

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

FORM 10-Q

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

For the quarterly period ended **June 30, 2011**

OR

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

For the transition period from _____ to _____

Commission file number: **1-6663**

COLONIAL COMMERCIAL CORP.

(Exact name of registrant as specified in its charter)

New York

(State or other jurisdiction of
incorporation or organization)

11-2037182

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

275 Wagaraw Road, Hawthorne, New Jersey

(Address of principal executive offices)

07506

(Zip Code)

973-427-8224

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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

Yes No

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

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company

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

Yes No

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

Class	Outstanding at August 1, 2011
Common Stock, \$.05 par value per share	9,154,953 shares
Convertible Preferred Stock, \$.05 par value per share	293,057 shares

COLONIAL COMMERCIAL CORP. AND SUBSIDIARIES

CONTENTS

PART I. FINANCIAL INFORMATION

Item 1.	Financial Statements	Page
	Condensed Consolidated Balance Sheets as of June 30, 2011 (Unaudited) and December 31, 2010	1
	Condensed Consolidated Statements of Operations (Unaudited) for the Three and Six Months Ended June 30, 2011 and 2010	2
	Condensed Consolidated Statements of Cash Flows (Unaudited) for the Six Months Ended June 30, 2011 and 2010	3
	Notes to Condensed Consolidated Financial Statements (Unaudited)	4
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	13
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	19
Item 4.	Controls and Procedures	20
PART II. OTHER INFORMATION		
Item 1.	Legal Proceedings	21
Item 6.	Exhibits	21

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

COLONIAL COMMERCIAL CORP. AND SUBSIDIARIES
Condensed Consolidated Balance Sheets

	June 30, 2011 <u>(Unaudited)</u>	December 31, 2010 <u></u>
Assets		
Current assets:		
Cash	\$ 109,939	\$ 75,390
Accounts receivable, net of allowance for doubtful accounts of \$672,478 in 2011 and \$694,083 in 2010	10,235,484	9,632,829
Inventory	12,016,124	10,781,069
Prepaid expenses and other current assets	1,238,629	1,111,625
Total current assets	<u>23,600,176</u>	<u>21,600,913</u>
Property and equipment	1,026,428	1,126,810
Goodwill	1,416,929	1,416,929
Other assets - noncurrent	197,727	172,913
	<u>\$ 26,241,260</u>	<u>\$ 24,317,565</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Trade payables	\$ 6,500,263	\$ 6,513,506
Accrued liabilities	1,694,830	1,674,403
Income taxes payable	-	2,360
Borrowings under credit facility - revolving credit	11,529,871	10,770,235
Convertible notes payable-related party	200,000	-
Notes payable - current portion; includes related party notes of \$782,009 in 2011 and \$32,009 in 2010	1,112,256	1,094,275
Total current liabilities	<u>21,037,220</u>	<u>20,054,779</u>
Convertible notes payable, excluding current portion-related party	-	200,000
Notes payable, excluding current portion; includes related party notes of \$64,019 in 2011 and \$830,024 in 2010	1,344,143	1,686,179
Total liabilities	<u>22,381,363</u>	<u>21,940,958</u>
Commitments and contingencies		
Stockholders' equity:		
Redeemable convertible preferred stock, \$.05 par value, 2,500,000 shares authorized, 293,057 shares issued and outstanding in 2011 and 2010, liquidation preference of \$1,465,285 in 2011 and 2010	14,653	14,653
Common stock, \$.05 par value, 20,000,000 shares authorized, 9,154,953 and 4,654,953 shares issued and outstanding in 2011 and 2010, respectively	457,747	232,747
Additional paid-in capital	12,659,782	10,634,782
Accumulated deficit	(9,272,285)	(8,505,575)
Total stockholders' equity	<u>3,859,897</u>	<u>2,376,607</u>
	<u>\$ 26,241,260</u>	<u>\$ 24,317,565</u>

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

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

	For The Three Months Ended June 30,		For The Six Months Ended June 30,	
	2011	2010	2011	2010
Sales	\$ 20,194,697	\$ 21,500,985	\$ 35,256,670	\$ 37,398,884
Cost of sales	14,753,409	15,894,504	25,636,915	27,470,077
Gross profit	5,441,288	5,606,481	9,619,755	9,928,807
Selling, general and administrative expenses, net	4,852,682	5,103,115	10,149,124	10,473,522
Operating income (loss)	588,606	503,366	(529,369)	(544,715)
Other income	77,596	61,362	141,564	129,627
Interest expense, net; includes related party interest of \$15,590 and \$16,550 for the three months ended June 30, 2011 and 2010, respectively, and \$31,419 and \$33,340 for the six months ended June 30, 2011 and 2010, respectively	(167,133)	(256,099)	(378,905)	(447,056)
Net income (loss)	<u>\$ 499,069</u>	<u>\$ 308,629</u>	<u>\$ (766,710)</u>	<u>\$ (862,144)</u>
Income (loss) per common share:				
Basic	<u>\$ 0.05</u>	<u>\$ 0.07</u>	<u>\$ (0.10)</u>	<u>\$ (0.19)</u>
Diluted	<u>\$ 0.05</u>	<u>\$ 0.06</u>	<u>\$ (0.10)</u>	<u>\$ (0.19)</u>
Weighted average shares outstanding:				
Basic	<u>9,154,953</u>	<u>4,654,953</u>	<u>7,683,130</u>	<u>4,654,953</u>
Diluted	<u>9,448,010</u>	<u>4,948,010</u>	<u>7,683,130</u>	<u>4,654,953</u>

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

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

	For Six Months Ended June 30,	
	2011	2010
Cash flows from operating activities:		
Net loss	\$ (766,710)	\$ (862,144)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Provision for doubtful accounts	162,351	204,900
Depreciation	186,352	228,297
Net loss on disposal of fixed assets	156	684
Amortization of intangibles	-	1,667
Changes in operating assets and liabilities		
Accounts receivable	(765,006)	(1,775,276)
Inventory	(1,235,055)	414,299
Prepaid expenses and other current assets	(127,004)	(157,330)
Other assets - noncurrent	(24,814)	23,497
Trade payables	(13,243)	1,344,980
Accrued liabilities	20,427	(109,028)
Income taxes payable	(2,360)	(4,374)
Net cash used in operating activities	<u>(2,564,906)</u>	<u>(689,828)</u>
Cash flows from investing activities:		
Additions to property and equipment	(47,934)	(13,377)
Proceeds from disposal of property and equipment	3,583	8,000
Net cash used in investing activities	<u>(44,351)</u>	<u>(5,377)</u>
Cash flows from financing activities:		
Repayments of notes payable; includes related party repayments of \$16,005 in 2011 and 2010	(365,830)	(57,044)
Issuance of common stock	2,250,000	-
Borrowings under credit facility - revolving credit, net	759,636	369,151
Net cash provided by financing activities	<u>2,643,806</u>	<u>312,107</u>
Increase (decrease) in cash	34,549	(383,098)
Cash - beginning of period	75,390	746,629
Cash - end of period	<u>\$ 109,939</u>	<u>\$ 363,531</u>

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

COLONIAL COMMERCIAL CORP. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

June 30, 2011

(Unaudited)

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

The condensed consolidated financial statements of Colonial Commercial Corp. and subsidiaries (the "Company") included herein have been prepared by the Company and are unaudited; however, such information reflects all adjustments (consisting solely of normal recurring adjustments), which are, in the opinion of management, necessary for a fair presentation of the financial position, results of operations, and cash flows for the interim periods to which the report relates. The results of operations for the period ended June 30, 2011 is not necessarily indicative of the operating results that may be achieved for the full year.

While the Company incurred net losses of \$766,710 and \$862,144 for the six months ended June 30, 2011 and 2010, respectively, the Company had net income of \$499,069 and \$308,629 for the three months ended June 30, 2011 and 2010, respectively, and a net income of \$106,398 for the year ended December 31, 2010. At June 30, 2011, the Company had an accumulated deficit of \$9,272,285 and working capital of \$2,562,956.

Certain information and footnote disclosures, normally included in consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America, have been condensed or omitted as permitted by the interim reporting requirements of the Securities and Exchange Commission. It is suggested that these condensed consolidated financial statements be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Form 10-K for the year ended December 31, 2010.

We have only one operating segment.

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

2. Stock Options

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

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

The following table summarizes information about stock options at June 30, 2011:

Options Outstanding and Exercisable				
Range of Exercise Prices	Shares	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Aggregate Intrinsic Value
\$ 1.85	75,000	5.44	\$ 1.85	\$ 0

There were no stock options granted during the three months or six months ended June 30, 2011 and 2010. For each of the three months and six months ended June 30, 2011 and 2010, the amount of stock based compensation was \$0.

3. Equity Transactions

During the three months and six months ended June 30, 2011 and 2010, no shares of convertible preferred stock were converted into common stock.

No stock options were exercised during the three months or six months ended June 30, 2011 and 2010.

