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

FORM 8-K

CURRENT REPORT

**Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934**

October 14, 2011

Date of Report (Date of earliest event reported)

Colonial Commercial Corp.

(Exact name of Registrant as Specified in Charter)

NEW YORK
(State or other Jurisdiction
of Incorporation)

1-6663
(Commission File
Number)

11-2037182
(IRS Employer
Identification No.)

275 WAGARAW ROAD, HAWTHORNE, NEW JERSEY
(Address of Principal Executive Offices)

07506
(Zip Code)

Registrant's Telephone Number, Including Area Code: **973-427-8224**

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
-
-
-

ITEM 1.01 ENTRY INTO A MATERIAL DEFINITIVE AGREEMENT

Credit Facility

On October 18, 2011, Colonial Commercial Corp. and certain of its subsidiaries (the "Company"), and KeyBank National Association ("KeyBank") entered into a three-year Credit and Security Agreement (the "KeyBank Agreement") that refinanced and replaced the Company's prior credit facility with Wells Fargo Bank.

The KeyBank financing is a revolving loan facility under which the Company may borrow up to the lesser of (i) \$15,000,000 or (ii) 85% of eligible accounts receivable, plus 55% (but not more than \$6,500,000) of the lower of cost or market (whichever is lower) of eligible inventory, less designated reserves. Borrowings bear interest at 2.75% above the Eurodollar rate or 0.25% above the base rate, and are secured by a first lien on substantially all of the Company's assets.

The KeyBank Agreement requires that the Company maintain a consolidated net worth of at least \$2,800,000, and that the Company maintain a fixed charge coverage ratio of 1.00 to 1.00 from October 31, 2011 through September 29, 2012 and 1.10 to 1.00 from and after September 30, 2012. The KeyBank Agreement includes additional covenants and other provisions.

Termination of Prior Credit Facility

In connection with the KeyBank financing, the Company and Wells Fargo Bank by letter agreement dated October 18, 2011 terminated their Credit Agreement dated July 28, 2004, as amended, and the Company on the same date paid to Wells Fargo Bank \$11,061,842.98 to repay the Company's outstanding indebtedness to Wells Fargo Bank and \$53,976 in fees and related costs.

Amended and Restated Schedule 1 to the Goodman Promissory Note

On October 14, 2011, Universal Supply Group, Inc., a wholly owned subsidiary of Colonial Commercial Corp. ("Universal"), and Goodman Company, L.P. and certain of its affiliates ("Goodman"), entered into a second amended and restated Schedule 1 ("Amendment and Restatement No. 2") to the Promissory Note dated March 24, 2010 in the original principal amount of \$2,000,000 by Universal to the order of Goodman ("Promissory Note"). Goodman is a supplier to the Company. As of October 14, 2011, the principal amount of the Promissory Note was \$1,320,074.

As initially executed on March 24, 2010, and as amended and restated on April 13, 2011, Schedule 1 provided that from April 2011 to February 2013 the principal of the Promissory Note was to be repaid on a five-year amortization schedule, with the balance of the Promissory Note to be repaid in March 2013. Schedule 1, as amended and restated by Amendment and Restatement No. 2, provides that from November 2011 to October 2014 the principal of the Promissory Note is to be repaid on a five-year amortization schedule, with the balance of the Promissory Note to be repaid in November 2014.

Intercreditor and Lien Subordination Agreement; Note Amendment

In connection with the KeyBank Agreement, Goodman, Universal and KeyBank entered into an Intercreditor and Lien Subordination Agreement dated as of October 18, 2011. The Intercreditor and Lien Subordination Agreement sets forth among other things the relative priorities of the security interests of KeyBank and Goodman in the assets of the Company.

Subordination Agreements

In connection with the KeyBank Agreement, Goldman Associates of New York, Inc., William Pagano and certain other holders of promissory notes of the Company in the aggregate principal amount of \$1,099,139 entered into subordination agreements dated as of October 18, 2011 in favor of KeyBank. Michael Goldman is the Chief Executive Officer and majority shareholder of Goldman Associates of New York, Inc. and is also Chairman of the Company. Mr. Pagano is the Chief Executive Officer of the Company.

The foregoing information set forth in this Item 1.01 does not constitute a complete summary of the terms of the agreements, instruments and documents referred to herein. Reference is made to the complete text of these agreements, instruments and documents, the forms of which are filed as an exhibit to this Form 8-K.

ITEM 1.02 TERMINATION OF A MATERIAL DEFINITIVE AGREEMENT

The disclosures required by this item are included in Item 1.01 and are incorporated herein by reference.

ITEM 2.03 CREATION OF A DIRECT FINANCIAL OBLIGATION OR AN OBLIGATION UNDER AN OFF-BALANCE SHEET ARRANGEMENT OF A REGISTRANT

The disclosures required by this item are included in Item 1.01 and are incorporated herein by reference.

ITEM 7.01 REGULATION FD DISCLOSURE

On October 19, 2011, the Company issued a press release regarding the credit facility. The press release is being furnished with this Current Report on Form 8-K as Exhibit 99.01 and is hereby incorporated herein by reference.

The information provided in this Item 7.01 (including Exhibit 99.01) shall not be deemed to be “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), or otherwise subject to the liability of that section, and shall not be incorporated by reference into any registration statement or other document filed under the Securities Act of 1933, as amended, or the Exchange Act, except as shall be expressly set forth by specific reference in such filing.

ITEM 9.01 FINANCIAL STATEMENTS AND EXHIBITS

(d) Exhibits

<u>Exhibit No.</u>	<u>Description</u>
--------------------	--------------------

10.01	Form of Credit and Security Agreement dated October 18, 2011 by and among Colonial Commercial Corp., Universal Supply Group, Inc., The RAL Supply Group, Inc., S&A Supply, Inc. and KeyBank National Association, filed herewith.
10.02	Form of Revolving Credit Note dated October 18, 2011 by and among Colonial Commercial Corp., Universal Supply Group, Inc., The RAL Supply Group, Inc., S&A Supply, Inc. and KeyBank National Association, filed herewith.

10.03	Promissory Note dated March 24, 2010 by and among Goodman, L.P., Goodman Manufacturing Company, L.P. and Goodman Sales Company, and Universal Supply Group, Inc., incorporated herein by reference from Exhibit 10.02 to the Company's Form 8-K filed on March 26, 2010 ("Promissory Note").
10.04	Amendment and Restatement No. 1 dated April 13, 2011 of Schedule 1 to the Promissory Note, incorporated herein by reference from Exhibit 10.02 to the Company's Form 8-K filed on April 13, 2011.
10.05	Form of Amendment and Restatement No. 2 dated October 14, 2011 of Schedule 1 to the Promissory Note, filed herewith.
10.06	Form of Intercreditor and Lien Subordination Agreement dated October 18, 2011 by and among Universal Supply Group, Inc., KeyBank National Association and Goodman Manufacturing Company, L.P., Goodman Company, L.P., and Goodman Sales Company, filed herewith.
10.07	Form of Subordination Agreement dated October 18, 2011 by and between Colonial Commercial Corp., KeyBank National Association, and Rita Folger, filed herewith.
10.08	Form of Subordination Agreement dated October 18, 2011 by and between Colonial Commercial Corp., KeyBank National Association, and Goldman Associates of New York, Inc., filed herewith.
10.09	Form of Subordination Agreement dated October 18, 2011 by and between Colonial Commercial Corp., KeyBank National Association, and John A. Hildebrandt, filed herewith.
10.10	Form of Subordination Agreement dated October 18, 2011 by and between Colonial Commercial Corp., KeyBank National Association, and Paul Hildebrandt, filed herewith.
10.11	Form of Subordination Agreement dated October 18, 2011 by and between Colonial Commercial Corp., KeyBank National Association, and William Pagano, filed herewith.
10.12	Letter agreement by and among The RAL Supply Group, Inc., Universal Supply Group, Inc., S&A Supply, Inc and Wells Fargo Bank, National Association, dated October 18, 2011, filed herewith.
99.01	New Release dated October 19, 2011, filed herewith.

SIGNATURES

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

COLONIAL COMMERCIAL CORP.

(Registrant)

/s/ William Salek

William Salek

Chief Financial Officer

Date: October 20, 2011

INDEX TO EXHIBITS

<u>Exhibit No.</u>	<u>Description</u>
10.01	Form of Credit and Security Agreement dated October 18, 2011 by and among Colonial Commercial Corp., Universal Supply Group, Inc., The RAL Supply Group, Inc., S&A Supply, Inc. and KeyBank National Association, filed herewith.
10.02	Form of Revolving Credit Note dated October 18, 2011 by and among Colonial Commercial Corp., Universal Supply Group, Inc., The RAL Supply Group, Inc., S&A Supply, Inc. and KeyBank National Association, filed herewith.
10.03	Promissory Note dated March 24, 2010 by and among Goodman, L.P., Goodman Manufacturing Company, L.P. and Goodman Sales Company, and Universal Supply Group, Inc., incorporated herein by reference from Exhibit 10.02 to the Company's Form 8-K filed on March 26, 2010 ("Promissory Note").
10.04	Amendment and Restatement No. 1 dated April 13, 2011 of Schedule 1 to the Promissory Note, incorporated herein by reference from Exhibit 10.02 to the Company's Form 8-K filed on April 13, 2011.
10.05	Form of Amendment and Restatement No. 2 dated October 14, 2011 of Schedule 1 to the Promissory Note, filed herewith.
10.06	Form of Intercreditor and Lien Subordination Agreement dated October 18, 2011 by and among Universal Supply Group, Inc., KeyBank National Association and Goodman Manufacturing Company, L.P., Goodman Company, L.P., and Goodman Sales Company, filed herewith.
10.07	Form of Subordination Agreement dated October 18, 2011 by and between Colonial Commercial Corp., KeyBank National Association, and Rita Folger, filed herewith.

- [10.08](#) Form of Subordination Agreement dated October 18, 2011 by and between Colonial Commercial Corp., KeyBank National Association, and Goldman Associates of New York, Inc., filed herewith.
- [10.09](#) Form of Subordination Agreement dated October 18, 2011 by and between Colonial Commercial Corp., KeyBank National Association, and John A. Hildebrandt, filed herewith.
- [10.10](#) Form of Subordination Agreement dated October 18, 2011 by and between Colonial Commercial Corp., KeyBank National Association, and Paul Hildebrandt, filed herewith.
- [10.11](#) Form of Subordination Agreement dated October 18, 2011 by and between Colonial Commercial Corp., KeyBank National Association, and William Pagano, filed herewith.
- [10.12](#) Letter agreement by and among The RAL Supply Group, Inc., Universal Supply Group, Inc., S&A Supply, Inc and Wells Fargo Bank, National Association, dated October 18, 2011, filed herewith.
- [99.01](#) New Release dated October 19, 2011, filed herewith.
-

CREDIT AND SECURITY AGREEMENT

among

COLONIAL COMMERCIAL CORP.

UNIVERSAL SUPPLY GROUP, INC.

THE RAL SUPPLY GROUP, INC.

and

S&A SUPPLY, INC.

as Borrowers

and

KEYBANK NATIONAL ASSOCIATION

as Lender

**dated as of
October 18, 2011**

TABLE OF CONTENTS

	<u>Page</u>
ARTICLE I. DEFINITIONS	1
Section 1.1. Definitions	1
Section 1.2. Accounting Terms	23
Section 1.3. Terms Generally	23
ARTICLE II. AMOUNT AND TERMS OF CREDIT	23
Section 2.1. Amount and Nature of Credit	23
Section 2.2. Revolving Credit Commitment	23
Section 2.3. Interest	25
Section 2.4. Evidence of Indebtedness	25
Section 2.5. Notice of Loans and Credit Events; Funding of Loans	26
Section 2.6. Payment on Loans and Other Obligations	26
Section 2.7. Prepayment	27
Section 2.8. Commitment and Other Fees; Reduction of Revolving Credit Commitment	27
Section 2.9. Computation of Interest and Fees	29
Section 2.10. Mandatory Payments	29
Section 2.11. Liability of Borrowers	29
Section 2.12. Establishment of Reserves	31
Section 2.13. Record of Advances; Application of Collections	31
ARTICLE III. ADDITIONAL PROVISIONS RELATING TO EURODOLLAR LOANS; INCREASED CAPITAL; TAXES	33
Section 3.1. Requirements of Law	33
Section 3.2. Taxes	34
Section 3.3. Funding Losses	34
Section 3.4. Eurodollar Rate Lending Unlawful; Inability to Determine Rate	35
Section 3.5. Funding	35
ARTICLE IV. CONDITIONS PRECEDENT	36
Section 4.1. Conditions to Each Credit Event	36
Section 4.2. Conditions to the First Credit Event	36
Section 4.3. Post-Closing Conditions	39
ARTICLE V. COVENANTS	39
Section 5.1. Insurance	39
Section 5.2. Money Obligations	40
Section 5.3. Financial Statements, Collateral Reporting and Information	40
Section 5.4. Financial Records	42
Section 5.5. Franchises; Change in Business	43
Section 5.6. ERISA Pension and Benefit Plan Compliance	43
Section 5.7. Financial Covenants	43
Section 5.8. Borrowing	44
Section 5.9. Liens	45
Section 5.10. Regulations T, U and X	46
Section 5.11. Investments, Loans and Guaranties	46
Section 5.12. Merger and Sale of Assets	47

TABLE OF CONTENTS

	<u>Page</u>
Section 5.13. Acquisitions	47
Section 5.14. Notice	47
Section 5.15. Restricted Payments	48
Section 5.16. Environmental Compliance	48
Section 5.17. Affiliate Transactions	49
Section 5.18. Use of Proceeds	49
Section 5.19. Corporate Names and Locations of Collateral	49
Section 5.20. Lease Rentals	49
Section 5.21. Subsidiary Guaranties, Security Documents and Pledge of Stock or Other Ownership Interest	49
Section 5.22. Collateral	50
Section 5.23. Returns of Inventory	52
Section 5.24. Acquisition, Sale and Maintenance of Inventory	52
Section 5.25. Property Acquired Subsequent to the Closing Date and Right to Take Additional Collateral	52
Section 5.26. Restrictive Agreements	53
Section 5.27. Other Covenants and Provisions	53
Section 5.28. Subordinated Debt Documents	53
Section 5.29. Senior Ranking	53
Section 5.30. Amendment of Organizational Documents	54
Section 5.31. Fiscal Year of Borrowers	54
Section 5.32. Banking Relationship	54
Section 5.33. Further Assurances	54
ARTICLE VI. REPRESENTATIONS AND WARRANTIES	54
Section 6.1. Corporate Existence; Subsidiaries; Foreign Qualification	54
Section 6.2. Corporate Authority	54
Section 6.3. Compliance with Laws and Contracts	55
Section 6.4. Litigation and Administrative Proceedings	55
Section 6.5. Title to Assets	56
Section 6.6. Liens and Security Interests	56
Section 6.7. Tax Returns	56
Section 6.8. Environmental Laws	56
Section 6.9. Locations	57
Section 6.10. Continued Business	57
Section 6.11. Employee Benefits Plans	57
Section 6.12. Consents or Approvals	58
Section 6.13. Solvency	58
Section 6.14. Financial Statements	58
Section 6.15. Regulations	58
Section 6.16. Material Agreements	58
Section 6.17. Intellectual Property	59
Section 6.18. Insurance	59
Section 6.19. Deposit Accounts and Securities Accounts	59
Section 6.20. Accurate and Complete Statements	59

TABLE OF CONTENTS

	<u>Page</u>
Section 6.21. Investment Company; Other Restrictions	59
Section 6.22. Subordinated Debt Documents	59
Section 6.23. Defaults	59
ARTICLE VII. SECURITY	60
Section 7.1. Security Interest in Collateral	60
Section 7.2. Cash Management System	60
Section 7.3. Collections and Receipt of Proceeds by Lender	62
Section 7.4. Lender's Authority Under Pledged Notes	63
Section 7.5. Commercial Tort Claims	63
Section 7.6. Use of Inventory and Equipment	63
ARTICLE VIII. EVENTS OF DEFAULT	64
Section 8.1. Payments	64
Section 8.2. Special Covenants	64
Section 8.3. Other Covenants	64
Section 8.4. Representations and Warranties	64
Section 8.5. Cross Default	64
Section 8.6. ERISA Default	65
Section 8.7. Change in Control.	65
Section 8.8. Judgments	65
Section 8.9. Material Adverse Change	65
Section 8.10. Security	65
Section 8.11. Validity of Loan Documents	65
Section 8.12. Solvency	66
ARTICLE IX. REMEDIES UPON DEFAULT	66
Section 9.1. Optional Defaults	66
Section 9.2. Automatic Defaults	67
Section 9.3. Letters of Credit	67
Section 9.4. Offsets	67
Section 9.5. Collateral	67
Section 9.6. Other Remedies	68
ARTICLE X. MISCELLANEOUS	68
Section 10.1. No Waiver; Cumulative Remedies; Relationship of Parties	68
Section 10.2. Amendments, Waivers and Consents	69
Section 10.3. Notices	69
Section 10.4. Costs, Expenses and Documentary Taxes	69
Section 10.5. Indemnification	70
Section 10.6. Execution in Counterparts	70
Section 10.7. Binding Effect; Borrowers' Assignment	70
Section 10.8. Patriot Act Notice	70
Section 10.9. Severability of Provisions; Captions; Attachments	70
Section 10.10. General Limitation of Liability	70
Section 10.11. No Duty	71

TABLE OF CONTENTS

	<u>Page</u>
Section 10.12. Entire Agreement	71
Section 10.13. Legal Representation of Parties	71
Section 10.14. Governing Law; Submission to Jurisdiction	71
Jury Trial Waiver	Signature Page 1
Exhibit A	Form of Revolving Credit Note
Exhibit B	Form of Borrowing Base Certificate
Exhibit C	Form of Notice of Loan
Exhibit D	Form of Compliance Certificate
Schedule 1	Guarantors of Payment
Schedule 2	Pledged Securities
Schedule 3	Subordinated Creditors
Schedule 4	Goodman Lien Collateral
Schedule 5.8	Indebtedness
Schedule 5.9	Liens
Schedule 6.1	Corporate Existence; Subsidiaries; Foreign Qualification
Schedule 6.4	Litigation and Administrative Proceedings
Schedule 6.9	Locations
Schedule 6.11	Employee Benefits Plans
Schedule 6.16	Material Agreements
Schedule 6.17	Intellectual Property
Schedule 6.18	Insurance
Schedule 6.19	Deposit Accounts and Securities Accounts
Schedule 7.4	Pledged Notes
Schedule 7.5	Commercial Tort Claims

This CREDIT AND SECURITY AGREEMENT (as the same may from time to time be amended, restated or otherwise modified, this "Agreement") is made effective as of the 18th day of October, 2011 among:

- (a) COLONIAL COMMERCIAL CORP., a New York corporation ("Colonial");
- (b) UNIVERSAL SUPPLY GROUP, INC., a New York corporation ("Universal");
- (c) THE RAL SUPPLY GROUP, INC., a New York corporation ("RAL");
- (d) S&A SUPPLY, INC., a New York corporation ("S&A" and, together with Colonial, Universal and RAL, collectively, "Borrowers" and, individually, each a "Borrower"); and
- (e) KEYBANK NATIONAL ASSOCIATION, a national banking association ("Lender").

WITNESSETH:

WHEREAS, Borrowers and Lender desire to contract for the establishment of credits in the aggregate principal amounts hereinafter set forth, to be made available to Borrowers upon the terms and subject to the conditions hereinafter set forth;

NOW, THEREFORE, it is mutually agreed as follows:

ARTICLE I. DEFINITIONS

Section 1.1. Definitions. As used in this Agreement, the following terms shall have the meanings set forth below:

"Account" means an account, as that term is defined in the U.C.C.

"Account Debtor" means an account debtor, as that term is defined in the U.C.C., or any other Person obligated to pay all or any part of an Account in any manner and includes (without limitation) any Guarantor thereof.

"Acquisition" means any transaction or series of related transactions for the purpose of or resulting, directly or indirectly, in (a) the acquisition of all or substantially all of the assets of any Person (other than a Company), or any business or division of any Person (other than a Company), (b) the acquisition of in excess of fifty percent (50%) of the outstanding capital stock (or other equity interest) of any Person (other than a Company), or (c) the acquisition of another Person (other than a Company) by a merger, amalgamation or consolidation or any other combination with such Person.

“Administrative Borrower” means Universal.

“Advance Record” means that term as defined in Section 2.13(a) hereof.

“Affiliate” means any Person, directly or indirectly, controlling, controlled by or under common control with a Company and “control” (including the correlative meanings, the terms “controlling”, “controlled by” and “under common control with”) means the power, directly or indirectly, to direct or cause the direction of the management and policies of a Company, whether through the ownership of voting securities, by contract or otherwise.

“Agreement” means that term as defined in the first paragraph hereof.

“Applicable Margin” means (a) twenty-five (25.00) basis points with respect to Base Rate Loans, and (b) two hundred seventy-five (275.00) basis points with respect to Eurodollar Loans.

“Authorized Officer” means a Financial Officer or other individual authorized by a Financial Officer in writing (with a copy to Lender) to handle certain administrative matters in connection with this Agreement.

“Bailee’s Waiver” means a bailee’s waiver, in form and substance reasonably satisfactory to Lender, delivered by a Company in connection with this Agreement, as such waiver may from time to time be amended, restated or otherwise modified.

“Bankruptcy Code” means Title 11 of the United States Code entitled “Bankruptcy”, as now or hereafter in effect, or any successor thereto, as hereafter amended.

“Base Rate” means, for any day, a rate per annum equal to the greater of (a) the Prime Rate, or (b) one-half of one percent (.50%) in excess of the Federal Funds Effective Rate. Any change in the Base Rate shall be effective immediately from and after such change in the Base Rate.

“Base Rate Loan” means a Revolving Loan described in Section 2.2(a) hereof that shall be denominated in Dollars and on which Borrowers shall pay interest at a rate based on the Derived Base Rate.

“Borrower” means that term as defined in the first paragraph hereof.

“Borrowers” means that term as defined in the first paragraph hereof.

“Borrowing Base” means an amount equal to the total of the following:

- (a) up to eighty-five percent (85%) of the aggregate amount due and owing on Eligible Accounts Receivable of Borrowers; plus

(b) the lesser of (i) up to fifty-five percent (55%) of the aggregate of the cost or market value (whichever is lower), as determined on a first-in first-out basis in accordance with GAAP, of the Eligible Inventory of Borrowers, or (ii) Six Million Five Hundred Thousand Dollars (\$6,500,000); minus

(c) Reserves, if any;

provided that, anything herein to the contrary notwithstanding, Lender shall at all times have the right to modify or reduce such percentages or dollar amount caps or other components of the Borrowing Base from time to time, in its reasonable credit judgment.

“Borrowing Base Certificate” means a Borrowing Base Certificate, in the form of the attached Exhibit B.

“Business Day” means a day that is not a Saturday, a Sunday or another day of the year on which national banks are authorized or required to close in Cleveland, Ohio, and, in addition, if the applicable Business Day relates to a Eurodollar Loan, is a day of the year on which dealings in deposits are carried on in the London interbank Eurodollar market.

“Capital Distribution” means a payment made, liability incurred or other consideration given by a Company to any Person that is not a Company, (a) for the purchase, acquisition, redemption, repurchase, payment or retirement of any capital stock or other equity interest of such Company, or (b) as a dividend, return of capital or other distribution (other than any stock dividend, stock split or other equity distribution payable only in capital stock or other equity of such Company) in respect of such Company’s capital stock or other equity interest.

“Capitalized Lease Obligations” means obligations of the Companies for the payment of rent for any real or personal property under leases or agreements to lease that, in accordance with GAAP, have been or should be capitalized on the books of the lessee and, for purposes hereof, the amount of any such obligation shall be the capitalized amount thereof determined in accordance with GAAP.

“Cash Collateral Account” means a commercial Deposit Account designated “cash collateral account” and maintained by one or more Borrowers with Lender, without liability by Lender to pay interest thereon, from which account Lender shall have the exclusive right to withdraw funds until all of the Obligations are paid in full.

“Cash Security” means all cash, instruments, Deposit Accounts, Securities Accounts and cash equivalents, in each case whether matured or unmatured, whether collected or in the process of collection, upon which a Company presently has or may hereafter have any claim, wherever located, including but not limited to any of the foregoing that are presently or may hereafter be existing or maintained with, issued by, drawn upon, or in the possession of Lender.

“Change in Control” means:

- (a) the acquisition of, or, if earlier, the shareholder or director approval of the acquisition of, ownership or voting control, directly or indirectly, beneficially (within the meaning of Rules 13d-3 and 13d-5 of the Exchange Act) or of record, on or after the Closing Date, by any Person or group (within the meaning of Sections 13d and 14d of the Exchange Act), other than Michael Goldman and Goldman Associates of New York, Inc., of shares representing more than thirty-five percent (35%) of the aggregate ordinary Voting Power represented by the issued and outstanding equity interests of Colonial;
- (b) the occupation of a majority of the seats (other than vacant seats) on the board of directors or other governing body of Colonial by Persons who were neither (i) nominated by the board of directors or other governing body of Colonial nor (ii) appointed by directors so nominated or elected by a majority of shareholders;
- (c) if Colonial shall cease to own, directly or indirectly, one hundred percent (100%) of the aggregate ordinary Voting Power represented by the issued and outstanding equity interests of each other Borrower;
- (d) if William Pagano shall cease to hold the position of Chief Executive Officer, or a similar or higher position of Colonial, and Colonial shall fail to hire a replacement consultant or Chief Executive Officer with technical expertise, experience and management skills, in the opinion of Lender, necessary for the successful management of Colonial; or
- (e) the occurrence of a change in control, or other term of similar import used therein, as defined in the Goodman Note, any Subordinated Debt Document or any Material Indebtedness Agreement.

“Closing Date” means the effective date of this Agreement as set forth in the first paragraph of this Agreement.

“Code” means the Internal Revenue Code of 1986, as amended, together with the rules and regulations promulgated thereunder.

“Collateral” means (a) all of each Borrower’s existing and future (i) personal property, (ii) Accounts, Investment Property, instruments, contract rights, chattel paper, documents, supporting obligations, letter-of-credit rights, Pledged Securities, Pledged Notes (if any), Commercial Tort Claims, General Intangibles, Inventory and Equipment, (iii) funds now or hereafter on deposit in the Cash Collateral Account (if any), and (iv) Cash Security; and (b) Proceeds and products of any of the foregoing.

“Collection” means any payment made from an Account Debtor to one or more Borrowers including, but not limited to, cash, checks, drafts and any other form of payment.

“Colonial TD Bank Account” means that certain Deposit Account numbered 3451115298 maintained by Colonial with TD Bank, N.A.

“Commercial Tort Claim” means a commercial tort claim, as that term is defined in the U.C.C. (Schedule 7.5 hereto lists all Commercial Tort Claims of the Credit Parties in existence as of the Closing Date).

“Commitment” means the obligation hereunder of Lender, during the Commitment Period, to make Loans and to issue Letters of Credit, pursuant to the Revolving Credit Commitment, up to the Total Commitment Amount.

“Commitment Period” means the period from the Closing Date to October 18, 2014, or such earlier date on which the Commitment shall have been terminated pursuant to Article IX hereof.

“Companies” means all Borrowers and all Subsidiaries of all Borrowers.

“Company” means a Borrower or a Subsidiary of a Borrower.

“Compliance Certificate” means a Compliance Certificate in the form of the attached Exhibit D.

“Consignee’s Waiver” means a consignee’s waiver (or similar agreement), in form and substance reasonably satisfactory to Lender, delivered by a Company in connection with this Agreement, as such waiver may from time to time be amended, restated or otherwise modified.

“Consolidated” means the resultant consolidation of the financial statements of Colonial and its Subsidiaries in accordance with GAAP, including principles of consolidation consistent with those applied in preparation of the consolidated financial statements referred to in Section 6.14 hereof.

“Consolidated Depreciation and Amortization Charges” means, for any period, the aggregate of all depreciation and amortization charges for fixed assets, leasehold improvements and general intangibles (specifically including goodwill) of Colonial for such period, as determined on a Consolidated basis.

“Consolidated EBITDA” means, for any period, as determined on a Consolidated basis, (a) Consolidated Net Earnings for such period plus, without duplication, the aggregate amounts deducted in determining such Consolidated Net Earnings in respect of (i) Consolidated Interest Expense, (ii) Consolidated Income Tax Expense, (iii) Consolidated Depreciation and Amortization Charges, (iv) reasonable non-recurring non-cash losses not incurred in the ordinary course of business, and (v) fees, costs and expenses directly incurred and paid in connection with the closing of this Agreement; minus (b) to the extent included in Consolidated Net Earnings for such period, non-recurring non-cash gains not incurred in the ordinary course of business; provided that for any period prior to April 1, 2011, Consolidated EBITDA shall be calculated after giving pro forma effect to the restructured terms of the Goodman Notes and the Wells Fargo Credit Facilities.

