COLONIAL COMMERCIAL CORP
Form 10-Q
November 18, 2003

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTER ENDED MARCH 31, 2002 COMMISSION FILE NO. 1-6663

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

NEW YORK	11-2037182
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)
3601 HEMPSTEAD TURNPIKE, LEVITTOWN, NEW YORK	11756-1315
(Address of Principal Executive Offices)	(Zip Code)

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

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes ___ No X ___

Indicate by check mark whether the Company (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Company was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.
Yes ___ No X ___

Indicate the number of shares outstanding of the Company's Common Stock and Convertible Preferred Stock as of November 11, 2003.

Common Stock, par value $.05 per share - 2,405,804 shares
Convertible Preferred Stock, par value $.05 per share - 1,464,242 shares

COLONIAL COMMERCIAL CORP. AND SUBSIDIARIES

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

Assets	2002 (Unaudited)	2001
Current assets:		
Cash and cash equivalents	$ 606,358	576,514
Accounts receivable, net of allowance for doubtful accounts of $254,000 in 2002 and $253,000 in 2001, respectively	4,013,645	4,466,667
Inventory	6,296,912	6,314,546
Prepaid expenses and other current assets	324,060	376,838

Total current assets	11,240,975	11,734,565
Property and equipment, net	614,901	622,790
Goodwill	1,316,929	1,316,929
Other intangibles	117,083	128,700
Restricted investment securities	145,955	122,506
	$ 13,435,843	13,925,490
Liabilities and Stockholders' Equity (Deficit)		
Current liabilities:		
Accounts payable	$ 2,691,901	2,422,802
Accrued liabilities	754,233	1,047,188
Income taxes payable	17,342	26,086
Borrowings under credit facility	7,682,837	7,929,576
Investment in unconsolidated subsidiary in bankruptcy, carried at cost	219,007	219,007
Guaranteed borrowings of unconsolidated subsidiary in bankruptcy	5,800,695	5,800,695
Notes payable - current portion	129,285	143,405
Total current liabilities	17,295,300	17,588,759
Notes payable, excluding current portion	60,122	90,495
Deferred compensation	145,955	122,506
Total liabilities	17,501,377	17,801,760
Stockholders' equity (deficit):		
Convertible preferred stock, $.05 par value, liquidation preference of $7,321,430 at March 31, 2002 and December 31, 2001, respectively, 2,468,860 shares authorized, 1,464,286 shares issued and outstanding at March 31, 2002 and December 31, 2001, respectively	73,214	73,214
Common stock, $.05 par value, 20,000,000 shares authorized, 1,603,760 shares issued and outstanding at March 31, 2002 and December 31, 2001, respectively	80,189	80,189
Additional paid-in capital	8,966,513	8,966,513
Accumulated deficit	(13,185,450)	(12,996,186)
Total stockholders' deficit	(4,065,534)	(3,876,270)
Commitments and contingencies		
	$ 13,435,843	13,925,490

See accompanying notes to unaudited consolidated financial statements.

COLONIAL COMMERCIAL CORP. AND SUBSIDIARIES
Consolidated Statements of Operations
Three Months ended March 31, 2002 and 2001
(Unaudited)

	2002	2001
Sales	$ 7,230,926	6,604,176
Cost of sales	5,019,904	4,583,146
Gross profit	2,211,022	2,021,030
Selling, general and administrative expenses, net	2,303,435	2,240,993
Operating loss	(92,413)	(219,963)
Interest income	603	4,683
Other income	38,448	39,867
Interest expense	(135,902)	(186,725)
Loss from continuing operations before income taxes	(189,264)	(362,138)
Income taxes	--	(74,100)
Loss from continuing operations	$ (189,264)	(288,038)
Net income from operations of discontinued segments	--	314,525
Net (loss) income	$ (189,264)	26,487
Income (loss) per common share:		
Basic:		
Loss from continuing operations	$ (0.12)	(0.18)
Income on discontinued operation	--	0.20
Net (loss) income per common share	$ (0.12)	0.02
Diluted:		
Loss from continuing operations	$ (0.12)	(0.18)
Income on discontinued operation	--	0.20
Net (loss) income per common share	$ (0.12)	0.02
Weighted average shares outstanding:		
Basic	1,603,760	1,601,600
Diluted	1,603,760	1,601,600

See accompanying notes to unaudited consolidated financial statements.

