otherwise indicated, the term "Registrant," "Company" or "Colonial" refers to Colonial Commercial Corp. and its consolidated subsidiaries.

The Company's continuing operations are conducted through its wholly owned subsidiary, Universal Supply Group, Inc., ("Universal"). The business operations of Universal are described below under "Narrative Description of Business."

On July 1, 2002, Universal paid \$670,981 to purchase certain accounts receivable, inventory and other accessories from Goldman Associates of New York, Inc. ("Goldman"), relating to Goldman's HVAC business in New Jersey and certain areas of New York.

The Company disposed of its Well-Bilt door and doorframe manufacturing segment in February 2001. A loss from operations of this segment of \$3,212,152 and a \$3,731,654 loss on disposal of this segment are reflected in the consolidated statements of operations for the year ended December 31, 2000.

On January 28, 2002, Atlantic Hardware & Supply Corporation ("Atlantic"), a wholly-owned subsidiary of the Company, filed a voluntary petition with the U. S. Bankruptcy Court for the Eastern District of New York to reorganize under Chapter 11 of the U. S. Bankruptcy Code. As of the date of this filing, the proceedings are still on-going. Colonial and Universal are not part

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of the Chapter 11 filing. The business of Atlantic is today conducted by one employee whose sole function is to collect on accounts receivables for the benefit of Atlantic's creditors, and the Company does not believe that Atlantic will emerge from the reorganization with any value for the Company. The Company does not exercise significant influence over Atlantic's operations and financial activities. As of December 31, 2001, Atlantic has been deconsolidated

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on the Company's financial statements and its operations are being reported as "results from operations of discontinued segments."

On November 21, 2002, the Company and Universal were released from their guarantees of the indebtedness (approximately \$5.8 million) by Atlantic to Colonial's and Atlantic's lending bank, in return for the agreement by the Company and Universal to pay to the bank \$2.5 million as a five-year term loan under the Company's line of credit with the bank, or, if earlier, on demand by the bank.

The Company's shares were delisted from the Nasdaq SmallCap Market in June 2002 because (i) the Company failed to timely file its Form 10-Q for the fiscal quarter ended March 31, 2002 and its Form 10-K for 2001, (ii) the market value of its publicly held shares of common stock was less than the required \$1 million, and (iii) the closing bid price of its common stock was less than \$1 per share.

On September 30, 2003, Colonial, through its newly formed, wholly owned subsidiary, RAL Purchasing, Inc., purchased substantially all of the assets and certain liabilities of RAL Supply Group, Inc. ("RAL"), for a purchase price of \$3,838,521. RAL is a distributor of heating and cooling equipment and high-end plumbing fixtures with six locations, servicing Orange, Rockland, Ulster and Sullivan counties in New York. In connection with this acquisition, Colonial's limit on its credit facility was increased by \$2,000,000 to \$14,000,000.

On July 16, 2003, Colonial completed a private placement pursuant to Regulation D of the Securities Exchange Act of 1933. Colonial raised \$240,000 through the issuance of 802,000 shares of Common Stock at \$0.30 per share, as determined by the Board of Directors. The issuance of these additional shares increased our outstanding shares by 26.1%. The stock was sold to officers and directors of the Company and one private investor. The proceeds of the private placement will be used for general working capital purposes.

(b) FINANCIAL INFORMATION ABOUT INDUSTRY SEGMENTS

The Company has one continuing industry segment - heating, ventilation and air conditioning.

(c) NARRATIVE DESCRIPTION OF BUSINESS

HEATING, VENTILATION AND AIR CONDITIONING

The heating, ventilation and air conditioning segment, which accounts for all of the Company's current net sales, operates as Universal. Universal is a distributor of heating, ventilation and air conditioning equipment (HVAC) and climate control systems. Universal's products are marketed primarily, in New Jersey and New York, through nine locations, to HVAC contractors, who, in turn, sell such products to residential, commercial and industrial customers. No product accounted for 15% or more of consolidated revenues during 2002, 2001 and 2000.

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Universal had approximately 4,500 customers in 2002. No customer accounted for more than 10% of consolidated net sales in 2002. Universal believes that the loss of any one customer would not have a material adverse effect on its business.

Universal purchases products from approximately 360 suppliers. In 2002, two suppliers accounted for 49.1% of Universal's purchases. The loss of one of these suppliers could have a material adverse effect on its business for a short-term period. Universal believes that the loss of any one of its other suppliers would not have a material adverse effect on its business.

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Universal competes primarily with other distributors in its geographical region. Universal believes it is one of the largest HVAC distributors in northern New Jersey, and that it maintains a competitive edge by providing in-house training and technical field support to its customers.

OTHER MATTERS

As of December 31, 2002, the Company had 92 employees (excluding 3 Atlantic employees), of whom two were executive officers at its corporate offices in Levittown, New York. The Company believes its employee relations are satisfactory.

(d) FINANCIAL INFORMATION ABOUT GEOGRAPHIC AREAS

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

ITEM 2. PROPERTIES

The Company's principal executive offices are located at 3601 Hempstead Turnpike, Levittown, New York 11756-1315, in leased premises (approximately 1,306 square feet).

Universal maintains an office and warehouse in Hawthorne, New Jersey and additional warehouses in Bogota, Augusta, North Brunswick, Cedar Knolls, Wharton and Rochelle Park, New Jersey and Long Island City and New Hampton, New York, occupying approximately 166,000 square feet.

The Registrant's premises are suitable and adequate for their intended use and are adequately covered by insurance. As of December 31, 2002, the Company leases all its facilities.

ITEM 3. LEGAL PROCEEDINGS

See "General Development of Business" for information on a chapter 11 proceeding for Atlantic.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the fourth quarter of fiscal 2002.

PART II

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ITEM 5. MARKET FOR THE REGISTRANT'S COMMON STOCK, CONVERTIBLE PREFERRED STOCK AND RELATED STOCKHOLDER MATTERS

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

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The Company's shares were delisted from the Nasdaq SmallCap Market in June 2002 because (i) the Company failed to timely file its Form 10-Q for the fiscal quarter ended March 31, 2002 and its Form 10-K for 2001, (ii) the market value of its publicly held shares of common stock was less than the required \$1 million, and (iii) the closing bid price of its common stock was less than \$1 per share.

From July 11, 2002 through December 31, 2002, the Company's common stock was traded on the Over the Counter (OTC) - Pink Sheets market. From January 1, 2001 through June 9, 2002, the Company's common stock and convertible preferred stock were traded on the NASDAQ small capitalization automated quotation system. The following table sets forth the quarterly high and low bid prices during 2002 and 2001. The quotations set forth below represent inter-dealer quotations, which exclude retail markups, markdowns and commissions and do not necessarily reflect actual transactions.

	Common Stock		Convertible Preferred Stock	
	High	Low	High	Low
	-----	-----	-----	-----
2002				
First Quarter	\$ 27/32	1/4	2 1/16	7/8
Second Quarter	1/2	9/32	1 15/16	1 5/8
Third Quarter	1/8	1/32	Not Available	Not Available
Fourth Quarter	1/8	3/32	Not Available	Not Available
2001				
First Quarter	\$3 1/2	1 1/2	3 1/2	1 5/16
Second Quarter	1 3/4	7/8	2 13/32	1
Third Quarter	1 25/32	13/16	2 13/32	1 1/8
Fourth Quarter	1 5/32	17/32	2 7/16	1 7/16

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

Title of Class	Approximate Number of Record Holders (As of November 11, 2003)
-----	-----
Common stock par value \$.05 per share	510
Convertible preferred stock par value \$.05 per share	1,328

(c) Dividends

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

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ITEM 6. SELECTED FINANCIAL DATA

	YEARS ENDED DECEMBER 31,		
	2002	2001	2000
Sales	\$ 36,998,800	31,080,398 (1)	32,342,160 (1) (2)
Operating income (loss)	226,567	519,036	(58,036)
Income (loss) from continuing operations	(106,310)	(1,610,810)	(1,323,627)
Income (loss) from operations of discontinued segment	3,300,695 (5)	(6,098,023)	(2,977,916)
Income (loss) on disposal of discontinued operation	--	106,509	(3,731,654)
Income (loss) on discontinued operation	3,300,695	(5,991,514)	(6,709,570)
Net income (loss)	3,194,385	(7,602,324)	(8,033,197)
Income (loss) per common share:			
Basic:			
Continuing operations	(0.07)	(1.00)	(0.86)
Income (loss) on discontinued operation	2.06	(3.74)	(4.35)
Net income (loss) per common share	(1.99)	(4.74)	(5.21)
Diluted:			
Continuing operations	(0.07)	(1.00)	(0.86)
Income (loss) on discontinued operation	2.06	(3.74)	(4.35)
Net income (loss) per common share	(1.99)	(4.74)	(5.21)
Total assets	\$ 13,686,842	13,925,490	26,550,994
Current liabilities			

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Borrowings under credit facility	10,350,889 (5)	7,929,576	9,096,294
Other	3,953,063 (6)	9,659,183 (6)	12,876,360
Long-term liabilities, less current obligations	64,775	213,001	852,286

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

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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 and climate control systems. The Company recognizes revenue after it receives a purchase order with a fixed determinable price from the customer and shipment of products has occurred in accordance with the shipping terms. There are no further obligations on the part of the Company subsequent to revenue recognition, except for returns of defective product from the Company's customers, which are covered under the manufacturer's warranty. Credits for returns are not issued to the customer until such time as the Company receives notification that a vendor credit from the manufacturer will be issued for the product in question.

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 gross accounts receivable of \$5,452,104 and an allowance for doubtful accounts of \$265,000 as of December 31, 2002. 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 equal to the difference between the carrying value of the inventory and the estimated market value, based upon assumptions about future demand and market conditions. A significant sudden increase in the demand for the Company's

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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. In the future, if the Company's inventory is determined to be overvalued, it would be required to recognize such costs in its cost of goods sold at the time of such determination. Likewise, if the Company does not properly estimate the lower of cost or market of its inventory and it is therefore determined to be undervalued, it may have over-reported its cost of goods sold in previous periods, and would be required to recognize such additional operating income at the time of sale. Therefore, although the Company makes every effort to ensure the accuracy of its forecasts of future product demand, any significant unanticipated changes in demand could have a significant impact on the value of the Company's inventory and its reported operating results.

Goodwill and other intangible assets amounting to \$1,416,929 and \$85,833 at December 31, 2002, respectively, consist of assets arising from acquisitions. The Company adopted Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets," (Statement No. 142) effective January 1, 2002. Under Statement No. 142, goodwill and intangible assets with indefinite lives are no longer amortized, but are reviewed at least annually for impairment. In assessing the recoverability of the Company's goodwill and other intangible assets, the Company must make assumptions regarding estimated future

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cash flows and other factors to determine the fair value of the respective assets and liabilities of the reporting unit. Upon adoption and again as a result of the Company's annual impairment test, there was no indication of impairment for goodwill acquired in prior business combinations. If the Company's estimates or their related assumptions change in the future, the Company may be required to record impairment charges related to its goodwill.

The Company has accounted for, and currently accounts for, income taxes in accordance with Statement 109. "Accounting for Income Taxes." This statement establishes financial accounting and reporting standards for the effects of income taxes that result from an enterprise's activities during the current and preceding years. It requires an 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 December 31, 2002, the Company had a deferred tax valuation allowance of \$12,727,209.

RESULTS OF OPERATIONS 2002-2001

The Company had a net income of \$3,194,385 for the year ended December 31, 2002. This compares with a net loss of \$7,602,324 for the year ended December 31, 2001. The 2002 net income consists of \$3,300,695 income from the discontinued operations of Atlantic resulting from the settlement between Colonial, Universal and Atlantic's lending bank relating to the release of Colonial and Universal

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from \$5,800,695 of guarantees of Atlantic's indebtedness in return for the agreement for the Company to pay \$2,500,000 to the Bank as a five year term loan. The loss in 2001 primarily reflects a \$6,098,023 loss from the discontinued operations of Atlantic (now unconsolidated), and a net \$106,509 recovery of a portion of the loss previously recognized on disposal of Well-Bilt. The Well-Bilt recovery resulted from favorable settlements attained on items accrued for at December 31, 2000. The Company had a loss from continuing operations, before taxes of \$69,143 in 2002, compared with income of \$46,978 in 2001.

In 2001, the Company reported a loss from the discontinued operations of Atlantic of \$6,098,023. This loss was primarily due to a decrease in gross margins of 6.1% or \$1,498,280, as well as \$3,306,582 and \$1,033,045 of write downs recorded to accounts receivable and fixed assets, respectively, in order to reduce them both to their net realizable value. See "General Development of Business" for information on Atlantic's Chapter 11 bankruptcy filing. Effective December 31, 2001, Atlantic's assets were written down to net realizable value and Atlantic has been accounted for as an unconsolidated subsidiary. The lower than normal gross margins were a result of additional costs incurred by Atlantic in finalizing certain projects.