“Consolidated Fixed Charges” means, for any period, as determined on a Consolidated basis, the aggregate, without duplication, of (a) Consolidated Interest Expense, and (b) principal payments on Consolidated Funded Indebtedness (other than (i) optional prepayments of the Revolving Loans, and (ii) payments made with respect to the Goldman Associates Short-Term Subordinated Indebtedness); provided that for any period prior to April 1, 2011, Consolidated Fixed Charges shall be calculated after giving pro forma effect to the restructured terms of the Goodman Notes and the Wells Fargo Credit Facilities.

“Consolidated Funded Indebtedness” means, at any date, all Indebtedness (including, but not limited to, short-term, long-term and Subordinated Indebtedness, if any) of Colonial, as determined on a Consolidated basis.

“Consolidated Income Tax Expense” means, for any period, all provisions for taxes based on the gross or net income of Colonial (including, without limitation, any additions to such taxes, and any penalties and interest with respect thereto), as determined on a Consolidated basis.

“Consolidated Interest Expense” means, for any period, the interest expense (including, without limitation, the “imputed interest” portion of Capitalized Lease Obligations, synthetic leases and asset securitizations, if any, and excluding deferred financing costs) of Colonial for such period, as determined on a Consolidated basis.

“Consolidated Net Earnings” means, for any period, the net income (loss) of Colonial for such period, as determined on a Consolidated basis.

“Consolidated Net Worth” means, at any date, the stockholders’ equity of Colonial determined as of such date on a Consolidated basis.

“Consolidated Unfunded Capital Expenditures” means, for any period, as determined on a Consolidated basis, all additions to fixed assets of the Companies not directly funded with (a) long-term Indebtedness or (b) Capitalized Lease Obligations.

“Control Agreement” means a Deposit Account Control Agreement or a Securities Account Control Agreement.

“Controlled Disbursement Account” means a commercial Deposit Account designated “controlled disbursement account” and maintained by a Company with Lender, without liability by Lender to pay interest thereon.

“Controlled Group” means a Company and each Person required to be aggregated with a Company under Code Section 414(b), (c), (m) or (o).

“Credit Event” means the making of a Loan, the conversion of a Base Rate Loan to a Eurodollar Loan, the continuation of a Eurodollar Loan after the end of the applicable Interest Period, or the issuance (or amendment or renewal) by Lender of a Letter of Credit.

“Credit Party” means a Borrower and any Guarantor of Payment that is a Subsidiary or other Affiliate.

“Default” means an event or condition that constitutes, or with the lapse of any applicable grace period or the giving of notice or both would constitute, an Event of Default, and that has not been waived by Lender in writing.

“Default Rate” means (a) with respect to any Loan or other Obligation for which a rate is specified, a rate per annum equal to two percent (2%) in excess of the rate otherwise applicable thereto, and (b) with respect to any other amount, if no rate is specified or available, a rate per annum equal to two percent (2%) in excess of the Derived Base Rate for Revolving Loans from time to time in effect.

“Deposit Account” means a deposit account, as that term is defined in the U.C.C.

“Deposit Account Control Agreement” means each Deposit Account Control Agreement among a Credit Party, Lender and a depository institution, dated on or after the Closing Date, to be in form and substance reasonably satisfactory to Lender, as the same may from time to time be amended, restated or otherwise modified.

“Derived Base Rate” means a rate per annum equal to the sum of the Applicable Margin (from time to time in effect) for Base Rate Loans plus the Base Rate.

“Derived Eurodollar Rate” means a rate per annum equal to the sum of the Applicable Margin (from time to time in effect) for Eurodollar Loans plus the Eurodollar Rate.

“Dodd-Frank Act” means the Dodd–Frank Wall Street Reform and Consumer Protection Act (Pub.L. 111-203, H.R. 4173) signed into law on July 21, 2010, as amended from time to time.

“Dollar” or the \$ sign means lawful money of the United States of America.

“Dormant Subsidiary” means a Company that (a) is not a Credit Party or the direct or indirect equity holder of a Credit Party, (b) has aggregate assets of less than Fifty Thousand Dollars (\$50,000), and (c) has no direct or indirect Subsidiaries with aggregate assets, for such Company and all such Subsidiaries, of more than Fifty Thousand Dollars (\$50,000).

“Early Termination Event” means that term as defined in Section 2.8(e) hereof.

“Eligible Account Receivable” means an Account that is an account receivable (i.e., each specific invoice) of a Borrower that, at all times until it is collected in full, continuously meets the following requirements:

- (a) is not subject to any claim for credit, allowance or adjustment by the Account Debtor or any defense, dispute, set-off, chargeback or counterclaim;
- (b) arose in the ordinary course of business of such Borrower from the performance (fully completed) of services or bona fide sale of goods that have been shipped to the Account Debtor, and not more than one hundred twenty (120) days have elapsed since the invoice date;
- (c) is not owing from an Account Debtor with respect to which such Borrower has received any notice or has any knowledge of such Account Debtor's insolvency, bankruptcy or financial impairment, or that such Account Debtor has suspended normal business operations, dissolved, liquidated or terminated its existence;
- (d) is not subject to an assignment, pledge, claim, mortgage, lien or security interest of any type except that granted to or in favor of Lender;
- (e) does not relate to any goods repossessed, lost, damaged, rejected or returned, or acceptance of which has been revoked or refused;
- (f) is not evidenced by a promissory note or any other instrument or by chattel paper;
- (g) has not been determined by Lender to be unsatisfactory in any respect, in the exercise of its reasonable credit judgment;
- (h) is not a Government Account Receivable, unless the security interest of Lender in such Government Account Receivable is filed in accordance with the Federal Assignment of Claims Act;
- (i) is not owing from another Borrower, an Affiliate, an equity holder or an employee of such Borrower;
- (j) is not a Foreign Account Receivable;
- (k) is not owing from an Account Debtor that has failed to pay more than twenty-five percent (25%) of its currently outstanding accounts receivable within one hundred twenty (120) days of the invoice date;
- (l) with respect to an Account Debtor that, together with its affiliates, owes one or more Borrowers more than twenty-five percent (25%) of all accounts receivable of Borrowers, is not the portion of the Accounts that represents the amount in excess of twenty-five percent (25%) of such accounts receivable;
- (m) is an Account in which Lender has a valid and enforceable first priority security interest;

- (n) has not arisen in connection with sales of goods that were shipped or delivered to an Account Debtor on consignment, a sale or return basis, a guaranteed sale basis, a bill and hold basis, or on the basis of any similar understanding;
- (o) is not subject to any provision prohibiting assignment of the right to payment or requiring notice of or consent to such assignment;
- (p) is not owing from an Account Debtor located in a state that requires that such Borrower, in order to sue such Account Debtor in such state's courts or otherwise enforce its remedies against such Account Debtor through judicial process, to either (i) qualify to do business in such state or (ii) file a report with the taxation division of such state for the then current year, unless, in each case, such Borrower has fulfilled such requirements to the extent applicable for the then current year or fulfilled such other requirements that permits Borrower to bring suit or otherwise enforce its remedies against such Account Debtor through judicial process;
- (q) is not an Account with respect to which any of the representations, warranties, covenants and agreements contained in this Agreement or any of the Loan Documents are not or have ceased to be complete and correct in any material respect, or have been breached;
- (r) is not an Account that represents a progress billing;
- (s) is not owing by any state or any department, agency, or instrumentality thereof unless such Borrower has complied with any applicable statutory or regulatory requirements thereof in respect of Lender's security interest therein as granted hereunder;
- (t) is not owing from an Account Debtor that is also a supplier to or creditor of any Credit Party to the extent of the amount owing to such supplier or creditor; and
- (u) does not represent a manufacturer's or supplier's credits, discounts, incentive plans or similar arrangements entitling any Borrower to discounts on future purchases therefrom.

"Eligible Inventory" means all Inventory of a Borrower in which Lender has a valid and enforceable first security interest, except Inventory that:

- (a) is in-transit (unless such Inventory remains in the possession of a Borrower while it is in-transit) or located outside of the United States;
- (b) is in the possession of a bailee, consignee or other third party, unless (i) reserves, satisfactory to Lender, have been established with respect thereto; or (ii) (A) with respect to a consignee, processor or bailee, an acknowledged Consignee's Waiver, Processor's Waiver or Bailee's Waiver, as the case may be, has been received by Lender, (B) such third party is listed on Schedule 6.9 hereto, as amended from time to time, or Lender has received prior written notice of such third party location, (C) if required by Lender, proper notice has been given to all secured parties of such third party that have filed U.C.C. Financing Statements claiming a security interest in such third party's inventory, and (D) if required by Lender, with respect to a consignee or processor, such Borrower has filed appropriate U.C.C. Financing Statements to protect its interest therein, in form and substance satisfactory to Lender;

- (c) is located on facilities leased by such Borrower, unless an acknowledged Landlord's Waiver has been received by Lender, or reserves in an amount equal to three times the total monthly rent (including pass-through expenses), as determined by Lender in its reasonable discretion, have been established with respect thereto;
- (d) is work-in-process;
- (e) is slow-moving, damaged, defective or obsolete;
- (f) consists of (i) goods not held for sale, such as labels, maintenance items, supplies and packaging, or held for return to vendors, or (ii) Inventory used in connection with research and development;
- (g) is held for return to vendors;
- (h) is subject to a Lien in favor of any Person other than Lender;
- (i) is located at a branch location of a Borrower where the aggregate value of all Inventory held at such location is less than One Hundred Fifty Thousand Dollars (\$150,000); or
- (j) is determined by Lender to be unsatisfactory in any respect, in the exercise of its reasonable credit judgment.

“Environmental Laws” means all provisions of law (including the common law), statutes, ordinances, codes, rules, guidelines, policies, procedures, orders in council, regulations, permits, licenses, judgments, writs, injunctions, decrees, orders, awards and standards promulgated by a Governmental Authority or by any court, agency, instrumentality, regulatory authority or commission of any of the foregoing concerning environmental health or safety and protection of, or regulation of the discharge of substances into, the environment.

“Equipment” means equipment, as that term is defined in the U.C.C.

“ERISA” means the Employee Retirement Income Security Act of 1974, as amended from time to time, and the regulations promulgated pursuant thereto.

“ERISA Event” means (a) the existence of a material condition or event with respect to an ERISA Plan that presents a risk of the imposition of an excise tax or any other liability on a Company or of the imposition of a Lien on the assets of a Company; (b) the engagement by a Controlled Group member in a non-exempt “prohibited transaction” (as defined under ERISA Section 406 or Code Section 4975) or a breach of a fiduciary duty under ERISA that could result in material liability to a Company; (c) the application by a Controlled Group member for a waiver from the minimum funding requirements of Code Section 412 or ERISA Section 302 or a Controlled Group member is required to provide security under Code Section 401(a)(29) or ERISA Section 307; (d) the occurrence of a Reportable Event with respect to any Pension Plan as to which notice is required to be provided to the PBGC; (e) the withdrawal by a Controlled Group member from a Multiemployer Plan in a “complete withdrawal” or a “partial withdrawal” (as such terms are defined in ERISA Sections 4203 and 4205, respectively); (f) the involvement of, or occurrence or existence of any event or condition that makes likely the involvement of, a Multiemployer Plan in any reorganization under ERISA Section 4241; (g) the failure of an ERISA Plan (and any related trust) that is intended to be qualified under Code Sections 401 and 501 to be so qualified or the failure of any “cash or deferred arrangement” under any such ERISA Plan to meet the requirements of Code Section 401(k) if such failure is reasonably likely to result in a material liability ; (h) the taking by the PBGC of any steps to terminate a Pension Plan or appoint a trustee to administer a Pension Plan, or the taking by a Controlled Group member of any steps to terminate a Pension Plan; (i) the failure by a Controlled Group member or an ERISA Plan to satisfy any requirements of law applicable to an ERISA Plan if such failure is reasonably likely to result in a material liability; (j) the commencement, existence or threatening of a claim, action, suit, audit or investigation with respect to an ERISA Plan, other than a routine claim for benefits; or (k) any incurrence by or any expectation of the incurrence by a Controlled Group member of any liability for post-retirement benefits under any Welfare Plan, other than as required by ERISA Section 601, et. seq. or Code Section 4980B.

“ERISA Plan” means an “employee benefit plan” (within the meaning of ERISA Section 3(3)) that a Controlled Group member at any time sponsors, maintains, contributes to, has liability with respect to or has an obligation to contribute to such plan.

“Eurocurrency Liabilities” shall have the meaning assigned to that term in Regulation D of the Board of Governors of the Federal Reserve System, as in effect from time to time.

“Eurodollar” means a Dollar denominated deposit in a bank or branch outside of the United States.

“Eurodollar Loan” means a Revolving Loan described in Section 2.2(a) hereof, that shall be denominated in Dollars and on which Borrowers shall pay interest at a rate based upon the Derived Eurodollar Rate.

“Eurodollar Rate” means, with respect to a Eurodollar Loan, for any Interest Period, a rate per annum equal to the quotient obtained (rounded upwards, if necessary, to the nearest 1/16th of 1%) by dividing (a) the rate of interest, determined by Lender in accordance with its usual procedures (which determination shall be conclusive absent manifest error) as of approximately 11:00 A.M. (London time) two Business Days prior to the beginning of such Interest Period pertaining to such Eurodollar Loan, as listed on British Bankers Association Interest Rate LIBOR 01 or 02 as provided by Reuters or Bloomberg (or, if for any reason such rate is unavailable from Reuters or Bloomberg, from any other similar company or service that provides rate quotations comparable to those currently provided by Reuters or Bloomberg) as the rate in the London interbank market for Dollar deposits in immediately available funds with a maturity comparable to such Interest Period, provided that, in the event that such rate quotation is not available for any reason, then the Eurodollar Rate shall be the average (rounded upward to the nearest 1/16th of 1%) of the per annum rates at which deposits in immediately available funds in Dollars for the relevant Interest Period and in the amount of the Eurodollar Loan to be disbursed or to remain outstanding during such Interest Period, as the case may be, are offered to Lender (or an affiliate of Lender, in Lender’s discretion) by prime banks in any Eurodollar market reasonably selected by Lender, determined as of 11:00 A.M. (London time) (or as soon thereafter as practicable), two Business Days prior to the beginning of the relevant Interest Period pertaining to such Eurodollar Loan; by (b) 1.00 minus the Reserve Percentage.

“Event of Default” means an event or condition that shall constitute an event of default as defined in Article VIII hereof.

“Exchange Act” means the Securities Exchange Act of 1934, as amended.

“Excluded Taxes” means, in the case of Lender, taxes imposed on or measured by its overall net income or branch profits, and franchise taxes imposed on it (in lieu of net income taxes), by the jurisdiction (or any political subdivision thereof) under the laws of which Lender is organized or in which its principal office is located.

“Federal Funds Effective Rate” means, for any day, the rate per annum (rounded upward to the nearest one one-hundredth of one percent (1/100 of 1%)) announced by the Federal Reserve Bank of New York (or any successor) on such day as being the weighted average of the rates on overnight federal funds transactions arranged by federal funds brokers on the previous trading day, as computed and announced by such Federal Reserve Bank (or any successor) in substantially the same manner as such Federal Reserve Bank computes and announces the weighted average it refers to as the “Federal Funds Effective Rate” as of the Closing Date.

“Financial Officer” means any of the following officers: chief executive officer, president, chief financial officer or treasurer. Unless otherwise qualified, all references to a Financial Officer in this Agreement shall refer to a Financial Officer of Administrative Borrower.

“Fixed Charge Coverage Ratio” means, as determined for the most recently completed twelve calendar months, on a Consolidated basis, the ratio of (a) the total of (i) Consolidated EBITDA, minus (ii) Consolidated Unfunded Capital Expenditures, minus (iii) Consolidated Income Tax Expense paid in cash, minus (iv) Restricted Payments; to (b) Consolidated Fixed Charges; provided that, notwithstanding anything in this definition to the contrary, to the extent a Restricted Payment is included in the calculation of Consolidated Fixed Charges, such Restricted Payment shall be added to subpart (a) of this definition.

“Foreign Account Receivable” means an Account that arises out of contracts with or orders from an Account Debtor that is not a resident of the United States or Canada.

“GAAP” means generally accepted accounting principles in the United States as then in effect, which shall include the official interpretations thereof by the Financial Accounting Standards Board, applied on a basis consistent with the past accounting practices and procedures of Colonial.

“General Intangibles” means (a) general intangibles, as that term is defined in the U.C.C.; and (b) choses in action, causes of action, intellectual property, customer lists, corporate or other business records, inventions, designs, patents, patent applications, service marks, registrations, trade names, trademarks, copyrights, licenses, goodwill, computer software, rights to indemnification and tax refunds.

“Goldman Associates” means Goldman Associates of New York, Inc.

“Goldman Associates Short-Term Subordinated Indebtedness” means unsecured Subordinated Indebtedness from time to time owing by one or more Borrowers to Goldman Associates (other than Indebtedness permitted pursuant to Section 5.8(h)(ii) hereof) and/or Michael Goldman, so long as (a) the aggregate principal amount of all such Subordinated Indebtedness, for all Borrowers, does not exceed Three Hundred Fifty Thousand Dollars (\$350,000) at any time outstanding, (b) each advance made with respect thereto has a maturity date of no more than eighty-nine (89) days after the date of such advance, (c) such Subordinated Indebtedness is subject to a Subordination Agreement acceptable to Lender, (d) Administrative Borrower shall have provided notice to Lender prior to, or contemporaneously with, the incurrence of all such Goldman Associates Short-Term Subordinated Indebtedness, and (e) such Subordinated Indebtedness is created pursuant to documentation in form and substance satisfactory to Lender.

“Goodman” means Goodman Company, L.P., Goodman Manufacturing Company, L.P. and Goodman Sales Company.

“Goodman Liens” means the Liens of Goodman on the assets of Universal specifically set forth on Schedule 4 hereto.

“Goodman Note” means that certain Promissory Note, dated March 24, 2010, by Universal in favor of Goodman (as amended and as the same may from time to time be further amended, restated or otherwise modified or replaced).

“Government Account Receivable” means an Account that arises out of contracts with or orders from the United States or any of its departments, agencies or instrumentalities.

“Governmental Authority” means any nation or government, any state, province or territory or other political subdivision thereof, any governmental agency, department, authority, instrumentality, regulatory body, court, central bank or other governmental entity exercising executive, legislative, judicial, taxing, regulatory or administrative functions of or pertaining to government, any securities exchange and any self-regulatory organization exercising such functions.

“Guarantor” means a Person that shall have pledged its credit or property in any manner for the payment or other performance of the indebtedness, contract or other obligation of another and includes (without limitation) any guarantor (whether of payment or of collection), surety, co-maker, endorser or Person that shall have agreed conditionally or otherwise to make any purchase, loan or investment in order thereby to enable another to prevent or correct a default of any kind.

“Guarantor of Payment” means each of the Companies designated a “Guarantor of Payment” on Schedule 1 hereto, each of which is executing and delivering a Guaranty of Payment on the Closing Date, and any other Person that shall execute and deliver a Guaranty of Payment to Lender subsequent to the Closing Date.

“Guaranty of Payment” means each Guaranty of Payment executed and delivered on or after the Closing Date in connection with this Agreement by the Guarantors of Payment, as the same may from time to time be amended, restated or otherwise modified.

“Hedge Agreement” means any (a) hedge agreement, interest rate swap, cap, collar or floor agreement, or other interest rate management device entered into by a Company with any Person in connection with any Indebtedness of such Company, or (b) currency swap agreement, forward currency purchase agreement or similar arrangement or agreement designed to protect against fluctuations in currency exchange rates entered into by a Company.

“Indebtedness” means, for any Company, without duplication, (a) all obligations to repay borrowed money, direct or indirect, incurred, assumed, or guaranteed, (b) all obligations in respect of the deferred purchase price of property or services (other than trade accounts payable in the ordinary course of business), (c) all obligations under conditional sales or other title retention agreements, (d) all obligations (contingent or otherwise) under any letter of credit or banker’s acceptance, (e) all net obligations under any currency swap agreement, interest rate swap, cap, collar or floor agreement or other interest rate management device or any Hedge Agreement, (f) all synthetic leases, (g) all Capitalized Lease Obligations, (h) all obligations of such Company with respect to asset securitization financing programs, (i) all obligations to advance funds to, or to purchase assets, property or services from, any other Person in order to maintain the financial condition of such Person, (j) all indebtedness of the types referred to in subparts (a) through (i) above of any partnership or joint venture (other than a joint venture that is itself a corporation or limited liability company) in which such Company is a general partner or joint venturer, unless such indebtedness is expressly made non-recourse to such Company, (k) any other transaction (including forward sale or purchase agreements) having the commercial effect of a borrowing of money entered into by such Company to finance its operations or capital requirements, and (l) any guaranty of any obligation described in subparts (a) through (k) hereof.

“Intellectual Property Security Agreement” means each Intellectual Property Security Agreement executed and delivered on or after the Closing Date by a Borrower or Guarantor of Payment, wherein such Borrower or Guarantor of Payment, as the case may be, has granted to Lender a security interest in all intellectual property owned by such Borrower or Guarantor of Payment, as the same may from time to time be amended, restated or otherwise modified.

“Intercreditor and Lien Subordination Agreement” means that certain Intercreditor and Lien Subordination Agreement, dated as of the date hereof, between Lender and Goodman, to be in form and substance acceptable to Lender.

“Interest Adjustment Date” means the last day of each Interest Period.

“Interest Period” means, with respect to a Eurodollar Loan, the period commencing on the date such Eurodollar Loan is made and ending on the last day of such period, as selected by Administrative Borrower pursuant to the provisions hereof, and, thereafter (unless such Eurodollar Loan is converted to a Base Rate Loan), each subsequent period commencing on the last day of the immediately preceding Interest Period and ending on the last day of such period, as selected by Administrative Borrower pursuant to the provisions hereof. The duration of each Interest Period for a Eurodollar Loan shall be one month, two months, three months or six months, in each case as Administrative Borrower may select upon notice, as set forth in Section 2.5 hereof; provided that if Administrative Borrower shall fail to so select the duration of any Interest Period at least three Business Days prior to the Interest Adjustment Date applicable to such Eurodollar Loan, Administrative Borrower shall be deemed to have converted such Eurodollar Loan to a Base Rate Loan at the end of the then current Interest Period.

“Inventory” means inventory, as that term is defined in the U.C.C.

“Investment Property” means investment property, as that term is defined in the U.C.C., unless the Uniform Commercial Code as in effect in another jurisdiction would govern the perfection and priority of a security interest in investment property, and, in such case, “investment property” shall be defined in accordance with the law of that jurisdiction as in effect from time to time.

“Investor Subordinated Creditor” means each Person set forth on Schedule 3 hereto.

“Landlord’s Waiver” means a landlord’s waiver or mortgagee’s waiver, each in form and substance reasonably satisfactory to Lender, delivered by a Company in connection with this Agreement, as such waiver may from time to time be amended, restated or otherwise modified.

“Lender” means that term as defined in the first paragraph hereof.

“Letter of Credit” means a commercial documentary letter of credit or standby letter of credit that shall be issued by Lender for the account of a Borrower, including amendments thereto, if any, and shall have an expiration date no later than the earlier of (a) three hundred sixty-four (364) days after its date of issuance (provided that such Letter of Credit may provide for the renewal thereof for additional one year periods), or (b) ten days prior to the last day of the Commitment Period.

“Letter of Credit Commitment” means the commitment of Lender to issue Letters of Credit in an aggregate face amount of up to Five Hundred Thousand Dollars (\$500,000).

“Letter of Credit Exposure” means, at any time, the sum of (a) the aggregate undrawn amount of all issued and outstanding Letters of Credit, and (b) the aggregate of the draws made on Letters of Credit that have not been reimbursed by Borrowers or converted to a Revolving Loan pursuant to Section 2.2(b)(v) hereof.

“Lien” means any mortgage, deed of trust, security interest, lien (statutory or other), charge, assignment, hypothecation, encumbrance on, pledge or deposit of, or conditional sale, lease (other than Operating Leases), sale with a right of redemption or other title retention agreement and any capitalized lease with respect to any property (real or personal) or asset, and the filing of, or agreement to give, any financing statement perfecting a security interest or providing a notice filing (other than a notice filing with respect to a bailment, a consignment or an operating lease) of a lien or security interest under the law of any jurisdiction.

“Loan” means a Revolving Loan.

“Loan Documents” means, collectively, this Agreement, each Note, each Guaranty of Payment, all documentation relating to each Letter of Credit, each Subordination Agreement, and each Security Document, as any of the foregoing may from time to time be amended, restated or otherwise modified or replaced, and any other document delivered pursuant thereto.

“Lockbox” means the post office box rented by and in the name of one or more Borrowers in accordance with Section 7.2(a) hereof.

“Management Fees” means management, consulting or other similar fees paid by any Company to an equity holder (other than a Company) of a Company or of an Affiliate.

“Master Agreement” means that Master Agreement entered into between Borrowers and Lender in connection with the cash management services undertaken by Lender on behalf of Borrowers.

“Material Adverse Effect” means a material adverse effect on (a) the business, assets, liabilities (actual or contingent), operations, condition (financial or otherwise) or prospects of any Company, (b) the business, assets, liabilities (actual or contingent), operations, condition (financial or otherwise) or prospects of the Companies taken as a whole, (c) the rights and remedies of Lender under any Loan Document, (d) the ability of any Credit Party to perform its obligations under any Loan Document to which it is a party, or (e) the legality, validity, binding effect or enforceability against any Credit Party of any Loan Document to which it is a party.

“Material Indebtedness Agreement” means any debt instrument, lease (capital, operating or otherwise), guaranty, contract, commitment, agreement or other arrangement evidencing or entered into in connection with any Indebtedness of any Company or the Companies equal to or in excess of the amount of Two Hundred Fifty Thousand Dollars (\$250,000).

“Maximum Rate” means that term as defined in Section 2.3(c) hereof.

“Maximum Revolving Amount” means Fifteen Million Dollars (\$15,000,000), as such amount may be reduced pursuant to Section 2.8(g) hereof.

“Moody’s” means Moody’s Investors Service, Inc., and any successor to such company.

“Multiemployer Plan” means a Pension Plan that is subject to the requirements of Subtitle E of Title IV of ERISA.

“Note” means the Revolving Credit Note, or any other promissory note delivered pursuant to this Agreement.

“Notice of Loan” means a Notice of Loan in the form of the attached Exhibit C.

“Obligations” means, collectively, (a) all Indebtedness and other obligations now owing or hereafter incurred by one or more Borrowers to Lender (or an affiliate of Lender) pursuant to this Agreement and the other Loan Documents, and includes the principal of and interest on all Loans, and all obligations of Borrowers or any other Credit Party pursuant to Letters of Credit; (b) each renewal, extension, consolidation or refinancing of any of the foregoing, in whole or in part; (c) the commitment and other fees, and any prepayment fees payable pursuant to this Agreement or any other Loan Document; (d) all obligations and liabilities of any Company now existing or hereafter incurred under, arising out of, or in connection with any Hedge Agreement with Lender (or an affiliate of Lender); (e) every other liability, now or hereafter owing to Lender or any affiliate of Lender by any Company, and includes, without limitation, every liability, whether owing by only one Borrower or by a Borrower with one or more others in a several, joint or joint and several capacity, whether owing absolutely or contingently, whether created by note, overdraft, guaranty of payment or other contract or by quasi-contract, tort, statute or other operation of law, whether incurred directly to Lender (or such affiliate) or acquired by Lender (or such affiliate) by purchase, pledge or otherwise and whether participated to or from Lender (or such affiliate) in whole or in part; and (f) all Related Expenses.

“Operating Account” means a commercial Deposit Account designated “operating account” and maintained by a Borrower with Lender, without liability of Lender to pay interest thereon, from which account such Borrower shall have the right to withdraw funds until Lender terminates such right after the occurrence of a Default or an Event of Default.

“Operating Leases” means all real or personal property leases under which any Company is bound or obligated as a lessee or sublessee and which, under GAAP, are not required to be capitalized on a balance sheet of such Company; provided that Operating Leases shall not include any such lease under which any Company is also bound as the lessor or sublessor.

“Organizational Documents” means, with respect to any Person (other than an individual), such Person’s Articles (Certificate) of Incorporation, operating agreement, or equivalent formation documents, and Regulations (Bylaws), or equivalent governing documents, and any amendments to any of the foregoing.

“Other Taxes” means any and all present or future stamp or documentary taxes or any other excise, ad valorem or property taxes, goods and services taxes, harmonized sales taxes and other sales taxes, use taxes, value added taxes, charges or similar taxes or levies arising from any payment made hereunder or from the execution, delivery or enforcement of, or otherwise with respect to, this Agreement or any other Loan Document.

“Patriot Act” means the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001, USA Patriot Act, Title III of Pub. L. 107-56, signed into law October 26, 2001, as amended from time to time.

“PBGC” means the Pension Benefit Guaranty Corporation, and its successor.

“Pension Plan” means an ERISA Plan that is a “pension plan” (within the meaning of ERISA Section 3(2)).

“Person” means any individual, sole proprietorship, partnership, joint venture, unincorporated organization, corporation, limited liability company, unlimited liability company, institution, trust, estate, Governmental Authority or any other entity.

