

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 10-K

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

For the fiscal year ended December 31, 2005

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: 11-2037182

COLONIAL COMMERCIAL CORP.

(Exact name of registrant as specified in its charter)

New York

11-2037182

(State or other jurisdiction of incorporation or organization)

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

275 Wagaraw Road, Hawthorne, New Jersey

(Address of principal executive offices)

07506

(Zip Code)

Registrant's telephone number, including area code **973-427-8224**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class

None

Name of each exchange on which registered

OTC Bulletin Board

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, Par Value \$.05 Per Share

Convertible Preferred Stock, Par Value \$.05 Per Share

(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act.

Yes No

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer

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

Yes No

The aggregate market value of the registrant's common stock held by non-affiliates of the registrant, computed by reference to the last reported price at which the stock was sold on June 30, 2005 (the last business day of the registrant's most recently completed second quarter) was \$3,034,585.

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 March 1, 2006
Common Stock, \$.05 par value per share	4,548,644 shares
Convertible Preferred Stock, \$.05 par value per share	480,536 shares

DOCUMENTS INCORPORATED BY REFERENCE
See Index to Exhibits

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PART I.

Item 1. Business

General

Colonial Commercial Corp. (“Colonial”) 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 American/Universal Supply, Inc., (“American”). We distribute heating, ventilating and air conditioning equipment (HVAC), parts and accessories, climate control systems, and plumbing fixtures and supplies, primarily, in New Jersey, New York and portions of eastern Pennsylvania.

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 with demand for heating equipment usually highest in the fourth quarter.

We are the exclusive supplier of the Amana air conditioning and heating equipment line in New Jersey (exclusive of Cape May and Cumberland counties) and lower portions of New York State. We are also the non-exclusive supplier of the Goodman line of heating and air conditioning equipment in substantially the same trading area. We distribute these products through six locations in New Jersey and one location in Willow Grove, Pennsylvania.

We distribute general heating, ventilating, and air conditioning supplies and plumbing fixtures and supplies through six locations in Fishkill, Middletown, New Windsor, Peekskill, Poughkeepsie and Suffern, New York. The Fishkill, Middletown, New Windsor and Suffern, New York locations utilize showrooms for the display and sale of products.

We have developed a specialty in the design and sale of energy conservation control systems and the fabrication of customized UL listed control panels, and 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.

In 2005, 2004 and 2003, approximately 85% of our sales were for replacement and/or renovation and the remaining 15% of sales were for new construction projects. In the same years, respectively, sales consisted of approximately 40%, 42% and 42% HVAC equipment; 38%, 38% and 38% parts and accessories; and 16%, 15% and 19% climate control systems.

We own no patents and have no intellectual property rights or proprietary technology.

We carry general liability, comprehensive property damage, workers compensation and product liability insurance in amounts that we consider adequate for our business. We maintain \$2,000,000 general liability coverage, plus a \$10,000,000 umbrella policy.

No material regulatory requirements apply specifically to our business.

As of December 31, 2005, we had 159 non-union full-time employees. We believe that our employee relations are satisfactory.

We have no foreign operations and operate only in one business segment.

Distribution, Customers and Suppliers

We stock inventory in most of our 17 locations and in one public warehouse. We deliver products to customers with our fleet of 17 leased and 13 owned trucks and vans. We also make products available for pick-up at our facilities.

We sell primarily to contractors who purchase and install equipment and systems for residential, commercial and industrial users. We had approximately 6,000 customers in 2005. No customer accounted for more than 2% of consolidated net sales in 2005. We believe that the loss of any one customer would not have a material adverse effect on our business. We have no long term agreement with any customer.

We deal with our customers on a purchase order by purchase order basis. We have no assured stability in our customer base.

We have no material long term agreements with any supplier. Certain of our supplier agreements limit the sale of competitive products in designated markets that we serve. In 2005, two suppliers accounted for 37% of our purchases. The loss of one or both of these suppliers could have a material adverse effect on our business for at least a short-term period. We believe that the loss of any one of our other suppliers would not have a material adverse effect on our business.

Competition

We compete with a number of distributors, with national chains and national home centers, and also with several air conditioning and heating equipment manufacturers that distribute a significant portion of their products through their own distribution organizations. There is no single manufacturer, distributor or national chain or home center that dominates our market. Competition is based on product availability, customer service, price and quality. We work to maintain a competitive edge by providing in-house training, technical sales support to our customers and by employing experienced personnel at our point-of-sale locations.

Item 1A. Risk Factors

The following important factors could adversely impact our business.

Our business is significantly impacted by changes in general and local economic conditions.

Our business is substantially affected by changes in general economic factors outside of our control, such as:

- a. employment levels and job growth;
- b. population growth;
- c. housing demand or modernization of existing homes;
- d. consumer confidence (which can be substantially affected by external conditions, including international hostilities involving the United States); and
- e. the availability of financing for homeowners and homebuyers.

We may lose business to competitors and may otherwise be unable to favorably compete.

See “Business–Competition.” Several of the companies that compete with the Company have substantially greater financial and other resources. No assurance can be given that the Company will continue to be able to respond effectively to competitive pressures. Increased competition by existing and future competitors could result in reductions in sales, prices, volumes and gross margins that could materially adversely affect the Company's business, financial condition and results of operations. Furthermore, the Company's success will depend, in part, on its ability to gain market share from competitors.

We are dependent on third party suppliers to deliver equipment parts and accessories to us for resale to contractors.

We have no long term contracts with our suppliers. We are at risk that our suppliers may cease making their products available to us on acceptable terms or at all. The loss of one or both of our two major suppliers could have a material adverse effect on our business.

We are dependent upon uninterrupted delivery of products.

Our Company depends upon transportation of products from our suppliers and to our customers. Any interruption or cessation of the transportation of these products by national or regional stoppages, fuel shortages, or other, will significantly impair the Company's ability to do business.

Our business may be negatively impacted by inventory losses or obsolescence.

Our businesses depend on providing current products in good condition from our inventory to the customer. Although we believe that we carry adequate insurance to protect ourselves from significant product losses, any uninsured loss of inventory, damages to inventory, or theft of inventory could have a significant impact on our profitability. Alternatively, in the event that we are unable to sell our inventory in a timely manner, the unsold product may become obsolete and unsaleable and cause us to incur significant financial losses.

Our ability to operate our business effectively could be impaired if manufacturers are unable to change their production lines in order to comply with federal government requirements.

The major heating, ventilating and air conditioning equipment manufacturers are changing their production lines in order to comply with federal government mandates relating to the manufacturing of higher efficiency equipment. Our business may be negatively impacted if, as a result of manufacturers' inability to implement this transition in a seamless manner, there is a shortage of products in the industry.

Our business is largely dependent upon seasonal weather variability.

A major portion of our business is the distribution of heating, ventilating and air conditioning products. The sale of these products is heavily influenced by temperature extremes and any major shift in the variation of the climate may have a significant adverse impact on our business.

The Company's financial leverage may result in a negative impact upon our ability to do business.

Our Company is financially leveraged. Our leverage may place burdens on our ability to comply with the terms of our indebtedness, may restrict our ability to pay certain term loans, and further restrict our ability to operate and fulfill our financial obligations. The amount of our debt could have significant consequences. As an example, it could limit our ability to obtain future financing for working capital, capital expenditures, debt service requirements, acquisitions, or other needs. It requires us to dedicate a substantial portion of our cash flow from operations to the payment of our debt and reduces our ability to use cash for other purposes. It has a negative impact on our flexibility in planning or reacting to business changes. It increases our vulnerability to any downturn in our business or to a significant rise in interest rates and may place us at a competitive disadvantage with our competitors who are not in such a leveraged position.

Our ability to meet our debt service and other obligations depends upon our future performance. Our earnings vary based upon all the conditions described herein and, hence, our ability to pay our obligations is affected accordingly.

We may be unable to renew our credit line at the expiration of its term or obtain a reasonable alternate form of financing which would have a significant impact on the continuation of the operation of our business.

Since our debt accrues interest at a floating rate, extended periods of high interest rates could affect the viability of our business.

Our Company's business is dependent upon the creditworthiness of our contractor customers.

Our Company would be significantly negatively impacted in the event our contractor customers are unable to pay their obligations to us. This may occur if the economy or housing market slows, unemployment rises, interest rates increase dramatically, a natural disaster occurs within our region, or an act of terror substantially stops our economy from operating for a significant period of time. If these contractors are unable to pay their accounts with us, the result would be that we would be unable to pay our lending institutions and vendors, substantially impacting our ability to operate.

We could incur substantial losses for asbestos-based claims

See Item 3, Legal Proceedings for a potential material and adverse effect to us if we are held liable for substantial asbestos claims against a predecessor of one of our subsidiaries, indemnitors fail to honor their indemnification agreements and insurance policies are held not to cover these liabilities.

Our ability to operate our Company effectively could be impaired if we fail to attract and retain key personnel.

Although Bernard Korn, Chairman of the Board and Chief Executive Officer, William Pagano, a Director and President, and William Salek, Chief Financial Officer and Secretary have entered into employment agreements with us that expire in 2008, 2010 and 2007, respectively, our ability to operate our businesses and implement our strategies will depend upon our ability to attract and retain other qualified personnel.

Our profitability may be adversely affected by an unfavorable resolution of the results of a New Jersey Sales and Use Tax audit.

One of our subsidiaries is being audited by the State of New Jersey for Sales and Use Tax for 2001, 2002, 2003 and 2004. Preliminary indications are that the state is assessing an unpaid tax with interest and penalties in an amount of approximately \$177,898. Management disputes this amount and is currently reserving \$50,000 that it believes is the correct amount due. An unfavorable resolution of this issue will result in a charge to the Company's profit of the difference between the reserve amount and the amount of final determination or resolution. See Item 15(d), Sales Tax, in the Notes to the Financials.

Our ability to operate our business effectively could be impaired if we are unable to extend the leases for our locations.

We lease 17 locations with a total of 311,770 square feet for showrooms, counter sales and warehousing. We own no real estate. Our leases expire at various times between December 31, 2006 and November 30, 2014. Our business will be negatively impacted if we are unable to extend our existing leases at reasonable rates and we are unable to lease alternative space on acceptable terms.

Item 2. Properties

Our principal executive offices are located at 275 Wagaraw Road, Hawthorne, New Jersey 07506 and are consolidated with the administrative offices of our subsidiary, Universal Supply Group, Inc.

The Company maintains 17 sales and warehouse locations in Hawthorne, Bogota, Augusta, North Brunswick, Cedar Knolls, Wharton and Westville, New Jersey; Willow Grove, Pennsylvania; Elmsford, Hicksville, Middletown, Fishkill, New Windsor, Peekskill, Poughkeepsie, Suffern and New Hampton, New York consisting of 311,770 square feet under leases expiring between 2006 and 2014 with current aggregate annual rents of approximately \$2,692,409. The premises located at Middletown, Fishkill, New Windsor and Suffern, New York also include showrooms of plumbing fixtures and accessories.

Our premises are suitable and adequate for their intended use and are adequately covered by insurance. As of December 31, 2005, we leased all our facilities.

Item 3. Legal Proceedings

Universal Supply Group, Inc. 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. The Company filed a copy of the purchase agreement with the Securities and Exchange Commission on March 30, 1999 as Exhibit 10(g) on Form 10KSB, and the Company filed a copy of an amendment to the purchase agreement on July 9, 1999 as Exhibit 10(a)(ii) on Form 8-K. Subsequent to the sale, 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 "Predecessor." The majority shareholders of Hilco, Inc. were John A. Hildebrandt and Paul Hildebrandt.

The Company understands that 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. Currently, there exist 118 plaintiffs in these lawsuits relating to alleged sales of asbestos products, or products containing asbestos, by the Predecessor. The Company never sold any asbestos related products.

Of the existing plaintiffs, 15 filed actions in 2005, 38 filed actions in 2004, 31 filed actions in 2003, and 34 filed actions in 2002. Seventy-eight other plaintiffs have had their actions dismissed and seven other plaintiffs have settled as of December 31, 2005 for a total of \$3,306,000. There has been no judgment against the Predecessor. Our Universal subsidiary was named by eighteen of the existing plaintiffs; of these, six filed actions in 2001, one filed an action in 2003 and eleven filed actions in 2005. No case that names our Universal subsidiary has been settled or dismissed.

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 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 December 31, 2005 is material, and that the only material litigation that was brought against 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 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.

Indemnification

John A. Hildebrandt, Paul Hildebrandt and the Predecessor have jointly and severally agreed to indemnify our 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.

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 our rights to indemnification.

Insurance

The assets that the Predecessor sold to us 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 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 Predecessor and the Company under the contested policies.

There are periods during the years from 1940 to 1999 in which our 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. To date, no insurance company has claimed any contribution for a gap in coverage except for a claim for \$159.64 made by one insurance company to the Predecessor in 1995. The Predecessor asserted that it had no obligation to pay this amount and did not make any payment.

Insurance companies have to date defended us and the Predecessor, and have paid all settlement amounts and defense costs. Except for \$159.64 referred to above, the insurance companies have not requested any payments from us or from the Predecessor.

Our 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.

General

Regardless of indemnification and insurance coverage, we do not in any event consider our Company to be liable for the asbestos-based lawsuits that name us or for any other claim that arises as a result of actions or omissions by Predecessor companies. We expressly disclaimed the assumption of any liabilities when we purchased the assets of the Predecessor. It is our opinion that the existing asbestos litigation will not have a material adverse effect on the Company. Nevertheless, we could be materially and adversely affected if we are held liable for substantial asbestos claims or if the Company 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 claim limitations on their liabilities by reason of gaps in coverage or otherwise.

Since we do not regard as likely the potential payment of any asbestos-based claim, we have not accrued any balance for any period relating to asbestos claims, and we have not recorded any amount for asbestos claims for any period in any of our financial statements.

Atlantic Hardware & Supply Corporation

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. On May 18, 2005, the United States Bankruptcy Court for the Eastern District of New York dismissed the petition. Atlantic is a discontinued operation and has no assets. Neither Colonial Commercial Corp. nor any of its other subsidiaries were part of the Chapter 11 filing.

Item 4. Submission of Matters to a Vote of Security Holders

The Company held its Annual Meeting on June 15, 2005. The results of matters voted at that Meeting were reported in Part II, Item 4 of the Company's Form 10-Q for the period ended June 30, 2005.

PART II

Item 5. Market for the Registrant's Common Stock, Convertible Preferred

Stock and Related Stockholder Matters

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

From July 11, 2002 through March 30, 2004, the Company's common stock was traded on the Over the Counter (OTC) – Pink Sheets market. Commencing March 31, 2004, the Company's common stock and convertible preferred stock were traded on the Over the Counter (OTC)–Bulletin Board market. The following table sets forth the quarterly high and low bid prices during 2005 and 2004. The quotations set forth below represent inter-dealer quotations, which exclude retail markups, markdowns and commissions and do not necessarily reflect actual transactions.

2005	Common Stock		Convertible Preferred Stock	
	High	Low	High	Low
First Quarter	\$ 1.65	\$ 1.40	\$ 1.68	\$ 1.48
Second Quarter	1.66	1.35	1.60	1.32
Third Quarter	2.70	1.50	2.75	1.46
Fourth Quarter	2.75	2.00	2.55	1.85

2004	Common Stock		Convertible Preferred Stock	
	High	Low	High	Low
First Quarter	\$ 1.95	\$.50	\$ 1.05	\$.60
Second Quarter	1.85	1.20	1.50	.95
Third Quarter	2.05	1.16	2.00	1.20
Fourth Quarter	1.78	1.35	1.80	1.30

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

Title of Class	Approximate Number of Record Holders (As of March 1, 2006)
Common stock par value \$.05 per share	295
Convertible preferred stock par value \$.05 per share	877

(c) Dividends

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

(d) Securities Authorized for Issuance Under Equity Compensation Plans

The following table sets forth as of December 31, 2005 certain information regarding the securities authorized for issuance under the 1996 Stock Incentive Plan, which is the sole equity compensation plan of the Company as of December 31, 2005.

Equity Compensation Plan Information

	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans
Equity compensation plans approved by security holders	106,000	\$ 0.25	0
Equity compensation plans not approved by security holders	<u>0</u>	<u>\$ 0.00</u>	<u>0</u>
Total	<u>106,000</u>	<u>\$ 0.25</u>	<u>0</u>

In June 1996, the Company adopted the 1996 Stock Option Plan (the "1996 Plan") to grant options to key employees and other persons who render service (non-employee) to the Company. The plan expired on December 31, 2005.

At December 31, 2005, a total of 106,000 options were outstanding under the Company's 1996 Stock Option Plan, which have expiration dates ranging from 2009 to 2013.

Item 6. Selected Financial Data

	Years Ended December 31,				
	2005	2004	2003	2002	2001
Sales	\$ 66,690,945	\$ 61,454,128	\$ 44,671,136	\$ 36,998,800	\$ 31,080,398 (1)
Operating income	2,400,424	1,717,812	1,296,597	226,567	519,860
Income (loss) from continuing operations	2,115,631	1,661,156	1,320,263	(106,310)	(1,610,810)
Income (loss) from operations of discontinued segment	-	-	-	3,300,695 (2)	(6,098,023)
Income on disposal of discontinued operation	-	-	-	-	106,509
Income (loss) on discontinued operation	-	-	-	3,300,695	(5,991,514)
 Net income	 <u>\$ 2,115,631</u>	 <u>\$ 1,661,156</u>	 <u>\$ 1,320,263</u>	 <u>\$ 3,194,385</u>	 <u>\$ (7,602,324)</u>
Income (loss) per common share:					
Basic:					
Continuing operations	\$.49	\$.49	\$.67	\$ (0.07)	\$ (1.00)
Income (loss) on discontinued operation	\$ -	\$ -	\$ -	\$ 2.06	\$ (3.74)
Net income (loss) per common share	<u>\$.49</u>	<u>\$.49</u>	<u>\$.67</u>	<u>\$ 1.99</u>	<u>\$ (4.74)</u>
Diluted:					
Continuing operations	\$.40	\$.36	\$.38	\$ (0.07)	\$ (1.00)
Income (loss) on discontinued operation	\$ -	\$ -	\$ -	\$ 2.06	\$ (3.74)
Net income (loss) per common share	<u>\$.40</u>	<u>\$.36</u>	<u>\$.38</u>	<u>\$ 1.99</u>	<u>\$ (4.74)</u>

	December 31,				
	2005	2004	2003	2002	2001
Total assets	\$ 27,537,375	\$ 24,515,258	\$ 20,618,987	\$ 13,686,842	\$ 13,925,490
Current liabilities					
Borrowings under credit facility	11,745,985	12,325,209	12,232,030 (2)	10,350,889 (2)	7,929,576
Other	8,216,989	6,617,377	7,089,276 (3)	3,953,063 (3)	9,659,183 (3)
Long-term liabilities, less current					
Obligations	1,400,834	1,398,774	326,700	64,775	213,001

- (1) Due to the discontinuance of operations in 2001, excludes sales from Atlantic which were \$24,561,972 in 2001.
- (2) The amounts shown in the table as "Borrowings under Credit Facility," as of December 31, 2003 and December 31, 2002, includes \$2,500,000 which Colonial Commercial Corp. and Universal agreed to pay to their lending bank in consideration of the bank releasing Colonial Commercial Corp. and Universal from their guarantees to the bank of an additional \$3,300,695 of Atlantic's line of credit. The release from the \$3,300,695 of the guarantee resulted in the recognition of income from discontinued operations in 2002. See "General Business Developments."
- (3) Amount includes \$219,007 of contingent liabilities of Atlantic. This liability was settled in June 2004.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements

The following material 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 availability of financing, 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 accounting policies below are critical to the Company's business operations and the understanding of results of operations. The Company's discussion and analysis of its financial condition and results of operations are based upon the Company's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities as the date of the consolidated financial statements and the reported amount of revenue and expenses during the reporting period. The Company bases its estimates on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of asset and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Revenue for the Company primarily consists of sales of heating, ventilation and air conditioning equipment, climate control systems and plumbing fixtures and supplies. The Company recognizes revenue after it receives a purchase order with a fixed determinable price from the customer and shipment of products has occurred in accordance with the shipping terms. There are no further obligations on the part of the Company subsequent to revenue recognition, except for returns of defective products from the Company's customers, which are covered under the manufacturer's warranty. The Company will receive a vendor credit from the manufacturer related to the warranted product in question, at which time credits are issued to the customer. The Company does not provide a warranty on products sold; rather the warranty is provided by the manufacturer.

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 net accounts receivable of \$8,489,717 and an allowance for doubtful accounts of \$185,971 as of December 31, 2005. 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.

Under Statement of Financial Accounting Standards No. 142, goodwill is no longer be amortized, but is reviewed at least annually for impairment. 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. Upon adoption and again as a result of the Company's annual impairment test, there was no indication of impairment for goodwill acquired in prior business combinations. If the Company's estimates or their related assumptions change in the future, the Company may be required to record impairment charges related to its goodwill. Goodwill and other intangible assets amounting to \$1,628,133 and \$11,334 at December 31, 2005, respectively, consist of assets arising from acquisitions.

The Company has accounted for, and currently accounts for, income taxes in accordance with Statement 109 "Accounting for Income Taxes." This statement establishes financial accounting and reporting standards for the effects of income taxes that result from an enterprise's activities during the current and preceding years. It requires an asset and liability approach for financial accounting and reporting of income taxes. The realization of future tax benefits of deductible temporary differences and operating loss or tax credit carryforwards will depend on whether the Company will have sufficient taxable income of an appropriate character within the carryback and carryforward period permitted by the tax law to allow for utilization of the deductible amounts and carryforwards. Without sufficient taxable income to offset the deductible amounts and carryforwards, the related tax benefits will expire unused. The Company evaluates both positive and negative evidence in making a determination as to whether it is more likely than not that all or some portion of the deferred tax asset will not be realized. As of December 31, 2005, the Company had a deferred tax valuation allowance of approximately \$10,000,000.

Comparison of Year Ended December 31, 2005 with Year Ended December 31, 2004

The Company's net income increased 27.4% to \$2,115,631 for the year ended December 31, 2005, compared to net income of \$1,661,156 for the same period in 2004.

Sales increased 8.5% to \$66,690,945 for the year ended December 31, 2005 from \$61,454,128 for the same period in 2004. The increase in sales is primarily a result of increased market penetration at two of the Company's subsidiaries, an increase in general industry pricing, above average temperatures during the summer cooling season, and a continuing strong demand for residential and light commercial HVAC products and plumbing fixtures and supplies.

Gross profit increased 9.8% to \$20,183,176 for the year ended December 31, 2005 from \$18,384,147 for the same period in 2004. The increase in gross profit is primarily the result of the mentioned increases in sales, and the Company's improved ability to purchase products at more favorable pricing. Gross profit expressed as a percentage of sales increased to 30.3% in 2005 compared to 29.9 % for the comparable period in 2004. 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 include these distribution costs in the cost of sales. These distribution costs were \$421,248 and \$325,109 for the years ended December 31, 2005 and 2004, respectively.

Selling, general and administrative expenses and cost of operations increased 6.7% to \$17,782,752 for the year ended December 31, 2005 from \$16,666,335 for the same period in 2004. This increase is primarily a result of costs associated with the increased sales growth, increased utility and fuel costs, general cost increases, increased accounting fees, and an increase of certain variable expense items based on sales, such as salaries, commissions, marketing expenses and vehicle costs.

Other income decreased by \$47,762 to \$272,597 for the year ended December 31, 2005 from \$320,359 for the same period in 2004. This decrease is primarily the result of a \$58,000 gain from the settlement of a contingent liability of a discontinued operation recognized in 2004 with no such gain in 2005, partially offset by a \$15,994 increase in service charges collected for the year ended December 31, 2005.

Interest expense, net increased 19.3% to \$1,044,454 for the year ended December 31, 2005 from \$875,683 for the same period in 2004. This increase is primarily the result of eight increases in prime rate, raising the rate from 5.25% on December 31, 2004 to 7.25% on December 31, 2005.

Income tax benefit decreased by \$11,604 to a net tax benefit of \$487,064 for the year ended December 31, 2005 from a \$498,668 net tax benefit for the same period in 2004. In accordance with FASB Statement Number 109, the Company recorded a deferred tax benefit of \$641,500 for the year ended December 31, 2005 in order to recognize the expected utilization of available operating loss carryforwards, compared to \$645,600 in the year ended December 31, 2004. In addition, the Company recorded a state tax provision of \$170,675 for the year ended December 31, 2005 compared to \$137,932 for the year ended December 31, 2004.

Comparison of Year Ended December 31, 2004 with Year Ended December 31, 2003

The Company had net income of \$1,661,156 for the year ended December 31, 2004. This compares with net income of \$1,320,263 for the year ended December 31, 2003.

Sales for the year ended December 31, 2004 were \$61,454,128, an increase of \$16,782,992 (37.6%), from \$44,671,136 in 2003. This increase reflects approximately \$9,625,000 additional sales from the inclusion of sales from RAL (a subsidiary we acquired in September 2003) for the full year of 2004 as compared to three months of 2003. In addition, \$3,337,000 of the increase resulted from two new locations for a full year compared to six months in 2003 and the balance relates to increased market penetration from existing locations.