The Company's sales for the year ended December 31, 2002 were \$36,998,800, or an increase of \$5,918,402 (19%) from the \$31,080,398 in sales in 2001. This increase primarily reflects approximately \$2,500,000 in sales to other wholesale distributors, as a result of the Goldman acquisition, favorable summer weather conditions, increased market penetration, and a recovery from the adverse impact of the September 11 events on 2001 sales. Meanwhile, gross margins decreased by 1.4% to 28.7% due to sales increases to other wholesale distributors on selected products at lower gross margins, as well as overall product mix. Selling, general and administrative expenses increased by \$1,567,549, primarily reflecting \$572,506 of professional fees in connection with Atlantic's Chapter 11 bankruptcy filing, and increased direct and non-sales salaries of \$354,974 and \$336,726, respectively, principally due to new hires relating to the overall increase in sales at Universal.

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Interest expense decreased by \$130,006, reflecting the effect of lower average borrowings and a decrease in the prime rate. In consideration of the bank's waiver of Atlantic's default, this decrease was offset in part by a one-point increase in the Company's interest rate on its line of credit from January 2002 until November 2002. Other income increased by \$55,933 due primarily to an increase in finance charges on Universal's accounts receivable.

For 2002 the Company recorded a state tax provision of \$37,167 and no federal provision. This compares to 2001, when the Company recorded a deferred federal tax expense of \$1,564,429 and current and deferred state tax expense of \$60,573 and \$32,786, respectively.

RESULTS OF OPERATIONS 2001-2000

The Company's net loss for the year ended December 31, 2001 was \$7,602,324. The net loss for 2001 primarily reflect a \$6,098,023 loss from the discontinued operations of Atlantic, a net \$106,509 recovery of a portion of the loss previously recognized on disposal of Well-Bilt, and a \$1,625,002 non-cash deferred tax expense. The Well-Bilt recovery resulted from favorable settlements attained on items accrued for at December 31, 2000. This compares to the year ended December 31, 2000, when the Company recorded a net loss of \$8,033,197. The 2000 loss reflects a net loss of \$6,943,806 from the discontinued operation and disposal of Well-Bilt, offset by \$234,236 in discontinued operations from

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Atlantic. The Company had income from continuing operations before taxes of \$46,978 in 2001, compared with a loss of \$463,627 in 2000.

During the year ended December 31, 2000, the Company acquired and discontinued the operations of Well-Bilt which resulted in the net loss from the discontinued operations and disposal of Well-Bilt, as discussed above.

The Company had a net loss from the discontinued operations of Atlantic of \$6,098,023 for the year ended December 31, 2001, compared to net income from discontinued operations of Atlantic of \$234,236. The loss in 2001 was primarily due to a decrease in gross margins of 6.1% or \$1,498,280, as well as \$3,306,582 and \$1,033,045 of write downs recorded to accounts receivable and fixed assets, respectively, in order to reduce them both to their net realizable value. See "General Development of Business" for information on Atlantic's Chapter 11 bankruptcy filing. The lower than normal gross margins were a result of additional costs incurred by Atlantic in finalizing certain projects.

Universal sales decreased \$1,261,762 to \$31,080,398 principally due to unfavorable summer weather conditions and a general construction slow down that followed September 11th. During the same period, gross margins increased 1.1% to 30.1% due to product mix. Selling, general and administrative expenses in 2001 decreased \$590,546 to \$8,825,180 as a result of various cost cutting strategies implemented in 2001.

Interest expense was \$713,626 compared to \$795,571 as a result of decreased borrowings and prime rate decreases. Other income increased by \$8,387 primarily because of an increase in finance charges collected on Universal's accounts receivable due to late payments. Interest income decreased by \$157,623 due to lower average invested cash balances.

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The Company had a deferred Federal tax expense of \$1,564,429 and current and deferred state tax expense of \$60,573 and \$32,786, respectively, in 2001. This compares with \$860,000 in the 2000 income statement, which included a federal deferred tax expense of \$858,000 and a current state tax provision of \$2,000. The increase in tax expense was primarily the result of recording a full valuation allowance on deferred tax assets.

IMPACT OF CHANGING PRICES

To date, the Company was not materially affected by changing prices.

LIQUIDITY AND CAPITAL RESOURCES

The accompanying consolidated financial statements have been prepared assuming the Company will continue as a going concern. The Company had losses in 2001 and 2000 of \$7,602,324 and \$8,033,197, has a stockholders' deficit at December 31, 2002 of \$681,885 and has a negative working capital of \$2,751,820. In addition, outstanding borrowings under its credit facility of \$10,350,889 are due on demand. If the bank were to demand repayment, the Company does not project that it would have sufficient liquidity to make such a payment.

Management recognizes that the Company's ability to continue as a going concern is dependent upon its ability to generate profits. The Company has discontinued the operations that generated the losses in 2001 and 2000. In addition, as a result of implementing various cost cutting strategies in 2001 and 2002, the corporate office realized a reduction in expenses in 2002 of \$578,726, or 45%, as compared to 2000. Universal has taken various cost cutting measures,

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including the use of consignment inventory, which results in lower average borrowings, and; therefore, lower interest expense to the Company. Furthermore, since 2000, Universal's sales have increased 14.4% or \$4,656,640. Further sales increases are anticipated in 2003 and beyond, due to additional product lines, acquisitions and exclusive geographical locations granted to Universal. As of June 30, 2003, the Company was in compliance with all financial covenants of the restated lending agreement relating to its credit facility. The Company does not anticipate that demand for payment will be made, as long as Universal continues to be profitable and remains in compliance with the lending agreement. Universal has had increases in sales in four of the past five years and has consistently generated operating profits.

The Company expects to meet its liquidity needs going forward through a combination of cash from operations, amounts available under its credit facility and the issuance of stock through a private placement. On July 16, 2003, Colonial completed a private placement pursuant to Regulation D of the Securities Exchange Act of 1933. Colonial raised \$240,600 through the issuance of 802,000 shares of Common Stock at \$0.30 per share, as determined by the Board of Directors. The issuance of these additional shares increased our outstanding shares by 26.1%. The stock was sold to officers and directors of the company and one private investor. The proceeds of the private placement will be used for general working capital purposes.

At December 31, 2002, \$2,490,000 of the Company's credit facility was payable over a five year period. There can be no assurance that the Company will generate sufficient liquidity to maintain its current operations. If the Company continues to incur losses and/or if the outstanding borrowings under its credit facility are demanded to be repaid and the Company was unsuccessful in obtaining new financing, the Company would likely be required to seek bankruptcy court or other protection from its creditors. These financial statements do not include any adjustments relating to the recoverability and classification of asset carrying amounts or the amount and classification of liabilities that might result, should the Company be unable to continue as a going concern.

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As of December 31, 2002, the Company had \$296,764 in cash and cash equivalents compared with \$576,514 at December 31, 2001.

The following table represents certain contractual commitments associated with operating agreements, obligations to financial institutions and other long-term debt obligations as of December 31, 2002:

	Payments due by Period (In Thousands)				
	Total	1 Year	1-3 Years	Less Than 4-5 Years	Over 5 Years
Operating leases	\$ 7,168	1,257	2,450	2,008	1,453
Compensation agreements	2,185	855	1,330	--	--
Notes payable	96	31	47	18	--
Line of credit	10,351	10,351	--	--	--
Totals	\$19,800	12,494	3,827	2,026	1,453
	=====	=====	=====	=====	=====

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Net cash flows provided by operating activities in 2002 were \$778,090 in comparison to \$297,248 in 2001. The 2002 increase in operating cash flows was due primarily to a decrease in inventory and an increase in accrued liabilities, offset by an increase in accounts receivable. The primary reason for the decrease in inventory is an increase in inventory taken on consignment. The increase in accrued liabilities is due primarily to accrued professional fees at December 31, 2002 relating to the release by the Company's lending bank of a guaranty by the Company and Universal of Atlantic's obligations to the lending bank (see the discussion below regarding Atlantic's Chapter 11 filing). The increase in accounts receivable primarily reflects the timing and increase in sales in 2002.

Cash used in investing activities in 2002 of \$840,917 was attributable to \$169,936 of additions to property and equipment relating to the on-going operations of Universal and \$670,981 used for the acquisition of certain assets of Goldman described under "General Development of Business." Cash flows used in investing activities during 2001 was \$110,751, and consisted primarily of leasehold improvements related to maintenance of Universal's facilities.

Cash flows used for financing activities in 2002 consisted of \$138,236 in net repayments on notes payable and \$78,687 of net repayments on the Company's credit facility. Cash flows used for financing activities in 2001 reflect \$1,166,718 of net repayments on the credit facility that were required because of financial difficulties at Atlantic.

Net cash provided by discontinued operations in 2001 of \$894,522 consists of \$1,497,932 provided by the operation and liquidation of Atlantic, offset by \$603,410 used for the disposal of Well-Bilt.

On January 28, 2002, Atlantic, a wholly-owned subsidiary of the Company, filed a voluntary petition with the U. S. Bankruptcy Court for the Eastern District of New York to reorganize under Chapter 11 of the U. S. Bankruptcy Code. As of the date of this filing, the proceedings are still on-going. Colonial and its other operations are not part of the Chapter 11 filing. The business of Atlantic is today conducted by one employee whose sole function is to collect on accounts receivables for the benefit of Atlantic's creditors, and the Company does not believe that Atlantic will emerge from the reorganization with any value for the Company.

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On November 21, 2002, the Company and Universal were released from their guarantees of the indebtedness (approximately \$5,800,000) by Atlantic to Colonial's and Atlantic's lending bank, in return for the agreement by the Company and Universal to pay to the bank \$2,500,000 as a five-year term loan under the Company's line of credit with the bank, or, if earlier, on demand by the bank.

As part of this settlement, the Company and its lending bank amended the Company's credit facility with the lending bank. The amended facility permits a total of \$12,000,000 in borrowings, including a \$373,000 term loan payable in monthly installments over eighteen months, the \$2,500,000 term loan mentioned above, and additional borrowings on a revolving basis against eligible accounts receivable and inventory. The interest rate under the facility is at prime + .5%, except that the interest rate on the \$2,500,000 term loan is at prime plus 2.5%. The facility expires November 21, 2005, but all loans are payable upon

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demand by the bank, and, accordingly, have been classified as short-term in the accompanying consolidated balance sheets. All loans are secured by the assets of the Company, as well as a pledge of all of the outstanding stock of Universal. The facility contains covenants relating to the financial condition of the Company and its business operations, and, among other things, restricts the payment of dividends and capital expenditures. At December 31, 2002, the amount of unused credit available under the facility was \$1,649,111.

On September 30, 2003, Colonial, through its newly formed, wholly owned subsidiary, RAL Purchasing, Inc., purchased substantially all of the assets and certain liabilities of RAL Supply Group, Inc. ("RAL"). The purchase price of \$3,838,521 was in the form of \$2,447,061 of cash paid to the seller at the time of purchase with the remaining \$1,391,460 in the form of liabilities assumed by RAL Purchasing, Inc. The \$2,447,061 of cash paid at the time of purchase was funded by \$2,147,061 of borrowings on the Company's credit facility and 5-year, 9% notes issued by RAL Purchasing, Inc. to a third party in the amount of \$300,000. The 5-year notes are guaranteed by Universal. Colonial's limit on its credit facility was increased by \$2,000,000 to \$14,000,000, as a result of the acquisition.

In connection with this acquisition, liabilities were assumed as follows:

Fair value of assets acquired	\$ 3,838,521
Cash paid	\$ 2,447,061
Fair value of liabilities assumed	\$ 1,391,460

RAL is a distributor of heating and cooling equipment and high-end plumbing fixtures with six locations, servicing Orange, Rockland, Ulster and Sullivan counties in New York. Four locations have showrooms. RAL's products are marketed primarily to contractors, consumers, builders and the commercial sector.

RECENT ACCOUNTING PRONOUNCEMENTS

In June 2001, the Financial Accounting Standards Board (FASB) issued Statement No. 143, "Accounting for Asset Retirement Obligations". Statement 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. It applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and (or) the normal operation of a long-lived asset, except for certain obligations of lessees. The Company is required to adopt Statement 143, on January 1, 2003. Adoption of Statement 143 did not have a material impact on the Company's consolidated operations or financial position.

In July 2002, the FASB issued Statement No. 146, "Accounting for Costs Associated with Exit or Disposal Activities". Statement 146 will spread out the reporting of expenses related to restructurings initiated after 2002, because commitment to a plan to exit an activity or dispose of long-lived assets will no longer be enough to record a liability for the anticipated costs. Instead, exit and disposal costs are to be recorded when they are "incurred" and can be measured at fair value, and they will subsequently adjust the recorded liability for changes in estimated cash flows. The Company adopted Statement 146 on January 1, 2003. Adoption of Statement 146 did not have an impact on the Company's consolidated results of operations or its financial position.

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In December 2002, the FASB issued Statement No. 148, Accounting for Stock-Based Compensation-Transition and Disclosure. Statement No. 148 provides alternative methods of transition for a voluntary change to the fair value method of accounting for stock-based employee compensation as originally provided by the FASB issued Statement No. 123, Accounting for Stock-Based Compensation. Additionally, Statement No. 148 amends the disclosure requirements of Statement No. 123 in both annual and interim financial statements. The disclosure requirements have been adopted as of the period ended December 31, 2002. The Company intends to continue to apply the intrinsic value method of accounting for stock-based employee compensation. The adoption of this pronouncement will not have any impact on the Company's consolidated financial position or results of operations.

