

COLONIAL COMMERCIAL CORP

Form 10-Q

May 11, 2012

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2012

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 1-6663

COLONIAL COMMERCIAL CORP.

(Exact name of registrant as specified in its charter)

New York  
(State or other jurisdiction of  
incorporation or organization)

11-2037182  
(I.R.S. Employer  
Identification No.)

275 Wagaraw Road, Hawthorne, New Jersey  
(Address of principal executive offices)

07506  
(Zip Code)

973-427-8224

(Registrant's telephone number, including area code)

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

Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting

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company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input type="radio"/>	Accelerated filer	<input type="radio"/>
Non-accelerated filer	<input type="radio"/>	Smaller reporting company	<input checked="" type="radio"/>

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at May 1, 2012
Common Stock, \$.05 par value per share	9,154,953 shares
Convertible Preferred Stock, \$.05 par value per share	293,057 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

	March 31, 2012 (Unaudited)	December 31, 2011
<b>Assets</b>		
Current assets:		
Cash	\$423,402	\$ 271,697
Accounts receivable, net of allowance for doubtful accounts of \$435,959 and \$652,449, respectively	8,240,480	10,057,598
Inventory	12,518,073	12,035,597
Prepaid expenses and other current assets	1,106,354	1,413,531
Total current assets	22,288,309	23,778,423
Property and equipment	971,669	949,912
Goodwill	1,416,929	1,416,929
Other assets	414,091	428,532
	\$25,090,998	\$ 26,573,796
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Borrowings under credit facility - revolving credit	\$11,525,510	\$ 11,991,407
Notes payable, current portion; includes related party notes of \$382,009 and \$32,009, respectively	745,667	384,630
Trade payables	5,584,310	5,681,928
Accrued liabilities	1,208,116	1,476,776
Income taxes payable	586	586
Total current liabilities	19,064,189	19,535,327
Convertible notes payable-related party	200,000	200,000
Notes payable, non-current portion; includes related party notes of \$790,012 and \$798,014, respectively	1,929,448	1,977,518
Total liabilities	21,193,637	21,712,845
Commitments and contingencies		
Stockholders' equity:		
Redeemable convertible preferred stock, \$.05 par value, 2,500,000 shares authorized, 293,057 shares issued and outstanding, liquidation preference of \$1,465,285	14,653	14,653
Common stock, \$.05 par value, 20,000,000 shares authorized, 9,154,953 shares issued and outstanding	457,747	457,747
Additional paid-in capital	12,659,782	12,659,782
Accumulated deficit	(9,234,821 )	(8,271,231 )
Total stockholders' equity	3,897,361	4,860,951
	\$25,090,998	\$ 26,573,796

The accompanying notes are an integral part of these condensed consolidated financial statements.



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## COLONIAL COMMERCIAL CORP. AND SUBSIDIARIES

Condensed Consolidated Statements of Operations  
(Unaudited)

	For The Three Months Ended March 31,	
	2012	2011
Sales	\$ 18,091,774	\$ 15,061,973
Cost of sales	13,543,184	10,883,506
Gross profit	4,548,590	4,178,467
Selling, general and administrative expenses	5,412,348	5,296,442
Operating loss	(863,758 )	(1,117,975 )
Other income	54,249	63,968
Interest expense, net; includes related party interest of \$14,869 and \$15,830, respectively	(154,081 )	(211,772 )
Net loss	\$ (963,590 )	\$ (1,265,779 )
Net loss per common share:		
Basic and diluted	\$ (0.11 )	\$ (0.20 )
Weighted average shares outstanding:		
Basic and diluted	9,154,953	6,194,953

The accompanying notes are an integral part of these condensed consolidated financial statements.

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## COLONIAL COMMERCIAL CORP. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows  
(Unaudited)