COLONIAL COMMERCIAL CORP. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
Three Months ended March 31, 2002 and 2001
(Unaudited)

	2002	2001
Cash flows from operating activities:		
Net (loss) income	$(189,264)	26,487
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Income from discontinued operation	--	(314,525)
Deferred tax expense	--	12,900
Provision for doubtful accounts	21,833	23,291
Depreciation	38,920	37,275
Amortization of intangibles	11,617	35,387
Changes in assets and liabilities, net of the effects of acquisitions:		
Accounts receivable	431,189	749,934
Inventory	17,634	(167,955)
Prepaid expenses and other current assets	52,778	145,185
Accounts payable	269,099	(18,372)
Investment securities - trading	(23,449)	(887)
Accrued liabilities	(292,955)	(657,674)
Income taxes payable	(8,744)	(4,278)
Deferred compensation	23,449	887
Net cash provided by (used in) operating activities	352,107	(132,345)
Cash flows from investing activities:		
Purchase of licensing agreement	--	(4,800)
Net additions to property and equipment	(31,031)	817
Net cash used in investing activities	(31,031)	(3,983)
Cash flow from financing activities:		
Net repayments on notes payable	(44,493)	(39,162)
Net repayments under credit facility	(246,739)	(777,621)
Net cash used in financing activities	(291,232)	(816,783)
Net cash provided by discontinued operation	--	775,522
Increase (decrease) in cash and cash equivalents	29,844	(177,589)
Cash and cash equivalents - beginning of period	576,514	803,012
Cash and cash equivalents - end of period	$ 606,358	625,423

See accompanying notes to unaudited consolidated financial statements.

COLONIAL COMMERCIAL CORP. AND SUBSIDIARIES

Notes To Consolidated Financial Statements

March 31, 2002
(Unaudited)

(1) Summary of Significant Accounting Policies and Practices

The consolidated financial statements of Colonial Commercial Corp. and subsidiaries (the "Company") included herein have been prepared by the Company and are unaudited; however, such information reflects all adjust- ments (consisting solely of normal recurring adjustments), which are, in the opinion of management, necessary for a fair presentation of the financial position, results of operations, and cash flows for the interim periods to which the report relates. The results of operations for the period ended March 31, 2002 are not necessarily indicative of the operating results that may be achieved for the full year.

Certain information and footnote disclosures, normally included in consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America, have been condensed or omitted. It is suggested that these consolidated financial statements be read in conjunction with the consolidated financial statements and notes thereto included in the Company's 2001 Form 10-K.

Certain reclassifications have been made to the three months ended March 31, 2001 information to conform to the current quarter presentation.

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

(2) Chapter 11 Reorganization

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. Neither Colonial, nor Universal Supply Group, Inc. ("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 was authorized by its Board to carry out the Chapter 11 filing in December 2001 and, since they no longer exercise significant influence

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over Atlantic's operations and financial activities as of December 31, 2001, Atlantic has been unconsolidated in the Company's financial statements and its operations are being reported as "results from operations of discontinued segments." The Company's statements of operations and statements of cash flows for the three months ended March 31, 2001 include certain reclassifications in order to conform to this presentation.

On November 21, 2002, the Company and Universal were released from 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 Company's investment in Atlantic's common stock is being recognized at cost, $219,007 of guaranteed liabilities and $5,800,695 of guaranteed borrowings under a credit facility as of March 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. The Company will continue to recognize the $219,007 of guaranteed liabilities of Atlantic until they are extinguished by Atlantic's bankruptcy proceedings or otherwise.