In November 2002, the FASB issued FASB interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" ("FIN 45"). FIN 45 requires that upon issuance of guarantee, a guarantor must recognize a liability for the fair value of an obligation assumed under a guarantee. FIN 45 also requires additional disclosures by a guarantor in its interim and annual financial statements about the obligations associated with guarantees issued. The recognition provisions of FIN 45 will be effective for any guarantees that are issued or modified after December 31, 2002. The adoption of FIN 45 did not have an impact on the Company's consolidated financial statements.

In January 2003, the FASB issued Interpretation No. 46 (FIN 46), "Consolidation of Variable Interest Entities, an interpretation of ARB No. 51". FIN 46 addresses the consolidation by business enterprises of variable interest entities, as defined in the Interpretation. FIN 46 is effective for all new variable interest entities created or acquired after January 31, 2003. For variable interest entities created or acquired prior to February 1, 2003, the provisions of FIN 46 must be applied for the first interim period beginning after June 15, 2003. The Company does not believe that the adoption of FIN 46 will have any impact on the Company's consolidated financial statements.

In April 2003, the FASB issued Statement No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." Statement No. 149 amends and clarifies the accounting guidance on derivative instruments (including certain derivative instruments embedded in other contracts) and hedging activities that fall within the scope of Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities." Statement No. 149 is effective for all contracts entered into or modified after June 30, 2003, with certain exceptions, and for hedging relationships designated after June 30, 2003. The guidance is to be applied prospectively. The adoption of this

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pronouncement will not have any impact on the Company's financial position and results of operations.

In May 2003, the FASB issued Statement No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." Statement No. 150 changes the accounting guidance for certain financial instruments that, under previous guidance, could be classified as equity or "mezzanine" equity by now requiring those instruments to be classified as liabilities (or assets in some circumstances) in the statement of financial position. Further, Statement No. 150 requires disclosure regarding the terms of those instruments and settlement alternatives. Statement No. 150 is generally effective for all financial instruments entered into or modified after May 31,

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2002 and is otherwise effective at the beginning of the first interim period beginning after June 15, 2003. The adoption of this pronouncement will not have any impact on the Company's financial position and results of operations.

In January 1, 2003 the Company adopted the FASB's Emerging Issue Task Force (EITF) Issue No. 02-16 "Accounting by a Reseller for Cash Consideration Received from a Vendor" ("EITF 02-16"). The consensus reached by the EITF addressed the accounting for "Cash Consideration" (which includes slotting fees, cooperative advertising payments, etc.). The consensus of the EITF establishes an overall presumption that the cash received from vendors is a reduction in the price of vendor's products and should be recognized accordingly as a reduction in the cost of sales at the time the related inventory is sold. Some consideration could be characterized as a reduction of expense if the cash received represents a reimbursement of specific, incremental, identifiable costs incurred by the retailer to sell the vendor's products. The Company is in the process of assessing the impact, if any, of adopting EITF 02-16.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company's pre-tax earnings and cash flows are exposed to changes in interest rates as all borrowings under its credit facility bear interest based on the prime rate plus 0.5%, except for the \$2.5 million term loan, which bears interest at a rate of prime plus 2.5%. A hypothetical 10% adverse change in such rates would reduce the pre-tax earnings and cash flow for the year ended December 31, 2002 by approximately \$54,000 over a one-year period, assuming the borrowing level remains consistent with the outstanding borrowings as of December 31, 2002. The fair value of the borrowings under the credit facility is not 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.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

COLONIAL COMMERCIAL CORP. AND SUBSIDIARIES

Index to Consolidated Financial Statements

Independent Auditors' Report on consolidated financial statements and schedule

Consolidated financial statements:

- Consolidated balance sheets as of December 31, 2002 and 2001
- Consolidated statements of operations for the years ended December 31, 2002, 2001 and 2000
- Consolidated statements of stockholders' equity (deficit) for the years ended December 31, 2002, 2001 and 2000
- Consolidated statements of cash flows for the years ended December 31, 2002, 2001 and 2000
- Notes to consolidated financial statements

Independent Auditors' Report on Schedule

Schedule:

- II - Valuation and qualifying accounts

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All other schedules are omitted because they are not required or the information required is given in the consolidated financial statements or notes thereto.

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INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
Colonial Commercial Corp.:

We have audited the accompanying consolidated balance sheets of Colonial Commercial Corp. and subsidiaries as of December 31, 2002 and 2001, and the related consolidated statements of operations, stockholders' equity (deficit), and cash flows for each of the years in the three-year period ended December 31, 2002. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Colonial Commercial Corp. and subsidiaries as of December 31, 2002 and 2001, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in note 1(c) to the financial statements, the Company had losses in 2001 and 2000, has stockholders' deficit at December 31, 2002 and has negative working capital. In addition, outstanding borrowings under its credit facility are due on demand. If the bank were to demand repayment, the Company does not project that it would have sufficient liquidity to make such a payment. In addition, as discussed in note 2(b), Atlantic Hardware & Supply Corporation ("Atlantic"), a wholly-owned subsidiary of the Company, filed for reorganization under Chapter 11 of the United States Bankruptcy Code on January 28, 2002. The financial results of Atlantic have been deconsolidated and the Company accounts for Atlantic using the cost method. These circumstances raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in note 1(c). The financial statements do not include

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any adjustments that might result from the outcome of this uncertainty.

As discussed in note 1(i) to the consolidated financial statements, the Company adopted Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" as of January 1, 2002.

/s/ KPMG LLP

Melville, New York
October 2, 2003

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COLONIAL COMMERCIAL CORP. AND SUBSIDIARIES Consolidated Balance Sheets December 31, 2002 and 2001

Assets	2002	2001
	-----	-----
Current assets:		
Cash	\$ 296,764	
Accounts receivable, net of allowance for doubtful accounts of \$265,000 in 2002 and \$253,000 in 2001, respectively	5,186,893	4,638,000
Inventory	5,730,224	6,000,000
Prepaid expenses and other current assets	338,251	
	-----	-----
Total current assets	11,552,132	11,638,000
Property and equipment, net	631,948	
Goodwill	1,416,929	1,416,929
Other intangibles	85,833	
Restricted investment securities	--	
	-----	-----
	\$ 13,686,842	13,054,929
	=====	=====
Liabilities and Stockholders' Equity (Deficit)		
Current liabilities:		
Accounts payable	\$ 2,446,886	2,446,886
Accrued liabilities	1,216,051	1,216,051
Income taxes payable	40,230	
Borrowings under credit facility	10,350,889	7,000,000
Investment in unconsolidated subsidiary in bankruptcy, carried at cost	219,007	
Guaranteed borrowings of unconsolidated subsidiary in bankruptcy	--	5,000,000
Notes payable - current portion	30,889	
	-----	-----
Total current liabilities	14,303,952	17,662,886
Notes payable, excluding current portion	64,775	
Deferred compensation	--	
	-----	-----
Total liabilities	14,368,727	17,662,886
	-----	-----
Stockholders' equity (deficit):		
Convertible preferred stock, \$.05 par value, liquidation preference of \$7,321,260 and \$7,321,430 at December 31, 2002 and 2001, respectively,		

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2,468,860 shares authorized, 1,464,252 and 1,464,286 shares issued and outstanding at December 31, 2002 and 2001, respectively	73,213	
Common stock, \$.05 par value, 20,000,000 shares authorized, 1,603,794 and 1,603,760 shares issued and outstanding at December 31, 2002 and 2001, respectively	80,190	
Additional paid-in capital	8,966,513	8
Accumulated deficit	(9,801,801)	(12)
	-----	-----
Total stockholders' deficit	(681,885)	(3)
	-----	-----
Commitments and contingencies	\$ 13,686,842	13
	=====	=====

See accompanying notes to consolidated financial statements

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COLONIAL COMMERCIAL CORP. AND SUBSIDIARIES
Consolidated Statements of Operations
Years ended December 31, 2002, 2001 and 2000

	2002	2001	
	-----	-----	-----
Sales	\$ 36,998,800	31,080,398	32
Cost of sales	26,379,504	21,735,358	22
	-----	-----	-----
Gross profit	10,619,296	9,345,040	9
Selling, general and administrative expenses, net	10,392,729	8,825,180	9
	-----	-----	-----
Operating income (loss)	226,567	519,860	
Interest income	1,939	10,706	
Other income	285,971	230,038	
Interest expense	(583,620)	(713,626)	
	-----	-----	-----
Loss from continuing operations before income taxes	(69,143)	46,978	
Income taxes	37,167	1,657,788	
	-----	-----	-----
Loss from continuing operations	\$ (106,310)	(1,610,810)	(1)
Discontinued operation (note 2(b)):			
Net income (loss) from operations of discontinued segments	3,300,695	(6,098,023)	(2)
Loss on disposal of discontinued operation	--	--	(3)
Recovery of loss on disposal of discontinued operation	--	106,509	
	-----	-----	-----
Income (loss) on discontinued operation	3,300,695	(5,991,514)	(6)
	-----	-----	-----
Net income (loss)	\$ 3,194,385	(7,602,324)	(8)
	=====	=====	=====
Loss per common share:			
Basic:			

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Income (loss) from continuing operations	\$	(0.07)	(1.00)	
Income (loss) on discontinued operation		2.06	(3.74)	
		-----	-----	-----
Net income (loss) per common share	\$	1.99	(4.74)	
		=====	=====	=====
Diluted:				
Income (loss) from continuing operations	\$	(0.07)	(1.00)	
Income (loss) on discontinued operation		2.06	(3.74)	
		-----	-----	-----
Net income (loss) per common share	\$	1.99	(4.74)	
		=====	=====	=====
Weighted average shares outstanding:				
Basic		1,603,777	1,603,178	1
Diluted		1,603,777	1,603,178	1

See accompanying notes to consolidated financial statements.

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COLONIAL COMMERCIAL CORP. AND SUBSIDIARIES
Consolidated Statements of Stockholders' Equity (Deficit)
Years ended December 31, 2002, 2001 and 2000

	Number of shares				
	Convertible Preferred Stock	Common Stock	Convertible Preferred Stock	Common Stock	Additio Paid-In Capital
	-----	-----	-----	-----	-----
Balances at December 31, 1999	1,532,983	1,523,063	\$ 76,649	76,154	8,936
Net loss	--	--	--	--	
Conversion of shares of preferred stock to common stock	(66,532)	66,532	(3,327)	3,327	
Options exercised	--	12,000	--	600	30
	-----	-----	-----	-----	-----
Balances at December 31, 2000	1,466,451	1,601,595	73,322	80,081	8,966
Net loss	--	--	--	--	
Conversion of shares of preferred stock to common stock	(2,165)	2,165	(108)	108	
	-----	-----	-----	-----	-----
Balances at December 31, 2001	1,464,286	1,603,760	73,214	80,189	8,966
Net income	--	--	--	--	
Conversion of shares of preferred stock to common stock	(34)	34	(1)	1	
	-----	-----	-----	-----	-----

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Balances at December 31, 2002	1,464,252	1,603,794	\$ 73,213	80,190	8,966
	=====	=====	=====	=====	=====

See accompanying notes to consolidated financial statements.

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COLONIAL COMMERCIAL CORP. AND SUBSIDIARIES
 Consolidated Statements of Cash Flows
 Years ended December 31, 2002, 2001 and 2000

	2002

Cash flows from operating activities:	
Net income (loss)	\$ 3,194,385
Adjustments to reconcile net loss to net cash provided by operating activities:	
Loss (income) from discontinued operation	(3,300,695)
Deferred tax expense	--
Provision for doubtful accounts	111,339
Depreciation	160,778
Amortization of intangibles	42,867
Amortization of excess of fair value of acquired net assets over cost	--
Changes in assets and liabilities, net of the effects of acquisitions:	
Accounts receivable	(328,923)
Inventory	652,661
Prepaid expenses and other current assets	38,587
Accounts payable	24,084
Investment securities - trading	122,506
Accrued liabilities	168,863
Income taxes payable	14,144
Deferred compensation	(122,506)

Net cash provided by operating activities	778,090

Cash flows from investing activities:	
Payment for acquisition of Universal	--
Payment for acquisition of Goldman Associates	(670,981)
Purchase of licensing agreement	--
Payments on notes receivable	--
Additions to property and equipment	(169,936)

Net cash used in investing activities	(840,917)

Cash flows from financing activities:	
Net repayments on notes payable	(138,236)
Net (repayments) borrowings under credit facility	(78,687)
Exercise of employee stock options	--

Net cash (used in) provided by financing activities	(216,923)

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Net cash provided by (used in) discontinued operation	--

Decrease in cash and cash equivalents	(279,750)
Cash and cash equivalents - beginning of period	576,514

Cash and cash equivalents - end of period	\$ 296,764
	=====

See accompanying notes to consolidated financial statements.