	For Three Months Ended March 31,	
	2012	2011
Cash flows from operating activities:		
Net loss	\$(963,590 )	\$(1,265,779 )
Adjustments to reconcile net loss to net cash provided by operating activities:		
Provision for doubtful accounts	123,184	71,100
Depreciation	93,667	94,493
Net loss on disposal of fixed assets	-	739
Changes in operating assets and liabilities		
Accounts receivable	1,693,934	1,022,115
Inventory	(482,476 )	404,175
Prepaid expenses and other current assets	307,177	147,419
Other assets - noncurrent	14,441	(27,540 )
Trade payables	(97,618 )	(995,218 )
Accrued liabilities	(268,660 )	(384,503 )
Income taxes payable	-	(2,360 )
Net cash provided by (used in) operating activities	420,059	(935,359 )
Cash flows from investing activities:		
Additions to property and equipment	(57,274 )	(29,786 )
Proceeds from disposal of property and equipment	-	3,000
Net cash used in investing activities	(57,274 )	(26,786 )
Cash flows from financing activities:		
Repayments of notes payable; includes related party repayments of \$8,002 in 2012 and 2011	(95,183 )	(268,984 )
Issuance of notes payable, related party	350,000	-
Issuance of common stock	-	2,250,000
Repayments under credit facility - revolving credit, net	(465,897 )	(963,160 )
Net cash (used in) provided by financing activities	(211,080 )	1,017,856
Increase in cash	151,705	55,711
Cash - beginning of period	271,697	75,390
Cash - end of period	\$423,402	\$131,101

The accompanying notes are an integral part of these condensed consolidated financial statements.

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COLONIAL COMMERCIAL CORP. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

March 31, 2012

(Unaudited)

1. Summary of Significant Accounting Policies and Practices and Basis of Presentation

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 March 31, 2012 is 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 as permitted by the interim reporting requirements of the Securities and Exchange Commission. It is suggested that these condensed 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, 2011.

We have only one operating segment.

Inventory is comprised of finished goods and is stated at the lower of cost (first-in, first-out method) or market.

Recently adopted accounting pronouncement:

In June 2011, the FASB issued ASU No. 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income. This ASU eliminates the option to report other comprehensive income and its components in the statement of stockholders equity and requires the presentation of comprehensive income in either (1) a continuous statement of comprehensive income or (2) two separate but consecutive statements. This ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011 and should be applied retrospectively. The Company adopted this ASU on January 1, 2012. The Company did not have any components of comprehensive income during the three months ended March 31, 2012 or 2011 and therefore did not include a statement of comprehensive income during the current period.

2. Stock Options

The Company recognizes equity based compensation expense in accordance with established standards for transactions in which an entity exchanges its equity instruments for goods and services. This standard requires an entity to measure the cost of employee services received in exchange for an award of equity instruments based on the grant date fair value of the award.

On September 29, 2006, the Company adopted the Colonial Commercial Corp. 2006 Stock Plan, (the "2006 Plan"). The 2006 Plan enables the Company to grant equity and equity-linked awards to the Company's Directors, officers, employees and other persons who provide services to the Company. The 2006 Plan is intended to allow the Company to provide incentives that will (1) strengthen the desire of highly competent persons to provide services to the Company and (2) further stimulate their efforts on the Company's behalf.





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The following table summarizes information about stock options at March 31, 2012:

Range of Exercise Prices	Shares	Options Outstanding and Exercisable		Aggregate Intrinsic Value
		Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	
\$ 1.85	75,000	4.69	\$ 1.85	\$ 0

There were no stock options granted during the three months ended March 31, 2012 and 2011. For each of the three months ended March 31, 2012 and 2011, the amount of stock based compensation was \$0.

### 3. Equity Transactions

During the three months ended March 31, 2012 and 2011, no shares of convertible preferred stock were converted into common stock.

No stock options were exercised during the three months ended March 31, 2012 and 2011.

In March 2011, the Company privately placed 4,500,000 shares of common stock at \$0.50 per share for total proceeds of \$2,250,000, primarily with related parties.

### 4. Supplemental Cash Flow Information

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

	For the Three Months Ended March 31,	
	2012	March 31, 2011
Cash paid during the period for:		
Interest	\$ 156,829	\$ 202,649
Supplemental disclosure of non-cash financing activities:		
Note issued for purchase of fixed assets	\$ 58,150	\$ 41,775

### 5. Net Loss Per Common Share

Employee stock options totaling 75,000, convertible preferred stock, convertible into 293,057 shares of common stock, and convertible notes, in the principal amount of \$200,000, convertible into 66,666 shares of common stock, for each of the three months ended March 31, 2012 and 2011, respectively, were not included in the net loss per share calculation because their effect would have been anti-dilutive.

### 6. Financing Arrangements

On October 18, 2011, the Company and KeyBank National Association (“KeyBank”) entered into a three-year Credit and Security Agreement (the “KeyBank Agreement”) that refinanced and replaced a credit facility with Wells Fargo

Bank.

