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COLONIAL COMMERCIAL CORP
Form 10-Q
August 16, 2004

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 JUNE 30, 2004 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)

120 NEW SOUTH ROAD, HICKSVILLE, NEW YORK

11801

(Address of Principal Executive Offices) (Zip Code)

Company's Telephone Number, Including Area Code: 516-681-4647

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 X No
----- -----

Indicate the number of shares outstanding of the Company's Common Stock and Convertible Preferred Stock as of August 4, 2004.

Common Stock, par value \$.05 per share - 4,046,679 shares Convertible Preferred Stock, par value \$.05 per share - 850,701 shares

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COLONIAL COMMERCIAL CORP. AND SUBSIDIARIES

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

COLONIAL COMMERCIAL CORP. AND SUBSIDIARIES Condensed Consolidated Balance Sheets

	June 30, 2004
	(Unaudited)
Assets	
Current assets:	
Cash and cash equivalents	\$ 960,427
Accounts receivable, net of allowance for doubtful accounts of \$368,000 in 2004 and \$285,000 in 2003	7,858,631
Inventory	10,271,802
Prepaid expenses and other current assets	895,572
Deferred tax asset	551,000
Total current assets	20,537,432
Property and equipment	1,549,451
Goodwill	1,628,133
Other intangibles	33,334
	\$ 23,748,350
Liabilities and Stockholders' Equity	
Current liabilities:	
Trade payables	\$ 6,327,027
Accrued liabilities	1,847,157
Income taxes payable	145,721
Borrowings under credit facility	13,619,362
Notes payable - current portion	96,235
Total current liabilities	22,035,502
Notes payable, excluding current portion	322,309
Total liabilities	22,357,811
Commitments and contingencies	
Stockholders' equity:	
Redeemable convertible preferred stock, \$.05 par value, liquidation preference of \$4,288,060 and \$7,333,960 and 2,468,860 shares authorized, 857,612 in 2004 and 1,466,792 in 2003 shares issued and outstanding	42,880
Common stock, \$.05 par value, 20,000,000 shares authorized, 3,019,768 in 2004 and 2,403,318 in 2003 shares issued and outstanding	150,990
Additional paid-in capital	9,313,952
Accumulated deficit	(8,117,283)
Total stockholders' equity	1,390,539
	\$ 23,748,350

See accompanying notes to unaudited condensed consolidated financial statements.

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

	For The Three Months Ended June 30,	
	2004	2003
Sales	\$ 16,148,926	\$ 10,689,646
Cost of sales	11,351,064	7,691,595
Gross profit	4,797,862	2,998,051
Selling, general and administrative expenses, net	4,032,186	2,704,544
Operating income	765,676	293,507
Other income	125,560	55,973
Interest expense	(193,137)	(147,883)
Income before income taxes	698,099	201,597
Income tax expense	34,594	20,778
Net income	\$ 663,505	\$ 180,819
Income per common share:		
Basic	\$ 0.22	\$ 0.11
Diluted	0.16	0.06
Weighted average shares outstanding:		
Basic	3,011,554	1,603,794
Diluted	4,081,840	3,068,046

See accompanying notes to unaudited condensed consolidated financial statements.

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

	For The Six Months Ended June 30,	
	2004	2003
Sales	\$ 28,674,285	\$ 19,047,329
Cost of sales	20,066,444	13,583,834
Gross profit	8,607,841	5,463,495
Selling, general and administrative expenses, net	8,131,238	5,255,431
Operating income	476,603	208,064
Other income	182,277	140,131
Interest expense	(373,052)	(298,424)
Income before income taxes	285,828	49,771
Income tax benefit	(78,427)	(61,964)
Net income	\$ 364,255	\$ 111,735
Income per common share:		
Basic	\$ 0.13	\$ 0.07
Diluted	0.09	0.04
Weighted average shares outstanding:		
Basic	2,869,123	1,603,794
Diluted	4,078,661	3,068,046

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See accompanying notes to unaudited condensed consolidated financial statements.