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COLONIAL COMMERCIAL CORP. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
December 31, 2002, 2001 and 2000

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PRACTICES

(a) DESCRIPTION OF BUSINESS

Colonial Commercial Corp., (the Company), through its operating subsidiary, Universal Supply Group, Inc. (Universal), is a distributor of heating, ventilation and air conditioning (HVAC) and climate control products to building contractors and architectural firms. The Company's products are marketed primarily to HVAC contractors, which, in turn, sell such products to residential and commercial/industrial customers. The Company's customers are located in the United States, primarily in Southern New York and Northern New Jersey. The Company's other subsidiary, Atlantic Hardware & Supply Corporation ("Atlantic"), has filed for reorganization under Chapter 11 of the United States Bankruptcy Code. See Note 2 for more information on discontinued operations.

(b) PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the financial statements of the Company and its wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

(c) GOING CONCERN

The accompanying consolidated financial statements have been prepared assuming the Company will continue as a going concern. The Company had losses in 2001 and 2000 of \$7,602,324 and \$8,033,197, has a stockholders' deficit at December 31, 2002 of \$681,885 and has a negative working capital of \$2,751,820. In addition, outstanding borrowings under its credit facility of \$10,350,889 are due on demand. If the bank were to demand repayment, the Company does not project that it would have sufficient liquidity to make such a payment.

Management recognizes that the Company's ability to continue as a going concern is dependent upon its ability to generate profits. The Company has discontinued the operations that generated the losses in 2001 and 2000. In addition, as a result of implementing various cost cutting strategies in 2001 and 2002, the corporate office realized a reduction

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in expenses in 2002 of \$578,726, or 45%, as compared to 2000. Universal has taken various cost cutting measures, including the use of consignment inventory, which results in lower average borrowings, and; therefore, lower interest expense to the Company. Furthermore, since 2000, Universal's sales have increased 14.4% or \$4,656,640. Further sales increases are anticipated in 2003 and beyond, due to additional product lines, acquisitions and exclusive geographical locations granted to Universal. As of June 30, 2003, the Company was in compliance with all financial covenants of the restated lending agreement relating to its credit facility. The Company does not anticipate that demand for payment will be made, as long as Universal

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COLONIAL COMMERCIAL CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

continues to be profitable and remains in compliance with the lending agreement. Universal has had increases in sales in four of the past five years and has consistently generated operating profits.

The Company expects to meet its liquidity needs going forward through a combination of cash from operations, amounts available under its credit facility and the issuance of stock through a private placement. At December 31, 2002, \$2,490,000 of the Company's credit facility was payable over a five year period. There can be no assurance that the Company will generate sufficient liquidity to maintain its current operations. If the Company continues to incur losses and/or if the outstanding borrowings under its credit facility are demanded to be repaid and the Company was unsuccessful in obtaining new financing, the Company would likely be required to seek bankruptcy court or other protection from its creditors. These financial statements do not include any adjustments relating to the recoverability and classification of asset carrying amounts or the amount and classification of liabilities that might result, should the Company be unable to continue as a going concern.

(d) REVENUE RECOGNITION

Revenue is recognized when the earnings process is complete, generally upon shipment of products in accordance with shipping terms. There are no further obligations on the part of the Company subsequent to revenue recognition, except for returns of defective product from the Company's customers, which are covered under the manufacturer's warranty. Credits for returns are not issued to the customer until such time as the Company receives notification that a vendor credit from the manufacturer will be issued for the product in question. The Company does not provide a warranty on products sold, rather the warranty is provided by the manufacturer.

(e) CASH EQUIVALENTS

The Company considers all highly liquid investment instruments with an original maturity of three months or less to be cash equivalents. There were no cash equivalents at December 31, 2002 or 2001.

(f) INVENTORY

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Inventory is stated at the lower of cost or market and consists solely of finished goods. Cost is determined using the first-in, first-out method.

All costs of shipping inventory, which include costs to ship inventory from the Company's vendors and to the Company's customers, are included in selling, general and administrative expenses. Such costs approximated \$291,089, \$209,975 and \$259,403 for the years ended December 31, 2002, 2001 and 2000, respectively.

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COLONIAL COMMERCIAL CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(g) INVESTMENT SECURITIES

The Company maintains investments in its equity securities, which have been classified as trading securities, for the deferred compensation plan (note 13(b)). Trading securities are bought and held principally for the purposes of selling them in the near term. Trading securities are recorded at fair value. Unrealized holding gains and losses on trading securities are included in earnings. Dividend and interest income are recognized when earned.

(h) PROPERTY AND EQUIPMENT

Property and equipment are stated at cost. Depreciation is calculated on the straight-line method over the estimated useful lives of the assets as follows:

Computer hardware and software	5 years
Office and warehouse equipment	5 years
Furniture and fixtures	5 years
Automobiles	3-5 years

Leasehold improvements are amortized over the shorter of the lease term or the estimated useful life of the asset.

(i) INTANGIBLE ASSETS

In July 2001, the financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard (Statement) No. 141, "Business Combinations," and Statement No. 142, "Goodwill and Other Intangible Assets". Statement 141 requires companies to account for acquisitions using the purchase method and establishes criteria to be used in determining whether acquired intangible assets are to be recorded separately from goodwill. Statement 141 requires 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. Implementation of Statement 141 did not 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

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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 Statement No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." Upon adoption of Statement 142, the Company was required to perform an assessment of whether there is an indication that goodwill was impaired as of the date of adoption. To accomplish this, the Company had to 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

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COLONIAL COMMERCIAL CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

reporting units as of the date of adoption. The Company adopted the provisions of Statement 142 effective January 1, 2002 and, accordingly, has ceased the amortization of the goodwill acquired in prior business combinations. Upon adoption and again as a result of the Company's annual impairment test, there was no indication of impairment for goodwill acquired in prior business combinations.

As required by the adoption of Statement No. 142, the Company also reassessed the useful lives and residual values of all acquired intangible assets to make any necessary amortization period adjustments. Based upon that assessment, no adjustments were made to the amortization period of residual values of other intangible assets. The cost of other intangible assets are amortized on a straight-line basis over their respective lives.

As of December 31, 2002 and December 31, 2001, the Company had intangible assets, subject to amortization of \$231,667 and \$236,467, respectively, and related accumulated amortization of \$145,834 and \$107,767, respectively, which pertained primarily to covenants not to compete. Amortization expense for intangible assets subject to amortization amounted to approximately \$42,900 and \$47,200 for the years ended December 31, 2002 and 2001, respectively. The estimated aggregate amortization expense for each of the four succeeding years ending December 31, 2006 amounts to approximately \$41,700, \$26,700, \$11,700 and \$5,800 in 2003, 2004, 2005 and 2006, respectively.

As of December 31, 2002 and 2001, the Company had unamortized goodwill in the amount of \$1,416,929 and \$1,316,929, respectively. The \$100,000 increase is due to the Goldman acquisition (see Note 2(a)).

The following table shows the results of operations as if Statement No. 142 was applied in prior years:

	For the years ended December 31		
	2002	2001	
	-----	-----	-----
Net income (loss) as reported	\$ 3,194,385	\$ (7,602,324)	\$ (8

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Deduct: negative goodwill amortization, net	--	(35,050)	
Adjusted net loss	\$ 3,194,385	\$ (7,637,374)	\$ (8)
	=====	=====	=====
Income (loss) per share - basic net			
income (loss), as reported	\$ 1.99	\$ (4.74)	\$
Negative goodwill amortization, net	--	(0.02)	
	-----	-----	-----
Adjusted net income (loss)	\$ 1.99	\$ (4.76)	\$
	=====	=====	=====
Income (loss) per share - diluted net			
income (loss), as reported	\$ 1.99	\$ (4.74)	\$
Negative goodwill amortization, net	--	(0.02)	
	-----	-----	-----
Adjusted net income (loss)	\$ 1.99	\$ (4.76)	\$
	=====	=====	=====

(j) STOCK OPTION PLAN

The Company applies the intrinsic value-based method of accounting prescribed by Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations, including FASB Interpretation No. 44, "Accounting for Certain Transactions Involving Stock Compensation, an Interpretation of APB Opinion No.25, issued in March 2000, to account for its fixed-plan stock options.

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COLONIAL COMMERCIAL CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

Under this method, compensation expense is recorded on the date of grant only if the current market price of the underlying stock exceeded the exercise price. Statement No. 123, "Accounting for Stock-Based Compensation," established accounting and disclosure requirements using a fair-value-based method of accounting for stock-based employee compensation plans. As allowed by Statement No. 123, the Company has elected to continue to apply the intrinsic value-based method of accounting described above, and has adopted only the disclosure requirements of Statement No. 123. The following table illustrated the effect on net income if the fair-value-based method had been applied to all outstanding and vested awards in each period.

	2002	2001
	----	----
Net income (loss), as reported	\$3,194,385	(7,602,324)
Add: Stock-based employee compensation expense included in reported net loss	--	--
Deduct: Total stock-based employee compensation determined under fair-value-based method for all awards	\$ (22,164)	(22,164)
	-----	-----

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	Pro forma	\$ 3,172,221	(7,624,488)
		=====	=====
Basic net income (loss) per common share			
	As reported	\$ 1.99	(4.74)
	Pro forma	\$ 1.98	(4.76)
Diluted net income (loss) per common share			
	As reported	\$ 1.99	(4.74)
	Pro forma	\$ 1.98	(4.74)

In calculating the above stock-based employee compensation determined under fair-value based method for all awards granted in 1999, the Company utilized the following assumptions; expected volatility of 86.5%, expected life of 10 years, risk free interest rate of 6.2% and dividend yield of 0%.

(k) INCOME TAXES

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

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COLONIAL COMMERCIAL CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(l) NET INCOME (LOSS) PER COMMON SHARE

Basic income (loss) per share excludes any dilution. It is based upon the weighted average number of common shares outstanding during the period. Dilutive earnings per share reflects the potential dilution that would occur if securities or other contracts to issue common stock were exercised or converted into common stock. Dilutive net loss per common share for fiscal 2002, 2001 and 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.

(m) IMPAIRMENT OF LONG-LIVED ASSETS AND LONG-LIVED ASSETS TO BE DISPOSED OF

Statement No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," provides a single accounting model for long-lived assets to be disposed of. Statement No. 144 also changes the criteria for classifying an asset as held for sale and broadens the scope of businesses to be disposed of that qualify for reporting as discontinued operations and changes the timing of recognizing losses on such operations. The Company adopted Statement No 144 on January 1, 2002.

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The adoption of Statement No. 144 did not affect the Company's consolidated and combined financial statements.

In accordance with Statement No. 144 long-lived assets, such as property, plant and equipment, and purchased intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated undiscounted future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposed group classified as held for sale would be presented separately in the appropriate asset and liability sections of the balance sheet.

Prior to the adoption of Statement No. 144, the Company accounted for long-lived assets in accordance with Statement No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be disposed Of."

(n) COMPREHENSIVE INCOME (LOSS)

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

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COLONIAL COMMERCIAL CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(o) USE OF ESTIMATES

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

(p) RECLASSIFICATIONS

Certain reclassifications have been made to the 2000 consolidated financial statements, in order to conform them to the 2001 presentation. As of December 31, 2001, Atlantic has been deconsolidated and the Company's 100% investment in Atlantic's common stock is being carried at cost, as the Company is no longer able to exercise significant influence over Atlantic's operations and financial

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activities. In addition, Atlantic's results of operations for 2001 are being reported as "results from operations of discontinued segments." The Company's statements of operations and cash flows for the year ended December 31, 2000 have been restated to conform to this presentation.

(q) ACCOUNTING PRONOUNCEMENTS NOT YET ADOPTED

In June 2001, the FASB issued Statement No. 143, "Accounting for Asset Retirement Obligations". Statement 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. It applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and (or) the normal operation of a long-lived asset, except for certain obligations of lessees. The Company is required to adopt Statement 143, on January 1, 2003. Adoption of Statement 143 did not have a material impact on the Company's consolidated operations or financial position.

In July 2002, the FASB issued Statement No. 146, "Accounting for Costs Associated with Exit or Disposal Activities". Statement 146 will spread out the reporting of expenses related to restructurings initiated after 2002, because commitment to a plan to exit an activity or dispose of long-lived assets will no longer be enough to record a liability for the anticipated costs. Instead, exit and disposal costs are to be recorded when they are "incurred" and can be measured at fair value, and they will subsequently adjust the recorded liability for changes in estimated cash flows. The Company adopted Statement 146 on January 1, 2003. Adoption of Statement 146 did not have an impact on the Company's consolidated results of operations or its financial position.

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COLONIAL COMMERCIAL CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

In December 2002, the FASB issued Statement No. 148, Accounting for Stock-Based Compensation-Transition and Disclosure. Statement No. 148 provides alternative methods of transition for a voluntary change to the fair value method of accounting for stock-based employee compensation as originally provided by the FASB issued Statement No. 123, Accounting for Stock-Based Compensation. Additionally, Statement No. 148 amends the disclosure requirements of Statement No. 123 in both annual and interim financial statements. The disclosure requirements have been adopted as of the period ended December 31, 2002. The Company intends to continue to apply the intrinsic value method of accounting for stock-based employee compensation. The adoption of this pronouncement will not have any impact on the Company's consolidated financial position or results of operations.