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The KeyBank Agreement provides for a revolving loan facility under which the Company may borrow up to the lesser of (i) \$15,000,000 or (ii) 85% of eligible accounts receivable, plus 55% (but not more than \$6,500,000) of the lower of cost or market of eligible inventory, less designated reserves. Borrowings bear interest at 2.75% above the Eurodollar Rate (as defined) or 0.25% above the Base Rate (as defined), and are secured by a first lien on substantially all of the Company's assets, as well as a pledge of the stock of Colonial Commercial Corp.'s operating subsidiaries. The facility contains covenants relating to the financial condition of the Company and its business operations. As of March 31, 2012, the Company must maintain a consolidated net worth of at least \$2,917,172. The Company must also maintain a Fixed Charge Coverage Ratio as defined in the KeyBank Agreement. As of March 31, 2012, the Company's net worth was \$3,897,361 and its Fixed Charge Ratio was 1.58, both exceeding the loan covenants. The Company will be considered in default of its credit agreement with KeyBank in the event William Pagano shall cease to hold the position of Chief Executive Officer, or a similar or higher position of the Company and the Company shall fail to hire a replacement consultant or Chief Executive Officer with technical expertise, experience and management skills, in the opinion of KeyBank, necessary for the successful management of the Company. Additionally, the facility restricts, among other things, the payment of dividends, and further restricts, subject to specified exceptions, subordinated debt, purchase of securities, and the merger and sale of the Company.

During the three months ended March 31, 2012, the Company repaid an aggregate of \$21,669,617 and borrowed \$21,203,720. As of March 31, 2012, the balance outstanding under the facility was \$11,525,510 and availability was \$65,772.

Goodman Company, L.P. and certain of its affiliates ("Goodman") is a supplier to the Company. On October 14, 2011, the Company and Goodman entered into an Amendment and Restatement No. 2 that restated the payment terms of a promissory note payable in the initial principal amount of \$2,000,000. Amendment and Restatement No. 2 provides that from November 24, 2011 to October 24, 2014 the principal of \$1,299,680 of the promissory note outstanding on October 24, 2011 is to be paid with monthly payments of \$29,195 and a balloon payment of \$470,582 on November 24, 2014. In connection with the KeyBank Agreement, Goodman, Universal and KeyBank entered into an Intercreditor and Lien Subordination Agreement dated as of October 18, 2011. The Intercreditor and Lien Subordination Agreement sets forth among other things the relative priorities of the security interests of KeyBank and Goodman in the assets of the Company. The principal balance of the promissory note as of March 31, 2012 and 2011 was \$1,195,649 and \$1,449,234, respectively.

In connection with the KeyBank Agreement, Goldman Associates of New York, Inc., William Pagano, Rita Folger, Paul Hildebrandt and John A. Hildebrandt, holders of promissory notes of the Company in the then aggregate principal amount of \$1,049,139, entered into subordination agreements dated as of October 18, 2011 in favor of KeyBank.

## 7. Litigation

### (a) Universal Supply Group, Inc.

Universal Supply Group, Inc., a wholly owned subsidiary of the Company, is a New York corporation ("Universal"). On June 25, 1999, Universal acquired substantially all of the assets of Universal Supply Group, Inc., a New Jersey corporation, including its name, pursuant to the terms of a purchase agreement. Subsequent to the acquisition, Universal Supply Group, Inc. (the selling corporation) formerly known as Universal Engineering Co., Inc., changed its name to Hilco, Inc. Hilco, Inc. acquired the assets of Amber Supply Co., Inc., formerly known as Amber Oil Burner Supply Co., Inc., in 1998, prior to Hilco's sale of assets to Universal. Hilco, Inc. is hereinafter referred to as the "Universal Predecessor." The majority shareholders of Hilco, Inc. were John A. Hildebrandt and Paul Hildebrandt.



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The Company understands that the Universal Predecessor and many other companies have been sued in the Superior Court of New Jersey (Middlesex County) by plaintiffs filing lawsuits alleging injury due to asbestos. As of March 31, 2012, there existed 7 plaintiffs in these lawsuits relating to alleged sales of asbestos products, or products containing asbestos, by the Universal Predecessor. The Company never sold any asbestos related products.

Of the existing plaintiffs as of March 31, 2012, 1 filed an action in 2012, 3 filed actions in 2011 and 3 filed actions in 2010. There are 209 other plaintiffs that have had their actions dismissed and 17 other plaintiffs that have settled as of March 31, 2012 for a total of \$3,364,500 paid by defendants other than Universal. There has been no judgment against the Universal Predecessor.