On March 1, 2011, the Company entered into agreements to privately place 4,500,000 shares of common stock at \$0.50 per share for total proceeds of \$2,250,000. The initial closing of the agreements occurred on March 1, 2011 and the final closing occurred on March 4, 2011. Of these shares, 3,000,000 shares were purchased by Goldman Associates, 600,000 shares by Rita Folger, 400,000 shares by Paul Hildebrandt, 200,000 shares by William Pagano and 300,000 shares by John A. Hildebrandt.

4. Supplemental Cash Flow Information

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

	For the Six Months Ended	
	June 30, 2011	June 30, 2010
Cash paid during the period for:		
Interest	\$ 183,164	\$ 491,761
Supplemental disclosure of non-cash financing activities:		
Conversion of accounts payable to notes payable	\$ -	\$ 2,000,000
Note issued for purchase of fixed assets	\$ 41,775	\$ 110,905

5. Net Income (Loss) Per Common Share

Basic income (loss) per share reflects the amount of earnings (loss) for the period available to common shareholders and holders of participating securities and is based upon the weighted average number of common shares and participating securities outstanding during the period. Diluted earnings per share reflects, in periods in which they have a dilutive effect, the potential dilution that would occur if securities or other contracts to issue common stock were exercised or converted into common stock and is computed using the treasury stock method and if-converted method, where applicable.

Employee stock options totaling 75,000 for each of the three months and six months ended June 30, 2011 and 2010, respectively, were not included in the net loss per share calculation because their effect would have been anti-dilutive. Convertible preferred stock, convertible into 293,057 shares of common stock for the six months ended June 30, 2011 and 2010, respectively, was not included in the net loss per share because its effect would have been anti-dilutive. Convertible notes, in the principal amount of \$200,000, convertible into 66,666 shares of common stock, were not included in the net loss per share calculation for each of the three months and six months ended June 30, 2011 and 2010, respectively, because their effect would have been anti-dilutive.

6. Financing Arrangements

The Company has a secured credit facility with Wells Fargo Bank, National Association (“Wells”) in the amount of \$20 million. The terms of the credit facility are set forth in the Credit and Security Agreement, dated as of July 28, 2004, as amended, modified, supplemented or restated from time to time (the “Agreement”) between the Company and Wells.

The Company and Wells on March 15, 2011 entered into a Sixth Amendment to the Agreement (the “Sixth Amendment”). Prior to the Sixth Amendment, the \$20 million credit facility included an inventory sublimit of \$9,000,000, with an inventory advance rate equal to the lesser of (a) 57% of cost or fair market value or (b) 100% of liquidation value of the eligible inventory, a letter of credit sublimit of \$250,000 and seasonal overadvances in 2010 and 2011 of \$1,000,000 and \$500,000, respectively. The interest rate under the facility for advances, other than overadvances, was three month LIBOR (as defined) plus 4.5% and the interest rate for overadvances was an additional 0.25%.

Pursuant to the Sixth Amendment, the Company’s inventory sublimit was decreased from \$9,000,000 to \$7,500,000, with an inventory advance rate equal to the lesser of (a) 57% of cost or fair market value or (b) 85% of net orderly liquidation value of the eligible inventory. Seasonal overadvances were amended from \$500,000 in 2011 to a temporary increase of 100% of net orderly liquidation value (as defined), not to exceed \$750,000, for 120 days, at which time it decreases 1% per week until it has been reduced to 85% of net orderly liquidation value. The amendment also decreased the interest rate under the facility from three month LIBOR (as defined) plus 4.5% to three month LIBOR plus 3.0% and extended the maturity date of the credit facility to August 1, 2015. Borrowings under the credit facility are secured by substantially all the assets of the Company, as defined in the Agreement.

Availability under the credit facility was \$605,893 as of June 30, 2011 and is determined by a percentage of available assets as defined in the Agreement, less reserves. Reserves, as determined by the bank, reduce the availability of the credit facility by \$178,000. The balance outstanding under the credit facility was \$11,529,871 as of June 30, 2011.

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

The provision in the credit facility which provided that in the event that Mr. Pagano no longer performs the duties of the President of Universal or the Vice President of RAL for any reason other than death or disability, the Company will be considered in default of its credit agreement with Wells unless a waiver is obtained, has been amended pursuant to the Sixth Amendment to provide that in the event Mr. Pagano ceases to serve as the President of Universal or Executive Vice President of RAL or President of S&A, then the Company shall appoint another senior executive officer to enter into a support agreement in substantially the same form as the support agreement entered into by Mr. Pagano pursuant to the original credit facility.

The credit facility contains covenants that are determined annually and compliance is required on a quarterly basis as it relates to net income, cash flows, tangible net worth, and annual capital expenditures. The credit facility also restricts the payment of dividends, subordinated debt and purchase of securities. The continuation of the credit facility is conditioned upon the Company and Wells reaching agreement on the covenants. Pursuant to the Sixth Amendment, the Company and its lender have agreed on financial covenants for the period through December 31, 2011. If the covenants for the year ended December 31, 2012 have not been determined by January 31, 2012, then the 2011 covenants will remain in effect for 2012.

The covenants required that the Company's net loss for the six months ended June 30, 2011 be not more than \$946,000. Actual net loss for the six months ended June 30, 2011 was \$766,710.

The covenants required that for the six months ended June 30, 2011, the Company's free cash flow, as defined in the credit facility, be not less than \$867,000. The Company satisfied this covenant as follows: Net loss was \$766,710 and net adjustments in determining the free cash flow under the Agreement were \$2,188,575. Accordingly, for the six months ended June 30, 2011 actual free cash flow as defined in the credit facility for the purposes of the covenant was \$1,421,865.

The covenants required that for the six months ended June 30, 2011, the Company's tangible net worth, as defined in the credit facility, be not less than \$2,833,000. The Company satisfied this covenant as follows: Net assets per the Company's financial statements were \$3,859,897 and net adjustments under the Agreement were \$414,682. Accordingly, tangible net worth as of June 30, 2011, as defined in the credit facility, was \$3,445,215.

The covenants required that the Company's capital expenditures in 2011 be not more than \$250,000. Actual capital expenditures for the six months ended June 30, 2011 were \$89,709, of which \$41,775 was financed at an average interest rate of 4.0% extending to April 2016.

Goodman Company, L.P. and certain of its affiliates ("Goodman") is a supplier to the Company. Wells and Goodman entered into an Amended and Restated Subordination Agreement dated March 4, 2010 (the "Subordination Agreement") pursuant to which, among other things, Goodman on March 24, 2010 converted \$2 million of 2010 purchases then owed to it by Universal into a secured term note (the "Note") that accrues interest payable monthly at the lesser of the highest lawful rate allowed or 8% per annum and was payable in monthly principal installments over a two-year period beginning September 24, 2010. On April 13, 2011, Schedule 1 to the Note was amended and restated to provide that from April 2011 to February 2013, the principal of the Note is to be repaid on a five-year amortization schedule, with the balance of the Note to be repaid in March 2013. If the Company defaults on its scheduled principal or interest payments, the interest on such default payments will be increased to as much as 18%. The Subordination Agreement also sets forth, among other things, the relative priorities of the security interests of Wells and Goodman in the assets of the Company. At June 30, 2011, the amount outstanding on this Note was \$1,380,451 and the interest expense related to the Note was \$18,802 and \$40,000 for the three months ended June 30, 2011 and 2010, respectively. Interest expense related to the Note was \$50,983 and \$42,667 for the six months ended June 30, 2011 and 2010, respectively.

7. Litigation

(a) Universal Supply Group, Inc.

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

The Company understands that the Universal Predecessor and many other companies have been sued in the Superior Court of New Jersey (Middlesex County) by plaintiffs filing lawsuits alleging injury due to asbestos. As of June 30, 2011, there existed 5 plaintiffs in these lawsuits relating to alleged sales of asbestos products, or products containing asbestos, by the Universal Predecessor. The Company never sold any asbestos related products.

Of the existing plaintiffs as of June 30, 2011, 1 filed an action in 2011 and 4 filed actions in 2010. There are 209 other plaintiffs that have had their actions dismissed and 16 other plaintiffs that have settled as of June 30, 2011 for a total of \$3,361,500. There has been no judgment against the Universal Predecessor.

Our Universal subsidiary was named by 37 plaintiffs; of these, 1 filed an action in 2010, 11 filed actions in 2007, 6 filed actions in 2006, 11 filed actions in 2005, 5 filed actions in 2001, 1 filed an action in 2000, and 2 filed actions in 1999. Thirty-three plaintiffs naming Universal have had their actions dismissed and, of the total \$3,361,500 of settled actions, 3 plaintiffs naming Universal have settled for \$27,500. No money was paid by Universal in connection with any settlement. Following these dismissed and settled actions there exists 1 plaintiff that named Universal as of June 30, 2011.