In November 2002, the FASB issued FASB interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" ("FIN 45"). FIN 45 requires that upon issuance of guarantee, a guarantor must recognize a liability for the fair value of an obligation assumed under a guarantee. FIN 45 also requires additional disclosures by a guarantor

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in its interim and annual financial statements about the obligations associated with guarantees issued. The recognition provisions of FIN 45 will be effective for any guarantees that are issued or modified after December 31, 2002. The adoption of FIN 45 did not have an impact on the Company's consolidated financial statements.

In January 2003, the FASB issued Interpretation No. 46 (FIN 46), "Consolidation of Variable Interest Entities, an interpretation of ARB No. 51". FIN 46 addresses the consolidation by business enterprises of variable interest entities, as defined in the Interpretation. FIN 46 is effective for all new variable interest entities created or acquired after January 31, 2003. For variable interest entities created or acquired prior to February 1, 2003, the provisions of FIN 46 must be applied for the first interim period beginning after June 15, 2003. The Company does not believe that the adoption of FIN 46 will have any impact on the Company's consolidated financial statements.

In April 2003, the FASB issued Statement No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." Statement No. 149 amends and clarifies the accounting guidance on derivative instruments (including certain derivative instruments embedded in other contracts) and hedging activities that fall within the scope of Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities." Statement No. 149 is effective for all contracts entered into or modified after June 30, 2003, with certain exceptions, and for hedging relationships designated after June 30, 2003. The guidance is to be applied prospectively. The adoption of this pronouncement will not have any impact on the Company's financial position and results of operations.

In May 2003, the FASB issued Statement No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." Statement No. 150 changes the accounting guidance for certain financial instruments that, under previous guidance, could be classified as equity or "mezzanine" equity by now requiring those

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COLONIAL COMMERCIAL CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

instruments to be classified as liabilities (or assets in some circumstances) in the statement of financial position. Further, Statement No. 150 requires disclosure regarding the terms of those instruments and settlement alternatives. Statement No. 150 is generally effective for all financial instruments entered into or modified after May 31, 2002 and is otherwise effective at the beginning of the first interim period beginning after June 15, 2003. The adoption of this pronouncement will not have any impact on the Company's financial position and results of operations.

In January 1, 2003 the Company adopted the FASB's Emerging Issue Task Force (EITF) Issue No. 02-16 "Accounting by a Reseller for Cash Consideration Received from a Vendor" ("EITF 02-16"). The consensus reached by the EITF addressed the accounting for "Cash Consideration" (which includes slotting fees, cooperative advertising payments, etc.). The consensus of the EITF establishes an overall presumption

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that the cash received from vendors is a reduction in the price of vendor's products and should be recognized accordingly as a reduction in the cost of sales at the time the related inventory is sold. Some consideration could be characterized as a reduction of expense if the cash received represents a reimbursement of specific, incremental, identifiable costs incurred by the retailer to sell the vendor's products. The Company is in the process of assessing the impact, if any, of adopting EITF 02-16.

(2) BUSINESS ACQUISITIONS AND DISCONTINUED OPERATIONS

- (a) In July 2002 Universal paid \$670,981 to acquire certain accounts receivable, inventory and other accessories from Goldman Associates of New York, Inc. ("Goldman"), relating to Goldman's HVAC business in New Jersey and certain areas of New York. \$570,981 of the purchase price was allocated to the above listed assets at their estimated fair values. The remaining \$100,000 was recorded as goodwill and will be tested annually for impairment under the provisions of Statement 142. Pro forma results of operations are not provided as the information is not material to the consolidated financial statements.
- (b) On January 28, 2002, Atlantic, a wholly-owned subsidiary of the Company, filed a voluntary petition with the U. S. Bankruptcy Court for the Eastern District of New York to reorganize under Chapter 11 of the U. S. Bankruptcy Code. As of the date of this filing, the proceeding is still on-going. Neither Colonial, nor Universal, is part of the Chapter 11 filing. The business of Atlantic is today conducted by one employee whose sole function is to collect on accounts receivables for the benefit of Atlantic's creditors, and the Company does not believe that Atlantic will emerge from the reorganization with any value for the Company. The Company does not exercise significant influence over Atlantic's operations and financial activities, and, accordingly, as of December 31, 2001, Atlantic has been unconsolidated on the Company's financial statements and its operations are being reported as "results from operations of discontinued segments." The Company's balance sheet as of December 31, 2000 and its statements of operations and statements of cash flows for 2000 include certain reclassifications in order to conform to this presentation. The losses from operations of Atlantic for the year ended December 31, 2001 and for the period up to

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COLONIAL COMMERCIAL CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

January 28, 2002, the date of filing for Chapter 11, were \$5,553,904 and \$544,119, respectively. These losses total \$6,098,023 and were reported as a net loss from operation of a discontinued operation at December 31, 2001. This loss includes \$3,439,366 of net losses recorded as a result of writing down Atlantic's assets to their net realizable value in order to arrive at the appropriate cost value of the Company's investment in Atlantic. Atlantic's sales totaled \$24,561,972 for the year ended December 31, 2001 and for the period up to January 28, 2002 and are not included in sales as reported in the consolidated statement of operations. A tax benefit from the loss from operations of discontinued segment has not been recorded as one is not expected to be realized.

On November 21, 2002, the Company and Universal were released from

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their guarantees of the indebtedness (approximately \$5,800,000) of Atlantic by Atlantic's lending bank, in return for the agreement by the Company and Universal to pay to the bank \$2,500,000 as a five-year term loan under the Company's line of credit with the bank, or, if earlier, on demand by the bank. The \$3,300,000 difference between the total amount previously guaranteed (\$5,800,000) and the amount the Company and Universal agreed to pay (\$2,500,000) is reflected in the Company's 2002 statement of operations as income from the operations of discontinued segments.

The Company's investment in Atlantic's common stock is being recognized at a cost, value of \$219,007 of guaranteed liabilities as of December 31, 2002. The Company has recognized liabilities of Atlantic only to the extent such liabilities are guaranteed by the Company because the Company believes that it is not responsible for any other liabilities of Atlantic as Atlantic's creditors will be able to look only to Atlantic's assets for recovery. Colonial will continue to recognize the \$219,007 of guaranteed liabilities of Atlantic until they are extinguished by Atlantic's bankruptcy proceedings or otherwise.

Since the Company is treating Atlantic as an unconsolidated subsidiary, Atlantic is being carried at cost on the Company's books. As such, the Company has not reflected any of Atlantic's 2002 financial activity in its consolidated financial statements, except for the \$3,300,695 release of guarantee, as stated above. The following summarized financial information for the deconsolidated subsidiary, Atlantic, includes the actual 2002 activity:

	For the years ended December 31,		
	2002	2001	2000
	-----	-----	-----
Net sales	\$2,700,174	\$24,561,972	25,978,063
Net (loss)	(1,712,197)	(6,098,023)	234,236

	December 31,	
	2002	-----
Current assets (primarily accounts receivable and inventory)	\$ 1,920,563	-----
Non-current assets (primarily property and equipment)	--	-----
Current liabilities (primarily accounts payable, accrued liabilities)	(3,487,946)	-----
Guaranteed borrowings under credit facility	--	-----
Net (liabilities) assets of deconsolidated subsidiary	\$ (1,567,383)	=====

COLONIAL COMMERCIAL CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

- (c) The Company acquired its now discontinued Well-Bilt door and doorframe manufacturing segment in March 2000 and disposed of Well-Bilt in February

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2001. A loss from operations of this segment of \$3,212,152 and a \$3,731,654 loss on disposal of this segment are reflected in the consolidated statements of operations for the year ended December 31, 2000.

In connection with the initial acquisition of Well-Bilt, liabilities were assumed as follows:

Fair value of assets acquired	\$ 6,665,786
Cash paid (including advances of \$2,324,732) and amounts accrued	3,384,094

Fair value of liabilities assumed	\$ 3,281,692
	=====

The results of operations for Well-Bilt, since its acquisition in March 2000 have been shown as a discontinued operation in the consolidated financial statements as of and for the year ended December 31, 2000. The loss from operations of Well-Bilt for the year ended December 31, 2000 and for the period up to the measurement date, January 12, 2001, was \$3,212,152. The loss on the disposition of the segment was \$3,731,654, which includes a provision of \$141,722 for operating losses incurred during the phase-out period. The results of the discontinued operation do not reflect any management fees or interest expense allocated by corporate. The loss from operations of Well-Bilt includes \$321,355 of interest on borrowings under the credit facility by Atlantic to fund Well-Bilt's operations. The interest was calculated based upon the applicable interest rate under the credit facility. Atlantic retained certain assets, including inventory of approximately \$369,000, and certain liabilities of approximately \$1,284,000. Well-Bilt's net sales, excluding sales to affiliated subsidiaries, were \$4,074,798 for the period of March 24, 2000 through January 12, 2001, and \$53,205 from January 12, 2001 through the disposal date of February 1, 2001. These amounts are not included in net sales as reported in the consolidated statement of income (loss). A tax benefit from the loss from operations of discontinued segment and the loss on the disposition has not been recorded as one is not expected to be realized. Pro forma financial information relating to the disposition of Well-Bilt is not presented because the disposition is fully reflected in the financial statements as of and for the year ended December 31, 2000.

Summarized information for the discontinued operation is as follows:

	For the period from March 24, 2000 through December 31, 2000

Net sales	\$4,074,798
Net loss	(3,212,152)
	=====

During the second half 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 a \$106,509 net reduction of the loss on disposal of discontinued segment recorded at December 31, 2000.

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COLONIAL COMMERCIAL CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(3) INVESTMENT SECURITIES

As of December 31, 2001, the Company's investment securities consist of \$122,506 of mutual funds that were held in connection with the deferred compensation plan (the plan) (note 13). As was allowed under the plan, the Company terminated the plan during 2002. The assets of the plan were paid out to the plan participants.

(4) PROPERTY AND EQUIPMENT

Property and equipment consist of the following at December 31:

	2002	2001
Computer hardware and software	\$ 419,030	390,411
Furniture and fixtures	97,643	68,555
Leasehold improvements	333,033	290,110
Automobiles	238,809	176,473
	-----	-----
	1,088,515	925,549
Less accumulated depreciation and amortization	456,567	302,759
	-----	-----
	\$ 631,948	622,790
	=====	=====

Computer hardware and software include approximately \$325,659 and \$323,619 of costs as of December 31, 2002 and 2001, respectively, related to the acquisition and installation of management information systems for internal use. The computer software costs are being amortized on a straight-line basis over a period of five years.

(5) FINANCING ARRANGEMENTS

On November 21, 2002, the Company and Universal were released from their guarantees of the indebtedness (approximately \$5,800,000) by Atlantic to Colonial's and Atlantic's lending bank, in return for the agreement by the Company and Universal to pay to the bank \$2,500,000 as a five-year term loan under the Company's line of credit with the bank, or, if earlier, on demand by the bank.

As part of this settlement, the Company and its lending bank amended the Company's credit facility with the lending bank. The amended facility permits a total of \$12,000,000 in borrowings, including a \$373,000 term loan payable in monthly installments over eighteen months, the \$2,500,000 term loan mentioned above, and additional borrowings on a revolving basis against eligible accounts receivable and inventory. The interest rate under the facility is at prime plus 0.5%, except that interest rate on the \$2,500,000 term loan is at prime plus 2.5%. The facility expires November 21, 2005, but all loans are in any event due at any time on demand by the bank, and, accordingly, have been classified as short-term in the accompanying consolidated balance sheets. All loans are secured by the assets of the Company, as well as a pledge of all of the outstanding stock of Universal. The facility

COLONIAL COMMERCIAL CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

contains covenants relating to the financial condition of the Company and its business operations, and restricts the payment of dividends and capital expenditures.

At December 31, 2002, amounts outstanding under the credit facility were \$10,350,889, of which (i) \$331,000 represents a term loan payable in 16 remaining equal monthly installments of approximately \$21,000, and (ii) \$2,490,000 represents a separate term loan payable in 59 remaining monthly installments of agreed amounts under an amortization schedule. Although the term loans are payable over specified periods, 16 and 59 months respectively, the Bank can demand payment at any time. At December 31, 2002, the amount of the unused available credit was \$1,649,111. The interest rate on the \$2,490,000 term loan was 6.75% as of December 31, 2002. The interest rates on the remaining credit facility, as of December 31, 2002 and 2001, were 4.75% and 5.75%, respectively.