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

For The Six Months Ended
June 30,

2004	2003
------	------

Cash flows from operating activities:

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Net income	\$ 364,255	\$ 111,735
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Deferred tax benefit	(129,600)	--
Provision for allowance for doubtful accounts	150,765	89,425
Stock-based compensation	50,940	--
Depreciation	176,788	94,495
Amortization of intangibles	20,833	20,833
Changes in assets and liabilities:		
Accounts receivable	(1,755,496)	(280,958)
Inventory	(488,980)	(622,850)
Prepaid expenses and other current assets	(274,894)	(228,656)
Trade payable	1,031,147	1,044,846
Accrued liabilities	333,579	4,105
Income taxes payable	(29,893)	(40,230)
	-----	-----
Net cash (used in) provided by operating activities	(550,556)	192,745
	-----	-----
Cash flows from investing activities:		
Additions to property and equipment	(211,106)	(100,523)
	-----	-----
Net cash used in investing activities	(211,106)	(100,523)
	-----	-----
Cash flows from financing activities:		
Payments on notes payable	(35,232)	(16,286)
Issuance of notes payable	22,871	24,471
Retirement of preferred stock	(355,638)	--
Issuance of common stock	360,000	--
Net borrowings under credit facility	1,387,332	194,175
	-----	-----
Net cash provided by financing activities	1,379,333	202,360
	-----	-----
Increase in cash and cash equivalents	617,671	294,582
Cash and cash equivalents - beginning of period	342,756	296,764
	-----	-----
Cash and cash equivalents - end of period	\$ 960,427	\$ 591,346
	=====	=====

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See accompanying notes to unaudited condensed consolidated financial statements.

COLONIAL COMMERCIAL CORP. AND SUBSIDIARIES

Notes To Condensed Consolidated Financial Statements

June 30, 2004
(Unaudited)

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PRACTICES

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The condensed consolidated financial statements of Colonial Commercial Corp. and Subsidiaries (the "Company") included herein have been prepared by the Company and are unaudited; however, such information reflects all adjustments (consisting solely of normal recurring adjustments), which are, in the opinion of management, necessary for a fair presentation of the financial position, results of operations, and cash flows for the interim periods to which the report relates. The results of operations for the period ended June 30, 2004 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 Form 10-K for the year ended December 31, 2003.

The Company has one industry segment - wholesale distribution of heating, ventilation and air conditioning.

Inventory is comprised of finished goods.

STOCK OPTIONS

The Company uses the intrinsic-value method of accounting for stock-based awards granted to employees. The Company recognized stock-based compensation related to option repricing for options previously awarded. For the three and six months ended June 30, 2004 the amount of stock-based compensation was \$(33,960) and \$50,940, respectively. No stock-based compensation cost is included in net income related to options granted during periods presented, since they had an exercise price equal to the market value of the stock on the date of grant and all outstanding options are fully vested. During the six months ended June 30, 2004, no stock options were granted. During the six months ended June 30, 2003, 104,000 stock options were granted at market price and were fully vested. In accordance with SFAS No. 148, "Accounting For Stock Based Compensation - Transition and Disclosure," the following table presents the effect on net income and net income per share had compensation cost for the Company's stock plans been determined consistent with SFAS No. 123, "Accounting for Stock-Based Compensation". The fair value of each option grant is estimated on the date of grant by use of the Black-Scholes option pricing model.

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	For The Three Months Ended June 30,		For Mon J
	2004	2003	2004
Net income, as reported	\$ 663,505	\$ 180,819	\$ 364,255
Add: Stock-based compensation related to option repricing	(33,960)	--	50,940

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Deduct: Stock-based compensation expense determined under fair value method for all stock options, net of related income tax benefit	--	--	--
	-----	-----	-----
Pro forma net income	\$ 629,545	\$ 180,819	\$ 415,195
	=====	=====	=====
Basic income per share, as reported	\$.22	\$.11	\$.13
	=====	=====	=====
Basic income per share, pro forma	\$.21	\$.11	\$.14
	=====	=====	=====
Diluted income per share, as reported	\$.16	\$.06	\$.09
	=====	=====	=====
Diluted income per share, pro forma	\$.15	\$.06	\$.10
	=====	=====	=====

(2) EQUITY TRANSACTIONS

On February 12, 2004, the Company completed a private placement, pursuant to Regulation D of the Securities Exchange Act of 1933. The Company raised \$360,000 through the issuance of 600,000 shares of common stock at \$0.60 per share. See Part II, Item 2(a) for more information on this and two other private placements.

