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Proc-Type: 2001,MIC-CLEAR

Originator-Name: webmaster@www.sec.gov

Originator-Key-Asymmetric:

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<SEC-HEADER>0001140361-05-006095.hdr.sgml : 20050812

<ACCEPTANCE-DATETIME>20050812165707

ACCESSION NUMBER: 0001140361-05-006095

CONFORMED SUBMISSION TYPE: 10-Q

PUBLIC DOCUMENT COUNT: 5

CONFORMED PERIOD OF REPORT: 20050630

FILED AS OF DATE: 20050812

DATE AS OF CHANGE: 20050812

FILER:

COMPANY DATA:

COMPANY CONFORMED NAME: COLONIAL COMMERCIAL CORP

CENTRAL INDEX KEY: 0000021828

STANDARD INDUSTRIAL CLASSIFICATION: WHOLESALE-HARDWARE &

PLUMBING & HEATING EQUIPMENT & SUPPLIES [5070]

IRS NUMBER: 112037182

STATE OF INCORPORATION: NY FISCAL

YEAR END: 1231

FILING VALUES:

FORM TYPE: 10-Q

SEC ACT: 1934 Act

SEC FILE NUMBER: 001-06663

FILM NUMBER: 051022415

BUSINESS ADDRESS:

STREET 1: 275 WAGARAW ROAD

CITY: HAWTHORNE

STATE: NJ

ZIP: 07506

BUSINESS PHONE: 973-427-8224

MAIL ADDRESS:

STREET 1: 275 WAGARAW ROAD

CITY: HAWTHORNE

STATE: NJ

ZIP: 07506

</SEC-HEADER>

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<TYPE>10-Q

<SEQUENCE>1

<FILENAME>body.htm

<DESCRIPTION>COLONIAL COMMERCIAL CORP 10-Q 6-30-2005 <TEXT>

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    <!-- Document Created using EDGARIZER HTML 3.0.0.39401 -->
    <!-- Copyright 2005 EDGARfilings, Ltd., an IEC company.-->
    <!-- All rights reserved EDGARfilings.com -->
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the Quarter Ended June 30, 2005</div>

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<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 0pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="center">Commission

File No. 1-6663</div>

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Name of Company as Specified in its
Charter)</div>

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  Employer Identification Number)</font></div>
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    Code)</font></div>
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    by check mark whether the Registrant is an accelerated filer (as defined in
Rule
    12b-2 of the Exchange Act).</font></div>
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<font style="DISPLAY: inline; FONT-FAMILY: Wingdings">o&#160;&#160;
<font style="FONT-FAMILY: Times New Roman">No
</font><font style="DISPLAY: inline; FONT-SIZE: 10pt; FONT-FAMILY: Times New Roman">
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    by check mark whether the Company (1) has filed all reports required to be
filed
    by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the

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preceding 12 months (or for such shorter period that the Company was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.</div>

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<div style="MARGIN-LEFT: 0pt; TEXT-INDENT: 0pt; MARGIN-RIGHT: 0pt" align="center">Yesx Noo</div>

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<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 0pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left">Indicate

the number of shares outstanding of the Company's Common Stock and Convertible Preferred Stock as of August 1, 2005.</div>

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<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 0pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left">Common Stock, par value \$.05 per share - 4,198,592 shares</div>

<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 0pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left">Convertible

Preferred Stock, par value \$.05 per share - 764,288 shares</div>

<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 0pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left"> </div>

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12pt; FONT-FAMILY: Times New Roman"><a name="toc">CO</a>LONIAL
COMMERCIAL CORP. AND SUBSIDIARIES</font></div>
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        1 - </font></div>
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      Consolidated Balance Sheets as of June 30, 2005
      (Unaudited) and December 31, 2004</a></font></div>
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      Consolidated Statements of Operations
      (Unaudited) Six Months Ended June 30, 2005 and 2004</a></font></div>
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SIZE: 10pt; FONT-FAMILY: Times New Roman"><a href="#cashflow">Condensed
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      (Unaudited) Six Months Ended June 30, 2005 and 2004</a></font></div>
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      (Unaudited)</a></font></div>
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href="#mngmentsdiscussion">Management's
Discussion and Analysis of
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and Qualitative Disclosures About Market
Risk</a></font></div>
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      II.</font></div>
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inline; FONT-SIZE: 8pt; COLOR: #000000; FONT-FAMILY: Times New Roman"><em><a
href="#toc">Table
of Contents</a></em></font></div>
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I. FINANCIAL INFORMATION</u></font></div>
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FONT-FAMILY: Times New Roman"><a name="FS">Ite</a>m
1. Financial Statements</font></div>
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COMMERCIAL CORP. AND SUBSIDIARIES</font></div>
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Consolidated Balance Sheets</font></div>
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assets:</font></div>
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and cash equivalents </font></div>
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                        $290,448 in 2004</font></div>
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current assets</font></div>
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SIZE: 10pt; FONT-FAMILY: Times New Roman">Other
            intangibles</font></div>
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        assets - noncurrent</font></div>
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```