The Company's Universal subsidiary was named by 38 plaintiffs; of these, 1 filed an action in 2012, 1 filed an action in 2010, 11 filed actions in 2007, 6 filed actions in 2006, 11 filed actions in 2005, 5 filed actions in 2001, 1 filed an action in 2000, and 2 filed actions in 1999. Thirty-four plaintiffs naming Universal have had their actions dismissed and, of the total \$3,364,500 of settled actions, 3 plaintiffs naming Universal have settled for \$27,500. No money was paid by Universal in connection with any settlement. Following these dismissed and settled actions there existed 1 plaintiff that named Universal as of March 31, 2012.

As set forth in more detail below, the Company has been indemnified against asbestos-based claims, and insurance companies are defending the interests of the Universal Predecessor and the Company in these cases.

Based on advice of counsel, the Company believes that none of the litigation that was brought against the Company's Universal subsidiary through March 31, 2012 is material, and that the only material litigation that was brought against the Universal Predecessor through that date was Rhodes v. A.O. Smith Corporation, filed on April 26, 2004 in the Superior Court of New Jersey, Law Division, Middlesex County, Docket Number MID-L-2979-04AS. The Company was advised that the Rhodes case was settled for \$3,250,000 ("Settlement") under an agreement reached in connection with a \$10,000,000 jury verdict that was rendered on August 5, 2005. The Company was not a defendant in the Rhodes case.

The Company believes that Rhodes differed from the other lawsuits in that plaintiff established that he contracted mesothelioma as a result of his occupational exposure to asbestos dust and fibers and that a predecessor of the Company was a major supplier of the asbestos containing products that allegedly caused his disease.

### (b)(i) Indemnification

John A. Hildebrandt, Paul Hildebrandt and the Universal Predecessor have jointly and severally agreed to indemnify the Company's Universal subsidiary from and against any and all damages, liabilities and claims due to exposure to asbestos at any time prior to the June 25, 1999 closing of the purchase agreement referred to earlier. These agreements are set forth in the purchase agreement. Paul Hildebrandt, one of the indemnitors, was a Director of the Company from September 29, 2004 to January 28, 2005.

The indemnitors may use their own counsel to defend these claims. The indemnitors are not liable for any settlement effected without their consent. The indemnitors may settle and pay money claims without the consent of the Company. There is no indemnification unless claims aggregate \$50,000; once this trigger point is reached, indemnification is required for all claims, including the first \$50,000, but excluding claims of less than \$10,000. The indemnification requirement survives at least until 30 days after the running of any relevant statutes of limitation.

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The obligation of the indemnitors is joint and several, so that the Company can have recourse against any one or more of these indemnitors, whether or not any other indemnitor has previously defaulted on its obligation to us. There are no other limitations to the Company's rights to indemnification. The Company cannot be certain that the indemnitors have the financial wherewithal to meet their obligations to indemnify the Company.

(b)(ii)

Insurance

The assets that the Universal Predecessor sold to the Company included its insurance policies and other agreements and contracts. The policies provide coverage for liability accruing during the periods for which premiums were paid. The Universal Predecessor was formed in 1940. Copies of policies are available for each year beginning in 1970 and ending with the closing under the purchase agreement in 1999. Copies of policies for the period from 1940 to 1969 are not available.

Insurance companies acknowledge coverage for potential asbestos claims under certain of these policies. Insurance companies under additional policies have reserved their right to deny coverage but have continued to defend and indemnify the Universal Predecessor and the Company under the contested policies.

There are periods during the years from 1940 to 1999 in which the Universal Predecessor did not have coverage for potential asbestos claims. Subject to litigation, insurance companies may maintain that the existence of these periods' results in coverage for only a portion of a particular injury that varies with the period during which there was asbestos coverage relating to the injury, and that the balance of any settlement or judgment is to be paid by the insured. As of March 31, 2012, no insurance company has claimed any contribution for a gap in coverage except for a claim for \$160 made by one insurance company to the Universal Predecessor in 1995. The Universal Predecessor asserted that it had no obligation to pay this amount and did not make any payment.

Insurance companies have, as of December 31, 2011, defended the Company and the Universal Predecessor, and have paid all settlement amounts and defense costs. Except for \$160 referred to above, the insurance companies have not requested any payments from the Company or from the Universal Predecessor.

The Company's Universal subsidiary has not engaged in the sale of asbestos products since its formation in 1997. Its product liability policies for all years since 1998 exclude asbestos claims.