The Company has used substantially all of the proceeds from the February 12, 2004 private placement to purchase 592,730 shares of escheated convertible preferred stock at \$0.60 per share from the State of Ohio. The Company has retired these convertible preferred shares.

These securities were issued in reliance on the exemption set forth in section 4(2) of the Act from registration requirements under the Act.

The following is a list of investors who purchased these shares:

Name	Amount of Common Shares	Cash Consideration
-----	-----	-----
Rita C. Folger	100,000	\$ 60,000
Michael Goldman	170,000	102,000
Bernard Korn	165,000	99,000
William Pagano	165,000	99,000
	-----	-----
Total	600,000	\$ 360,000
	=====	=====

During the six months ended June 30, 2004, holders of a total of 16,450 shares of redeemable convertible preferred stock converted these shares into 16,450 shares of common stock.

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(3) SUPPLEMENTAL CASH FLOW INFORMATION

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

	Six Months Ended	
	June 30, 2004	June 30, 2003
	-----	-----
Cash paid during the period for:		
Interest	\$ 306,733	\$ 261,290
Income taxes	\$ 131,212	\$ --

During the six months ended June 30, 2004, the Company converted 16,450 shares of convertible preferred stock to a similar number of common shares.

(4) NET INCOME PER COMMON SHARE

Basic net income per share is computed by dividing income available to common shareholders by the weighted-average number of common shares outstanding. Diluted earnings per share reflect, in periods in which they have a dilutive effect, the impact of common shares issuable upon exercise of stock options.

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

	For The Three Months		For Th
	Ended June 30,		Ende
	2004	2003	2004
	-----	-----	-----
Net income (numerator)	\$ 663,505	\$ 180,819	\$ 364,255
	=====	=====	=====
Weighted average common shares (denominator for basic income per share)	3,011,554	1,603,794	2,869,123
Effect of dilutive securities:			
Convertible preferred stock	865,826	1,464,252	1,014,639
Stock Options	204,460	--	194,899
	-----	-----	-----
Weighted average common and potential common shares out- standing (denominator for diluted income per share)	4,081,840	3,068,046	4,078,661
	=====	=====	=====
Basic net income per share	\$.22	\$.11	\$.13
	=====	=====	=====

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Diluted net income per share	\$.16 =====	\$.06 =====	\$.09 =====
---------------------------------	-----------------	-----------------	-----------------

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Employee stock options totaling 229,300 for the three and six months ended June 30, 2003, respectively, were not included in the income per share calculation because their effect would have been anti-dilutive.

(5) SUBSEQUENT EVENTS

(a) Private Placements

On July 29, 2004, the Company completed a private placement, pursuant to Regulation D of the Securities Act of 1933. The Company raised \$1,050,000 through the issuance of 420,000 shares of common stock at \$1.25 per share and the issuance of \$525,000 of subordinated unsecured convertible notes payable ("Notes"), bearing interest at 11% per annum, payable quarterly, with 50% of the principal payable on the last day of the fourth anniversary and 50% of the principal payable on the last day of the fifth anniversary. The Notes are convertible to common stock at \$3.00 per share during the term of the Notes. (See Part II, Item 2 for more information as to the purchasers.)

On July 30, 2004, the Company completed a private placement with Michael Goldman and Goldman Associates of New York, Inc. pursuant to Regulation D of the Securities Act of 1933. For total consideration of \$1,500,000, the Company issued to Goldman Associates of New York, Inc. 600,000 shares of common stock at \$1.25 per share, a \$750,000 subordinated secured note payable, earning interest at the prime rate, interest payable quarterly, principal payable on December 31, 2008, and warrants to purchase 150,000 shares of common stock at \$3.00 per share expiring December 31, 2008.

These securities were issued in reliance on the exemption set forth in Section 4(2) of the Act from registration requirements under the Act.

On July 19, 2004 and July 26, 2004 holders of a total of 2,611 and 4,300 shares, respectively, of redeemable convertible preferred stock converted these shares into a total of 6,911 of common stock.