“Pledge Agreement” means each of the Pledge Agreements, relating to the Pledged Securities, executed and delivered to Lender by a Borrower or Guarantor of Payment, as applicable, with respect to the Pledged Securities, on or after the Closing Date, as any of the foregoing may from time to time be amended, restated or otherwise modified.

“Pledged Notes” means the promissory notes payable to a Borrower, as described on Schedule 7.4 hereto, and any additional or future promissory notes that may hereafter from time to time be payable to one or more Borrowers.

“Pledged Securities” means all of the shares of capital stock or other equity interest of a Subsidiary of a Credit Party, whether now owned or hereafter acquired or created, and all proceeds thereof. (Schedule 2 hereto lists, as of the Closing Date, all of the Pledged Securities.)

“Prime Rate” means the interest rate established from time to time by Lender as Lender’s prime rate, whether or not such rate shall be publicly announced; the Prime Rate may not be the lowest interest rate charged by Lender for commercial or other extensions of credit. Each change in the Prime Rate shall be effective immediately from and after such change.

“Proceeds” means (a) proceeds, as that term is defined in the U.C.C., and any other proceeds, and (b) whatever is received upon the sale, exchange, collection or other disposition of Collateral or proceeds, whether cash or non-cash. Cash proceeds include, without limitation, moneys, checks and Deposit Accounts. Proceeds include, without limitation, any Account arising when the right to payment is earned under a contract right, any insurance payable by reason of loss or damage to the Collateral, and any return or unearned premium upon any cancellation of insurance. Except as expressly authorized in this Agreement, the right of Lender to Proceeds specifically set forth herein or indicated in any financing statement shall never constitute an express or implied authorization on the part of Lender to a Company’s sale, exchange, collection or other disposition of any or all of the Collateral.

“Processor’s Waiver” means a processor’s waiver (or similar agreement), in form and substance reasonably satisfactory to Lender, delivered by a Company in connection with this Agreement, as such waiver may from time to time be amended, restated or otherwise modified.

“Regularly Scheduled Payment Date” means the first day of each calendar month.

“Related Expenses” means any and all costs, liabilities and expenses (including, without limitation, losses, damages, penalties, claims, actions, reasonable attorneys’ fees, legal expenses, judgments, suits and disbursements) (a) incurred by, imposed upon or asserted against, Lender in any attempt by Lender to (i) enforce this Agreement or any other Loan Document or obtain, preserve, perfect or enforce any security interest evidenced by any Loan Document; (ii) obtain payment, performance or observance of any and all of the Obligations; or (iii) maintain, insure, audit, collect, preserve, repossess or dispose of any of the collateral securing the Obligations or any part thereof, including, without limitation, costs and expenses for appraisals, assessments and audits of any Company or any such collateral; or (b) incidental or related to subpart (a) above, including, without limitation, interest thereupon from the date incurred, imposed or asserted until paid at the Default Rate.

“Related Writing” means each Loan Document, each Borrowing Base Certificate and any other assignment, mortgage, security agreement, guaranty agreement, subordination agreement, financial statement, audit report or other writing furnished by any Credit Party, or any of its officers, to Lender pursuant to or otherwise in connection with this Agreement.

“Reportable Event” means any of the events described in Section 4043 of ERISA except where notice is waived by the PBGC.

“Requirement of Law” means, as to any Person, any law, treaty, rule or regulation or determination or policy statement or interpretation of an arbitrator or a court or other Governmental Authority, in each case applicable to or binding upon such Person or any of its property.

“Reserve” or “Reserves” means any amount that Lender reserves, without duplication, pursuant to Section 2.11 hereof, against the Borrowing Base.

“Reserve Percentage” means, for any day, that percentage (expressed as a decimal) that is in effect on such day, as prescribed by the Board of Governors of the Federal Reserve System (or any successor) for determining the maximum reserve requirement (including, without limitation, all basic, supplemental, marginal and other reserves and taking into account any transitional adjustments or other scheduled changes in reserve requirements) for a member bank of the Federal Reserve System in Cleveland, Ohio, in respect of Eurocurrency Liabilities. The Eurodollar Rate shall be adjusted automatically on and as of the effective date of any change in the Reserve Percentage.

“Restricted Payment” means, with respect to any Company, (a) any Capital Distribution, (b) any amount paid by such Company in repayment, redemption, retirement or repurchase, directly or indirectly, of any Subordinated Indebtedness, (c) any amount paid by such Company in repayment, redemption, retirement or repurchase, directly or indirectly, of any Indebtedness owing to Goodman that is subject to the Intercreditor and Lien Subordination Agreement, or (d) any Management Fees or other similar arrangement with any equity holder (other than a Company) of a Company or an Affiliate in excess of the aggregate amount of One Hundred Thousand Dollars (\$100,000) in any fiscal year (for clarification purposes, regular salary paid to employees in the ordinary course of business and consistent with past practices of such Company are not a Restricted Payment).

“Revolving Credit Availability” means, at any time, the amount equal to the Revolving Credit Commitment minus the Revolving Credit Exposure.

“Revolving Credit Commitment” means the obligation hereunder of Lender, during the Commitment Period, to make Revolving Loans and to issue Letters of Credit, up to an aggregate principal amount outstanding at any time equal to the lesser of (a) the Borrowing Base, or (b) the Maximum Revolving Amount.

“Revolving Credit Exposure” means, at any time, the sum of (a) the aggregate principal amount of all Revolving Loans outstanding, and (b) the Letter of Credit Exposure.

“Revolving Credit Note” means the Revolving Credit Note, in the form of the attached Exhibit A, executed and delivered pursuant to Section 2.4 hereof.

“Revolving Loan” means a loan made to Borrowers by Lender in accordance with Section 2.2(a) hereof.

“SEC” means the United States Securities and Exchange Commission, or any governmental body or agency succeeding to any of its principal functions.

“Secondary Account” shall mean a Deposit Account maintained by a Borrower at a depository bank other than Lender that at all times meets the following conditions: (a) is only used by such Borrower for the deposit of retail sale proceeds from such Borrower’s New Jersey and Massachusetts retail locations, and (b) when combined with all other Secondary Accounts, the aggregate amount of deposits in all Secondary Accounts does not exceed Five Hundred Thousand Dollars (\$500,000) at any time.

“Securities Account” means a securities account, as that term is defined in the U.C.C.

“Securities Account Control Agreement” means each Securities Account Control Agreement among a Credit Party, Lender and a Securities Intermediary, dated on or after the Closing Date, to be in form and substance reasonably satisfactory to Lender, as the same may from time to time be amended, restated or otherwise modified.

“Securities Intermediary” means a clearing corporation or a Person, including, without limitation, a bank or broker, that in the ordinary course of its business maintains Securities Accounts for others and is acting in that capacity.

“Security Account” means a commercial Deposit Account maintained with Lender, without liability by Lender to pay interest thereon, as described in Section 7.2(e) hereof.

“Security Agreement” means each Security Agreement executed and delivered to Lender by a Guarantor of Payment, dated as on or after the Closing Date, as the same may from time to time be amended, restated or otherwise modified.

“Security Documents” means each Security Agreement, each Pledge Agreement, each Intellectual Property Security Agreement, each Processor’s Waiver, each Consignee’s Waiver, each Landlord’s Waiver, each Bailee’s Waiver, each Control Agreement, each U.C.C. Financing Statement or similar filing as to a jurisdiction located outside of the United States of America filed in connection herewith or perfecting any interest created in any of the foregoing documents, and any other document pursuant to which any Lien is granted by a Company or any other Person to Lender, as security for the Obligations, or any part thereof, and each other agreement executed or provided to Lender in connection with any of the foregoing, as any of the foregoing may from time to time be amended, restated or otherwise modified or replaced.

“Standard & Poor’s” means Standard & Poor’s Ratings Group, a division of McGraw-Hill, Inc., and any successor to such company.

“Subordinated Creditor” means an Investor Subordinated Creditor, or any other Person that shall have entered into a Subordination Agreement with Lender subsequent to the Closing Date.

“Subordinated Debt Documents” means each subordinated promissory note or agreement issued by a Credit Party to a Subordinated Creditor, and each other promissory note, instrument and agreement executed in connection therewith.

“Subordinated Indebtedness” means Indebtedness that shall have been subordinated (by written terms or written agreement being, in either case, in form and substance reasonably satisfactory to Lender) in favor of the prior payment in full of the Obligations.

“Subordination Agreement” means a Subordination Agreement executed and delivered by a Subordinated Creditor in connection with this Agreement, as the same may from time to time be amended, restated or otherwise modified.

“Subsidiary” means (a) a corporation more than fifty percent (50%) of the Voting Power of which is owned, directly or indirectly, by a Borrower or by one or more other subsidiaries of such Borrower or by such Borrower and one or more subsidiaries of such Borrower, (b) a partnership, limited liability company or unlimited liability company of which a Borrower, one or more other subsidiaries of such Borrower or such Borrower and one or more subsidiaries of such Borrower, directly or indirectly, is a general partner or managing member, as the case may be, or otherwise has an ownership interest greater than fifty percent (50%) of all of the ownership interests in such partnership, limited liability company or unlimited liability company, or (c) any other Person (other than a corporation, partnership, limited liability company or unlimited liability company) in which a Borrower, one or more other subsidiaries of such Borrower or such Borrower and one or more subsidiaries of such Borrower, directly or indirectly, has at least a majority interest in the Voting Power or the power to elect or direct the election of a majority of directors or other governing body of such Person.

“Subsidiary Borrower” means a Borrower other than Colonial.

“Taxes” means any and all present or future taxes of any kind, including but not limited to, levies, imposts, duties, surtaxes, charges, fees, deductions or withholdings now or hereafter imposed, levied, collected, withheld or assessed by any Governmental Authority (together with any interest, penalties, fines, additions to taxes or similar liabilities with respect thereto) other than Excluded Taxes.

“Total Commitment Amount” means the principal amount of Fifteen Million Dollars (\$15,000,000), or such lesser amount as shall be determined pursuant to Section 2.8(g) hereof.

“U.C.C.” means the Uniform Commercial Code, as in effect from time to time in the State of New York.

“U.C.C. Financing Statement” means a financing statement filed or to be filed in accordance with the Uniform Commercial Code, as in effect from time to time, in the relevant state or states.

“Voting Power” means, with respect to any Person, the exclusive ability to control, through the ownership of shares of capital stock, partnership interests, membership interests or otherwise, the election of members of the board of directors or other similar governing body of such Person. The holding of a designated percentage of Voting Power of a Person means the ownership of shares of capital stock, partnership interests, membership interests or other interests of such Person sufficient to control exclusively the election of that percentage of the members of the board of directors or similar governing body of such Person.

“Welfare Plan” means an ERISA Plan that is a “welfare plan” within the meaning of ERISA Section 3(l).

“Wells Fargo” means Wells Fargo Bank, National Association, a national banking association.

“Wells Fargo Account” means that certain Deposit Account maintained by Universal with Wells Fargo and subject to a blocked account agreement between Universal and Wells Fargo.

“Wells Fargo Credit Facilities” means those certain credit facilities among one or more Borrowers and Wells Fargo.

Section 1.2. Accounting Terms. Any accounting term not specifically defined in this Article I shall have the meaning ascribed thereto by GAAP.

Section 1.3. Terms Generally. The foregoing definitions shall be applicable to the singular and plural forms of the foregoing defined terms. Unless otherwise defined in this Article I, terms that are defined in the U.C.C. are used herein as so defined.

ARTICLE II. AMOUNT AND TERMS OF CREDIT

Section 2.1. Amount and Nature of Credit. Subject to the terms and conditions of this Agreement, Lender shall make Loans to Borrowers, and issue Letters of Credit at the request of Borrowers, in such aggregate amount as Borrowers shall request pursuant to the Commitment; provided that in no event shall the aggregate principal amount of all Loans and Letters of Credit outstanding under this Agreement be in excess of the Total Commitment Amount. The Loans may be made as Revolving Loans as described in Section 2.2(a) hereof, and Letters of Credit may be issued in accordance with Section 2.2(b) hereof.

Section 2.2. Revolving Credit Commitment.

(a) Revolving Loans. Subject to the terms and conditions of this Agreement, during the Commitment Period, Lender shall make a Revolving Loan or Revolving Loans to Borrowers in such amount or amounts as Administrative Borrower, through an Authorized Officer, may from time to time request, but not exceeding in aggregate principal amount at any time outstanding hereunder the Revolving Credit Commitment, when such Revolving Loans are combined with the Letter of Credit Exposure. Borrowers shall have the option, subject to the terms and conditions set forth herein, to borrow Revolving Loans, maturing on the last day of the Commitment Period, by means of any combination of Base Rate Loans or Eurodollar Loans. Subject to the provisions of this Agreement, Borrowers shall be entitled under this Section 2.2(a) to borrow Revolving Loans, repay the same in whole or in part and re-borrow Revolving Loans hereunder at any time and from time to time during the Commitment Period.

(b) Letters of Credit.

(i) Generally. Subject to the terms and conditions of this Agreement, during the Commitment Period, Lender shall issue such Letters of Credit for the account of a Borrower or a Guarantor of Payment, as Administrative Borrower may from time to time request. Administrative Borrower shall not request any Letter of Credit (and Lender shall not be obligated to issue any Letter of Credit) if, after giving effect thereto, (A) the Letter of Credit Exposure would exceed the Letter of Credit Commitment, or (B) the Revolving Credit Exposure would exceed the Revolving Credit Commitment.

(ii) Request for Letter of Credit. Each request for a Letter of Credit shall be delivered to Lender by an Authorized Officer not later than 11:00 A.M. (Eastern time) three Business Days prior to the date of the proposed issuance of the Letter of Credit.

Each such request shall be in a form acceptable to Lender and shall specify the face amount thereof, whether such Letter of Credit is a commercial documentary or a standby Letter of Credit, the account party, the beneficiary, the requested date of issuance, amendment, renewal or extension, the expiry date thereof, and the nature of the transaction or obligation to be supported thereby. Concurrently with each such request, Administrative Borrower, and any Guarantor of Payment for whose account the Letter of Credit is to be issued, shall execute and deliver to Lender an appropriate application and agreement, being in the standard form of Lender for such letters of credit, as amended to conform to the provisions of this Agreement if required by Lender.

(iii) Commercial Documentary Letters of Credit Fees. With respect to each Letter of Credit that shall be a commercial documentary letter of credit and the drafts thereunder, whether issued for the account of a Borrower or any Guarantor of Payment, Borrowers agree to pay to Lender issuance, amendment, renewal, negotiation, draw, acceptance, telex, courier, postage and similar transactional fees as are customarily charged by Lender in respect of the issuance and administration of similar letters of credit under its fee schedule as in effect from time to time.

(iv) Standby Letters of Credit Fees. With respect to each Letter of Credit that shall be a standby letter of credit and the drafts thereunder, if any, whether issued for the account of a Borrower or any Guarantor of Payment, Borrowers agree to (A) pay to Lender a non-refundable commission based upon the face amount of such Letter of Credit, which shall be paid quarterly in arrears, on each Regularly Scheduled Payment Date at a rate per annum equal to the Applicable Margin for Eurodollar Loans (in effect on such Regularly Scheduled Payment Date) multiplied by the face amount of such Letter of Credit; and (B) pay to Lender, such other issuance, amendment, renewal, negotiation, draw, acceptance, telex, courier, postage and similar transactional fees as are customarily charged by Lender in respect of the issuance and administration of similar letters of credit under its fee schedule as in effect from time to time.

(v) Refunding of Letters of Credit with Revolving Loans. Whenever a Letter of Credit shall be drawn, unless the amount drawn is reimbursed by Borrowers, within one Business Day of the date of the drawing of such Letter of Credit, the amount outstanding thereunder shall be deemed to be a Revolving Loan to Borrowers, subject to the provisions of Sections 2.2(a) and 2.5 hereof (other than the requirement set forth in Section 2.5(c) hereof), and shall be evidenced by the Revolving Credit Note. Each such Revolving Loan shall be deemed to be a Base Rate Loan unless otherwise requested by and available to Borrowers hereunder. Lender is hereby authorized to record on its records relating to the Revolving Credit Note the amounts paid and not reimbursed on the Letters of Credit.

Section 2.3. Interest.

(a) Revolving Loans.

(i) Base Rate Loan. Borrowers shall pay interest on the unpaid principal amount of a Revolving Loan that is a Base Rate Loan outstanding from time to time from the date thereof until paid at the Derived Base Rate from time to time in effect. Interest on such Base Rate Loan shall be payable, commencing November 1, 2011, and continuing on each Regularly Scheduled Payment Date thereafter and at the maturity thereof.

(ii) Eurodollar Loans. Borrowers shall pay interest on the unpaid principal amount of each Eurodollar Loan outstanding from time to time, fixed in advance on the first day of the Interest Period applicable thereto through the last day of the Interest Period applicable thereto (but subject to changes in the Applicable Margin for Eurodollar Loans), at the Derived Eurodollar Rate. Interest on such Eurodollar Loan shall be payable on each Interest Adjustment Date with respect to an Interest Period (provided that if an Interest Period shall exceed three months, the interest must be paid every three months, commencing three months from the beginning of such Interest Period).

(b) Default Rate. Anything herein to the contrary notwithstanding, if an Event of Default shall occur, (i) the principal of each Loan and the unpaid interest thereon shall bear interest, until paid, at the Default Rate, (ii) the fee for the aggregate undrawn amount of all issued and outstanding Letters of Credit shall be increased by two percent (2%) in excess of the rate otherwise applicable thereto, and (iii) in the case of any other amount not paid when due from Borrowers hereunder or under any other Loan Document, such amount shall bear interest at the Default Rate.

(c) Limitation on Interest. In no event shall the rate of interest hereunder exceed the maximum rate allowable by law. Notwithstanding anything to the contrary contained in any Loan Document, the interest paid or agreed to be paid under the Loan Documents shall not exceed the maximum rate of non-usurious interest permitted by applicable law (the "Maximum Rate"). If Lender shall receive interest in an amount that exceeds the Maximum Rate, the excess interest shall be applied to the principal of the Loans or, if it exceeds such unpaid principal, refunded to the Administrative Borrower for distribution to Borrowers, as appropriate. In determining whether the interest contracted for, charged, or received by Lender exceeds the Maximum Rate, such Person may, to the extent permitted by applicable law, (i) characterize any payment that is not principal as an expense, fee, or premium rather than interest, (ii) exclude voluntary prepayments and the effects thereof, and (iii) amortize, prorate, allocate, and spread in equal or unequal parts the total amount of interest throughout the contemplated term of the Obligations.

Section 2.4. Evidence of Indebtedness. The obligation of Borrowers to repay the Revolving Loans and to pay interest thereon shall be evidenced by a Revolving Credit Note of Borrowers.

Section 2.5. Notice of Loans and Credit Events; Funding of Loans.

(a) Notice of Loans and Credit Events. Administrative Borrower, through an Authorized Officer, shall provide to Lender a Notice of Loan prior to (i) 11:00 A.M. (Eastern time) on the proposed date of borrowing of, or conversion of a Loan to, a Base Rate Loan, and (ii) 11:00 A.M. (Eastern time) three Business Days prior to the proposed date of borrowing of, continuation of, or conversion of a Loan to, a Eurodollar Loan. Notwithstanding the foregoing, an Authorized Officer of Administrative Borrower may verbally or electronically request a Loan in lieu of providing a Notice of Loan, and, if Lender provides funds or initiates funding based upon such request, Borrowers shall bear the risk with respect to any information regarding such funding that is later determined to have been incorrect. Borrowers shall comply with the notice provisions set forth in Section 2.2(b) hereof with respect to Letters of Credit.

(b) Conversion and Continuation of Loans.

(i) At the request of Administrative Borrower to Lender, subject to the notice and other provisions of this Agreement, Lender shall convert a Base Rate Loan to one or more Eurodollar Loans at any time and shall convert a Eurodollar Loan to a Base Rate Loan on any Interest Adjustment Date applicable thereto.

(ii) At the request of Administrative Borrower to Lender, subject to the notice and other provisions of this Agreement, Lender shall continue one or more Eurodollar Loans as of the end of the applicable Interest Period as a new Eurodollar Loan with a new Interest Period.

(c) Minimum Amount for Eurodollar Loans. Each request for a Eurodollar Loan shall be in an amount of not less than One Hundred Thousand Dollars (\$100,000), increased by increments of One Hundred Thousand Dollars (\$100,000).

(d) Interest Periods. Administrative Borrower shall not request that Eurodollar Loans be outstanding for more than five different Interest Periods at the same time.

Section 2.6. Payment on Loans and Other Obligations.

(a) Payments Generally. Each payment made hereunder by Borrowers shall be made without any offset, abatement, recoupment, counterclaim, withholding or reduction whatsoever.

(b) Payments to Lender. All payments of principal, interest and commitment and other fees shall be made to Lender in Dollars in immediately available funds. Lender shall record (i) any principal, interest or other payment, and (ii) the principal amounts of Base Rate Loans and Eurodollar Loans and all prepayments thereof and the applicable dates, including Interest Periods, with respect thereto, by such method as Lender may generally employ; provided that failure to make any such entry shall in no way detract from the obligations of Borrowers under this Agreement or any Note. The aggregate unpaid amount of Loans, types of Loans, Interest Periods and similar information with respect to the Loans and Letters of Credit set forth on the records of Lender shall be rebuttably presumptive evidence with respect to such information, including the amounts of principal, interest and fees owing to Lender.

(c) Timing of Payments. Whenever any payment to be made hereunder, including, without limitation, any payment to be made on any Loan, shall be stated to be due on a day that is not a Business Day, such payment shall be made on the next Business Day and such extension of time shall in each case be included in the computation of the interest payable on such Loan; provided that, with respect to a Eurodollar Loan, if the next Business Day shall fall in the succeeding calendar month, such payment shall be made on the preceding Business Day and the relevant Interest Period shall be adjusted accordingly.

Section 2.7. Prepayment.

(a) Right to Prepay. Borrowers shall have the right at any time or from time to time to prepay all or any part of the principal amount of the Loans then outstanding, as designated by Administrative Borrower. Such payment shall include interest accrued on the amount so prepaid to the date of such prepayment, any amount payable under Article III hereof with respect to the amount being prepaid and any early termination fee payable under Section 2.8(d) hereof. Prepayments of Base Rate Loans shall be without any premium or penalty, other than any prepayment fees, penalties or other charges that may be contained in any Hedge Agreement and, if applicable, as set forth in Section 2.8(e) hereof.

(b) Notice of Prepayment. Administrative Borrower shall give Lender irrevocable written notice of prepayment of (i) a Base Rate Loan by no later than 11:00 A.M. (Eastern time) on the Business Day on which such prepayment is to be made, and (ii) a Eurodollar Loan by no later than 1:00 P.M. (Eastern time) three Business Days before the Business Day on which such prepayment is to be made.

(c) Minimum Amount. Each prepayment of a Eurodollar Loan shall be in the principal amount of not less than the lesser of One Hundred Thousand Dollars (\$100,000), or the principal amount of such Loan, except in the case of a mandatory payment pursuant to Section 2.11 or Article III hereof.

Section 2.8. Commitment and Other Fees; Reduction of Revolving Credit Commitment.

(a) Closing Fee. Borrowers shall pay to Lender a closing fee (the "Closing Fee") in the amount of Thirty Thousand Dollars (\$30,000). The Closing Fee shall be earned in full on the Closing Date. The Closing Fee shall be payable in two installments, due on the Closing Date and on December 31, 2011, of Fifteen Thousand Dollars (\$15,000) each.

(b) Commitment Fee. Borrowers shall pay to Lender, as a consideration for the Revolving Credit Commitment, a commitment fee from the Closing Date to and including the last day of the Commitment Period, payable monthly, at a rate per annum equal to (i) thirty-seven and one-half (37.50) basis points, multiplied by (ii) (A) the average daily Maximum Revolving Amount in effect during such month, minus (B) the average daily Revolving Credit Exposure during such month. The commitment fee shall be payable in arrears, on November 1, 2011 and continuing on each Regularly Scheduled Payment Date thereafter, and on the last day of the Commitment Period.

(c) Administration Fee. Borrowers shall pay to Lender, on January 2, 2012 and on January 2 of each year thereafter, an administrative fee in the amount of Twelve Thousand Dollars (\$12,000).

(d) Collateral Audit Fees. The Borrowers shall promptly reimburse Lender for all costs and expenses relating to (i) collateral field audits (which, other than during the continuance of an Event of Default, shall be conducted no more frequently than three times per calendar year), and (ii) any other collateral assessment that may be conducted from time to time by or on behalf of Lender, the scope and frequency of which shall be in the reasonable discretion of Lender.

(e) Early Termination Fee. If, prior to the second anniversary of the Closing Date, Borrowers terminate or reduce in whole the Revolving Credit Commitment (the "Early Termination Event"), then Borrowers shall pay to Lender an early termination fee in an amount equal to:

(i) if the Early Termination Event shall occur prior to the first anniversary of the Closing Date two percent (2%) of the average of the Total Commitment Amount as in effect on the last day of each calendar month from the Closing Date to the date of the Early Termination Event; or

(ii) if the Early Termination Event shall occur on or after the first anniversary of the Closing Date but prior to the second anniversary of the Closing Date, one percent (1%) of the average of the Total Commitment Amount as in effect on the last day of each of the twelve calendar months immediately preceding the date of the Early Termination Event;

provided that, if the Commitment is terminated pursuant to a refinancing from Lender (or an affiliate of Lender), then the early termination fees set forth in this subsection (e) shall not be applicable.

(f) Authorization to Debit Account. Borrowers hereby agree that Lender has the right to debit from any Deposit Account of one or more Borrowers, amounts owing to Lender by any Borrower under this Agreement and the Loan Documents for payment of fees, expenses and other amounts incurred or owing in connection therewith.

(g) Optional Reduction of Revolving Credit Commitment. Borrowers may at any time and from time to time permanently reduce in whole or in part the Maximum Revolving Amount to an amount not less than the then existing Revolving Credit Exposure, by giving Lender not fewer than five Business Days' (or thirty (30) days if the Total Commitment Amount is to be reduced or terminated in its entirety) written notice of such reduction, provided that any such partial reduction shall be in an amount of not less than Five Hundred Thousand Dollars (\$500,000), increased in increments of One Hundred Thousand Dollars (\$100,000). After each such partial reduction, the commitment fees payable hereunder shall be calculated upon the Maximum Revolving Amount as so reduced. If Borrowers reduce in whole the Commitment, on the effective date of such reduction (the appropriate Borrowers having prepaid in full the unpaid principal balance, if any, of the Loans, together with all interest (if any), early termination fees as set forth in subsection (e) above (if any), and commitment and other fees accrued and unpaid with respect thereto, and provided that no Letter of Credit Exposure shall exist), all of the Notes shall be marked "Canceled" and delivered to Borrowers. Any partial reduction in the Maximum Revolving Amount shall be effective during the remainder of the Commitment Period.

Section 2.9. Computation of Interest and Fees. With the exception of Base Rate Loans, interest on Loans, Letter of Credit fees, Related Expenses and commitment and other fees and charges hereunder shall be computed on the basis of a year having three hundred sixty (360) days and calculated for the actual number of days elapsed. With respect to Base Rate Loans, interest shall be computed on the basis of a year having three hundred sixty-five (365) days or three hundred sixty-six (366) days, as the case may be, and calculated for the actual number of days elapsed.

Section 2.10. Mandatory Payments.

(a) Revolving Credit Exposure. If, at any time, the Revolving Credit Exposure shall exceed the Revolving Credit Commitment, Borrowers shall, as promptly as practicable, but in no event later than the next Business Day, pay an aggregate principal amount of the Revolving Loans sufficient to bring the Revolving Credit Exposure within the Revolving Credit Commitment.

(b) Application of Mandatory Payments. Unless otherwise designated by the Administrative Borrower, each payment pursuant to Section 2.10(a) hereof shall be applied in the following order (i) first, to outstanding Base Rate Loans, and (ii) second, to outstanding Eurodollar Loans; provided that, if the outstanding principal amount of any Eurodollar Loan shall be reduced to an amount less than the minimum amount set forth in Section 2.5(c) hereof as a result of such prepayment, then such Eurodollar Loan shall be converted into a Base Rate Loan on the date of such prepayment. Any prepayment of a Eurodollar Loan pursuant to this Section 2.10 shall be subject to the prepayment provisions set forth in Article III hereof.

Section 2.11. Liability of Borrowers.

(a) Joint and Several Liability. Each Borrower hereby authorizes Administrative Borrower or any other Borrower to request Loans or Letters of Credit hereunder. Each Borrower acknowledges and agrees that Lender is entering into this Agreement at the request of each Borrower and with the understanding that each Borrower is and shall remain fully liable, jointly and severally, for payment in full of the Obligations, and any other amount payable under this Agreement and the other Loan Documents. Each Borrower agrees that it is receiving or will receive a direct pecuniary benefit for each Loan made or Letter of Credit issued hereunder.