Gross profit in 2004 increased \$5,217,665 or 39.6% over 2003, primarily as a result of the revenue increases related to the RAL acquisition being included for the full year of 2004, the inclusion of two new branches for the full year of 2004 and improved selling margins. Gross profit margin increased to 29.9% in 2004 from 29.5% in 2003, primarily due to a change in product mix and higher gross margins at RAL. Cost of sales excludes the distribution costs of incoming freight, purchasing, receiving, inspection, warehousing and handling costs; we include these costs in our selling, general and administrative expenses. Our gross margins may not be comparable to those of other entities since some entities include these distribution costs in the cost of sales. These distribution costs were \$325,109 and \$206,264 for the years ended December 31, 2004 and 2003, respectively.

Selling, general, and administrative expenses in 2004 increased \$4,796,450 or 40.4% over 2003, primarily related to the full year costs of the RAL acquisition, two new locations opened in 2003, and the opening of the Deptford location on November 1, 2004.

Other income in 2004 decreased \$4,008 or 1.3%, compared to 2003. Interest expense in 2004 increased \$237,826 or 37.2% over 2003, as a factor of increased credit facility borrowings to support increased sales, accounts receivable and inventory.

Income tax benefit increased by \$161,512 to a net tax benefit of \$498,668 for the year ended December 31, 2004 from a \$337,156 net tax benefit for the same period in 2003. In accordance with FASB Statement Number 109, the Company recorded a deferred tax benefit of \$645,600 for the year ended December 31, 2004 in order to recognize the expected utilization of available operating loss carryforwards, compared to \$421,400 in the year ended December 31, 2003. In addition, the Company recorded a state tax provision of \$137,932 for the year ended December 31, 2004 compared to \$154,214 for the year ended December 31, 2003.

Liquidity and Capital Resources

Credit Facility

The Company has a \$15,000,000 secured loan facility pursuant to a credit and security agreement (“Agreement”) with Wells Fargo Business Credit, Inc. (“Wells”). The facility consists of a revolving line of credit which expires on August 1, 2009, and a term loan with a balance of \$562,977 as of December 31, 2005, payable in six monthly installments of approximately \$83,333 and a final payment of approximately \$62,977, unless sooner paid pursuant to the terms of the loan agreement. In addition, the Company has a standby letter of credit in the amount of \$300,000 which expires on July 31, 2006. Availability under the revolving credit line is determined by a percentage of available assets as defined in the Agreement, less letter of credit and reserves, and was \$13,307,082 as of December 31, 2005. The balance outstanding under the revolving line of credit including the term loan was \$11,745,985 as of December 31, 2005. The revolving credit line bears interest at .25% below prime, and the term loan bears interest at .50% above prime. Substantially all of the assets of the Company, as well as a pledge of the stock of Colonial Commercial Corp.'s operating subsidiaries, collateralize the loans. The facility contains covenants relating to the financial condition of the Company and its business operations and restricts the payment of dividends, subordinated debt, purchase of securities and capital expenditures (\$550,000 per year). The Company must maintain a tangible net worth of approximately \$2.7 million for the fiscal quarter ending December 31, 2005. In addition, the Company is required to maintain certain levels of net income and cash flows, as defined in the agreement. All loans are due on demand by the bank, and accordingly, have been classified as current liabilities.

The Company believes that the credit facility is sufficient to finance its current operating needs. However, the business of the Company would be materially and adversely affected if the bank demands payment of the loan and the Company is unable to refinance the loan.

As of December 31, 2005, the Company had \$613,456 in cash compared with \$310,659 at December 31, 2004.

Net cash provided by operating activities was \$1,262,068 for the year ended December 31, 2005 compared to net cash used in operating activities of \$2,165,280 for the year ended December 31, 2004. The net cash provided by operating activities for the 2005 period is primarily a result of net income approximating \$2,115,631, offset by non-cash charges approximating \$220,953 and by cash used in operating assets and liabilities approximating \$632,610. The increase in accounts receivable approximating \$816,853 was primarily a result of increased sales volume. Accounts payable increased due to increased inventory purchases to support the increased sales.

Cash flows used in investing activities of \$401,054 during the year ended December 31, 2005 were due to purchases of equipment.

The cash flows used in financing activities of \$558,217 consisted of \$1,103,690 repayments under the credit facility—term loan, \$141,292 for repayments on notes payable and \$15,400 from the purchase and retirement of preferred shares. Cash flows provided by financing activities consisted of \$524,466 borrowings under the credit facility—revolving credit, \$22,000 received from the exercise of stock options, and \$155,699 from the issuance of notes payable.

Equity Transactions

During the year ended December 31, 2005, the Company issued 88,000 shares of common stock pursuant to the exercise of stock options. Bernard Korn acquired 35,000 shares of common stock, by exercising 10,000 stock options on February 2, 2005 and 25,000 stock options on September 20, 2005. Mr. Korn is Chairman of the Board and the Chief Executive Officer of the Company. A non-executive employee acquired 4,000 shares of common stock, by exercising 4,000 stock options on March 22, 2005. William Pagano acquired 20,000 shares of common stock, by exercising 20,000 stock options on September 20, 2005. Mr. Pagano is the President and a Director of the Company. Carl Sussman acquired 12,000 shares of common stock, by exercising 12,000 stock options on September 26, 2005. Mr. Sussman is a Director of the Company. William Salek acquired 5,000 shares of common stock, by exercising 5,000 stock options on September 28, 2005. Mr. Salek is the Chief Financial Officer of the Company. William Koon acquired 12,000 shares of common stock, by exercising 12,000 stock options on October 19, 2005. Mr. Koon is a Director of the Company.

During the year ended December 31, 2005, holders of a total of 298,018 shares of redeemable convertible preferred stock converted these shares into 298,018 shares of Common Stock, of which 174,878 shares of convertible preferred stock were converted by Directors of the Company. As of December 31, 2005, the number of convertible preferred shares outstanding was 484,721. As a result of this reduction in the number of outstanding shares of convertible preferred stock, commencing at the 2006 annual meeting of stockholders, the holders of common and convertible preferred stock will vote together as one class to elect one class of directors.

On August 16, 2005, the Company announced that it was offering to purchase all shares of convertible preferred stock that on August 15, 2005 were owned by shareholders who then owned 99 shares or less for \$2.00 per share. The offer expired September 30, 2005. As a result of the offer, the Company purchased 7,700 shares of its convertible preferred stock, which were retired.

Contractual Obligations:

The following table represents certain contractual commitments associated with operating agreements, obligations to financial institutions and other long-term debt obligations as of December 31, 2005:

	Payment Due by Period (in thousands)				
	Total	Less than			Over
		1 Year	1-3 Years	4-5 Years	5 Years
Operating leases	\$ 10,382	\$ 2,751	\$ 5,700	\$ 1,085	\$ 846
Compensation agreements	2,155	730	1,225	200	—
Notes payable	1,566	165	1,395	6	—
Notes payable interest	346	132	214	—	—
Line of credit	11,746	11,746	—	—	—
Line of credit interest	881	881	—	—	—
Totals	<u>\$ 27,076</u>	<u>\$ 16,405</u>	<u>\$ 8,534</u>	<u>\$ 1,291</u>	<u>\$ 846</u>

Notes payable carry a fixed interest percentage rate per annum, with the exception of a \$750,000 note that accrues interest at the prime rate. “Notes payable interest” in the table assumes an average annual prime rate of 7.75%. The prime rate as of December 31, 2005 was 7.25%. See Note 6, Notes Payable, of the Financial Statements for the terms of these notes.

“Line of credit” in the table is shown as a less than one year obligation because the lending bank may demand payment at any time. The line of credit consists of a revolving credit line that bears interest at .25% below prime and a term loan that bears interest at .50% above prime. “Line of credit interest” in the table assumes that the principal amount outstanding on the line is paid in full on December 31, 2006, that the principal amount to be repaid on that date will be \$11,746,000 (which is the principal amount that was outstanding on December 31, 2005), and assumes that the average prime rate will be 7.75% in 2006. The prime rate was 7.25% as of December 31, 2005. See Note 5, Financing Arrangements, of the Financial Statements for the terms of the line of credit.

Impact of Inflation and Seasonality

To date, inflation has had a minor impact on the Company's operations causing limited price increases in certain product lines. The Company's business is affected by significant outdoor temperature swings. Demand related to the residential central air conditioning replacement market is highest in the second and third quarters with demand for heating equipment usually highest in the fourth quarter.

Item 7A. Quantitative And Qualitative Disclosures About Market Risk

Market risk represents the risk of changes in value of a financial instrument, derivative or non-derivative, caused by fluctuations in interest rates, foreign exchange rates and equity prices. The Company has no financial instruments that give it exposure to foreign exchange rate or equity price risk.

The Company's pre-tax earnings and cash flows are exposed to changes in interest rates as all borrowings under its credit facility bear interest based on the prime rate less .25%, except for a term loan with a balance of \$562,977 as of December 31, 2005, which bears interest at a rate of prime plus .5% and a \$750,000 note to Goldman Associates of NY, Inc. which bears interest at the prime rate. A hypothetical 10% adverse change in such rates would reduce the pre-tax earnings and cash flow for the year ended December 31, 2005 by approximately \$88,000 over a one-year period, assuming the borrowing level remains consistent with the outstanding borrowings as of December 31, 2005. 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 8. Financial Statements and Supplementary Data

The consolidated financial statements of the Company, together with the Report of Independent Registered Public Accounting Firm thereon of Weiser LLP, appears herein. See Index to Financial Statements appearing on page F-1.

Item 9. Changes In and Disagreements With Accountants on Accounting and Financial Disclosure

None

Item 9A. Controls and Procedures

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 Rule 13a-15(e) under the Securities Exchange Act of 1934) as of December 31, 2005 ("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.

PART III

Item 10. Directors and Executive Officers of the Registrant

The names, ages and positions of the Registrant's directors and executive officers as of December 31, 2005 are listed below, along with a brief account of their business experience during the last five years. Officers are appointed annually by the Board of Directors at its first meeting following the Annual Meeting of Stockholders and from time to time at the pleasure of the Board. There are no family relationships among these officers, nor any arrangements or understandings between any directors or officers and any other person pursuant to which any of such officers were selected as executive officers. Melissa Goldman is the daughter of Michael Goldman.

<u>Name</u>	<u>Age</u>	<u>Position with the Company</u>
<u>Common Stock Directors and Executive Officers:</u>		
E. Bruce Fredrikson	67	Director, Chairman of Audit Committee
Melissa Goldman	37	Director
Michael Goldman	67	Director
Bernard Korn	80	Chairman of the Board and Chief Executive Officer of the Company
William Pagano	66	Director and President of the Company and President of Universal
William Salek	44	Chief Financial Officer and Secretary of the Company and Vice President of Universal
Carl L. Sussman	81	Director
<u>Convertible Preferred Stock Directors:</u>		
William Koon	76	Director
Ronald Miller	62	Director
Jack Rose	87	Director

Dr. E. Bruce Fredrikson

Dr. E. Bruce Fredrikson has been a Director of the Company since January 28, 2005. Dr. Fredrikson is currently an independent consultant in corporate finance and governance. He is Professor of Finance, Emeritus, at Syracuse University's Martin J. Whitman School of Management where he taught from 1966 until his retirement in May 2003. He is a director of Consumer Portfolio Services, Inc., a consumer finance company and of Track Data Corporation, a financial services company. Dr. Fredrikson holds an A.B. in economics from Princeton University and a M.B.A. in accounting and a Ph.D. in finance from Columbia University.

Melissa Goldman

Melissa Goldman has been a Director of the Company since October 22, 2004. Ms. Goldman has been the Chief Operating Officer of Goldman Associates of NY, Inc., an appliance distributor, since 1996, and is also a member of the Board of Directors of said company. Ms. Goldman holds a B.A. from Lehigh University and a Masters Degree in Environmental Management from Duke University. Previously, she was employed as an Environmental Consultant for a private consulting firm.

Michael Goldman

Michael Goldman has been a Director of the Company since September 29, 2004. Mr. Goldman has been the Chief Executive Officer and Chairman of the Board of Directors of Goldman Associates of NY, Inc., an appliance distributor, since 1987. Mr. Goldman is a Certified Public Accountant and holds a B.S. in Accounting from Brooklyn College and an M.B.A. in Management from Syracuse University.

Bernard Korn

Bernard Korn has been Chairman of the Board of Directors and Chief Executive Officer of the Company since its inception in 1964. Mr. Korn is a Certified Public Accountant and is the holder of a B.S. in Accounting from Long Island University. He is also the holder of an honorary degree, Doctor of Humane Letters, from Long Island University.

William Pagano

William Pagano has been the President of Universal since November 1998, and was appointed as a Director of the Company in February 2002 and as President of the Company on October 27, 2005. Prior to November, 1998 Mr. Pagano was engaged in the practice of law for 20 years. Mr. Pagano holds a B.S. in Industrial Management, and an M.B.A., both from Fairleigh Dickinson University. He also holds a J.D. from Seton Hall University and is an attorney at law licensed in the State of New Jersey.

William Salek

William Salek has been the Vice President of Universal since June 1999 and was appointed as the Chief Financial Officer of the Company in October 2004 and Secretary of the Company in February 2005. He has been employed by Universal since 1983. Mr. Salek holds a B.S. in Accounting from Clarion University. Mr. Salek is a director of Educational Partnership for Instructing Children, Inc., a non-profit learning institute.

Carl L. Sussman

Carl L. Sussman has been a Director of the Company since 1964. Mr. Sussman holds a B.S. in Pharmacy from Long Island University. He was a practicing pharmacist and a Vice President of Southern Mortgage Associates, Inc., a licensed mortgage banking company. He is currently retired and is a private investor in the Company.

William Koon

William Koon has been a Director of the Company since 1983. Mr. Koon has been Chairman of the Board of Republic Mills, Inc. since 1995, a manufacturer of pet feed and related products, and Chairman of the Board of Lord's Enterprises, Inc. since 1958, a grain storage and sales company, and owner and manager of farms.

Jack Rose

Jack Rose has been a Director of the Company since 1983. Mr. Rose is a farm owner and manager. Mr. Rose is a former President of the Ohio Farmers' Union and a former member of the Executive Advisory Board of Ohio State University. He is retired and is a private investor in the Company.

Ronald Miller

Ronald Miller has been a Director of the Company since 1983. Mr. Miller holds a B.S. in Education from Ohio State University and a J.D. from Ohio State University. Mr. Miller has been engaged in the practice of law since 1969 and as a sole practitioner since 1988. He is an acting Judge of Auglaize County Municipal Court in the State of Ohio.

Audit Committee

The Company has a separately designated standing audit committee established in accordance with Section 3(a)(58)(A) of the Exchange Act. Serving on the Committee are E. Bruce Fredrikson, Ronald Miller and Carl Sussman. The Board of Directors had determined that it has two audit committee financial experts serving on the audit committee, Dr. Fredrikson and Ronald Miller. Both Dr. Fredrikson and Mr. Miller are independent directors as defined in Item 7(d)(3)(iv) of Schedule 14A.

Code of Ethics

The Company has adopted a Code of Ethics that applies to its Chief Executive Officer, Chief Financial Officer and President.

Compliance with Section 16(a) of the Exchange Act

The Company believes that during the period from January 1, 2005 through December 31, 2005, all executive officers, directors and greater than 10% beneficial owners, complied with Section 16(a) filing requirements, except as follows: Jack Rose failed until December 2, 2005 to file Form 4 reports for purchases of stock that he made from November 8, 2004 to November 16, 2004 and Ronald Miller filed one late report of Form 4 regarding shares which escheated to the State of Ohio.

Item 11. Executive Compensation

Executive Compensation

The following table sets forth information about compensation paid or accrued by the Company during the fiscal years ended December 31, 2005, 2004 and 2003 to Bernard Korn, William Pagano and William Salek, the only executive officers of the Company whose compensation exceeded \$100,000.

Summary Compensation Table

Name and Principal Position	Year	Annual Compensation		Long-Term Compensation Stock
		Salary (\$)	Bonus (\$)	Options (Shares)
Bernard Korn	2005	150,000	–	–
Chairman of the Board, and Chief Executive Officer of the Company	2004	150,000	–	–
	2003	158,654	–	60,000
William Pagano	2005	200,000	317,924	–
Director and President of the Company and President of Universal	2004	200,000	240,862	–
	2003	200,000	232,257	–
William Salek	2005	120,000	41,798	–
Chief Financial Officer and Secretary of the Company and Vice President of Universal	2004	105,000	27,350	–
	2003	95,000	25,736	–

The above table does not include certain perquisites and other personal benefits, the total value of which does not exceed the lesser of \$50,000 or 10% of the total of annual salary and bonus reported for such person.

Aggregated Option Exercises in Last Fiscal Year and Fiscal Year–End Option Values

The following table sets forth information concerning the value of unexercised stock options at the end of the 2005 fiscal year for the persons named in the Summary Compensation Table.

	Shares Acquired on Exercise (#)	Value Realized (\$)	Number of Unexercised Options at Fiscal Year–End Exercisable/Unexercisable	Value of Unexercised In–The–Money Options at Fiscal Year–End Exercisable/Unexercisable
Bernard Korn	35,000	\$ 70,000	52,000/0	\$ 96,200/0
William Pagano	20,000	\$ 46,000	0/0	\$ 0/0
William Salek	5,000	\$ 10,500	0/0	\$ 0/0

There are no stock appreciation rights, long–term incentive plans or pension plans.

Employment Contracts and Termination of Employment and Change–in–Control Arrangements

Mr. Korn is employed pursuant to an employment agreement (the “Agreement”), expiring December 31, 2008, at an annual compensation of \$150,000 per annum for the years 2004 and 2005 and increasing to \$200,000 per annum for the period January 1, 2006 through December 31, 2008. In the event of Mr. Korn's death, the Agreement provides for continued compensation payments for a period of one year. In the event of Mr. Korn's disability, he will receive compensation for the balance of the term of the agreement at the rate of compensation then in effect.

Mr. Pagano is employed pursuant to an employment agreement expiring on December 31, 2010 at a compensation of \$200,000 per annum. The agreement also provides for additional incentive compensation based on a percentage of earnings, as defined, of the subsidiaries, limited to two times his base compensation.

Effective January 1, 2005, Mr. Salek is employed pursuant to an employment agreement expiring on December 31, 2007 at a compensation of \$120,000 per annum. The agreement also provides for additional incentive compensation based on a percentage of earnings, as defined, of the subsidiaries.

Mr. Korn is the Chairman of the Board and Chief Executive Officer of the Company. Mr. Pagano is the President and a Director of the Company. Mr. Salek is the Chief Financial Officer and Secretary of the Company.

Note: See “Certain Relationships and Related Transactions,” Item 13.

Director's Compensation

Prior to April 1, 2005, members of the Board of Directors, other than those employed by the Company, received a fee of \$1,000 for each meeting of the Board attended, limited to \$4,000 per annum, in addition to an annual retainer of \$2,000. Effective April 1, 2005, outside Directors' fees increased to \$12,000 annually consisting of an annual retainer of \$8,000 and a fee of \$1,000 for each meeting of the Board, limited to \$4,000 per annum. Members of the Board of Directors receive no fees if they are employed by the Company.

Compensation Committee Interlocks and Insider Participation

The Company does not have a Compensation Committee or any other committee of the Board of Directors performing equivalent functions. Decisions regarding compensation of executive officers of the Company are made by the Board of Directors. Two of the company's executive officers, Bernard Korn and William Pagano, are directors of the Company. Each of these individuals participated in deliberations of the Board during the fiscal year ended December 31, 2005 concerning executive officer compensation, except that they abstained from deliberations and voting regarding their own compensation.

Item 12. Security Ownership of Certain Beneficial Owners and Management

The following table sets forth, as of March 1, 2006, information with respect to beneficial ownership by directors of the Company, holders of over 5% of a class of stock and of directors and officers of the Company as a group.

<u>Name of Beneficial Owner</u>	<u>Common Stock</u>	
	<u>Amount and Nature of Beneficial Ownership*</u>	<u>Percent of Class</u>
<u>Officers and Directors:</u>		
E. Bruce Fredrikson	6,000	**
Melissa Goldman	5,400	**
Michael Goldman	933,000 (1)	19.86%
William Koon	18,741 (2)	**
Bernard Korn	629,255 (3)	13.68%
Ronald H. Miller	12,054 (4)	**
William Pagano	667,973 (5)	14.58%
Jack Rose	222,767 (6)	4.88%
William Salek	61,667 (7)	1.35%
Carl L. Sussman	99,607 (8)	2.19%
<u>All Officers and Directors as a Group:</u>	<u>2,656,464</u>	<u>55.06%</u>
<u>Other Holders of Over 5%:</u>		
Rita C. Folger	478,719 (9)	10.45%
Richard Rozzi	335,000	7.36%
Goldman Associates of NY, Inc.	750,000 (10)	15.96%

The beneficial owners listed above have all given a business address of 275 Wagaraw Road, Hawthorne, New Jersey 07506.

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

** Represents beneficial ownership of less than one percent of the Company's outstanding securities.

(1) Michael Goldman is the President and majority shareholder of Goldman Associates of NY, Inc. ("Goldman Associates"). Goldman Associates is the owner of 600,000 shares of Common Stock ("Goldman Shares") and warrants ("Warrants") to purchase 150,000 shares of Common Stock at an exercise price of \$3.00 per share. The Warrants are exercisable at any time prior to their expiration on December 31, 2008. Mr. Goldman is the owner of 183,000 shares of Common Stock and the beneficial owner of the Warrants and the Goldman Shares. Mr. Goldman's beneficial ownership excludes 20,000 shares of Common Stock owned by his wife, of which Goldman Associates of New York, Inc. and Michael Goldman disclaims beneficial ownership. Mr. Goldman's wife disclaims beneficial ownership of Mr. Goldman's shares.

- (2) William Koon's beneficial ownership consists of 18,741 shares of Common Stock. Mr. Koon's beneficial ownership excludes 15,600 shares of Common Stock owned by his wife. Mr. Koon disclaims beneficial ownership of his wife's shares and his wife disclaims beneficial ownership of Mr. Koon's shares.
- (3) Bernard Korn's beneficial ownership consists of 577,255 shares of Common Stock and 52,000 shares of Common Stock issuable upon exercise of his options.
- (4) Ronald H. Miller's beneficial ownership consists of 54 shares of Common Stock and 12,000 shares of Common Stock issuable upon exercise of his options.
- (5) William Pagano's beneficial ownership consists of 634,640 shares of Common Stock and 33,333 shares of Common Stock issuable at any time upon conversion of a \$100,000 Convertible Note at a conversion price of \$3 per share.
- (6) Jack Rose's beneficial ownership consists of 145,226 shares of Common Stock, 12,000 shares of Common Stock issuable at any time upon exercise of his options, and 65,541 shares of Common Stock owned jointly by Mr. Rose and his wife.
- (7) William Salek's beneficial ownership consists of 45,000 shares of Common Stock and 16,667 shares of Common Stock issuable upon conversion of a \$50,000 Convertible Note at a conversion price of \$3 per share.
- (8) Carl L. Sussman's beneficial ownership consists of 68,000 shares of Common Stock and 31,607 shares of Common Stock owned jointly by Mr. Sussman and his wife.
- (9) Rita C. Folger's beneficial ownership consists of 445,386 shares of Common Stock and 33,333 shares of Common Stock issuable upon conversion of a \$100,000 Convertible Note at a conversion price of \$3 per share. Mrs. Folger is the wife of Oscar Folger and the mother of Jeffrey Folger. Oscar and Jeffrey Folger acted as legal counsel for the Company through April 20, 2005. Oscar and Jeffrey Folger acted as legal consultants for the Company from April 21, 2005 through December 31, 2005 and since January 1, 2006 have been employed by the Company as, respectively, Vice President–Chief Legal Counsel and Assistant Vice President–Legal. Mr. Folger's beneficial ownership consists of 5,000 shares of Common Stock issuable at any time upon exercise of his options. Mr. Folger disclaims beneficial ownership of his wife's shares, and Mrs. Folger disclaims beneficial ownership of her husband's shares.
- (10) The beneficial ownership of Goldman Associates of NY, Inc. consists of 600,000 shares of Common Stock and 150,000 warrants to purchase 150,000 shares of Common Stock, at an exercise price of \$3.00 per share. See Footnote 1 for information relating to beneficial ownership of these securities held by Michael Goldman.

Item 13. Certain Relationships and Related Transactions

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 in June 2010. The Company paid Mr. Hildebrandt's company \$215,674 during the year ended December 31, 2005. The Company owes Mr. Hildebrandt \$170,000 pursuant to two notes: (a) a subordinated note in the amount of \$120,000, paid \$30,000 annually commencing December 31, 2004 and (b) a \$50,000 convertible note due 50% on June 1, 2008 and 50% on June 1, 2009. William Salek, the Company's Chief Financial Officer, is the son-in-law of Mr. Hildebrandt. Mr. Hildebrandt served as a director from July 2004 to January 2005.