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SIZE: 10pt; FONT-FAMILY: Times New Roman">Liabilities
    and Stockholders' Equity</font></div>
```

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SIZE: 10pt; FONT-FAMILY: Times New Roman">Current
liabilities:</font></div>
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payables</font></div>
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<div style="DISPLAY: block; MARGIN-LEFT: 0px; TEXT-INDENT: 0px; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0px">4,721,790</div>

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<div style="DISPLAY: block; MARGIN-LEFT: 0px; TEXT-INDENT: 0px; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0px">1,744,006

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payable - current portion; includes related party notes of $0 in
2005 and
$30,000 in 2004</font></div>
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SIZE: 10pt; FONT-FAMILY: Times New Roman">Total
current liabilities</font></div>
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payable, excluding current portion; includes related party notes
of
$871,875 in 2005 and $993,125 in 2004</font></div>
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HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left"><font style="DISPLAY: inline; FONT-
SIZE: 10pt; FONT-FAMILY: Times New Roman">Stockholders'
            equity:</font></div>
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LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left"><font style="DISPLAY: inline;
FONT-SIZE: 10pt; FONT-FAMILY: Times New Roman">Redeemable
convertible preferred stock, $.05 par value, liquidation
preference
of
$3,857,555 and $3,952,195 and 2,468,860 shares authorized,
771,511 in 2005
and 790,439 in 2004 shares, issued and
outstanding</font></div>
</div>
</div>
</div>
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    stock, $.05 par value, 20,000,000 shares authorized, 4,191,369
  in 2005 and
    4,158,441 in 2004 shares issued and outstanding</font></div>
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      paid-in capital</font></div>
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SIZE: 10pt; FONT-FAMILY: Times New Roman">Accumulated
deficit</font></div>
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HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left"><font style="DISPLAY: inline; FONT-
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SIZE: 10pt; FONT-FAMILY: Times New Roman">Total
    stockholders' equity</font></div>
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accompanying notes to unaudited condensed consolidated financial
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COMMERCIAL </font><font style="DISPLAY: inline; FONT-SIZE: 10pt; FONT-FAMILY:
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AND
SUBSIDIARIES</font></div>
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Consolidated Statements of Operations</font></div>
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per common share:</font></div>
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SIZE: 10pt; FONT-FAMILY: Times New Roman">Weighted
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SIZE: 10pt; FONT-FAMILY: Times New Roman">Diluted</font></div>
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        accompanying notes to unaudited condensed consolidated financial
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COMMERCIAL CORP. AND SUBSIDIARIES</font></div>
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Consolidated Statements of Operations</font></div>
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The Six Months Ended </font><font style="DISPLAY: inline; FONT-SIZE: 10pt; FONT-FAMILY: Times New Roman">June
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SIZE: 10pt; FONT-FAMILY: Times New Roman">Operating
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            expense, net; includes related party interest of $36,391 in 2005
and $0 in
                2004.</font></div>
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LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left"><font style="DISPLAY: inline;
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      from operations before income tax expense (benefit) </font></div>
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tax expense (benefit)</font></div>
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income</font></div>
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    accompanying notes to unaudited condensed consolidated financial
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href="#toc">Table
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<div style="DISPLAY: block; MARGIN-LEFT: 9pt; TEXT-INDENT: 0pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="center">COLONIAL

COMMERCIAL CORP. AND SUBSIDIARIES</div>

<div style="DISPLAY: block; MARGIN-LEFT: 9pt; TEXT-INDENT: 0pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="center">Condensed

Consolidated Statements of Cash Flows</div>

<div style="DISPLAY: block; MARGIN-LEFT: 9pt; TEXT-INDENT: 0pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="center">(Unaudited)</div>

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The Six Months Ended June

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FONT-FAMILY: Times New Roman">)</font></div>
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payables</div>
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</div>
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<div style="DISPLAY: block; MARGIN-LEFT: 0px; TEXT-INDENT: 0px; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0px">1,031,147
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SIZE: 10pt; FONT-FAMILY: Times New Roman">Income
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  to equipment</font></div>
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  cash used in investing activities</font></div>
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FONT-FAMILY: Times New Roman">(141,040</font></div>
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of common stock</font></div>
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of preferred stock</font></div>
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SIZE: 10pt; FONT-FAMILY: Times New Roman">Repayments
      of notes payable</font></div>
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      of notes payable</font></div>
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SIZE: 10pt; FONT-FAMILY: Times New Roman">Net
          borrowings under credit facility</font></div>
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      cash provided by financing activities</font></div>
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SIZE: 10pt; FONT-FAMILY: Times New Roman">Increase
      in cash and cash equivalents</font></div>
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and cash equivalents - beginning of period</div>

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SIZE: 10pt; FONT-FAMILY: Times New Roman">Cash
      and cash equivalents - end of period</font></div>
</td>
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      </td>
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double">
      <div style="DISPLAY: block; MARGIN-LEFT: 0px; TEXT-INDENT: 0px; LINE-
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FONT-FAMILY: Times New Roman">$</font></div>
      </td>
      <td align="right" valign="bottom" width="11%" style="BORDER-BOTTOM: black
double">
      <div style="DISPLAY: block; MARGIN-LEFT: 0px; TEXT-INDENT: 0px; LINE-
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1.25; MARGIN-RIGHT: 0pt" align="left"><font style="DISPLAY: inline; FONT-SIZE: 10pt;
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    accompanying notes to unaudited condensed consolidated financial
    statements.</font></div>
</div>
<div><br></div>
<div>
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href="#toc">Table
  of Contents</a></em></font></div>
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1.25; MARGIN-RIGHT: 0pt" align="center"><font style="DISPLAY: inline; FONT-SIZE:
10pt; FONT-FAMILY: Times New Roman"><a name="Notes">COLONIAL
COMMERCIAL CORP. AND SUBSIDIARIES</font></div>
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  To
  Condensed Consolidated Financial Statements</font></div>
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  30,
  2005</font></div>
<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 0pt; LINE-HEIGHT:
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10pt; FONT-FAMILY: Times New Roman">(Unaudited)</font></div>
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align="left"><font style="DISPLAY: inline; FONT-SIZE: 10pt; FONT-FAMILY: Times New
Roman"><u>Summary
            of Significant Accounting Policies and
            Practices</u></font></div>
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      </table>

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<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 36pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left">The

condensed consolidated financial statements of Colonial Commercial Corp. and Subsidiaries (the "Company") included herein have been prepared by the Company and are unaudited; however, such information reflects all adjustments (consisting solely of normal recurring adjustments), which are, in the opinion of management, necessary for a fair presentation of the financial position, results of operations, and cash flows for the interim periods to which the report relates. The results of operations for the period ended June 30, 2005 are

not necessarily indicative of the operating results that may be achieved for the

full year.</div>

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<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 36pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left">Certain

information and footnote disclosures, normally included in consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America, have been condensed or omitted. It is

suggested that these consolidated financial statements be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Form 10-K for the year ended December 31, 2004. </div>

<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 36pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left">
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<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 36pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left">We

have

one continuing industry segment - wholesale distribution of heating, ventilation, air conditioning equipment and high-end plumbing fixtures.</div>

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</div>

<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 36pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left">Inventory

is comprised of finished goods.</div>

<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 36pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left">
</div>

<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 36pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left"><u>Stock

Options</u></div>

<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 36pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left">
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<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 36pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left">The

Company uses the intrinsic-value method of accounting for stock-based awards granted to employees. The Company recognizes stock-based compensation related to option repricing for options previously awarded. For the quarter and six months ended June 30, 2005, the amount of stock based compensation was (\$14,840) and (\$25,740), respectively. No stock-based compensation cost is included in net income related to options granted during periods presented, since they had an exercise price equal to the market value of the stock on the date of grant and all outstanding options are fully vested. During the six months ended June 30, 2005, no stock options were granted and all outstanding options were fully vested. In accordance with SFAS No. 148, "Accounting for Stock Based Compensation - Transition and Disclosure," the following table presents the effect on net income and net income per share, had compensation cost for the Company's stock plans been determined consistent with SFAS No. 123, "Accounting for Stock-Based Compensation." The fair value of each option grant is estimated on the date of grant by use of the Black-Scholes option-pricing model.

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    </div>
  </div>
</div>
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<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 36pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left"><font style="DISPLAY: inline; FONT-SIZE: 10pt; FONT-FAMILY: Times New Roman">The following table illustrates the effect on net income if the fair-value-based method had been applied to all outstanding awards in each period.</font></div>
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<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 0pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="center">For
the Quarter Ended June 30,</div>

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<td colspan="5" valign="bottom" width="26%" style="BORDER-BOTTOM: medium none">

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<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 0pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="center">For
the Six Months Ended June 30,</div>

</div>

</td>

<td align="left" valign="bottom" width="1%" style="BORDER-BOTTOM: medium none"> </td>

</tr>

<tr>

<td align="left" valign="bottom" width="43%" style="BORDER-BOTTOM: #ffffff solid"> </td>

<td width="2%" style="BORDER-BOTTOM: #ffffff thin solid"> </td>

<td colspan="2" valign="bottom" width="12%" style="BORDER-BOTTOM: black thin solid">

<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 0pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="center">2005</div>

</td>

<td align="left" valign="bottom" width="2%" style="BORDER-BOTTOM: #ffffff thin solid"> </td>

<td colspan="2" valign="bottom" width="12%" style="BORDER-BOTTOM: black thin solid">

<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 0pt; LINEHEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="center"><font style="DISPLAY: inline; FONT-

SIZE: 10pt; FONT-FAMILY: Times New Roman">2004</div>

</td>

<td align="left" valign="bottom" width="2%" style="BORDER-BOTTOM: #ffffff thin solid"> </td>

<td colspan="2" valign="bottom" width="12%" style="BORDER-BOTTOM: black thin solid">