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

Based on advice of counsel, the Company believes that none of the litigation that was brought against the Company’s Universal subsidiary through June 30, 2011 is material, and that the only material litigation that was brought against the Universal Predecessor through that date was Rhodes v. A.O. Smith Corporation, filed on April 26, 2004 in the Superior Court of New Jersey, Law Division, Middlesex County, Docket Number MID-L-2979-04AS. The Company was advised that the Rhodes case was settled for \$3,250,000 (“Settlement”) under an agreement reached in connection with a \$10,000,000 jury verdict that was rendered on August 5, 2005. The Company was not a defendant in the Rhodes case.

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

i. Indemnification

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

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

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

ii. Insurance

The assets that the Universal 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 Universal Predecessor was formed in 1940. Copies of policies are available for each year beginning in 1970 and ending with the closing under the purchase agreement in 1999. Copies of policies for the period from 1940 to 1969 are not available.

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

There are periods during the years from 1940 to 1999 in which our Universal Predecessor did not have coverage for potential asbestos claims. Subject to litigation, insurance companies may maintain that the existence of these periods' results in coverage for only a portion of a particular injury that varies with the period during which there was asbestos coverage relating to the injury, and that the balance of any settlement or judgment is to be paid by the insured. As of June 30, 2011, no insurance company has claimed any contribution for a gap in coverage except for a claim for \$160 made by one insurance company to the Universal Predecessor in 1995. The Universal Predecessor asserted that it had no obligation to pay this amount and did not make any payment.

Insurance companies have, as of June 30, 2011, defended us and the Universal Predecessor, and have paid all settlement amounts and defense costs. Except for \$160 referred to above, the insurance companies have not requested any payments from us or from the Universal Predecessor.

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

(b) General

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

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

(c) Other Litigation

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

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

- (a) A subsidiary of the Company leases a warehouse and store in Wharton, New Jersey comprising of 27,000 square feet from a company owned by Mr. Paul Hildebrandt under a lease that expires on July 31, 2017. The Company paid Mr. Hildebrandt's company \$55,251 and \$52,214 during the three months ended June 30, 2011 and 2010, respectively. The Company paid Mr. Hildebrandt's company \$110,503 and \$105,132 during the six months ended June 30, 2011 and 2010, respectively. William Salek, the Company's Chief Financial Officer, is the son-in-law of Mr. Hildebrandt. Mr. Hildebrandt served as a Director of the Company from July 2004 to January 2005.
- (b) Pursuant to a secured note dated July 29, 2004, as amended by Amendment 1 dated March 27, 2008, Amendment 2 dated February 12, 2009, Amendment 3 dated March 5, 2010, and further amended by Amendment 4 dated March 1, 2011, the Company owes Goldman Associates of New York, Inc. ("Goldman Associates"), the principal amount of \$750,000 at June 30, 2011 collateralized by the assets of the Company. The secured note is subordinate to the borrowings under the credit facility, bears interest at the prime rate plus 2% and is due on January 1, 2012. Michael Goldman is the Chief Executive Officer and Chairman of the Board of Goldman Associates and is Chairman of the Board of the Company.
- (c) Oscar Folger and Jeffrey Folger, of the law firm of Folger & Folger, are counsel to the Company. Rita Folger, a more than 5% shareholder of the Company, is the wife of Oscar Folger and the mother of Jeffrey Folger. Professional fees paid to the law firm of Folger & Folger for the three months ended June 30, 2011 and 2010 were \$18,672 and \$9,716, respectively. Professional fees paid to the law firm of Folger & Folger for the six months ended June 30, 2011 and 2010 were \$26,156 and \$11,666, respectively.

- (d) Pioneer Realty Holdings, LLC, a New York limited liability company (“Pioneer”), is the owner of the premises located at 836 Route 9, Fishkill, New York, formerly known as 2213 Route 9, Fishkill, New York that is leased to a subsidiary of the Company under a lease that expires on March 31, 2017, subject to two five-year renewal options.

William Pagano, Chief Executive Officer and Director of the Company, has a 55% interest in Pioneer and each of Mrs. Folger and Jeffrey Folger has a 20% interest in Pioneer Realty Partners I, LLC, which has a 40% interest in Pioneer. The Company paid Pioneer \$66,630 and \$67,191 during the three months ended June 30, 2011 and 2010, respectively. The Company paid Pioneer \$133,259 and \$135,450 during the six months ended June 30, 2011 and 2010, respectively.

- (e) Mr. Pagano and Mrs. Folger are each holders of convertible unsecured notes in the amount of \$100,000, issued pursuant to the terms of a private placement made on July 29, 2004, as amended by Amendment 1 dated March 27, 2008, Amendment 2 dated February 12, 2009, Amendment 3 dated March 5, 2010, and further amended by Amendment 4 dated March 1, 2011. The convertible unsecured notes bear interest at the prime rate plus 2% and are due on January 1, 2012.

Interest expense on each of the notes held by Mr. Pagano and Mrs. Folger amounted to \$1,313 for each of the three months ended June 30, 2011 and 2010. Interest expense on each of the notes held by Mr. Pagano and Mrs. Folger amounted to \$2,625 for each of the six months ended June 30, 2011 and 2010.

- (f) Mr. Hildebrandt, Goldman Associates, Mr. Pagano and Mrs. Folger were each holders of unsecured notes in the amounts of \$90,000, \$171,033, \$35,000 and \$100,000, respectively, issued in connection with the Company’s August 20, 2009 tender offer to purchase any and all shares of its convertible preferred stock at \$1.25 per share. The unsecured notes bear interest at 12% and are payable in twenty equal quarterly payments beginning October 10, 2009.

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

At June 30, 2011 the remaining principal on the above notes were \$21,823, \$41,471, \$8,487 and \$24,248, respectively. Interest expense on the notes held by Mr. Hildebrandt, Goldman Associates, Mr. Pagano and Mrs. Folger amounted to \$709, \$1,348, \$276 and \$788, respectively, for the three months ended June 30, 2011. Interest expense on the notes held by Mr. Hildebrandt, Goldman Associates, Mr. Pagano and Mrs. Folger amounted to \$927, \$1,763, \$361 and \$1,031, respectively, for the three months ended June 30, 2010.

Interest expense on the notes held by Mr. Hildebrandt, Goldman Associates, Mr. Pagano and Mrs. Folger amounted to \$1,473, \$2,799, \$573 and \$1,637, respectively, for the six months ended June 30, 2011. Interest expense on the notes held by Mr. Hildebrandt, Goldman Associates, Mr. Pagano and Mrs. Folger amounted to \$1,910, \$3,629, \$743 and \$2,122, respectively, for the six months ended June 30, 2010.

- (g) On March 1, 2011, the Company entered into agreements to privately place 4,500,000 shares of common stock at \$0.50 per share for total proceeds of \$2,250,000. The initial closing of the agreements occurred on March 1, 2011 and the final closing occurred on March 4, 2011. Of these shares, 3,000,000 shares were purchased by Goldman Associates, 600,000 shares by Rita Folger, 400,000 shares by Paul Hildebrandt and 200,000 shares by William Pagano.

- (h) On February 24, 2011, the Board of Directors of the Company appointed Melissa Goldman-Williams to serve as Vice President of Operations. Mrs. Goldman-Williams receives a salary of \$135,000 per year. Mrs. Goldman-Williams is a director of the Company and is the daughter of Michael Goldman, the Chairman of the Board of the Company.
- (i) On May 27, 2011, the Company borrowed \$200,000 from Goldman Associates, which was non-interest bearing and repaid in full on June 28, 2011.
- (j) On July 29, 2011, the Company borrowed \$250,000 from Goldman Associates. Interest accrues on the loan at a per annum rate equal to the lesser of (i) 3% plus 90-day LIBOR and (ii) 4%. Principal and interest are due on September 25, 2011.

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

We begin Management's Discussion and Analysis of Financial Condition and Results of Operations of Colonial Commercial Corp. and subsidiaries with a discussion of our business, and other business considerations, to provide a context for understanding. This is followed by a discussion of the "Critical Accounting Policies" that we believe are important to understanding the assumptions and judgments incorporated into our reported financial results which we discuss under "Results of Operations." We then provide an analysis of cash flows, and discuss our financial commitments under "Liquidity and Capital Resources." It is suggested that Management's Discussion and Analysis of Financial Condition and Results of Operations be read in conjunction with the consolidated financial statements and notes included in the Company's Form 10-K for the year ended December 31, 2010.

Forward-Looking Statements

This report on Form 10-Q contains forward-looking statements including estimates, projections, statements relating to our business plans, objectives, and expected operating results, and the assumptions upon which those statements are based, are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements generally are identified by the words "believe," "project," "expect," "anticipate," "estimate," "intend," "strategy," "plan," "may," "should," "will," "would," "will be," "will continue," "will likely result," and similar expressions. Forward-looking statements involve risks and uncertainties, including, but not limited to, technological changes, competitive factors, maintaining customer and vendor relationships, inventory obsolescence and availability, and other risks detailed in the Company's periodic filings with the Securities and Exchange Commission, which could cause the Company's actual results and experience to differ materially from the anticipated results or other expectations expressed in the Company's forward-looking statements. We undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events, or otherwise.