Goldman Associates of NY, Inc. (“Goldman Associates”) has agreed that it and its affiliates will not until May 31, 2008 without the prior written consent of the Board of Directors of the Company (i) acquire, agree to acquire or make any proposal to acquire any voting securities or assets of the Company or any of its affiliates, (ii) propose to enter into any merger, consolidation, recapitalization, business combination, or other similar transaction involving the Company or any of its affiliates, (iii) make, or in any way participate in any “solicitation” of “proxies” (as such terms are used in the proxy rules of the Securities and Exchange Commission) to vote or seek to advise or influence any person with respect to the voting of any voting securities of the Company or any of its affiliates or (iv) form, join or in any way participate in a “group” as defined in Section 13(d)(3) of the Securities Exchange Act of 1934, as amended, in connection with any of the foregoing or (v) advise, assist or encourage any other persons in connection with the foregoing. Michael Goldman is the beneficial owner of the shares held by Goldman Associates.

Each of Messrs. Goldman, Korn, Pagano, Rozzi, and Ms. Folger has agreed that until May 31, 2008 he or she will not purchase any stock of the Company without written consent from the Company and that he or she will not sell any stock to any person if the sale would create a new 5% shareholder within the meaning of Internal Revenue Code Section 382 unless the buyer first enters into a similar standstill agreement.

In the event that Mr. Pagano no longer performs the duties of the President of Universal or the Vice President of RAL or American for any reason other than death or disability, the Company will be considered in default of its credit agreement with Wells Fargo Business Credit, Inc. unless a waiver is obtained.

The Company owes Goldman Associates, a private Company controlled by Michael Goldman, \$750,000 pursuant to a secured note which is subordinate to the Company's senior secured lender. The note bears interest at the prime rate and is due on June 30, 2008.

Mr. Pagano, Mr. Salek, Ms. Folger and the wife of Michael Goldman are holders of convertible unsecured notes in the amounts of \$100,000, \$50,000, \$100,000 and \$25,000, respectively, issued pursuant to the terms of a private placement made on July 29, 2004.

Pioneer Realty Holdings, LLC, a New York limited liability company (“Pioneer”), is the owner of the premises located at 2213 Route 9, Fishkill, New York that is leased to a subsidiary of the Company under a lease that expires September 2008, subject to renewal options, and provides for a current aggregate annual rent of \$133,500. Each of Messrs. Pagano and Paul Hildebrandt has a 35% interest in this entity. Each of Rita Folger and Jeffrey Folger has a 4% interest in this entity. Jeffrey Folger is the son of Oscar and Rita Folger. The Company paid Pioneer Realty Holdings, LLC \$90,882 in rent during the year ended December 31, 2005.

Oscar and Jeffrey Folger acted as legal counsel for the Company through April 20, 2005. Oscar and Jeffrey Folger acted as legal consultants for the Company from April 21, 2005 through December 31, 2005 and each became an employee of the Company as Vice President–Chief Legal Counsel and Assistant Vice President–Legal, respectively, on January 1, 2006. Mrs. Folger is the wife of Oscar Folger and the mother of Jeffrey Folger. Professional fees paid to Oscar and Jeffrey Folger for the years ended 2005, 2004 and 2003 were \$79,973, \$71,115 and \$70,773, respectively.

The positions with the Company and the relevant stock ownerships of the persons and entities referenced in this Item are set forth in Items 10 and 12.

Item 14. Principal Accountant Fees And Services

Audit Fees

The audit fees for 2005 and 2004 were \$227,385 and \$170,125, respectively. All services provided by independent accountants were approved by the audit committee. Audit Fees consist of fees billed for professional services rendered for the audit of the Company's annual statements, for review of interim consolidated financial statements included in quarterly reports and services that are normally provided by Weiser LLP in connection with statutory and regulatory filings or engagements.

Audit Related Fees

The Company did not incur audit related fees from Weiser in 2005 and 2004. Audit-Related Fees consist of fees billed for assurance and related services that are reasonably related to the performance of the audit or review of the Company's consolidated financial statements and are not reported under "Audit Fees."

Tax Fees

The Company did not incur tax fees from Weiser in 2005 and 2004. Tax Fees consist of fees billed for professional services rendered for tax compliance. These services include assistance regarding federal, state and local tax compliance.

Other Fees

There were no other fees for professional services rendered to the Company during the fiscal years 2005 and 2004, other than the service reported above.

The Audit Committee:

Meets with the independent auditor prior to the audit and discusses the planning and staffing of the audit;

Approves in advance the engagement of the independent auditor for all audit services and non-audit services and approves the fees and other terms of any such engagement; and

Obtains periodically from the independent auditor a formal verbal communication of the matters required to be discussed by Statements of Auditing Standards No. 61 and SEC Rule 10(a). In addition, the Company obtains a letter describing all relationships between the auditor and the Company and discusses with the auditor any disclosed relationships or services that may impact auditor objectivity and independence.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) Exhibits and Financial Statements

- (1) Financial Statements. See Item 8. Index to Financial Statements
- (2) Financial Statement Schedules. See F-1 through F-28, attached
- (3) Exhibits

INDEX TO EXHIBITS

<u>Exhibit</u>	<u>Exhibit Name</u>	<u>Filed Herewith</u>	<u>Form</u>	<u>Date Filed With SEC</u>	<u>Incorporated By Reference From Exhibit</u>
3.01	Restated Certificate of Incorporation of Registrant dated January 6, 1983	Yes			
(a)	Certificate of Amendment of the Certificate of Incorporation dated October 31, 1986	Yes			
(b)	Certificate of Amendment of the Certificate of Incorporation dated June 24, 1988	Yes			
(c)	Certificate of Amendment of the Certificate of Incorporation dated January 13, 1998	Yes			
(d)	Certificate of Amendment of the Certificate of Incorporation dated January 13, 1998	Yes			
3.02	By-Laws of Registrant	Yes			
4.01	Specimen of Common Stock Certificate	Yes			
4.02	Specimen of Convertible Preferred Stock Certificate	Yes			
10.01	Employment Agreement dated as of January 1, 1998 between Registrant and Bernard Korn		10-KSB	03-31-98	10(a)
(a)	Amendment Number 1 dated April 1, 1999 to Employment Agreement dated as of January 1, 1998 between Registrant and Bernard Korn		10-K	04-11-01	10(a)(i)
(b)	Amendment Number 2 dated April 1, 2000 to Employment Agreement dated as of January 1, 1998 between Registrant and Bernard Korn		10-K	04-11-01	10(a)(ii)
(c)	Amendment Number 3 dated October 29, 2002 to Employment Agreement dated as of January 1, 1998 between Registrant and Bernard Korn		10-K	11-18-03	10(a)(iii)
(d)	Amendment Number 4 dated October 29, 2002 to Employment Agreement dated as of January 1, 1998 between Registrant and Bernard Korn		10-K	11-18-03	10(a)(iv)
(e)	Amendment Number 5 dated May 17, 2004 to Employment Agreement dated as of January 1, 1998 between Registrant and Bernard Korn	Yes			
10.02	Employment Agreement dated as of June 25, 1999 between Universal Supply Group, Inc. and William Pagano		8-K	07-09-99	10(a)(iii)
(a)	Amendment Number 1 dated October 29, 2002 to Employment Agreement dated as of June 25, 1999 between Universal Supply Group, Inc. and William Pagano		8-K	11-02-05	10.02
(b)	Amendment Number 2 dated as of June 15, 2005 to Employment Agreement dated as of June 25, 1999 between Universal Supply Group, Inc. and William Pagano		8-K	06-20-05	99.1

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10.03	Employment Agreement dated June 25, 1999 between Universal Supply Group, Inc. and William Salek	Yes		
(a)	Amended and Restated Employment Agreement dated as of January 20, 2005 to Employment Agreement dated as of June 25, 1999 between Universal Supply Group, Inc. and William Salek	8-K	01-20-05	10.01
10.04	1996 Stock Option Plan	S-8	10-02-97	28B
10.05	Purchase Agreement dated March 25, 1999 for business and assets subject to certain liabilities of Universal Supply Group, Inc.	10-KSB	03-30-99	10(g)
(a)	Amendment Number 1 dated June 25, 1999 to Purchase Agreement dated March 25, 1999	8-K	07-09-99	10(a)(ii)
(b)	Loan and Security Agreement dated June 24, 1999 between LaSalle Bank National Association and Universal Supply Group, Inc.	8-K	07-09-99	10(a)(iv)
(c)	Demand Note dated June 24, 1999 between LaSalle Bank National Association and Colonial Commercial Sub Corp.	8-K	07-09-99	10(a)(v)
(d)	Guaranty of All Liabilities and Security Agreement of Colonial Commercial Sub Corp. by Colonial Commercial Corp. to LaSalle Bank National Association dated June 24, 1999	8-K	07-09-99	10(a)(vi)
(e)	Waiver and Tenth Amendment dated November 21, 2002 to the Loan and Security Agreement dated June 24, 1999 between LaSalle Bank National Association and Universal Supply Group, Inc.	10-K	11-18-03	10(e)(vi)
(f)	Securities Pledge Agreement dated November 21, 2002 made by the Registrant in favor of LaSalle Bank National Association, re: Universal Supply Group, Inc.	10-K	11-18-03	(10)(e)(vii)
10.06	Certain documents related to refinance with Wells Fargo Business Credit, Inc. of asset based loan and term loan dated July 28, 2004, previously with LaSalle Bank National Association:			
(a)	Credit Security Agreement dated July 28, 2004 between American/Universal Supply, Inc., The RAL Supply Group, Inc. and Universal Supply Group, Inc. to Wells Fargo Business Credit, Inc.	10-Q	08-16-04	10.1
10.07	Certain documents related to Well-Bilt Steel Products, Inc.:			
(a)	Reaffirmation Agreement, General Release Consent and Acknowledgement of Commercial Reasonableness of Private Sale dated February 1, 2001 between Atlantic Hardware & Supply Corporation, Universal Supply Group, Inc., Colonial Commercial Corp., and the Secured Lender	8-K	02-16-01	10(a)(i)

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	(b) Reaffirmation Agreement, General Release Consent and Acknowledgement of Commercial Reasonableness of Private Sale dated February 1, 2001 between Well-Bilt Steel Products, Inc. and the Secured Lender	8-K	02-16-01	10(a)(ii)
	(c) Foreclosure Agreement dated February 1, 2001 between Independent Steel Products, LLC, the Secured Lender, Atlantic Hardware & Supply Corporation, Universal Supply group, Inc. and Well-Bilt Steel Products, Inc.	8-K	02-16-01	10(a)(iii)
	(d) Bill of Sale and Assignment dated February 1, 2001 made by the Secured Lender in favor of Independent Steel Products, LLC	8-K	02-16-01	10(a)(iv)
10.08	Inventory Control Agreement re: Universal Supply Group, Inc. taking in inventory on a consignment basis dated August 9, 2001 between Douglas-Guardian Services Corporation, Universal Supply Group, Inc. and GMC Sales corp.	10-K	11-18-03	10(g)
10.09	Agreement of Purchase of Sale of Assets dated July 1, 2002 between Goldman Associates of New York, Inc. and Universal Supply Group, Inc.	10-K	11-18-03	10(h)
10.10	Private Placement Purchase Agreement dated June 30, 2003 by and among Colonial Commercial Corp. and the persons who are counterparts to the Agreement as “Investors”	Yes		
10.11	Private Placement Purchase Agreement dated February 12, 2004 by and among Colonial Commercial Corp. and the persons who are counterparts to the Agreement as “Investors”	Yes		
10.12	Private Placement Purchase Agreement dated July 29, 2004 by and among Colonial Commercial Corp, and the persons who are counterparts to the Agreement as “Investors” including:			
	(a) Private Placement Purchase Agreement	10-Q	08-16-04	4.1
	(b) Convertible Note Payable	10-Q	08-16-04	4.2
10.13	Private Placement Purchase Agreement dated July 29, 2004 by and among Michael Goldman and Goldman Associates of New York, Inc. including:	10-Q	08-16-04	4.3
	(a) Private Placement Agreement	10-Q	08-16-04	4.4
	(b) Secured Note	10-Q	08-16-04	4.5
	(c) Warrant	10-Q	08-16-04	4.6
10.14	Asset Purchase Agreement dated September 5, 2003 for the purchase of certain assets, subject to certain liabilities of The RAL Supply Group, Inc., by RAL Purchasing Corp., a wholly-owned subsidiary of Colonial Commercial Corp.	8-K	10-15-03	10(a)(i)

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10.15	RAL Closing Statement dated September 30, 2003	8-K	10-15-03	10(a)(ii)
10.16	Lease Agreement by and between Zanzi Realty, Inc. and The RAL Supply Group, Inc., dated September 1, 1998	8-K	11-02-05	10.04
(a)	First Modification of Lease Agreement dated September 30, 2003 to Lease Agreement by and between Zanzi Realty, Inc. and The RAL Supply Group, Inc., dated September 1, 1998	8-K	11-02-05	10.05
(b)	Second Modification of Lease Agreement dated April 12, 2005 to Lease Agreement by and between Zanzi Realty, Inc. and The RAL Supply Group, Inc., dated September 1, 1998	8-K	11-02-05	10.06
10.17	Offer to Purchase Odd Lot Shares and Letter of Transmittal dated August 16, 2005	8-K	08-18-05	10.01
11.01	Statement re computation of per share earnings (loss)—Not filed since computations are readily apparent from the Consolidated Financial Statements			
14.01	Code of Ethics	10-K	04-15-05	14
21.01	Subsidiaries of Registrant	Yes		
23.01	Consent of Registered Independent Public Accounting Firm—Weiser, LLP	Yes		
31.01	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes–Oxley Act of 2002	Yes		
31.02	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes–Oxley Act of 2002	Yes		
32.01	Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes–Oxley Act of 2002	Yes		
32.02	Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes–Oxley Act of 2002	Yes		
99.01	Affidavit dated January 28, 2002 in support of Atlantic Hardware & Supply Corporation's Petition for Relief under Chapter 11 of the U.S. Bankruptcy Code	10-K	11-18-03	99.1
99.02	Dismissal of Atlantic Hardware & Supply Corporation's Petition for Relief by the U.S. Bankruptcy Court for the Eastern District of New York dated May 18, 2005	Yes		

COLONIAL COMMERCIAL CORP. AND SUBSIDIARIES

Index to Consolidated Financial Statements

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

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Colonial Commercial Corp. and Subsidiaries

We have audited the accompanying consolidated balance sheets of Colonial Commercial Corp. and Subsidiaries (the "Company") as of December 31, 2005 and 2004 and the related consolidated statements of operations, stockholders' equity and cash flows for the years ended December 2005, 2004 and 2003. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Colonial Commercial Corp. and Subsidiaries as of December 31, 2005 and 2004 and the consolidated results of their operations and their cash flows for the years ended December 31, 2005, 2004 and 2003, in conformity with U.S. generally accepted accounting principles.

We have also audited the financial statement Schedule II (Valuation and Qualifying Accounts) for the years ended December 31, 2005, 2004 and 2003. In our opinion, this schedule presents fairly, in all material respects, the information required to be set forth therein.

/s/Weiser LLP

New York, NY
March 30, 2006

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

COLONIAL COMMERCIAL CORP. AND SUBSIDIARIES
Consolidated Balance Sheets

	<u>December 31,</u> <u>2005</u>	<u>December 31,</u> <u>2004</u>
Assets		
Current assets:		
Cash	\$ 613,456	\$ 310,659
Accounts receivable, net of allowance for doubtful accounts of \$185,971 in 2005 and \$290,448 in 2004	8,489,717	7,774,588
Inventory	12,214,261	11,002,314
Prepaid expenses and other current assets	1,066,658	865,732
Deferred tax asset – current portion	<u>637,500</u>	<u>574,061</u>
Total current assets	23,021,592	20,527,354
Property and equipment	1,669,484	1,656,149
Goodwill	1,628,133	1,628,133
Other intangibles	11,334	27,500
Other assets – noncurrent	135,832	183,183
Deferred tax asset – noncurrent	<u>1,071,000</u>	<u>492,939</u>
	<u>\$ 27,537,375</u>	<u>\$ 24,515,258</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Trade payables	\$ 5,991,946	\$ 4,721,790
Accrued liabilities	2,047,159	1,744,006
Income taxes payable	12,772	36,316
Borrowings under credit facility – revolving credit	11,183,008	10,658,542
Borrowings under credit facility – term loan	562,977	1,666,667
Notes payable – current portion; includes related party notes of \$60,389 in 2005 and \$30,000 in 2004	<u>165,112</u>	<u>115,265</u>
Total current liabilities	19,962,974	18,942,586
Notes payable, excluding current portion; includes related party notes of \$1,000,625 in 2005 and \$993,125 in 2004	<u>1,400,834</u>	<u>1,398,774</u>
Total liabilities	<u>21,363,808</u>	<u>20,341,360</u>
Commitments and contingencies		
Stockholders' equity:		
Redeemable convertible preferred stock, \$.05 par value, 2,500,000 shares authorized, 484,721 in 2005 and 790,439 in 2004 shares issued and outstanding, liquidation preference of \$2,423,605 in 2005 and \$3,952,195 in 2004	24,236	39,522
Common stock, \$.05 par value, 20,000,000 shares authorized, 4,544,459 in 2005 and 4,158,441 in 2004 shares issued and outstanding	227,223	207,922
Additional paid-in capital	10,626,859	10,746,836
Accumulated deficit	<u>(4,704,751)</u>	<u>(6,820,382)</u>
Total stockholders' equity	<u>6,173,567</u>	<u>4,173,898</u>
	<u>\$ 27,537,375</u>	<u>\$ 24,515,258</u>

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

COLONIAL COMMERCIAL CORP. AND SUBSIDIARIES
Consolidated Statements of Operations

	For the Years Ended December 31,		
	2005	2004	2003
Net sales	\$ 66,690,945	\$ 61,454,128	\$ 44,671,136
Cost of sales	<u>46,507,769</u>	<u>43,069,981</u>	<u>31,504,654</u>
Gross profit	20,183,176	18,384,147	13,166,482
Selling, general and administrative expenses, net	<u>17,782,752</u>	<u>16,666,335</u>	<u>11,869,885</u>
Operating income	2,400,424	1,717,812	1,296,597
Other income	272,597	320,359	324,367
Interest expense, net; includes related party interest of \$94,703 in 2005, \$45,007 in 2004 and \$3,181 in 2003	<u>(1,044,454)</u>	<u>(875,683)</u>	<u>(637,857)</u>
Income from operations before income tax benefit	1,628,567	1,162,488	983,107
Income tax benefit	<u>(487,064)</u>	<u>(498,668)</u>	<u>(337,156)</u>
Net income	<u>\$ 2,115,631</u>	<u>\$ 1,661,156</u>	<u>\$ 1,320,263</u>
Income per common share:			
Basic	<u>\$ 0.49</u>	<u>\$ 0.49</u>	<u>\$ 0.67</u>
Diluted	<u>\$ 0.40</u>	<u>\$ 0.36</u>	<u>\$ 0.38</u>
Weighted average shares outstanding:			
Basic	<u>4,295,697</u>	<u>3,403,152</u>	<u>1,971,129</u>
Diluted	<u>5,293,114</u>	<u>4,587,966</u>	<u>3,501,698</u>

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

COLONIAL COMMERCIAL CORP. AND SUBSIDIARIES
 Consolidated Statements of Stockholders' Equity
 For The Years Ended December 31, 2005, 2004, and 2003

	<u>Number of shares</u>				Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' Equity
	Redeemable Convertible Preferred Stock	Common Stock	Redeemable Convertible Preferred Stock	Common Stock			
Balance at December 31, 2002	1,464,252	1,603,794	\$ 73,213	\$ 80,190	\$ 8,966,513	\$ (9,801,801)	\$ (681,885)
Net income						1,320,263	1,320,263
Stock-based compensation	-	-	-	-	92,000	-	92,000
Issuance of common stock	-	802,000	-	40,100	200,500	-	240,600
Other	2,540	(2,476)	127	(124)	-	-	3
Balance at December 31, 2003	1,466,792	2,403,318	73,340	120,166	9,259,013	(8,481,538)	970,981
Net income						1,661,156	1,661,156
Stock-based compensation					62,025		62,025
Conversion of shares of preferred stock to common stock	(83,623)	83,623	(4,181)	4,181			-
Retirement of preferred stock	(592,730)		(29,637)		(326,002)		(355,639)
Issuance of common stock		1,620,000		81,000	1,554,000		1,635,000
Options exercised		51,500		2,575	10,300		12,875
Warrant value					187,500		187,500
Balance at December 31, 2004	790,439	4,158,441	39,522	207,922	10,746,836	(6,820,382)	4,173,898
Net income						2,115,631	2,115,631
Stock-based compensation					(74,450)		(74,450)
Conversion of shares of preferred stock to common stock	(298,018)	298,018	(14,901)	14,901			-
Retirement of preferred stock	(7,700)		(385)		(15,015)		(15,400)
Options exercised		88,000		4,400	17,600		22,000
Tax effect of options exercised					(48,112)		(48,112)
Balance at December 31, 2005	484,721	4,544,459	\$ 24,236	\$ 227,223	\$ 10,626,859	\$ (4,704,751)	\$ 6,173,567

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

COLONIAL COMMERCIAL CORP. AND SUBSIDIARIES
Consolidated Statements of Cash Flows

	For The Years Ended December 31,		
	2005	2004	2003
Cash flows from operating activities:			
Net income	\$ 2,115,631	\$ 1,661,156	\$ 1,320,263
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Deferred tax benefit	(641,500)	(645,600)	(421,400)
Stock-based compensation	(74,450)	62,025	92,000
Provision for doubtful accounts	101,724	225,183	188,050
Depreciation	387,719	366,223	232,315
Amortization of intangibles	16,166	26,667	41,666
Accretion of debt discount	37,500	15,625	-
Tax effect of options exercised	(48,112)	-	-
Changes in operating assets and liabilities, net of the effects of acquisition:			
Accounts receivable	(816,853)	(1,745,871)	(671,771)
Inventory	(1,211,947)	(1,219,492)	(1,770,078)
Prepaid expenses and other current assets	(200,926)	(245,054)	(151,378)
Other assets – noncurrent	47,351	(183,183)	-
Trade payables	1,270,156	(574,089)	1,533,048
Accrued liabilities	303,153	230,428	(118,196)
Income taxes payable	(23,544)	(139,298)	135,384
Net cash provided by (used in) operating activities	1,262,068	(2,165,280)	409,903
Cash flows from investing activities:			
Cash acquired in acquisition of RAL Supply Group, Inc.	-	-	3,575
Additions to property and equipment	(401,054)	(507,241)	(377,407)
Net cash used in investing activities	(401,054)	(507,241)	(373,832)
Cash flows from financing activities:			
Issuance of common stock and exercise of stock options	22,000	1,647,875	240,600
Retirement of preferred stock	(15,400)	(355,639)	-
Repayments of notes payable: includes related party repayments of \$48,091 in 2005, \$30,000 in 2004, and –0– in 2003.	(141,292)	(105,883)	(38,402)
Issuance of notes payable: includes related party notes of \$48,480 in 2005, \$1,075,000 in 2004, and –0– in 2003.	155,699	1,173,392	73,643
Issuance of warrants	-	187,500	-
Repayments under credit facility – term loan	(1,103,690)	(572,333)	(261,000)
Repayments (borrowings) under credit facility – revolving credit	524,466	665,512	(4,920)
Net cash (used in) provided by financing activities	(558,217)	2,640,424	9,921
Increase (decrease) in cash	302,797	(32,097)	45,992
Cash – beginning of year	310,659	342,756	296,764
Cash – end of year	\$ 613,456	\$ 310,659	\$ 342,756

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

COLONIAL COMMERCIAL CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2005, 2004 and 2003

(1) Summary of Significant Accounting Policies and Practices

(a) Description of Business

Colonial Commercial Corp. (“Colonial”), through its operating Subsidiaries, Universal Supply Group, Inc. (“Universal”), RAL Supply Group, Inc. (“RAL”) and American/Universal Supply Inc. (“American”) (together, the “Company”), is a distributor of heating, ventilation and air conditioning (HVAC) and climate control products and plumbing fixtures and supplies to building contractors and other users, which the Company considers its only continuing industry segment. The Company's products are marketed primarily to HVAC contractors, which, in turn, sell such products to residential and commercial/industrial customers. The Company's customers are located in the United States, primarily New Jersey, New York and portions of eastern Pennsylvania. The Company has no long term agreement with any customer. The Company deals with its customers on a purchase order by purchase order basis. The Company has no assured stability in its customer base. The Company has no material long term agreements with any supplier. Certain supplier agreements limit the sale of competitive products in designated markets that the Company serves. The Company's discontinued subsidiary, Atlantic Hardware & Supply Corporation (“Atlantic”), in January 2002, filed for reorganization under Chapter 11 of the United States Bankruptcy Code, and on May 18, 2005, the United States Bankruptcy Court for the Eastern District of New York dismissed the petition. See Note 2 for more information on acquisitions and discontinued operations.

(b) Principles of Consolidation

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

(c) Revenue Recognition

Revenue is recognized when the earnings process is complete, generally upon shipment of products in accordance with shipping terms. There are no further obligations on the part of the Company subsequent to revenue recognition, except for returns of defective products from the Company's customers, which are covered under the manufacturer's warranty. The Company will receive a vendor credit from the manufacturer related to the warranted product in question, at which time credits are issued to the customer. The Company does not provide a warranty on products sold other than the warranty provided by the manufacturer.