(b) Appointment of Administrative Borrower. Each Borrower hereby irrevocably appoints Administrative Borrower as the borrowing agent and attorney-in-fact for all Borrowers, which appointment shall remain in full force and effect unless and until Lender shall have received prior written notice signed by each Borrower that such appointment has been revoked and that another Borrower has been appointed Administrative Borrower. Each Borrower hereby irrevocably appoints and authorizes Administrative Borrower to (i) provide Lender with all notices with respect to Loans and Letters of Credit obtained for the benefit of any Borrower and all other notices and instructions under this Agreement, (ii) take such action as Administrative Borrower deems appropriate on its behalf to obtain Loans and Letters of Credit, and (iii) exercise such other powers as are reasonably incidental thereto to carry out the purposes of this Agreement. It is understood that the handling of the Collateral of Borrowers in a combined fashion, as more fully set forth herein, is done solely as an accommodation to Borrowers in order to utilize the collective borrowing powers of Borrowers in the most efficient and economical manner and at their request, and that Lender shall not incur liability to any Borrower as a result hereof. Each Borrower expects to derive benefit, directly or indirectly, from the handling of the Collateral in a combined fashion since the successful operation of each Borrower is dependent on the continued successful performance of the integrated group.

(c) Maximum Liability of Each Subsidiary Borrower and Rights of Contribution. Anything in this Agreement or any other Loan Document to the contrary notwithstanding, in no event shall the maximum liability of any Subsidiary Borrower exceed the maximum amount that (after giving effect to the incurring of the obligations hereunder and to any rights to contribution of such Subsidiary Borrower from other Affiliates of such Subsidiary Borrower) would not render the rights to payment of Lender hereunder void, voidable or avoidable under any applicable fraudulent transfer law. Borrowers hereby agree as among themselves that, in connection with the payments made hereunder, each Borrower shall have a right of contribution from each other Borrower in accordance with applicable law. Such contribution rights shall be waived until such time as the Obligations have been irrevocably paid in full, and no Borrower shall exercise any such contribution rights until the Obligations have been irrevocably paid in full.

(d) Waivers of Each Borrower. In the event that any obligation of any Borrower under this Agreement is deemed to be an agreement by such Borrower to answer for the debt or default of another Credit Party or as an hypothecation of property as security therefor, each Borrower represents and warrants that (i) no representation has been made to such Borrower as to the creditworthiness of such other Credit Party, and (ii) such Borrower has established adequate means of obtaining from such other Credit Party on a continuing basis, financial or other information pertaining to such other Credit Party's financial condition. Each Borrower expressly waives, except as expressly required under this Agreement, diligence, demand, presentment, protest and notice of every kind and nature whatsoever, consents to the taking by Lender of any additional security of another Credit Party for the obligations secured hereby, or the alteration or release in any manner of any security of another Credit Party now or hereafter held in connection with the Obligations, and consents that Lender and any other Credit Party may deal with each other in connection with such obligations or otherwise, or alter any contracts now or hereafter existing between them, in any manner whatsoever, including without limitation the renewal, extension, acceleration or changes in time for payment of any such obligations or in the terms or conditions of any security held. Lender is hereby expressly given the right, at Lender's option, to proceed in the enforcement of any of the Obligations independently of any other remedy or security they may at any time hold in connection with such obligations secured and it shall not be necessary for Lender to proceed upon or against or exhaust any other security or remedy before proceeding to enforce Lender's rights against such Borrower. Each Borrower further waives any right of subrogation, reimbursement, exoneration, contribution, indemnification, setoff or other recourse in respect of sums paid to Lender by any other Credit Party until such time as the Commitment has been terminated and the Obligations have been repaid in full.

Section 2.12. Establishment of Reserves. Lender shall have the right, from time to time, in the good faith exercise of its reasonable credit judgment (consistent with the asset-based nature of this credit), to establish Reserves in such amounts and with respect to such matters as Lender deems necessary or appropriate, and to increase or decrease such Reserves. In exercising such reasonable credit judgment, Lender may take into account factors that (a) will or could reasonably be expected to adversely affect the value of any Collateral, the enforceability or priority of the Liens of Lender or the amount that Lender would be likely to receive in the liquidation of such Collateral, or (b) may demonstrate that any collateral report or financial information concerning the Credit Parties is incomplete, inaccurate or misleading in any material respect. In exercising such reasonable credit judgment, Reserves may be established against anticipated obligations, contingencies or conditions affecting the Companies, including, without limitation, (i) tax liabilities and other obligations owing to Governmental Authorities, (ii) asserted litigation liabilities, (iii) anticipated remediation for compliance with Environmental Laws, and (iv) obligations owing to any lessor of real property, any warehouseman, any processor or any mortgagor on third-party mortgaged sites. Reserves may also be established with respect to the dilution of accounts receivable, as a result of inventory appraisals and other results of field examinations. Prior to an Event of Default, Lender shall use commercially reasonable efforts to notify Administrative Borrower at least five Business Days prior to the effectiveness of any actions taken under this Section 2.12, but shall not be liable for any failure to so notify Administrative Borrower.

Section 2.13. Record of Advances; Application of Collections.

(a) Maintenance of Record of Advances. Lender shall maintain records in respect of Borrowers that shall reflect (i) the aggregate outstanding principal amount of Revolving Loans and accrued interest, (ii) the unreimbursed Letter of Credit drawings, and (iii) all other Obligations that shall have become payable hereunder (the "Advance Record"). Each entry by Lender in the Advance Record shall be, to the extent permitted by applicable law and absent manifest error, prima facie evidence of the data entered. Such entries by Lender shall not be a condition to Borrowers' obligation to repay the Obligations.

(b) Charges, Credits and Reports. Borrowers hereby authorize Lender to charge the Advance Record with all Revolving Loans and all other Obligations under this Agreement or any other Loan Document. The Advance Record will be credited in accordance with the provisions of this Agreement with all payments received by Lender directly from Borrowers or any other Credit Party or otherwise for the account of Borrowers or any other Credit Party pursuant to this Agreement. Lender shall send Administrative Borrower monthly statements in accordance with Lender's standard procedures. Any and all such periodic or other statements or reconciliations of the Advance Record shall be final, binding and conclusive upon Borrowers in all respects, absent manifest error, unless Lender receives specific written objection thereto from Administrative Borrower within thirty (30) Business Days after such statements or reconciliation shall have been sent to Administrative Borrower.

(c) Application of Specific Payments. Except for the crediting to the Advance Record of Collections deposited to the Cash Collateral Account as provided below, Administrative Borrower shall make all other payments to be made by Borrowers under this Agreement with respect to the Obligations not later than 2:00 P.M. (Eastern time) on the day when due, without setoff, counterclaim, defense or deduction of any kind. Payments received after 2:00 P.M. (Eastern time) shall be deemed to have been received on the next Business Day. Prior to the occurrence of an Event of Default, Administrative Borrower may specify to Lender the Obligations to which such payment is to be applied. If Administrative Borrower does not specify an application for such payment or if an Event of Default has occurred, Lender shall apply such payment in its discretion.

(d) Crediting of Collections. For the purpose of calculating interest on the Obligations and determining the aggregate amount of Loans outstanding, the amount of the Revolving Credit Exposure and the availability for additional Revolving Loans and Letters of Credit, all Collections deposited into the Cash Collateral Account shall be credited to the account of Borrowers (as reflected in the Advance Record) on the next Business Day after the Business Day on which Lender has received notice of the deposit of the proceeds of such Collections into the Cash Collateral Account (including automated clearinghouse and federal wire transfers); provided that immediately available funds shall be applied on the same Business Day. Collections shall be credited as follows: (i) first to any costs and expenses due under this Agreement, (ii) second to Base Rate Loans, and (iii) third to Eurodollar Loans. From time to time, upon advance written notice to Administrative Borrower, Lender may adopt such additional or modified regulations and procedures as Lender may deem reasonable and appropriate with respect to the operation of the Cash Collateral Account and not substantially inconsistent with the terms of this Agreement.

(e) Application of Deposits in Cash Collateral Account. Deposits of Collections to the Cash Collateral Account shall be credited to the Advance Record of Borrowers on a daily basis in accordance with subsection (d) above, and thereby reduce the Revolving Credit Exposure (other than in respect of the undrawn amount of any Letter of Credit outstanding) as Lender may choose, in its reasonable discretion; provided that, prior to the occurrence of an Event of Default, Lender will use reasonable efforts to avoid applications of payments that would cause prepayment of a Eurodollar Loan prior to the expiration of the applicable Interest Period. Upon payment in full of the Obligations and the termination of the Commitment, deposits of Collections to the Cash Collateral Account shall be credited by Lender as directed by Administrative Borrower.

ARTICLE III. ADDITIONAL PROVISIONS RELATING
TO EURODOLLAR LOANS; INCREASED CAPITAL; TAXES

Section 3.1. Requirements of Law.

(a) If, after the Closing Date, (i) the adoption of or any change in any Requirement of Law or in the interpretation or application thereof by a Governmental Authority, or (ii) the compliance by Lender with any request or directive (whether or not having the force of law) from any central bank or other Governmental Authority:

(A) shall subject Lender to any tax of any kind whatsoever with respect to this Agreement, any Letter of Credit or any Eurodollar Loan made by it, or change the basis of taxation of payments to Lender in respect thereof (except for Taxes and Excluded Taxes which are governed by Section 3.2 hereof);

(B) shall impose, modify or hold applicable any reserve, special deposit, compulsory loan or similar requirement against assets held by, deposits or other liabilities in or for the account of, advances, loans or other extensions of credit by, or any other acquisition of funds by, any office of Lender that is not otherwise included in the determination of the Eurodollar Rate; or

(C) shall impose on Lender any other condition;

and the result of any of the foregoing is to increase the cost to Lender of making, converting into, continuing or maintaining Eurodollar Loans or issuing Letters of Credit, or to reduce any amount receivable hereunder in respect thereof, then, in any such case, Borrowers shall pay to Lender, promptly after receipt of a written request therefor, any additional amounts necessary to compensate Lender for such increased cost or reduced amount receivable. If Lender becomes entitled to claim any additional amounts pursuant to this subsection (a), Lender shall promptly notify Administrative Borrower of the event by reason of which it has become so entitled.

(b) If Lender shall have determined that, after the Closing Date, the adoption of or any change in any Requirement of Law regarding capital adequacy or in the interpretation or application thereof by a Governmental Authority or compliance by Lender or any corporation controlling Lender with any request or directive regarding capital adequacy (whether or not having the force of law) from any Governmental Authority shall have the effect of reducing the rate of return on Lender's or such corporation's capital as a consequence of its obligations hereunder, or under or in respect of any Letter of Credit, to a level below that which Lender or such corporation could have achieved but for such adoption, change or compliance (taking into consideration the policies of Lender or such corporation with respect to capital adequacy), then from time to time, upon submission by Lender to Administrative Borrower of a written request therefor (which shall include the method for calculating such amount), Borrowers shall promptly pay or cause to be paid to Lender such additional amount or amounts as will compensate Lender or such corporation for such reduction.

(c) For purposes of this Section 3.1, the Dodd-Frank Act, any requests, rules, guidelines or directives concerning capital adequacy promulgated by the Bank for International Settlements, the Basel Committee on Banking Regulations and Supervisory Practices (or any successor or similar authority) under Basel III, and any rules, regulations, orders, requests, guidelines and directives adopted, promulgated or implemented in connection with any of the foregoing, regardless of the date adopted, issued, promulgated or implemented, are deemed to have been introduced and adopted after the Closing Date.

(d) A certificate as to any additional amounts payable pursuant to this Section 3.1 submitted by Lender to Administrative Borrower shall be rebuttably presumptive evidence as to such additional amounts. In determining any such additional amounts, Lender may use any method of averaging and attribution that it (in its reasonable discretion) shall deem applicable. The obligations of Borrowers pursuant to this Section 3.1 shall survive the termination of this Agreement and the payment of the Loans and all other amounts payable hereunder.

Section 3.2. Taxes.

(a) All payments made by any Credit Party under any Loan Document shall be made free and clear of, and without deduction or withholding for or on account of any Taxes or Other Taxes. If any Taxes or Other Taxes are required to be deducted or withheld from any amounts payable to Lender hereunder, the amounts so payable to Lender shall be increased to the extent necessary to yield to Lender (after deducting, withholding and payment of all Taxes and Other Taxes) interest or any such other amounts payable hereunder at the rates or in the amounts specified in the Loan Documents. The agreements in this Section 3.2(a) shall survive the termination of the Loan Documents and the payment of the Loans and all other amount payable hereunder.

(b) Whenever any Taxes or Other Taxes are required to be withheld and paid by a Credit Party, such Credit Party shall timely withhold and pay such taxes to the relevant Governmental Authorities. As promptly as possible thereafter, Administrative Borrower shall send to Lender a certified copy of an original official receipt received by such Credit Party showing payment thereof or other evidence of payment reasonably acceptable to Lender. If such Credit Party shall fail to pay any Taxes or Other Taxes when due to the appropriate Governmental Authority or fails to remit to Lender the required receipts or other required documentary evidence, such Credit Party and Borrowers shall indemnify Lender on demand for any incremental Taxes or Other Taxes paid or payable by Lender as a result of any such failure. The indemnification obligations of Borrower in this Section 3.2(b) shall survive the termination of the Loan Documents and the payment of the Loans and all other amounts payable hereunder.

Section 3.3. Funding Losses. Borrowers agree to indemnify Lender, promptly after receipt of a written request therefor, and to hold Lender harmless from, any loss or expense that Lender may sustain or incur as a consequence of (a) default by a Borrower in making a borrowing of, conversion into or continuation of Eurodollar Loans after such Borrower has given a notice (including a written or verbal notice that is subsequently revoked) requesting the same in accordance with the provisions of this Agreement, (b) default by a Borrower in making any prepayment of or conversion from Eurodollar Loans after such Borrower has given a notice (including a written or verbal notice that is subsequently revoked) thereof in accordance with the provisions of this Agreement, (c) the making of a prepayment of a Eurodollar Loan on a day that is not the last day of an Interest Period applicable thereto or (d) any conversion of a Eurodollar Loan to a Base Rate Loan on a day that is not the last day of an Interest Period applicable thereto. Such indemnification shall be in an amount equal to the excess, if any, of (i) the amount of interest that would have accrued on the amounts so prepaid, or not so borrowed, converted or continued, for the period from the date of such prepayment or of such failure to borrow, convert or continue to the last day of such Interest Period (or, in the case of a failure to borrow, convert or continue, the Interest Period that would have commenced on the date of such failure) in each case at the applicable rate of interest for such Loans provided for herein over (ii) the amount of interest (as determined by Lender) that would have accrued to Lender on such amount by placing such amount on deposit for a comparable period with leading banks in the appropriate London interbank market, along with any administration fee charged by Lender. A certificate as to any amounts payable pursuant to this Section 3.3 submitted to Administrative Borrower by Lender shall be conclusive absent manifest error. The obligations of Borrowers pursuant to this Section 3.3 shall survive the termination of this Agreement and the payment of the Loans and all other amounts payable hereunder.

Section 3.4. Eurodollar Rate Lending Unlawful; Inability to Determine Rate.

(a) If Lender shall determine (which determination shall, upon notice thereof to Administrative Borrower, be conclusive and binding on Borrowers) that, after the Closing Date, (i) the introduction of or any change in or in the interpretation of any law makes it unlawful, or (ii) any Governmental Authority asserts that it is unlawful, for Lender to make or continue any Loan as, or to convert (if permitted pursuant to this Agreement) any Loan into, a Eurodollar Loan, the obligations of Lender to make, continue or convert any such Eurodollar Loan shall, upon such determination, be suspended until Lender shall notify Administrative Borrower that the circumstances causing such suspension no longer exist, and all outstanding Eurodollar Loans payable to Lender shall automatically convert (if conversion is permitted under this Agreement) into a Base Rate Loan, or be repaid (if no conversion is permitted) at the end of the then current Interest Periods with respect thereto or sooner, if required by law or such assertion.

(b) If Lender determines that for any reason adequate and reasonable means do not exist for determining the Eurodollar Rate for any requested Interest Period with respect to a proposed Eurodollar Loan, or that the Eurodollar Rate for any requested Interest Period with respect to a proposed Eurodollar Loan does not adequately and fairly reflect the cost to Lender of funding such Loan, Lender will promptly so notify Administrative Borrower. Thereafter, the obligation of Lender to make or maintain such Eurodollar Loan shall be suspended until Lender revokes such notice. Upon receipt of such notice, Administrative Borrower may revoke any pending request for a borrowing of, conversion to or continuation of such Eurodollar Loan or, failing that, will be deemed to have converted such request into a request for a borrowing of a Base Rate Loan in the amount specified therein.

Section 3.5. Funding. Lender may, but shall not be required to, make Eurodollar Loans hereunder with funds obtained outside the United States.

ARTICLE IV. CONDITIONS PRECEDENT

Section 4.1. Conditions to Each Credit Event. The obligation of Lender to participate in any Credit Event shall be conditioned, in the case of each Credit Event, upon the following:

- (a) all conditions precedent as listed in Section 4.2 hereof required to be satisfied prior to the first Credit Event shall have been satisfied prior to or as of the first Credit Event;
- (b) Administrative Borrower shall have submitted a Notice of Loan (or with respect to a Letter of Credit, complied with the provisions of Section 2.2(b)(ii) hereof) and otherwise complied with Section 2.5 hereof;
- (c) no Default or Event of Default shall then exist or immediately after such Credit Event would exist; and
- (d) each of the representations and warranties contained in Article VI hereof shall be true in all material respects as if made on and as of the date of such Credit Event, except to the extent that any thereof expressly relate to an earlier date.

Each request by Administrative Borrower or any other Borrower for a Credit Event shall be deemed to be a representation and warranty by Borrowers as of the date of such request as to the satisfaction of the conditions precedent specified in subsections (c) and (d) above.

Section 4.2. Conditions to the First Credit Event. Borrowers shall cause the following conditions to be satisfied on or prior to the Closing Date. The obligation of Lender to participate in the first Credit Event is subject to Borrowers satisfying each of the following conditions prior to or concurrently with such Credit Event:

- (a) Revolving Credit Note. Borrowers shall have executed and delivered to Lender the Revolving Credit Note.
- (b) Pledge Agreements. Each Borrower that has a Subsidiary shall have (i) executed and delivered to Lender, a Pledge Agreement, in form and substance reasonably satisfactory to Lender, with respect to the Pledged Securities, (ii) executed and delivered to Lender, appropriate transfer powers for each of the Pledged Securities, and (iii) delivered to Lender, the Pledged Securities (to the extent such Pledged Securities are certificated).
- (c) Landlords' Waivers and Mortgagees' Waivers . Borrowers shall have delivered a Landlord's Waiver and a mortgagee's waiver, if applicable, each in form and substance reasonably satisfactory to Lender, for each location of a Borrower that is owned by an Affiliate (other than a Company) where any of the collateral securing any part of the Obligations is located.

- (d) Bailees' Waivers. Borrowers shall have delivered a Bailee's Waiver, in form and substance reasonably satisfactory to Lender, for each location where a Borrower maintains any Inventory with a bailee, in form and substance reasonably satisfactory to Lender.
- (e) Consignees' Waivers. Borrowers shall have delivered a Consignee's Waiver for each location where a Borrower maintains any Inventory with a consignee, together with filed U.C.C. Financing Statements, in form and substance reasonably satisfactory to Lender.
- (f) Subordination Agreements. Borrowers shall have delivered a Subordination Agreement, fully executed by each Subordinated Creditor, in form and substance reasonably satisfactory to Lender. In addition, Borrowers shall have delivered to Lender a copy of the Subordinated Debt Documents, certified by an officer of Borrowers as being true and complete.
- (g) Intercreditor and Lien Subordination Agreement/Goodman Note. Borrowers shall have delivered the Intercreditor and Lien Subordination Agreement, fully executed by Goodman. In addition, Borrowers shall have delivered to Lender evidence that the Goodman Note has been modified on terms reasonably satisfactory to Lender (including an extension of the maturity date and a modification of the amortization schedule with respect thereto).
- (h) Lien Searches. With respect to the property owned or leased by each Borrower and any other property securing the Obligations, Borrowers shall have caused to be delivered to Lender (i) the results of Uniform Commercial Code lien searches, reasonably satisfactory to Lender; (ii) the results of federal and state tax lien and judicial lien searches, reasonably satisfactory to Lender; and (iii) Uniform Commercial Code termination statements reflecting termination of all U.C.C. Financing Statements previously filed by any Person and not expressly permitted pursuant to Section 5.9 hereof.
- (i) Officer's Certificate, Resolutions, Organizational Documents. Borrowers shall have delivered to Lender an officer's certificate (or comparable domestic or foreign documents) certifying the names of the officers of each Credit Party authorized to sign the Loan Documents, together with the true signatures of such officers and certified copies of (i) the resolutions of the board of directors (or comparable domestic or foreign documents) of such Credit Party evidencing approval of the execution and delivery of the Loan Documents and the execution of other Related Writings to which such Credit Party is a party, and (ii) the Organizational Documents of such Credit Party.
- (j) Good Standing and Full Force and Effect Certificates. Borrowers shall have delivered to Lender a good standing certificate or full force and effect certificate (or comparable document, if neither certificate is available in the applicable jurisdiction), as the case may be, for each Credit Party, issued on or about the Closing Date by the Secretary of State in the state or states where such Credit Party is incorporated or formed or qualified as a foreign entity.
- (k) Legal Opinion. Borrowers shall have delivered to Lender an opinion of counsel for each Credit Party, in form and substance reasonably satisfactory to Lender.

- (l) Insurance Policies. Borrowers shall have delivered to Lender certificates of insurance on ACORD 27 or 28 form and proof of endorsements reasonably satisfactory to Lender, providing for adequate personal property and liability insurance for each Company, with Lender listed as lender's loss payee and additional insured, as appropriate.
- (m) Cash Management Systems. Borrowers shall have established (i) the cash management system, specified in Section 7.2 hereof, and executed the Master Agreement, in form and substance satisfactory to Lender, and (ii) a Cash Collateral Account, Operating Account, Controlled Disbursement Account and Lockbox arrangement, in each case satisfactory to Lender.
- (n) Customer List. Borrowers shall have delivered to Lender a complete list of all Account Debtors of each Credit Party, including but not limited to the name, address and contact information of each Account Debtor, in form and detail reasonably satisfactory to Lender.
- (o) Closing Fee/Legal Fees and Expenses. Borrowers shall have paid to Lender on the Closing Date (i) the fees due on the Closing Date pursuant to Sections 2.8(a) and (c) hereof, and (ii) all costs and expenses of Lender, including but not limited to all reasonable legal fees and expenses of Lender in connection with the preparation and negotiation of the Loan Documents.
- (p) Financial Reports. Borrowers shall have delivered to Lender (i) internally prepared financial statements of Colonial for the fiscal quarters ended March 31, 2011 and June 30, 2011, and (ii) audited financial statements of Colonial for the fiscal years ended December 31, 2010, December 31, 2009, and December 31, 2008; in each case, prepared on a Consolidated basis, in form and substance reasonably satisfactory to Lender, and (iii) all management letters and reports prepared by independent public accountants for the fiscal years ended December 31, 2010, December 31, 2009 and December 31, 2008.
- (q) Pro-Forma Projections. Borrowers shall have delivered to Lender annual pro-forma projections of financial statements (which report shall include balance sheets and statements of income (loss) and cash-flow) of Colonial for the fiscal years ending December 31, 2011, December 31, 2012 and December 31, 2013, prepared on a Consolidated basis, in form and substance reasonably satisfactory to Lender.
- (r) Collateral Field Audit. Lender shall have received the results of a collateral field audit, in form and substance reasonably satisfactory to Lender.
- (s) Revolving Credit Availability. On the Closing Date, the Revolving Credit Availability shall be no less than One Million Seven Hundred Fifty Thousand Dollars (\$1,750,000); provided that, for purposes of calculating the Revolving Credit Availability under this Section 4.2(s), Revolving Credit Exposure shall include, without duplication, (i) any fees and expenses due under Section 4.2(o) hereof, (ii) any accounts payable of a Borrower with balances over sixty (60) days past due, and (iii) Borrowers' initial credit request under the Revolving Credit Commitment.

(t) Advertising Permission Letter. Borrowers shall have delivered to Lender an advertising permission letter, authorizing Lender to publicize the transaction and specifically to use the names of Borrowers in connection with “tombstone” advertisements in one or more publications selected by Lender.

(u) Existing Credit Agreement. Borrowers shall have terminated the Wells Fargo Credit Facilities, which termination shall be deemed to have occurred upon payment in full of all of the Indebtedness outstanding thereunder and termination of the commitments established therein.

(v) Closing Certificate. Borrowers shall have delivered to Lender an officer’s certificate certifying that, as of the Closing Date, (i) all conditions precedent set forth in this Article IV have been satisfied, (ii) no Default or Event of Default exists nor immediately after the first Credit Event will exist, (iii) Revolving Credit Availability, as calculated pursuant to Section 4.2(s) hereof, is no less than One Million Seven Hundred Fifty Thousand Dollars (\$1,750,000), and (iv) each of the representations and warranties contained in Article VI hereof are true and correct, in all material respects, as of the Closing Date.

(w) Letter of Direction. Borrowers shall have delivered to Lender a letter of direction authorizing Lender to disburse the proceeds of the Loans, which letter of direction includes the authorization to transfer funds under this Agreement and the wire instructions that set forth the locations to which such funds shall be sent.

(x) No Material Adverse Change. No material adverse change, in the reasonable opinion of Lender, shall have occurred in the financial condition, operations or prospects of the Companies since June 30, 2011.

(y) Miscellaneous. Borrowers shall have provided to Lender such other items and shall have satisfied such other conditions as may be reasonably required by Lender.

Section 4.3. Post-Closing Conditions. No later than forty-five (45) days after the Closing Date, unless otherwise agreed to by Lender in writing, Borrowers shall have delivered to Lender a Control Agreement, in form and substance reasonably satisfactory to Lender, for each Deposit Account maintained by a Credit Party (other than (i) a Deposit Account maintained with Lender, (ii) the Colonial TD Bank Account, and (iii) the Wells Fargo Account).

ARTICLE V. COVENANTS

Section 5.1. Insurance. Each Company shall at all times maintain insurance upon its Inventory, Equipment and other personal and real property in such form, written by such companies, in such amounts, for such periods, and against such risks as may be acceptable to Lender, with provisions reasonably satisfactory to Lender for, with respect to Credit Parties, payment of all losses thereunder to Lender and such Company as their interests may appear (with lender’s loss payable endorsement in favor of Lender), and, if required by Lender, Borrowers shall deposit the policies with Lender. Any such policies of insurance shall provide for no fewer than thirty (30) days prior written notice of cancellation to Lender. Any sums received by Lender in payment of insurance losses, returns, or unearned premiums under the policies may, at the option of Lender, be applied upon the Obligations whether or not the same is then due and payable, or may be delivered to the Companies for the purpose of replacing, repairing, or restoring the insured property. Lender is hereby authorized to act as attorney-in-fact for the Companies, after the occurrence and during the continuance of an Event of Default, in obtaining, adjusting, settling and canceling such insurance and indorsing any drafts. In the event of failure to provide such insurance as herein provided, Lender may, at its option, provide such insurance and Borrowers shall pay to Lender, upon demand, the cost thereof. Should Borrowers fail to pay such sum to Lender upon demand, interest shall accrue thereon, from the date of demand until paid in full, at the Default Rate. Within ten days of Lender’s written request, Borrowers shall furnish to Lender such information about the insurance of the Companies as Lender may from time to time reasonably request, which information shall be prepared in form and detail reasonably satisfactory to Lender and certified by a Financial Officer.

Section 5.2. Money Obligations. Each Company shall pay in full (a) prior in each case to the date when penalties would attach, all taxes, assessments and governmental charges and levies (except only those so long as and to the extent that the same shall be contested in good faith by appropriate and timely proceedings and for which adequate provisions have been established in accordance with GAAP) for which it may be or become liable or to which any or all of its properties may be or become subject; (b) all of its material wage obligations to its employees in compliance with the Fair Labor Standards Act (29 U.S.C. §§ 206-207) or any comparable provisions; and (c) all of its other material obligations calling for the payment of money (except only those so long as and to the extent that the same shall be contested in good faith and for which adequate provisions have been established in accordance with GAAP) before such payment becomes overdue.

Section 5.3. Financial Statements, Collateral Reporting and Information.

(a) Borrowing Base. Administrative Borrower shall deliver to Lender, as frequently as Lender may request, but no less frequently than by 5:00 P.M. (Eastern time) on each Wednesday of each calendar week (or the next Business Day if such Wednesday is not a Business Day), a Borrowing Base Certificate (for the period ending on the Sunday prior to the date such Borrowing Base Certificate is submitted) prepared and certified by a Financial Officer. Each such Borrowing Base Certificate shall be updated for all activity (sales, billings, collections, credits and similar information) impacting the accounts receivable of Borrowers from the date of the immediately preceding Borrowing Base Certificate to the date of such Borrowing Base Certificate. The amount of Eligible Inventory and the determination as to which accounts receivable constitute Eligible Accounts Receivable to be included on each Borrowing Base Certificate shall, absent a request from Lender that such amounts be calculated more frequently, be the amount that is calculated and updated monthly pursuant to subsections (e) and (f) below. Borrowers shall also deliver to Lender, within twenty (20) days after the end of each calendar month, a Borrowing Base Certificate for the calendar month just ended, prepared by a Financial Officer.