Company Overview

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

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

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

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

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

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

Other Business Considerations

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

Critical Accounting Policies

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

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

The Company maintains an allowance for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. The Company establishes and monitors the allowance for doubtful accounts based on the credit risk of specific customers, customer concentrations, historical trends and other information. The Company had accounts receivable of \$10,235,484, net of an allowance for doubtful accounts of \$672,478, as of June 30, 2011. Although the Company believes its allowance is sufficient, if the financial condition of the Company's customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances would be required.

The Company writes down its inventories for estimated slow moving and obsolete goods in accordance with the lower of cost or market value, based upon assumptions about future demand and market conditions. A significant sudden increase in the demand for the Company's products could result in a short-term increase in the cost of inventory purchases, while a significant decrease in demand could result in an increase in the amount of excess inventory quantities on-hand. Additionally, the Company's estimates of future product demand may prove to be inaccurate, in which case the Company may have understated or overstated the write-down required for excess and obsolete inventory.

Goodwill and other intangible assets are reviewed at least annually for impairment. In assessing the recoverability of the Company's goodwill and other intangible assets, the Company must make assumptions regarding estimated future cash flows and other factors to determine the fair value of the respective assets and liabilities of the reporting unit. The Company considers each subsidiary as a reporting unit. The Company groups assets, including goodwill, by reporting unit and utilizes the income approach (Discounted Cash Flows) to estimate the fair value of long-lived assets. If the Company's fair value determination changes due to modifications in the underlying assumptions, the Company may be required to record impairment charges related to its goodwill or other intangible assets. At June 30, 2011, goodwill on the Company's books of \$1,416,929 relates entirely to Universal. Based on the Company's determination, the fair value of Universal's goodwill was higher than its carrying value as of June 30, 2011 and there was no need for an impairment charge. The methodology used to estimate the fair values has not changed.

The Company accounts for income taxes in accordance with the asset and liability approach for financial accounting and reporting of income taxes. The realization of future tax benefits of deductible temporary differences and operating loss or tax credit carryforwards will depend on whether the Company will have sufficient taxable income of an appropriate character within the carryback and carryforward period permitted by the tax law to allow for utilization of the deductible amounts and carryforwards. Without sufficient taxable income to offset the deductible amounts and carryforwards, the related tax benefits will expire unused. The Company evaluates both positive and negative evidence in making a determination as to whether it is more likely than not that all or some portion of the deferred tax asset will not be realized. Management reviewed the gross deferred tax asset and determined that it is more likely than not that such assets would not be recognized in the near future. As of June 30, 2011, the Company has provided a full valuation allowance and the net deferred tax asset was zero.

Results of Operations

Results of Operations for the Three Months Ended June 30, 2011 and 2010

Sales decreased by 6.1%, or \$1,306,288, to \$20,194,697 for the three months ended June 30, 2011 from \$21,500,985 for the same period in 2010. The decrease in sales was substantially related to a continuation of the reduction in demand for heating, ventilation and air conditioning units utilized in residential new construction and the reduction of commercial hydronic and plumbing bid and specification work.

Gross profit decreased by 2.9%, or \$165,193, to \$5,441,288 for the three months ended June 30, 2011 from \$5,606,481 for the same period in 2010. Gross profit expressed as a percentage of sales increased to 26.9% in 2011 compared to 26.1% for the comparable period in 2010. The decline in gross profit was directly related to the loss in sales. However, the increase in gross margins expressed as a percentage of sales was caused by a continuation of the reduction in commercial bid and specification work and the reduction of heating, ventilating and air conditioning units sold for new construction, both of which are sold at lower than normal margin percentages. 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 \$114,020 and \$114,982 for the three months ended June 30, 2011 and 2010, respectively.

Selling, general and administrative expenses decreased by 4.9%, or \$250,433, to \$4,852,682 for the three months ended June 30, 2011 from \$5,103,115 for the same period in 2010. The decrease in selling, general and administrative expense is primarily related to a \$60,674 reduction in payroll and benefit costs, a \$293,457 reduction in rent, a \$22,524 reduction in depreciation and amortization and a \$44,861 reduction in office expense, offset by a \$26,890 increase in facility expense and a \$138,453 increase in professional fees related to property tax reassessments.

Net interest expense decreased by 34.7%, or \$88,966, to \$167,133 for the three months ended June 30, 2011 from \$256,099 for the same period in 2010. The net interest expense decrease is primarily the result of decreased interest charges related to a third party note and a reduction in the interest rate under the credit line.

The Company's net income increased by 61.7%, or \$190,440 to \$499,069 for the three months ended June 30, 2011, compared to \$308,629 for the same period in 2010. The increase in net income is primarily the result of the \$250,433 decrease in selling, general and administrative expenses and \$88,966 decrease in interest expense, partially offset by the \$165,193 decrease in gross profit.

Results of Operations for the Six Months Ended June 30, 2011 and 2010

Sales decreased by 5.7%, or \$2,142,214, to \$35,256,670 for the six months ended June 30, 2011 from \$37,398,884 for the same period in 2010. The decrease in sales was substantially related to a continuation of the reduction in demand for heating, ventilation and air conditioning units utilized in residential new construction and the reduction of commercial hydronic and plumbing bid and specification work.

Gross profit decreased by 3.1%, or \$309,052, to \$9,619,755 for the six months ended June 30, 2011 from \$9,928,807 for the same period in 2010. Gross profit expressed as a percentage of sales increased to 27.3% in 2011 compared to 26.5% for the comparable period in 2010. The decline in gross profit was directly related to the loss in sales. However, the increase in gross margins expressed as a percentage of sales was caused by a continuation of the reduction in commercial bid and specification work and the reduction of heating, ventilating and air conditioning units sold for new construction, both of which are sold at lower than normal margin percentages. 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 \$235,588 and \$240,226 for the six months ended June 30, 2011 and 2010, respectively.

Selling, general and administrative expenses decreased by 3.1%, or \$324,398, to \$10,149,124 for the six months ended June 30, 2011 from \$10,473,522 for the same period in 2010. The decrease in selling, general and administrative expense is primarily related to a \$106,113 reduction in payroll and benefit costs, a \$322,655 reduction in rent, a \$43,612 reduction in depreciation and amortization and an \$83,071 reduction in office expense, offset by a \$65,126 increase in facility expense and a \$164,247 increase in professional fees related to property tax reassessments.

Net interest expense decreased by 15.2%, or \$68,151, to \$378,905 for the six months ended June 30, 2011 from \$447,056 for the same period in 2010. The net interest expense decrease is primarily the result of a reduction in the interest rate under the credit line.

The Company's net loss decreased by 11.1%, or \$95,434 to a net loss of \$766,710 for the six months ended June 30, 2011, compared to a net loss of \$862,144 for the same period in 2010. The decrease in net loss is primarily the result of the \$324,398 decrease in selling, general and administrative expenses and \$68,151 decrease in interest expense, partially offset by the \$309,052 decrease in gross profit.

The following table summarizes information derived from the Company's consolidated statements of operations expressed as a percentage of sales for the three and six months ended June 30, 2011 and 2010.

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2011	2010	2011	2010
Sales	100.0%	100.0%	100.0%	100.0%
Cost of sales	73.1	73.9	72.7	73.5
Gross profit	26.9	26.1	27.3	26.5
Selling, general and administrative expenses	24.0	23.8	28.8	28.0
Operating income (loss)	2.9	2.3	(1.5)	(1.5)
Other income	0.4	0.3	0.4	0.4
Interest expense, net	(0.8)	(1.2)	(1.1)	(1.2)
Net income (loss)	2.5%	1.4%	(2.2) %	(2.3) %

Liquidity and Capital Resources

The Company has a secured credit facility with Wells Fargo Bank, National Association ("Wells") in the amount of \$20 million. The terms of the credit facility are set forth in the Credit and Security Agreement, dated as of July 28, 2004, as amended, modified, supplemented or restated from time to time (the "Agreement") between the Company and Wells.

The Company and Wells on March 15, 2011 entered into a Sixth Amendment to the Agreement (the "Sixth Amendment"). Prior to the Sixth Amendment, the \$20 million credit facility included an inventory sublimit of \$9,000,000, with an inventory advance rate equal to the lesser of (a) 57% of cost or fair market value or (b) 100% of liquidation value of the eligible inventory, a letter of credit sublimit of \$250,000 and seasonal overadvances in 2010 and 2011 of \$1,000,000 and \$500,000, respectively. The interest rate under the facility for advances, other than overadvances, was three month LIBOR (as defined) plus 4.5% and the interest rate for overadvances was an additional 0.25%.