(d) Cash Equivalents

The Company considers all highly liquid investment instruments with an original maturity of three months or less to be cash equivalents. There were no cash equivalents at December 31, 2005 and 2004.

COLONIAL COMMERCIAL CORP. AND SUBSIDIARIES
Notes to Consolidated Financial Statements, Continued

(e) 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 service charge may be applied to receivables that are past due. These charges, when collected, 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.

(f) 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.

Distribution costs of incoming freight, purchasing, receiving, inspection, warehousing and handling costs are included in selling, general and administrative expenses. Such costs were \$421,248, \$325,109, and \$206,264 for the years ended December 31, 2005, 2004 and 2003, respectively.

(g) 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	3-5 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.

(h) Goodwill and Other Intangible Assets

Statement of Financial Accounting Standards (SFAS) 142, "Goodwill and Other Intangible Assets," requires that goodwill 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.

The Company has determined that Universal and RAL are reporting units.

COLONIAL COMMERCIAL CORP. AND SUBSIDIARIES
Notes to Consolidated Financial Statements, Continued

(i) Stock Option Plan

The Company uses the intrinsic-value method of accounting for stock-based awards granted to employees. 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 following table illustrates the effect on net income if the fair-value-based method had been applied to all outstanding and unvested awards in each period.

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Net income, as reported	\$ 2,115,631	\$ 1,661,156	\$ 1,320,263
Add: Stock-based compensation related to option repricing	(74,450)	62,025	92,000
Deduct: Total stock-based employee compensation determined under fair value-based method for all awards	<u>–</u>	<u>–</u>	<u>(26,000)</u>
Pro forma	<u>\$ 2,041,181</u>	<u>\$ 1,723,181</u>	<u>\$ 1,386,263</u>
Basic net income per common share			
As reported	\$.49	\$.49	\$.67
Pro forma	\$.48	\$.51	\$.70
Diluted net income per common share			
As reported	\$.40	\$.36	\$.38
Pro forma	\$.39	\$.38	\$.40

In calculating the above stock-based employee compensation for 2003 determined under the fair-value based method for all awards granted, the Company utilized the following assumptions; expected volatility of 4.88%, expected life of 10 years, risk free interest rate of 3.18% and dividend yield of 0%.

(j) Net Income Per Common Share

Basic income per share excludes any dilution. It is based upon the weighted average number of common shares outstanding during the period. Dilutive earnings per share reflect the potential dilution that would occur if securities or other contracts to issue common stock were exercised or converted into common stock.

(k) Income Taxes

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

COLONIAL COMMERCIAL CORP. AND SUBSIDIARIES
Notes to Consolidated Financial Statements, Continued

The Company records a valuation allowance against any portion of the deferred income tax asset when it believes, based on the weight of available evidence, it is more likely than not that some portion of the deferred tax asset will not be realized.

(l) Impairment of Long-Lived Assets and Long-Lived Assets to Be Disposed Of

Long-lived assets, such as intangible assets, furniture, equipment and leasehold improvements, are evaluated for impairment when events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable through estimated undiscounted future cash flows from the use of these assets. When any such impairment exists, the related assets will be written down to fair value.

(m) Use of Estimates

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

(n) Recent Issued Accounting Pronouncements

In December 2004, the FASB issued SFAS No. 123(R), "Share-Based Payment", which establishes standards for transactions in which an entity exchanges its equity instruments for goods or 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. This eliminates the exception to account for such awards using the intrinsic method previously allowable under APB Opinion No. 25. SFAS No. 123 (R) will be effective for the first period after December 31, 2005. The Company is in the process of evaluating the impact to its financial statements and believes the adoption will not have a material effect on the Company's income statement.

In December 2004, the FASB issued SFAS No. 153, "Exchanges of Nonmonetary Assets, an amendment of APB Opinion No. 29, Accounting for Nonmonetary Transactions." The amendments made by SFAS No. 153 are based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged. Further, the amendments eliminate the narrow exception for nonmonetary exchanges of similar productive assets and replace it with a broader exception for exchanges of nonmonetary assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. This statement shall be applied prospectively and is effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. Earlier application is permitted for nonmonetary asset exchanges occurring in fiscal periods beginning after the date of issuance. The Company does not anticipate that the adoption of SFAS No. 153 will have a significant impact on the Company's overall results of operations or financial position.

COLONIAL COMMERCIAL CORP. AND SUBSIDIARIES
Notes to Consolidated Financial Statements, Continued

In May 2005, the FASB issued Statement No. 154, "Accounting Changes and Error Corrections. This Statement replaces APB Opinion No. 20, "Accounting Changes," and SFAS No. 3, "Reporting Accounting Changes in Interim Financial Statements," and changes the requirements for the accounting for and reporting of a change in accounting principle. This Statement applies to all voluntary changes in accounting principles. It also applies to changes required by an accounting pronouncement in the unusual instance that the pronouncement does not include specific transition provisions. When a pronouncement includes specific transition provisions, those provisions will continue to be followed. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. Earlier application is permitted for accounting changes and corrections of errors made occurring in fiscal years beginning after June 1, 2005. The Company does not expect the adoption of SFAS No. 154 to have a material impact on its consolidated financial statements.

(2) Business Acquisitions and Discontinued Operations .

(a) RAL Acquisition

On September 30, 2003, RAL Purchasing, Inc., a newly formed, wholly owned Subsidiary of the Company, purchased substantially all of the assets and assumed certain liabilities of RAL for a price of \$2,447,061.

Presented below are the pro forma financial results (unaudited) prepared under the assumption that the acquisition of RAL had been completed at the beginning of 2003.

	(Unaudited) For The Year Ended December 31, 2003
(in 000s except for EPS data)	
Net Sales	\$ 51,657
Operating Income	1,741
Net Income From Continuing Operations	1,631
Earnings Per Share From Continuing Operations	
Basic	\$.83
Diluted	\$.47

RAL is a distributor of heating and cooling equipment and plumbing fixtures and supplies 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.

As a result of the acquisition, the Company is expecting to be one of the leading distributors of heating and cooling equipment and plumbing fixtures and supplies in its market.

(b) On January 28, 2002, Atlantic, a wholly-owned Subsidiary of the Company, filed a voluntary petition with the U. S. Bankruptcy Court for the Eastern District of New York to reorganize under Chapter 11 of the U. S. Bankruptcy Code. On May 18, 2005, the United States Bankruptcy Court for the Eastern District of New York dismissed the petition. Atlantic is a discontinued operation and has no assets. Neither Colonial Commercial Corp. nor any of its other subsidiaries were part of the Chapter 11 filing.

COLONIAL COMMERCIAL CORP. AND SUBSIDIARIES
Notes to Consolidated Financial Statements, Continued

The Company's investment in Atlantic's common stock was recognized at a cost value of \$219,007 of guaranteed liabilities as of December 31, 2002. Colonial recognized the \$219,007 of guaranteed liabilities of Atlantic until June 2004, at which time the Company settled the claim for \$161,000 and recognized a gain of \$58,007.

Since the Company was treating Atlantic as an unconsolidated Subsidiary, Atlantic was being carried at cost on the Company's balance sheet until June 2004.

(3) Property and Equipment

Property and equipment consists of the following at December 31:

	<u>2005</u>	<u>2004</u>
Computer hardware and software	\$ 884,011	\$ 678,737
Furniture and fixtures	85,180	67,015
Leasehold improvements	1,361,620	1,249,954
Automobiles	560,484	498,025
	<u>2,891,295</u>	<u>2,493,731</u>
Less accumulated depreciation and amortization	<u>1,221,811</u>	<u>837,582</u>
	<u>\$ 1,669,484</u>	<u>\$ 1,656,149</u>

(4) Other Intangible Assets

The Company has certain identifiable intangible assets that are subject to amortization. Intangible assets are included in "Other intangibles" in the consolidated balance sheets. The components of intangible assets are as follows:

	<u>December 31, 2005</u>		<u>December 31, 2004</u>		Estimated Useful Life (Years)
	Gross Carrying Amount	Net Carrying Amount	Gross Carrying Amount	Net Carrying Amount	
Covenants Not to Compete	\$241,667	\$ (230,333)	\$ 11,334	\$ (214,167)	5

Amortization expense amounted to \$16,166, \$26,667 and \$41,666 for the years ended December 31, 2005, 2004 and 2003, respectively.

Estimated Amortization Expense

For the Years Ended December 31,	
2006	\$ 7,834
2007	2,000
2008	<u>1,500</u>
	<u>\$ 11,334</u>

COLONIAL COMMERCIAL CORP. AND SUBSIDIARIES
Notes to Consolidated Financial Statements, Continued

(5) Financing Arrangements

On July 29, 2004, the Company completed a \$15,000,000 secured loan facility expiring on August 1, 2009 with Wells Fargo Business Credit, Inc. ("WFBCI") consisting of a revolving line of credit including a \$2,000,000 two-year term loan. The revolving credit line bears interest at .25% below prime, and the term loan bears interest at .50% above prime. Substantially all of the assets of the Company, as well as a pledge of the stock of Colonial's operating subsidiaries, collateralize all loans. The facility contains covenants relating to the financial condition of the Company and its business operations and restricts the payment of dividends, subordinated debt, purchase of securities and capital expenditures (\$550,000 per year). The Company must maintain a tangible net worth of approximately \$2.7 million for the fiscal quarter ending December 31, 2005. In addition, the Company is required to maintain certain levels of net income and cash flows, as defined in the agreement. Availability under the revolving credit line is determined by a percentage of eligible assets as defined in the agreement.

At December 31, 2005, amounts outstanding under the credit facility were \$11,745,985, of which \$562,977 represents a term loan payable in six monthly installments of approximately \$83,333 and a final payment of approximately \$62,977, unless sooner paid pursuant to the terms of the loan agreement. Although the term loan is payable over a specified period, the Bank can demand payment at any time. At December 31, 2005, the amount of the unused available credit was \$1,561,097. The interest rate on the \$562,977 term loan was 7.75% (prime plus .5%) as of December 31, 2005. The interest rate on the remaining credit facility, as of December 31, 2005 was 7.0% (prime minus .25%). In the event that Mr. Pagano no longer performs the duties of the President of Universal or the Vice President of RAL or American for any reason other than death or disability, the Company will be considered in default of its credit agreement with Wells Fargo Business Credit, Inc. unless a waiver is obtained.

COLONIAL COMMERCIAL CORP. AND SUBSIDIARIES
Notes to Consolidated Financial Statements, Continued

(6) Notes Payable

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

	<u>2005</u>	<u>2004</u>
Various term notes payable, (collateralized by the equipment purchased) with aggregate monthly principal and interest installments of \$8,760 and \$4,019 for 2005 and 2004, respectively, bearing interest between .9% to 5.9%*	\$ 245,321	\$ 170,914
Subordinated term note payable to a private individual, \$30,000 annual principal payment, interest at 9% payable monthly.**	90,000	120,000
Subordinated term note payable to an investment company, \$30,000 annual principal payments, interest at 9% payable monthly	90,000	120,000
Term notes payable to private investors, subordinated unsecured convertible notes payable, bearing interest at 11% per annum, interest payable quarterly, with 50% of the principal payable on June 1, 2008 and the balance on June 1, 2009. The notes are convertible into 175,000 shares of common stock at \$3.00 per share during the term of the notes.***	525,000	525,000
Term note payable of \$750,000 to corporation, subordinated secured note payable, bearing interest at the prime rate and payable quarterly, principal payable on June 30, 2008 and warrants to purchase 150,000 shares of common stock at \$3.00 per share expiring June 30, 2008. The warrant was initially recorded at a fair value of \$187,500 and recorded as a discount from the face value of the note and an increase to additional paid in capital. The discount is being accreted over the term of the note as additional interest expense. The Company recorded \$37,500 and \$15,625 in interest expense during 2005 and 2004, respectively, related to the warrant.****	615,625	578,125
	<u>1,565,946</u>	<u>1,514,039</u>
Less current installments	<u>165,112</u>	<u>115,265</u>
	<u>\$ 1,400,834</u>	<u>\$ 1,398,774</u>

*Included in the above term note payable is \$30,389 bearing interest at 9% to a company owned by Paul Hildebrandt, who is a related party.

**The term note payable bearing interest at 9% is to Paul Hildebrandt, who is a related party.

***Included in the above term note payable bearing interest at 11%, are five notes considered to be related party transactions; \$100,000 term note payable to William Pagano, President of Universal and Director of the Company, \$50,000 term note payable to William Salek, Chief Financial Officer and Secretary of the Company, \$100,000 term note payable to Rita Folger, beneficial owner of greater than 5% of the Company, \$25,000 term note payable to Eileen Goldman, the wife of Michael Goldman and \$50,000 term note payable to Paul Hildebrandt.

COLONIAL COMMERCIAL CORP. AND SUBSIDIARIES
Notes to Consolidated Financial Statements, Continued

****The term note payable bearing interest at prime rate is to Goldman Associates of NY, Inc., in which Michael Goldman is President, is also considered a related party. Pursuant to the Private Placement Agreement, Goldman Associates agreed that it and its affiliates will not until May 31, 2008 without the prior written consent of the Board of Directors of the Company (i) acquire, agree to acquire or make any proposal to acquire any voting securities or assets of the Company or any of its affiliates, (ii) propose to enter into any merger, consolidation, recapitalization, business combination, or other similar transaction involving the Company or any of its affiliates, (iii) make, or in any way participate in any "solicitation" of "proxies" (as such terms are used in the proxy rules of the Securities and Exchange Commission) to vote or seek to advise or influence any person with respect to the voting of any voting securities of the Company or any of its affiliates or (iv) form, join or in any way participate in a "group" as defined in Section 13(d)(3) of the Securities Exchange Act of 1934, as amended, in connection with any of the foregoing or (v) advise, assist or encourage any other persons in connection with the foregoing.

Maturities of notes payable are as follows:

2006	\$ 165,112
2007	131,850
2008	984,974
2009	277,991
2010	<u>6,019</u>
	<u>\$1,565,946</u>

(b) During the year ended December 31, 2003, \$91,885 of the unclaimed payments on notes payable were recorded as other income in the accompanying consolidated statements of operations.

(7) Capital Stock

Each share of the Company's preferred stock is convertible into one share of the Company's common stock. Preferred stockholders will be entitled to a dividend, based upon a formula, when and if any dividends are declared on the Company's common stock. The preferred stock is redeemable, at the option of the Company, at \$7.50 per share. The shares contain a liquidation preference provision entitling the holder to receive payments equaling \$5.00 per share.

COLONIAL COMMERCIAL CORP. AND SUBSIDIARIES
Notes to Consolidated Financial Statements, Continued

The voting rights of the common stockholders and preferred stockholders are based upon the number of shares of convertible preferred stock outstanding. If 1,250,000 or more shares of preferred stock are outstanding, five of the nine directors are elected by the common stockholders and the remainder by the preferred stockholders. If more than 600,000 but less than 1,250,000 preferred shares are outstanding, six of the nine directors are elected by common stockholders. If 600,000 or less preferred shares are outstanding, all nine directors are elected by common stockholders. A majority of the directors elected by preferred stockholders and a majority of the directors elected by the common stockholders are required to approve certain transactions, including, but not limited to, incurring certain indebtedness, merger, consolidation or liquidation of the Company, and the redemption of common stock. Preferred and common directors vote together on all other matters. As of December 31, 2005, the number of preferred shares outstanding was 484,721; accordingly, the Board of Directors to be elected at the 2006 annual shareholders' meeting will consist of one class of directors elected by the holders of common stock and convertible preferred stock voting together as one class on a share for share basis.

At December 31, 2005, there were 915,721 shares of common stock reserved for conversion of preferred stock and for the exercise of stock options, convertible notes and warrants.

Messrs. Goldman, Korn, Pagano, Rozzi, and Mrs. Folger each signed a stock purchase and sale standstill agreement in which they agreed until May 31, 2008 not to purchase any stock without written consent from the Company and they will not sell any stock to anyone when such a sale would create a new 5% shareholder unless such person first enters into a similar standstill agreement.

(8) Equity Transactions

During the year ended December 31, 2005, the Company issued 88,000 shares of common stock pursuant to the exercise of stock options. Bernard Korn acquired 35,000 shares of common stock, by exercising 10,000 stock options on February 2, 2005 and 25,000 stock options on September 20, 2005. Mr. Korn is Chairman of the Board and the Chief Executive Officer of the Company. A non-executive employee acquired 4,000 shares of common stock, by exercising 4,000 stock options on March 22, 2005. William Pagano acquired 20,000 shares of common stock, by exercising 20,000 stock options on September 20, 2005. Mr. Pagano is the President and a Director of the Company. Carl Sussman acquired 12,000 shares of common stock, by exercising 12,000 stock options on September 26, 2005. Mr. Sussman is a Director of the Company. William Salek acquired 5,000 shares of common stock, by exercising 5,000 stock options on September 28, 2005. Mr. Salek is the Chief Financial Officer of the Company. William Koon acquired 12,000 shares of common stock, by exercising 12,000 stock options on October 19, 2005. Mr. Koon is a Director of the Company.

During the year ended December 31, 2005, holders of a total of 298,018 shares of redeemable convertible preferred stock converted these shares into 298,018 shares of Common Stock, of which 174,878 shares of convertible preferred stock were converted by Directors of the Company. As of December 31, 2005, the number of convertible preferred shares outstanding was 484,721. As a result of this reduction in the number of outstanding shares of convertible preferred stock, commencing at the 2006 annual meeting of stockholders, the holders of common and convertible preferred stock will vote together as one class to elect one class of directors.

COLONIAL COMMERCIAL CORP. AND SUBSIDIARIES
Notes to Consolidated Financial Statements, Continued

On August 16, 2005, the Company announced that it was offering to purchase all shares of convertible preferred stock that on August 15, 2005 were owned by shareholders who then owned 99 shares or less for \$2.00 per share. The offer expired September 30, 2005. As a result of the offer, the Company purchased 7,700 shares of its convertible preferred stock, which were retired.

(9) Stock Options

In June 1996, the Company adopted the 1996 Stock Option Plan (the "1996 Plan") to grant options to key employees and other persons who render service (non-employee) to the Company. The ability to grant options under this plan expired on December 31, 2005.

At December 31, 2005, a total of 106,000 options were outstanding under the Company's 1996 Stock Option Plan, which have expiration dates ranging from 2009 to 2013.

Changes in options outstanding are as follows:

	<u>Shares Subject to Option</u>	<u>Weighted Average Exercise Price</u>
Balance at December 31, 2002	233,000	3.06
Expired	(91,500)	2.25
Granted	<u>104,000</u>	.25
Balance at December 31, 2003	245,500	.25
Options Exercised	<u>(51,500)</u>	.25
Balance at December 31, 2004	194,000	.25
Options Exercised	<u>(88,000)</u>	.25
Balance at December 31, 2005	<u><u>106,000</u></u>	.25

On February 11, 2003, 141,500 outstanding stock options were repriced to an exercise price of \$.25, the fair market value on that date. The number of options outstanding under the variable pricing method as of December 31, 2005, 2004 and 2003 were 43,000, 110,000 and 141,500, respectively, which caused the Company to incur additional stock-based compensation income (expense) of \$74,450, \$(62,025) and \$(92,000) for the years ended December 31, 2005, 2004 and 2003, respectively.

The following table summarizes information about stock options at December 31, 2005:

<u>Options Outstanding and Exercisable</u>			
<u>Range of Exercise Prices</u>	<u>Shares</u>	<u>Weighted Average Remaining Contractual Life</u>	<u>Weighted Average Exercise Price</u>
\$.25	106,000	5.62	\$.25

COLONIAL COMMERCIAL CORP. AND SUBSIDIARIES
Notes to Consolidated Financial Statements, Continued

(10) 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:

	2005	2004	2003
Net income (numerator)	\$ 2,115,631	\$ 1,661,156	\$ 1,320,263
Weighted average common shares (denominator for basic income per share)	4,295,697	3,403,152	1,971,129
Effect of dilutive securities:			
Convertible preferred stock	683,695	918,778	1,466,792
Convertible notes	175,000	72,931	-
Employee stock options	138,722	193,105	63,777
Weighted average common and potential common shares outstanding (denominator for diluted income (loss) per share)	5,293,114	4,587,966	3,501,698
Basic net income (loss) per share	\$.49	\$.49	\$.67
Diluted net income (loss) per share	\$.40	\$.36	\$.38

(11) Income Taxes

The provision for income taxes consists of the following:

	2005			2004			2003		
	Federal	State And Local	Total	Federal	State And Local	Total	Federal	State And Local	Total
Current	\$ (16,239)	\$170,675	\$ 154,436	\$ 9,000	\$137,932	\$ 146,932	\$ (69,970)	\$154,214	\$ 84,244
Deferred	(641,500)	-	(641,500)	(645,600)	-	(645,600)	(421,400)	-	(421,400)
Total tax (benefit) expense	\$ (657,739)	\$170,675	\$ (487,064)	\$ (636,600)	\$137,932	\$ (498,668)	\$ (491,370)	\$154,214	\$ (337,156)

COLONIAL COMMERCIAL CORP. AND SUBSIDIARIES
Notes to Consolidated Financial Statements, Continued

The components of deferred income tax benefit are as follows:

	2005	2004	2003
Deferred tax expense (benefit), exclusive of the effects of the other components listed below	\$ —	\$ —	\$ —
Decrease in beginning-of-the-year balance of the valuation allowance for deferred tax assets	(641,500)	(645,600)	(421,400)
Generation of continuing operations net operating loss carryforward	—	—	—
	<u>\$ (641,500)</u>	<u>\$ (645,600)</u>	<u>\$ (421,400)</u>

A reconciliation of the provision for income taxes computed at the Federal statutory rate to the reported provision for income taxes follows:

	2005	2004	2003
Tax provision at Federal statutory rate	34.0%	34.0%	34.0%
State income taxes, net of federal benefit	6.9%	6.0%	6.0%
Benefit from Alternative Minimum Tax carryback refund	0.0%	0.0%	(9.0)%
Change in valuation allowance for deferred tax assets	(73.3)%	(83.7)%	(65.3)%
Permanent differences	1.7%	0.0%	0.0%
Other	0.8%	0.8%	0.0%
Total	<u>(29.9)%</u>	<u>(42.9)%</u>	<u>(34.3)%</u>

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities at December 31, 2005 and 2004 are presented below.

	2005	2004
Current Deferred Tax Assets:		
Federal net operating loss carryforwards	\$ 637,500	\$ 574,061
Current Deferred Tax Assets	<u>\$ 637,500</u>	<u>\$ 574,061</u>
Non-current Deferred Tax Assets:		
Federal net operating loss carryforwards	\$ 10,718,325	\$ 13,585,090
State net operating loss carryforwards	64,435	138,789
Allowance for doubtful accounts	114,837	98,752
Additional costs inventoried for tax purposes	562,998	376,730
Alternative Minimum Tax Credit Carryforward	46,243	—
Compensation	204,428	—
Rent	57,320	—
Non-current Deferred Tax Assets	<u>11,768,586</u>	<u>14,199,361</u>
Non-current Deferred Tax Liabilities:		
Goodwill	(667,224)	(138,111)
Depreciation	(162,985)	(29,722)
Non-current Deferred Tax Liabilities	<u>(830,209)</u>	<u>(167,833)</u>
Non-current Deferred Tax Assets	10,938,377	14,031,528
Less Valuation Allowance	(9,867,377)	(13,538,589)
Net Non-Current Deferred Tax Assets	<u>\$ 1,071,000</u>	<u>\$ 492,939</u>

COLONIAL COMMERCIAL CORP. AND SUBSIDIARIES
Notes to Consolidated Financial Statements, Continued

In July 2004, the Company entered into a new financing agreement along with two private placements. The combination of the private placements and debt financing provided an additional \$4,050,000 in liquidity. It is management's opinion that this additional liquidity will allow the Company to expand inventory levels while taking advantage of purchase discounts and programs. Management believes that this will ultimately result in increased revenues and gross margin percentages. Therefore, management adjusted its future income projections as a result of these events and increased the deferred tax asset by \$645,600 to \$1,067,000. As of December 31, 2005, management has again reassessed its future income projections and has increased the deferred tax asset by \$641,500 to \$1,708,500.

At December 31, 2005, the Company's operating loss carryforwards for federal income tax purposes are approximately \$33,400,000. Varying amounts of the net operating loss carryforwards will expire from 2006 through 2022. Approximately \$7.1 million of net operating loss expired in 2005.

Expiration Year	Net Operating Losses
2006	\$ 4,811,000
2007	4,945,000
2008	415,000
2020	5,960,000
2021	2,737,000
2022	14,532,000
	\$33,400,000

The utilization of the net operating loss carryforwards is subject to certain annual limitations. If certain substantial changes in ownership occur, there would be a further annual limitation on the amount of tax carryforwards that can be utilized in the future.

(12) Fair Value of Financial Instruments

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

The fair value of long-term debt is based on current rates at which the Company could borrow funds with similar remaining maturities.