(b) Financing Arrangements

On July 29, 2004, the Company completed a \$15,000,000 secured loan facility with Wells Fargo Business Credit Inc. consisting of a \$15,000,000 revolving line of credit including a \$2,000,000 three-year term loan. The revolving credit line bears interest at 1/4% below prime and the term loan bears interest at 1/2% above prime. All loans are collateralized by the assets of the Company, as well as a pledge of all the outstanding stock of its operating subsidiaries. The facility

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contains covenants relating to the financial condition of the Company and its business operations and restricts the payment of dividends and capital expenditures. Availability under the revolving credit line is determined by a percentage of eligible assets as defined in the agreement. The Company used approximately \$12,865,000 of the proceeds of this facility to repay its previous senior lender and will use the balance for additional working capital.

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(6) NEW ACCOUNTING PRONOUNCEMENTS

In January 2003, the FASB issued Financial Interpretation No. 46, "Consolidation of Variable Interest Entities" ("FIN 46"), which clarifies the application of Accounting Research Bulletin No. 51, "Consolidated Financial Statements." FIN 46 requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not provide sufficient equity at risk for the entity to support its activities. In December 2003, the FASB revised certain elements of FIN 46 (FIN 46-R). The FASB also modified the effective date of FIN 46. This interpretation applies immediately to variable interest entities created after January 31, 2003 and variable interest entities in which the Company obtains an interest after January 31, 2003. For variable interest entities in which a company obtained an interest before February 1, 2003, the interpretation applies to the interim period ending after March 15, 2004. The adoption of FIN 46 did not have a material impact on the Company's consolidated financial position or results of operations.

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, 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.

CRITICAL ACCOUNTING POLICIES

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires that we make estimates and judgments that affect the amounts reported of assets, liabilities, revenues and

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expenses and the related disclosure of contingent assets and liabilities. We base our estimates on historical experience and on various other assumptions we believe to be applicable and reasonable under the current circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

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In addition, we are periodically faced with uncertainties, the outcomes of which are not within our control and will not be known for prolonged periods of time.

We believe the following to be critical accounting policies that affect the most significant estimates and judgments used in the preparation of our consolidated financial statements:

PRINCIPLES OF CONSOLIDATION

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

ACCOUNTS RECEIVABLE

Accounts receivable consist of trade receivables recorded at original invoice amount, less an estimated allowance for uncollectible accounts. Trade credit is generally extended on a short-term basis; thus trade receivables generally do not bear interest. However, a finance charge may be applied to receivables that are past due. These charges are included as other income. Trade receivables are periodically evaluated for collectibility based on past credit history with customers and their current financial condition. Changes in the estimated collectibility of trade receivables are recorded in the results of operations for the period in which the estimate is revised. Trade receivables that are deemed uncollectible are offset against the allowance for uncollectible accounts. The Company generally does not require collateral for trade receivables.

INVENTORY

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.

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
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.

GOODWILL AND OTHER INTANGIBLE ASSETS

Prior to January 1, 2002, the Company amortized goodwill and intangible assets using the straight-line method over periods of up to 10 years. Statement of Financial Accounting Standards (SFAS) 142, "Goodwill and Other Intangible Assets," requires that goodwill and intangible assets having indefinite lives not be amortized, but instead be tested for impairment at least annually. Intangible assets determined to have finite lives are amortized over their remaining useful lives.

Results of Operations - Three Months ended June 30, 2004 and 2003

The Company reported net income of \$663,505 for the second quarter of 2004, as compared to net income of \$180,819 in the second quarter of 2003.

Sales from operations increased by \$5,459,280 or 51.1% over the same period in 2003. The inclusion of RAL Supply Group, Inc. ("RAL"), which was acquired on September 30, 2003, and American/Universal Supply Inc. ("American"), which was a new operation that commenced on or about July 1, 2003, accounted for \$4,193,470 of this increase. The remaining increase in sales was related to increased market penetration in the core business of Universal. Simultaneously, gross margin dollars increased by \$1,799,811 substantially because of the sales increases. Gross margins expressed as a percentage of sales increased from 28.05% in 2003 to 29.71% in 2004, primarily due to increases in sales of higher margin products.

Selling, general and administrative expenses and cost of operations increased by \$1,327,642 primarily due to the inclusion of operating expenses related to RAL and American, as well as higher utility rates, fuel costs and insurance expenses.

Interest expense increased by \$45,254 in the 2004 quarter totally related to increased borrowing required to support increased inventory and accounts receivable of RAL and American, which are direct functions of increased sales.