(b) Monthly Financials. Administrative Borrower shall deliver to Lender, within thirty (30) days after the end of each month, monthly internal unaudited balance sheets of Colonial as of the end of such month and statements of income (loss), stockholders' equity and cash flow for the month and fiscal year-to-date periods and a comparison to budget or plan, all prepared on a Consolidated and consolidating (in accordance with GAAP) basis, in form and detail reasonably satisfactory to Lender and certified by a Financial Officer.

(c) Annual Audit Report. Administrative Borrower shall deliver to Lender, within ninety (90) days after the end of each fiscal year of Colonial, an annual audit report of Colonial for that year prepared on a Consolidated and consolidating (in accordance with GAAP) basis, in form and detail reasonably satisfactory to Lender and certified by an unqualified opinion of an independent public accountant reasonably satisfactory to Lender, which report shall include balance sheets and statements of income (loss), stockholders' equity and cash-flow for that period.

(d) Compliance Certificate. Administrative Borrower shall deliver a Compliance Certificate to Lender, concurrently with the delivery of the financial statements set forth in subsection (b) above, and with the delivery of the annual audit report referenced in subsection (c) above.

(e) Accounts Receivable Aging Report. Administrative Borrower shall deliver to Lender, within twenty (20) days after the end of each calendar month, an accounts receivable aging report, in form and substance reasonably satisfactory to Lender and signed by a Financial Officer, (i) aged by the original invoice date of accounts receivable of Borrowers, prepared as of the last day of the preceding month, reconciled to the month-end balance sheet and month-end Borrowing Base Certificate, together with the calculation of the current month-end Eligible Accounts Receivable of Borrowers, (ii) upon Lender's request, an aging by original invoice date of all existing accounts receivable, specifying the names, current value and dates of invoices for each Account Debtor, and (iii) that includes any other information Lender shall reasonably request with respect to such accounts receivable and its evaluation of such reports.

(f) Inventory Report. Administrative Borrower shall deliver to Lender, within twenty (20) days after the end of each calendar month, a summary of Inventory, in form and substance reasonably satisfactory to Lender and signed by a Financial Officer, based upon month-end balances, reconciled to the month-end balance sheet and the month-end Borrowing Base Certificate and accompanied by an Inventory certification, in form and substance reasonably acceptable to Lender and including a calculation of the Eligible Inventory of Borrowers (the calculation of Eligible Inventory reflecting the then most recent month-end balance). Administrative Borrower shall deliver to Lender, after the end of each month, Inventory records, in such detail as Lender shall deem reasonably necessary to determine the level of Eligible Inventory. The values shown on the Inventory reports shall be at the lower of cost or market value, determined in accordance with the usual cost accounting system of Borrowers. Administrative Borrower shall provide such other reports with respect to the Inventory of Borrowers as Lender may reasonably request from time to time.

(g) Accounts Payable Aging Report. Administrative Borrower shall deliver to Lender, within twenty (20) days after the end of each calendar month, in form and detail reasonably satisfactory to Lender, an aging summary of the accounts payable of Borrowers, dated as of the last day of the preceding month.

- (h) Equipment Report. Administrative Borrower shall deliver to Lender, as frequently as Lender may request, but no less frequently than on an annual basis, an itemized schedule describing the kind, type, quality, quantity and book value of the Equipment of Borrowers.
- (i) Management Reports. Administrative Borrower shall deliver to Lender, concurrently with the delivery of the annual audit report referenced in subsection (c) above, a copy of any management report, letter or similar writing that may have been furnished to the Companies by the independent public accountants in respect of the systems, operations, financial condition or properties of the Companies.
- (j) Customer List. Administrative Borrower shall deliver to Lender an updated customer list, concurrently with the delivery of any field audit report and upon request by any field examiner of Lender, that sets forth all Account Debtors of Borrowers, including but not limited to the name, address and contact information of each Account Debtor, in form and detail reasonably satisfactory to Lender.
- (k) Projections. Administrative Borrower shall deliver to Lender, within thirty (30) days after the end of each fiscal year of Colonial, projected monthly balance sheets, income statements, cash-flow statements and a calculation of the projected Revolving Credit Availability and projected compliance with Section 5.7 hereof for the following fiscal year of Colonial, all prepared on a Consolidated basis, consistent with GAAP and in form and detail reasonably satisfactory to Lender.
- (l) Locations of Collateral. Administrative Borrower shall deliver to Lender, within thirty (30) days after the end of each fiscal year of Colonial, a replacement Schedule 6.9 that sets forth each location (including third party locations) where any Company conducts business or maintains any Accounts, Inventory or Equipment, in form and substance reasonably satisfactory to Lender.
- (m) Financial Information of the Companies. Administrative Borrower shall deliver to Lender, within ten days of the written request of Lender, such other information about the financial condition, properties and operations of any Company as Lender may from time to time reasonably request, which information shall be submitted in form and detail reasonably satisfactory to Lender and certified by a Financial Officer of the Company or Companies in question.

Section 5.4. Financial Records. Each Company shall at all times maintain true and complete records and books of account, including, without limiting the generality of the foregoing, appropriate provisions for possible losses and liabilities, all in accordance with GAAP, and at all reasonable times (during normal business hours and upon notice to such Company) permit Lender to examine such Company's books and records and to make excerpts therefrom and transcripts thereof.

Section 5.5. Franchises; Change in Business.

(a) Each Company (other than a Dormant Subsidiary) shall preserve and maintain at all times its existence, and its rights and franchises necessary for its business, except as otherwise permitted pursuant to Section 5.12 hereof.

(b) No Company shall engage in any business if, as a result thereof, the general nature of the business of the Companies taken as a whole would be substantially changed from the general nature of the business the Companies are engaged in on the Closing Date.

Section 5.6. ERISA Pension and Benefit Plan Compliance. No Company shall incur any material accumulated funding deficiency within the meaning of ERISA, or any material liability to the PBGC, established thereunder in connection with any ERISA Plan. Borrowers shall furnish to Lender (a) as soon as possible and in any event within thirty (30) days after any Company knows or has reason to know that any Reportable Event with respect to any ERISA Plan has occurred, a statement of a Financial Officer of such Company, setting forth details as to such Reportable Event and the action that such Company proposes to take with respect thereto, together with a copy of the notice of such Reportable Event given to the PBGC if a copy of such notice is available to such Company, and (b) promptly after receipt thereof a copy of any notice such Company, or any member of the Controlled Group may receive from the PBGC or the Internal Revenue Service with respect to any ERISA Plan administered by such Company; provided, that this latter clause shall not apply to notices of general application promulgated by the PBGC or the Internal Revenue Service. Borrowers shall promptly notify Lender of any material taxes assessed, proposed to be assessed or that Borrowers have reason to believe may be assessed against a Company by the Internal Revenue Service with respect to any ERISA Plan. As used in this Section 5.6, "material" means the measure of a matter of significance that shall be determined as being an amount equal to five percent (5%) of Consolidated Net Worth. As soon as practicable, and in any event within twenty (20) days, after any Company shall become aware that an ERISA Event shall have occurred, such Company shall provide Lender with notice of such ERISA Event with a certificate by a Financial Officer of such Company setting forth the details of the event and the action such Company or another Controlled Group member proposes to take with respect thereto. Borrowers shall, at the request of Lender, deliver or cause to be delivered to Lender true and correct copies of any documents relating to the ERISA Plan of any Company.

Section 5.7. Financial Covenants.

(a) Fixed Charge Coverage Ratio. Borrowers shall not suffer or permit at any time the Fixed Charge Coverage Ratio to be less than (a) 1.00 to 1.00 on October 31, 2011 through September 29, 2012, and (b) 1.10 to 1.00 on September 30, 2012 and thereafter.

(b) Consolidated Net Worth. Borrowers shall not suffer or permit at any time the Consolidated Net Worth, for the most recently completed fiscal year of Colonial, to be less than the current minimum amount required, which current minimum amount required shall be Two Million Eight Hundred Thousand Dollars (\$2,800,000) on the Closing Date through December 30, 2011, with such current minimum amount required to be positively increased by the Increase Amount on December 31, 2011, and by an additional Increase Amount on the last day of each succeeding fiscal year of Colonial thereafter. As used herein, the term "Increase Amount" means an amount equal to fifty percent (50%) of positive Consolidated Net Earnings for the fiscal year then ended (with no deduction for losses). The Consolidated Net Worth covenant set forth in this subsection (b) shall be tested on the last day of each fiscal quarter of Borrowers and on any other date Lender shall reasonably require.

Section 5.8. Borrowing. No Company shall create, incur or have outstanding any Indebtedness of any kind; provided that this Section 5.8 shall not apply to the following:

- (a) the Loans, the Letters of Credit and any other Indebtedness to Lender or any affiliate of Lender;
- (b) any loans granted to or Capitalized Lease Obligations entered into by any Company for the purchase or lease of fixed assets (and refinancings of such loans or Capitalized Lease Obligations), which loans and Capitalized Lease Obligations shall only be secured by the fixed assets being purchased or leased, so long as the aggregate principal amount of all such loans and Capitalized Lease Obligations for all Companies shall not exceed Five Hundred Thousand Dollars (\$500,000) at any time outstanding;
- (c) the Indebtedness existing on the Closing Date, in addition to the other Indebtedness permitted to be incurred pursuant to this Section 5.8, as set forth in Schedule 5.8 hereto (and any extension, renewal or refinancing thereof but only to the extent that the principal amount thereof does not increase after the Closing Date);
- (d) loans to, and guaranties of Indebtedness of, a Company from a Company so long as each such Company is a Credit Party;
- (e) Indebtedness under any Hedge Agreement, so long as such Hedge Agreement shall have been entered into in the ordinary course of business and not for speculative purposes;
- (f) Indebtedness owing to Goodman pursuant to the Goodman Note, in an aggregate principal amount not to exceed One Million Two Hundred Ninety-Nine Thousand Six Hundred Seventy-Nine and 63/100 Dollars (\$1,299,679.63), so long as such Indebtedness is subject to the Intercreditor and Lien Subordination Agreement;
- (g) the Goldman Associates Short-Term Subordinated Indebtedness;
- (h) unsecured Subordinated Indebtedness owing to (i) Goldman Associates, in an aggregate principal amount (excluding any Goldman Associates Short-Term Subordinated Indebtedness) not to exceed Seven Hundred Ninety Thousand Dollars (\$790,000), and (ii) the Investor Subordinated Creditors (other than Goldman Associates), in an aggregate principal amount not to exceed Two Hundred Seventy Thousand Dollars (\$270,000), so long as, in each case, such Subordinated Indebtedness is subject to a Subordination Agreement acceptable to Lender; and

(i) other unsecured Indebtedness, in addition to the Indebtedness listed above, in an aggregate principal amount for all Companies not to exceed at any time outstanding Fifty Thousand Dollars (\$50,000).

Section 5.9. Liens. No Company shall create, assume or suffer to exist (upon the happening of a contingency or otherwise) any Lien upon any of its property or assets, whether now owned or hereafter acquired; provided that this Section 5.9 shall not apply to the following:

(a) Liens for taxes not yet due or that are being actively contested in good faith by appropriate proceedings and for which adequate reserves shall have been established in accordance with GAAP;

(b) other statutory Liens incidental to the conduct of its business or the ownership of its property and assets that (i) were not incurred in connection with the incurring of Indebtedness or the obtaining of advances or credit, and (ii) do not in the aggregate materially detract from the value of its property or assets or materially impair the use thereof in the operation of its business;

(c) Liens on property or assets of a Subsidiary to secure obligations of such Subsidiary to a Borrower or a Guarantor of Payment;

(d) any Lien securing Indebtedness incurred to Lender or any affiliate of Lender;

(e) the Liens existing on the Closing Date as set forth in Schedule 5.9 hereto and replacements, extensions, renewals, refundings or refinancings thereof, but only to the extent that the amount of debt secured thereby, and the amount and description of property subject to such Liens, shall not be increased;

(f) purchase money Liens on fixed assets securing the loans and Capitalized Lease Obligations pursuant to Section 5.8(b) hereof, provided that such Lien is limited to the purchase price and only attaches to the property being acquired;

(g) easements or other minor defects or irregularities in title of real property not interfering in any material respect with the use of such property in the business of any Company;

(h) the Goodman Liens, so long as the Goodman Liens are subject to the Intercreditor and Lien Subordination Agreement;

(i) Liens on an aggregate amount of up to Seventy-Five Thousand Dollars (\$75,000) of cash of the Companies maintained in the Wells Fargo Account, securing indemnity obligations owing from the Companies pursuant to that certain Payoff Letter dated October 18, 2011, from Wells Fargo to Borrowers and Lender, so long as such lien is removed within seventy-five (75) days after the Closing Date; or

(j) other Liens, in addition to the Liens listed above, not incurred in connection with the incurring of Indebtedness, securing amounts, in the aggregate for all Companies, not to exceed Fifty Thousand Dollars (\$50,000) at any time.

No Company shall enter into any contract or agreement (other than a contract or agreement entered into in connection with the purchase or lease of fixed assets that prohibits Liens on such fixed assets) that would prohibit Lender from acquiring a security interest, mortgage or other Lien on, or a collateral assignment of, any of the property or assets of such Company.

Section 5.10. Regulations T, U and X. No Company shall take any action that would result in any non-compliance of the Loans or Letters of Credit with Regulations T, U or X, or any other applicable regulation, of the Board of Governors of the Federal Reserve System.

Section 5.11. Investments, Loans and Guaranties. No Company shall (a) create, acquire or hold any Subsidiary, (b) make or hold any investment in any stocks, bonds or securities of any kind, (c) be or become a party to any joint venture or other partnership, (d) make or keep outstanding any advance or loan to any Person, or (e) be or become a Guarantor of any kind (other than a Guarantor of Payment under the Loan Documents); provided that this Section 5.11 shall not apply to the following:

- (i) any endorsement of a check or other medium of payment for deposit or collection through normal banking channels or similar transaction in the normal course of business;
- (ii) any investment in direct obligations of the United States of America or in certificates of deposit issued by a member bank (having capital resources in excess of Five Hundred Million Dollars (\$500,000,000)) of the Federal Reserve System;
- (iii) any investment in commercial paper or securities that at the time of such investment is assigned the highest quality rating in accordance with the rating systems employed by either Moody's or Standard & Poor's;
- (iv) the holding of each of the Subsidiaries listed on Schedule 6.1 hereto, and the creation, acquisition and holding of and any investment in any new Subsidiary after the Closing Date so long as such new Subsidiary shall have been created, acquired or held, and investments made, in accordance with the terms and conditions of this Agreement;
- (v) loans to, investments in and guaranties of the Indebtedness (permitted under Section 5.8(d) hereof) of, a Company from or by a Company so long as each such Company is a Credit Party; and
- (vi) any advance or loan to an officer or employee of a Company as an advance on commissions, travel and other items in the ordinary course of business, so long as all such advances and loans from all Companies aggregate not more than the maximum principal sum of Fifty Thousand Dollars (\$50,000) at any time outstanding.

For purposes of this Section 5.11, the amount of any investment in equity interests shall be based upon the initial amount invested and shall not include any appreciation in value or return on such investment.

Section 5.12. Merger and Sale of Assets. No Company shall merge, amalgamate or consolidate with any other Person, or sell, lease or transfer or otherwise dispose of any assets to any Person other than in the ordinary course of business, except that, if no Default or Event of Default shall then exist or immediately thereafter shall begin to exist:

- (a) a Subsidiary (other than a Borrower) may merge with (i) a Borrower (provided that such Borrower shall be the continuing or surviving Person), or (ii) any one or more Guarantors of Payment;
- (b) a Borrower may merge with another Borrower (provided that a Borrower shall be the continuing or surviving Person);
- (c) Company may sell, lease, transfer or otherwise dispose of any of its assets to (i) a Borrower or (ii) any Guarantor of Payment;
- (d) a Subsidiary (other than a Credit Party) may merge with or sell, lease, transfer or otherwise dispose of any of its assets to any other Subsidiary;
- (e) a Borrower may sell, lease, transfer or otherwise dispose of any of its assets to another Borrower; and
- (f) a Company may sell, lease, transfer or otherwise dispose of any assets that are obsolete or no longer useful in such Company's business.

Section 5.13. Acquisitions. No Company shall effect an Acquisition.

Section 5.14. Notice.

- (a) Each Borrower shall cause a Financial Officer of such Borrower to promptly notify Lender, in writing, whenever:
 - (i) a Default or Event of Default may occur hereunder or any representation or warranty made in Article VI hereof or elsewhere in this Agreement or in any Related Writing may for any reason cease in any material respect to be true and complete;
 - (ii) a Borrower learns of a litigation or proceeding against such Borrower before a court, administrative agency or arbitrator that, if successful, might have a Material Adverse Effect; or
 - (iii) a Borrower learns that there has occurred or begun to exist any event, condition or thing that is reasonably likely to have a Material Adverse Effect.

(b) Borrowers shall provide written notice to Lender (i) contemporaneously with any notice provided to any Subordinated Creditor, and (ii) within One Business Day of any notice received from any Subordinated Creditor.

Section 5.15. Restricted Payments. No Company shall make or commit itself to make any Restricted Payment at any time, except that:

(a) so long as no Default or Event of Default shall then exist or, after giving pro forma effect to such payment, thereafter shall begin to exist, Borrowers may make regularly scheduled payments of principal and interest with respect to the Subordinated Indebtedness (including, without limitation, the Goldman Associates Short-Term Subordinated Indebtedness) owing to the Investor Subordinated Creditors;

(b) so long as no Default or Event of Default shall then exist or, after giving pro forma effect to such payment, thereafter shall begin to exist, Borrowers may make regularly scheduled payments of principal and interest with respect to the Indebtedness (permitted pursuant to Section 5.8(f) hereof) owing to Goodman; and

(c) so long as Lender has not provided a written notice to Borrowers to stop such payments after the occurrence and during the continuance of an Event of Default, Borrowers may make payments on trade accounts payable to Goodman in the ordinary course of business and upon customary terms.

Section 5.16. Environmental Compliance. Each Company shall comply in all material respects with any and all Environmental Laws including, without limitation, all Environmental Laws in jurisdictions in which such Company owns or operates a facility or site, arranges for disposal or treatment of hazardous substances, solid waste or other wastes, accepts for transport any hazardous substances, solid waste or other wastes or holds any interest in real property or otherwise. Each Company shall furnish to Lender, promptly after receipt thereof, a copy of any notice such Company may receive from any Governmental Authority or private Person, or otherwise, that any material litigation or proceeding pertaining to any environmental, health or safety matter has been filed or is threatened against such Company, any real property in which such Company holds any interest or any past or present operation of such Company. No Company shall allow the release or disposal of hazardous waste, solid waste or other wastes on, under or to any real property in which any Company holds any ownership interest or performs any of its operations, in violation of any Environmental Law. As used in this Section 5.16, "litigation or proceeding" means any demand, claim, notice, suit, suit in equity action, administrative action, investigation or inquiry whether brought by any Governmental Authority or private Person or otherwise. Each Borrower shall defend, indemnify and hold Lender harmless against all costs, expenses, claims, damages, penalties and liabilities of every kind or nature whatsoever (including reasonable attorneys' fees) arising out of or resulting from the noncompliance of any Company with any Environmental Law. Such indemnification shall survive any termination of this Agreement.

Section 5.17. Affiliate Transactions. No Company shall, directly or indirectly, enter into or permit to exist any transaction or series of transactions (including, without limitation, the purchase, sale, lease or exchange of any property or the rendering of any service) with any Affiliate (other than a Company that is a Credit Party) on terms that shall be less favorable to such Company than those that might be obtained at the time in a transaction with a Person that is not an Affiliate; provided that the foregoing shall not prohibit the payment of customary and reasonable directors' fees.

Section 5.18. Use of Proceeds. Borrowers' use of the proceeds of the Loans shall be for working capital and other general corporate purposes of the Companies and for the refinancing of existing Indebtedness.

Section 5.19. Corporate Names and Locations of Collateral. No Company shall (a) change its corporate name, or (b) change its state, province or other jurisdiction, or form of organization, or extend or continue its existence in or to any other jurisdiction (other than its jurisdiction of organization at the date of this Agreement); unless, in each case, Borrowers shall have provided Lender with at least thirty (30) days prior written notice thereof. Borrowers shall also provide Lender with at least thirty (30) days prior written notification of (i) any change in any location where any Company's Inventory or Equipment is maintained, and any new locations where any Company's Inventory or Equipment is to be maintained; (ii) any change in the location of the office where any Company's records pertaining to its Accounts are kept; (iii) the location of any new places of business and the changing or closing of any of its existing places of business; and (iv) any change in the location of any Company's chief executive office. In the event of any of the foregoing or if otherwise deemed appropriate by Lender, Lender is hereby authorized to file new U.C.C. Financing Statements describing the Collateral and otherwise in form and substance sufficient for recordation wherever necessary or appropriate, as determined in Lender's reasonable discretion, to perfect or continue perfected the security interest of Lender in the Collateral. Borrowers shall pay all filing and recording fees and taxes in connection with the filing or recordation of such U.C.C. Financing Statements and security interests and shall promptly reimburse Lender therefor if Lender pays the same. Such amounts not so paid or reimbursed shall be Related Expenses hereunder.

Section 5.20. Lease Rentals. The Companies shall not pay or commit themselves to pay base lease rentals on Operating Leases, for all Companies, in excess of the aggregate amount of Four Million Five Hundred Thousand Dollars (\$4,500,000) during any fiscal year of Colonial, commencing with the current fiscal year.

Section 5.21. Subsidiary Guaranties, Security Documents and Pledge of Stock or Other Ownership Interest.

(a) Guaranties and Security Documents. Each Subsidiary (that is not a Dormant Subsidiary) created, acquired or held subsequent to the Closing Date, shall promptly execute and deliver to Lender, a Guaranty of Payment of all of the Obligations and a Security Agreement such agreements to be prepared by Lender and in form and substance acceptable to Lender, along with any such other supporting documentation, Security Documents, corporate governance and authorization documents, and an opinion of counsel as may be deemed necessary or advisable by Lender. With respect to a Subsidiary that has been classified as a Dormant Subsidiary, at such time that such Subsidiary no longer meets the requirements of a Dormant Subsidiary, Administrative Borrower shall provide to Lender prompt written notice thereof, and shall provide, with respect to such Subsidiary, all of the documents referenced in the foregoing sentence.

(b) Pledge of Stock or Other Ownership Interest. With respect to the creation or acquisition of a Subsidiary, Borrowers shall deliver to Lender all of the share certificates (or other evidence of equity) owned by a Credit Party pursuant to the terms of a Pledge Agreement prepared by Lender and in form and substance reasonably satisfactory to Lender, and executed by the appropriate Credit Party.

Section 5.22. Collateral. Each Credit Party shall:

(a) at all reasonable times allow Lender by or through any of its officers, agents, employees, attorneys or accountants to (i) examine, inspect and make extracts from such Credit Party's books and other records, including, without limitation, the tax returns of such Credit Party, (ii) arrange for verification of such Credit Party's Accounts, under reasonable procedures, directly with Account Debtors or by other methods, (iii) examine and inspect such Credit Party's Inventory and Equipment, wherever located, and (iv) conduct Inventory appraisals;

(b) promptly furnish to Lender upon request (i) additional statements and information with respect to the Collateral, and all writings and information relating to or evidencing any of such Credit Party's Accounts (including, without limitation, computer printouts or typewritten reports listing the mailing addresses of all present Account Debtors), and (ii) any other writings and information as Lender may request;

(c) promptly notify Lender in writing upon the creation of any Accounts with respect to which the Account Debtor is the United States of America or any other Governmental Authority, or any business that is located in a foreign country;

(d) promptly notify Lender in writing upon the creation by any Company of a Deposit Account or Securities Account not listed on Schedule 6.19 hereto, and, prior to or simultaneously with the creation of such Deposit Account or Securities Account, upon written request by Lender, deliver an executed Deposit Account Control Agreement or Securities Account Control Agreement with respect thereto no later than fourteen (14) days from the receipt of Lender's written request;

(e) with respect to each Deposit Account that is not maintained with Lender (other than the Colonial TD Bank Account and the Wells Fargo Account), transfer all monies in excess of Twenty-Five Thousand Dollars (\$25,000) in such Deposit Account to the Cash Collateral Account on a daily basis;

(f) with respect to the Colonial TD Bank Account, Colonial may, unless otherwise required by Lender, maintain funds in the Colonial TD Bank Account in amounts necessary to pay general corporate expenses of Colonial incurred in the ordinary course of business and consistent with the past business practices of Colonial (including, but not limited to, (i) Restricted Payments permitted pursuant to Section 5.15(a) hereof, (ii) corporate taxes, (iii) directors fees, and (iv) corporate registration fees);

- (g) with respect to the Wells Fargo Account, (i) transfer all monies in excess of Seventy-Five Thousand Dollars (\$75,000) in the Wells Fargo Account to the Cash Collateral Account on a daily basis, and (ii) close the Wells Fargo Account (and all other Deposit Accounts and lockboxes at Wells Fargo) no later than seventy-five (75) days after the Closing Date;
- (h) promptly notify Lender in writing whenever the Equipment or Inventory of a Company is located at a location of a third party (other than another Company) that is not listed on Schedule 6.9 hereto and cause to be executed any Landlord's Waiver, Bailee's Waiver, Processor's Waiver, Consignee's Waiver or similar document or notice that may be requested by Lender;
- (i) promptly notify Lender in writing of any information that the Credit Parties have or may receive with respect to the Collateral that might reasonably be determined to materially and adversely affect the value thereof or the rights of Lender with respect thereto;
- (j) maintain such Credit Party's (i) Equipment in good operating condition and repair, ordinary wear and tear excepted, making all necessary replacements thereof so that the value and operating efficiency thereof shall at all times be maintained and preserved, (ii) finished goods Inventory in saleable condition, and (iii) other items of Collateral, taken as an entirety, in such conditions as is consistent with generally accepted business practices, ordinary wear and tear excepted;
- (k) deliver to Lender, to hold as security for the Obligations all certificated Investment Property owned by a Credit Party, in suitable form for transfer by delivery, or accompanied by duly executed instruments of transfer or assignment in blank, all in form and substance reasonably satisfactory to Lender, or in the event such Investment Property is in the possession of a Securities Intermediary or credited to a Securities Account, execute with the related Securities Intermediary a Securities Account Control Agreement over such Securities Account in favor of Lender, in form and substance reasonably satisfactory to Lender;
- (l) provide to Lender, on a quarterly basis (as necessary), a list of any patents, trademarks or copyrights that have been federally registered by a Borrower or Subsidiary that have been federally registered since the last list so delivered, and provide for the execution of an appropriate Intellectual Property Security Agreement; and
- (m) upon request of Lender, promptly take such action and promptly make, execute, and deliver all such additional and further items, deeds, assurances, instruments and any other writings as Lender may from time to time deem necessary or appropriate, including, without limitation, chattel paper, to carry into effect the intention of this Agreement, or so as to completely vest in and ensure to Lender its rights hereunder and in or to the Collateral.

Each Borrower hereby authorizes Lender to file U.C.C. Financing Statements or other appropriate notices with respect to the Collateral. If certificates of title or applications for title are issued or outstanding with respect to any of the Inventory or Equipment of any Credit Party, such Credit Party shall, upon request of Lender, (i) execute and deliver to Lender a short form security agreement, prepared by Lender and in form and substance reasonably satisfactory to Lender, and (ii) deliver such certificate or application to Lender and cause the interest of Lender to be properly noted thereon. Each Borrower hereby authorizes Lender or Lender's designated agent (but without obligation by Lender to do so) to incur Related Expenses (whether prior to, upon, or subsequent to any Default or Event of Default), and Borrowers shall promptly repay, reimburse, and indemnify Lender for any and all Related Expenses. If any Credit Party fails to keep and maintain its Equipment in good operating condition, ordinary wear and tear excepted, Lender may (but shall not be required to) so maintain or repair all or any part of such Credit Party's Equipment and the cost thereof shall be a Related Expense. All Related Expenses are payable to Lender upon demand therefor; Lender may, at its option, debit Related Expenses directly to any Deposit Account of a Company located at Lender or the Revolving Loans.

Section 5.23. Returns of Inventory. No Credit Party shall return any Inventory to a supplier, vendor or other Person, whether for cash, credit or otherwise, unless (a) such return is in the ordinary course of business; (b) no Default or Event of Default exists or would result therefrom; (c) Lender is promptly notified if the aggregate value of all Inventory returned in any month exceeds One Hundred Thousand Dollars (\$100,000); and (d) any payment received by such Credit Party for a return is promptly remitted to Lender for application to the Obligations.

Section 5.24. Acquisition, Sale and Maintenance of Inventory. The Credit Parties shall take all steps to assure that all Inventory is produced in accordance with applicable laws, including the Fair Labor Standards Act (29 U.S.C. §§ 206-207). The Credit Parties shall use, store and maintain all Inventory with reasonable care and caution, in accordance with applicable standards of any insurance and in conformity with all applicable laws, and shall make current rent payments (within applicable grace periods provided for in leases) at all locations where any Collateral is located.