(13) Supplemental Cash Flow Information

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

	2005	2004	2003
Cash paid during the years for:			
Interest	\$ 971,629	\$ 852,288	\$ 543,646
Income Taxes	\$ 308,585	\$ 173,665	\$ 102,900

COLONIAL COMMERCIAL CORP. AND SUBSIDIARIES
Notes to Consolidated Financial Statements, Continued

Non-cash transactions:

During 2005, 2004 and 2003, there were 298,018, 83,623 and -0- shares, respectively, of convertible preferred stock that were converted to a similar number of common shares.

During 2003, notes payable of \$300,000 were incurred relating to the acquisition of RAL.

(14) Employee Benefit Plans

(a) 401(k) Plan

The Company has a 401(k) plan, which covers substantially all employees. Participants in the plan may contribute a percentage of compensation, but not in excess of the maximum allowed under the Internal Revenue Code. The plan provides for matching contributions. In 2005, 2004 and 2003, \$183,269, \$169,319 and \$137,508, respectively, of contributions were made to the plan.

(15) Business and Credit Concentrations

The Company purchases products from primarily 260 suppliers. In 2005, two suppliers accounted for 37% of the Company's purchases. The loss of one of these suppliers could have a material adverse effect upon its business for a short-term period. In 2004 and 2003, two suppliers accounted for 38% and 47% of the Company's purchases, respectively.

(16) Commitments and Contingencies

(a) Compensation

The Company has employment contracts with three officers and various employees with remaining terms ranging from one to four years. The amounts due under these contracts are \$730,000, \$625,000, \$400,000, \$200,000 and \$200,000 in the years ended December 31, 2006, 2007, 2008, 2009 and 2010, respectively. These commitments do not include amounts that may be earned as a bonus.

COLONIAL COMMERCIAL CORP. AND SUBSIDIARIES
Notes to Consolidated Financial Statements, Continued

(b) Leases

The Company recorded lease payments via the straight line method and, for leases with step rent provisions whereby the rental payments increase over the life of the lease, the Company recognizes the total minimum lease payments on a straight-line basis over the lease term. The Company is obligated under operating leases for warehouse, office facilities and certain office equipment which amounted to \$2,997,887, \$2,705,911 and \$1,404,475 for the years ended December 31, 2005, 2004 and 2003, respectively. At December 31, 2005, future minimum lease payments in the aggregate and for each of the five succeeding years are as follows:

2006	\$ 2,750,861
2007	2,577,399
2008	2,074,893
2009	1,047,989
2010	670,225
Thereafter	1,260,279
Total	<u>\$10,381,646</u>

(c) Sales Tax

The Company's subsidiary, Universal, is currently under audit by the State of New Jersey, Department of the Treasury, Division of Taxation, for Sales and Use Tax for the years 2001, 2002, 2003 and 2004. The State has currently assessed \$177,898 based upon an audit of this period. Universal has contested the State's findings and has accrued \$50,000 for what Universal believes is its liability for the examination. Management believes the outcome will be favorable and will not have a material impact on the financial statements.

(d) Private Placement

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 Exchange 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 June 30, 2008, and warrants to purchase 150,000 shares of common stock at \$3.00 per share expiring June 30, 2008. The \$187,500 estimated value of the warrants was accounted for as an increase to additional paid in capital and as a discount to the note payable.

On July 29, 2004, the Company completed a private placement, pursuant to Regulation D of the Securities Exchange 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, interest payable quarterly, with 50% of the principal payable on June 1, 2008 and the balance on June 1, 2009. The Notes are convertible into 175,000 shares of common stock at \$3.00 per share during the term of the Notes.

COLONIAL COMMERCIAL CORP. AND SUBSIDIARIES
Notes to Consolidated Financial Statements, Continued

On February 12, 2004, the Company completed a private placement, pursuant to Regulation D of the Securities Act of 1933. The Company raised \$360,000 through the issuance of 600,000 shares of common stock at \$0.60 per share. Bernard Korn (Chairman and President of the Company), purchased 165,000 shares, William Pagano (Director of the Company and President of Universal), purchased 165,000 shares, Michael Goldman (appointed Director of the Company on September 29, 2004) purchased 170,000 shares and Rita Folger (a private investor, who owned 9.42% of the Company as of that date), purchased 100,000 shares.

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.

The stock from the private placement cannot be sold, transferred or otherwise disposed of, unless subsequently registered under the Securities Act of 1933 and applicable state or Blue Sky laws, or pursuant to an exemption from such registration, which is available at the time of desired sale, and bears a legend to that effect.

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, as determined by the Board of Directors. Bernard Korn (Chairman and President of the Company), purchased 167,000 shares, James W. Stewart (who was Executive Vice President and Director of the Company as of July 16, 2003) purchased 100,000 shares, William Pagano (President and Director of the Company), purchased 335,000 shares, Jack Rose (Director of the Company), purchased 50,000 shares and Rita Folger (a private investor who owned 6.86% of the Company as of that date), purchased 150,000 shares. 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 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) Litigation

Universal Supply Group, Inc. 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. The Company filed a copy of the purchase agreement with the Securities and Exchange Commission on March 30, 1999 as Exhibit 10(g) on Form 10KSB, and the Company filed a copy of an amendment to the purchase agreement on July 9, 1999 as Exhibit 10(a)(ii) on Form 8-K. Subsequent to the sale, 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 "Predecessor." The majority shareholders of Hilco, Inc. were John A. Hildebrandt and Paul Hildebrandt.

COLONIAL COMMERCIAL CORP. AND SUBSIDIARIES
Notes to Consolidated Financial Statements, Continued

The Company understands that 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. Currently, there exist 118 plaintiffs in these lawsuits relating to alleged sales of asbestos products, or products containing asbestos, by the Predecessor. The Company never sold any asbestos related products.

Of the existing plaintiffs, 15 filed actions in 2005, 38 filed actions in 2004, 31 filed actions in 2003, and 34 filed actions in 2002. Seventy-eight other plaintiffs have had their actions dismissed and seven other plaintiffs have settled as of December 31, 2005 for a total of \$3,306,000. There has been no judgment against the Predecessor. The Company's Universal subsidiary was named by eighteen of the existing plaintiffs; of these, six filed actions in 2001, one filed an action in 2003 and eleven filed actions in 2005. No case that names the Company's Universal subsidiary has been settled or dismissed.

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 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 December 31, 2005 is material, and that the only material litigation that was brought against 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 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.

Indemnification

John A. Hildebrandt, Paul Hildebrandt and the 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.

COLONIAL COMMERCIAL CORP. AND SUBSIDIARIES
Notes to Consolidated Financial Statements, Continued

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 the Company.

There are no other limitations to the Company's rights to indemnification.

Insurance

The assets that the 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 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 Predecessor and the Company under the contested policies.

There are periods during the years from 1940 to 1999 in which the Company's 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. To date, no insurance company has claimed any contribution for a gap in coverage except for a claim for \$159.64 made by one insurance company to the Predecessor in 1995. The Predecessor asserted that it had no obligation to pay this amount and did not make any payment.

Insurance companies have to date defended the Company and the Predecessor, and have paid all settlement amounts and defense costs. Except for \$159.64 referred to above, the insurance companies have not requested any payments from the Company or from the 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.

General

Regardless of indemnification and insurance coverage, the Company does not in any event consider itself to be liable for the asbestos-based lawsuits that name it or for any other claim that arises as a result of actions or omissions by Predecessor companies. The Company expressly disclaimed the assumption of any liabilities when it purchased the assets of the Predecessor.

COLONIAL COMMERCIAL CORP. AND SUBSIDIARIES
Notes to Consolidated Financial Statements, Continued

It is management's opinion 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 the Company is held liable for substantial asbestos claims or if the Company 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 claim limitations on their liabilities by reason of gaps in coverage or otherwise.

There is no accrued balance for any period relating to asbestos claims, and no amount has been recorded for any period in any financial statement by the Company for asbestos claims. The Company does not regard as likely the potential payment of any asbestos-based claim.

(f) Standby Letter of Credit

The Company has a standby letter of credit in the amount of \$300,000 which expires on July 31, 2006.

(17) Related Party Transactions

Universal 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 in June 2010. The Company paid Mr. Hildebrandt's company \$215,674, \$206,097 and \$195,030 during the years ended December 31, 2005, 2004 and 2003, respectively.

Oscar and Jeffrey Folger acted as legal counsel for the Company through April 20, 2005. Oscar and Jeffrey Folger acted as legal consultants for the Company from April 21, 2005 through December 31, 2005 and each became an employee of the Company as Vice President–Chief Legal Counsel and Assistant Vice President–Legal, respectively, on January 1, 2006. Mrs. Folger is the wife of Oscar Folger and the mother of Jeffrey Folger. Professional fees paid to Oscar and Jeffrey Folger for the years ended 2005, 2004 and 2003 were \$79,973, \$71,115 and \$70,773, respectively. As of December 31, 2005, there is \$2,775 in outstanding liabilities to Oscar Folger. There were no outstanding liabilities at December 31, 2004.

Pioneer Realty Holdings, LLC, a New York limited liability company (“Pioneer”), is the owner of the premises located at 2213 Route 9, Fishkill, New York. RAL is the tenant of the aforementioned property under a lease agreement by and between Zanzi Realty, Inc. and The RAL Supply Group Inc., dated September 1, 1998, as amended by the First Modification of Lease Agreement dated September 30, 2003 and as further amended by the Second Modification of Lease Agreement dated April 12, 2005 (the lease agreement together with the First Modification of Lease Agreement and the Second Modification of Lease Agreement are referred to herein as the “Lease”). Pioneer completed its acquisition of the realty from Zanzi on April 12, 2005 and is the landlord under the Lease pursuant to an assignment and assumption agreement dated April 12, 2005. Each of Messrs. Pagano and Paul Hildebrandt has a 35% interest in this entity. Each of Rita Folger and Jeffrey Folger has a 4% interest in this entity. Jeffrey Folger is the son of Oscar and Rita Folger. The Company paid Pioneer Realty Holdings, LLC \$90,882 during the year ended December 31, 2005.

COLONIAL COMMERCIAL CORP. AND SUBSIDIARIES
Notes to Consolidated Financial Statements, Continued

On July 15, 2005, Universal issued a note payable to a company owned by Paul Hildebrandt for \$48,480, at an interest rate of 9%, payable over thirteen months. Note payments in 2005 were \$19,640 including principal and interest. The outstanding balance of the note at December 31, 2005 was \$30,389.

See Notes 5, 6 and 7 for additional related party transactions.

(18) Subsequent Events

On January 12, 2006, holders of a total of 4,185 shares of Convertible Preferred Stock converted these shares into 4,185 shares of Common Stock.

(19) Quarterly Results (Unaudited)

The following table sets forth selected unaudited quarterly financial data of the Company for the years ended December 31, 2005 and 2004:

	QUARTER ENDED			
	<u>March 31</u>	<u>June 30</u>	<u>September 30</u>	<u>December 31</u>
	(Dollars in thousands, except per share data)			
<u>2005</u>				
Net sales	\$ 13,347	\$ 17,502	\$ 17,378	\$ 18,464
Gross profit	4,253	5,132	5,092	5,706
Net income (loss)	(199)	520	1,019	776
Income (loss) per common share:				
Basic:				
Net income (loss)	<u>(0.05)</u>	<u>0.12</u>	<u>0.24</u>	<u>0.17</u>
Diluted:				
Net income (loss)	<u>(0.05)</u>	<u>0.10</u>	<u>0.19</u>	<u>0.15</u>
<u>2004</u>				
Net sales	\$ 12,525	\$ 16,149	\$ 16,185	\$ 16,595
Gross profit	3,810	4,798	4,731	5,045
Net income (loss)	(299)	664	839	457
Income (loss) per common share:				
Basic:				
Net income (loss)	<u>(0.11)</u>	<u>0.22</u>	<u>0.22</u>	<u>0.11</u>
Diluted:				
Net income (loss)	<u>(0.11)</u>	<u>0.16</u>	<u>0.17</u>	<u>0.09</u>

COLONIAL COMMERCIAL CORP. AND SUBSIDIARIES

Schedule II

Colonial Commercial Corp. and Subsidiaries

Schedule of Valuation and Qualifying Accounts

Description	Balance at Beginning of Year	Additions		Deductions	Balance at End of Year
		Charged to Costs and Expenses	Charged to Other Accounts		
For the year ended December 31, 2005					
Allowance for doubtful accounts	\$ 290,448	\$ 101,724	\$ 69,144 (a)	\$ (275,345) (b)	\$ 185,971
For the year ended December 31, 2004					
Allowance for doubtful accounts	\$ 284,829	\$ 225,183	\$ 14,862 (a)	\$ (234,426) (b)	\$ 290,448
For the year ended December 31, 2003					
Allowance for doubtful accounts	\$ 265,211	\$ 188,050	\$ 14,040 (a)	\$ (182,472) (b)	\$ 284,829

(a) Comprised primarily of accounts that were previously charged against the allowance, and have since been collected.

(b) Comprised primarily of uncollected accounts charged against the allowance.

SIGNATURES

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

COLONIAL COMMERCIAL CORP.
(Registrant)

By: /s/ Bernard Korn
Bernard Korn, Chairman and
Chief Executive Officer

By: /s/ William Salek
William Salek,
Chief Financial Officer

Dated: March 30, 2006

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been duly signed below on March 30, 2006 by the following persons on behalf of the Registrant and in the capacities indicated:

By: /s/ E. Bruce Fredrikson
E. Bruce Fredrikson, Director

By: /s/ Melissa Goldman
Melissa Goldman, Director

By: /s/ Michael Goldman
Michael Goldman, Director

By: /s/ Bernard Korn
Bernard Korn, Chairman and
Chief Executive Officer

By: /s/ William Koon
William Koon, Director

By: /s/ Ronald Miller
Ronald Miller, Director

By: /s/ William Pagano
William Pagano, President and Director

By: /s/ Jack Rose
Jack Rose, Director

By: /s/ Carl L. Sussman
Carl L. Sussman, Director

RESTATED CERTIFICATE OF INCORPORATION

OF

COLONIAL COMMERCIAL CORP.

(under Sections 807 and 808 of the Business Corporation Law)

Moses & Singer

Time & Life Building

1271 Avenue of the Americas

New York, New York 10020

RESTATED CERTIFICATE OF INCORPORATION
OF
COLONIAL COMMERCIAL CORP.
(under Sections 807 and 808 of the Business Corporation Law)

ARTICLE I

The name of the Corporation is Colonial Commercial Corp.

ARTICLE II

The certificate of incorporation was filed by the Department of State on October 28, 1964.

ARTICLE III

The certificate of incorporation is hereby amended as follows:

- 1) Article SECOND is amended to more accurately describe the purposes of the Corporation.
- 2) Article FOURTH is amended:

(a) to change the number and par value of shares authorized to be issued by the Corporation to 31,800,000 shares of capital stock, consisting of 19,300,000 shares of common stock of \$.01 par value and 12,500,000 shares of convertible preferred stock of \$.01 par value.

(b) to delete the authorization for and the description of the rights, preferences and limitations of the Corporation's outstanding series of preferred stock and to add a description of the rights, preferences and limitations of the Corporation's new series of convertible preferred stock.

(c) to provide that no shares of capital stock of the Corporation shall be issued without voting rights.

- 3) Article SIXTH is amended to set forth the procedures which shall govern removal of directors.
-

4) Article SEVENTH (dealing with amendment of certain by-laws of the Corporation) is deleted and a new Article SEVENTH is added to provide for the number of directors and the division of the Board of Directors of the Corporation into Preferred Stock Directors, elected by the holders of the convertible preferred stock and Common Stock Directors, elected by the holders of the common stock.

5) A new article EIGHTH is added to provide that the Board of Directors may amend and repeal by-laws of the Corporation.

6) A new article NINTH is added to provide for the indemnification of the directors and officers of the Corporation to the fullest extent permitted by law.

ARTICLE IV

The Certificate of Incorporation is restated to read as follows:

RESTATED CERTIFICATE OF INCORPORATION

OF

COLONIAL COMMERCIAL CORP.

FIRST: The name of the corporation is

COLONIAL COMMERCIAL CORP.

Hereinafter referred to as the "Corporation."

SECOND: The purposes for which it is formed are:

To subscribe for, purchase, acquire, take, own, hold, buy, sell, assign, dispose of, transfer, pledge, hypothecate, exchange, mortgage and generally deal and trade in and with, either as principal, factor, agent or broker and upon commission or otherwise, securities, shares of stock, bonds, mortgages, debentures, notes, commercial paper and evidences of indebtedness, real estate obligations and investments of all kinds (except bills of exchange), whether secured or unsecured, including bills and accounts receivable, and to borrow and lend money on a secured or unsecured basis or otherwise, both on its own security and the security of others.

To issue bonds, debentures or obligations of the Corporation from time to time, for any of the objects or purposes of this corporation, and to secure the same by mortgage, pledge, deed of trust, or otherwise.

To develop, manufacture, produce, assemble, fabricate, import, lease, purchase or otherwise acquire, invest in, own, hold, use, license the use of, install, operate, handle, maintain, service, repair, sell, pledge, mortgage, exchange, export, distribute, lease, assign, dispose of, and deal in and with, as principal or agent, at wholesale, retail, on commission or otherwise, any and all goods, properties and assets.

In general, to carry on in any part of the world, in any capacity, any business for the conduct of which a corporation may be organized under the Business Corporation Laws of the State of New York and to exercise and enjoy all powers, rights and privileges which may be exercised and enjoyed by any corporation so organized. The enumeration of certain powers is not intended as exclusive of, or as a waiver of, any of the powers, rights or privileges conferred by the Business Corporation Law of the State of New York as now in force or hereafter amended, and the Corporation shall be authorized to exercise and enjoy all powers conferred upon corporations by the laws of the State of New York as in force from time to time.

THIRD: The Office of the Corporation is to be located in the Incorporated Village of Valley Stream, Town of Hempstead, County of Nassau, State of New York.

FOURTH: (a) The aggregate number of shares which the Corporation shall have the authority to issue is thirty-one million eight hundred thousand (31,800,000), divided into the following classes

Number Of Shares	Class	ParValue Per Share
19,300,000	Common Stock	\$.01
12,500,000	Convertible Preferred Stock	\$.01

(b) Convertible Preferred Stock shall have the designation, and shall be entitled to the rights, interests, preferences, limitations, and restrictions hereinafter set forth:

1. Designation. The 12,500,000 shares of Convertible Preferred Stock shall be designated the “Convertible Preferred Stock.”

2. Dividends.

(a) (i) Concurrently with, and as a condition precedent to, the declaration of any dividend on each share of Common Stock (a "Common Dividend") the Board of Directors shall declare a dividend on each share of Convertible Preferred Stock outstanding as of the record date for the Common Dividend in an amount equal to the greater of (x) .0000072% of the aggregate amount determined by the Board of Directors to be distributed on such record date to the holders of all classes of the Corporation's capital stock or (y) 112.5% of the amount of the Common Dividend, with the balance to be distributed to the holders of the Common Stock. Notwithstanding the foregoing, no dividend shall be declared on any class of the Corporation's capital stock if any amount required to be applied towards redemption pursuant to paragraph 4 hereof has not been so applied provided that dividends may be declared if funds have been segregated for such redemption whether pursuant to paragraph 4(a)(v) or otherwise.

(b) Except as aforesaid, the Convertible Preferred Stock shall not be entitled to any preference whatsoever in respect to dividends.

3. Liquidation Preference.

(a) In the event of any, voluntary or involuntary, complete or partial, liquidation, dissolution or winding up of the Corporation (hereinafter called "liquidation"), before any amount shall be paid to or set aside for, or any assets shall be distributed among, the holders of shares of any Junior Stock (as hereinafter defined), each holder of a share of Convertible Preferred Stock shall be entitled to receive out of the assets of the Corporation or the proceeds thereof, a preferential payment in an amount equal to \$1.00 per share, plus any dividends thereon declared but not paid.

(b) In the event amounts available for distribution as liquidation preference payments to holders of Convertible Preferred Stock are insufficient to pay the full amount of its preference, such amounts shall be paid to such holders ratably in proportion to the respective amounts which would be payable to such holders if paid in full.

(c) Neither the consolidation or merger of the Corporation with or into any other corporation or corporations, nor the reduction of the capital stock of the Corporation, nor the sale or transfer by the Corporation of all or any part of its assets, shall be deemed to be a liquidation of the Corporation for the purposes of this Section 3.

(d) The term "Junior Stock" means the Common Stock and any other series of capital stock which shall be designated in this Certificate of Incorporation or any amendment thereto as "Junior Stock."

4. Redemption.

(a) Mandatory Redemption.

(i) Unless otherwise determined by the affirmative vote of the Board of Directors including a majority of the Common Stock Directors (as hereinafter defined) and a majority of the Preferred Stock Directors (as hereinafter defined), on or before the 120th day after the end of each fiscal year commencing with the fiscal year ending December 31, 1983 (each, a "Base Year"), the Corporation shall apply towards the redemption of Convertible Preferred Stock, at a price per share equal to the Applicable Redemption Price thereof (as defined below), plus dividends thereon declared but not paid, on a pro rata basis among the holders of such shares who wish to have their shares redeemed, an amount equal to the following:

(A) One-half of any net cash proceeds actually received by the Corporation or its Wel-Com Financial Services, Inc. subsidiary during the Base Year from the sale or other disposition by the Corporation or its Wel-Com Financial Services, Inc. subsidiary of its stock or other equity interest in, or substantially all the assets of, any Named Subsidiary (as hereinafter defined) (the "Sold Subsidiary"), after deducting:

(1) all expenses relating to such sale or other disposition (including taxes, attorneys' and accountant's fees);

(2) (x) repayments of the Working Capital Loan; as hereinafter defined, which the Corporation makes concurrently with or promptly following such sale or other disposition, and (y) debt repayments in respect of indebtedness of the Sold Subsidiary which the Corporation or any subsidiary is required to make at the time of such sale or other disposition; and

(3) in the event the Sold Subsidiary shall not be Monroc, Inc., the aggregate amount of the Equity Deduction, (as hereinafter defined). The Equity Deduction in respect of a Sold Subsidiary means the amount by which (x) any increase from January 1, 1983 through the end of the Base Year in the Corporation's equity investment account in the Sold Subsidiary (determined in a manner consistent with that used in the determinations referred to in paragraph 4(a) (iii), exceeds (y) \$250,000; and

(B) One-half of all cash actually received by the Corporation or Wel-Com Financial Services, Inc from Monroc, Inc. during the Base Year by way of dividends, distributions or redemptions; and

(C) One-half of the Corporation's Adjusted Consolidated Net After-Tax Earnings (as hereinafter defined) in excess of \$250,000 in the Base Year.

(ii) Notwithstanding the foregoing:

(A) no redemption shall be required under paragraph 4(a)(i) if Consolidated Net Worth (as hereinafter defined) as of the end of the applicable Base Year was less than \$7 million; and

(B) the redemption payments required under paragraph 4(a) (i) shall not exceed that amount which, were such redemption effected on the last day of the applicable Base Year, would have reduced to less than \$7 million of the Consolidated Net of the Corporation as of the end of such Base Year.

Any redemption amounts not paid as a result of subparagraphs (ii) (A) or (ii) (B) shall be paid 120 days after the end of succeeding fiscal year(s) to the extent that such payments, were they made at the end of such fiscal year(s), would not have then reduced Consolidated Net Worth below \$7 million.

(iii) For the purposes of paragraph 4(a), the following terms shall be defined as follows and shall be determined as of the applicable dates by the Corporation's independent accountants from time to time (whose opinion shall be conclusive) in accordance with generally accepted accounting principals in effect on December 31, 1982, applied in a manner consistent with that used by the Corporation in calculating the following respective line items in the Corporation's financial statements for 1981 and in prior years:

(A) "Adjusted Consolidated Net After-Tax Earnings" shall be calculated in accordance with the line item "Net Earnings" except that there shall be excluded earnings of Monroc, Inc. and earnings attributable or arising out of any event described in paragraph 4 (a) (i) (A) or 4 (a) (i) (B); and

(B) "Consolidated Net Worth" shall be calculated in accordance with the line item "Stockholders' Equity."

(iv) The Term "Applicable Redemption Price" shall mean, as of any Applicable Date, the amount set forth below opposite such Applicable Date. The term "Applicable Date" means:

(x) with respect to any cash receipt referred to in paragraphs 4 (a) (i) (A) and 4 (a) (i) (B), the date on which such cash is received, and

(y) with respect to any computation under paragraph 4 (a) (i) (C), the last day of the Base Year as to which such computation is made.

<u>Applicable Date</u>	<u>Redemption Price</u>
Through 12/31/87	\$ 1.00
1/1/88 – 12/31/88	\$ 1.10
1/1/89 – 12/31/89	\$ 1.20
1/1/90 – 12/31/90	\$ 1.30
1/1/91 – 12/31/91	\$ 1.40
After 1/1/92	\$ 1.50

(v) Notwithstanding the foregoing, the Corporation shall be required to make a redemption pursuant to paragraph 4 (a) only if the aggregate amount required to be so applied in respect of such redemption exceeds \$500,000, and, until such aggregate amount exceeds \$500,000, any amount available and required to be so applied shall be held by the Corporation in one or more separate accounts for the benefit of the holders of the Convertible Preferred Stock segregated from its other assets and shall not be used for any other purpose, and the Corporation shall have no beneficial interest in such funds and shall not be entitled to any servicing fees with respect to this segregation and holding of such funds.