The Company recorded a federal tax benefit of \$209,500 for the second quarter of 2004, an amount equal to the federal tax provision for the second quarter, in order to recognize the utilization of available operating loss carryforwards. During the second quarter of 2003, the Company recorded a federal tax benefit in an amount equal to its provision for federal taxes as it had tax operating loss carryforwards available.

Results of Operations - Six Months Ended June 30, 2004 and 2003

The Company reported net income of \$364,255, for the six months of 2004, as compared to net income of \$111,735 in the six months of 2003.

Sales from operations increased by \$9,626,956 or 50.5% over the same period in 2003. The inclusion of RAL Supply Group, Inc. ("RAL"), which was acquired on

September 30, 2003, and American/Universal Supply Inc. ("American"), which was a new operation that commenced on or about July 1, 2003, accounted for \$7,147,785 of this increase. The remaining increase in sales was related to increased

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market penetration in the core business of Universal. Simultaneously, gross margin dollars increased by \$3,144,346 because of the sales increases. Gross margins expressed as a percentage of sales increased from 28.68% in 2003 to 30.02% in 2004, primarily due to increases in sales of higher margin products.

Selling, general and administrative expenses and cost of operations increased by \$2,875,807, primarily due to the inclusion of expenses related to RAL and American, as well as higher utility rates, fuel costs and insurance expenses.

Interest expense increased by \$74,628 in the 2004 quarter because of increased borrowing to support increased inventory and accounts receivable of RAL and American.

The Company recorded a federal tax benefit of \$129,600 for the first half of 2004, recognizing available operating loss carryforwards. This compares to a federal tax benefit of \$91,371 recorded in the first half of 2003, due to the receipt of tax refunds not previously accrued.

Liquidity and Capital Resources

As of June 30, 2004, the Company had \$960,427 in cash and cash equivalents compared with \$342,756 at December 31, 2003.

Between December 31, 2003 and June 2004, there were no material changes in obligations associated with operating agreements, obligations to financial institutions and other long-term debt obligations.

Cash flows used by operations were \$550,556 during the six months ended June 30, 2004. Trade payables increased due primarily to increased inventory purchases resulting from an overall increase in sales. Accounts receivable increased due to an increase in sales in the second quarter of 2004 and timing of customer payments.

Cash flows used in investing activities of \$211,106 during the six months ended June 30, 2004 were due to the purchase of property and equipment.

The cash flows provided by financing activities of \$1,379,333 included borrowings on the credit facility of \$1,387,332, as well as borrowings on notes payable of \$22,871. Financing activities also include the sale of 600,000 shares of common stock for \$360,000 in a private placement dated February 12, 2004, the proceeds of which were used to repurchase 592,730 shares of convertible preferred stock for \$355,638.

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At June 30, 2004, amounts outstanding under the Company's then existing credit facility were \$13,619,362. This credit facility was refinanced July 29, 2004. (See footnote 5, Subsequent Events.). The Company believes that its credit facility is sufficient to finance its current operating needs.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company's pre-tax earnings and cash flows are exposed to changes in interest rates, as all borrowings under its credit facility at June 30, 2004 bear interest based on that 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 decrease the pre-tax income and cash flow by approximately \$64,900 over a one-year period, assuming the borrowing level

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remains consistent with the outstanding borrowings as of June 30, 2004. The fair value of the borrowings under the credit facility is not affected by changes in market interest rates. (See footnote 5(b), Subsequent Events.)

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

An evaluation has been carried out under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and the operation of our "disclosure controls and procedures" (as such term is defined in rules 13a-15(e) under the Securities Exchange Act of 1934) as of June 30, 2004 ("Evaluation Date"). Based on such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the Evaluation Date, the disclosure controls and procedures are reasonably designed and effective to ensure that (i) information required to be disclosed by us in the reports we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and (ii) such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

The 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.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

None

Item 2. Changes in Securities, Use of Proceeds and Issuer Purchases of Equity Securities

Sale of Unregistered Securities:

- (a) On February 12, 2004, the Company completed a private placement, pursuant to Regulation D of the Securities Exchange Act of 1933. The Company raised \$360,000 through the issuance of 600,000 shares of common stock at \$0.60 per share. See Part 2, Item 2(a).

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The Company has used substantially all of the proceeds from this private placement to purchase 592,730 shares of escheated convertible preferred stock at \$0.60 per share from the State of Ohio. The Company has retired these convertible preferred shares. (See Item 2(b)).