Section 5.25. Property Acquired Subsequent to the Closing Date and Right to Take Additional Collateral. Borrowers shall provide Lender with prompt written notice with respect to any real or personal property (other than in the ordinary course of business and excluding Accounts, Inventory, Equipment and General Intangibles, and other property acquired in the ordinary course of business) acquired by any Company subsequent to the Closing Date. In addition to any other right that Lender may have pursuant to this Agreement or otherwise, upon written request of Lender, whenever made, Borrowers shall, and shall cause each Guarantor of Payment to, grant to Lender as additional security for the Obligations, a first Lien on any real or personal property of each Borrower and Guarantor of Payment (other than for leased equipment or equipment subject to a purchase money security interest in which the lessor or purchase money lender of such equipment holds a first priority security interest, in which case, Lender shall have the right to obtain a security interest junior only to such lessor or purchase money lender), including, without limitation, such property acquired subsequent to the Closing Date, in which Lender does not have a first priority Lien. Borrowers agree, within ten days after the date of such written request, to secure all of the Obligations by delivering to Lender security agreements, intellectual property security agreements, pledge agreements, mortgages (or deeds of trust, if applicable) or other documents, instruments or agreements or such thereof as Lender may require with respect to any of the Credit Parties. Borrowers shall pay all recordation, legal and other expenses in connection therewith.

Section 5.26. Restrictive Agreements. Except as set forth in this Agreement, Borrowers shall not, and shall not permit any of their Subsidiaries to, directly or indirectly, create or otherwise cause or suffer to exist or become effective any encumbrance or restriction on the ability of any Subsidiary to (a) make, directly or indirectly, any Capital Distribution to any Borrower, (b) make, directly or indirectly, loans or advances or capital contributions to any Borrower, or (c) transfer, directly or indirectly, any of the properties or assets of such Subsidiary to any Borrower; except for such encumbrances or restrictions existing under or by reason of (i) applicable law, (ii) customary non-assignment provisions in leases or other agreements entered in the ordinary course of business and consistent with past practices, or (iii) customary restrictions in security agreements or mortgages securing Indebtedness, or capital leases, of a Company to the extent such restrictions shall only restrict the transfer of the property subject to such security agreement, mortgage or lease.

Section 5.27. Other Covenants and Provisions. In the event that any Company shall enter into, or shall have entered into, any Material Indebtedness Agreement, wherein the covenants, representations and agreements contained therein shall be more restrictive than the covenants, representations and agreements set forth herein, then the Companies shall immediately be bound hereunder (without further action) by such more restrictive covenants, representations and agreements with the same force and effect as if such covenants, representations and agreements were written herein. In addition to the foregoing, Borrowers shall provide prompt written notice to Lender of the creation or existence of any Material Indebtedness Agreement that has such more restrictive provisions, and shall, within fifteen (15) days thereafter (if requested by Lender), execute and deliver to Lender an amendment to this Agreement that incorporates such more restrictive provisions, with such amendment to be in form and substance reasonably satisfactory to Lender. For clarification, this Section 5.27 is not intended to apply to any Material Indebtedness Agreement entered into prior to the Closing Date, unless such Material Indebtedness Agreement shall continue to be effective after the Closing Date.

Section 5.28. Subordinated Debt Documents/Goodman Note. Borrowers shall not, without the prior written consent of Lender, amend, restate, supplement or otherwise modify any of the Subordinated Debt Documents to the extent that such amendment, restatement, supplement or modification is not permitted under the applicable Subordination Agreement. Borrowers shall not, without the prior written consent of Lender, amend, restate, supplement or otherwise modify the Goodman Note to the extent that such amendment, restatement, supplement or modification is not permitted under the Intercreditor and Lien Subordination Agreement.

Section 5.29. Senior Ranking. The Indebtedness under the Subordinated Debt Documents shall, and Borrowers shall take all necessary action to ensure that the Indebtedness under the Subordinated Debt Documents shall, at all times, be subordinated in right of payment to the Obligations.

Section 5.30. Amendment of Organizational Documents. Without the prior written consent of Lender, which consent shall not be unreasonably withheld, no Company shall (a) amend its Organizational Documents in any manner adverse to Lender, or (b) amend its Organizational Documents to change its name or state, province or other jurisdiction of organization, or its form, of organization.

Section 5.31. Fiscal Year of Borrowers. No Borrower shall change the date of its fiscal year-end without the prior written consent of Lender. As of the Closing Date, the fiscal year end of each Borrower is December 31 of each year.

Section 5.32. Banking Relationship. Until payment in full of the Obligations, each Borrower shall maintain its primary banking and depository relationship with Lender.

Section 5.33. Further Assurances. Borrowers shall, and shall cause each other Credit Party to, promptly upon request by Lender, (a) correct any material defect or error that may be discovered in any Loan Document or in the execution, acknowledgment, filing or recordation thereof, and (b) do, execute, acknowledge, deliver, record, re-record, file, re-file, register and re-register any and all such further acts, deeds, certificates, assurances and other instruments related to the Collateral as Lender may reasonably require from time to time in order to carry out more effectively the purposes of the Loan Documents.

ARTICLE VI. REPRESENTATIONS AND WARRANTIES

Section 6.1. Corporate Existence; Subsidiaries; Foreign Qualification. Each Company is duly organized, validly existing and in good standing (or comparable concept in the applicable jurisdiction) under the laws of its state or jurisdiction of incorporation or organization, and is duly qualified and authorized to do business and is in good standing (or comparable concept in the applicable jurisdiction) as a foreign entity in the jurisdictions set forth opposite its name on Schedule 6.1 hereto, which are all of the states or jurisdictions where the character of its property or its business activities makes such qualification necessary, except where a failure to be so qualified would not reasonably be expected to have a Material Adverse Effect. Schedule 6.1 hereto sets forth, as of the Closing Date, each Subsidiary of a Borrower (and whether such Subsidiary is a Dormant Subsidiary), its state (or jurisdiction) of formation, its relationship to a Borrower, including the percentage of each class of stock (or other equity interest) owned by a Company, each Person that owns the stock or other equity interest of each Company (other than Colonial), the location of its chief executive office and its principal place of business. Each Borrower, directly or indirectly, owns all of the equity interests of each of its Subsidiaries.

Section 6.2. Corporate Authority. Each Credit Party has the right and power and is duly authorized and empowered to enter into, execute and deliver the Loan Documents to which it is a party and to perform and observe the provisions of the Loan Documents. The Loan Documents to which each Credit Party is a party have been duly authorized and approved by such Credit Party's board of directors or other governing body, as applicable, and are the valid and binding obligations of such Credit Party, enforceable against such Credit Party in accordance with their respective terms, except to the extent that enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the enforceability of creditors' rights generally or general principles of equity. The execution, delivery and performance of the Loan Documents do not conflict with, result in a breach in any of the provisions of, constitute a default under, or result in the creation of a Lien (other than Liens permitted under Section 5.9 hereof) upon any assets or property of any Company under the provisions of, such Company's Organizational Documents or any material agreement to which such Company is a party.

Section 6.3. Compliance with Laws and Contracts. Each Company:

- (a) holds permits, certificates, licenses, orders, registrations, franchises, authorizations, and other approvals from any Governmental Authority necessary for the conduct of its business and is in compliance with all applicable laws relating thereto, except where the failure to do so would not have a Material Adverse Effect;
- (b) is in compliance with all federal, state, local, or foreign applicable statutes, rules, regulations, and orders including, without limitation, those relating to environmental protection, occupational safety and health, and equal employment practices, except where the failure to be in compliance would not have a Material Adverse Effect;
- (c) is not in violation of or in default under any agreement to which it is a party or by which its assets are subject or bound, except with respect to any violation or default that would not have a Material Adverse Effect;
- (d) has ensured that no Person who owns a controlling interest in a Company or otherwise controls a Company is (i) listed on the Specially Designated Nationals and Blocked Person List maintained by the Office of Foreign Assets Control (“OFAC”), Department of the Treasury, or any other similar lists maintained by OFAC pursuant to any authorizing statute, executive order or regulation, or (ii) a Person designated under Section 1(b), (c) or (d) of Executive Order No. 13224 (September 23, 2001), any related enabling legislation or any other similar executive orders;
- (e) is in material compliance with all applicable Bank Secrecy Act (“BSA”) and anti-money laundering laws and regulations; and
- (f) is in compliance, in all material respects, with the Patriot Act.

Section 6.4. Litigation and Administrative Proceedings. Except as disclosed on Schedule 6.4 hereto, there are (a) no lawsuits, actions, investigations, examinations or other proceedings pending or threatened against any Company, or in respect of which any Company may have any liability, in any court or before or by any Governmental Authority, arbitration board, or other tribunal that could reasonably be expected to have a Material Adverse Effect, (b) no orders, writs, injunctions, judgments, or decrees of any court or Governmental Authority to which any Company is a party or by which the property or assets of any Company are bound that could reasonably be expected to have a Material Adverse Effect, and (c) no grievances, disputes, or controversies outstanding with any union or other organization of the employees of any Company, or threats of work stoppage, strike, or pending demands for collective bargaining, that could reasonably be expected to have a Material Adverse Effect.

Section 6.5. Title to Assets. Each Company has good title to and ownership of all property it purports to own, which property is free and clear of all Liens, except those permitted under Section 5.9 hereof. As of the Closing Date, no Company owns any real property.

Section 6.6. Liens and Security Interests. On and after the Closing Date, except for Liens permitted pursuant to Section 5.9 hereof, (a) there is and will be no effective U.C.C. Financing Statement or similar notice of Lien outstanding covering any personal property of any Company; (b) there is and will be no mortgage outstanding covering any real property of any Company; and (c) no real or personal property of any Company is subject to any Lien of any kind. Upon the filing of the U.C.C. Financing Statements and taking such other actions necessary to perfect its Lien against Collateral of the corresponding type as authorized hereunder, Lender has a valid and enforceable first Lien on the Collateral (except as specifically set forth in the Intercreditor and Lien Subordination Agreement and except for the Lien of Wells Fargo permitted pursuant to Section 5.9(i) hereof). No Company has entered into any contract or agreement (other than a contract or agreement entered into in connection with the purchase or lease of fixed assets that prohibits Liens on such fixed assets) that exists on or after the Closing Date that would prohibit Lender from acquiring a Lien on, or a collateral assignment of, any of the property or assets of any Company.

Section 6.7. Tax Returns. All federal, state and local tax returns and other reports required by law to be filed in respect of the income, business, properties and employees of each Company have been filed and all taxes, assessments, fees and other governmental charges that are due and payable have been paid, except as otherwise permitted herein. The provision for taxes on the books of each Company is adequate for all years not closed by applicable statutes and for the current fiscal year.

Section 6.8. Environmental Laws. Each Company is in material compliance with all Environmental Laws, including, without limitation, all Environmental Laws in all jurisdictions in which any Company owns or operates, or has owned or operated, a facility or site, arranges or has arranged for disposal or treatment of hazardous substances, solid waste or other wastes, accepts or has accepted for transport any hazardous substances, solid waste or other wastes or holds or has held any interest in real property or otherwise. Except as set forth on Schedule 6.4 hereto, no litigation or proceeding arising under, relating to or in connection with any Environmental Law is pending or, to the best knowledge of each Company, threatened, against any Company, any real property in which any Company holds or has held an interest or any past or present operation of any Company. No material release, threatened release or disposal of hazardous waste, solid waste or other wastes is occurring, or has occurred (other than those that are currently being remediated in accordance with Environmental Laws), on, under or to any real property in which any Company holds any interest or performs any of its operations, in violation of any Environmental Law. As used in this Section 6.8, "litigation or proceeding" means any demand, claim, notice, suit, suit in equity, action, administrative action, investigation or inquiry whether brought by any Governmental Authority or private Person, or otherwise.

Section 6.9. Locations. As of the Closing Date, the Companies have places of business or maintain their Accounts, Inventory and Equipment at the locations (including third party locations) set forth on Schedule 6.9 hereto, and each Company's chief executive office is set forth on Schedule 6.9 hereto. Schedule 6.9 hereto further specifies whether each location, as of the Closing Date, (a) is owned by the Companies, or (b) is leased by a Company from a third party, and, if leased by a Company from a third party, if a Landlord's Waiver has been requested. As of the Closing Date, Schedule 6.9 hereto correctly identifies the name and address of each third party location where assets of the Companies are located.

Section 6.10. Continued Business. There exists no actual, pending, or, to each Borrower's knowledge, any threatened termination, cancellation or limitation of, or any modification or change in the business relationship of any Company and any customer or supplier, or any group of customers or suppliers, whose purchases or supplies, individually or in the aggregate, are material to the business of any Company, and there exists no present condition or state of facts or circumstances that would have a Material Adverse Effect or prevent a Company from conducting such business or the transactions contemplated by this Agreement in substantially the same manner in which it was previously conducted.

Section 6.11. Employee Benefits Plans. Schedule 6.11 hereto identifies each ERISA Plan as of the Closing Date. No material ERISA Event has occurred or is expected to occur with respect to an ERISA Plan. Full payment has been made of all material amounts that a Controlled Group member is required, under applicable law or under the governing documents, to have paid as a contribution to or a benefit under each ERISA Plan. Each material liability of each Controlled Group member with respect to each ERISA Plan has been fully funded based upon reasonable and proper actuarial assumptions, has been fully insured, or has been fully reserved for on its financial statements. No changes have occurred or are expected to occur that would cause a material increase in the cost of providing benefits under the ERISA Plan. With respect to each ERISA Plan that is intended to be qualified under Code Section 401(a), (a) the ERISA Plan and any associated trust operationally comply in all material respects with the applicable requirements of Code Section 401(a); (b) the ERISA Plan and any associated trust have been amended to comply with all such requirements as currently in effect, other than those requirements for which a retroactive amendment can be made within the "remedial amendment period" available under Code Section 401(b) (as extended under Treasury Regulations and other Treasury pronouncements upon which taxpayers may rely); (c) the ERISA Plan and any associated trust have received a favorable determination letter from the Internal Revenue Service stating that the ERISA Plan qualifies under Code Section 401(a), that the associated trust qualifies under Code Section 501(a) and, if applicable, that any cash or deferred arrangement under the ERISA Plan qualifies under Code Section 401(k), unless the ERISA Plan was first adopted at a time for which the above-described "remedial amendment period" has not yet expired; (d) the ERISA Plan currently satisfies, in all material respects, the requirements of Code Section 410(b), without regard to any retroactive amendment that may be made within the above-described "remedial amendment period"; and (e) no contribution made to the ERISA Plan is subject to a material excise tax under Code Section 4972. With respect to any Pension Plan, the "accumulated benefit obligation" of Controlled Group members with respect to the Pension Plan (as determined in accordance with Statement of Accounting Standards No. 87, "Employers' Accounting for Pensions") does not exceed the fair market value of Pension Plan assets.

Section 6.12. Consents or Approvals. No consent, approval or authorization of, or filing, registration or qualification with, any Governmental Authority or any other Person is required to be obtained or completed by any Company in connection with the execution, delivery or performance of any of the Loan Documents, that has not already been obtained or completed, except for disclosure filings required to be made in connection with the effectiveness of the Loan Documents by the SEC or other applicable securities laws and regulations.

Section 6.13. Solvency. Each Borrower has received consideration that is the reasonably equivalent value of the obligations and liabilities that such Borrower has incurred to Lender. No Borrower is insolvent as defined in any applicable state, federal or relevant foreign statute, nor will any Borrower be rendered insolvent by the execution and delivery of the Loan Documents to Lender. No Borrower is engaged or about to engage in any business or transaction for which the assets retained by it are or will be an unreasonably small amount of capital, taking into consideration the obligations to Lender incurred hereunder. No Borrower intends to, nor does it believe that it will, incur debts beyond its ability to pay such debts as they mature.

Section 6.14. Financial Statements. The audited Consolidated financial statements of Colonial for the fiscal year ended December 31, 2010 and the unaudited Consolidated financial statements of Colonial for the fiscal quarter ended June 30, 2011, furnished to Lender, are true and complete in all material respects, have been prepared in accordance with GAAP, and fairly present in all material respects the financial condition of the Companies as of the dates of such financial statements and the results of their operations for the periods then ending. Since the dates of such statements, there has been no material adverse change in any Company's financial condition, properties or business or any change in any Company's accounting procedures.

Section 6.15. Regulations. No Company is engaged principally or as one of its important activities, in the business of extending credit for the purpose of purchasing or carrying any "margin stock" (within the meaning of Regulation U of the Board of Governors of the Federal Reserve System of the United States of America). Neither the granting of any Loan (or any conversion thereof) or Letter of Credit nor the use of the proceeds of any Loan or Letter of Credit will violate, or be inconsistent with, the provisions of Regulation T, U or X or any other Regulation of such Board of Governors.

Section 6.16. Material Agreements. Except as disclosed on Schedule 6.16 hereto, as of the Closing Date, no Company is a party to any (a) debt instrument (excluding the Loan Documents); (b) lease (capital, operating or otherwise), whether as lessee or lessor thereunder; (c) contract, commitment, agreement, or other arrangement involving the purchase or sale of any inventory by it, or the license of any right to or by it; (d) contract, commitment, agreement, or other arrangement with any of its "Affiliates" (as such term is defined in the Exchange Act) other than a Company; (e) management or employment contract or contract for personal services with any of its Affiliates that is not otherwise terminable at will or on less than ninety (90) days' notice without liability; (f) collective bargaining agreement; or (g) other contract, agreement, understanding, or arrangement with a third party that, as to subsections (a) through (g) above, if violated, breached, or terminated for any reason, would have or would be reasonably expected to have a Material Adverse Effect.

Section 6.17. Intellectual Property. Each Company owns, or has the right to use, all of the patents, patent applications, industrial designs, designs, trademarks, service marks, copyrights and licenses, and rights with respect to the foregoing, necessary for the conduct of its business without any known conflict with the rights of others, except where the failure to do so would not have a Material Adverse Effect. Schedule 6.17 hereto sets forth all federally registered intellectual property, including, without limitation, any patents, patent applications, trademarks, service marks, copyrights, licenses and rights with respect to the foregoing owned by each Company as of the Closing Date.

Section 6.18. Insurance. Each Company maintains with financially sound and reputable insurers insurance with coverage and limits as required by law and as is customary with Persons engaged in the same businesses as the Companies. Schedule 6.18 hereto sets forth all insurance carried by the Companies on the Closing Date, setting forth in detail the amount and type of such insurance.

Section 6.19. Deposit Accounts and Securities Accounts. Schedule 6.19 hereto lists all banks, other financial institutions and Securities Intermediaries at which any Borrower or Credit Party maintains Deposit Accounts or Securities Accounts as of the Closing Date, and Schedule 6.19 hereto correctly identifies the name, address and telephone number of each such financial institution or Securities Intermediary, the name in which the account is held, a description of the purpose of the account, and the complete account number therefor.

Section 6.20. Accurate and Complete Statements. Neither the Loan Documents nor any written statement made by any Company in connection with any of the Loan Documents contains any untrue statement of a material fact or omits to state a material fact necessary to make the statements contained therein or in the Loan Documents not misleading. After due inquiry by Borrowers, there is no known fact that any Company has not disclosed to Lender that has or is likely to have a Material Adverse Effect.

Section 6.21. Investment Company; Other Restrictions. No Company is (a) an “investment company” or a company “controlled” by an “investment company” within the meaning of the Investment Company Act of 1940, as amended, or (b) subject to any foreign, federal, state or local statute or regulation limiting its ability to incur Indebtedness.

Section 6.22. Subordinated Debt Documents. No “default” or “event of default” (as defined in any Subordinated Debt Document or in the Goodman Note), or event with which the passage of time or the giving of notice, or both, would cause a default or event of default, exists, nor will exist immediately after the granting of any Loan or the issuance of any Letter of Credit under this Agreement.

Section 6.23. Defaults. No Default or Event of Default exists hereunder, nor will any begin to exist immediately after the execution and delivery hereof.

ARTICLE VII. SECURITY

Section 7.1. Security Interest in Collateral. In consideration of and as security for the full and complete payment of all of the Obligations, each Borrower hereby grants to Lender (and any affiliate of Lender that holds any Obligations), a security interest in the Collateral.

Section 7.2. Cash Management System. Borrowers shall establish and maintain, until the payment in full of the Obligations and the termination of the Commitment, the cash management systems described below:

(a) Lockbox. On or before the Closing Date, Borrowers shall (i) establish a lockbox arrangement with Lender (the "Lockbox"), which shall be governed by the Master Agreement, and, within ten days after the Closing Date, shall request in writing and otherwise take such reasonable steps to ensure that all Account Debtors forward all Collections directly to the Lockbox (if Borrowers neglect or refuse to notify any Account Debtor to remit all such Collections to the Lockbox, Lender shall be entitled to make such notification), (ii) hold in trust for Lender, as fiduciary for Lender, all checks, cash and other items of payment received by Borrowers, and (iii) not commingle any Collections with any other funds or property of Borrowers, but will hold such funds separate and apart in trust and as fiduciary for Lender until deposit is made into the Cash Collateral Account. Notwithstanding anything in this Section 7.2(a) to the contrary, Borrowers may maintain and deposit retail collections into one or more Secondary Accounts so long as Borrowers comply with the provisions of Section 5.22(d) and (e) hereof.

(b) Cash Collateral Account. On or before the Closing Date, Borrowers shall have established a Cash Collateral Account with Lender. All Collections from sales of Inventory and services rendered or from Account Debtors sent to the Lockbox shall be deposited directly on a daily basis, and in any event no later than the first Business Day after the date of receipt thereof, into the Cash Collateral Account in the identical form in which such Collections were made (except for any necessary endorsements) whether by cash or check. All amounts deposited in the Cash Collateral Account from the Lockbox or any other source shall be under the sole and exclusive control of Lender. Borrowers shall have no interest in or control over such funds. The Cash Collateral Account shall not be subject to any deduction, set off, banker's lien or any other right in favor of any Person other than Lender.

(c) Operating Accounts. Borrowers shall maintain, in their name, one or more Operating Accounts with Lender, into which Lender shall, from time to time, deposit proceeds of the Revolving Loans made to Borrowers for use by the Companies in accordance with the provisions of Section 5.18 hereof. Unless otherwise agreed by Lender and Borrowers, any Revolving Loan requested by Administrative Borrower and made under this Agreement shall be deposited into the Operating Account. Borrowers shall not accumulate or maintain cash in the Operating Account or payroll or other such accounts, as of any date of determination, in excess of checks outstanding against the Controlled Disbursement Account (or Controlled Disbursement Accounts) and other deposit accounts approved by Lender (such as medical benefit accounts, flexible spending accounts and automated clearing house accounts) as of that date, and amounts necessary to meet minimum balance requirements.

(d) Controlled Disbursement Account. Borrowers shall maintain, in the name of Administrative Borrower, a Controlled Disbursement Account with Lender. Borrowers may maintain more than one Controlled Disbursement Account. Borrowers shall base their requests for Revolving Loans on, among other things, the daily balance of the Controlled Disbursement Account (or Controlled Disbursement Accounts). Borrowers shall not, and shall not cause or permit any Company, to maintain cash in any Controlled Disbursement Account, as of any date of determination, in excess of checks outstanding against such account as of that date, and amounts necessary to meet minimum balance requirements.

(e) Lockbox and Security Accounts. The Lockbox established pursuant to the Lockbox agreement and the Cash Collateral Account, the Operating Account and the Controlled Disbursement Accounts shall be Security Accounts, with all cash, checks and other similar items of payment in such accounts securing payment of the Obligations.

(f) Costs of Collection. All reasonable costs of collection of the Accounts of Borrowers, including out-of-pocket expenses, administrative and record-keeping costs, reasonable attorneys' fees, and all service charges and costs related to the establishment and maintenance of the Security Accounts shall be the sole responsibility of Borrowers, whether the same are incurred by Lender or Borrowers. Borrowers each hereby indemnify and hold Lender harmless from and against any loss or damage with respect to any deposits made in the Security Accounts that are dishonored or returned for any reason. If any deposits are dishonored or returned unpaid for any reason, Lender, in its sole discretion, may charge the amount thereof against the Cash Collateral Account or any other Security Account or other Deposit Account of Borrowers. Lender shall not be liable for any loss or damage resulting from any error, omission, failure or negligence on the part of Lender, except losses or damages resulting from Lender's gross negligence or willful misconduct, as determined by a final judgment of a court of competent jurisdiction.

(g) Return of Funds. Upon the payment in full of the Obligations (other than continuing indemnification obligations) and the termination of the Commitment hereunder, (i) Lender's security interests and other rights in funds in the Security Accounts shall terminate, (ii) all rights to such funds shall revert to Borrowers, as applicable, and (iii) Lender will, at Borrowers' expense, take such steps as Administrative Borrower may reasonably request to evidence the termination of such security interests and to effect the return to Borrowers of such funds.

(h) Attorney-in-Fact to Endorse Documents. Lender, or Lender's designated agent, is hereby constituted and appointed attorney-in-fact for each Borrower with authority and power to endorse, after the occurrence and during the continuance of an Event of Default, any and all instruments, documents, and chattel paper upon the failure of such Borrower to do so. Such authority and power, being coupled with an interest, shall be (i) irrevocable until all of the Obligations are paid, (ii) exercisable by Lender at any time and without any request upon Borrowers by Lender to so endorse, and (iii) exercisable in the name of Lender or any Borrower. Each Borrower hereby waives presentment, demand, notice of dishonor, protest, notice of protest, and any and all other similar notices with respect thereto, regardless of the form of any endorsement thereof. Lender shall not be bound or obligated to take any action to preserve any rights therein against prior parties thereto.

Section 7.3. Collections and Receipt of Proceeds by Lender. Each Borrower hereby constitutes and appoints Lender, or Lender's designated agent, as such Borrower's attorney-in-fact to exercise, at any time, all or any of the following powers which, being coupled with an interest, shall be irrevocable until the complete and full payment of all of the Obligations:

- (a) to receive, retain, acquire, take, endorse, assign, deliver, accept, and deposit, in the name of Lender or such Borrower, any and all of such Borrower's cash, instruments, chattel paper, documents, Proceeds of Accounts, Proceeds of Inventory, collection of Accounts, and any other writings relating to any of the Collateral. Each Borrower hereby waives presentment, demand, notice of dishonor, protest, notice of protest, and any and all other similar notices with respect thereto, regardless of the form of any endorsement thereof. Lender shall not be bound or obligated to take any action to preserve any rights therein against prior parties thereto;
- (b) to transmit to Account Debtors, on any or all of such Borrower's Accounts, after the occurrence and during the continuance of an Event of Default, notice of assignment to Lender thereof and the security interest of Lender therein, and to request from such Account Debtors at any time, in the name of Lender or such Borrower, information concerning such Borrower's Accounts and the amounts owing thereon;
- (c) after the occurrence and during the continuance of an Event of Default, to transmit to purchasers of any or all of such Borrower's Inventory, notice of Lender's security interest therein, and to request from such purchasers at any time, in the name of Lender or such Borrower, information concerning such Borrower's Inventory and the amounts owing thereon by such purchasers;
- (d) after the occurrence and during the continuance of an Event of Default, to notify and require Account Debtors on such Borrower's Accounts and purchasers of such Borrower's Inventory to make payment of their indebtedness directly to Lender;
- (e) after the occurrence and during the continuance of an Event of Default, to enter into or assent to such amendment, compromise, extension, release or other modification of any kind of, or substitution for, the Accounts, or any thereof, as Lender, in its sole discretion, may deem to be advisable;
- (f) after the occurrence and during the continuance of an Event of Default, to enforce the Accounts or any thereof, or any other Collateral, by suit or otherwise, to maintain any such suit or other proceeding in the name of Lender or such Borrower, and to withdraw any such suit or other proceeding. Borrowers agree to lend every assistance requested by Lender in respect of the foregoing, all at no cost or expense to Lender and including, without limitation, the furnishing of such witnesses and of such records and other writings as Lender may require in connection with making legal proof of any Account. Borrowers agree to reimburse Lender in full for all court costs and reasonable attorneys' fees and every other cost, expense or liability, if any, incurred or paid by Lender in connection with the foregoing, which obligation of Borrowers shall constitute Obligations, shall be secured by the Collateral and shall bear interest, until paid, at the Default Rate;

(g) to take or bring, in the name of Lender or such Borrower, all steps, actions, suits, or proceedings deemed by Lender necessary or desirable to effect the receipt, enforcement, and collection of the Collateral; and

(h) to accept all collections in any form relating to the Collateral, including remittances that may reflect deductions, and to deposit the same into such Borrower's Cash Collateral Account or, at the option of Lender, to apply them as a payment against the Loans or any other Obligations in accordance with this Agreement.