(vi) Notice of redemption of Convertible Preferred Stock pursuant to paragraph 4 (a) shall be given by first-class mail, postage prepaid, mailed not less than 75 nor more than 100 days prior to the date fixed for redemption, to each holder of Convertible Preferred Stock at his last address appearing in the Convertible Preferred Stock register.

Notice of redemption shall State:

- (1) the redemption date;
 - (2) the redemption price;
 - (3) the total amount of money to be applied on the redemption date towards the redemption of Convertible Preferred Stock and that such amount shall be applied pro rata among the shares of all holders of Convertible Preferred Stock who wish to have such shares redeemed;
 - (4) the Conversion Rate on the date of the notice;
 - (5) that such holder has an option as to whether he wishes his Convertible Preferred Stock to be redeemed (subject to the provisions requiring pro rata redemption set forth above), the date by which the Corporation must have received his shares of Convertible Preferred Stock for such holder to exercise such option (which date shall be not less than 30 nor more than 40 days prior to the date fixed for redemption) and that failure of the Corporation to receive such Convertible Preferred Stock by the prescribed date shall be deemed to be an irrevocable decision on the part of such holder not to have his shares of Convertible Preferred Stock redeemed;
 - (6) the place or places to which shares of Convertible Preferred Stock offered for redemption are to be surrendered for payment of the redemption price; and
 - (7) that on the redemption date the redemption price shall become due and payable upon each share of the Convertible Preferred Stock to be redeemed and that the holder of such shares shall receive such amount and a certificate representing the balance, if any, of his Convertible Preferred Stock which has not been redeemed, and that the right to convert each share of Convertible Preferred Stock to be redeemed shall cease as of the close of business on the fourteenth day prior to the redemption date, unless default shall be made in the payment of the redemption price.
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(b) Optional Redemption.

(i) The shares of Convertible Preferred Stock may be redeemed, in whole or in part, at the option of the Corporation by resolution of its Board of Directors, at any time and from time to time at the price of \$1.50 per share of Convertible Preferred Stock, plus any dividends thereon declared but not paid.

(ii) In the event that less than the entire number of the shares of Convertible Preferred Stock outstanding is at any one time redeemed by the Corporation, the shares of Convertible Preferred Stock to be redeemed shall be selected by lot or other equitable manner as may be prescribed by resolution of the Board of Directors of the Corporation.

(iii) Notice of redemption of Convertible Preferred Stock pursuant to paragraph 4(b) shall be given by first-class mail, postage prepaid, mailed not less than 75 nor more than 100 days prior to the date fixed for redemption, to each holder of Convertible Preferred Stock to be redeemed, at this last address appearing in the Convertible Preferred Stock register.

Notice of the redemption shall state:

- (1) the redemption date;
 - (2) the redemption price;
 - (3) if less than all outstanding shares of Convertible Preferred Stock of the holder are to be redeemed, the identification of the shares of Convertible Preferred Stock to be redeemed;
 - (4) the Conversion Rate on the date of the notice;
 - (5) that on the redemption date the redemption price will become due and payable upon each share of the Convertible Preferred Stock to be redeemed and the right to convert each such share shall cease as of the close of business on the fourteenth day prior to the redemption date, unless default shall be made in the payment of the redemption price; and
 - (6) the place or places where such shares of Convertible Preferred Stock to be redeemed are to be surrendered for payment of the redemption price, which places shall be the office or agency of the Corporation in each place of payment.
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(c) General Provisions With Respect to Redemption

(i) If on the redemption date, funds necessary for such redemption have been deposited in trust with a bank or trust company, or have been set aside in trust, by the Corporation, for the purpose of redeeming shares of Convertible Preferred Stock, the holders of shares of Convertible Preferred Stock to be redeemed shall, as of the close of business on such date, cease to be shareholders with respect to such shares. Such shares of Convertible Preferred Stock shall no longer be transferable on the books of the Corporation or, as of the close of business on the fourteenth day prior to such date, convertible into shares of Common Stock, and the holders thereof shall be entitled only to receive the redemption price without interest thereon (together with a certificate for any unredeemed shares of Convertible Preferred Stock) upon surrender of the certificates for such shares.

(ii) In case any holder of shares of Convertible Preferred Stock which shall have been redeemed shall not within three years of the date of redemption thereof claim the amount deposited in trust for the redemption of such shares, such bank or trust company, upon request of the Corporation, shall pay over to the Corporation such unclaimed amount and shall thereupon be relieved of all responsibility in respect thereof. The Corporation shall not be required to hold the amount so paid over to it, or any amount theretofore set aside by it, in trust after such three-year period, separate and apart from its other funds, and thereafter the holders of such shares of Convertible Preferred Stock shall look only to the Corporation for payment of the redemption price thereof, without interest. All liability of the Corporation to any holder of shares of Convertible Preferred Stock for payment of the redemption price for shares of Convertible Preferred Stock called for redemption shall cease and terminate as of the close of business on the fourth anniversary of the redemption date for such shares.

5. Conversion Rights. Each share of Convertible Preferred Stock shall be convertible, subject to adjustment as provided in paragraph 5 (c), into one fully paid and non-assessable share of Common Stock at any time and from time to time after the date of issue of such share of Convertible Preferred Stock, at the option of the holder thereof. Shares of Common Stock shall be delivered upon conversion without the payment of any additional amounts by the holders of the Convertible Preferred Stock except as required by paragraph 5(e).

All conversions of shares of Convertible Preferred Stock into shares of Common Stock shall be subject to the following terms and conditions:

(a) The Corporation shall make no payment or adjustment on account of any dividends declared but unpaid on the Common Stock issuable upon conversion.

(b) In case of any redemption of any shares of Convertible Preferred stock pursuant to paragraph 4 hereof, the right of conversion of the shares to be redeemed shall cease and terminate at the close of business on the fourteenth day prior to the redemption date, unless default shall be made in the payment of the redemption price.

(c) The number of shares of Common Stock into which shares of Convertible Preferred Stock are convertible (the "Conversion Rate") shall be subject to adjustment from time to time as follows, except that no adjustment need be made unless, by reason of the happening of any or more of the events specified in this paragraph 5(c), the Conversion Rate then in effect shall be changed by 5% or more, but any adjustment of less than 5% that would otherwise be required then to be made shall be carried forward and shall be made at the time of and together with any subsequent adjustment which, together with any adjustment or adjustments so carried forward, amounts to 5% or more.

(i) In case the Corporation shall at any time or times subdivide or combine the outstanding shares of Common Stock into a greater or lesser number of shares, then, in each such case, the number of shares of Common Stock into which each share of Convertible Preferred stock may be converted (such Conversion Rate being initially one share of Common Stock for each share of Convertible Preferred stock) in effect immediately prior thereto shall be adjusted to a Conversion Rate (including any applicable fraction of a share) determined by multiplying the Conversion Rate in effect immediately prior to the happening of any of the events described above by a fraction, the numerator of which shall be the total number of shares of Common Stock outstanding immediately after such event and the denominator of which shall be the total number of Common Stock outstanding immediately prior to such event. An adjustment made pursuant to this paragraph 5 (c) (i) shall become effective immediately after the effective date of any event specified in this paragraph 5 (c) (i).

(ii) If any capital reorganization, reclassification or other change of outstanding shares of the capital stock of the Corporation, or if any consolidation or merger of the Corporation with another corporation (other than a consolidation or merger in which the Corporation is the continuing corporation and which does not result in any reclassification, capital reorganization or other change of outstanding shares of the Common Stock), or the sale or conveyance to another corporation of the property of the Corporation as, or substantially as, an entirety, shall be effected in such a way that holders of shares of Common Stock shall be entitled to receive stock, securities or assets with respect to or in exchange for shares of Common Stock, then, as a condition of such reorganization, reclassification, consolidation, merger or sale, the Corporation or such successor or purchasing corporation, as the case may be, shall make provision that the holder of each share of Convertible Preferred Stock shall have the right thereafter to convert such share into the kind and amount of stock, securities or assets receivable upon such reorganization, reclassification, consolidation, merger or sale by a holder of the number of shares of Common Stock into which such share might have been converted immediately prior to such reorganization, reclassification, change, consolidation, merger, conveyance, or sale, subject to adjustments which shall be as nearly equivalent as may be practicable to the adjustments provided for in this paragraph 5 (c).

(iii) The Corporation shall not be required to issue fractional shares of Common Stock upon conversion of shares of Convertible Preferred Stock. If more than one share of Convertible Preferred Stock shall be surrendered for conversion at one time by the same holder, the number of full shares of Common Stock issuable upon conversion thereof shall be computed on the basis of the aggregate number of shares so surrendered. If any fractional interest in a share of Common Stock would be deliverable upon the conversion of any shares of Convertible Preferred Stock, the Corporation, in lieu of delivering the fractional share therefore, shall at the option of its Board of Directors either make an adjustment thereof in cash at the market value thereof or issue scrip certificates (exchangeable together with other scrip certificates aggregating one or more full shares of Common Stock for Common Stock certificates representing such full share or shares) for any fraction of a share, in a form to be approved by the Board of Directors. If the Board of Directors shall choose to make a cash adjustment in lieu of delivering fractional shares, then, for such purpose, the market value of a share of Common Stock shall be the closing price on such day for shares of Common Stock on the principal national securities exchange on which the Common Stock is listed or admitted to trading, or if it is not listed or admitted to trading on any national securities exchange, the average on such day of the closing bid and asked prices in the over-the-counter market or, if no such prices are reported, the market value shall be as fixed by the Board of Directors in good faith. If the Board of Directors shall choose to issue scrip certificates in lieu of delivering fractional shares, the scrip certificates may contain any term or condition permitted by law, except that, until the exchange thereof for certificates for full shares of Common Stock, the holders of such scrip certificates shall not be entitled to receive dividends thereon, to vote with respect thereto or to have any other rights by virtue thereof as shareholders of the Corporation except such rights, if any, as the Board of Directors may, in its absolute discretion, confer upon the holders of such scrip certificates in the event of the liquidation, dissolution or winding up of the Corporation.

(iv) Whenever any event occurs which causes an adjustment of the securities or other assets into which the Convertible Preferred Stock may be converted, as herein provided, the Corporation shall promptly file with the transfer agent or agents for the Convertible Preferred Stock (and with any conversion agent other than the transfer agent or agents) a certificate signed by the President or a Vice President and by the Treasurer or an Assistant Treasurer or the Secretary or an Assistant Secretary setting forth the Conversion Rate applicable after such adjustment and setting forth a brief statement of the facts accounting for such adjustment. Such certificate shall be conclusive evidence of the correctness of such adjustment and neither the transfer agent or agents nor any conversion agent shall be under any duty or responsibility with respect to any such certificate except to exhibit the same for time to time to any holder of any share of Convertible Preferred Stock desiring an inspection thereof. Promptly after filing such certificate, the corporation shall cause a brief summary of such certificate to be mailed to each holder of record of shares of Convertible Preferred Stock at such holder's last address appearing on the books of the Corporation. Failure of any holder of Convertible Preferred Stock to receive such notice or any defect therein, shall not affect the validity of such adjustment. Neither the transfer agent or agents nor any conversion agent shall at any time be under any duty or responsibility to any such holder to determine whether any facts exist which may require any adjustment of the Conversion Rate, or with respect to the nature and extent of any such adjustment when made, or with respect to the method employed in making the same.

(d) The Corporation shall at all times reserve and keep available, out of its authorized by unissued shares of Common Stock or out of shares of Common Stock held in its treasury, the full number of shares of Common Stock into which all shares of Convertible Preferred Stock from time to time outstanding are convertible.

(e) The issuance of stock certificates on conversions of shares of Convertible Preferred Stock into shares of Common Stock shall be without charge to the converting stockholders for any issue tax. The Corporation shall not, however, be required to pay any tax which may be payable in respect of any transfer involved in the issue and delivery of shares of Common Stock in any name other than that of the registered holder of the shares of Convertible Preferred Stock converted, and the Corporation shall not be required to issue or deliver any such stock certificate unless and until the person or persons requesting the issuance thereof shall have paid to the Corporation the amount of such tax or shall have established to the satisfaction of the Corporation that such tax has been paid or that no such tax is payable.

(f) Any holder of Convertible Preferred Stock who shall choose to convert shares of Convertible Preferred Stock held by him pursuant to this Section 5 shall, as a condition of conversion, present the certificates for such Convertible Preferred Stock (which certificate or certificates, if the Corporation shall so require, shall be duly endorsed or accompanied by appropriate instruments of transfer satisfactory to the Corporation) at the office of the transfer agent or agents for Convertible Preferred Stock, or at such other office as may be designated by the Corporation, and shall give written notice to the Corporation at said office that such holder elects to convert the same or part thereof and shall state in writing therein the name or names in which such holder wishes the certificate or certificates for shares of Common Stock to be issued. The Corporation will as soon as practicable thereafter, issue and deliver at said office to such holder, or to the designee of such holder, certificates for the number of full shares of Common Stock to which such holder or its designee shall be entitled as aforesaid, together with cash or scrip in lieu of any fraction of a share as hereinabove provided and certificates for the shares of Convertible Preferred Stock, if any, not converted. Shares of Convertible Preferred Stock shall be deemed to have been converted as of the close of business on the date of the presentation of such shares for conversion as provided above, and the person or persons entitled to receive the shares of Common Stock issuable upon such conversion shall be treated for all purposes as the record holder or holders of such shares of Common Stock as of such time and date.

6. Shares to be Retired. All shares of Convertible Preferred Stock redeemed or purchased by the Corporation or converted into Common Stock of the Corporation shall be retired and cancelled, and may not thereafter be issued in any form.

7. Voting Rights (a) The holders of Convertible Preferred Stock, voting separately as a class, shall, subject to the provisions of Article SEVENTH hereof, elect the Preferred Stock Directors therein referred to. In any such election, each share of Convertible Preferred Stock shall be entitled to one vote. The holders of Convertible Preferred Stock will not participate, during such time as they are entitled to elect Preferred Stock Directors in the election of the Common Stock Directors (as hereinafter defined), all of which Common Stock Directors shall be elected solely by holders of Common Stock.

(b) Except as set forth in the foregoing paragraph 7 (a) with respect to the election of directors and except as otherwise required by law, each holder of record of shares of Convertible Preferred Stock shall be entitled to one vote per share on each matter on which the holders of record of Common Stock of the Corporation shall be entitled to vote (other than the election of Common Stock Directors), voting together with the holders of record of the Common Stock on a share for share basis, and not as a separate class.

(c) No holder of shares of the Corporation of any class, now or hereafter authorized, shall be entitled as such, as a matter of right, to any preferential or preemptive right or otherwise to subscribe for, purchase or receive any shares of the Corporation of any class, now or hereafter authorized, or any options or warrants for such shares, or any securities convertible into or exchangeable for such shares, which may at any time be issued, sold or offered for sale by the Corporation.

(d) No shares of capital stock of the Corporation shall be issued without voting rights.

FIFTH: The Secretary of State is designated as the agent of the Corporation upon who process against the Corporation may be served. The post office address to which the Secretary of State shall mail a copy of any process against the Corporation served upon him is:

181 South Franklin Avenue
Valley Stream, New York

SIXTH: Any director or the entire Board of Directors of the Corporation may be removed at any time, but only for cause and only by the affirmative vote of (i) a majority of the Preferred Stock Directors if such Director is a Preferred Stock Director or of the Common Stock Directors if such Director is a Common Stock Director, or (ii) the holders of two-thirds or more of the outstanding shares of capital stock of the Corporation entitled to vote in the election of such director voting at a meeting of such shareholders called for that purpose. The affirmative vote of the holders of two-thirds or more of the outstanding shares of each class of the capital stock of the Corporation shall be required to amend, alter, change or repeal this Article SIXTH of the Certificate of Incorporation.

SEVENTH: (a) The number of directors of the Corporation which shall constitute the whole Board of Directors shall initially be nine, and shall thereafter be as fixed from time to time by the affirmative vote of the Board of Directors, including a majority of the Common Stock Directors and a majority of the Preferred Stock Directors.

(b) (i) So long as more than 3,000,000 shares of Convertible Preferred Stock are outstanding, the number of directors set forth below (the "Preferred Stock Directors") shall be elected by the holders of Convertible Preferred Stock voting separately as a class in accordance with paragraph 7(a) of Article FOURTH hereof. The balance of the Board of Directors (the "Common Stock Directors"), shall be elected by the holders of Common Stock, voting separately as a class. If 6,250,000 or more shares of Convertible Preferred Stock are outstanding, there shall be four Preferred Stock Directors. If more than 3,000,000 but less than 6,250,000 shares of Convertible Preferred Stock are outstanding, there shall be three Preferred Stock Directors. If 3,000,000 or fewer shares of Convertible Preferred Stock are outstanding, there shall be only one class of directors, elected by the holders of the Common Stock and the Convertible Preferred Stock voting together as one class on a share for share basis, in which event, the majority vote of such one class of directors shall be sufficient to effect all matters on which vote of the majority of the Preferred Stock Directors and/or of the Common Stock Directors is required hereunder. Directors shall be elected for a term of one year. Each Director shall hold office for the term of office for which he is elected and until his successor is elected and qualified.

(ii) Without affecting the fiduciary duties of any director of the Corporation under law, in determining whether to vote for or against any proposal brought before the Board of Directors, each Preferred Stock Director and each Common Stock Director shall be entitled to take into account the benefit or adverse effect of such proposal to the Corporation and its shareholders as a whole (both on a short-term and on a long-term basis), as well as immediate benefit or adverse effect of such proposal to the class of shareholders which elected such Director.

(iii) So long as in excess of 3,000,000 shares of Convertible Preferred Stock shall be outstanding, the affirmative vote of the Board of Directors, including a majority of the Common Stock Directors and a majority of the Preferred Stock Directors, shall be required to approve the following actions:

(A) The sale by the Corporation or any subsidiary of all or any part of its equity interest in any Named Subsidiary (the "Named Subsidiaries" are Big Smith, Inc., Colonial Leisure Corp. of New Jersey, Inc., Monroc, Inc., Wel-Com Financial Service, Inc., Southern Mortgage Associates, Inc. and Homeowners Equities, Inc.), or the sale by the Corporation or any subsidiary out of the ordinary course of business of any part of its equity interest in any other subsidiary of the Corporation;

(B) The creation, incurring, assumption or otherwise suffering to exist by the Corporation of any indebtedness which, when aggregated with all other indebtedness then outstanding, exceeds \$1,000,000. For the purposes of this Restated Certificate of Incorporation, indebtedness of the Corporation not requiring the affirmative vote of both a majority of the Preferred Stock Directors and a majority of the Common Stock Directors under this paragraph (b) (iii) (B) is referred to herein as the "Working Capital Loan."

The term "indebtedness" for the purpose of this paragraph (b) (iii) (B) means indebtedness of the Corporation for money borrowed by the Corporation other than (i) indebtedness represented by the Corporation's 6% Notes issued pursuant to the Indenture attached as Exhibit D to the Corporation's Sixth Amended Plan of Reorganization of which a copy of the Restated Certificate of Incorporation is Exhibit A (the 6% Notes") and (ii) indebtedness to subsidiaries of the Corporation in the ordinary course of business or indebtedness to subsidiaries of the Corporation (even if not in the ordinary course of Business) the proceeds of which are to be used to redeem Convertible Preferred Stock.

(C) The creation, incurring, assumption or otherwise suffering to exist by the Corporation of any lien upon any of the properties, assets or revenues of the Corporation, whether now existing or hereafter acquired, except for:

- (1) liens relating to indebtedness the incurring of which does not require the vote of both classes of directors under paragraph (b) (iii) (B);
 - (2) liens for taxes, assessments or judgments, if such taxes, assessments or judgments are being contested in good faith or if payment of such taxes, assessments or judgments is not at such time required to be made;
 - (3) liens incurred in the ordinary course of business in connection with workmen's compensation, unemployment insurance or other forms of governmental insurance or benefits, or to secure performance of tenders, statutory obligations, leases and contracts entered into in the ordinary course of business or to secure obligations on surety or appeal bonds;
 - (4) liens arising by operation of law to secure claims for the purchase of labor, services, materials, equipment or supplies to the extent that payment of such claims shall not at such time be required to be made;
 - (5) easements, rights of way, restrictions and other similar encumbrances incurred in the ordinary course of business; and
 - (6) purchase money security interests;
- (D) The merger, consolidation, liquidation, winding up or dissolution of the Corporation, or of any of the subsidiaries of the Corporation out of the ordinary course of business;
- (E) The acquisition by the Corporation, by purchase or otherwise, of all or substantially all of the business or assets of any entity or all or substantially all the stock or other evidence of beneficial ownership of any entity, or otherwise permitting any corporation to become a subsidiary of the Corporation or the entering into of any joint venture or partnership agreement;
- (F) The sale, lease, assignment, transfer or other disposition by the Corporation, out of the ordinary course of business, of any material assets of the Corporation, provided, however, that the foregoing restriction shall not apply to any sale which involves assets (other than the stock of the Named Subsidiaries) having a then value of less than \$150,000 and which assets were held by the Corporation as of the date of filing of this Restated Certificate of Incorporation;
- (G) The issuance by the Corporation or any subsidiary of the Corporation of any equity securities to any person, firm or entity other than the Corporation or subsidiary of the Corporation;
- (H) The execution by the Corporation of any guaranty, endorsement, or assumption agreement with respect to the obligation of any person or entity except for the endorsement of negotiable instruments for collection in the ordinary course of business and except in favor of subsidiaries of the Corporation;
- (I) Any amendment to the Indenture of the Corporation relating to its 6% Notes;
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(J) Any amendment to that certain agreement dated August 3, 1982 among the Corporation, Colonial Leisure Corp. of New Jersey, Inc., Wel-Com Financial Services, Inc., Transexpo I, Inc. and Kirlandco, Inc;

(K) Any increase in the salary, bonus, benefit or other compensation payable to, or the making of any loan to or the forgiving of any indebtedness of, any officer or director of the Corporation.

(L) Any redemption or other acquisition by the Corporation of its common stock, or setting aside of funds for such redemption; and

(M) The entering by the Corporation into any other transaction out of the ordinary course of business.

For all purposes of this Restated Certificate of Incorporation, the determination of whether a transaction is out of the ordinary course of business shall be made with reference to the Corporation and its subsidiaries as a whole. Also, for the purposes of paragraph (b) (iii) (M), transactions shall be deemed out of the ordinary course of business only if they are of the size and import of, and are otherwise similar, to the transactions requiring the affirmative vote of both Common Stock Directors and Preferred Stock Directors described in paragraphs (A) through (L) above.

(c) The term "subsidiaries" as used in this Restated Certificate of Incorporation also includes subsidiaries of subsidiaries of the Corporation.

(d) As of the date of filing of this Restated Certificate of Incorporation, Messrs. Bernard Korn, James W. Stewart, Carl L. Sussman, Raphael M. Brackman and Bertram Harnett shall constitute the Common Stock Directors, with terms expiring at the annual meeting of shareholders of the Corporation to be held in 1983, and Messrs. Jack Rose, Ronald Miller, Van Oliver and James Heffernan shall constitute the Preferred Stock Directors, with terms expiring at the annual meeting of shareholders of the Corporation to be held in 1983.

(e) Newly created directorships resulting from an increase in the number of directors and vacancies occurring in the Board of Directors for any reason may be filled by the affirmative vote of a majority of the remaining Preferred Stock Directors if such director is to be a Preferred Stock Director or a majority of the Common Stock Directors if such director is to be a Common Stock Director whether or not in either event less than a quorum of the Board of Directors.

EIGHTH: Any by-law of the Corporation may be amended or repealed and new or additional by-laws may be adopted only by the affirmative vote of a majority of the Board of Directors including a majority of the Common Stock Directors and a majority of the Preferred Stock Directors or by the affirmative vote of the holders of the common stock and the holders of the Convertible Preferred Stock, voting separately by class.

NINTH: The directors and officers of the Corporation shall be entitled to be indemnified by the Corporation to the fullest extent permitted by law.

The foregoing Restated Certificate of Incorporation formed part of the Plan of Reorganization of the Corporation, dated December 2, 1982. Such Plan of Reorganization was confirmed by final order of the United States Bankruptcy Court for the Southern District of New York having jurisdiction over the Corporation and its reorganization proceedings on January 5, 1983, in the action titled In re Colonial Commercial Corp., and such order contains express provisions for the adoption of such Restated Certificate of Incorporation, all in accordance with the provisions of §808 of the Business Corporation Law of the State of New York.

IN WITNESS WHEREOF, COLONIAL COMMERCIAL CORP. has caused this Restated Certificate of Incorporation to be signed by Bernard Korn as its court-appointed designee, on this sixth day of January, 1983.

COLONIAL COMMERCIAL CORP.

By: /s/Bernard Korn

Bernard Korn

STATE OF NEW YORK

ss.:

COUNTY OF NASSAU

On the sixth day of January, 1983, before me personally came Bernard Korn, to me known, and known to me to be the individual described in, and who executed the foregoing instrument, and duly acknowledged to me that he executed the same.