(6) NOTES PAYABLE

(a) Notes payable consist of the following at December 31:

	2002	2001
	-----	-----
Term note payable to a former owner of acquired business in 60 monthly principal and interest installments of \$9,125, bearing interest at 8.0%	\$ --	138,037
Term note payable to a former owner of acquired business in 60 monthly principal and interest installments of \$4,790, bearing interest at 7.0%	--	18,881
Term note payable to a bank in 60 monthly principal and interest installments of \$347, bearing interest at .9%	8,320	12,480
Term note payable to a bank in 60 monthly principal and interest installments of \$346, bearing interest at .9%	8,651	12,802
Term note payable to a bank in 60 monthly principal and interest installments of \$346, bearing interest at .9%	8,999	13,152
Term note payable to a bank in 48 monthly principal and interest installments of \$435, bearing interest at 5.9%	12,166	17,380
Term note payable to a bank in 60 monthly principal and interest installments of \$392, bearing interest at 3.9%	16,464	21,168

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Term note payable to a bank in 60 monthly principal only installments of \$354	20,532	--
---	--------	----

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COLONIAL COMMERCIAL CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

Term note payable to a bank in 60 monthly principal only installments of \$354.	20,532	--
	-----	-----
	95,664	233,900
Less current installments	30,889	143,405
	-----	-----
	\$ 64,775	90,495
	=====	=====

Maturities of notes payable are as follows:

2003	30,889
2004	30,887
2005	15,990
2006	10,858
2007	7,040

	95,664
Less current installments	30,889

	\$ 64,775
	=====

(b) Included in accrued liabilities at December 31, 2002 and 2001 is approximately \$91,885 and \$186,362, respectively, of unclaimed payments on notes payable to creditors, pursuant to a 1983 reorganization plan. The last payment on such notes was made in January 1998. During the years ended December 31, 2002, 2001 and 2000, \$94,477, \$93,923 and \$95,557, respectively, of the unclaimed payments were recorded as other income in the accompanying consolidated statements of operations since, in accordance with the opinion of counsel, it is more likely than not that the Company is entitled to these payments.

(7) CAPITAL STOCK

Each share of the Company's preferred stock is convertible into one share of the Company's common stock. Preferred stockholders will be entitled to a dividend, based upon a formula, when and if, any dividends are declared on the Company's common stock. The preferred stock is redeemable, at the option of the Company, at \$7.50 per share.

The voting rights of the common stockholders and preferred stockholders are based upon the number of shares of convertible preferred stock outstanding. If 1,250,000 or more shares of preferred stock are outstanding five of the nine directors are elected by the common stockholders and the remainder by the preferred stockholders. If more than 600,000 but less than 1,250,000 preferred shares are outstanding, six of the nine directors are elected by common stockholders. If

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600,000 or less preferred shares are outstanding, all nine directors are elected by common stockholders. A majority of the directors elected by preferred stockholders and a majority of the directors elected by the common stockholders are required to approve certain transactions, including, but not limited to, incurring certain indebtedness, merger, consolidation or liquidation of the Company, and the redemption of common stock. Preferred and common directors vote together on all other matters.

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COLONIAL COMMERCIAL CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

At December 31, 2002, there were 2,685,252 shares of common stock reserved for conversion of preferred stock and for the exercise of stock options (note 8).

(8) STOCK OPTIONS

In June 1996, the Company adopted the 1996 Stock Option Plan (the 1996 Plan) pursuant to which, as amended, the Company's Board of Directors may grant up to 1,200,000 options until December 31, 2005 to key employees and other persons who render service (non-employees) to the Company. Under the 1996 Plan, the options can be either incentive or nonqualified. The rate at which the options become exercisable is determined by the Board of Directors at the time of grant. The exercise price of the incentive stock options may not be less than the fair market value of the Company's common stock on the date of grant. The exercise price of the nonqualified stock options may not be less than 85% of the fair market value of the Company's common stock on the date of grant.

At December 31, 2002, a total of 182,000 options were outstanding under the 1996 Stock Option Plan and 51,000 options were outstanding under the Company's 1986 Stock Option Plan, which expired on December 31, 1995.

Changes in options outstanding are as follows:

	Shares Subject to Option	Weighted Average Exercise Price
	-----	-----
Balance at December 31, 1999	345,000	2.66
Exercised	(12,000)	2.58
	-----	-----
Balance at December 31, 2000	333,000	2.66
	-----	-----
Balance at December 31, 2001	333,000	2.66
Cancelled	(30,000)	2.30
Expired	(70,000)	1.50
	-----	-----
Balance at December 31, 2002	233,000	3.06
	-----	-----
Options exercisable at December		

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31, 2002 211,400 2.99

At December 31, 2002 and 2001, the range of exercise prices of outstanding options was \$1.25-\$3.75 per share. At December 31, 2002 and 2001, the weighted average remaining contractual lives of outstanding options were approximately five and five years, respectively.

The following table summarizes information about stock options at December 31, 2002:

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COLONIAL COMMERCIAL CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

Range of Exercise Prices	Shares	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Options Shares
\$1.25	51,000	0.05	\$1.25	51,000
2.51-3.75	182,000	6.32	3.57	160,400
Total	233,000	4.95	3.06	211,400

(9) NET LOSS PER COMMON SHARE

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

	2002	2001	2000
Net loss (numerator)	\$3,194,385	(7,602,324)	(8,033,197)
Weighted average common shares (denominator for basic income (loss) per share)	1,603,777	1,603,178	1,542,712
Effect of dilutive securities:			
Convertible preferred stock	--	--	--
Employee stock options	--	--	--
Weighted average common and potential common shares outstanding (denominator for diluted income (loss) per share)	1,603,777	1,603,178	1,542,712

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Basic net income (loss) per share	=====	=====	=====
	\$ 1.99	(4.74)	(5.21)
Diluted net income (loss) per share	=====	=====	=====
	1.99	(4.74)	(5.21)
	=====	=====	=====

Employee stock options totaling 263,700, 252,400 and 329,000 for the years ended December 31, 2002, 2001 and 2000, respectively, were not included in the net income (loss) per share calculation because their effect would have been antidilutive. Convertible preferred stock totaling 1,464,269, 1,464,868 and 1,518,793 for the years ended December 31, 2002, 2001 and 2000, respectively, were not included in the net loss per share because their effect would have been antidilutive.

(10) INCOME TAXES

The provision for income taxes attributable to continuing operations and discontinued operations:

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COLONIAL COMMERCIAL CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

	2002			2001		
	Federal	State and Local	Total	Federal	State and Local	Total
Current	\$ --	37,167	37,167	--	32,786	32,786
Deferred	--	--	--	1,564,429	60,573	1,625,002
Tax Expense on Continuing Operations	--	37,167	37,167	1,564,429	93,359	1,657,778
Tax Expense on Discontinued Operations	--	--	--	--	--	--
Total Tax Expense	\$ --	37,167	37,167	1,564,429	93,359	1,657,778

A reconciliation of the provision for income taxes attributable to income (loss) on continuing operations computed at the Federal statutory rate to the reported provision for income taxes follows:

	2002	2001
	----	----
Tax provision at Federal		

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statutory rate	\$ (23,509)	34.0%	15,973	34.0%
State income taxes, net of federal benefit	24,530	(35.5)%	61,617	131.2%
Change in valuation allowance for deferred tax assets	26,202	(37.9)%	1,570,965	3344.0%
Adjustment to estimated utilization of net operating loss carryforwards	--	--	--	--
Permanent differences	9,944	(14.4)%	2,693	5.7%
Other	--	--	6,540	13.9%
	-----	-----	-----	-----
Total	\$ 37,167	(53.8)%	1,657,788	3528.8%
	=====	=====	=====	=====

The components of deferred income tax expense (benefit) on continuing operations attributable to income (loss) on continuing operations are as follows:

	2002	2001
	----	----
Deferred tax expense (benefit), exclusive of the effects of the other components listed below	\$ (1,382)	3,082
Increase (decrease) in beginning-of-the-year balance of the valuation allowance for deferred tax assets	29,793	1,625,002
Generation of continuing operations net operating loss carryforward	(31,175)	(3,082)
	-----	-----
	--	\$ 1,625,002
	=====	=====

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COLONIAL COMMERCIAL CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities at December 31, 2002 and 2001 are presented below.

	2002	
	----	----
Deferred tax assets:		
Federal net operating loss carryforwards	\$ 12,191,239	\$
State net operating loss carryforwards	178,529	
Allowance for doubtful accounts receivable	34,608	
Inventory	--	
Additional costs inventoried for tax purposes	304,697	
Value of unconsolidated subsidiary in bankruptcy	--	
Alternative minimum tax credit carryforward	113,156	
Other	--	
	-----	-----

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Total gross deferred tax assets	12,822,229
Less valuation allowance	(12,727,209)

Deferred tax assets, net	95,020

Deferred tax liabilities:	
Goodwill	(87,377)
Depreciation	(7,643)

Gross deferred tax liabilities	(95,020)

Net deferred tax asset (liability)	--
	=====

At December 31, 2002, the valuation allowance was determined by estimating the recoverability of the deferred tax assets. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. In making this assessment, the ultimate realization of deferred tax assets is dependent upon the generation of future taxable income and tax planning strategies in making this assessment. Based upon the level of historical income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not that the Company will not realize the benefits of these deductible differences at December 31, 2002.

During the years ended December 31, 2002 and 2001, the valuation allowance was increased (decreased) by approximately \$(1,629,256) and \$3,742,893, respectively in order to reflect the net deferred tax asset deemed recoverable, based upon projections of future taxable income.

At December 31, 2002, the Company has net operating loss carryforwards for federal income tax purposes of approximately \$35,856,586. Varying amounts of the net operating loss carryforwards will expire from 2004 through 2021.

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COLONIAL COMMERCIAL CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

EXPIRATION YEAR	NET OPERATING LOSSES
-----	-----
2004	\$ 8,743,614
2005	8,245,078
2006	4,810,981
2007	4,944,884
2008	414,691
2020	5,959,802
2021	2,737,536

	\$ 35,856,586

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None of the net operating loss carryforwards will expire if not utilized during 2003. During 2002, the Company utilized approximately \$3,300,000 of its net operating loss carryforwards. The projected utilization of the net operating loss carryforwards has been substantially reduced as a result of certain annual limitations and it may be further limited to utilization against the future earnings of the subsidiary that sustained the loss. If certain substantial changes in ownership occur, there would be a further annual limitation on the amount of tax carryforwards that can be utilized in the future. The Company also has alternative minimum tax credits of \$113,156 which will not expire.

(11) FAIR VALUE OF FINANCIAL INSTRUMENTS

Statement No.107, "Disclosure about Fair Value of Financial Instruments," defines the fair value of a financial instrument as the amount at which the instrument could be exchanged in a current transaction between willing parties. The carrying value of all financial instruments classified as current assets or liabilities is deemed to approximate fair value, with the exception of the notes payable, because of the short maturity of these instruments.

The notes payable approximate fair value as the interest rates are comparable to rates currently offered by local lending institutions for loans of similar terms to companies with comparable credit risk.

(12) SUPPLEMENTAL CASH FLOW INFORMATION

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

	2002	2001	2000
Cash paid during the years for:			
Interest	\$ 511,324	643,708	795,571
	=====	=====	=====
Income taxes	\$ 23,024	7,700	48,195
	=====	=====	=====

Non-cash transactions:

During 2002, 2001 and 2000, 34, 2,165 and 66,532 shares, respectively, of convertible preferred stock were converted to a similar number of common shares.

During 2001 and 2000, notes payable of \$18,493 and \$41,525, respectively were incurred for the purchase of automobiles. 20

COLONIAL COMMERCIAL CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(13) EMPLOYEE BENEFIT PLANS

(a) 401(K) PLAN

The Company has a 401(k) plan, which covers substantially all employees of the Company's subsidiary Universal. Participants in the 401(k) plans may contribute a percentage of compensation, but not in excess of the

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maximum allowed under the Internal Revenue Code. The Universal 401(k) plan provides for matching contributions. In 2002, 2001 and 2000, \$111,793, \$102,000 and \$99,000, respectively, of matching contributions were made to the Universal 401(k) plan.

(b) DEFERRED COMPENSATION PLAN

During fiscal 1999, Universal adopted a Deferred Compensation Plan (the Plan) for a select group of management employees. The Plan was intended to provide certain executives with supplemental retirement benefits, as well as to permit the deferral of more of their compensation than they are permitted to defer under the 401(k) plan. The plan provided for a contribution equal to 5% of a participant's compensation to be made to the plan for those participants who are employed as of December 31. The plan was not intended to be a qualified plan under the provisions of the Internal Revenue Code. All compensation deferred under the plan was held by the Company in an investment trust, which was considered an asset of the Company. The investments, which amounted to \$122,506 at December 31, 2001, have been classified as trading securities and are included in investment securities on the accompanying consolidated balance sheet as of December 31, 2001. The return on these underlying investments determined the amount of earnings credited to the employees. As was allowed under the plan, the Company terminated the plan during 2002. The proceeds of the plan investments were paid out to the plan participants. The deferred compensation liability is reflected as a long-term liability on the accompanying consolidated balance sheets as of December 31, 2001.

(14) BUSINESS AND CREDIT CONCENTRATIONS

Universal purchases products from approximately 360 suppliers. In 2002, two suppliers accounted for 49.1% of Universal's purchases. The loss of one of these suppliers could have a material adverse effect upon its business for a short-term period. Universal believes that the loss of any one of its other suppliers would not have a material adverse effect upon its business. In 2001, two suppliers accounted for 39% of Universal's purchases.