Pursuant to the Sixth Amendment, the Company's inventory sublimit was decreased from \$9,000,000 to \$7,500,000, with an inventory advance rate equal to the lesser of (a) 57% of cost or fair market value or (b) 85% of net orderly liquidation value of the eligible inventory. Seasonal overadvances were amended from \$500,000 in 2011 to a temporary increase of 100% of net orderly liquidation value (as defined), not to exceed \$750,000, for 120 days, at which time it decreases 1% per week until it has been reduced to 85% of net orderly liquidation value. The amendment also decreased the interest rate under the facility from three month LIBOR (as defined) plus 4.5% to three month LIBOR plus 3.0% and extended the maturity date of the credit facility to August 1, 2015. Borrowings under the credit facility are secured by substantially all the assets of the Company, as defined in the Agreement.

Availability under the credit facility was \$605,893 as of June 30, 2011 and is determined by a percentage of available assets as defined in the Agreement, less reserves. Reserves, as determined by the bank, reduce the availability of the credit facility by \$178,000. The balance outstanding under the credit facility was \$11,529,871 as of June 30, 2011.

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

The provision in the credit facility which provided that in the event that Mr. Pagano no longer performs the duties of the President of Universal or the Vice President of RAL for any reason other than death or disability, the Company will be considered in default of its credit agreement with Wells unless a waiver is obtained, has been amended pursuant to the Sixth Amendment to provide that in the event Mr. Pagano ceases to serve as the President of Universal or Executive Vice President of RAL or President of S&A, then the Company shall appoint another senior executive officer to enter into a support agreement in substantially the same form as the support agreement entered into by Mr. Pagano pursuant to the original credit facility.

The credit facility contains covenants that are determined annually and compliance is required on a quarterly basis as it relates to net income, cash flows, tangible net worth, and annual capital expenditures. The credit facility also restricts the payment of dividends, subordinated debt and purchase of securities. The continuation of the credit facility is conditioned upon the Company and Wells reaching agreement on the covenants. Pursuant to the Sixth Amendment, the Company and its lender have agreed on financial covenants for the period through December 31, 2011. If the covenants for the year ended December 31, 2012 have not been determined by January 31, 2012, then the 2011 covenants will remain in effect for 2012.

The covenants required that the Company's net loss for the six months ended June 30, 2011 be not more than \$946,000. Actual net loss for the six months ended June 30, 2011 was \$766,710.

The covenants required that for the six months ended June 30, 2011, the Company's free cash flow, as defined in the credit facility, be not less than \$867,000. The Company satisfied this covenant as follows: Net loss was \$766,710 and net adjustments in determining the free cash flow under the Agreement were \$2,188,575. Accordingly, for the six months ended June 30, 2011 actual free cash flow as defined in the credit facility for the purposes of the covenant was \$1,421,865.

The covenants required that for the six months ended June 30, 2011, the Company's tangible net worth, as defined in the credit facility, be not less than \$2,833,000. The Company satisfied this covenant as follows: Net assets per the Company's financial statements were \$3,859,897 and net adjustments under the Agreement were \$414,682. Accordingly, tangible net worth as of June 30, 2011, as defined in the credit facility, was \$3,445,215.

The covenants required that the Company's capital expenditures in 2011 be not more than \$250,000. Actual capital expenditures for the six months ended June 30, 2011 were \$89,709, of which \$41,775 was financed at an average interest rate of 4.0% extending to April 2016.

Goodman Company, L.P. and certain of its affiliates ("Goodman") is a supplier to the Company. Wells and Goodman entered into an Amended and Restated Subordination Agreement dated March 4, 2010 (the "Subordination Agreement") pursuant to which, among other things, Goodman on March 24, 2010 converted \$2 million of 2010 purchases then owed to it by Universal into a secured term note (the "Note") that accrues interest payable monthly at the lesser of the highest lawful rate allowed or 8% per annum and was payable in monthly principal installments over a two-year period beginning September 24, 2010. On April 13, 2011, Schedule 1 to the Note was amended and restated to provide that from April 2011 to February 2013, the principal of the Note is to be repaid on a five-year amortization schedule, with the balance of the Note to be repaid in March 2013. If the Company defaults on its scheduled principal or interest payments, the interest on such default payments will be increased to as much as 18%. The Subordination Agreement also sets forth, among other things, the relative priorities of the security interests of Wells and Goodman in the assets of the Company. At June 30, 2011, the amount outstanding on this Note was \$1,380,451 and the interest expense related to the Note was \$18,802 and \$40,000 for the three months ended June 30, 2011 and 2010, respectively. Interest expense related to the Note was \$50,983 and \$42,667 for the six months ended June 30, 2011 and 2010, respectively.

On May 27, 2011, the Company borrowed \$200,000 from Goldman Associates, which was non-interest bearing and repaid in full on June 28, 2011. On July 29, 2011, the Company borrowed \$250,000 from Goldman Associates. Interest accrues on the loan at a per annum rate equal to the lesser of (i) 3% plus 90-day LIBOR and (ii) 4%. Principal and interest are due on September 25, 2011.

As of June 30, 2011, the Company had \$109,939 in cash compared with \$75,390 at December 31, 2010.

Net cash used in operating activities was \$2,564,906 for the six months ended June 30, 2011. The net cash used in operating activities for the 2011 period is a result of net loss of \$766,710 and operating and asset and liabilities of \$2,147,055, offset by non-cash charges of \$313,859. The increase in accounts receivable of \$765,006 is primarily related to the increased sales volume during May and June 2011 compared to November and December 2010. The increase in inventory of \$1,235,055 is to support the increased seasonal summer sales volume.

Cash flows provided by financing activities of \$2,643,806 for the six months ended June 30, 2011 consisted of \$2,250,000 in the issuance of common stock and \$759,636 in borrowings under the credit facility-revolving credit, offset by repayments of notes payable in the amount of \$365,830.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not applicable.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Control Over Financial Reporting

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

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

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

Item 6. Exhibits

<u>Exhibit No.</u>	<u>Description</u>
31.01	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.02	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.01	Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.02	Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document

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

SIGNATURES

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

Dated: August 15, 2011

COLONIAL COMMERCIAL CORP.

/s/ William Pagano

William Pagano,
Chief Executive Officer

/s/ William Salek

William Salek,
Chief Financial Officer

CERTIFICATION

I, William Pagano, certify that:

1. I have reviewed this report of Colonial Commercial Corp. (the "Registrant");
2. Based on my knowledge, this 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this 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
 - d. Disclosed in this 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; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: August 15, 2011

/s/ William Pagano
William Pagano
Chief Executive Officer

CERTIFICATION

I, William Salek, certify that:

1. I have reviewed this report of Colonial Commercial Corp. (the "Registrant");
2. Based on my knowledge, this 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this 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
 - d. Disclosed in this 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; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: August 15, 2011

/s/ William Salek
William Salek
Chief Financial Officer

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

In connection with the quarterly report on Form 10-Q of Colonial Commercial Corp. (the "Company") for the quarter ended June 30, 2011 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, William Pagano, Chief Executive Officer of the Company, certify, pursuant to section 18 U.S.C. 1350 as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that:

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

By: /s/ William Pagano

Name: William Pagano

Chief Executive Officer

Date: August 15, 2011

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

In connection with the quarterly report on Form 10-Q of Colonial Commercial Corp. (the "Company") for the quarter ended June 30, 2011 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, William Salek, Chief Financial Officer of the Company, certify, pursuant to section 18 U.S.C. 1350 as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that:

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

By: /s/ William Salek

Name: William Salek

Chief Financial Officer

Date: August 15, 2011

Document And Entity Information

Document And Entity Information (USD \$)	6 Months Ended 06/30/2011	08/01/2011	06/30/2010
Entity Registrant Name	COLONIAL COMMERCIAL CORP		
Entity Central Index Key	0000021828		
Current Fiscal Year End Date	--12-31		
Entity Well-known Seasoned Issuer	Yes		
Entity Voluntary Filers	No		
Entity Current Reporting Status	Yes		
Entity Filer Category	Smaller Reporting Company		
Entity Public Float			\$ 478,331
Entity Common Stock, Shares Outstanding		9,154,953	
Document Fiscal Year Focus	2,011		
Document Fiscal Period Focus	Q2		
Document Type	10-Q		
Amendment Flag	false		
Document Period End Date	2011-06-30		