Section 7.4. Lender's Authority Under Pledged Notes. For the better protection of Lender hereunder, each Borrower, as appropriate, has executed (or will execute, with respect to future Pledged Notes) an appropriate endorsement on (or separate from) each Pledged Note and has deposited (or will deposit, with respect to future Pledged Notes) such Pledged Note with Lender. Such Borrower irrevocably authorizes and empowers Lender to (a) ask for, demand, collect and receive all payments of principal of and interest on the Pledged Notes; (b) compromise and settle any dispute arising in respect of the foregoing; (c) execute and deliver vouchers, receipts and acquittances in full discharge of the foregoing; (d) exercise, in Lender's reasonable discretion, any right, power or privilege granted to the holder of any Pledged Note by the provisions thereof including, without limitation, the right to demand security or to waive any default thereunder; (e) endorse such Borrower's name to each check or other writing received by Lender as a payment or other proceeds of or otherwise in connection with any Pledged Note; (f) enforce delivery and payment of the principal and/or interest on the Pledged Notes, in each case by suit or otherwise as Lender may desire; and (g) enforce the security, if any, for the Pledged Notes by instituting foreclosure proceedings, by conducting public or other sales or otherwise, and to take all other steps as Lender, in its reasonable discretion, may deem advisable in connection with the foregoing; provided, however, that nothing contained or implied herein or elsewhere shall obligate Lender to institute any action, suit or proceeding or to make or do any other act or thing contemplated by this Section 7.4 or prohibit Lender from settling, withdrawing or dismissing any action, suit or proceeding or require Lender to preserve any other right of any kind in respect of the Pledged Notes and the security, if any, therefor.

Section 7.5. Commercial Tort Claims. If any Borrower shall at any time hold or acquire a Commercial Tort Claim, such Borrower shall promptly notify Lender thereof in a writing signed by such Borrower, that sets forth the details thereof and grants to Lender a Lien thereon and on the Proceeds thereof, all upon the terms of this Agreement, with such writing to be prepared by and in form and substance reasonably satisfactory to Lender.

Section 7.6. Use of Inventory and Equipment. Until the exercise by Lender of its rights under Article IX hereof, each Borrower may (a) retain possession of and use its Inventory and Equipment in any lawful manner not inconsistent with this Agreement or with the terms, conditions, or provisions of any policy of insurance thereon; (b) sell or lease its Inventory in the ordinary course of business or as otherwise permitted by this Agreement; and (c) use and consume any raw materials or supplies, the use and consumption of which are necessary in order to carry on such Borrower's business.

ARTICLE VIII. EVENTS OF DEFAULT

Any of the following specified events shall constitute an Event of Default (each an “Event of Default”):

Section 8.1. Payments. If the principal of or interest on any Loan, any amount owing in respect of any Letters of Credit, or any commitment or other fee, or any other Obligations owing hereunder, shall not be paid in full when due and payable.

Section 8.2. Special Covenants. If any Company shall fail or omit to perform and observe Section 5.7, 5.8, 5.9, 5.11, 5.12, 5.13, 5.15, 5.20, 5.27, 5.28 or 5.29 hereof.

Section 8.3. Other Covenants.

(a) If any Company shall fail or omit to perform and observe Section 5.3 or 5.4, and that Default shall not have been fully corrected within five days after the earlier of (i) any Financial Officer of such Company becomes aware of the occurrence thereof, or (ii) the giving of written notice thereof to Administrative Borrower by Lender that the specified Default is to be remedied.

(b) If any Company shall fail or omit to perform or observe any agreement or other provision (other than those referred to in Section 8.1, 8.2 or 8.3(a) hereof) contained or referred to in this Agreement or any Related Writing that is on such Company’s part to be complied with, and that Default shall not have been fully corrected within fifteen (15) days after the earlier of (i) any Financial Officer of such Company becomes aware of the occurrence thereof, or (ii) the giving of written notice thereof to Administrative Borrower by Lender that the specified Default is to be remedied.

Section 8.4. Representations and Warranties. If any representation, warranty or statement made in or pursuant to this Agreement or any Related Writing or any other material information furnished by any Company to Lender, shall be false or erroneous in any material respect.

Section 8.5. Cross Default.

(a) If any Company shall default in the payment of principal or interest due and owing under any Material Indebtedness Agreement, beyond any period of grace provided with respect thereto or in the performance or observance of any other agreement, term or condition contained in any agreement under which such obligation is created, if the effect of such default is to allow the acceleration of the maturity of such Indebtedness or to permit the holder thereof to cause such Indebtedness to become due prior to its stated maturity.

(b) If an “event of default”, a “default” or an event with which the passage of time or the giving of notice, or both, would cause a default or event of default (other than defaults that have been cured within applicable grace periods or have otherwise been waived in writing) shall occur under any Subordinated Debt Document or the Goodman Note.

Section 8.6. ERISA Default. The occurrence of one or more ERISA Events that (a) Lender determines could have a Material Adverse Effect, or (b) results in a Lien on any of the assets of any Company.

Section 8.7. Change in Control. If any Change in Control shall occur.

Section 8.8. Judgments. There is entered against any Company:

(a) a final judgment or order for the payment of money by a court of competent jurisdiction, that remains unpaid or unstayed and undischarged for a period (during which execution shall not be effectively stayed) of forty-five (45) days after the date on which the right to appeal has expired, provided that such occurrence shall constitute an Event of Default only if the aggregate of all such judgments for all such Companies, shall exceed the lesser of (i) the Revolving Credit Availability or (ii) Two Hundred Fifty Thousand Dollars (\$250,000) (less any amount that will be covered by the proceeds of insurance and is not subject to dispute by the insurance provider); or

(b) any one or more non-monetary final judgments that are not covered by insurance, or, if covered by insurance, for which the insurance company has not agreed to or acknowledged coverage, and that, in either case, Lender reasonably determines have, or could be expected to have, individually or in the aggregate, a Material Adverse Effect and, in either case, (i) enforcement proceedings are commenced by the prevailing party or any creditor upon such judgment or order, or (ii) there is a period of three consecutive Business Days during which a stay of enforcement of such judgment, by reason of a pending appeal or otherwise, is not in effect.

Section 8.9. Material Adverse Change. There shall have occurred any condition or event that Lender determines has or is reasonably likely to have a Material Adverse Effect.

Section 8.10. Security. If any Lien granted in this Agreement or any other Loan Document in favor of Lender, shall be determined to be (a) void, voidable or invalid, or is subordinated or not otherwise given the priority contemplated by this Agreement and Borrowers have (or the appropriate Credit Party has) failed to promptly execute appropriate documents to correct such matters, or (b) unperfected as to any material amount of Collateral (as determined by Lender, in its reasonable credit judgment) and Borrowers have (or the appropriate Credit Party has) failed to promptly execute appropriate documents to correct such matters.

Section 8.11. Validity of Loan Documents. If (a) any material provision, in the sole opinion of Lender, of any Loan Document shall at any time cease to be valid, binding and enforceable against any Credit Party; (b) the validity, binding effect or enforceability of any Loan Document against any Credit Party shall be contested by any Credit Party; (c) any Credit Party shall deny that it has any or further liability or obligation under any Loan Document; or (d) any Loan Document shall be terminated, invalidated or set aside, or be declared ineffective or inoperative or in any way cease to give or provide to Lender the benefits purported to be created thereby.

Section 8.12. Solvency. If any Company (other than a Dormant Subsidiary) shall (a) except as permitted pursuant to Section 5.12 hereof, discontinue business; (b) generally not pay its debts as such debts become due; (c) make a general assignment for the benefit of creditors; (d) apply for or consent to the appointment of an interim receiver, a receiver, a receiver and manager, an administrator, sequestrator, monitor, a custodian, a trustee, an interim trustee, liquidator, agent or other similar official of all or a substantial part of its assets or of such Company; (e) be adjudicated a debtor or insolvent or have entered against it an order for relief under the Bankruptcy Code, or under any other bankruptcy insolvency, liquidation, winding-up, corporate or similar statute or law, foreign, federal, state or provincial, in any applicable jurisdiction, now or hereafter existing, as any of the foregoing may be amended from time to time, or other applicable statute for jurisdictions outside of the United States, as the case may be; (f) file a voluntary petition under the Bankruptcy Code or seek relief under any bankruptcy or insolvency or analogous law in any jurisdiction outside of the United States, or file a proposal or notice of intention to file such petition; (g) have an involuntary proceeding under the Bankruptcy Code filed against it and the same shall not be controverted within ten days, or shall continue undismissed for a period of forty-five (45) days from commencement of such proceeding or case; (h) file a petition, an answer, an application or a proposal seeking reorganization or an arrangement with creditors or seeking to take advantage of any other law (whether federal, provincial or state, or, if applicable, other jurisdiction) relating to relief of debtors, or admit (by answer, by default or otherwise) the material allegations of a petition filed against it in any bankruptcy, reorganization, insolvency or other proceeding (whether federal, provincial or state, or, if applicable, other jurisdiction) relating to relief of debtors; (i) suffer or permit to continue unstayed and in effect for forty-five (45) consecutive days any judgment, decree or order entered by a court of competent jurisdiction, that approves a petition or an application or a proposal seeking its reorganization or appoints an interim receiver, a receiver and manager, an administrator, custodian, trustee, interim trustee or liquidator of all or a substantial part of its assets, or of such Company; (j) have an administrative receiver appointed over the whole or substantially the whole of its assets, or of such Company; (k) have assets, the value of which is less than its liabilities (taking into account prospective and contingent liabilities, and rights of contribution from other Persons); or (l) have a moratorium declared in respect of any of its Indebtedness, or any analogous procedure or step is taken in any jurisdiction.

ARTICLE IX. REMEDIES UPON DEFAULT

Notwithstanding any contrary provision or inference herein or elsewhere:

Section 9.1. Optional Defaults. If any Event of Default referred to in Section 8.1, 8.2, 8.3, 8.4, 8.5, 8.6, 8.7, 8.8, 8.9, 8.10 or 8.11 hereof shall occur, Lender shall have the right, in its discretion, to give written notice to Borrowers to:

- (a) terminate the Commitment, if not previously terminated, and, immediately upon such election, the obligation of Lender to make any further Loan or to issue any Letter of Credit immediately shall be terminated; and/or
- (b) accelerate the maturity of all of the Obligations (if the Obligations are not already due and payable), whereupon all of the Obligations shall become and thereafter be immediately due and payable in full without any presentment or demand and without any further or other notice of any kind, all of which are hereby waived by each Borrower.

Section 9.2. Automatic Defaults. If any Event of Default referred to in Section 8.12 hereof shall occur:

- (a) all of the Commitment shall automatically and immediately terminate, if not previously terminated, and Lender thereafter shall not be under any obligation to grant any further Loan or to issue any Letter of Credit; and
- (b) the principal of and interest then outstanding on all of the Loans, and all of the other Obligations, shall thereupon become and thereafter be immediately due and payable in full (if the Obligations are not already due and payable), all without any presentment, demand or notice of any kind, which are hereby waived by each Borrower.

Section 9.3. Letters of Credit. If the maturity of the Obligations shall be accelerated pursuant to Section 9.1 or 9.2 hereof, Borrowers shall immediately deposit with Lender, as security for the obligations of Borrowers and any Guarantor of Payment to reimburse Lender for any then outstanding Letters of Credit, cash equal to one hundred five percent (105%) of the sum of the aggregate undrawn balance of any then outstanding Letters of Credit. Lender is hereby authorized, at its option, to deduct any and all such amounts from any deposit balances then owing by Lender (or any affiliate of Lender, wherever located) to or for the credit or account of any Company, as security for the obligations of Borrowers and any Guarantor of Payment to reimburse Lender for any then outstanding Letters of Credit.

Section 9.4. Offsets. If there shall occur or exist any Event of Default referred to in Section 8.12 hereof or if the maturity of the Obligations is accelerated pursuant to Section 9.1 or 9.2 hereof, Lender shall have the right at any time to set off against, and to appropriate and apply toward the payment of, any and all of the Obligations then owing by any Borrower to Lender, whether or not the same shall then have matured, any and all deposit (general or special) balances and all other indebtedness then held or owing by Lender (including, without limitation, by branches and agencies or any affiliate of Lender, wherever located) to or for the credit or account of any Borrower or Guarantor of Payment, all without notice to or demand upon any Borrower or any other Person, all such notices and demands being hereby expressly waived by each Borrower.

Section 9.5. Collateral. Lender shall at all times have the rights and remedies of a secured party under the U.C.C., in addition to the rights and remedies of a secured party provided elsewhere within this Agreement, in any other Related Writing executed by any Borrower or otherwise provided in law or equity. Upon the occurrence of an Event of Default and at all times thereafter, Lender may require Borrowers to assemble the Collateral, which each Borrower agrees to do, and make it available to Lender at a reasonably convenient place to be designated by Lender. Lender may, with or without notice to or demand upon such Borrower and with or without the aid of legal process, make use of such force as may be necessary to enter any premises where the Collateral, or any thereof, may be found and to take possession thereof (including anything found in or on the Collateral that is not specifically described in this Agreement, each of which findings shall be considered to be an accession to and a part of the Collateral) and for that purpose may pursue the Collateral wherever the same may be found, without liability for trespass or damage caused thereby to such Borrower. After any delivery or taking of possession of the Collateral, or any thereof, pursuant to this Agreement, then, with or without resort to any Borrower personally or any other Person or property, all of which each Borrower hereby waives, and upon such terms and in such manner as Lender may deem advisable, Lender, in its discretion, may sell, assign, transfer and deliver any of the Collateral at any time, or from time to time. No prior notice need be given to any Borrower or to any other Person in the case of any sale of Collateral that Lender determines to be perishable or to be declining speedily in value or that is customarily sold in any recognized market, but in any other case Lender shall give Borrowers not fewer than ten days' prior notice of either the time and place of any public sale of the Collateral or of the time after which any private sale or other intended disposition thereof is to be made. Each Borrower waives advertisement of any such sale and (except to the extent specifically required by the preceding sentence) waives notice of any kind in respect of any such sale. At any such public sale, Lender may purchase the Collateral, or any part thereof, free from any right of redemption, all of which rights each Borrower hereby waives and releases. After deducting all Related Expenses, and after paying all claims, if any, secured by Liens having precedence over this Agreement, Lender may apply the net proceeds of each such sale to or toward the payment of the Obligations, whether or not then due, in such order and by such division as Lender, in its sole discretion, may deem advisable. Any excess, to the extent permitted by law, shall be paid to Borrowers, and each Borrower shall remain liable for any deficiency. In addition, Lender shall at all times have the right to obtain new appraisals of any Borrower or the Collateral, the cost of which shall be paid by Borrowers.

Section 9.6. Other Remedies. The remedies in this Article IX are in addition to, not in limitation of, any other right, power, privilege, or remedy, either in law, in equity, or otherwise, to which Lender may be entitled.

ARTICLE X. MISCELLANEOUS

Section 10.1. No Waiver; Cumulative Remedies; Relationship of Parties. No omission or course of dealing on the part of Lender or the holder of any Note in exercising any right, power or remedy hereunder or under any of the Loan Documents shall operate as a waiver thereof; nor shall any single or partial exercise of any such right, power or remedy preclude any other or further exercise thereof or the exercise of any other right, power or remedy hereunder or under any of the Loan Documents. The remedies herein provided are cumulative and in addition to any other rights, powers or privileges held under any of the Loan Documents or by operation of law, by contract or otherwise. Nothing contained in this Agreement and no action taken by Lender pursuant hereto shall be deemed to constitute Borrowers and Lender a partnership, association, joint venture or other entity. The relationship between Borrowers and Lender with respect to the Loan Documents is and shall be solely that of debtor and creditor, respectively, and Lender shall have no fiduciary obligation toward any Borrower with respect to any such documents or the transactions contemplated thereby.

Section 10.2. Amendments, Waivers and Consents. No amendment, modification, termination, or waiver of any provision of any Loan Document nor consent to any variance therefrom, shall be effective unless the same shall be in writing and signed by Borrowers and Lender and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given.

Section 10.3. Notices. All notices, requests, demands and other communications provided for hereunder shall be in writing and, if to a Borrower, mailed or delivered to it, addressed to it at the address specified on the signature pages of this Agreement, or if to Lender, mailed or delivered to it, addressed to the address of Lender specified on the signature pages of this Agreement, or, as to each party, at such other address as shall be designated by such party in a written notice to each of the other parties. All notices, statements, requests, demands and other communications provided for hereunder shall be deemed to be given or made when delivered (if received during a Business Day, such Business Day, or otherwise the following Business Day), or two Business Days after being deposited in the mails with postage prepaid by registered or certified mail, addressed as aforesaid, or sent by facsimile with telephonic confirmation of receipt. All notices pursuant to any of the provisions hereof shall not be effective until received. For purposes of Article II hereof, Lender shall be entitled to rely on telephonic instructions from any person that Lender in good faith believes is an Authorized Officer, and Borrowers shall hold Lender harmless from any loss, cost or expense resulting from any such reliance.

Section 10.4. Costs, Expenses and Documentary Taxes. Borrowers agree to pay on demand all costs and expenses of Lender, and all Related Expenses, including but not limited to (a) administration, travel and out-of-pocket expenses, including but not limited to reasonable attorneys' fees and expenses, of Lender in connection with the preparation, negotiation and closing of the Loan Documents and the administration of the Loan Documents, the collection and disbursement of all funds hereunder and the other instruments and documents to be delivered hereunder, (b) extraordinary expenses of Lender in connection with the administration of the Loan Documents and the other instruments and documents to be delivered hereunder, and (c) the reasonable fees and out-of-pocket expenses of special counsel for Lender, with respect to the foregoing, and of local counsel, if any, who may be retained by said special counsel with respect thereto. Borrowers also agree to pay on demand all Related Expenses, including reasonable attorneys' fees and expenses, in connection with any restructuring, amendment, or enforcement of the Obligations, this Agreement or any Related Writing. In addition, Borrowers shall pay any and all stamp, transfer, documentary and other taxes, assessments, charges and fees payable or determined to be payable in connection with the execution and delivery of the Loan Documents, and the other instruments and documents to be delivered hereunder, and agree to hold Lender harmless from and against any and all liabilities with respect to or resulting from any delay in paying or failure to pay such taxes or fees. All obligations provided for in this Section 10.4 shall survive any termination of this Agreement.

Section 10.5. Indemnification. Each Borrower agrees to defend, indemnify and hold harmless Lender (and its affiliates, officers, directors, attorneys, agents and employees) from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses (including reasonable attorneys' fees), or disbursements of any kind or nature whatsoever that may be imposed on, incurred by or asserted against Lender in connection with any investigative, administrative or judicial proceeding (whether or not Lender shall be designated a party thereto) or any other claim by any Person relating to or arising out of the Loan Documents or any actual or proposed use of proceeds of the Loans or any of the Obligations, or any activities of any Company or its Affiliates; provided that Lender shall not have the right to be indemnified under this Section 10.5 for its own gross negligence or willful misconduct (as determined by a final judgment of a court of competent jurisdiction). All obligations provided for in this Section 10.5 shall survive any termination of this Agreement.

Section 10.6. Execution in Counterparts. This Agreement may be executed in any number of counterparts and by different parties hereto in separate counterparts, and by facsimile or other electronic signature, each of which counterparts when so executed and delivered shall be deemed to be an original and all of which taken together shall constitute but one and the same agreement.

Section 10.7. Binding Effect; Borrowers' Assignment. This Agreement shall become effective when it shall have been executed by each Borrower and Lender and thereafter shall be binding upon and inure to the benefit of Borrowers and Lender and their respective successors and assigns, except that no Borrower shall have the right to assign its rights hereunder or any interest herein without the prior written consent of Lender.

Section 10.8. Patriot Act Notice. Lender hereby notifies the Credit Parties that, pursuant to the requirements of the Patriot Act, Lender is required to obtain, verify and record information that identifies the Credit Parties, which information includes the name and address of each of the Credit Parties and other information that will allow Lender, as applicable, to identify the Credit Parties in accordance with the Patriot Act. Each Borrower shall provide, to the extent commercially reasonable, such information and take such actions as are reasonably requested by Lender in order to assist Lender in maintaining compliance with the Patriot Act.

Section 10.9. Severability of Provisions; Captions; Attachments. Any provision of this Agreement that shall be prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof or affecting the validity or enforceability of such provision in any other jurisdiction. The several captions to sections and subsections herein are inserted for convenience only and shall be ignored in interpreting the provisions of this Agreement. Each schedule or exhibit attached to this Agreement shall be incorporated herein and shall be deemed to be a part hereof.

Section 10.10. General Limitation of Liability. No claim may be made by any party hereto or the affiliates, directors, officers, employees, attorneys or agents of such party for any damages other than actual compensatory damages in respect of any claim for breach of contract or any other theory of liability arising out of or related to the transactions contemplated by this Agreement or any of the other Loan Documents, or any act, omission or event occurring in connection therewith; and Borrowers and Lender hereby, to the fullest extent permitted under applicable law, waive, release and agree not to sue or counterclaim upon any such claim for any special, consequential or punitive damages, whether or not accrued and whether or not known or suspected to exist in their favor.

Section 10.11. No Duty. All attorneys, accountants, appraisers, consultants and other professional persons (including the firms or other entities on behalf of which any such Person may act) retained by Lender with respect to the transactions contemplated by the Loan Documents shall have the right to act exclusively in the interest of Lender, as the case may be, and shall have no duty of disclosure, duty of loyalty, duty of care, or other duty or obligation of any type or nature whatsoever to Borrowers, any other Companies, or to any other Person, with respect to any matters within the scope of such representation or related to their activities in connection with such representation. Each Borrower agrees, on behalf of itself and its Subsidiaries, not to assert any claim or counterclaim against any such persons with regard to such matters, all such claims and counterclaims, now existing or hereafter arising, whether known or unknown, foreseen or unforeseeable, being hereby waived, released and forever discharged.

Section 10.12. Entire Agreement. This Agreement, any Note and any other Loan Document or other agreement, document or instrument attached hereto or executed on or as of the Closing Date integrate all of the terms and conditions mentioned herein or incidental hereto and supersede all oral representations and negotiations and prior writings with respect to the subject matter hereof.

Section 10.13. Legal Representation of Parties. The Loan Documents were negotiated by the parties with the benefit of legal representation and any rule of construction or interpretation otherwise requiring this Agreement or any other Loan Document to be construed or interpreted against any party shall not apply to any construction or interpretation hereof or thereof.

Section 10.14. Governing Law; Submission to Jurisdiction.

(a) Governing Law. This Agreement, each of the Notes and any Related Writing shall be governed by and construed in accordance with the laws of the State of New York and the respective rights and obligations of Borrowers and Lender shall be governed by New York law, without regard to principles of conflicts of laws.

(b) Submission to Jurisdiction. Each Borrower hereby irrevocably submits to the non-exclusive jurisdiction of any New Jersey state or federal court sitting in Mercer County, New Jersey, over any action or proceeding arising out of or relating to this Agreement, the Obligations or any Related Writing, and each Borrower hereby irrevocably agrees that all claims in respect of such action or proceeding may be heard and determined in such New Jersey state or federal court. Each Borrower, on behalf of itself and its Subsidiaries, hereby irrevocably waives, to the fullest extent permitted by law, any objection it may now or hereafter have to the laying of venue in any action or proceeding in any such court as well as any right it may now or hereafter have to remove such action or proceeding, once commenced, to another court on the grounds of FORUM NON CONVENIENS or otherwise. Each Borrower agrees that a final, non-appealable judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law.

[Remainder of page left intentionally blank]

JURY TRIAL WAIVER . EACH BORROWER AND LENDER, TO THE EXTENT PERMITTED BY LAW, HEREBY WAIVE ANY RIGHT TO HAVE A JURY PARTICIPATE IN RESOLVING ANY DISPUTE, WHETHER SOUNDING IN CONTRACT, TORT OR OTHERWISE, AMONG BORROWERS AND LENDER, OR ANY THEREOF, ARISING OUT OF, IN CONNECTION WITH, RELATED TO, OR INCIDENTAL TO THE RELATIONSHIP ESTABLISHED AMONG THEM IN CONNECTION WITH THIS AGREEMENT OR ANY NOTE OR OTHER INSTRUMENT, DOCUMENT OR AGREEMENT EXECUTED OR DELIVERED IN CONNECTION HERewith OR THE TRANSACTIONS RELATED THERETO.

IN WITNESS WHEREOF, the parties have executed and delivered this Credit and Security Agreement as of the date first set forth above.

Address: _____

Attention: _____

COLONIAL COMMERCIAL CORP.

By: _____
Name: _____
Title: _____

Address: _____

Attention: _____

UNIVERSAL SUPPLY GROUP, INC.

By: _____
Name: _____
Title: _____

Address: _____

Attention: _____

THE RAL SUPPLY GROUP, INC.

By: _____
Name: _____
Title: _____

Address: _____

Attention: _____

S&A SUPPLY, INC.

By: _____
Name: _____
Title: _____

Address: 127 Public Square
Cleveland, Ohio 44114
Attention: Asset Based
Lending

KEYBANK NATIONAL ASSOCIATION

By: _____
Nadine M. Eames
Vice President

Signature Page to
Credit and Security Agreement

SCHEDULE 1
GUARANTORS OF PAYMENT

None as of the Closing Date.

S-1

SCHEDULE 2

PLEGDED SECURITIES

<u>Name of Subsidiary</u>	<u>Jurisdiction of Subsidiary</u>	<u>Number of Shares</u>	<u>Certificate Number</u>	<u>Ownership Percentage</u>
Universal Supply	NY	100	1	100%
The RAL Supply Group, Inc.	NY	200	1	100%
S&A Supply, Inc.	NY	200	2	100%

S-2

SCHEDULE 3

INVESTOR SUBORDINATED CREDITORS

Goldman Associates of New York, Inc.
Rita Folger
Paul Hildebrandt
John A. Hildebrandt
William Pagano

S-3

SCHEDULE 4

GOODMAN LIEN COLLATERAL

All Purchased Inventory (as hereinafter defined), all proceeds of Purchased Inventory and all Program Payments (as hereinafter defined).

“Purchased Inventory” means all goods and parts purchased by Universal from Goodman, whether currently in Universal’s inventory or purchased in the future, and whether purchased directly without having ever been on consignment, or whether first delivered to Universal on a consignment basis and then purchased by Universal from Goodman pursuant to and in accordance with the agreements between Universal and Goodman.

“Program Payments” means any price protection payments, rebates, discounts, credits, factory holdbacks, incentive payments, co-operative advertising credits and other similar amounts due from Goodman to Universal pursuant to agreements between Goodman and Universal, including, without limitation, markup rebate programs, price protection programs, and cooperative advertising agreements; provided that, following receipt by Universal of Program Payments paid or delivered by Goodman, such amounts shall no longer constitute Program Payments.

EXHIBIT A
FORM OF
REVOLVING CREDIT NOTE

\$15,000,000

October 18, 2011

FOR VALUE RECEIVED, the undersigned, COLONIAL COMMERCIAL CORP., a New York corporation, UNIVERSAL SUPPLY GROUP, INC., a New York corporation, THE RAL SUPPLY GROUP, INC., a New York corporation, and S&A SUPPLY, INC., a New York corporation (collectively, "Borrowers", and individually, each a "Borrower"), jointly and severally, promise to pay, on the last day of the Commitment Period, as defined in the Credit Agreement (as hereinafter defined), to the order of KEYBANK NATIONAL ASSOCIATION ("Lender"), at its main office at 127 Public Square, Cleveland, Ohio 44114-1306, or at such other place as Lender shall designate, the principal sum of

FIFTEEN MILLION AND 00/100 DOLLARS

or the aggregate unpaid principal amount of all Revolving Loans, as defined in the Credit Agreement made by Lender to Borrowers pursuant to Section 2.2(a) of the Credit Agreement, whichever is less, in lawful money of the United States of America.

As used herein, "Credit Agreement" means the Credit and Security Agreement dated as of October 18, 2011, between Borrowers and Lender, as the same may from time to time be amended, restated or otherwise modified. Each capitalized term used herein that is defined in the Credit Agreement and not otherwise defined herein shall have the meaning ascribed to it in the Credit Agreement.

Borrowers also promise to pay interest on the unpaid principal amount of each Revolving Loan from time to time outstanding, from the date of such Revolving Loan until the payment in full thereof, at the rates per annum that shall be determined in accordance with the provisions of Section 2.3(a) of the Credit Agreement. Such interest shall be payable on each date provided for in such Section 2.3(a); provided that interest on any principal portion that is not paid when due shall be payable on demand.

The portions of the principal sum hereof from time to time representing Base Rate Loans and Eurodollar Loans, interest owing thereon and payments of principal and interest of any thereof, shall be shown on the records of Lender by such method as Lender may generally employ; provided that failure to make any such entry shall in no way detract from the obligations of Borrowers under this Note.

If this Note shall not be paid at maturity, whether such maturity occurs by reason of lapse of time or by operation of any provision for acceleration of maturity contained in the Credit Agreement, the principal hereof and the unpaid interest thereon shall bear interest, pursuant to the terms of the Credit Agreement, until paid, at a rate per annum equal to the Default Rate. All payments of principal of and interest on this Note shall be made in immediately available funds.

This Note is the Revolving Credit Note referred to in the Credit Agreement and is entitled to the benefits thereof. Reference is made to the Credit Agreement for a description of the right of the undersigned to anticipate payments hereof, the right of the holder hereof to declare this Note due prior to its stated maturity, and other terms and conditions upon which this Note is issued.