(c)

General

Regardless of indemnification and insurance coverage, management does not in any event consider the Company to be liable for the asbestos-based lawsuits that name the Company or for any other claim that arises as a result of actions or omissions by the Universal Predecessor. The Company expressly disclaimed the assumption of any liabilities when the Company purchased the assets of the Universal Predecessor. It is the opinion of management that the existing asbestos litigation will not have a material adverse effect on the Company. Nevertheless, the Company could be materially and adversely affected if it is held liable for substantial asbestos claims or if it incurs substantial legal or settlement costs. This material and adverse effect would occur if indemnitors fail to honor their indemnification agreements and insurance is not available either because policy limits are exceeded, or because insurance companies successfully deny coverage or claim limitations on their liabilities by reason of gaps in coverage or otherwise.

Since management regards as remote the potential payment of any asbestos-based claim, no amounts have been accrued for any period relating to asbestos claims, and no amounts have been recorded for asbestos claims for any period in the financial statements.





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(d) Other Litigation

The Company is periodically involved in other litigation in the ordinary course of business. The Company vigorously defends all matters in which the Company or its subsidiaries are named defendants and, for insurable losses, maintains significant levels of insurance to protect against adverse judgments, claims or assessments. Although the adequacy of existing insurance coverage or the outcome of any legal proceedings cannot be predicted with certainty, the Company does not believe the ultimate liability associated with any claims or litigation will have a material impact to its financial condition or results of operations.

8. Transactions with Related Persons, Promoters and Certain Control Persons

- (a) A subsidiary of the Company leases a warehouse and store in Wharton, New Jersey comprising of 27,000 square feet from a company owned by Mr. Paul Hildebrandt under a lease that expires July 31, 2017. The Company paid Mr. Hildebrandt's company \$57,144 and \$55,251 during the three months ended March 31, 2012 and 2011, respectively. William Salek, the Company's Chief Financial Officer, is the son-in-law of Mr. Hildebrandt. Mr. Hildebrandt served as a Director of the Company from July 2004 to January 2005.
- (b) Pursuant to a secured note dated July 29, 2004, as amended, the Company owes Goldman Associates of New York, Inc. ("Goldman Associates"), the principal amount of \$750,000 at March 31, 2012 collateralized by the assets of the Company. The secured note is subordinate to the borrowings under the credit facility, bears interest at the prime rate plus 2% and is due on January 1, 2014. Michael Goldman is the Chief Executive Officer and Chairman of the Board of Goldman Associates and is Chairman of the Board of the Company.
- (c) Oscar Folger and Jeffrey Folger, of the law firm of Folger & Folger, are counsel to the Company. Rita Folger, a more than 5% shareholder of the Company, is the wife of Oscar Folger and the mother of Jeffrey Folger. Professional fees paid to the law firm of Folger & Folger for the three months ended March 31, 2012 and 2011 were \$4,726 and \$7,484, respectively.
- (d) Pioneer Realty Holdings, LLC, a New York limited liability company ("Pioneer"), is the owner of the premises located at 836 Route 9, Fishkill, New York, formerly known as 2213 Route 9, Fishkill, New York that is leased to a subsidiary of the Company under a lease that expires on March 31, 2017, subject to two five-year renewal options.
- William Pagano, Chief Executive Officer and Director of the Company, has a 55% interest in Pioneer and each of Mrs. Folger and Jeffrey Folger has a 20% interest in Pioneer Realty Partners I, LLC, which has a 40% interest in Pioneer. The Company paid Pioneer \$69,028 and \$66,630 during the three months ended March 31, 2012 and 2011, respectively.
- (e) Mr. Pagano and Mrs. Folger are each holders of convertible unsecured notes in the amount of \$100,000, issued pursuant to the terms of a private placement made on July 29, 2004, as amended. The convertible unsecured notes bear interest at the prime rate plus 2% and are due on January 1, 2014.

Interest expense on each of the notes held by Mr. Pagano and Mrs. Folger amounted to \$1,313 for each of the three months ended March 31, 2012 and 2011.

- (f) Mr. Hildebrandt, Goldman Associates, Mr. Pagano and Mrs. Folger were each holders of unsecured notes in the amounts of \$90,000, \$171,033, \$35,000 and \$100,000, respectively, issued in connection with the Company's August 20, 2009 tender offer to purchase any and all shares of its convertible preferred stock at \$1.25 per share. The unsecured notes bear interest at 12% and are payable in twenty equal quarterly payments beginning October

10, 2009.