```
<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 0pt;
LINEHEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="center"><font style="DISPLAY: inline;
FONT-
SIZE: 10pt; FONT-FAMILY: Times New Roman">2005</font></div>
</td>
<td align="left" valign="bottom" width="2%" style="BORDER-BOTTOM:
#ffffff thin solid">&#160;</td>
<td colspan="2" valign="bottom" width="12%" style="BORDER-BOTTOM: black
thin solid">
<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 0pt;
LINEHEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="center"><font style="DISPLAY: inline;
FONT-
SIZE: 10pt; FONT-FAMILY: Times New Roman">2004</font></div>
</td>
<td align="left" valign="bottom" width="1%" style="BORDER-BOTTOM: black
thin solid">&#160;</td>
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<tr bgcolor="#eeeeee">
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HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left"><font style="DISPLAY: inline; FONT-
SIZE: 10pt; FONT-FAMILY: Times New Roman">Net
income, as reported </font></div>
</td>
<td width="2%" style="BORDER-BOTTOM: #eeeeee">&#160;</td>
<td align="left" valign="bottom" width="1%" style="BORDER-BOTTOM:
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<div style="DISPLAY: block; MARGIN-LEFT: 0px; TEXT-INDENT: 0px; LINE-
HEIGHT: 1.25; MARGIN-RIGHT: 0px"><font style="DISPLAY: inline; FONT-SIZE: 10pt;
FONT-FAMILY: Times New Roman">$</font></div>
</td>
<td align="right" valign="bottom" width="11%" style="BORDER-BOTTOM:
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HEIGHT: 1.25; MARGIN-RIGHT: 0px"><font style="DISPLAY: inline; FONT-SIZE: 10pt;
FONT-FAMILY: Times New Roman">520,182</font></div>
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FONT-FAMILY: Times New Roman">$</font></div>
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FONT-FAMILY: Times New Roman">663,505</font></div>
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```