The following is a list of investors who purchased these shares:

Name	Amount of Common Shares	Cash Consideration
Rita C. Folger	100,000	\$ 60,000
Michael Goldman	170,000	\$ 102,000
Bernard Korn	165,000	\$ 99,000
William Pagano	165,000	\$ 99,000
	-----	-----
Total	600,000	\$ 360,000
	=====	=====

On July 29, 2004, the Company completed a private placement, pursuant to Regulation D of the Securities Act of 1933. The Company raised \$1,050,000 through the issuance of 420,000 shares of common stock at \$1.25 per share and the issuance of \$525,000 of subordinated unsecured convertible notes payable ("Notes"), bearing interest at 11% per annum,

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payable quarterly, with 50% of the principal payable on the last day of the fourth anniversary and 50% of the principal payable on the last day of the fifth anniversary. The Notes are convertible to common stock at \$3.00 per share during the term of the Notes.

The following table lists the purchasers of the private placement dated July 29, 2004:

Name	Amount of Common Shares	Convertible Note	C Consi
-----	-----	-----	-----
Richard A. Cancelosi	40,000	\$ 50,000	\$
James Fallon	40,000	\$ 50,000	\$
Rita Folger	80,000	\$ 100,000	\$
Margret Friedrich	40,000	\$ 50,000	\$
Eileen Goldman	20,000	\$ 25,000	\$
John A. Hildebrandt	40,000	\$ 50,000	\$
Paul H. Hildebrandt	40,000	\$ 50,000	\$
William Pagano	80,000	\$ 100,000	\$
William Salek	40,000	\$ 50,000	\$
	-----	-----	-----
Total	420,000	\$ 525,000	\$1
	=====	=====	=====

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On July 30, 2004, the Company completed a private placement with Michael Goldman and Goldman Associates of New York, Inc. pursuant to Regulation D of the Securities Act of 1933. For total consideration of \$1,500,000, the Company issued to Goldman Associates, Inc. of New York 600,000 shares of common stock at \$1.25 per share, a \$750,000 subordinated secured note payable, earning interest at the prime rate, interest payable quarterly, principal payable on December 31, 2008, and warrants to purchase 150,000 shares of common stock at \$3.00 per share expiring December 31, 2008.

These securities were issued in reliance on the exemption set forth in Section 4(2) of the Act from registration requirements under the Act.

- (b) The following table provides information about purchases by the Company (and its affiliated purchasers) during the six months ended June 30, 2004 of equity securities that are registered by the Company pursuant to Section 12 of the Exchange Act:

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ISSUER PURCHASES OF EQUITY SECURITIES

Period	Total Number of Shares (or Units) Purchased (1)	Average Price Paid per share (Or Unit)	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	Maximum (or Approximate Dollar Value) of Shares (or Units) that May be Purchased under the Plan or Programs
02/01/04-02/29/04	592,730 Shares of Convertible Preferred Stock	\$.60	N/A	N/A

- (1) On February 12, 2004, the Company used substantially all of the proceeds from its February 12, 2004 private placement of 600,000 common shares to purchase 592,730 shares of escheated convertible preferred stock at \$.60 per share from the State of Ohio. The Company has retired these convertible preferred shares.

Item 3. Defaults Upon Senior Securities

Not Applicable

Item 4. Submission of Matters To A Vote Of Security Holders

Not Applicable

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Item 5. Other Information

None

Item 6. Exhibits and Reports on Form 8-K

a. Exhibits:

(4) Instruments Defining the Rights of Security Holders,
Including Indentures

4.1 Private Placement Agreement

4.2 Convertible Note Payable

4.3 Goldman Associates, Inc. of N.Y. Agreement

4.4 Goldman Associates, Inc. of N.Y. Note

4.5 Goldman Associates, Inc. of N.Y. Warrant
Agreement

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(10) Material Contracts

10.1 Wells Fargo Business Credit, Inc. Loan Agreement

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:

(i) Form 8-K filed June 7, 2004 to report financial results for
the quarter ended March 31, 2004.

(ii) Form 8K/A-1 filed April 20, 2004 to amend the Company's
current report on Form 8-K dated October 15, 2003 relative to the acquisition of
RAL. This report amended the information provided under item 7(a) and 7(b).

SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of

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1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Dated: August __, 2004

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

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