By: /s/Jeanette Facompre

Notary Public

**CERTIFICATE OF AMENDMENT
OF THE CERTIFICATE OF INCORPORATION
OF
COLONIAL COMMERCIAL CORP.**

Under Section 805 of the Business Corporation Law

WE, THE UNDERSIGNED, being the President and an Assistant Secretary of Colonial Commercial Corp. hereby certify:

1. The name of the corporation is Colonial Commercial Corp.
2. The certificate of incorporation of said corporation was filed by the Department of State on the 28th day of October, 1964.
3. a. The certificate of incorporation is amended to increase the number of shares authorized to be issued by the corporation to 52,500,000 shares, by authorizing an additional 20,700,000 common shares.

b. To effect the foregoing, Article FOURTH (a) relating to the authorized shares of the corporation is amended to read as follows:

FOURTH: (a) The aggregate number of shares which the Corporation shall have the authority to issue is fifty two million five hundred thousand, divided into the following classes:

Number of Shares	Class	Par Value Per Share
40,000,000	Common Stock	\$.01
12,500,000	Convertible Preferred Stock	\$.01

The amendment was authorized by a vote of a majority of the Board of Directors followed by the vote of a majority of all the outstanding shares entitled to a vote at a meeting of the shareholders held on June 18, 1986.

IN WITNESS WHEREOF, we have signed this certificate on the 31st day of October, 1986 and we affirm the statements contained therein as true under penalties of perjury.

/s/ Bernard Korn
Bernard Korn, President

/s/ James W. Stewart
James W. Stewart, Assistant Secretary

**CERTIFICATE OF AMENDMENT
OF THE CERTIFICATE OF INCORPORATION
OF
COLONIAL COMMERCIAL CORP.**

Under Section 805 of the Business Corporation Law

WE, THE UNDERSIGNED, being the President and an Assistant Secretary of Colonial Commercial Corp. hereby certify:

1. The name of the corporation is Colonial Commercial Corp.
2. The certificate of incorporation of said corporation was filed by the Department of State on the 28th day of October, 1964.
3. a. A new article NINTH (A) is added to limit the liability of directors of the corporation as permitted by law.
b. To effect the foregoing, a new Article NINTH (A) shall be added to read in its entirety as follows:

NINTH: (A) No director shall be personally liable to the Corporation or any stockholder for damages for breach of fiduciary duty as a director, except for any matter in respect of which such director shall be liable under Section 719 of the New York Business Corporation Law or any amendment thereto or successor provision thereto or shall be liable by reason that, in addition to any and all other requirements for such liability, he (i) shall have breached his duty of loyalty to the Corporation or its stockholders (ii) shall not have acted in good faith or, in failing to act, shall not have acted in good faith, (iii) shall have acted in a manner involving intentional misconduct or a knowing violation of law or, in failing to act, shall have acted in a manner involving intentional misconduct or a knowing violation of law or (iv) shall have personally gained a financial profit or other advantage to which he was not legally entitled. Neither the amendment nor repeal of this Article, nor the adoption of any provision of the Certificate of Incorporation inconsistent with the Article shall eliminate or reduce the effect of this Article in respect of any matter occurring, or any cause of action, suit or claim that, but for this Article would accrue or arise, prior to such amendment, repeal or adoption of any inconsistent provision.

4. The amendment was authorized by the vote of the board of director(s) followed by vote of the majority of all outstanding shares entitled to vote thereon.

IN WITNESS WHEREOF, we have signed this certificate on the 24th day of June, 1988 and we affirm the statements contained therein as true under penalties of perjury.

/s/ Bernard Korn
Bernard Korn, President

/s/ James W. Stewart
James W. Stewart, Assistant Secretary

**CERTIFICATE OF AMENDMENT
OF THE CERTIFICATE OF INCORPORATION
OF
COLONIAL COMMERCIAL CORP.**

Under Section 805 of the Business Corporation Law

WE, THE UNDERSIGNED, being the President and an Assistant Secretary of Colonial Commercial Corp. hereby certify and set forth:

1. The name of the corporation is Colonial Commercial Corp.
2. The certificate of incorporation of said corporation was filed by the Department of State on the 28th day of October, 1964.
3. a. The Certificate of Incorporation is amended to change the number of shares of common stock authorized to be issued by the corporation from 40,000,000 shares with par value of \$.01 to 8,000,000 shares with par value of \$.05, and to change the shares of Convertible Preferred Stock from 12,500,000 with par value of \$.01 to 2,500,000 shares with par value of \$.05.

b. There are currently authorized 40,000,000 shares of common stock, par value \$.01 per share of which 7,147,050 shares are currently issued and outstanding and there are currently authorized 12,500,000 shares of convertible preferred stock, par value \$.01 per share, of which 8,339,337 shares are currently issued and outstanding. The 7,147,500 issued shares of common stock, par value \$.01 per share, and 8,339,337 issued shares of convertible preferred stock, par value \$.01 per share, will be changed at the rate of 5 for 1 into respectively 1,429,410 shares of common stock, par value \$.05 per share, and 1,667,867 shares of convertible preferred stock, par value \$.05 per share. The 32,852,950 unissued shares of common stock, par value \$.01 per share, and the 4,160,663 unissued shares of convertible preferred stock, par value \$.01 per share, will be changed at a rate of 5 for 1 into respectively 6,570,590 shares of common stock, par value \$.05 per share and 8,032,133 shares of convertible preferred stock, par value \$.05 per share.

c. To effect the foregoing, Article FOURTH (a) relating to the present authorized capital stock of the corporation is hereby amended to read as follows:

FOURTH: (a) The aggregate number of shares which the Corporation shall have the authority to issue is ten million five hundred thousand divided into the following classes:

Number of Shares	Class	Par Value Per Share
8,000,000	Common Stock	\$.05
2,500,000	Convertible Preferred Stock	\$.05

4. The amendment of the Certificate of Incorporation was authorized by the vote of a majority of all the outstanding shares entitled to vote at a meeting of the shareholders held on January 13, 1998 subsequent to authorization by the Board of Directors.
5. This amendment will not effect a reduction in the stated capital of the corporation.

IN WITNESS WHEREOF, this certificate has been subscribed this 13th day of January, 1998 by the undersigned who affirm that the statements made herein are true under penalties of perjury.

/s/ Bernard Korn

Bernard Korn, President

/s/ James W. Stewart

James W. Stewart, Secretary

**CERTIFICATE OF AMENDMENT
OF THE CERTIFICATE OF INCORPORATION
OF
COLONIAL COMMERCIAL CORP.**

Under Section 805 of the Business Corporation Law

WE, THE UNDERSIGNED, being the President and an Assistant Secretary of Colonial Commercial Corp. hereby certify and set forth:

1. The name of the corporation is Colonial Commercial Corp.
2. The certificate of incorporation of said corporation was filed by the Department of State on the 28th day of October, 1964.
3. a. The certificate of incorporation is amended to increase the number of shares of common stock authorized to be issued by the corporation from 8,000,000 shares to 20,000,000 shares without change of par value which shall remain \$.05 per share.
 b. To effect the foregoing, Article FOURTH (a) relating to the authorized shares of the corporation is amended to read as follows:

FOURTH: (a) The aggregate number of shares which the Corporation shall have the authority to issue is twenty two million five hundred thousand divided into the following classes:

Number of Shares	Class	Par Value Per Share
20,000,000	Common Stock	\$.05
2,500,000	Convertible Preferred Stock	\$.05

4. The amendment was authorized by the vote of a majority of all the outstanding shares entitled to vote at a meeting of the shareholders held on January 13, 1998 subsequent to authorization by the Board of Directors.
5. This amendment will not effect a reduction in the stated capital of the corporation.

IN WITNESS WHEREOF, this certificate has been subscribed this 13th day of January, 1998 by the undersigned who affirm that the statements made herein are true under penalties of perjury.

/s/ Bernard Korn

Bernard Korn, President

/s/ James W. Stewart

James W. Stewart, Secretary

BY-LAWS

-of-

COLONIAL COMMERCIAL CORP.
(a New York corporation hereinafter called the "Corporation")

ARTICLE I
Offices

Section 1.01. Office. The office of the Corporation shall be located at such address within or without the State of New York as the Board of Directors shall fix.

ARTICLE II
Shareholders

Section 2.01. Annual Meeting. The annual meeting of shareholders for the election of directors and the transaction of such other business as may come before it shall be held on such date during the month of May and at such place within or without the State of New York, as shall be fixed by the Board of Directors.

Section 2.02. Special Meetings. Special meetings of the shareholders, for any purpose or purposes, may be called by the President or by resolution of the Board of Directors.

Section 2.03. Quorum. The holders of one-third (1/3) of the shares entitled to vote thereat shall constitute a quorum at a meeting of shareholders for the transaction of any business, provided that when a specified item of business is required to be voted on by a class or series voting as a class, the holders of one-third (1/3) of the shares of such class or series shall constitute a quorum for the transaction of such specified item of business.

Section 2.04. Ballots. The vote upon any question before any shareholders' meeting need not be by ballot.

ARTICLE III
Directors

Section 3.01. Classes. The directors shall be divided into Common Stock Directors and Preferred Stock Directors as set forth in the Restated Certificate of Incorporation of the Corporation.

Section 3.02. Number of Directors. The number of directors which shall constitute the entire Board shall initially be nine, and shall thereafter be as fixed from time to time by the affirmative vote of a majority of the Board of Directors, including a majority of the Common Stock Directors and a majority of the Preferred Stock Directors.

Section 3.03. Term. Each director shall hold office for the term set forth in the Certificate of Incorporation.

Section 3.04. Resignations. Any director of the Corporation may resign at any time by giving written notice to the Board of Directors, the President or the Secretary of the Corporation.

Section 3.05. Vacancies and Newly Created Directorships. Newly created Directorships resulting from an increase in the number of Directors and vacancies occurring in the Board of Directors for any reason shall be filled by the affirmative vote of a majority of the remaining Common Stock Directors, if such director is to be a Common Stock Director or by the affirmative vote of a majority of the remaining Preferred Stock Directors if such director is to be a Preferred Stock Director, whether or not a quorum shall in either event be present.

Section 3.06. Quorum of Directors.

- (i) Except as expressly provided otherwise by law or in Section 3.05 hereof, at all meetings of the Board of Directors, a majority of the entire Board shall be necessary and sufficient to constitute a quorum for the transaction of business.
- (ii) Whenever under the Certificate of Incorporation, these By-laws or by law any action requires the affirmative vote of each of the Common Stock Directors and the Preferred Stock Directors, such action shall require a quorum of a majority of the Preferred Stock Directors and the Common Stock Directors, and such action shall be taken by the affirmative vote of a majority of each of the Preferred Stock Directors and the Common Stock Directors present and voting.

Section 3.07. Regular Meetings. Regular meetings of the Board of Directors may be held at such time and place as shall from time to time be fixed by the Board of Directors and no notice thereof shall be necessary.

Section 3.08. Special Meetings. Special meetings of the Board of Directors shall be held upon notice to the directors by the Chairman of the Board, or by resolution of the Board or by waiver of notice. Unless waived, notice of each special meeting of the directors, stating the time and place of the meeting, shall be given to each director by letter, by telegram or by personal communication either over the telephone or otherwise, in each such case at least 48 hours prior to the meeting.

Section 3.09. Committees. The Board of Directors will designate, from among its members, one nominating committee for the election of Preferred Stock Directors and another nominating committee for the election of Common Stock Directors. Each committee shall consist of not less than three directors. The nominating committee for Preferred Stock Directors shall be composed solely of Preferred Stock Directors, and the nominating committee for Common Stock Directors shall be composed solely of Common Stock Directors. Vacancies in the membership of each such committee shall be filled by the members of the Preferred Stock Directors or Common Stock Directors, as the case may be, to which such committee relates. The nominating committees shall keep regular minutes of their proceedings and report the same to the Board when required.

Section 3.10. Unanimous Written Consent in Place of Meeting. An action, required or permitted to be taken by the Board or any committee thereof may be taken without a meeting if all the members of the Board or committee consent in writing to the adoption of a resolution authorizing the action.

Section 3.11. Meetings by Conference Telephone or Similar Device. Any meeting of the Board or a committee thereof may be conducted by means of a conference telephone or similar communications equipment allowing all persons participating in the meeting to hear each other at the same time. Participation by such means shall constitute presence in person at a meeting.

ARTICLE IV
Officers

Section 4.01. Executive Officers. The executive officers of the Corporation shall be a Chairman of the Board of Directors, a President, a Secretary, a Treasurer, and such number of Vice Presidents, Assistant Secretaries and Assistant Treasurers, and such other officers, if any, as the Board of Directors may from time to time determine. Any officer may, but no officer need, be chosen from among the Board of Directors, except that the Chairman of the Board of Directors shall be a member of the Board of Directors.

Section 4.02. Chairman of the Board of Directors. The chairman of the Board of Directors shall preside over all meetings of the Board of Directors of the Corporation and shall perform such other and further duties as may be assigned to him from time to time by the Board of Directors.

Section 4.03. President. The President shall be the chief executive officer of the Corporation and shall have all powers customarily appertaining to his office; he shall preside at all meetings of the shareholders; he shall manage the business of the Corporation and shall see that all orders and resolutions of the Board of Directors are carried into effect, subject to the right of the Board of Directors to delegate any specific powers to any other officer or officers of the Corporation.

Section 4.04. Vice President. Any Vice President of the Corporation shall have the powers which customarily appertain to his office, and shall perform such other duties as the Board of Directors may from time to time prescribe. The Vice Presidents, if there be more than one Vice President/ shall have such seniority as may be prescribed by the Board of Directors. In case of the absence, resignation or inability to act of the President, the Vice President (or if there be more than one Vice President, the Vice President designated by the Board of Directors) shall perform the duties and exercise the powers of the President.

Section 4.05. Secretary. The Secretary shall have the duties which customarily appertain to his office.

Section 4.06. Treasurer. The Treasurer shall have the duties which customarily appertain to his office.

ARTICLE V
Capital Shares and Other Securities

Section 5.01. Form of Certificate. The shares of the Corporation shall be represented by certificates in such form as shall be determined by the Board of Directors.

ARTICLE VI
Miscellaneous

Section 6.01. Seal. The corporate seal shall have inscribed thereon the name of the Corporation, the year of its incorporation and the words "Corporate Seal, New York."

Section 6.02. Fiscal Year. The fiscal year of the Corporation shall be fixed from time to time by resolution of the Board of Directors.

Section 6.03. Entire Board. As used in these By-Laws, "Entire Board" means the total number of directors which the Corporation would have if there were no vacancies.

Section 6.04. Section Headings. The headings of the Articles and Sections of these By-Laws are inserted for convenience of reference only and shall not be deemed to be a part thereof or used in the construction or interpretation thereof.

ARTICLE VII
Miscellaneous

Section 7.01. Amendment. These By-Laws, as now in effect or as hereafter amended from time to time, may be amended or repealed and new or additional By-Laws may be adopted only by the affirmative vote of the Board of Directors, including a majority of the Common Stock Directors and a majority of the Preferred Stock Directors, or by affirmative vote of the holders of the common stock and the holders of the Convertible Preferred Stock, voting separately by class.

SPECIMEN COMMON STOCK CERTIFICATE

[Front of Certificate]

NUMBER SHARES

**COLONIAL COMMERCIAL CORP.
INCORPORATED UNDER THE LAWS OF THE STATE OF NEW YORK**

SEE REVERSE FOR CERTAIN DEFINITIONS

CUSIP

THIS CERTIFIES THAT

is the owner of

FULLY PAID AND NON-ASSESSABLE SHARES, OF THE PAR VALUE OF FIVE CENTS (\$.05) EACH, OF COMMON STOCK OF

COLONIAL COMMERCIAL CORP.

transferable on the books of the Corporation in person or by duly authorized attorney upon surrender of this Certificate properly endorsed. This Certificate and the shares represented hereby are issued and shall be held subject to all of the provisions of the Certificate of Incorporation of the corporation (a copy of which is on file at the office of the Corporation), to which the holder of this Certificate assents by acceptance hereof. This Certificate is not valid until countersigned and registered by the Transfer Agent and Registrar.

WITNESS the facsimile seal of the Corporation and the facsimile signatures of its duly authorized officers.

Dated:

SECRETARYPRESIDENT

[Back of Certificate]

Colonial Commercial Corp., upon request to it or to the Transfer Agent named in this Certificate, will furnish to any shareholder without charge a full statement of the designation, relative rights, preferences and limitations of the shares of each class authorized to be issued and, so far as the same have been fixed, of each series of each class of preferred shares authorized to be issued in series. The Board of Directors is authorized, from time to time before issuance, to designate and fix the relative rights, preferences and limitations of other series of said preferred shares.

NOTE: Pursuant to Articles SIXTH and SEVENTH of the Company's Certificate of Incorporation, the affirmative vote of a greater proportion of the outstanding shares of a particular class or particular classes of stock of the Company than would otherwise be required under New York law is required to (i) remove any Director (with any removal being limited to cause), (ii) authorized any amendment, modification or repeal of the Company's by-laws by the shareholders, or (iii) amend, alter, change or repeal Articles SIXTH Or SEVENTH of the Company's Certificate of Incorporation.

The following abbreviations, when used in the inscription on the face of this certificate, shall be construed as though they were written out in full according to applicable laws or regulations:

TEN COM --as tenants in common
TEN EN --as tenants by the entireties
JT TEN --as joint tenants with right of survivorship
and not as tenants in common

UNIF GIFT MIN ACT -- _____ Custodian _____
(Cust) (Minor)
Under Uniform Gift to Minors
Act _____
(State)

Additional abbreviations may also be used though not in the above list.

FOR VALUE RECEIVED, _____ hereby sell, assign and transfer unto
PLEASE INSERT SOCIAL SECURITY OR OTHER
IDENTIFYING NUMBER OF ASSIGNEE

(PLEASE PRINT OF TYPEWRITE NAME AND ADDRESS INCLUDING ZIP CODE OF ASSIGNEE)

Shares of the capital stock represented by the within Certificate and do hereby irrevocably constitute and appoint _____ Attorney to transfer the said stock on the books of the within named Corporation with full power of substitution in the premises.

Dated _____

X _____

NOTICE: The Signature to this assignment must correspond with the name as written upon the face of the Certificate in every particular, without alteration or enlargement, or any change whatever.

THIS SPACE MUST NOT BE COVERED IN ANY WAY

SPECIMEN CONVERTIBLE PREFERRED STOCK CERTIFICATE

[Front of Certificate]

NUMBER SHARES

**COLONIAL COMMERCIAL CORP.
INCORPORATED UNDER THE LAWS OF THE STATE OF NEW YORK**

SEE REVERSE FOR CERTAIN DEFINITIONS

CUSIP

THIS CERTIFIES THAT

is the owner of

FULLY PAID AND NON-ASSESSABLE SHARES OF CONVERTIBLE PREFERRED STOCK OF THE PAR VALUE OF \$.05 EACH, OF

COLONIAL COMMERCIAL CORP.

transferable on the books of the Corporation by said owner in person or by his duly authorized attorney upon surrender of this Certificate properly endorsed. This Certificate and the shares represented hereby are issued and shall be held subject to all of the provisions of the Certificate of Incorporation, as amended, of the Corporation (a copy of which is on file at the office of the Corporation), to all of which the holder of this Certificate, by acceptance hereof, assents.

This Certificate is not valid until countersigned and registered by the Transfer Agent and Registrar.

WITNESS the facsimile seal of the Corporation and the facsimile signatures of its duly authorized officers.

Dated:

PRESIDENT

SECRETARY

Countersigned:

Amendment No. 5 dated as of May 17, 2004 to Employment Agreement dated as of January 1, 1998 (the "Agreement") by and between Colonial Commercial Corp., a New York corporation (the "Company") and Bernard Korn (the "Employee").

PRELIMINARY STATEMENT

The Employee has been employed by the Company under the Agreement for a term ending at the close of business on December 31, 2003. The Company desires to insure the continuation of the Employee's employment through December 31, 2008 and the Employee is willing to insure such continuation under the terms of this amendment to the Agreement.

Accordingly, for good and valuable consideration, the Agreement is hereby amended as follows:

1. Section 1.02 of the Agreement is amended to read as follows:

The Employee's employment hereunder shall be for a term commencing as of January 1, 1998 (the "Commencement Date") and terminating at the close of business on December 31, 2008 (the "Term").

2. Section 2.01 of the Agreement is amended to read as follows:

Compensation. For all services rendered by the Employee hereunder and all covenants and conditions undertaken by him pursuant to this Agreement, the Company shall pay and the Employee shall accept (i) a salary at the rate of \$150,000 per annum from the date of this Amendment until December 31, 2005, and (ii) a salary at the rate of \$200,000 per annum from January 1, 2006 to December 31, 2008. Compensation shall be payable not less frequently than in bi-weekly installments. The Company may (but shall not be obligated to), at any time and from time to time, grant to the Employee an increase or increases in the compensation otherwise payable pursuant to this Section 2.01, but such increase or increases, if any, shall not be deemed to alter, modify, waive or otherwise affect any other term, covenant or condition of this Agreement.

Except as amended hereby, the Agreement is in full respects ratified and confirmed.

IN WITNESS WHEREOF, the parties have signed this Amendment as of the date set forth above.

COLONIAL COMMERCIAL CORP.

By: /s/ James W. Stewart

James W. Stewart
Executive Vice President

Employee:

/s/ Bernard Korn

Bernard Korn

EMPLOYMENT AGREEMENT

AGREEMENT, dated as of June 25, 1999, by and between UNIVERSAL SUPPLY GROUP, INC., a New York corporation with its principal office at 275 Wagaraw Road, Hawthorne, New Jersey 07506, (the "Company") and WILLIAM SALEK, residing at 58 Burma Road, Wyckoff, New Jersey 07481 (the "Employee").

ARTICLE I

EMPLOYMENT: TERM. DUTIES

1.01. Employment. Upon the terms and conditions hereinafter set forth, the Company hereby employs the Employee, and the Employee hereby accepts employment, as Vice President of the Company.

1.02. Employee represents and warrants to the Company that he is free to enter into this Agreement in accordance with the terms hereof and is under no restriction, contractual or otherwise, which would interfere with his execution hereof or performance hereunder.

1.3. Term. The Employee's employment hereunder shall be for a term (the "Term") commencing as of this date (the "Commencement Date") and terminating at the close of business on December 31, 2004.

1.4. Duties. During the Term, the Employee shall perform such duties, consistent with his position hereunder, as may be assigned to him from time to time by the Board of Directors. The Employee shall devote his best efforts and his entire time, attention and energies, during regular working hours, to the performance of his duties hereunder and to the furtherance of the business and interests of the Company, its subsidiaries and affiliate companies. Throughout the Term, Employee shall engage in no other business activities other than the passive supervision of his investments.

ARTICLE II

COMPENSATION

2.01 Compensation. For all services rendered by the Employee hereunder and all covenants and conditions undertaken by him pursuant to this Agreement, the Company shall pay, and the Employee shall accept a salary at the rate of \$85,000 per annum. Compensation shall be payable not less frequently than in bi-weekly installments. The Board of Directors of the Company may (but shall not be obligated to), at any time and from time to time, grant to the Employee an increase or increases in the compensation otherwise payable pursuant to this Section 2.01, but such increase or increases, if any, shall not be deemed to alter, modify, waive or otherwise affect any other term, covenant or condition of this Agreement.

2.02 Incentive Compensation. For the balance of the calendar year 1999 and for each of the calendar years 2000 through 2004, the Employee shall receive, as Incentive Compensation, a percentage of the Incentive Compensation Base. Incentive Compensation Base shall mean the Company's net earnings (as determined by the Company in accordance with generally accepted auditing standards consistent with those used by Company's parent company) which are included in the parent company's consolidated audited financial statements, plus the amount of any deductions from net earnings which are made in such statements for (i) interest paid or accrued in connection with the acquisition of the Company, (ii) Federal income taxes, (iii) parent company management fees or allocation of overhead from the parent company either paid or accrued and (iv) Incentive Compensation under this Agreement. For 1999 account shall be taken only of net earnings during the period from April 1, 1999 through December 31, 1999. Earnings of businesses acquired by the Company shall be included in determining Incentive Compensation base. Incentive Compensation will be paid within 30 days following receipt by the Company of the Independent Accountants' report for the year involved and said report shall be binding and conclusive on the calculation of net earnings and Incentive Compensation.

<u>Portion of Incentive Compensation Base</u>		<u>Additional Compensation Percentages</u>
Up to	\$ 250,000	.25%
\$ 251,000 to	\$ 500,000	.50%
\$ 501,000 to	\$ 750,000	.75%
\$ 751,000 to	\$ 1,000,000	1.00%
\$ 1,001,000 to	\$ 1,250,000	1.25%
\$ 1,251,000 to	\$ 1,500,000	1.50%
\$ 1,501,000 to	\$ 1,750,000	1.75%
\$ 1,751,000 to	\$ 2,000,000	2.00%
\$ 2,001,000 and over		2.25%

For example, if the Incentive Compensation Base is \$2,000,000, the additional compensation would be computed as follows:

<u>Incentive Compensation Base</u>	<u>Additional Compensation Percentages</u>	<u>Incentive Compensation</u>
\$ 250,000	at 0.25%	\$ 625
\$ 250,000	at 0.50%	\$ 1,250
\$ 250,000	at 0.75%	\$ 1,875
\$ 250,000	at 1.00%	\$ 2,500
\$ 250,000	at 1.25%	\$ 3,125
\$ 250,000	at 1.50%	\$ 3,750
\$ 250,000	at 1.75%	\$ 4,375
\$ 250,000	at 2.00%	\$ 5,000
<u>\$ 2,000,000</u>		<u>\$ 22,500</u>

Total Incentive Compensation in this example would be \$22,500.