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Subsequent to the expiration of the Company's tender offer on October 20, 2009, the Company repaid to Mr. Hildebrandt, Goldman Associates, Mr. Pagano and Mrs. Folger the unused portion of the above notes. These repayments amounted to \$50,947, \$96,818, \$19,813 and \$56,608, respectively. As a result of these repayments, Mr. Hildebrandt, Goldman Associates, Mr. Pagano and Mrs. Folger were each holders of unsecured notes in the amounts of \$39,053, \$74,215, \$15,187 and \$43,392, respectively.

At March 31, 2012 the remaining principal on the above notes to Mr. Hildebrandt, Goldman Associates, Mr. Pagano and Mrs. Folger were \$16,367, \$31,104, \$6,365 and \$18,186, respectively. Interest expense on the notes held by Mr. Hildebrandt, Goldman Associates, Mr. Pagano and Mrs. Folger amounted to \$546, \$1,037, \$212 and \$606, respectively, for the three months ended March 31, 2012. Interest expense on the notes held by Mr. Hildebrandt, Goldman Associates, Mr. Pagano and Mrs. Folger amounted to \$764, \$1,452, \$297 and \$849, respectively, for the three months ended March 31, 2011.

(g) In March 2011, the Company privately placed 4,500,000 shares of common stock at \$0.50 per share for total proceeds of \$2,250,000. Of these shares, 3,000,000 shares were purchased by Goldman Associates of New York, Inc. ("Goldman Associates"), 600,000 shares were purchased by Rita Folger, 400,000 shares were purchased by Paul Hildebrandt, 200,000 shares were purchased by William Pagano and 300,000 shares were purchased by John A. Hildebrandt.

(h) On February 24, 2011, the Board of Directors of the Company appointed Melissa Goldman-Williams to serve as Vice President of Operations. Mrs. Goldman-Williams receives a salary of \$135,000 per year. Mrs. Goldman-Williams is a director of the Company and is the daughter of Michael Goldman, the Chairman of the Board of the Company.

(i) On March 1, 2012, the Company borrowed \$350,000 from Goldman Associates. Interest accrues on the loan at 4% per annum and is due on May 24, 2012.

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

We begin Management's Discussion and Analysis of Financial Condition and Results of Operations of Colonial Commercial Corp. and subsidiaries with a discussion of our business, and other business considerations, to provide a context for understanding. This is followed by a discussion of the "Critical Accounting Policies" that we believe are important to understanding the assumptions and judgments incorporated into our reported financial results which we discuss under "Results of Operations." We then provide an analysis of cash flows, and discuss our financial commitments under "Liquidity and Capital Resources." It is suggested that Management's Discussion and Analysis of Financial Condition and Results of Operations be read in conjunction with the consolidated financial statements and notes included in the Company's Form 10-K for the year ended December 31, 2011.

### Forward-Looking Statements

This report on Form 10-Q contains forward-looking statements including estimates, projections, statements relating to our business plans, objectives, and expected operating results, and the assumptions upon which those statements are based, are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements generally are identified by the words "believe," "project," "expect," "anticipate," "estimate," "intend," "strategy," "plan," "may," "should," "will," "would," "will be," "will continue," "will likely result," and similar expressions. Forward-looking statements involve risks and uncertainties, including, but not limited to, 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. We undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events, or otherwise.

### Company Overview

Colonial Commercial Corp. is a New York corporation which was incorporated on October 28, 1964. Unless otherwise indicated, the term "Company" refers to Colonial Commercial Corp. and its consolidated subsidiaries. The Company's operations are conducted through its wholly owned subsidiaries, Universal Supply Group, Inc. ("Universal"), The RAL Supply Group, Inc. ("RAL"), and S&A Supply, Inc ("S&A"). We distribute heating, ventilating and air conditioning equipment (HVAC), parts and accessories, climate control systems, appliances, and plumbing and electrical fixtures and supplies, primarily in New Jersey, New York, Massachusetts and portions of eastern Pennsylvania, Connecticut and Vermont.

We supply the Amana air conditioning and heating equipment line in New Jersey (exclusive of Cape May and Cumberland counties), lower portions of New York State, and Western Massachusetts. At all our locations we also supply, on a non-exclusive basis, the Goodman line of heating and air conditioning equipment, Fraser-Johnston commercial air conditioning equipment, and Johnson Controls' Source 1 HVAC Service Parts. We distribute these products through seven sales locations in New Jersey, nine in New York State and two in Massachusetts. We also have an additional location in New Jersey that we use for warehousing purposes only. We use showrooms for the display and sale of kitchen, bathroom and electrical fixtures and accessories at our locations in Fishkill, Middletown, New Windsor and Suffern, New York and Great Barrington and Pittsfield, Massachusetts.