Condensed Consolidated Balance Sheets

Condensed Consolidated Balance Sheets (USD \$)	06/30/2011	12/31/2010
Assets		
Current assets:		
Cash	\$ 109,939	\$ 75,390
Accounts receivable, net of allowance for doubtful accounts of \$672,478 in 2011 and \$694,083 in 2010	10,235,484	9,632,829
Inventory	12,016,124	10,781,069
Prepaid expenses and other current assets	1,238,629	1,111,625
Total current assets	<u>23,600,176</u>	<u>21,600,913</u>
Property and equipment	1,026,428	1,126,810
Goodwill	1,416,929	1,416,929
Other assets - noncurrent	197,727	172,913
Total assets	<u>26,241,260</u>	<u>24,317,565</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Trade payables	6,500,263	6,513,506
Accrued liabilities	1,694,830	1,674,403
Income taxes payable	0	2,360
Borrowings under credit facility - revolving credit	11,529,871	10,770,235
Convertible notes payable-related party	200,000	0
Notes payable - current portion; includes related party notes of \$782,009 in 2011 and \$32,009 in 2010	1,112,256	1,094,275
Total current liabilities	<u>21,037,220</u>	<u>20,054,779</u>
Convertible notes payable, excluding current portion-related party	0	200,000
Notes payable, excluding current portion; includes related party notes of \$64,019 in 2011 and \$830,024 in 2010	1,344,143	1,686,179
Total liabilities	<u>22,381,363</u>	<u>21,940,958</u>
Commitments and contingencies		
Stockholders' equity:		
Redeemable convertible preferred stock, \$.05 par value, 2,500,000 shares authorized, 293,057 shares issued and outstanding in 2011 and 2010, liquidation preference of \$1,465,285 in 2011 and 2010	14,653	14,653
Common stock, \$.05 par value, 20,000,000 shares authorized, 9,154,953 and 4,654,953 shares issued and outstanding in 2011 and 2010, respectively	457,747	232,747
Additional paid-in capital	12,659,782	10,634,782
Accumulated deficit	(9,272,285)	(8,505,575)
Total stockholders' equity	<u>3,859,897</u>	<u>2,376,607</u>
Total liabilities and stockholders' equity	<u>\$ 26,241,260</u>	<u>\$ 24,317,565</u>

Condensed Consolidated Balance Sheets (Parenthetical)

Condensed Consolidated Balance Sheets (Parenthetical) (USD \$)	06/30/2011	12/31/2010
Current assets:		
Accounts receivable, allowance for doubtful accounts	\$ 672,478	\$ 694,083
Current liabilities:		
Notes payable - current portion, related party notes	782,009	32,009
Notes payable - excluding current portion, related party notes	64,019	830,024
Stockholders' equity:		
Redeemable convertible preferred stock, par value (in dollars per share)	\$ 0.05	\$ 0.05
Redeemable convertible preferred stock, shares authorized (in shares)	2,500,000	2,500,000
Redeemable convertible preferred stock, shares issued (in shares)	293,057	293,057
Redeemable convertible preferred stock, shares outstanding (in shares)	293,057	293,057
Redeemable convertible preferred stock, liquidation preferences	\$ 1,465,285	\$ 1,465,285
Common stock, par value (in dollars per shares)	\$ 0.05	\$ 0.05
Common stock, shares authorized (in shares)	20,000,000	20,000,000
Common stock, shares issued (in shares)	9,154,953	4,654,953
Common stock, shares outstanding (in shares)	9,154,953	4,654,953

Condensed Consolidated Statements of Operations

Condensed Consolidated Statements of Operations (USD \$)	3 Months Ended 06/30/2011	3 Months Ended 06/30/2010	6 Months Ended 06/30/2011	6 Months Ended 06/30/2010
Sales	\$ 20,194,697	\$ 21,500,985	\$ 35,256,670	\$ 37,398,884
Cost of sales	14,753,409	15,894,504	25,636,915	27,470,077
Gross profit	<u>5,441,288</u>	<u>5,606,481</u>	<u>9,619,755</u>	<u>9,928,807</u>
Selling, general and administrative expenses, net	4,852,682	5,103,115	10,149,124	10,473,522
Operating income (loss)	<u>588,606</u>	<u>503,366</u>	<u>(529,369)</u>	<u>(544,715)</u>
Other income	77,596	61,362	141,564	129,627
Interest expense, net; includes related party interest of \$15,590 and \$16,550 for the three months ended June 30, 2011 and 2010, respectively, and \$31,419 and \$33,340 for the six months ended June 30, 2011 and 2010, respectively	(167,133)	(256,099)	(378,905)	(447,056)
Net income (loss)	<u>\$ 499,069</u>	<u>\$ 308,629</u>	<u>\$ (766,710)</u>	<u>\$ (862,144)</u>
Income (loss) per common share:				
Basic (in dollars per share)	\$ 0.05	\$ 0.07	\$ (0.10)	\$ (0.19)
Diluted (in dollars per share)	\$ 0.05	\$ 0.06	\$ (0.10)	\$ (0.19)
Weighted average shares outstanding:				
Basic (in shares)	9,154,953	4,654,953	7,683,130	4,654,953
Diluted (in shares)	9,448,010	4,948,010	7,683,130	4,654,953

Condensed Consolidated Statements of Operations (Parenthetical)

Condensed Consolidated Statements of Operations (Parenthetical) (USD \$)	3 Months Ended 06/30/2011	3 Months Ended 06/30/2010	6 Months Ended 06/30/2011	6 Months Ended 06/30/2010
Interest expense, related party interest	\$ 15,590	\$ 16,550	\$ 31,419	\$ 33,340

Condensed Consolidated Statements of Cash Flows

Condensed Consolidated Statements of Cash Flows (USD \$)	6 Months Ended 06/30/2011	6 Months Ended 06/30/2010
Cash flows from operating activities:		
Net loss	\$ (766,710)	\$ (862,144)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Provision for doubtful accounts	162,351	204,900
Depreciation	186,352	228,297
Net loss on disposal of fixed assets	156	684
Amortization of intangibles	0	1,667
Changes in operating assets and liabilities		
Accounts receivable	(765,006)	(1,775,276)
Inventory	(1,235,055)	414,299
Prepaid expenses and other current assets	(127,004)	(157,330)
Other assets - noncurrent	(24,814)	23,497
Trade payables	(13,243)	1,344,980
Accrued liabilities	20,427	(109,028)
Income taxes payable	(2,360)	(4,374)
Net cash used in operating activities	<u>(2,564,906)</u>	<u>(689,828)</u>
Cash flows from investing activities:		
Additions to property and equipment	(47,934)	(13,377)
Proceeds from disposal of property and equipment	3,583	8,000
Net cash used in investing activities	<u>(44,351)</u>	<u>(5,377)</u>
Cash flows from financing activities:		
Repayments of notes payable; includes related party repayments of \$16,005 in 2011 and 2010	(365,830)	(57,044)
Issuance of common stock	2,250,000	0
Borrowings under credit facility - revolving credit, net	759,636	369,151
Net cash provided by financing activities	<u>2,643,806</u>	<u>312,107</u>
Increase (decrease) in cash	<u>34,549</u>	<u>(383,098)</u>
Cash - beginning of period	75,390	746,629
Cash - end of period	\$ 109,939	\$ 363,531

Condensed Consolidated Statements of Cash Flows (Parenthetical)

Condensed Consolidated Statements of Cash Flows (Parenthetical) (USD \$)	6 Months Ended 06/30/2011	6 Months Ended 06/30/2010
Repayments of notes payable, related party repayment	\$ 16,005	\$ 16,005

Summary of Significant Accounting Policies and Practices

Summary of Significant Accounting Policies and Practices (USD \$)	6 Months Ended 06/30/2011
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Summary of Significant Accounting Policies and Practices 1. Summary of Significant Accounting Policies and Practices and Basis of Presentation

The condensed consolidated financial statements of Colonial Commercial Corp. and subsidiaries (the "Company") included herein have been prepared by the Company and are unaudited; however, such information reflects all adjustments (consisting solely of normal recurring adjustments), which are, in the opinion of management, necessary for a fair presentation of the financial position, results of operations, and cash flows for the interim periods to which the report relates. The results of operations for the period ended June 30, 2011 is not necessarily indicative of the operating results that may be achieved for the full year.

While the Company incurred net losses of \$766,710 and \$862,144 for the six months ended June 30, 2011 and 2010, respectively, the Company had net income of \$499,069 and \$308,629 for the three months ended June 30, 2011 and 2010, respectively, and a net income of \$106,398 for the year ended December 31, 2010. At June 30, 2011, the Company had an accumulated deficit of \$9,272,285 and working capital of \$2,562,956.

Certain information and footnote disclosures, normally included in consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America, have been condensed or omitted as permitted by the interim reporting requirements of the Securities and Exchange Commission. It is suggested that these condensed consolidated financial statements be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Form 10-K for the year ended December 31, 2010.

We have only one operating segment.

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

Stock Options

Stock Options (USD \$)	6 Months Ended 06/30/2011
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Stock Options 2. Stock Options

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

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

The following table summarizes information about stock options at June 30, 2011:

Options Outstanding and Exercisable				
Range of Exercise Prices	Shares	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Aggregate Intrinsic Value
\$ 1.85	75,000	5.44	\$ 1.85	\$ 0

There were no stock options granted during the three months or six months ended June 30, 2011 and 2010. For each of the three months and six months ended June 30, 2011 and 2010, the amount of stock based compensation was \$0.