2.03. Deductions. The Company shall deduct from the compensation described in Section 2.01 and Section 2.02 any Federal, state or local withholding taxes, social security contributions and any other amounts which may be required to be deducted or withheld by the Company pursuant to any Federal, state or city laws, rules or regulations.

2.04. Disability Adjustments. Any compensation otherwise payable to the Employee pursuant to Section 2.01 during any Disability Period (as that term is hereinafter defined) shall be reduced by any amounts payable to the Employee for loss of earnings or the like under any insurance plan or policy the premiums for which are paid for in their entirety by the company.

ARTICLE III

BENEFITS: EXPENSES

3.01 Fringe Benefits. During the Term, the Employee shall be entitled to participate, in amounts commensurate with the Employee's position hereunder, in such group life, health, accident, disability or hospitalization insurance plans, subject to underwriting requirements as the Company, or its parent, may make available to its other executive employees.

3.02. Expenses. Upon presentation of an itemized account thereof, with such substantiation as the Company shall require, the Company shall pay or reimburse the Employee for the reasonable and necessary expenses directly and properly incurred by the Employee in connection with the performance of his duties hereunder, subject to guidelines established by the Board of Directors.

3.03 Vacations. During the Term, the Employee shall be entitled to paid holidays and paid vacations in accordance with the policy of the Company as determined by the Board of Directors provided, however, that the Employee shall be entitled to not less than four weeks paid vacation during each year of the Term, to be taken at times convenient to the Employee and to the Company.

3.04 Location. Notwithstanding anything which may be contained herein to the contrary, the Employee's office shall be located in northeastern New Jersey area and the performance of his duties hereunder shall not require his continued presence outside of such area if the Employee shall object thereto.

ARTICLE IV

TERMINATION

4.01. Termination. The employment of the Employee, and the obligations of the Employee and the Company hereunder, shall cease and terminate (except as otherwise specifically provided in this Agreement) upon the first to occur on the following dates (the "Termination Date") described in this Section 4.01:

- (a) The date of expiration by its terms of the Term;
- (b) The date of death of the Employee
- (c) The date on which the Company gives to Employee a notice of disability (a "Disability Notice"). The Company may give a Disability Notice if the Employee shall become unable, by reason of illness or incapacity, to perform the duties required of him pursuant to this Agreement, for a period of (i) ninety (90) consecutive days or (ii) for 180 (one hundred eighty) days in any 365 day period, (the "Disability Period").
- (d) The date on which the Company by notice terminates Employee's employment for cause in accordance with Article VI.

ARTICLE V

RESTRICTIVE COVENANTS

5.01. Non-Disclosure. During and after Employee's employment, and whether or not employment is terminated for cause, without cause or otherwise, the Employee shall not disclose or furnish to any other person, firm or corporation (the "Entity") except in the course of the performance of his duties hereunder, the following:

- (a) any information relating to any process, technique or procedure used by the Company, including, without limitation, computer programs and methods of evaluation and pricing and marketing techniques; or
 - (b) any information relating to the operations or financial status of the Company, including, without limitation, all financial data and sources of financing, which is not specifically a matter of public record; or
 - (c) any information of a confidential nature obtained as a result of his prior, present or future relationship with the Company, which is not specifically a matter of public record; or
 - (d) any trade secrets of the Company; or
 - (e) the name, address or other information relating to any customer, supplier or debtor of the Company or other persons who have or had a business relationship with the Company.
-

5.02. Non-Competition. The Employee shall not, from the date hereof and until two years following the termination of his employment with the Company for whatever reason, whether with or without cause or otherwise (the "Restriction Period"):

(a) in any manner, directly or indirectly, be interested in, employed by, make any loan, guaranty or other financial accommodation for, be engaged in or participate in the ownership, management, operation or control of, or act in any advisory, brokerage, finder or other capacity for any entity which, directly or indirectly, then competes with the Company anywhere within the Territory (as that term is hereinafter defined) provided, however, that the Employee may invest in any entity which may be deemed to be in competition with the Company hereunder, the Common Stock of which entity is "publicly held",); provided, however, that the Employee may invest in any entity which is "publicly held" and files periodic reports under the Securities Act of 1934 so long as the Employee does not own or control securities which constitute more than four percent of the voting rights or equity ownership of such entity. Without limiting the generality of the foregoing, the Employee or any entity shall be deemed to compete with the Company if at any time during the Restriction Period the Employee or such entity engages in any aspect of the business of distributing products or services for heating ventilation and air conditioning ("HVAC") contractors. The term "products" includes without limitation heating and air conditioning equipment, controls, parts, and accessories. The term "services" includes without limitation temperature control system design and panel fabrication, technical field support and technical training.

(b) The Employee shall not during the Restriction Period:

- (i) in any manner, directly or indirectly, attempt to seek to cause any entity to refrain from dealing or doing business with the Company or assist any entity in doing so or attempting to do so;
- (ii) employ or retain any person who was an employee or consultant to the Company at any time during the preceding two years; or
- (iii) solicit the business of any person or entity who at any time was a customer or active prospect of the Company.

5.03 Definitions. As used in this Article V only: (a) the term "Company" shall include any parent, subsidiary or affiliate of, or successor to, the Company and (b) the term "Territory" shall mean any state (including the District of Columbia), territory or possession of the United States within which the Company presently or hereafter does business.

5.04 Breach of Provisions. In the event that the Employee shall breach any of the provisions of this Article V, or in the event that any such breach is threatened by the Employee, in addition to and without limiting or waiving any other remedies available to the Company at law or in equity, the Company shall be entitled to immediate injunctive relief in any court, domestic or foreign, having the capacity to grant such relief, to restrain any such breach or threatened breach to enforce the provisions of this Article V, without posting bond or security. The Employee agrees and acknowledges that there is no adequate remedy at law for any such breach or threatened breach and, in the event that any action or proceeding is brought seeking injunctive relief, the Employee shall not use a defense thereto that there is an adequate remedy at law.

5.05. Reasonable Restrictions; Court May Reform. The parties acknowledge that the foregoing restrictions, the duration and the territorial scope thereof as set forth in this Article V, are under all of the circumstances reasonable and necessary for the protection of the Company and its business. The courts enforcing this Agreement shall be entitled to modify the duration and scope of any restriction contained herein to the extent such restriction would otherwise be unenforceable, and such restriction as modified shall be enforced.

5.06. Extension of Restricted Period. All time periods in this Article shall be computed by excluding from such computation any time during which Employee is in violation of any provision of this Agreement and any time during which there is pending in any court of competent jurisdiction any action (including any appeal from any final judgment) brought by any person, whether or not a party to this Agreement, in which action the Company seeks to enforce the agreements and covenants in this Agreement or in which any person contests the validity of such agreements and covenants or their enforceability or seeks to avoid them— performance or enforcement.

ARTICLE VI

TERMINATION FOR CAUSE

6.01. Termination by the Company for Cause. At any time during the term of this Agreement, the Company may discharge the Employee for cause and terminate this Agreement without any further liability hereunder to the Employee or his estate, except to pay any accrued, but unpaid, salary but not Incentive Compensation to him. In the event of such termination, Employee agrees he shall also be deemed to have resigned from the Company and its Parent, as a President and Employee, effective as of the date of such termination. For purposes of this Agreement, a "discharge for cause" shall mean termination of the Employee upon written notification to the Employee limited, however, to one or more of the following reasons:

- (i) Fraud, misappropriate or embezzlement by the Employee in connection with the Company; or
- (ii) Gross neglect of duties which has a detrimental effect on the Company after notice to the Employee of the particular details thereof and a period of thirty (30) days to correct such mismanagement or neglect, if any; or
- (iii) Conviction or plea of "no contest" by a court of competent jurisdiction in the United States of a felony or a crime involving moral turpitude, including but not limited to drug abuse, violence and sexual harassment, or
- (iv) Willful and unauthorized disclosure of confidential, or proprietary trade secret information of the Company; or
- (v) The Employee's breach of any material term or provision of this agreement, after notice to the Employee of the particular details thereof and a period of not less than thirty (30) days thereafter within which to cure such breach, if any.

ARTICLE VII

MISCELLANEOUS

7.01 Assignment. This Agreement shall not be assigned by either party, except that the Company shall have the right to assign its rights hereunder to any parent, subsidiary and affiliate of, or successor to, the Company.

7.02 Binding Effect. This Agreement shall extend to and be binding upon the Employee, his legal representatives, heirs and distributees, and upon the Company, its successors and assigns.

7.03 Notices. Any notice required or permitted to be given under this Agreement to either party shall be sufficient if in writing and if sent by registered or certified mail, return receipt requested, to the address of such party hereinabove set forth or to such other address as such party may hereafter designate by a notice given to the other party in the manner provided in this Section 7.03.

7.04 Waiver. A waiver by a party hereto of a breach of any term, covenant or condition of this Agreement by the other party hereto shall not operate or be construed as waiver of any other or subsequent breach by such party of the same or any other term, covenant or condition hereof.

7.05. Prior Agreements. Any and all prior agreements between the Company and the Employee, whether written or oral, between the parties, relating to any and all matters covered by, and contained or otherwise dealt within this Agreement are hereby canceled and terminated.

7.06 Entire Agreement. This Agreement sets forth the entire agreement between the parties with respect to the subject matter hereof and no waiver, modification, change or amendment of any of its provisions shall be valid unless in writing and signed by the party against whom such claimed waiver, modification, change or amendment is sought to be enforced.

7.07 Authority. The parties severally represent and warrant that they have the power, authority and right to enter into this Agreement and to carry out and perform the terms; covenants and conditions hereof.

7.08 Applicable Law. This Agreement shall be governed by and construed in accordance with the laws of the State of New York. The Federal and state courts in Nassau County, New York shall have exclusive jurisdiction on all matters relating to this Agreement. TRIAL BY JURY IS WAIVED.

7.09 Severability. In the event that any of the provisions of this Agreement, or any portion thereof, shall be held to be invalid or unenforceable, the validity and enforceability of the remaining provisions shall not be affected or impaired, but shall remain in full force and effect.

7.10 Titles. The titles of the Articles and Sections of this Agreement are inserted merely for convenience and ease of reference and shall not affect or modify the meaning of any of the terms, covenant or conditions of this Agreement.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and date first above written.

UNIVERSAL SUPPLY GROUP

By: /s/ James W. Stewart

James W. Stewart, Secretary

By: /s/William Salek

William Salek, Employee

PRIVATE PLACEMENT PURCHASE AGREEMENT dated June 30, 2003 by and among COLONIAL COMMERCIAL CORP., a New York corporation (the "Company"), and the persons who are signing counterparts of this Agreement as "Investors."
Preliminary Statement

1. Purchase of Shares.
 - (a) Each Investor hereby purchases the number of shares (the "Shares") of Company Common Stock that is set forth opposite his name below. The purchase price is \$0.30 per share, and is payable in cash immediately.
 - (b) The Company will cause stock certificates for the Shares to be issued to Investors promptly.
2. No representations or warranties by the Company.
 - (a) Neither the Company nor any officer or director of the Company is making any representation or warranty to Investors regarding any matter or thing.
 - (b) Investors are proceeding in this transaction based solely on such investigations and with such legal, accounting tax and other assistance as they have deemed appropriate.
 - (c) An investment in the Shares entails substantial risks.
3. Representations by Investors
 - (a) Each Investor is an officer or director of the Company or otherwise has a close relationship with the Company. He understands that the Company has not filed its SEC 10K and 10Q reports since September 30, 2001 that its shares have been delisted from NASDAQ, and that its bank debt is payable immediately on demand.
 - (b) Each Investor represents and warrants to the Company that:
 - (i) he has sufficient knowledge and experience in financial and business matters to be able to evaluate the risks and merits of the investment represented by the purchase of the Shares;
 - (ii) he is able to bear the economic risks of such investment, including the risk of losing all such investment, and he has no need for liquidity with respect to his investment;
 - (iii) he understands that no prospectus, offering circular or other offering statement containing information with respect to the Company and the Shares or with respect to the Company's business is being issued;
 - (iv) he has had the opportunity to ask questions and receive answers from knowledgeable individuals concerning the Company, its business and the Shares;
 - (v) he understands that the Shares (a) are not being registered (or, with respect to state securities or Blue Sky laws, otherwise qualified for sale) under the Securities Act of 1933, as amended (the "Act"), or under the securities or Blue Sky laws and regulations of any state and the Company is not agreeing to register the Shares, and (b) cannot be sold, transferred or otherwise disposed of unless subsequently registered under the Act 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;
 - (vi) he is aware that the information and conditions necessary to permit routine sales of the Shares, or any portion thereof, under Rule 144 of the Act are not now available and may not be available at a time that he wishes to transfer part or all of the Shares, and that in any event he may then be prohibited from engaging in trading because of confidentiality, fiduciary and other legal requirements;
 - (vii) he is an "accredited investor" as defined in Rule 501 (a) of Regulation D, promulgated under the Act, and that at least
 - (1), (2) or (3) applies to him;
 - (1) he is a director or executive officer of the Company,
 - (2) his individual net worth, or his joint net with his spouse, exceeds \$1,000,000, or
 - (3) his individual income was in excess of \$200,000 in each of the two most recent years, or his joint income with his spouse was in excess of \$300,000 in each of those years, and he has a reasonable expectation of reaching the same income level in the current year;

- (viii) he is purchasing the Shares for his own account and not with a view to resale or other distribution thereof inconsistent with or in violation of the federal securities laws or the securities or Blue Sky laws of any state;
- (ix) he is not obligated to transfer any Shares to any other person or entity nor does he have any agreement or understanding to do so; and
- (x) he has been advised that he should rely on his own professional accounting, tax, legal and financial advisors with respect to an investment in the Company and a purchase of the Shares.

4. Miscellaneous

- (a) This Agreement sets forth in full all understandings of the Company and Investors with respect to the subject matter of this Agreement. It may not be amended or terminated orally. The internal laws of the State of New York shall govern this Agreement.
- (b) This Agreement may be signed in one or more counterparts each of which shall constitute an original.

IN WITNESS WHEREOF, the parties have signed this Agreement as of the date set forth above.

COLONIAL COMMERCIAL CORP.

By: /s/Bernard Korn
 Bernard Korn, President

<u>Investor's Name</u>	<u>Signature</u>	<u>Number of Shares</u>
Rita Folger	/s/ Rita Folger	150,000
Bernard Korn	/s/ Bernard Korn	167,000
William Pagano	/s/ William Pagano	335,000
Jack Rose	/s/ Jack Rose	50,000
James W. Stewart	/s/ James W. Stewart	100,000

PRIVATE PLACEMENT PURCHASE AGREEMENT dated February 2, 2004 by and among COLONIAL COMMERCIAL CORP., a New York corporation (the "Company"), and the persons who are signing counterparts of this Agreement as "Investors."
Preliminary Statement

1. Purchase of Shares.
 - (a) Each Investor hereby purchases the number of shares (the "Shares") of Company Common Stock that is set forth opposite his name below. The purchase price is \$0.60 per share, and is payable in cash immediately.
 - (b) The Company will cause stock certificates for the Shares to be issued to Investors promptly.
2. No representations or warranties by the Company.
 - (a) Neither the Company nor any officer or director of the Company is making any representation or warranty to Investors regarding any matter or thing.
 - (b) Investors are proceeding in this transaction based solely on such investigations and with such legal, accounting tax and other assistance as they have deemed appropriate.
 - (c) An investment in the Shares entails substantial risks.
3. Representations by Investors
 - (a) Each Investor is an officer or director of the Company or otherwise has a close relationship with the Company. He understands that the Company has recently filed its SEC 10Q reports through September 30, 2003, has received copies of same and that its shares have been delisted from NASDAQ, and that its bank debt is payable immediately on demand.
 - (b) Each Investor represents and warrants to the Company that:
 - (i) he has sufficient knowledge and experience in financial and business matters to be able to evaluate the risks and merits of the investment represented by the purchase of the Shares;
 - (ii) he is able to bear the economic risks of such investment, including the risk of losing all such investment, and he has no need for liquidity with respect to his investment;
 - (iii) he understands that no prospectus, offering circular or other offering statement containing information with respect to the Company and the Shares or with respect to the Company's business is being issued;
 - (iv) he has had the opportunity to ask questions and receive answers from knowledgeable individuals concerning the Company, its business and the Shares;
 - (v) he understands that the Shares (a) are not being registered (or, with respect to state securities or Blue Sky laws, otherwise qualified for sale) under the Securities Act of 1933, as amended (the "Act"), or under the securities or Blue Sky laws and regulations of any state and the Company is not agreeing to register the Shares, and (b) cannot be sold, transferred or otherwise disposed of unless subsequently registered under the Act 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;
 - (vi) he is aware that the information and conditions necessary to permit routine sales of the Shares, or any portion thereof, under Rule 144 of the Act are not now available and may not be available at a time that he wishes to transfer part or all of the Shares, and that in any event he may then be prohibited from engaging in trading because of confidentiality, fiduciary and other legal requirements;
 - (vii) he is an "accredited investor" as defined in Rule 501 (a) of Regulation D, promulgated under the Act, and that at least (1), (2) or (3) applies to him;
 - (1) he is a director or executive officer of the Company,
 - (2) his individual net worth, or his joint net with his spouse, exceeds \$1,000,000, or
 - (3) his individual income was in excess of \$200,000 in each of the two most recent years, or his joint income with his spouse was in excess of \$300,000 in each of those years, and he has a reasonable expectation of reaching the same income level in the current year;

- (viii) he is purchasing the Shares for his own account and not with a view to resale or other distribution thereof inconsistent with or in violation of the federal securities laws or the securities or Blue Sky laws of any state;
- (ix) he is not obligated to transfer any Shares to any other person or entity nor does he have any agreement or understanding to do so; and
- (x) he has been advised that he should rely on his own professional accounting, tax, legal and financial advisors with respect to an investment in the Company and a purchase of the Shares.

4. Miscellaneous

- (a) This Agreement sets forth in full all understandings of the Company and Investors with respect to the subject matter of this Agreement. It may not be amended or terminated orally. The internal laws of the State of New York shall govern this Agreement.
- (b) This Agreement may be signed in one or more counterparts each of which shall constitute an original.

IN WITNESS WHEREOF, the parties have signed this Agreement as of the date set forth above.

COLONIAL COMMERCIAL CORP.

By: /s/ James W. Stewart
James W. Stewart

<u>Investor's Name</u>	<u>Signature</u>	<u>Number of Shares</u>
Rita Folger	/s/ Rita Folger	100,000
Bernard Korn	/s/ Bernard Korn	165,000
William Pagano	/s/ William Pagano	165,000
Michael Goldman	/s/ Michael Goldman	170,000

SUBSIDIARIES OF REGISTRANT
COLONIAL COMMERCIAL CORP. AND SUBSIDIARIES

FED. I.D. 11-2037182

<u>Name of Subsidiary</u>	<u>State of Incorporation</u>	<u>I.D. Number</u>
Atlantic Hardware and Supply Corporation	New York	13-2687036
Wel-Com Financial Services, Inc.	Ohio	31-0484520
Universal Supply Group, Inc.	New York	11-3391045
Well-Bilt Steel Products, Inc.	New Jersey	22-3408907
RAL Supply Group, Inc.	New York	20-0207168
American/Universal Supply Inc.	New York	16-1661494

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors
Colonial Commercial Corp.

We consent to the incorporation by reference in the registration statement (No. 333-37025) on Form S-8 of Colonial Commercial Corp. of our report dated March 30, 2006 with respect to the consolidated balance sheet of Colonial Commercial Corp. as of December 31, 2005, and the related consolidated statements of operations, stockholders' equity and cash flows for the year ended December 31, 2005, which report appears in the December 31, 2005 annual report on Form 10-K of Colonial Commercial Corp.

/s/Weiser LLP
Weiser LLP

March 30, 2006

CERTIFICATION

I, Bernard Korn, Chief Executive Officer of Colonial Commercial Corp., certify that:

1. I have reviewed this annual report on Form 10-K of Colonial Commercial Corp. (the "Registrant");
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The Registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e) for the registrant) and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures, to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated Subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - b) evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this Annual Report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) disclosed in this Annual Report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's fourth fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: March 30, 2006

/s/ Bernard Korn
Bernard Korn
Chief Executive Officer
Chairman of the Board

CERTIFICATION

I, William Salek, Chief Financial Officer of Colonial Commercial Corp., certify that:

1. I have reviewed this annual report on Form 10-K of Colonial Commercial Corp. (the "Registrant");
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The Registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e) for the registrant) and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures, to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated Subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - b) evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this Annual Report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) disclosed in this Annual Report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's fourth fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: March 30, 2006

/s/ William Salek
William Salek
Chief Financial Officer

CERTIFICATION PURSUANT TO
SECTION 906 OF THE SARBANES–OXLEY ACT OF 2002

In connection with the Annual Report on Form 10–K of Colonial Commercial Corp. (the “Company”) for the fiscal year ended December 31, 2005 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Bernard Korn, Chief Executive Officer of the Company, certify, pursuant to section 18 U.S.C. 1350, as adopted pursuant to section 906 of the Sarbanes–Oxley Act of 2002, that:

- (1) the Report fully complies with the requirements of section 13(a) and 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ Bernard Korn

Name: Bernard Korn
Chief Executive Officer

March 30, 2006

**CERTIFICATION PURSUANT TO
SECTION 906 OF THE SARBANES–OXLEY ACT OF 2002**

In connection with the Annual Report on Form 10–K of Colonial Commercial Corp. (the “Company”) for the fiscal year ended December 31, 2005 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, William Salek, Chief Financial Officer of the Company, certify, pursuant to section 18 U.S.C. 1350, as adopted pursuant to section 906 of the Sarbanes–Oxley Act of 2002, that:

- (1) the Report fully complies with the requirements of section 13(a) and 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ William Salek

Name: William Salek
Chief Financial Officer

March 30, 2006

United States Bankruptcy Court

Eastern District of New York
75 Clinton Street
Brooklyn, NY 11201

IN RE: CASE NO: 1-02-11150-cec

Atlantic Hardware & Supply Corporation

SSN/TAX ID:

DEBTORS(s)

NOTICE OF DISMISSAL OF CASE

NOTICE TO DEBTOR(S), CREDITOR(S) AND INTERESTED PARTIES

Notice is hereby given that:

The above-named debtor(s) having filed a Chapter 11 petition in bankruptcy on January 28, 2002 and an order having been entered by the Honorable Carla E. Craig, United States Bankruptcy Judge, on May 18, 2005 for the dismissal of said petition.

You are notified that the petition of the above-named debtor(s) has been dismissed.

Notice is further given that if there are any outstanding filing fees due, it must be paid in full to the clerk of court upon receipt of this notice.

Dated: May 18, 2005

For the Court, Joseph P. Hurley, Clerk of Court

BLnod [Notice of Dismissal rev.9/23/02]

(2) Sufficient notice of the Motion was duly served upon all parties required to receive notice thereof pursuant to the Bankruptcy Code, the Bankruptcy Rules and the Local Rules of this Court;

(3) The legal and factual bases set forth in the Motion establish just cause for the relief granted herein; and

(4) Dismissal of the Debtor's case is in the best interest of the Debtor's estate and its creditors; it is

NOW, on motion of Sanford P. Rosen & Associates, P.C., attorneys for the Debtor,

ORDERED, that, pursuant to section 1112(b) of the Bankruptcy Code, this case is hereby dismissed, provided, however, that such dismissal shall be effective upon the entry of a further order (the "**Fee Order**") determining applications of retained professional persons for allowance of final compensation and reimbursement of expenses; and it is further

ORDERED, that upon the entry of the Fee Order, the Debtor shall submit a separate order to this Court declaring that the dismissal of this case, as provided herein, is effective; and it is further

ORDERED, that a hearing to consider the allowance of final compensation and reimbursement of expenses will be held on April 14, 2005 at 1:00 p.m.; and it is further

ORDERED, that, for good cause having been shown in the Motion, notwithstanding the provisions of section 349(b) of the Bankruptcy Code to the contrary, neither the entry of this Order nor the dismissal of this case shall in any way alter the rights acquired in reliance on the case or otherwise affect any of the orders of this Court that were entered during this case; and it is further

ORDERED, that the Debtor shall pay all fees due as of the date of this Order to the United States Trustee pursuant to 28 U.S.C. § 1930; and it is further

ORDERED, that this Court shall retain jurisdiction to hear and determine all matters arising from or related to the implementation of this Order.

Dated: Brooklyn, New York
March 15, 2005

/s/Carla E. Craig
Carla E. Craig
UNITED STATES BANKRUPTCY JUDGE