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We have developed a specialty in the design and sale of energy conservation control systems and the fabrication of customized UL listed control panels. We also supply indoor air quality components and systems.

Our in-house staff provides technical assistance and training to customers. In some cases, we also use vendors' representatives and outside services. We do not install any equipment or systems.

We distribute appliances, such as washers and dryers, to appliance dealers primarily in New York, New Jersey, and portions of Connecticut, Delaware and Pennsylvania.

Our objective is to become a leading provider of HVAC, plumbing and electrical equipment and accessories to the professional contractor in the northeastern United States by expanding our product offerings and increasing our customer technical and logistical support services.

## Other Business Considerations

Our business is affected by significant outdoor temperature swings. Our sales typically increase during peak heating and cooling demand periods. Demand related to the residential central air conditioning replacement market is highest in the second and third quarters, while demand for heating equipment is usually highest in the fourth quarter. Our business is also affected by general economic conditions in the residential and commercial construction industries.

## 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 condensed 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 liabilities, disclosure of contingent assets and liabilities of 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, climate control systems and plumbing and electrical fixtures and supplies. Revenue is recognized when the earnings process is complete, which is generally upon shipment or delivery of products, and the price is determined and collectability is reasonably assured, in accordance with agreed-upon shipping terms and when title and risk of loss transfers to the customer. The Company has no further obligations subsequent to shipment or delivery. Customers have the right to return defective products, which are substantially covered under the manufacturer's warranty. The customer receives a credit from the Company for defective products returned and the Company receives a corresponding credit provided by the manufacturer. The only warranty provided on products sold is the one provided by the manufacturer.

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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 accounts receivable of \$8,240,480, net of an allowance for doubtful accounts of \$435,959, as of March 31, 2012. 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 in accordance with the lower of cost or market value, based upon assumptions about future demand and market conditions. A significant sudden increase in the demand for the Company's 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.

Goodwill is reviewed at least annually for impairment. The Company evaluated goodwill for impairment in December 2011. In assessing the recoverability of the Company's goodwill, the Company must make assumptions regarding estimated future cash flows and other factors to determine the fair value of the respective assets and liabilities of the reporting unit. The Company considers each subsidiary as a reporting unit. The Company groups assets, including goodwill, by reporting unit and utilizes the income approach (Discounted Cash Flows) to estimate the fair value of long-lived assets. If the Company's fair value determination changes due to modifications in the underlying assumptions, the Company may be required to record impairment charges related to its goodwill. At March 31, 2012, goodwill on the Company's books of \$1,416,929 relates entirely to Universal.

The Company accounts for income taxes in accordance with the 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. Management reviewed the gross deferred tax asset and determined that it is more likely than not that such assets would not be recognized in the near future. As of March 31, 2012, the Company has provided a full valuation allowance and the net deferred tax asset was zero.

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## Results of Operations

## Results of Operations for the Three Months Ended March 31, 2012 and 2011

Sales increased by 20.1%, or \$3,029,801, to \$18,091,774 for the three months ended March 31, 2012 from \$15,061,973 for the same period in 2011. Gross profit increased by 8.9%, or \$370,123, to \$4,548,590 for the three months ended March 31, 2012 from \$4,178,467 for the same period in 2011. Gross profit expressed as a percentage of sales decreased to 25.1% in 2012 compared to 27.7% for the comparable period in 2011. The increase in sales and gross profit was related to a general increase in sales of residential and commercial HVAC equipment and appliances. The decrease in gross margins expressed as a percentage of sales was caused by higher volume residential and commercial equipment and appliance sales at lower, more competitive prices, and lower sales of higher margin accessory products.

Cost of sales excludes the distribution costs of incoming freight, purchasing, receiving, inspection, warehousing and handling costs, as these costs are included in our selling, general and administrative expenses. Our gross margins may not be comparable to those of other entities since some entities may include these distribution costs in the cost of sales. These distribution costs were \$113,628 and \$121,568 for the three months ended March 31, 2012 and 2011, respectively.