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FONT-FAMILY: Times New Roman">$</font></div>
</td>
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HEIGHT: 1.25; MARGIN-RIGHT: 0px"><font style="DISPLAY: inline; FONT-SIZE: 10pt;
FONT-FAMILY: Times New Roman">321,249</font></div>
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<td align="left" valign="bottom" width="2%" style="BORDER-BOTTOM:
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FONT-FAMILY: Times New Roman">364,255</font></div>
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white">&#160;</td>
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    <td align="left" valign="bottom" width="2%" style="BORDER-BOTTOM:
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SIZE: 10pt; FONT-FAMILY: Times New Roman">Add:&#160;&#160;&#160;&#160;&#160;&#160;
      Stock-based compensation</font></div>
    </td>
    <td width="2%" style="BORDER-BOTTOM: #e0e0e0">&#160;</td>
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    <td align="left" valign="bottom" width="1%" style="BORDER-BOTTOM:
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    <td align="left" valign="bottom" width="1%" style="BORDER-BOTTOM:
#e0e0e0">&#160;</td>
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  <tr bgcolor="white">
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SIZE: 10pt; FONT-FAMILY: Times New Roman">related
        to option repricing</font></div>
      </td>
      <td width="2%" style="BORDER-BOTTOM: white solid">&#160;</td>
      <td align="left" valign="bottom" width="1%" style="BORDER-BOTTOM: black
thin solid">&#160;</td>
      <td align="right" valign="bottom" width="11%" style="BORDER-BOTTOM: black
thin solid">
        <div style="DISPLAY: block; MARGIN-LEFT: 0px; TEXT-INDENT: 0px; LINE-
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FONT-FAMILY: Times New Roman">(14,840</font></div>
      </td>
```



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FONT-FAMILY: Times New Roman"></font></div>
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<td align="left" valign="bottom" width="1%" style="BORDER-BOTTOM: black
thin solid">&#160;</td>
<td align="right" valign="bottom" width="11%" style="BORDER-BOTTOM: black
thin solid">
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FONT-FAMILY: Times New Roman">(33,960</font></div>
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FONT-FAMILY: Times New Roman"></font></div>
</td>
<td align="left" valign="bottom" width="1%" style="BORDER-BOTTOM: black
thin solid">&#160;</td>
<td align="right" valign="bottom" width="11%" style="BORDER-BOTTOM: black
thin solid">
  <div style="DISPLAY: block; MARGIN-LEFT: 0px; TEXT-INDENT: 0px; LINE-
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FONT-FAMILY: Times New Roman">(25,740</font></div>
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FONT-FAMILY: Times New Roman"></font></div>
</td>
<td align="left" valign="bottom" width="1%" style="BORDER-BOTTOM: black
thin solid">&#160;</td>
<td align="right" valign="bottom" width="11%" style="BORDER-BOTTOM: black
thin solid">
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FONT-FAMILY: Times New Roman">50,940
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  <td align="left" valign="bottom" width="1%" style="BORDER-BOTTOM:
#e0e0e0">&#160;</td>
  <td align="right" valign="bottom" width="11%" style="BORDER-BOTTOM:
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```

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<td align="left" valign="bottom" width="2%" style="BORDER-BOTTOM:
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<td align="right" valign="bottom" width="11%" style="BORDER-BOTTOM:
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SIZE: 10pt; FONT-FAMILY: Times New Roman">Pro
forma net income </font></div>
</td>
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FONT-FAMILY: Times New Roman">$</font></div>
</td>
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FONT-FAMILY: Times New Roman">505,342</font></div>
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double">
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<td align="right" valign="bottom" width="11%" style="BORDER-BOTTOM:
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SIZE: 10pt; FONT-FAMILY: Times New Roman">Basic
income per share, as reported</font></div>
</td>
<td width="2%" style="BORDER-BOTTOM: white thin solid">&#160;</td>
<td align="left" valign="bottom" width="1%" style="BORDER-BOTTOM: black
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SIZE: 10pt; FONT-FAMILY: Times New Roman">Basic
      income per share, pro forma</font></div>
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double">
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income per share, as reported</font></div>
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Roman"><u>Equity
Transactions</u></font><font style="DISPLAY: inline; FONT-SIZE:
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1.25; MARGIN-RIGHT: 0pt" align="left"><font style="DISPLAY: inline; FONT-SIZE: 10pt;
FONT-FAMILY: Times New Roman">During
the quarter ended March 31, 2005, the Company issued 14,000 shares of common
stock pursuant to the exercise of outstanding stock options. Bernard Korn
obtained 10,000 shares of common stock, by exercising outstanding stock options
on February 2, 2005. Mr. Korn is the Chief Executive Officer and a Director
of
the Company. A non-executive employee of Universal obtained 4,000 shares of
common stock, by exercising his outstanding stock options on March 22, 2005.
</font></div>
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1.25; MARGIN-RIGHT: 0pt" align="left">
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<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 36pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left">During

the six months ended June 30, 2005, holders of a total of 18,928 shares of redeemable Convertible Preferred Stock converted these shares into 18,928 shares of Common Stock.</div>

<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 36pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left"> </div>

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<div style="MARGIN-LEFT: 0pt; TEXT-INDENT: 0pt; MARGIN-RIGHT: 0pt" align="left"><u>Supplemental Cash Flow Information</u> </div>

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following is supplemental information relating to the consolidated statements of

cash flows:</div>

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the Six Months Ended</div>

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30, 2005</div>

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paid during the period for:</div>

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<font style="DISPLAY: inline; FONT-SIZE: 10pt; FONT-FAMILY: Times New Roman">During
the six months ended June 30, 2005 and 2004, the Company converted 18,928 shares
and 16,450 shares respectively, of Convertible Preferred Stock to a similar
number of Common Stock.</font></div>
<div>&#160;</div>
<div>
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inline; FONT-SIZE: 8pt; COLOR: #000000; FONT-FAMILY: Times New Roman"><em><a
href="#toc">Table
  of Contents</a></em></font></div>
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FONTFAMILY: Times New Roman"><u>Net
          Income Per Common Share</u></font><font style="DISPLAY: inline;
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1.25; MARGIN-RIGHT: 0pt" align="left"><font style="DISPLAY: inline; FONT-SIZE: 10pt;
FONT-FAMILY: Times New Roman">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. </font></div>
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  reconciliation between the numerators and denominators of the basic and diluted
income per common share is as follows:</font></div>
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      </td>
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      <td colspan="2" valign="bottom" width="12%" style="BORDER-BOTTOM: black
thin solid">

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<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 0pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="center">2005</div>
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<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 0pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="center">2004</div>
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<td align="left" colspan="2" valign="bottom" width="12%" style="BORDER-BOTTOM: medium none"> </td>

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<td align="left" colspan="2" valign="bottom" width="12%" style="BORDER-BOTTOM: medium none"> </td>

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<td align="left" colspan="2" valign="bottom" width="11%" style="BORDER-BOTTOM: medium none"> </td>

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<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 0pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left">Net
income (numerator)</div>

</td>
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<div style="DISPLAY: block; MARGIN-LEFT: 0px; TEXT-INDENT: 0px; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0px">\$</div>

</td>
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<div style="DISPLAY: block; MARGIN-LEFT: 0px; TEXT-INDENT: 0px; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0px">520,182</div>

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FONT-FAMILY: Times New Roman">$</font></div>
</td>
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average common shares </font></div>
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    for basic income per share)</font></div>
  </td>
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SIZE: 10pt; FONT-FAMILY: Times New Roman">Effect
of dilutive securities:</font></div>
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preferred stock</font></div>
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      notes</font></div>
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FONT-FAMILY: Times New Roman">-</font></div>
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FONT-FAMILY: Times New Roman">175,000
            </font></div>
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FONT-FAMILY: Times New Roman">-</font></div>
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SIZE: 10pt; FONT-FAMILY: Times New Roman">Stock
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average common and potential</font></div>
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SIZE: 10pt; FONT-FAMILY: Times New Roman">(denominator
        for diluted income per share)</font></div>
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net income per share</font></div>
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FONT-FAMILY: Times New Roman">$</font></div>
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      <td>
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align="left"><font style="DISPLAY: inline; FONT-SIZE: 10pt; FONT-FAMILY: Times New
Roman"><u>Financing
          Arrangements</u></font></div>
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1.25; MARGIN-RIGHT: 0pt" align="left"><font style="DISPLAY: inline; FONT-SIZE: 10pt;
FONT-FAMILY: Times New Roman">At
  June
  30, 2005, amounts outstanding under the credit facility were $12,503,526, of
  which $1,062,977 represents a term loan payable in equal monthly installments
of
  approximately $83,333. At June 30, 2005, the amount of the unused available
  credit was $769,910. The interest rate on the $1,062,977 term loan was 6.5%
  (prime plus .5%) as of June 30, 2005. The interest rate on the remaining credit
  facility, as of June 30, 2005 was 5.75% (prime minus .25%).</font></div>
<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 0pt; LINE-HEIGHT:
1.25; MARGIN-RIGHT: 0pt" align="left"><br></div>
<div><br></div>
<div>
  <div id="PGBRK" style="MARGIN-LEFT: 0pt; WIDTH: 100%; TEXT-INDENT: 0pt;
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    <div id="FTR">
      <div id="GLFTR" style="WIDTH: 100%" align="center">
        </div>
      </div>
    <div id="PN" style="PAGE-BREAK-AFTER: always">
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FONT-SIZE: 8pt; FONT-FAMILY: Times New Roman">7</font></div>
      <div style="WIDTH: 100%; TEXT-ALIGN: center">
        <hr style="COLOR: black" noshade size="2">
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    </div>
  </div>
  <div id="HDR">
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href="#toc">Table
  of Contents</a></em></font></div>
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align="left"><font style="DISPLAY: inline; FONT-SIZE: 10pt; FONT-FAMILY: Times New
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FONT-FAMILY: Times New Roman"><u>Universal
  Supply Group, Inc.</u></font></div>
<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 0pt; LINE-HEIGHT:
1.25; MARGIN-RIGHT: 0pt" align="left"><br></div>
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10pt; FONT-FAMILY: Times New Roman"><u>Litigation</u></font></div>
<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 0pt; LINE-HEIGHT:
1.25; MARGIN-RIGHT: 0pt" align="center"><br></div>
<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 36pt; LINE-HEIGHT:
1.25; MARGIN-RIGHT: 0pt" align="left"><font style="DISPLAY: inline; FONT-SIZE: 10pt;
FONT-FAMILY: Times New Roman">Universal
  Supply Group, Inc. is a New York corporation (&#8220;Universal&#8221;). 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 146 active plaintiffs in

43 separate active lawsuits that allege injury due to asbestos. Claims in these lawsuits relate to alleged sales of asbestos products, or products containing asbestos, by the Predecessor. The Company never sold any asbestos related products.

Of

the

active cases, four were filed in 2005, 39 were filed in 2004, 31 in 2003, and 44

in 2002. Twenty-four other cases have been dismissed and six other cases had been settled as of March 2005 for a total of \$56,000. There has been no judgment against the Predecessor. Our Universal subsidiary was named in ten of these cases; of these, six were filed in 2001, one in 2003 and three 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 appointed by the insurance companies, the Company believes that none of the litigation that was brought against the Company's Universal

subsidiary through March 1, 2005 is material, and that the only material litigation that was brought against Predecessor through that date was

<u>Rhodes

v. A.O. Smith Corporation</u>
10pt; FONT-FAMILY: Times New Roman">,
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 informally advised that the <u>Rhodes</u>

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 is
not

a defendant in the <u>Rhodes</u>

case,
and is in any event entitled to the indemnification and insurance coverage referred to below. </div>

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of Contents</div>

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<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 36pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left">The
Company believes that <u>Rhodes</u>
differs

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.</div>

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<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 0pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="center"><u>Indemnification</u></div>

<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 0pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left">