(15) COMMITMENTS

(a) COMPENSATION

The Company has employment contracts with two officers and various employees with remaining terms ranging from two to three years. The amounts due by the Company, per these contracts, are \$855,000, \$880,000 and \$450,000 in the years ended December 31, 2003, 2004 and 2005, respectively. These commitments do not include amounts that may be earned as a bonus.

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COLONIAL COMMERCIAL CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(b) LEASES

The Company is obligated under operating leases for warehouse, office facilities and certain office equipment. Rental expense, including real

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estate taxes, amounted to approximately \$1,153,867, \$1,034,605 and \$907,134 for the years ended December 31, 2002, 2001 and 2000, respectively. At December 31, 2002, future minimum lease payments in the aggregate and for each of the five succeeding years are as follows:

2003	\$ 1,256,846
2004	1,236,459
2005	1,213,578
2006	1,040,840
2007	967,287
Thereafter	1,452,726

Total	\$ 7,167,736
	=====

(16) SUBSEQUENT EVENTS

(a) Private Placement

On July 16, 2003, the Company completed a private placement pursuant to Regulation D of the Securities Exchange Act of 1933. The Company raised \$240,600 through the issuance of 802,000 shares of Common Stock at \$0.30 per share. The stock was sold to officers and directors of the company and one private investor. The proceeds of the private placement will be used for general working capital purposes. The stock cannot be sold, transferred or otherwise disposed of unless subsequently registered under the Securities Act of 1933 and applicable state securities or Blue Sky laws or pursuant to an exemption from such registration, which is available at the time of desired sale, and will bear a legend to that effect.

(b) Acquisition

On September 30, 2003, RAL Purchasing, Inc., a newly formed, wholly owned subsidiary of Colonial, purchased substantially all of the assets and certain liabilities of RAL Supply Group, Inc. ("RAL") for a price of \$3,838,521. \$2,447,061 of the purchase price was paid in cash to the seller at the time of purchase. The remaining \$1,391,460 was in the form of liabilities assumed by RAL Purchasing, Inc. The cash paid at the time of purchase was funded as follows:

COLONIAL COMMERCIAL CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

Borrowings on Colonial's credit facility	\$ 2,147,061
5-Year unsecured notes issued by RAL Purchasing, Inc. to a third party, at annual rate of 9%	\$ 300,000

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Total outlay \$ 2,447,061
=====

In connection with this acquisition, Colonial's limit on its credit facility was increased by \$2,000,000 to \$14,000,000. All borrowings under the credit facility are secured by substantially all of the assets of RAL and Universal. In addition, the 5-year notes are guaranteed by Universal.

As a result of this acquisition, liabilities were assumed as follows:

Fair value of assets acquired	\$ 3,838,521
Cash paid	\$ 2,447,061 -----
 Fair value of liabilities assumed	 \$ 1,391,460 =====

RAL is a distributor of heating and cooling equipment and high-end plumbing fixtures with six locations, servicing Orange, Rockland, Ulster and Sullivan counties in New York. Four locations have showrooms. RAL's products are marketed primarily to contractors, consumers, builders and the commercial sector. Initial purchase price allocations are not yet available as the acquisition was recently completed. The results of operations of RAL will be included in the consolidated results from the date of acquisition.

COLONIAL COMMERCIAL CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(17) QUARTERLY RESULTS (UNAUDITED)

The following table sets forth selected unaudited quarterly financial data of the Company for the years ended December 31, 2002 and 2001:

	QUARTER ENDED		
	Mar. 31,	June 30,	Sept. 30,
	-----	-----	-----
	(Dollars in thousand, except per share data)		
2001			
Net sales	6,604	7,676	7,895
Gross profit	2,021	2,317	2,368
Income (loss) from continuing operations	(288)	(29)	76
Income (loss) on discontinued operation	315	44	(492)
Net income (loss)	----- 27	----- 15	----- (416)
	=====	=====	=====
Income (loss) per common share:			
Basic:			

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Continuing operations	(0.18)	(0.02)	0.05
Income (loss) on discontinued operations	0.20	0.03	(0.31)
	-----	-----	-----
Net loss	0.02	0.01	(0.26)
	=====	=====	=====
Diluted:			
Continuing operations	(0.18)	(0.02)	0.02
Income (loss) on discontinued operations	0.20	0.03	(0.16)
	-----	-----	-----
Net loss	0.02	0.01	(0.14)
	=====	=====	=====
2002			
Net sales	7,231	9,173	10,592
Gross profit	2,211	2,645	2,901
Income (loss) from continuing operations	(189)	(48)	142
Income (loss) on discontinued operation	--	--	--
	-----	-----	-----
Net income (loss)	(189)	(48)	142
	=====	=====	=====
Income (loss) per common share:			
Basic:			
Continuing operations	(0.12)	(0.03)	0.09
Income (loss) on discontinued operations	--	--	--
	-----	-----	-----
Net loss	(0.12)	(0.03)	0.09
	=====	=====	=====
Diluted:			
Continuing operations	(0.12)	(0.03)	0.05
Income (loss) on discontinued operations	--	--	--
	-----	-----	-----
Net loss	(0.12)	(0.03)	0.05
	=====	=====	=====

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INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
Colonial Commercial Corp.:

Under the date of October 2, 2003, we reported on the consolidated balance sheets of Colonial Commercial Corp. and subsidiaries as of December 31, 2002 and 2001, and the related consolidated statements of operations, stockholders' equity (deficit) and cash flows for each of the years in the three-year period ended December 31, 2002, which are included in the Company's 2002 annual report on Form 10-K. In connection with our audits of the aforementioned consolidated financial statements, we also audited the related consolidated financial statement schedule in the 2002 annual report on Form 10-K. This consolidated financial statement schedule is the responsibility of the

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Company's management. Our responsibility is to express an opinion on this financial statement schedule based on our audits.

In our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole presents fairly, in all material respects, the information set forth therein. The audit report on the consolidated financial statements of Colonial Commercial Corp. and subsidiaries referred to above contains an explanatory paragraph that states that the Company has had losses in 2002, 2001 and 2000 has stockholders' deficit at December 31, 2002 and has negative working capital. In addition, outstanding borrowings under its credit facility are due on demand. If the bank were to demand repayment, the Company does not project that it would have sufficient liquidity to make such a payment. In addition, as discussed in note 2(b), Atlantic Hardware & Supply Corporation ("Atlantic"), a wholly-owned subsidiary of the Company, filed for reorganization under Chapter 11 of the United States Bankruptcy Code on January 28, 2002. The financial results of Atlantic have been deconsolidated and the Company accounts for Atlantic using the cost method. These circumstances raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1(c). The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Also, our report refers to a change in the accounting for goodwill and other intangible assets.

/S/ KPMG LLP

 KPMG LLP

 Melville, New York
 October 2, 2003

Schedule II

Colonial Commercial Corp. and Subsidiaries

Schedule of Valuation and Qualifying Accounts

Description -----	Balance at Beginning of Year -----	Charged to Costs and Expenses -----	Charged to Other Accounts -----
For the year ended December 31, 2002			
Allowance for doubtful accounts	\$253,156 =====	111,339 =====	19,592 (a) =====
For the year ended December 31, 2001			
Allowance for doubtful accounts	\$247,646 =====	57,589 =====	22,458 (a) =====

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For the year ended December 31, 2000

Allowance for doubtful accounts	\$227,920 =====	85,554 =====	79,320 (a) =====
---------------------------------	--------------------	-----------------	---------------------

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ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURES

None

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The names, ages and positions of the Registrant's directors and executive officers are listed below, along with a brief account of their business experience during the last five years. Officers are appointed annually by the Board of Directors at its first meeting following the Annual Meeting of Stockholders and from time to time at the pleasure of the Board. There are no family relationships among these directors or officers, nor any arrangement or understanding between any such directors or officers and any other person pursuant to which any of such officers were selected as executive officers.

Name	Age	Business Experience During Past Five Years
Common Stock Directors:		
Gerald S. Deutsch **	66	Certified Public Accountant and Attorney
Bernard Korn *	78	Chairman of the Board, President and Chief Executive Officer of the Company
Carl L. Sussman	78	Private Investor
James W. Stewart *	57	Executive Vice President, Treasurer and Secretary of the Company
Convertible Preferred Stock Directors:		
Jack Rose	84	Private Investor
Ronald Miller	59	Attorney at Law
William Koon	73	President, Lord's Enterprises, Grain Merchants
William Pagano *	63	President of Universal Supply Group, Inc.

* Executive Officers of the Company

** Mr. Deutsch resigned as a director on June 19, 2003.

There are no other significant employees who would need to be included in this item.

COMPLIANCE WITH SECTION 16(A) OF THE EXCHANGE ACT

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The Company believes that during the period from January 1, 2002 through December 31, 2002, all executive officers, directors and greater than 10% beneficial owners, complied with Section 16(a) filing requirements.

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ITEM 11. EXECUTIVE COMPENSATION.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

The Company does not have a Compensation Committee or any other committee of the Board of Directors performing equivalent functions. Decisions regarding compensation of executive officers of the Company are made by the Board of Directors. Three of the company's executive officers, Bernard Korn, James W. Stewart and William Pagano, are directors of the Company. Each of these individuals participated in deliberations of the Board during the fiscal year ended December 31, 2002 concerning executive officer compensation, except that they abstained from deliberations and voting regarding their own compensation.

BOARD OF DIRECTORS' REPORT ON EXECUTIVE COMPENSATION

As required by the rules established by the Securities and Exchange Commission, the Board of Directors has prepared the following report on the compensation policies of the Board of Directors applicable to the Company's executive officers.

The Company's executive compensation policies and programs are designed to retain talented executives and motivate them to achieve business objectives that will enhance stockholder value. The Company's compensation program for executives consists of three elements:

- a base salary,
- a performance-based annual bonus, and
- periodic grants of stock options.

BASE SALARY

The salaries for the executive officers are designed to retain qualified and dedicated executive officers. The Board of Directors reviews salary recommendations made by the Company's Chief Executive Officer (CEO), and evaluates individual responsibility levels, performance and length of service.

ANNUAL BONUS

Bonus compensation provides the Company with a means of rewarding performance, based upon the attainment of corporate profitability during the year. Mr. Pagano receives annual bonuses based on a percentage of earnings of his subsidiary. He received a bonus of \$194,734 for the year ended December 31, 2002.

STOCK OPTIONS

During 2002, no stock options were granted to the Company's employees, including the executive officers.

CHIEF EXECUTIVE OFFICER'S COMPENSATION

The CEO's compensation was determined on the basis of the same factors utilized to compensate other executives.

The Board of Directors

Bernard Korn (Chairman)	James W. Stewart
Gerald S. Deutsch	William Koon
Ronald Miller	Jack Rose
Carl L. Sussman	William Pagano

EXECUTIVE COMPENSATION

The following table sets forth information about compensation paid or accrued by the Company during the fiscal years ended December 31, 2002, 2001 and 2000 to Bernard Korn, James W. Stewart and William Pagano, the only officers of the Company and its subsidiaries whose compensation exceeded \$100,000 (the "Named Officers").

SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Annual Compensation		Long-Term Compensation Stock Options
		Salary (\$)	Bonus (\$)	
Bernard Korn Chairman of the Board, President, Chief Executive Officer and Director	2002	200,000	--	--
	2001	221,154	--	--
	2000	250,000	--	--
James W. Stewart Executive Vice President, Treasurer, Secretary and Director	2002	130,329	--	--
	2001	167,967	--	--
	2000	200,000	--	--
William Pagano President, Universal Supply Group, Inc.	2002	200,000	194,734	--
	2001	200,000	147,640	--
	2000	200,000	128,523	--

AGGREGATED OPTION EXERCISES IN LAST FISCAL YEAR AND FISCAL YEAR-END OPTION VALUES

The following table sets forth information concerning the value of unexercised stock options at the end of the 2002 fiscal year for the persons named in the Summary Compensation Table.

Number of Value of Unexercised

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	Shares Acquired On Exercise (#)	Value Realized (\$)	Unexercised Options at Fiscal Year-End Exercisable/ Unexercisable	In-The-Mo Options Fiscal Yea Exercisab Unexercis
	-----	-----	-----	-----
UNEXERCISABLE				
Bernard Korn	0	0	87,000/0	0/0
James W. Stewart	0	0	45,000/0	0/0
William Pagano	0	0	12,000/20,000	0/0

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Mr. Korn is employed pursuant to an employment agreement (the "Agreement"), expiring December 31, 2005, at an annual compensation of \$250,000. In the event of Mr. Korn's death, the Agreement provides for continued compensation payments for a period of one year. In the event of Mr. Korn's disability, he will receive compensation for the balance of the term of the agreement at the rate of compensation then in effect. Mr. Korn voluntarily agreed to a \$50,000 per annum salary reduction on June 7, 2001 and another \$50,000 on February 24, 2003.