(3) Intangible Assets

Statement 142, "Goodwill and Other Intangible Assets," requires that goodwill and intangible assets with indefinite useful lives no longer be amortized, but rather will be tested for impairment at least annually. Statement 142 also requires that intangible assets with definite useful lives be amortized over their respective estimated useful lives to their estimated residual values and reviewed for impairment, in accordance with Statement No. 144, "Accounting for the Impairment 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 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 the acquisition of Universal. Upon adoption, 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 March 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 $114,583 and $107,767, respectively, which pertained primarily to covenants not to compete. Amortization expense for intangible assets subject to amortization amounted to approximately $11,617 and $10,417 for the three months ended March 31, 2002 and 2001, respectively. The estimated aggregate amortization expense for each of the five succeeding years ending December 31, 2006 amounts to approximately $42,900, $41,700, $26,700, $11,700 and $5,800 in 2002, 2003, 2004, 2005 and 2006, respectively.

As of March 31, 2002 and December 31, 2001, the Company had unamortized goodwill in the amount of $1,316,929.

The following table shows the results of operations as if Statement 142 was applied to prior period: For the three months ended March 31,

	2002	2001
Net income (loss), as reported	$ (189,264)	26,487
Deduct: negative goodwill amortization, net	--	(8,763)
Adjusted net income (loss)	(189,264)	17,724
Income (loss) per share:		
Basic net income (loss), as reported	$ (0.12)	0.02
Negative goodwill amortization, net	--	(0.01)
Adjusted net income (loss)	$ (0.12)	(0.01)
Diluted net income (loss), as reported	$ (0.12)	0.02
Negative goodwill amortization, net	--	(0.01)
Adjusted net income (loss)	$ (0.12)	0.01

(4) Supplemental Cash Flow Information

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

	Three Months Ended March 31,2002	Three Months Ended March 31, 2001
Cash paid during the period for:		
Interest	$ 118,059	$ 186,726
Income taxes	$ 8,744	$ 7,700

During the three months ended March 31, 2001, the Company retired 15 shares, of convertible preferred stock, which were converted to a similar number of common shares. No shares were retired during 2002.

(5) Subsequent Events

(a) Nasdaq

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.

(b) Goldman Acquisition

In July 2002, Universal acquired 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, for $670,981, of which $100,000 was paid as an up front deposit in June 2002. $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.

(c) Release Of Guarantees

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. The $3,300,000 difference between the total amount 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.

(d) 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.

(e) RAL 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:

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
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.

(6) 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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(7) Net Income (Loss) Per Common Share

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

	Three Months Ended March 31, 2002	2001
Net (loss) income numerator	$ (189,264)	26,487
Weighted average common shares (denominator for basic income per share)	1,603,760	1,601,600
Effect of dilutive securities:		
Convertible preferred stock	--	--
Employee stock options	--	--
Weighted average common and potential common shares outstanding (denominator for diluted income per share)	1,603,760	1,601,600
Basic (loss) income per share	$ (0.12)	$ 0.02
Diluted (loss) income per share	$ (0.12)	$ 0.02

Employee stock options totaling 280,600 and 158,800 for the three months ended March 31, 2002 and 2001, respectively, were not included in the income per share calculation because their effect would have been anti-dilutive. Convertible preferred stock totaling 1,464,286 and 1,466,446 for the three months ended March 31, 2002 and 2001, respectively, were not included in the net loss per share because their effect would have been anti-dilutive.

(8) New Accounting Pronouncements

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 is required to adopt the provisions of Statement 146 as of January 1, 2003. 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.

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

Forward-looking Statements

This Report on Form 10-Q contains forward-looking statements relating to such matters as anticipated financial performance and business prospects. When used in this

Report, the words "anticipates," "expects," "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.