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<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 36pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left">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. </div>

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<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 36pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left">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. </div>

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<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 36pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left">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.</div>

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<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 36pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left">There

are

no other limitations to our rights to indemnification.</div>

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Insurance

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

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.

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<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 36pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left">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.

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<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 36pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left">Insurance

companies have to date defended our Company and the Predecessor, and have paid all settlement amounts and defense costs, except that the Company understands that the insurance companies have not yet made payment for amounts owed by the Predecessor under its August 2005 agreement to settle the <u>Rhodes</u> case.

Except for \$159.64 referred to above, the insurance companies have not requested

any payments from us or from the Predecessor.

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<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 36pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left">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.

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<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 0pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="center"><u>General</u></div>

<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 0pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left">
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<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 36pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left">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.

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<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 36pt; LINE-HEIGHT:

1.25; MARGIN-RIGHT: 0pt" align="left">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.</div>

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<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 36pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left">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.</div>

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<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 0pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left"><u>Atlantic Hardware & Supply Corporation</u></div>

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</div>

<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 36pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left">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.</div>

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<div style="MARGIN-LEFT: 0pt; TEXT-INDENT: 0pt; MARGIN-RIGHT: 0pt" align="left"><u>New

Accounting Pronouncements</u></div>

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<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 36pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left">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 our income statement.</div>

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<div style="MARGIN-LEFT: 0pt; TEXT-INDENT: 0pt; MARGIN-RIGHT: 0pt" align="left"><u>Subsequent

Events</u></div>

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<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 36pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left">On

July

29, 2005 holders of a total of 7,223 shares of redeemable Convertible Preferred Stock converted these shares into 7,223 shares of Common Stock.</div>

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<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 0pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left"><u>Item

2. Management’s Discussion and Analysis of

Financial Condition and Results </u><u>Of

Operations</u></div>

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<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 0pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left"><u>The

Company</u></div>

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<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 36pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left">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”). </div>

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of Contents</div>

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<font style="DISPLAY: inline; FONT-SIZE: 10pt; FONT-FAMILY: Times New
Roman"><u>Forward-Looking

Statements</u></div>

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<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 36pt; LINE-HEIGHT:
1.25; MARGIN-RIGHT: 0pt" align="left"><font style="DISPLAY: inline; FONT-SIZE: 10pt;
FONT-FAMILY: Times New Roman">This

report on Form 10-Q contains forward-looking statements relating to such
matters

as anticipated financial performance and business prospects. When used in this
report, the words,

“anticipates,” “expects,” “believes,” “may,&#
8221; “intends,” and

similar expressions are intended to be among the statements that identify
forward-looking statements. From time to time, the Company may also publish

forward-looking statements. The Private Securities Litigation Reform Act of
1995

provides a safe harbor for forward-looking statements. Forward-looking
statements involve risks and uncertainties, including, but not limited to,

the
consummation of certain events referred to in this report, technological
changes, competitive factors, maintaining customer and vendor relationships,
inventory obsolescence and availability, and other risks detailed in the
Company's periodic filings with the Securities and Exchange Commission, which

could cause the Company's actual results and experience to differ materially from the anticipated results or other expectations expressed in the Company's forward-looking statements.

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<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 0pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left"><u>Critical Accounting Policies</u></div>

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<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 36pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left">The

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

expenses and the related disclosure of contingent assets and liabilities. We base our estimates on historical experience and on various other assumptions we

believe to be applicable and reasonable under the current circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources.

Actual results may differ from these estimates under different assumptions or conditions.

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<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 36pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left">In

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

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<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 36pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left">We

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

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<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 0pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left"><u>Principles of Consolidation</u></div>

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<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 36pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left">The

consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany balances and

transactions have been eliminated in consolidation.</div>
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<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 0pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left"><u>Accounts
Receivable</u></div>
<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 0pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left">
</div>
<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 36pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left">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 service charges are not recognized until collected, and
are
then included in 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.</div>
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<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 0pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left"><u>Inventory</u></div>

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<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 36pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left">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.</div>

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costs of incoming freight, purchasing, receiving, inspection, warehousing and handling costs are included in selling, general and administrative expenses.

Such costs were \$90,049 and \$75,616 for the quarter ended June 30, 2005 and 2004, respectively, and \$188,998 and \$145,328 for the six months ended June 30, 2005 and 2004, respectively.</div>

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and Equipment</u></div>

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<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 36pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left">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:

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<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 0pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left">Computer hardware and software</div>

</td>

<td align="right" valign="top" width="50%">

<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 0pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="right">3-5 years</div>

</td>

</tr>

<tr bgcolor="white">

<td align="left" valign="top" width="50%">

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<p>SIZE: 10pt; FONT-FAMILY: Times New Roman">Furniture and fixtures</div></p>	<p><div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 0pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="right">5 years</div></p>
<p><div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 0pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left">Automobiles</div></p>	<p><div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 0pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="right">3-5 years</div></p>

</table>

<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 0pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="center">
</div>

<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 36pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left">Leasehold
improvements are amortized over the shorter of the lease term or the estimated
useful life of the asset.</div>

<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 0pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="center">
</div>

<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 0pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left"><u>Goodwill
and Other Intangible Assets</u></div>

<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 0pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left">
</div>

<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 36pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left">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.</div>

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 <div id="GLHDR" style="WIDTH: 100%" align="left">Table
 of Contents</div>
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<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 0pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left">
</div>
 <div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 0pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left"><u>Results
 of Operations For the Quarter Ended June 30, 2005 and 2004 </u></div>
 <div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 0pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left">
</div>
 <div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 36pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left">The
 Company reported net income of \$520,182 for the quarter ended June 30, 2005,
 compared to net income of \$663,505 for the same period in 2004.</div>
 <div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 0pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="center">
</div>
 <div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 36pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left">Sales
 increased 8.4% to \$17,501,842 for the quarter ended June 30, 2005 from
 \$16,148,926 for the same period in 2004. The
 increase in sales is primarily a result of increased market penetration, an
 increase in general industry pricing, and growing market activity in all areas.
</div>
 <div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 0pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left">
</div>
 <div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 36pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left">Gross
 profit increased 7.0% to \$5,132,119 for the quarter ended June 30, 2005 from
 \$4,797,862 for the same period in 2004. Gross profit expressed as a percentage
 of sales decreased to 29.3% in 2005 compared to 29.7 % for the comparable period
 in 2004. This decrease is primarily a result of reduced margins of air
 conditioning equipment caused by manufacturers’ product standardization.
 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 \$90,049 and \$75,616 for the quarters ended June 30, 2005 and 2004, respectively.

<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 0pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="center">
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<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 36pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left">Selling,

general and administrative expenses and cost of operations increased 8.3% to \$4,368,437 for the quarter ended June 30, 2005 from \$4,032,186 for the same period in 2004. This increase is primarily a result of costs associated with increased utility and fuel costs, increased vehicle expenses required to support growing sales at the newest locations, general cost increases and increased accounting fees.

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<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 36pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left">Other

income decreased by \$38,003 to \$87,557 for the quarter ended June 30, 2005 from

\$125,560 for the same period in 2004. This decrease is primarily the result of a