Selling, general and administrative expenses increased by 2.2%, or \$115,906, to \$5,412,348 for the three months ended March 31, 2012 from \$5,296,442 for the same period in 2011. The increase in selling, general and administrative expense is primarily related to a \$138,327 increase in payroll expenses, a \$81,094 increase in advertising expenses and a \$52,084 increase in bad debt expense, partially offset by an \$81,031 reduction in facility related expenses and a \$37,446 reduction in professional fees.

Net interest expense decreased by 27.2%, or \$57,691, to \$154,081 for the three months ended March 31, 2012 from \$211,772 for the same period in 2011. The net interest expense decrease is primarily the result of decreased bank fees and a reduction in the interest rate under the credit line.

The Company's net loss decreased by 23.9%, or \$302,189 to a net loss of \$963,590 for the three months ended March 31, 2012, compared to a net loss of \$1,265,779 for the same period in 2011. The decrease in net loss is primarily the result of the \$370,123 increase in gross profit and \$57,691 decrease in interest expense, partially offset by the \$115,906 increase in selling, general and administrative expenses.

The following table summarizes information derived from the Company's consolidated statements of operations expressed as a percentage of sales for the three months ended March 31, 2012 and 2011.

	For the Three Months Ended March 31,			
	2012		2011	
Sales	100.0	%	100.0	%
Cost of sales	74.8		72.3	
Gross profit	25.2		27.7	
Selling, general and administrative expenses	30.0		35.1	
Operating loss	(4.8	)	(7.4	)
Other income	0.3		0.4	
Interest expense, net	(0.8	)	(1.4	)

Net loss	(5.3 ) %	(8.4 ) %
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### Liquidity and Capital Resources

See Part I Financial Information, Item 1 Financial Statements, Note 6 Financing Arrangements, of this Report on Form 10-Q for a description of the Company's secured credit facility with KeyBank, the Company's credit arrangement with Goodman, and of subordination agreements by Goodman, Goldman Associates of New York, Inc. ("Goldman Associates"), William Pagano, Rita Folger, Paul Hildebrandt and John A. Hildebrandt in favor of KeyBank.

The Company believes that the KeyBank credit facility is sufficient to finance its current operating needs. The business of the Company will be materially and adversely affected if the bank substantially reduces the amount of the credit availability under the terms of the loan or the bank demands payment of the loan and the Company is unable to refinance the loan, or if liquidity is otherwise substantially reduced.

On March 1, 2012, the Company borrowed \$350,000 from Goldman Associates. Interest accrues on the loan at 4% per annum and is due on May 24, 2012. The funds are being used for working capital purposes.

As of March 31, 2012, the Company had \$423,402 in cash compared with \$271,697 at December 31, 2011.

Net cash provided by operating activities was \$420,059 for the three months ended March 31, 2012. The net cash provided by operating activities for the 2012 period is a result of changes in operating assets and liabilities of \$1,166,798 and non-cash charges of \$216,851, offset by a net loss of \$963,590. The decrease in accounts receivable of \$1,693,934 is primarily related to a reduced sales volume during the three months ended March 31, 2012 compared to the three months ended December 31, 2011. The increase in inventory of \$482,476 is to support the increased seasonal sales volume.

Cash flows used in financing activities of \$211,080 for the three months ended March 31, 2012 consisted of \$465,897 in repayments under the credit facility-revolving credit and repayments of notes payable in the amount of \$95,183, offset by \$350,000 in the issuance of a note payable.

### Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not applicable.

### Item 4. Controls and Procedures

#### Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this report, under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, management has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities and Exchange Act of 1934 (the Exchange Act)). Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this Quarterly Report, our disclosure controls and procedures were effective.

#### Changes in Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) or 15d-15(f) under the Exchange Act) during the last fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.



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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

The Company's Legal Proceedings are incorporated by reference from Part I Financial Information, Item 1 Financial Statements, Note 7 Litigation, of this Report on Form 10-Q.

Items 1A, 2, 3, 4 and 5 are not applicable and have been omitted.

Item 6. Exhibits

Exhibit No. Description

<a href="#"><u>31.01</u></a>	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
<a href="#"><u>31.02</u></a>	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
<a href="#"><u>32.01</u></a>	Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
<a href="#"><u>32.02</u></a>	Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document

\* XBRL (Extensible Business Reporting Language) information is furnished and not filed or a part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.

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SIGNATURES

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

Dated: May 11, 2012

COLONIAL COMMERCIAL CORP.

/s/ William Pagano  
William Pagano,  
Chief Executive Officer

/s/ William Salek  
William Salek,  
Chief Financial Officer

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