Mr. Stewart is employed pursuant to an employment agreement expiring December 31, 2004 at a compensation of \$200,000 per annum for the year 2001, \$225,000 per annum for the years 2002 and 2003 and \$250,000 per annum for the year 2004. Mr. Stewart's agreement also provides for annual incentive compensation, based on increases in pre-tax income from a base period of the year ended December 31, 1999. Mr. Stewart voluntarily agreed to a \$50,000 per annum salary reduction on March 1, 2001 and another \$75,000 on February 24, 2003.

Mr. Pagano is employed pursuant to an employment agreement expiring on December 31, 2005 at a compensation of \$200,000 per annum. The agreement also provides for additional incentive compensation based on a percentage of earnings, as defined, of Universal Supply Group, Inc.

DIRECTORS' COMPENSATION

The Company paid Mr. Deutsch an aggregate of \$26,000 for fees for professional services rendered to the Company and its subsidiaries during 2002.

Members of the Board of Directors, other than those employed by the Company or its subsidiaries, receive a fee of \$1,000 for each meeting of the Board attended, limited to \$4,000 per annum, in addition to an annual retainer of \$2,000.

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Performance Graph

Comparison of Five Year Cumulative Return*
Among Colonial Commercial Corp.
the NASDAQ Stock Market (U.S.) Index and The Russell 2000 Index

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	12/31/97	12/31/98	12/31/99	12/31/00	12/31/01
Colonial Commercial Corp.	100.00	123.33	173.33	170.03	38.93
NASDAQ Stock Market (U.S.)	100.00	140.99	261.48	157.42	124.89
Russell 2000	100.00	97.45	118.17	114.60	117.45

* \$100 invested on 12/31/97 in stock or index,
including reinvestment of dividends.
Fiscal year ending December 31.

The annual changes for the five-year period are based on the assumption that \$100 had been invested on December 31, 1997 and that all dividends were reinvested. The total cumulative dollar returns shown on the graph represent the value that such investments would have had on December 31, 2002.

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ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

The following table sets forth as of November 11, 2003, information with respect to equity ownership by directors of the Company, holders of over 5% of a class of stock and of directors and officers of the Company as a group.

Name of Beneficial Owner	Common Stock**			Convertible Preferred Stock	
	Amount and Nature of Beneficial Ownership*	Percent of Class	Amount and Nature of Beneficial Ownership	Percent of Class	
Gerald S. Deutsch	12,900 (1) (2)	(3)	--	--	--
William Koon	23,082 (4) (2)	(3)	11,259	(3)	(3)
Bernard Korn	342,561 (5) (2)	13.13%	119,694	8.17%	8.17%
Ronald H. Miller	12,000 (2)	(3)	3,696 (6)	(3)	(3)
William Pagano	385,640 (2)	14.79%	--	--	--
Jack Rose	156,196 (8) (2)	5.99%	48,371	3.30%	3.30%
James W. Stewart	149,000 (2)	5.71%	--	--	--
Carl L. Sussman	111,507 (7) (2)	4.28%	--	--	--
Richard Rozzi	399,365 (2)	15.31%	--	--	--
Rita C. Folger	265,325 (9)	10.17%	61	(3)	(3)
All directors and Officers as a group	1,192,886	45.73%	183,020	12.50%	12.50%

The beneficial owners listed above have all given a business address of 3601 Hempstead Turnpike, Levittown, New York 11756.

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* For the purposes of this table, "Beneficial Ownership" is defined as set forth in rule 13d-3 under the Securities Exchange Act of 1934, as amended. Except as set forth in the following notes, each person listed in the table has sole voting and sole investment power with respect to the shares of Common Stock listed in the table.

** The shares of Common Stock listed in the table do not reflect the conversion of the Company's Convertible Preferred Stock. If all of such Convertible Preferred Stock were to be converted, the percentage of ownership of Messrs. Korn, Rose, Stewart, Pagano, Rozzi, Ms. Folger and all directors and officers as a group would be 11.35%, 5.02%, 3.66%, 9.47%, 9.81%, 6.52% and 33.78%, respectively.

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(1) Includes 1,500 shares of Common Stock owned by Mr. Deutsch's wife, of which shares Mr. Deutsch disclaims beneficial ownership. Mr. Deutsch resigned as a director on June 19, 2003

(2) Includes 87,000, 45,000, 12,000 and 6,500 common shares subject to options which are exercisable within 60 days held by Messrs. Korn, Stewart, Pagano and Deutsch, respectively, and 12,000 common shares, subject to options, which are exercisable within 60 days held by each of Messrs. Sussman, Koon, Rose and Miller and 198,500 common shares subject to options, which are exercisable within 60 days held by all directors and officers as a group.

(3) Messrs. Deutsch, Miller and Koon, as well as Ms. Folger, each are the beneficial owners of less than one percent of the Company's outstanding securities, excluding securities held by, or for the account of, the Company or its subsidiaries, plus securities deemed outstanding pursuant to Rule 13d-(3)-(d)(1) of the Exchange Act. As a result, their respective percentages of ownership have not been disclosed.

(4) Includes 10,600 shares of Common Stock and 5,000 shares of Convertible Preferred Stock owned by Mr. Koon's wife, of which shares Mr. Koon disclaims beneficial ownership.

(5) If only Mr. Korn were to convert his Convertible Preferred Stock, his percentage of ownership of Common Stock would be 16.94%.

(6) Includes 2,803 shares of Convertible Preferred Stock owned by Mr. Miller's wife, of which shares Mr. Miller disclaims beneficial ownership.

(7) Includes 44,507 shares of Common Stock owned jointly by Mr. Sussman and his wife.

(8) If only Mr. Rose were to convert his Convertible Preferred Stock, his percentage of ownership of Common Stock would be 7.70%.

(9) Ms. Folger is the wife of Oscar Folger, the Company's legal counsel. Mr. Folger has disavowed beneficial ownership of his wife's shares.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

None

ITEM 14. CONTROLS AND PROCEDURES

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(a) EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

The Company's senior management is responsible for establishing and maintaining a system of disclosure controls and procedures (as defined in Rule 13a-14 and 15d-14 under the Securities Exchange Act of 1934 (the "Exchange Act")) designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported as specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Act is accumulated and communicated to the issuer's management, including its principal executive officer or officers and principal financial officer or officers, or persons performing similar functions, as appropriate to allow them to make informed decisions regarding required disclosure.

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The Company has evaluated the effectiveness of the design and operation of its disclosure controls and procedures under the supervision of and with the participation of management, including the Chief Executive Officer and Chief Financial Officer within 90 days prior to the filing date of this report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures are effective in alerting them to material information required to be included in our periodic Securities and Exchange Commission filings.

(b) CHANGES IN INTERNAL CONTROLS

Subsequent to that evaluation, there have been no significant changes in our internal controls or other factors that could significantly affect these controls after such evaluation.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) See Index to Consolidated Financial Statements and Schedule included elsewhere herein.

(b) No reports on Form 8-K were filed during the fourth quarter of 2002.

(c) Exhibits

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Filed	
Herewith	Form
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3 (a) Certificate of Incorporation of Registrant		8-K
(i) Certificate of Amendment of the Certificate of Incorporation Re: Authorized Common and Convertible Preferred Shares		
(b) By-Laws of Registrant		8-K
10 (a) Employment Agreement dated as of January 1, 1998 between Registrant and Bernard Korn		10-KSB
(i) Amendment No. 1 dated April 1, 1999 to Employment Agreement dated as of January 1, 1998 between Registrant and Bernard Korn		10-K
(ii) Amendment No. 2 dated April 1, 2000 to Employment Agreement dated as of January 1, 1998 between Registrant and Bernard Korn		10-K
(iii) Amendment No. 3 dated October 29, 2002 to Employment Agreement dated as of January 1, 1998 between Registrant and Bernard Korn	Yes	
(iv) Amendment No. 4 dated October 29, 2002 to Employment Agreement dated as of January 1, 1998 between Registrant and Bernard Korn	Yes	
(b) Employment Agreement dated as of January 1, 2000 between Registrant and James W. Stewart		10-KSB
(i) First Amendment dated September 15, 2000 to Employment Agreement dated as of January 1, 2000 between Registrant and James W. Stewart		10-K
(ii) Second Amendment dated October 29, 2002 to Employment Agreement dated as of January 1, 2000 between Registrant and James W. Stewart	Yes	
(c) 1986 Stock Option Plan		10-K
(d) 1996 Stock Option Plan		S-8
(e) Purchase agreement dated March, 25, 1999 for business and assets subject to certain liabilities of Universal Supply Group, Inc.		10-KSB
(i) Amendment No. 1 dated June 25, 1999 to Purchase Agreement dated March 25, 1999		8-K

	Filed	Form
	Herewith	----
	-----	----
(ii) Employment agreement dated June 25, 1999 between Universal Supply Group, Inc. and William Pagano		8-K

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- (iii) Loan and Security Agreement dated June 24, 1999 between LaSalle Bank National Association and Universal Supply Group, Inc. 8-K
- (iv) Demand Note dated June 24, 1999 between LaSalle Bank National Association and Colonial Commercial Sub Corp. 8-K
- (v) Guaranty of all liabilities and Security Agreement of Colonial Commercial Sub Corp. by Colonial Commercial Corp. to LaSalle Bank National Association dated June 24, 1999 8-K
- (vi) Waiver and Tenth Amendment, dated November 21, 2002 to the Loan and Security Agreement, as of June 24, 1999, between LaSalle Bank National Association and Universal Supply Group, Inc. 10-K
- (vii) Securities Pledge Agreement dated November 21, 2002, made by the Registrant, in favor of LaSalle Bank National Association, re: Universal Supply Group, Inc. 10-K
- (f) Certain documents related to Well-Bilt Steel Products, Inc.:
 - (i) Reaffirmation Agreement, General Release Consent and Acknowledgement of Commercial Reasonableness of Private Sale dated February 1, 2001, between Atlantic Hardware & Supply Corporation, Universal Supply Group, Inc., Colonial Commercial Corp., and the secured lender 8-K
 - (ii) Reaffirmation Agreement, General Release Consent and Acknowledgement of Commercial Reasonableness of Private Sale dated February 1, 2001 between Well-Bilt Steel Products Inc. and the secured lender 8-K

Filed
Herewith
----- Form

- (iii) Foreclosure Agreement dated February 1, 2001 between Independent Steel Products, LLC the secured lender, Atlantic Hardware & Supply Corporation, Universal Supply Group, Inc. and Well-Bilt Steel Products, Inc. 8-K

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	(iv) Bill of Sale and Assignment dated February 1, 2001 made by the secured lender in favor of Independent Steel Products, LLC		8-K
	(g) Inventory Control Agreement re: Universal Supply Group, Inc. taking in Inventory on a Consignment basis, dated August 9, 2001, between Douglas-Guardian Services Corporation, Universal Supply Group, Inc. and GMC Sales Corp.		10-K
	(h) Agreement of Purchase and Sale of Assets dated July 1, 2002 between Goldman Associates of New York, Inc. and Universal Supply Group, Inc.	Yes	
	(i) Private Placement Purchase Agreement dated June 30, 2003 by and among Colonial Commercial Corp. and the persons who are counterparts to the Agreement as "Investors"	Yes	
	(j) Asset Purchase Agreement dated September 5, 2003, for the purchase of certain assets, subject to certain liabilities of RAL Supply Group, Inc., by RAL Purchasing Corp., a wholly owned subsidiary of Colonial Commercial Corp.	Yes	
	(k) RAL Closing Statement dated September 30, 2003.	Yes	
11	Statement re computation of per share earnings (loss) (not filed since computations are readily apparent from the consolidated financial statements)		
21	Subsidiaries of Registrant	Yes	
23	Consent of Independent Accountants	Yes	
31.1	Certification of Chief Executive Officer Pursuant to Rule 15d-14 of the Securities and Exchange Act of 1934, as amended, as Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Yes	
31.2	Certification of Chief Financial Officer Pursuant to Rule 15d-14 of the Securities and Exchange Act of 1934, as amended, as Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Yes	
32-1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Yes	
32-2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Yes	
99.1	Code of Ethics for Registrant's Financial Officers	Yes	
99.2	Affidavit, dated January 28, 2002, in Support of Atlantic's Petition for Relief under chapter 11 of the U. S. Bankruptcy Code		10-K

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities and Exchange Act of 1934, Registrant has duly caused this Report to be signed on its behalf by the undersigned thereunto duly authorized.

COLONIAL COMMERCIAL CORP.
(Registrant)

By: /S/ BERNARD KORN

Bernard Korn, President

By: /S/ JAMES W. STEWART

James W. Stewart
Treasurer, Chief Financial
and Accounting Officer

Dated: November 14, 2003

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been duly signed below on November 14, 2003 by the following persons on behalf of the Registrant and in the capacities indicated:

By: /S/ BERNARD KORN

Bernard Korn, President & Director

By: /S/ JAMES W. STEWART

Executive Vice President, Treasurer
and Secretary/Director

By: /S/ WILLIAM KOON

William Koon, Director

By: /S/ RONALD MILLER

Ronald Miller, Director

By: /S/ WILLIAM PAGANO

William Pagano, Director

By: /S/ JACK ROSE

Jack Rose, Director

By: /S/ CARL L. SUSSMAN

Carl L. Sussman, Director