\$58,007 gain from the settlement of a contingent liability of a discontinued operation recognized in the second quarter of 2004 with no such gain in 2005, partially offset by a \$20,038 increase in service charges collected in the second quarter of 2005.

<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 36pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="center">
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<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 36pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left">Interest

expense net increased 29.5% to \$250,029 for the quarter ended June 30, 2005 from

\$193,137 for the same period in 2004. This increase is primarily the result of

the increase in prime rate which was 6.25% at June 30, 2005 compared to 4.0% at

June 30, 2004, and additional interest expense incurred on increased borrowings to support the Company's growth.

<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 36pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="center">
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<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 36pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left">Income

tax expense increased by \$46,434 to \$81,028 for the quarter ended June 30, 2005

from \$34,594 for the same period in 2004. This increase is primarily a result of

the applicable state income taxes incurred on taxable income for the Company.

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of Contents</div>
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<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 0pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left">
<u>Results
of Operations For the Six Months Ended June 30, 2005 and 2004 </u>
</div>
<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 0pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left">
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<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 45pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left">The
Company reported net income of \$321,249 for the six months ended June 30, 2005, compared to net income of \$364,255 for the same period in 2004. Pre-tax income increased \$136,145 or 47.6%, to \$421,973 for the six months ended June 30, 2005
from \$285,828 for the same period in 2004.</div>
<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 45pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="center">
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<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 45pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left">Sales
increased 7.6% to \$30,849,161 for the six months ended June 30, 2005 from \$28,674,285 for the same period in 2004. The increase in sales is primarily
a
result of increased market penetration, an increase in general industry pricing,
and growing market activity in all areas. </div>
<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 45pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left">
</div>
<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 45pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left">Gross
profit increased 9.0% to \$9,385,190 for the six months ended June 30, 2005
from

\$8,607,841 for the same period in 2004. Gross profit expressed as a percentage of sales increased to 30.4% in 2005 compared to 30.0% for the comparable period in 2004. This increase is primarily a result of increased activity and sales of control systems as well as high end plumbing fixtures partially offset by lower margins in sales of air conditioning equipment. 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 \$188,998 and \$145,328 for the

six months ended June 30, 2005 and 2004, respectively.</div>

<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 45pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="center">
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<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 45pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left">Selling,

general and administrative expenses and cost of operations increased 6.0% to \$8,619,062 for the six months ended June 30, 2005 from \$8,131,238 for the same period in 2004. This increase is primarily a result of costs associated with increased utility and fuel costs, increased vehicle expenses required to support growing sales at the newest locations, general cost increases and increased accounting fees.</div>

<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 45pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left">
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<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 45pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left">Other

income decreased by \$32,842 to \$149,435 for the six months ended June 30, 2005 from \$182,277 for the same period in 2004. This decrease is primarily the result of a \$58,007 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 \$29,663 increase in service charges collected in the six months ended June 30, 2005.</div>

<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 45pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left">
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<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 45pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left">Interest

expense net increased 32.3% to \$493,590 for the six months ended June 30, 2005 from \$373,052 for the same period in 2004. This increase is primarily the result of the increase in prime rate which was 6.25% at June 30, 2005 compared to 4.0%

at June 30, 2005, and additional interest expense incurred on increased borrowings to support the Company's growth. </div>

<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 0pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left">

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1.25; MARGIN-RIGHT: 0pt" align="left"><font style="DISPLAY: inline; FONT-SIZE: 10pt;
FONT-FAMILY: Times New Roman">Income
    tax expense increased by $179,151 to $100,724 for the six months ended June
30,
    2005 from a $78,427 tax benefit for the same period in 2004. This increase
is
    primarily a result of the applicable state income taxes incurred on taxable
income for the Company and the Company recording a net federal tax benefit
of $0
    in 2005 and $129,600 in 2004. The income tax benefit realized in 2004, was
from
    a decrease in its valuation allowance on deferred tax assets in recognition
of
    its then anticipated utilization of net operating loss carryforwards.
</font></div>
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1.25; MARGIN-RIGHT: 0pt" align="left"><font style="DISPLAY: inline; FONT-SIZE: 10pt;
FONT-FAMILY: Times New Roman">The
    following table summarizes information derived from the Company's
consolidated
    statements of income expressed as a percentage of sales for the quarter and
six
    months ended June 30, 2005 and 2004.</font></div>
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<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 0pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="center">For

the Quarter Ended June 30, </div>

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the Six Months Ended June 30,</div>

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<div style="display: block; margin-left: 0pt; text-indent: 0pt; line-height: 1.25; margin-right: 0pt">2004</div>

<div style="display: block; margin-left: 0pt; text-indent: 0pt; line-height: 1.25; margin-right: 0pt">Sales</div>

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<div style="display: block; margin-left: 0px; text-indent: 0px; line-height: 1.25; margin-right: 0px">100.0</div>

<div style="display: block; margin-left: 0px; text-indent: 0px; line-height: 1.25; margin-right: 0px">%</div></div>

<div style="display: block; margin-left: 0px; text-indent: 0px; line-height: 1.25; margin-right: 0px">100.0</div>

<div style="display: block; margin-left: 0px; text-indent: 0px; line-height: 1.25; margin-right: 0px">%</div></div>

<div style="display: block; margin-left: 0px; text-indent: 0px; line-height: 1.25; margin-right: 0px">100.0</div>

<div style="display: block; margin-left: 0px; text-indent: 0px; line-height: 1.25; margin-right: 0px">%</div></div>

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FONT-FAMILY: Times New Roman">%</font></div>
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of sales</font></div>
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SIZE: 10pt; FONT-FAMILY: Times New Roman">Gross
      profit</font></div>
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income</font></div>
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FONT-FAMILY: Times New Roman">%</font></div>
</td>
<td align="left" valign="bottom" width="1%" style="BORDER-BOTTOM: black
double">&#160;</td>
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<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 0pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left"><u>Liquidity and Capital Resources</u></div>

<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 0pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left">
</div>

<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 0pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left">Credit Facility</div>

<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 0pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left">
</div>

<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 36pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left">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”) consisting of a revolving line of credit which expires on August 1,

2009, and a \$2,000,000 term loan with a balance of \$1,062,977 as of June 30, 2005, payable in equal monthly installments of \$83,333. Availability under the revolving credit line is determined by a percentage of eligible assets as defined in the Agreement, and was \$13,273,436 as of June 30, 2005. The balance outstanding under the revolving line of credit including the term loan was \$12,503,526 as of June 30, 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, its business operations, and restricts the payment of dividends, subordinated debt, purchase of securities and capital expenditures. The Company is in compliance with all of its financial loan covenants. All loans are due on

demand by the bank, and accordingly, have been classified as current liabilities. </div>

<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 0pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left">
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<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 36pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left">As

of

June 30, 2005, the Company had \$493,998 in cash and cash equivalents compared with \$310,659 at December 31, 2004.</div>

<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 36pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left">
</div>

<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 36pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left">Net

cash

provided by operating activities was \$169,512 for the six months ended June 30,

2005 compared to net cash used in operating activities of \$550,556 for the six months ended June 30, 2004. The net cash provided by operating activities for the 2005 period is primarily a result of net income approximating \$321,000, non-cash charges approximating \$224,000, offset by cash used in operating assets and liabilities approximating \$376,000. The increase in accounts receivable approximating \$1,021,000 was primarily a result of increased sales volume. Accounts payable increased due to increased inventory purchases to support the increased sales. </div>

<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 36pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left">
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<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 36pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left">Cash

flows used in investing activities of \$141,040 during the six months ended June

30, 2005 were due to purchases of equipment. </div>

<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 36pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left">
</div>

<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 36pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left">The

cash

flows provided by financing activities of \$154,867 consisted of \$178,317 net borrowings under the Company's credit facility, and \$3,500 received from the exercise of stock options. Cash flows used in financing activities consisted of

\$26,950 for repayments on notes payable. </div>

<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 36pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left">
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<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 36pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left">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.</div>

<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 0pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="center"> </div>

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href="#toc">Table
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FONT-FAMILY: Times New Roman"><strong><u><a name="quantitative">Ite</a>m
  3.&#160; Quantitative and Qualitative Disclosures
  About Market Risk</u></strong></font></div>
<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 0pt; LINE-HEIGHT:
1.25; MARGIN-RIGHT: 0pt" align="left"><br></div>
<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 36pt; LINE-HEIGHT:
1.25; MARGIN-RIGHT: 0pt" align="left"><font style="DISPLAY: inline; FONT-SIZE: 10pt;
FONT-FAMILY: Times New Roman">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 rates or equity prices.</font></div>
<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 36pt; LINE-HEIGHT:
1.25; MARGIN-RIGHT: 0pt" align="left"><br></div>
<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 36pt; LINE-HEIGHT:
1.25; MARGIN-RIGHT: 0pt" align="left"><font style="DISPLAY: inline; FONT-SIZE: 10pt;
FONT-FAMILY: Times New Roman">The
  Company's pre-tax earnings and cash flows are exposed to changes in
  interest
  rates. All borrowings under its credit facility bear interest based on the
  prime
  rate less .25%, except for the $2.0 million term loan, 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 prime. A hypothetical 10% adverse change in such rates
  would reduce the pre-tax earnings and cash flows for the quarter ended June 30,
  2005 by approximately $77,200 over a one-year period, assuming the borrowing
  level remains consistent with the outstanding borrowings as of June 30, 2005.
  The fair value of the borrowings under the credit facility is not affected by
  changes in market interest rates.</font></div>
<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 36pt; LINE-HEIGHT:
1.25; MARGIN-RIGHT: 0pt" align="left"><br></div>
<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 36pt; LINE-HEIGHT:
1.25; MARGIN-RIGHT: 0pt" align="left"><font style="DISPLAY: inline; FONT-SIZE: 10pt;
FONT-FAMILY: Times New Roman">The
  Company's remaining interest-bearing obligations are at fixed rates of
  interest
  and as such, do not expose the 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. </font></div>
<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 0pt; LINE-HEIGHT:
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1.25; MARGIN-RIGHT: 0pt" align="left">
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<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 0pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left"><u>Item

4. Controls and

Procedures</u></div>

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<div style="MARGIN-LEFT: 0pt; TEXT-INDENT: 0pt; MARGIN-RIGHT: 0pt" align="left"><u>Evaluation

of Disclosure Controls and

Procedures</u></div>

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<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 36pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left">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 June 30, 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.</div>

<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 0pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left"> <font id="TAB2" style="COLOR: black;

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<td>

<div style="MARGIN-LEFT: 0pt; TEXT-INDENT: 0pt; MARGIN-RIGHT: 0pt" align="left"><u>Changes

in Internal Controls</u></div>

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<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 36pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left">Subsequent

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

<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 0pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="center"> </div>

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of Contents</div>

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<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 0pt; LINE-HEIGHT:

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II. OTHER INFORMATION</u></div>

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<div style="DISPLAY: block; MARGIN-LEFT: 45pt; TEXT-INDENT: -45pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left">Item

1. Legal Proceedings</div>

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<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 0pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left"> </div>

<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 0pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left"><u>Universal

Supply Group, Inc.</u></div>

<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 0pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left">
</div>

<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 0pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="center"><u>Litigation</u></div>

<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 0pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="center">
</div>

<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 36pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left">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.</div>

<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 0pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left">
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<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 36pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left">The

Company understands that Predecessor and many other companies have been sued

in
the Superior Court of New Jersey (Middlesex County) by 146 active plaintiffs
in
43 separate active lawsuits that allege injury due to asbestos. Claims in these
lawsuits relate to alleged sales of asbestos products, or products containing
asbestos, by the Predecessor. The Company never sold any asbestos related
products. </div>

<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 36pt; LINE-HEIGHT:
1.25; MARGIN-RIGHT: 0pt" align="left">
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<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 36pt; LINE-HEIGHT:
1.25; MARGIN-RIGHT: 0pt" align="left"><font style="DISPLAY: inline; FONT-SIZE: 10pt;
FONT-FAMILY: Times New Roman">Of

the
active cases, four were filed in 2005, 39 were filed in 2004, 31 in 2003, and
44

in 2002. Twenty-four other cases have been dismissed and six other cases had
been settled as of March 2005 for a total of \$56,000. There has been no judgment
against the Predecessor. Our Universal subsidiary was named in ten of these
cases; of these, six were filed in 2001, one in 2003 and three in 2005. No
case

that names our Universal subsidiary has been settled or dismissed.
</div>

<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 36pt; LINE-HEIGHT:
1.25; MARGIN-RIGHT: 0pt" align="left">
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<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 36pt; LINE-HEIGHT:
1.25; MARGIN-RIGHT: 0pt" align="left"><font style="DISPLAY: inline; FONT-SIZE: 10pt;
FONT-FAMILY: Times New Roman">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.</div>

<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 0pt; LINE-HEIGHT:
1.25; MARGIN-RIGHT: 0pt" align="left">
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<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 36pt; LINE-HEIGHT:
1.25; MARGIN-RIGHT: 0pt" align="left"><font style="DISPLAY: inline; FONT-SIZE: 10pt;
FONT-FAMILY: Times New Roman">Based

on
advice of counsel appointed by the insurance companies, the Company believes
that none of the litigation that was brought against the Company's Universal
subsidiary through March 1, 2005 is material, and that the only material
litigation that was brought against Predecessor through that date was

<u>Rhodes

v. A.O. Smith Corporation</u><font style="DISPLAY: inline; FONT-SIZE:
10pt; FONT-FAMILY: Times New Roman">,

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 informally advised that
the <font style="DISPLAY: inline; FONT-SIZE: 10pt; FONT-FAMILY: Times
New Roman"><u>Rhodes</u><font style="DISPLAY: inline; FONT-SIZE: 10pt; FONT-
FAMILY: Times New Roman">

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 is not

a defendant in the <u>Rhodes</u>

case,

and is in any event entitled to the indemnification and insurance coverage referred to below. </div>

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of Contents</div>

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<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 36pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left">The

Company believes that <u>Rhodes</u>

differs

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.</div>

<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 0pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left">
</div>

<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 0pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="center"><u>Indemnification</u></div>

<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 0pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left">
</div>

<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 36pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left">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. </div>

<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 0pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left">
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<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 36pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left">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. </div>

<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 0pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left">
</div>

<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 36pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left">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.</div>

<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 0pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left">
</div>

<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 36pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left">There

are no other limitations to our rights to indemnification.</div>

<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 0pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left">
</div>

<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 0pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="center"><u>Insurance</u></div>

<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 0pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left">
</div>

<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 36pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left">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.</div>

<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 36pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left">
</div>

<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 36pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left">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.</div>

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of Contents</div>

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<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 0pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left">
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<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 36pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left">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.</div>

<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 36pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left">
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<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 36pt; LINE-HEIGHT:

1.25; MARGIN-RIGHT: 0pt" align="left">Insurance

companies have to date defended our Company and the Predecessor, and have paid all settlement amounts and defense costs, except that the Company understands that the insurance companies have not yet made payment for amounts owed by the Predecessor under its August 2005 agreement to settle the <u>Rhodes</u> case.

Except for \$159.64 referred to above, the insurance companies have not requested

any payments from us or from the Predecessor.</div>

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<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 36pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left">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.</div>

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<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 0pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="center"><u>General</u></div>

<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 0pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left">
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<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 36pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left">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. </div>

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<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 36pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left">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.</div>

<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 36pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left">
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`<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 36pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left">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.</div>`

`<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 0pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left">
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`<div id="GLHDR" style="WIDTH: 100%" align="left">Table`

`of Contents</div>`

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`<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 0pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left"><u>Atlantic`
`Hardware & Supply Corporation</u></div>`

`<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 36pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left">
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`<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 36pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left">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.</div>`

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FONT-FAMILY: Times New Roman"><strong><u>Items
2 and 3 are not applicable and have been omitted.</u></strong></font></div>
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<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 0pt; LINE-HEIGHT:
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FONT-FAMILY: Times New Roman"><strong><u><a name="submission">Ite</a>m
4.&#160; Submission of Matters to a Vote of Security
Holders</u></strong></font></div>
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align="left"><font style="DISPLAY: inline; FONT-SIZE: 10pt; FONT-FAMILY: Times New
Roman">(a)</font></div>
</td>
<td>
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align="left"><font style="DISPLAY: inline; FONT-SIZE: 10pt; FONT-FAMILY: Times New
Roman">An
Annual Meeting of Shareholders was held on June 15,
2005.</font></div>
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FONT-FAMILY: Times New Roman">
(b)&#160;&#160;&#160;&#160;&#160;&#160;&#160;&#160;&#160;&#160;
</font><font style="DISPLAY: inline; FONT-SIZE: 10pt; FONT-FAMILY: Times New
Roman">On
June
15, 2005, the preferred shareholders elected William Koon, Ronald Miller and
Jack Rose as Preferred Stock Directors of the Company, and the common
shareholders elected E. Bruce Fredrikson, Melissa Goldman, Michael Goldman,
Bernard Korn, William Pagano and Carl L. Sussman as Common Stock Directors.
The
common and preferred shareholders voted in favor of a resolution appointing
Weiser, LLP as the independent public accountants for the Company for the fiscal
year ending December 31, 2005.</font></div>
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SIZE: 10pt; FONT-FAMILY: Times New Roman"><strong>AGAINST</strong></font></div>
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SIZE: 10pt; FONT-FAMILY: Times New Roman">For
the preferred shareholders to elect William Koon, Ronald Miller and
Jack

Rose as Preferred Stock Directors:</div>

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Koon</div>

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Miller</font></div>
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Rose</font></div>
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Pagano</font></div>
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ratify the selection of Weiser, LLP as independent public
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5 is not applicable and has been omitted.</u></strong></font></div>
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1.25; MARGIN-RIGHT: 0pt" align="left"><u>Item

6. Exhibits</u></div>

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<div style="MARGIN-LEFT: 9pt; TEXT-INDENT: -9pt; MARGIN-RIGHT: 0pt" align="left">Certification

of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley

Act of 2002.</div>

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  to the requirements of the Securities and Exchange Act of 1934, the Registrant
  has duly caused this report to be signed on its behalf by the undersigned
  thereunto duly authorized.</font></div>
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  Bernard Korn</font></td>
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  <td width="40%"><font size="2">Bernard Korn,</font></td>
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  William Salek </font></td>
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FONT-FAMILY: Times New Roman">I,
```