Results of Operations - Three Months Ended March 31, 2002 and 2001

The Company reported a net loss of $189,264 for the first quarter of 2002, as compared to net income of $26,487 in the 2001 quarter, which includes net income from discontinued operations of $314,525. The operations of Atlantic Hardware & Supply Corporation ("Atlantic") were discontinued at December 31, 2001. The Company had a loss from continuing operations before taxes of $189,264 in the first quarter of 2002, compared with a loss of $362,138 in 2001.

For the first quarter of 2001, the Company reported income from the discontinued operations of Atlantic of $314,525. This income was primarily due to an increase in sales at Atlantic of $2,761,692 (63.7%) due to the timing of shipments.

Net sales of continuing operations increased $626,750 due primarily to the opening of a new branch in Pennsylvania and the expansion of the North Brunswick location, as well as an overall increase in market penetration. Gross margins on those sales remained steady at 30.6%. Selling, general and administrative expenses was basically the same in both periods.

Interest expense on continuing operations decreased $50,823 in the 2002 quarter due to improved collections, decreased prime rates and consignment arrangements with certain suppliers.

A tax benefit for the first quarter of 2002 was not recorded, as the Company did not expect to be able to realize such a benefit by the end of 2002. During the first quarter of 2001, the Company recorded a federal tax benefit of $74,100 for their continuing operations.

Liquidity and Capital Resources

As of March 31, 2002, the Company had $606,358 in cash and cash equivalents

compared with $576,514 at December 31, 2001. Between December 31, 2001 and March 31, 2002, there were no material changes in obligations associated with operating agreements, obligations to financial institutions and other long term debt obligations.

Cash flows provided by operations were $352,107 during the three months ended March 31, 2002. Accounts receivable declined due to the fact that Universal's sales are typically lower in the first quarter than in the prior year's fourth quarter. The 2002 decline in accounts receivable was less than the 2001 decline, due to the fact that 2002 sales were higher. Accounts payable increased due to extended payment terms with Universal's vendors. Accrued liabilities decreased due primarily to less accrued payroll.

Cash flows used in investing activities of $31,031 during the three months ended March 31, 2002 were due to the purchase of property and equipment.

The cash flows used in financing activities of $291,232 were for net repayments made on the credit facility of $246,739, as well as net repayments on notes payable of $44,493. This compares to the prior year when $816,783 of cash flows were used for financing activities, of which $777,621 was used for net repayments on the credit facility and $39,162 was used for net repayments on notes payable.

The net cash provided by discontinued operations during the three months ended March 31, 2001 of $775,522 is made up of net cash provided by the operations and liquidation of Atlantic of $1,378,932, offset by the cash used for the disposal of Well-Bilt of $603,410.

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.

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.

At March 31, 2002, amounts outstanding under the credit facility were $7,682,837, of which $520,000 represents amounts under a term loan, payable in 25 equal monthly installments of approximately $21,000. Although the term loan is payable over 25 months, the Bank can demand payment at any time. As monthly repayments are made on the term loan, the available line of credit portion of the facility increases by the amount of the principal payment.

The Company believes that the credit facility is sufficient to finance its current operating needs.

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.

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. 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.

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.

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 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, 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 3. Quantitative and Qualitative Disclosures About Market Risk

The Company's pre-tax earnings and cash flow are exposed to changes in interest rates as borrowings under its credit facility bear interest at the prime rate, plus 2%. A hypothetical 10% adverse change in such rates would reduce pre-tax earnings and cash flow by approximately $52,000 over a one-year period, assuming the borrowing level remains consistent with the outstanding borrowings as of March 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.

Item 4. Controls and Procedures

(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.

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 II. OTHER INFORMATION

Item 1. Legal Proceedings

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.

Item 6. Exhibits and Reports on Form 8-K

a. Exhibits:

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

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

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

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

b. Reports on Form 8-K:

None

SIGNATURES

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

Dated: November 14, 2003

COLONIAL COMMERCIAL CORP.

/S/ BERNARD KORN

Bernard Korn,
Chairman of the Board and President

/S/ JAMES W. STEWART

James W. Stewart,
Executive Vice President and Treasurer