Equity Transactions

Equity Transactions (USD \$)	6 Months Ended 06/30/2011
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Equity Transactions 3. Equity Transactions

During the three months and six months ended June 30, 2011 and 2010, no shares of convertible preferred stock were converted into common stock.

No stock options were exercised during the three months or six months ended June 30, 2011 and 2010.

On March 1, 2011, the Company entered into agreements to privately place 4,500,000 shares of common stock at \$0.50 per share for total proceeds of \$2,250,000. The initial closing of the agreements occurred on March 1, 2011 and the final closing occurred on March 4, 2011. Of these shares, 3,000,000 shares were purchased by Goldman Associates, 600,000 shares by Rita Folger, 400,000 shares by Paul Hildebrandt, 200,000 shares by William Pagano and 300,000 shares by John A. Hildebrandt.

Supplemental Cash Flow Information

Supplemental Cash Flow Information
(USD \$)

6 Months Ended
06/30/2011

Supplemental Cash Flow Information 4. Supplemental Cash Flow Information

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

	For the Six Months Ended	
	June 30, 2011	June 30, 2010
Cash paid during the period for:		
Interest	\$ 183,164	\$ 491,761
Supplemental disclosure of non-cash financing activities:		
Conversion of accounts payable to notes payable	\$ -	\$ 2,000,000
Note issued for purchase of fixed assets	\$ 41,775	\$ 110,905

Net Income (Loss) Per Common Share

Net Income (Loss) Per Common Share (USD \$)	6 Months Ended 06/30/2011
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Net Income (Loss) Per Common Share 5. Net Income (Loss) Per Common Share

Basic income (loss) per share reflects the amount of earnings (loss) for the period available to common shareholders and holders of participating securities and is based upon the weighted average number of common shares and participating securities outstanding during the period. Diluted earnings per share reflects, in periods in which they have a dilutive effect, the potential dilution that would occur if securities or other contracts to issue common stock were exercised or converted into common stock and is computed using the treasury stock method and if-converted method, where applicable.

Employee stock options totaling 75,000 for each of the three months and six months ended June 30, 2011 and 2010, respectively, were not included in the net loss per share calculation because their effect would have been anti-dilutive. Convertible preferred stock, convertible into 293,057 shares of common stock for the six months ended June 30, 2011 and 2010, respectively, was not included in the net loss per share because its effect would have been anti-dilutive. Convertible notes, in the principal amount of \$200,000, convertible into 66,666 shares of common stock, were not included in the net loss per share calculation for each of the three months and six months ended June 30, 2011 and 2010, respectively, because their effect would have been anti-dilutive.

Financing Arrangements

Financing Arrangements
(USD \$)

6 Months Ended
06/30/2011

Financing Arrangements 6. Financing Arrangements

The Company has a secured credit facility with Wells Fargo Bank, National Association (“Wells”) in the amount of \$20 million. The terms of the credit facility are set forth in the Credit and Security Agreement, dated as of July 28, 2004, as amended, modified, supplemented or restated from time to time (the “Agreement”) between the Company and Wells.

The Company and Wells on March 15, 2011 entered into a Sixth Amendment to the Agreement (the “Sixth Amendment”). Prior to the Sixth Amendment, the \$20 million credit facility included an inventory sublimit of \$9,000,000, with an inventory advance rate equal to the lesser of (a) 57% of cost or fair market value or (b) 100% of liquidation value of the eligible inventory, a letter of credit sublimit of \$250,000 and seasonal overadvances in 2010 and 2011 of \$1,000,000 and \$500,000, respectively. The interest rate under the facility for advances, other than overadvances, was three month LIBOR (as defined) plus 4.5% and the interest rate for overadvances was an additional 0.25%.

Pursuant to the Sixth Amendment, the Company's inventory sublimit was decreased from \$9,000,000 to \$7,500,000, with an inventory advance rate equal to the lesser of (a) 57% of cost or fair market value or (b) 85% of net orderly liquidation value of the eligible inventory. Seasonal overadvances were amended from \$500,000 in 2011 to a temporary increase of 100% of net orderly liquidation value (as defined), not to exceed \$750,000, for 120 days, at which time it decreases 1% per week until it has been reduced to 85% of net orderly liquidation value. The amendment also decreased the interest rate under the facility from three month LIBOR (as defined) plus 4.5% to three month LIBOR plus 3.0% and extended the maturity date of the credit facility to August 1, 2015. Borrowings under the credit facility are secured by substantially all the assets of the Company, as defined in the Agreement.

Availability under the credit facility was \$605,893 as of June 30, 2011 and is determined by a percentage of available assets as defined in the Agreement, less reserves. Reserves, as determined by the bank, reduce the availability of the credit facility by \$178,000. The balance outstanding under the credit facility was \$11,529,871 as of June 30, 2011.

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

The provision in the credit facility which provided that in the event that Mr. Pagano no longer performs the duties of the President of Universal or the Vice President of RAL for any reason other than death or disability, the Company will be considered in default of its credit agreement with Wells unless a waiver is obtained, has been amended pursuant to the Sixth Amendment to provide that in the event Mr. Pagano ceases to serve as the President of Universal or Executive Vice President of RAL or President of S&A, then the Company shall appoint another senior executive officer to enter into a support agreement in substantially the same form as the support agreement entered into by Mr. Pagano pursuant to the original credit facility.

The credit facility contains covenants that are determined annually and compliance is required on a quarterly basis as it relates to net income, cash flows, tangible net worth, and annual capital expenditures. The credit facility also restricts the payment of dividends, subordinated debt and purchase of securities. The continuation of the credit facility is conditioned upon the Company and Wells reaching agreement on the covenants. Pursuant to the Sixth Amendment, the Company and its lender have agreed on financial covenants for the period through December 31, 2011. If the covenants for the year ended December 31, 2012 have not been determined by January 31, 2012, then the 2011 covenants will remain in effect for 2012.

The covenants required that the Company's net loss for the six months ended June 30, 2011 be not more than \$946,000. Actual net loss for the six months ended June 30, 2011 was \$766,710.

The covenants required that for the six months ended June 30, 2011, the Company's free cash flow, as defined in the credit facility, be not less than \$867,000. The Company satisfied this covenant as follows: Net loss was \$766,710 and net adjustments in determining the free cash flow under the Agreement were \$2,188,575. Accordingly, for the six months ended June 30, 2011 actual free cash flow as defined in the credit facility for the purposes of the covenant was \$1,421,865.

The covenants required that for the six months ended June 30, 2011, the Company's tangible net worth, as defined in the credit facility, be not less than \$2,833,000. The Company satisfied this covenant as

follows: Net assets per the Company's financial statements were \$3,859,897 and net adjustments under the Agreement were \$414,682. Accordingly, tangible net worth as of June 30, 2011, as defined in the credit facility, was \$3,445,215.

The covenants required that the Company's capital expenditures in 2011 be not more than \$250,000. Actual capital expenditures for the six months ended June 30, 2011 were \$89,709, of which \$41,775 was financed at an average interest rate of 4.0% extending to April 2016.

Goodman Company, L.P. and certain of its affiliates ("Goodman") is a supplier to the Company. Wells and Goodman entered into an Amended and Restated Subordination Agreement dated March 4, 2010 (the "Subordination Agreement") pursuant to which, among other things, Goodman on March 24, 2010 converted \$2 million of 2010 purchases then owed to it by Universal into a secured term note (the "Note") that accrues interest payable monthly at the lesser of the highest lawful rate allowed or 8% per annum and was payable in monthly principal installments over a two-year period beginning September 24, 2010. On April 13, 2011, Schedule 1 to the Note was amended and restated to provide that from April 2011 to February 2013, the principal of the Note is to be repaid on a five-year amortization schedule, with the balance of the Note to be repaid in March 2013. If the Company defaults on its scheduled principal or interest payments, the interest on such default payments will be increased to as much as 18%. The Subordination Agreement also sets forth, among other things, the relative priorities of the security interests of Wells and Goodman in the assets of the Company. At June 30, 2011, the amount outstanding on this Note was \$1,380,451 and the interest expense related to the Note was \$18,802 and \$40,000 for the three months ended June 30, 2011 and 2010, respectively. Interest expense related to the Note was \$50,983 and \$42,667 for the six months ended June 30, 2011 and 2010, respectively.

Litigation

Litigation (USD \$) 6 Months Ended 06/30/2011

Litigation 7. Litigation

(a) Universal Supply Group, Inc.

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

The Company understands that the Universal Predecessor and many other companies have been sued in the Superior Court of New Jersey (Middlesex County) by plaintiffs filing lawsuits alleging injury due to asbestos. As of June 30, 2011, there existed 5 plaintiffs in these lawsuits relating to alleged sales of asbestos products, or products containing asbestos, by the Universal Predecessor. The Company never sold any asbestos related products.