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

1.

I have

reviewed this quarterly report on Form 10-Q of Colonial Commercial Corp.

(the

“Registrant”);

2.

Based

on my knowledge, this quarterly 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 quarterly report;

3.

Based

on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly 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 13(a)-15(e) and 15(d)-15(e)) for the Registrant. We 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 quarterly report is being prepared;

b)

evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this quarterly 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;

c)

disclosed in this quarterly report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent 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;

FONT-FAMILY: Times New Roman">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.</div>

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August 12, 2005</div>

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<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 0pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left">/s/

Bernard Korn </div>

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<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 0pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left">Bernard

Korn</div>

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      of the Board and President</font></div>
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31.2</div>

<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 0pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left">CERTIFICATION</div>

<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 0pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left">
</div>

<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 0pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left">I,

William Salek, Chief Financial Officer of Colonial Commercial Corp., certify that:</div>

<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 0pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left">
</div>

<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 0pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left">1.

I have

reviewed this quarterly report on Form 10-Q of Colonial Commercial Corp.</div>

<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 0pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left">(the

“Registrant”);</div>

<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 0pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left">
</div>

<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 0pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left">2.

Based

on my knowledge, this quarterly 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 quarterly report;</div>

<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 0pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left">
</div>

<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 0pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left">3.

Based

on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly report;</div>

<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 0pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left">
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<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 0pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left">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 13(a)-15(e) and 15(d)-15(e)) for the Registrant. We 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 quarterly report is being prepared;

b)

evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this quarterly 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 quarterly report any change in the Registrant's internal

control over financial reporting that occurred during the Registrant's most

recent 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):

1.25; MARGIN-RIGHT: 0pt" align="left">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; </div>

<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 0pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left">and</div>

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<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 0pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left">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.</div>

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<div style="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 0pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="left">/s/

William Salek </div>

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SIZE: 10pt; FONT-FAMILY: Times New Roman">Chief
      Financial Officer</font></div>
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PURSUANT TO</div>

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connection with the quarterly report on Form 10-Q of Colonial Commercial Corp. (the “Company”,) for the quarter ended June 30, 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

to my knowledge:</div>

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<div style="MARGIN-LEFT: 0pt; TEXT-INDENT: 0pt; MARGIN-RIGHT: 0pt" align="left">The

Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and</div>

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FAMILY: Times New Roman">The
information contained in the Report fairly presents, in all material
respects, the financial condition and results of operations of the
Company.</font><font id="TAB2" style="COLOR: black; LETTER-SPACING:
27pt">&#160;</font></div>
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Exhibit 32.2

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<!-- Document Created using EDGARIZER HTML 3.0.0.39401 -->

<!-- Copyright 2005 EDGARfilings, Ltd., an IEC company.-->

<!-- All rights reserved EDGARfilings.com -->

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<div style="DISPLAY: block; MARGIN-LEFT: 9pt; TEXT-INDENT: 0pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="center">CERTIFICATION PURSUANT TO</div>

<div style="DISPLAY: block; MARGIN-LEFT: 9pt; TEXT-INDENT: 0pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="center">SECTION

906 OF THE SARBANES-OXLEY ACT OF 2002</div>

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connection with the quarterly report on Form 10-Q of Colonial Commercial Corp. (the “Company”) for the quarter ended June 30, 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

to my knowledge:</div>

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<div style="MARGIN-LEFT: 0pt; TEXT-INDENT: 0pt; MARGIN-RIGHT: 0pt" align="left">The

Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and</div>

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    information contained in the Report fairly presents, in all
    material respects, the financial condition and results of operations
of the
    Company.</font><font id="TAB2" style="COLOR: black; LETTER-SPACING:
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