Of the existing plaintiffs as of June 30, 2011, 1 filed an action in 2011 and 4 filed actions in 2010. There are 209 other plaintiffs that have had their actions dismissed and 16 other plaintiffs that have settled as of June 30, 2011 for a total of \$3,361,500. There has been no judgment against the Universal Predecessor.

Our Universal subsidiary was named by 37 plaintiffs; of these, 1 filed an action in 2010, 11 filed actions in 2007, 6 filed actions in 2006, 11 filed actions in 2005, 5 filed actions in 2001, 1 filed an action in 2000, and 2 filed actions in 1999. Thirty-three plaintiffs naming Universal have had their actions dismissed and, of the total \$3,361,500 of settled actions, 3 plaintiffs naming Universal have settled for \$27,500. No money was paid by Universal in connection with any settlement. Following these dismissed and settled actions there exists 1 plaintiff that named Universal as of June 30, 2011.

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

Based on advice of counsel, the Company believes that none of the litigation that was brought against the Company's Universal subsidiary through June 30, 2011 is material, and that the only material litigation that was brought against the Universal Predecessor through that date was *Rhodes v. A.O. Smith Corporation*, filed on April 26, 2004 in the Superior Court of New Jersey, Law Division, Middlesex County, Docket Number MID-L-2979-04AS. The Company was advised that the *Rhodes* case was settled for \$3,250,000 (“Settlement”) under an agreement reached in connection with a \$10,000,000 jury verdict that was rendered on August 5, 2005. The Company was not a defendant in the *Rhodes* case.

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

i. Indemnification

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

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

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

ii. Insurance

The assets that the Universal 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 Universal Predecessor was formed in 1940. Copies of policies are available for each year beginning in 1970 and ending with the closing under the purchase agreement in 1999. Copies of policies for the period from 1940 to 1969 are not available.

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

There are periods during the years from 1940 to 1999 in which our Universal Predecessor did not have coverage for potential asbestos claims. Subject to litigation, insurance companies may maintain that the existence of these periods' results in coverage for only a portion of a particular injury that varies with the period during which there was asbestos coverage relating to the injury, and that the balance of any settlement or judgment is to be paid by the insured. As of June 30, 2011, no insurance company has claimed any contribution for a gap in coverage except for a claim for \$160 made by one insurance company to the Universal Predecessor in 1995. The Universal Predecessor asserted that it had no obligation to pay this amount and did not make any payment.

Insurance companies have, as of June 30, 2011, defended us and the Universal Predecessor, and have paid all settlement amounts and defense costs. Except for \$160 referred to above, the insurance companies have not requested any payments from us or from the Universal Predecessor.

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

(b) General

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

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

(c) Other Litigation

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

Transactions with Related Persons, Promoters and Certain Control Persons

Transactions with Related Persons, Promoters and Certain Control Persons
(USD \$)

6 Months Ended
06/30/2011

Transactions with Related Persons, Promoters and Certain Control Persons

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

- (a) A subsidiary of the Company leases a warehouse and store in Wharton, New Jersey comprising of 27,000 square feet from a company owned by Mr. Paul Hildebrandt under a lease that expires on July 31, 2017. The Company paid Mr. Hildebrandt's company \$55,251 and \$52,214 during the three months ended June 30, 2011 and 2010, respectively. The Company paid Mr. Hildebrandt's company \$110,503 and \$105,132 during the six months ended June 30, 2011 and 2010, respectively. William Salek, the Company's Chief Financial Officer, is the son-in-law of Mr. Hildebrandt. Mr. Hildebrandt served as a Director of the Company from July 2004 to January 2005.
- (b) Pursuant to a secured note dated July 29, 2004, as amended by Amendment 1 dated March 27, 2008, Amendment 2 dated February 12, 2009, Amendment 3 dated March 5, 2010, and further amended by Amendment 4 dated March 1, 2011, the Company owes Goldman Associates of New York, Inc. ("Goldman Associates"), the principal amount of \$750,000 at June 30, 2011 collateralized by the assets of the Company. The secured note is subordinate to the borrowings under the credit facility, bears interest at the prime rate plus 2% and is due on January 1, 2012. Michael Goldman is the Chief Executive Officer and Chairman of the Board of Goldman Associates and is Chairman of the Board of the Company.
- (c) Oscar Folger and Jeffrey Folger, of the law firm of Folger & Folger, are counsel to the Company. Rita Folger, a more than 5% shareholder of the Company, is the wife of Oscar Folger and the mother of Jeffrey Folger. Professional fees paid to the law firm of Folger & Folger for the three months ended June 30, 2011 and 2010 were \$18,672 and \$9,716, respectively. Professional fees paid to the law firm of Folger & Folger for the six months ended June 30, 2011 and 2010 were \$26,156 and \$11,666, respectively.
- (d) Pioneer Realty Holdings, LLC, a New York limited liability company ("Pioneer"), is the owner of the premises located at 836 Route 9, Fishkill, New York, formerly known as 2213 Route 9, Fishkill, New York that is leased to a subsidiary of the Company under a lease that expires on March 31, 2017, subject to two five-year renewal options.

William Pagano, Chief Executive Officer and Director of the Company, has a 55% interest in Pioneer and each of Mrs. Folger and Jeffrey Folger has a 20% interest in Pioneer Realty Partners I, LLC, which has a 40% interest in Pioneer. The Company paid Pioneer \$66,630 and \$67,191 during the three months ended June 30, 2011 and 2010, respectively. The Company paid Pioneer \$133,259 and \$135,450 during the six months ended June 30, 2011 and 2010, respectively.

- (e) Mr. Pagano and Mrs. Folger are each holders of convertible unsecured notes in the amount of \$100,000, issued pursuant to the terms of a private placement made on July 29, 2004, as amended by Amendment 1 dated March 27, 2008, Amendment 2 dated February 12, 2009, Amendment 3 dated March 5, 2010, and further amended by Amendment 4 dated March 1, 2011. The convertible unsecured notes bear interest at the prime rate plus 2% and are due on January 1, 2012.

Interest expense on each of the notes held by Mr. Pagano and Mrs. Folger amounted to \$1,313 for each of the three months ended June 30, 2011 and 2010. Interest expense on each of the notes held by Mr. Pagano and Mrs. Folger amounted to \$2,625 for each of the six months ended June 30, 2011 and 2010.

- (f) Mr. Hildebrandt, Goldman Associates, Mr. Pagano and Mrs. Folger were each holders of unsecured notes in the amounts of \$90,000, \$171,033, \$35,000 and \$100,000, respectively, issued in connection with the Company's August 20, 2009 tender offer to purchase any and all shares of its convertible preferred stock at \$1.25 per share. The unsecured notes bear interest at 12% and are payable in twenty equal quarterly payments beginning October 10, 2009.

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

At June 30, 2011 the remaining principal on the above notes were \$21,823, \$41,471, \$8,487 and \$24,248, respectively. Interest expense on the notes held by Mr. Hildebrandt, Goldman Associates, Mr. Pagano and Mrs. Folger amounted to \$709, \$1,348, \$276 and \$788, respectively, for the three months ended June 30, 2011. Interest expense on the notes held by Mr. Hildebrandt, Goldman Associates, Mr. Pagano and Mrs. Folger amounted to \$927, \$1,763, \$361 and \$1,031, respectively, for the three months ended June 30, 2010.

Interest expense on the notes held by Mr. Hildebrandt, Goldman Associates, Mr. Pagano and Mrs. Folger amounted to \$1,473, \$2,799, \$573 and \$1,637, respectively, for the six months ended June 30, 2011. Interest expense on the notes held by Mr. Hildebrandt, Goldman Associates, Mr. Pagano and Mrs. Folger amounted to \$1,910, \$3,629, \$743 and \$2,122, respectively, for the six months ended June 30, 2010.

- (g) On March 1, 2011, the Company entered into agreements to privately place 4,500,000 shares of common stock at \$0.50 per share for total proceeds of \$2,250,000. The initial closing of the agreements occurred on March 1, 2011 and the final closing occurred on March 4, 2011. Of these shares, 3,000,000 shares were purchased by Goldman Associates, 600,000 shares by Rita Folger, 400,000 shares by Paul Hildebrandt and 200,000 shares by William Pagano.
- (h) On February 24, 2011, the Board of Directors of the Company appointed Melissa Goldman-Williams to serve as Vice President of Operations. Mrs. Goldman-Williams receives a salary of \$135,000 per year. Mrs. Goldman-Williams is a director of the Company and is the daughter of Michael Goldman, the Chairman of the Board of the Company.
- (i) On May 27, 2011, the Company borrowed \$200,000 from Goldman Associates, which was non-interest bearing and repaid in full on June 28, 2011.
- (j) On July 29, 2011, the Company borrowed \$250,000 from Goldman Associates. Interest accrues on the loan at a per annum rate equal to the lesser of (i) 3% plus 90-day LIBOR and (ii) 4%. Principal and interest are due on September 25, 2011.