Except as expressly provided in the Credit Agreement, each Borrower expressly waives presentment, demand, protest and notice of any kind. This Note shall be governed by and construed in accordance with the laws of the State of New York, without regard to conflicts of laws provisions.

JURY TRIAL WAIVER . EACH BORROWER, TO THE EXTENT PERMITTED BY LAW, HEREBY WAIVES ANY RIGHT TO HAVE A JURY PARTICIPATE IN RESOLVING ANY DISPUTE, WHETHER SOUNDING IN CONTRACT, TORT OR OTHERWISE, AMONG BORROWERS, AND LENDER, OR ANY THEREOF, ARISING OUT OF, IN CONNECTION WITH, RELATED TO, OR INCIDENTAL TO THE RELATIONSHIP ESTABLISHED AMONG THEM IN CONNECTION WITH THIS NOTE OR ANY OTHER NOTE OR INSTRUMENT, DOCUMENT OR AGREEMENT EXECUTED OR DELIVERED IN CONNECTION HEREWITH OR THE TRANSACTIONS RELATED THERETO.

COLONIAL COMMERCIAL CORP.

By: _____
Name: _____
Title: _____

UNIVERSAL SUPPLY GROUP, INC.

By: _____
Name: _____
Title: _____

S&A SUPPLY, INC.

By: _____
Name: _____
Title: _____

THE REAL SUPPLY GROUP, INC.

By: _____
Name: _____
Title: _____

EXHIBIT B
FORM OF
BORROWING BASE CERTIFICATE

See attached.

E-3

EXHIBIT C
FORM OF
NOTICE OF LOAN

_____, 20__

KeyBank National Association
1800 Key Center
127 Public Square
Cleveland, Ohio 44114-0616
Attention: Asset Based Lending

Ladies and Gentlemen:

The undersigned, UNIVERSAL SUPPLY GROUP, INC., a New York corporation, (“Administrative Borrower”) refers to the Credit and Security Agreement, dated as of October 18, 2011 (“Credit Agreement”, the terms defined therein being used herein as therein defined), among Administrative Borrower, COLONIAL COMMERCIAL CORP., a New York corporation, THE RAL SUPPLY GROUP, INC., a New York corporation, and S&A SUPPLY, INC., a New York corporation (together with Administrative Borrower, collectively, “Borrowers”), and KEYBANK NATIONAL ASSOCIATION, and hereby gives you notice, pursuant to Section 2.5 of the Credit Agreement that Borrowers hereby request a Loan (the “Proposed Loan”), and in connection therewith sets forth below the information relating to the Proposed Loan as required by Section 2.5 of the Credit Agreement:

(a) The Borrower requesting the Proposed Loan is _____.

(b) The Business Day of the Proposed Loan is _____, 20__.

(c) The amount of the Proposed Loan is \$_____.

(d) The Proposed Loan is to be a Base Rate Loan ____ / Eurodollar Loan _____. (Check one.)

(f) If the Proposed Loan is a Eurodollar Loan, the Interest Period requested is onemonth ____, two months ____, three months ____, or six months _____. (Check one.)

The undersigned hereby certifies on behalf of Borrowers that the following statements are true on the date hereof, and will be true on the date of the Proposed Loan:

(i) the representations and warranties contained in each Loan Document are correct, before and after giving effect to the Proposed Loan and the application of the proceeds therefrom, as though made on and as of such date, except to the extent that any thereof relate to an earlier specified date;

(ii) no event has occurred and is continuing, or would result from such Proposed Loan, or the application of proceeds therefrom, that constitutes a Default or Event of Default; and

(iii) the conditions set forth in Section 2.5 and Article IV of the Credit Agreement have been satisfied.

UNIVERSAL SUPPLY GROUP, INC.

By: _____
Name: _____
Title: _____

E-5

EXHIBIT E
FORM OF
COMPLIANCE CERTIFICATE

For the Fiscal Month ended _____

THE UNDERSIGNED HEREBY CERTIFIES THAT:

- (1) I am the duly elected [President] or [Chief Financial Officer] of UNIVERSAL SUPPLY GROUP, INC., a New York corporation (“Borrower”, and together with COLONIAL COMMERCIAL CORP., a New York corporation, THE RAL SUPPLY GROUP, INC., a New York corporation, and S&P SUPPLY, INC., a New York corporation, collectively, “Borrowers”);
- (2) I am familiar with the terms of that certain Credit and Security Agreement, dated as of October 18, 2011, between Borrowers and KEYBANK NATIONAL ASSOCIATION (“Lender”) (as the same may from time to time be amended, restated or otherwise modified, the “Credit Agreement”, the terms defined therein being used herein as therein defined), and the terms of the other Loan Documents, and I have made, or have caused to be made under my supervision, a review in reasonable detail of the transactions and condition of the Companies during the accounting period covered by the attached financial statements;
- (3) The review described in paragraph (2) above did not disclose, and I have no knowledge of, the existence of any condition or event that constitutes or constituted a Default or Event of Default, at the end of the accounting period covered by the attached financial statements or as of the date of this Certificate;
- (4) The representations and warranties made by Borrowers contained in each Loan Document are true and correct in all material respects as though made on and as of the date hereof, except to the extent that any thereof relate to an earlier specified date; and
- (5) Set forth on Attachment I hereto are calculations of the financial covenants set forth in Sections 5.7 and 5.20 of the Credit Agreement, which calculations show compliance with the terms thereof.

IN WITNESS WHEREOF, I have signed this certificate the ___ day of _____, 20___.

UNIVERSAL SUPPLY GROUP, INC.

By: _____
Name: _____
Title: _____

REVOLVING CREDIT NOTE

\$15,000,000

October 18, 2011

FOR VALUE RECEIVED, the undersigned, COLONIAL COMMERCIAL CORP., a New York corporation, UNIVERSAL SUPPLY GROUP, INC., a New York corporation, THE RAL SUPPLY GROUP, INC., a New York corporation, and S&A SUPPLY, INC., a New York corporation (collectively, "Borrowers", and individually, each a "Borrower"), jointly and severally, promise to pay, on the last day of the Commitment Period, as defined in the Credit Agreement (as hereinafter defined), to the order of KEYBANK NATIONAL ASSOCIATION ("Lender"), at its main office at 127 Public Square, Cleveland, Ohio 44114-1306, or at such other place as Lender shall designate, the principal sum of

FIFTEEN MILLION AND 00/100

DOLLARS

or the aggregate unpaid principal amount of all Revolving Loans, as defined in the Credit Agreement made by Lender to Borrowers pursuant to Section 2.2(a) of the Credit Agreement, whichever is less, in lawful money of the United States of America.

As used herein, "Credit Agreement" means the Credit and Security Agreement dated as of October 18, 2011, between Borrowers and Lender, as the same may from time to time be amended, restated or otherwise modified. Each capitalized term used herein that is defined in the Credit Agreement and not otherwise defined herein shall have the meaning ascribed to it in the Credit Agreement.

Borrowers also promise to pay interest on the unpaid principal amount of each Revolving Loan from time to time outstanding, from the date of such Revolving Loan until the payment in full thereof, at the rates per annum that shall be determined in accordance with the provisions of Section 2.3(a) of the Credit Agreement. Such interest shall be payable on each date provided for in such Section 2.3(a); provided that interest on any principal portion that is not paid when due shall be payable on demand.

The portions of the principal sum hereof from time to time representing Base Rate Loans and Eurodollar Loans, interest owing thereon and payments of principal and interest of any thereof, shall be shown on the records of Lender by such method as Lender may generally employ; provided that failure to make any such entry shall in no way detract from the obligations of Borrowers under this Note.

If this Note shall not be paid at maturity, whether such maturity occurs by reason of lapse of time or by operation of any provision for acceleration of maturity contained in the Credit Agreement, the principal hereof and the unpaid interest thereon shall bear interest, pursuant to the terms of the Credit Agreement, until paid, at a rate per annum equal to the Default Rate. All payments of principal of and interest on this Note shall be made in immediately available funds.

This Note is the Revolving Credit Note referred to in the Credit Agreement and is entitled to the benefits thereof. Reference is made to the Credit Agreement for a description of the right of the undersigned to anticipate payments hereof, the right of the holder hereof to declare this Note due prior to its stated maturity, and other terms and conditions upon which this Note is issued.

Except as expressly provided in the Credit Agreement, each Borrower expressly waives presentment, demand, protest and notice of any kind. This Note shall be governed by and construed in accordance with the laws of the State of New York, without regard to conflicts of laws provisions.

JURY TRIAL WAIVER . EACH BORROWER, TO THE EXTENT PERMITTED BY LAW, HEREBY WAIVES ANY RIGHT TO HAVE A JURY PARTICIPATE IN RESOLVING ANY DISPUTE, WHETHER SOUNDING IN CONTRACT, TORT OR OTHERWISE, AMONG BORROWERS, AND LENDER, OR ANY THEREOF, ARISING OUT OF, IN CONNECTION WITH, RELATED TO, OR INCIDENTAL TO THE RELATIONSHIP ESTABLISHED AMONG THEM IN CONNECTION WITH THIS NOTE OR ANY OTHER NOTE OR INSTRUMENT, DOCUMENT OR AGREEMENT EXECUTED OR DELIVERED IN CONNECTION HERewith OR THE TRANSACTIONS RELATED THERETO.

COLONIAL COMMERCIAL CORP.

By: _____
William Pagano
Chief Executive Officer

UNIVERSAL SUPPLY GROUP, INC.

By: _____
William Pagano
President

S&A SUPPLY, INC.

By: _____
William Pagano
Executive Vice President

THE RAL SUPPLY GROUP, INC.

By: _____
William Pagano
President

Amendment and Restatement No. 2 dated October 14, 2011 of Schedule 1 to the Promissory Note dated March 24, 2010 by Universal Supply Group, Inc., as such schedule was amended and restated on April 13, 2011, in favor of Goodman Company, L.P., Goodman Manufacturing Company, L.P., and Goodman Sales Company in the original principal sum of \$2,000,000 (the "Note").

Schedule 1 to the Note is hereby amended and restated in its entirety to read as set forth in Exhibit 1.

Except as set forth above, the Note is ratified and confirmed in all respects.

Dated: October 14, 2011

UNIVERSAL SUPPLY GROUP, INC.

GOODMAN COMPANY, L.P.

By: _____
Name: William Pagano, President

By: _____
Name: _____
Title: _____

GOODMAN MANUFACTURING COMPANY,
L.P.

By: _____
Name: _____
Title: _____

GOODMAN SALES COMPANY

By: _____
Name: _____
Title: _____

ENTER IN THE FOLLOWING INFORMATION:

Loan Amount	1,299,679.63
Interest Rate	8.00%
Term (Months: 180=15 years, 360=30 years)	60
	\$ 26,352.817

YOUR MORTGAGE PAYMENT: \$ 29,195.00

Due Date	Payment	Interest	Principal	Balance
11/24/2011	\$ 29,195.00	\$ 8,664.53	\$ 20,530.47	\$ 1,279,149.16
12/24/2011	\$ 29,195.00	\$ 8,527.66	\$ 20,667.34	\$ 1,258,481.82
1/24/2012	\$ 29,195.00	\$ 8,389.88	\$ 20,805.12	\$ 1,237,676.70
2/24/2012	\$ 29,195.00	\$ 8,251.18	\$ 20,943.82	\$ 1,216,732.88
3/24/2012	\$ 29,195.00	\$ 8,111.55	\$ 21,083.45	\$ 1,195,649.43
4/24/2012	\$ 29,195.00	\$ 7,971.00	\$ 21,224.00	\$ 1,174,425.43
5/24/2012	\$ 29,195.00	\$ 7,829.50	\$ 21,365.50	\$ 1,153,059.93
6/24/2012	\$ 29,195.00	\$ 7,687.07	\$ 21,507.93	\$ 1,131,552.00
7/24/2012	\$ 29,195.00	\$ 7,543.68	\$ 21,651.32	\$ 1,109,900.68
8/24/2012	\$ 29,195.00	\$ 7,399.34	\$ 21,795.66	\$ 1,088,105.01
9/24/2012	\$ 29,195.00	\$ 7,254.03	\$ 21,940.97	\$ 1,066,164.05
10/24/2012	\$ 29,195.00	\$ 7,107.76	\$ 22,087.24	\$ 1,044,076.81
11/24/2012	\$ 29,195.00	\$ 6,960.51	\$ 22,234.49	\$ 1,021,842.32
12/24/2012	\$ 29,195.00	\$ 6,812.28	\$ 22,382.72	\$ 999,459.60
1/24/2013	\$ 29,195.00	\$ 6,663.06	\$ 22,531.94	\$ 976,927.67
2/24/2013	\$ 29,195.00	\$ 6,512.85	\$ 22,682.15	\$ 954,245.52
3/24/2013	\$ 29,195.00	\$ 6,361.64	\$ 22,833.36	\$ 931,412.15
4/24/2013	\$ 29,195.00	\$ 6,209.41	\$ 22,985.59	\$ 908,426.57
5/24/2013	\$ 29,195.00	\$ 6,056.18	\$ 23,138.82	\$ 885,287.75
6/24/2013	\$ 29,195.00	\$ 5,901.92	\$ 23,293.08	\$ 861,994.66
7/24/2013	\$ 29,195.00	\$ 5,746.63	\$ 23,448.37	\$ 838,546.30
8/24/2013	\$ 29,195.00	\$ 5,590.31	\$ 23,604.69	\$ 814,941.60
9/24/2013	\$ 29,195.00	\$ 5,432.94	\$ 23,762.06	\$ 791,179.55
10/24/2013	\$ 29,195.00	\$ 5,274.53	\$ 23,920.47	\$ 767,259.08
11/24/2013	\$ 29,195.00	\$ 5,115.06	\$ 24,079.94	\$ 743,179.14
12/24/2013	\$ 29,195.00	\$ 4,954.53	\$ 24,240.47	\$ 718,938.67
1/24/2014	\$ 29,195.00	\$ 4,792.92	\$ 24,402.08	\$ 694,536.59
2/24/2014	\$ 29,195.00	\$ 4,630.24	\$ 24,564.76	\$ 669,971.83
3/24/2014	\$ 29,195.00	\$ 4,466.48	\$ 24,728.52	\$ 645,243.31
4/24/2014	\$ 29,195.00	\$ 4,301.62	\$ 24,893.38	\$ 620,349.94
5/24/2014	\$ 29,195.00	\$ 4,135.67	\$ 25,059.33	\$ 595,290.60
6/24/2014	\$ 29,195.00	\$ 3,968.60	\$ 25,226.40	\$ 570,064.21
7/24/2014	\$ 29,195.00	\$ 3,800.43	\$ 25,394.57	\$ 544,669.63
8/24/2014	\$ 29,195.00	\$ 3,631.13	\$ 25,563.87	\$ 519,105.76
9/24/2014	\$ 29,195.00	\$ 3,460.71	\$ 25,734.29	\$ 493,371.47
10/24/2014	\$ 29,195.00	\$ 3,289.14	\$ 25,905.86	\$ 467,465.61
11/24/2014	\$ 470,582.05	\$ 3,116.44	\$ 467,465.61	\$ 0.00
	\$ 1,521,602.05	\$ 221,922.42	\$ 1,299,679.63	
	Total payments	Total interest	Total Principal	

INTERCREDITOR AND LIEN SUBORDINATION AGREEMENT

THIS INTERCREDITOR AND LIEN SUBORDINATION AGREEMENT (“**Agreement**”) is dated as of October 18, 2011, between (i) KEYBANK NATIONAL ASSOCIATION, a national banking association (“**KeyBank**”), whose address is 127 Public Square, Cleveland, Ohio 44114 Attn: Asset Based Lending, and (ii) each of GOODMAN MANUFACTURING COMPANY, L.P., a Texas limited partnership, GOODMAN COMPANY, L.P., a Delaware limited partnership, and GOODMAN SALES COMPANY, a Texas corporation (collectively “**Goodman**”), whose address is 5151 San Felipe, Suite 500, Houston, Texas 77056. KeyBank and Goodman may sometimes be referred to collectively as the “**Creditors**”.

WITNESSETH

WHEREAS, KeyBank is providing financial accommodations to Universal Supply Group, Inc., a New York corporation (“**Universal**”), Colonial Commercial Corp., a New York corporation, The RAL Supply Group, Inc., a New York corporation, and S&A Supply, Inc., a New York corporation (collectively, with Universal, the “**Borrowers**”) pursuant to that certain Credit and Security Agreement by and among Borrowers and KeyBank, dated as of October 18, 2011 (as the same may from time to time be amended, restated or otherwise modified or replaced, the “**Credit Agreement**”); and

WHEREAS, all indebtedness and other obligations of one or more Borrowers to KeyBank, or any of its affiliates, pursuant to the Credit Agreement (including, without limitation, all loans, letters of credit and other financial accommodations granted pursuant to the Credit Agreement), and every other liability now or hereafter owing by the Borrowers to KeyBank, or any of its affiliates (collectively, the “**KeyBank Obligations**”), are secured by a lien on all personal property of the Borrowers (“**KeyBank Collateral**”), as the same is described in more detail in the Credit Agreement (“**KeyBank Lien**”); the KeyBank Collateral includes, without limitation, the “**Goodman Collateral**”, including, without limitation, any Borrower’s proceeds of Consignment Inventory, but it does not include any of the “**Consignment Inventory**” (as those terms are defined below); and

WHEREAS, Goodman has entered into contractual arrangements with Universal pursuant to which Goodman has agreed, under certain conditions, to (a) deliver certain air conditioning and heating products and parts to Universal from time to time, on a consignment basis, for sale by Universal in the ordinary course of its business (all goods and parts delivered to Universal on a consignment basis, whether currently in consignment or consigned in the future, that have not been purchased by Universal from Goodman pursuant to and in accordance with the agreements between Universal and Goodman are herein referred to as the “**Consignment Inventory**”); and (b) sell certain other air conditioning and heating products and parts to Universal from time to time (all goods and parts purchased by Universal from Goodman, whether currently in Universal’s inventory or purchased in the future, and whether purchased directly without having ever been on consignment, or whether first delivered to Universal on a consignment basis and then purchased by Universal from Goodman pursuant to and in accordance with the agreements between Universal and Goodman, are collectively referred to herein as the “**Purchased Inventory**”). In no event shall the term “**Purchased Inventory**” as used herein refer to any inventory of Universal that was not sold or consigned to Universal by Goodman, and in no event shall the term “**Consignment Inventory**” as used herein refer to any inventory of Universal that was not consigned to Universal by Goodman; and

Intercreditor and Lien Subordination Agreement

WHEREAS, Universal is indebted to Goodman pursuant to that certain Promissory Note dated March 24, 2010, in the original principal amount of Two Million Dollars (\$2,000,000), with an outstanding principal balance on the date hereof of One Million Two Hundred Ninety-Nine Thousand Six Hundred Seventy-Nine and 63/100 Dollars (\$1,299,679.63) (as amended and as the same may from time to time be further amended, the “**Goodman Note**”); and

WHEREAS, to secure performance and payment of all debts, obligations and liabilities of Universal to Goodman, including but not limited to the obligations to pay for Purchased Inventory and to make payments due under the Goodman Note, Goodman and Universal entered into a Consignment and Security Agreement dated as of May 13, 2005 (the “**Goodman Security Agreement**”), under which Universal granted to Goodman a security interest in all Purchased Inventory, in all proceeds of the Purchased Inventory and of the Consignment Inventory, and in the Program Payments (such security interest is referred to herein as the “**Goodman Lien**”; and the Purchased Inventory, all proceeds of the Purchased Inventory and of the Consignment Inventory, and the Program Payments are collectively referred to herein as the “**Goodman Collateral**”, it being understood that the Consignment Inventory is not part of the Goodman Collateral); and

WHEREAS, Goodman and Universal have entered into or may, from time to time, enter into agreements including without limitation markup rebate programs, price protection programs, and cooperative advertising agreements that may result in price protection payments, rebates, discounts, credits, factory holdbacks, incentive payments, co-operative advertising credits and other similar amounts being due from Goodman to Universal (collectively, subject to the last sentence in Section 6 hereof, “**Program Payments**”); and

WHEREAS, the Creditors wish to specify their relative rights and priorities with respect to the KeyBank Collateral, the Consignment Inventory and the Goodman Collateral, and agree as to other matters as set forth herein.

NOW THEREFORE, for good and valuable consideration, the receipt, adequacy and sufficiency of which are hereby acknowledged, KeyBank and Goodman hereby agree as follows:

1. Consignment Inventory. The Consignment Inventory, whether now in consignment or hereafter consigned, is and shall remain the property of Goodman until such time as such Consignment Inventory is purchased by Universal from Goodman pursuant to and in accordance with its agreements with Goodman as in effect from time to time, at which time title to the purchased items of Consignment Inventory shall be transferred to Universal. KeyBank shall not have or assert any interest in any Consignment Inventory that has not been purchased by Universal from Goodman pursuant to and in accordance with the aforementioned agreements between Universal and Goodman, whether the Consignment Inventory is stored in bonded warehouses or not. For purposes of clarity, any and all goods shipped by Goodman to Universal for which title has not passed to Universal pursuant to and in accordance with Universal’s agreements with Goodman shall be considered Consignment Inventory for purposes of this Agreement. For the avoidance of doubt, if Consignment Inventory becomes proceeds owned by a Borrower, such proceeds are subject to the KeyBank Lien and KeyBank shall have a first and prior security interest with respect to such proceeds.

Intercreditor and Lien Subordination Agreement

2. **Subordination.** Goodman hereby agrees (a) that (regardless of any priority otherwise available to Goodman by law or by agreement) the Goodman Lien and any other security interest which Goodman may now hold or may at any time hereafter acquire in any or all of the KeyBank Collateral (other than the Program Payments) is, shall be and shall remain fully subordinate to the KeyBank Lien and any other security interest that KeyBank (or any of its affiliates) may now or hereafter hold in the KeyBank Collateral (other than the Program Payments), and (b) that the KeyBank Lien and any advances made by KeyBank pursuant to the Credit Agreement or any related agreements, instruments or documents, and any renewals, amendments, restatements, modifications (including without limitation any increase in the principal amount or the interest rate or any other change, including without limitation material changes, in the terms of the Credit Agreement), replacements, or extensions thereof shall unconditionally be and remain at all times a lien or charge on, and security interest in, the KeyBank Collateral, prior and superior in all respects (other than with respect to the Program Payments) to the lien or charge of the Goodman Lien on, and the security interest of Goodman in, the KeyBank Collateral (other than the Program Payments). Goodman understands that in reliance upon and in consideration of this subordination, specific loans and advances are being and will be made and, as part and parcel thereof, specific monetary and other obligations are being and will be entered into which would not be made or entered into but for said reliance upon this subordination. Goodman acknowledges and affirms that any prior notices of purchase-money security interest sent to KeyBank (or any previous lender to Universal) by Goodman and any future notices of purchase-money security interest that may be sent to KeyBank by Goodman are subject to the terms of this Agreement and do not affect the subordinations set forth herein.

3. **Goodman Collateral.** KeyBank hereby agrees that (regardless of any priority otherwise available to KeyBank by law or by agreement) the KeyBank Lien and any other security interest which KeyBank may now hold or may at any time hereafter acquire in any or all of the Program Payments is, shall be and shall remain fully subordinate to the Goodman Lien and any other security interest that Goodman may now or hereafter hold in the Program Payments, whether now owned by Universal or hereafter acquired. As set forth above, Goodman shall have a junior lien on and security interest in the Purchased Inventory, the proceeds of such Purchased Inventory, and the proceeds of the Consignment Inventory. Goodman shall not take, and does not currently hold, any lien or security interest in or on any of the KeyBank Collateral other than the Goodman Collateral. KeyBank understands that in reliance upon and in consideration of this subordination, Goodman may sell inventory to Universal and, as part and parcel thereof, specific monetary and other obligations are being and will be entered into which would not be made or entered into but for said reliance upon this subordination. KeyBank acknowledges and affirms that any prior notices of purchase-money security interest sent to Goodman by KeyBank, and any future notices of purchase-money security interest that may be sent to Goodman by KeyBank are subject to the terms of this Agreement and do not affect the subordinations set forth herein.

Intercreditor and Lien Subordination Agreement

4. UCC Financing Statements. Creditors agree that the priorities and subordinations set forth in this Agreement shall be applicable irrespective of the time or order of creation or attachment of the parties' respective security interests, the time or order of filing any UCC Financing Statements, or the time or order of giving or failure to give notice of, the creation, attachment, or perfection of such security interests. Goodman agrees that each UCC Financing Statement filed by Goodman with respect to the Goodman Collateral shall include (or, promptly after the effectiveness of this Agreement, shall be amended to include) a statement that "This financing statement is subject to an Intercreditor and Lien Subordination Agreement between Secured Party and KeyBank National Association". Goodman agrees with KeyBank that it will take no further action to perfect any security interest in the Goodman Collateral by "possession", "control", or filing with any federal agency.

5. Acknowledgment of Goodman. Goodman hereby acknowledges and agrees that KeyBank shall have the unfettered right to renew, amend, modify (including without limitation to increase the principal amount or the interest rate or to change, including materially, any other terms of the Credit Agreement), replace or extend the Credit Agreement, any KeyBank Obligations or any agreement, instrument or document related thereto without notice to or consent by Goodman, and that the KeyBank Lien, as renewed, amended, replaced or modified from time to time, shall remain superior in all respects to the Goodman Lien on the KeyBank Collateral (other than the Program Payments). No such renewal, amendment, replacement, modification or extension shall affect any of the priorities, subordinations or agreements set forth in this Agreement.

6. Program Payments. Notwithstanding anything to the contrary herein, Goodman shall have a first and prior security interest in Universal's rights to any Program Payments that are owed from time to time but have not been paid to Universal. Goodman shall have the right to offset any Program Payments owed to Universal by Goodman from time to time against amounts owed by Universal to Goodman, including without limitation in the event of Universal's bankruptcy. For clarification, following receipt by Universal of Program Payments paid or delivered by Goodman, such amounts shall no longer constitute Program Payments and shall become funds in which KeyBank shall have the first and prior security interest.

7. Exercise of Remedies.

a) Goodman agrees not to enforce, ask for, demand, or sue for any right or remedy in respect of any indebtedness or other obligations owing to Goodman from one or more Borrowers (other than the Program Payments), whether pursuant to any enforcement, collection, execution, levy, or foreclosure proceeding or otherwise, in each case unless and until either (i) KeyBank has specifically consented to said action in advance in writing, or (ii) the KeyBank Obligations shall have been paid in full and the Credit Agreement has terminated. The immediately preceding sentence does not affect any rights that Goodman has with respect to Consignment Inventory or Program Payments. This paragraph does not affect Goodman's right to ask for, accept and retain (I) payments for Purchased Inventory received from Universal in the ordinary course of business, and (II) subject to Section 9 hereof, regularly scheduled payments of principal and interest in respect of the Goodman Note. Goodman agrees that the Goodman Note shall not be amended after the date hereof without the prior written consent of KeyBank, such consent not to be unreasonably withheld or delayed.

Intercreditor and Lien Subordination Agreement

b) Goodman agrees, upon written request by KeyBank, to release its liens and security interests in any Goodman Collateral (other than the Program Payments), upon any sale, lease, transfer, or other disposition of such Goodman Collateral or any part thereof.

c) Goodman agrees not to (i) contest, or to bring (or join in) any action or proceeding for the purpose of contesting, the validity, perfection, priority or enforceability of the KeyBank Obligations or the KeyBank Lien with respect to the KeyBank Collateral (so long as that priority is consistent with the terms of this Agreement), or (ii) bring (or join in) any action or proceeding seeking to avoid the KeyBank Obligations or the KeyBank Lien with respect to the KeyBank Collateral (unless KeyBank is otherwise required to release such lien pursuant to the provisions of this Agreement) or claiming any prejudice or damage to Goodman or its interest resulting from any renewals, amendments, modifications, replacements, or extensions of the Credit Agreement or the KeyBank Lien.

d) KeyBank agrees not to enforce, ask for, demand, or sue for any right or remedy in respect of the Consignment Inventory or the Program Payments, whether pursuant to any enforcement, collection, execution, levy, or foreclosure proceeding or otherwise, unless and until Goodman has specifically consented to said action in advance in writing. The immediately preceding sentence does not affect any rights that KeyBank has with respect to any KeyBank Collateral other than the Program Payments.

e) KeyBank agrees, upon written request by Goodman, to release its liens and security interests in any specific Program Payments, upon any sale, transfer or other disposition of such Program Payments.

f) KeyBank agrees not to (i) contest, or to bring (or join in) any action or proceeding for the purpose of contesting, the validity, perfection, priority or enforceability of the obligations owed by Universal to Goodman or the Goodman Lien with respect to any of the Goodman Collateral (so long as that priority is consistent with the terms of this Agreement), or (ii) bring (or join in) any action or proceeding seeking to avoid the obligations owed by Universal to Goodman or the Goodman Lien with respect to the Goodman Collateral (unless Goodman is otherwise required to release such lien pursuant to the provisions of this Agreement). KeyBank agrees not to contest, or to bring (or join in) any action or proceeding for the purpose of contesting, the validity of Goodman's interest in the Consignment Inventory.

g) Except as otherwise provided herein, no Creditor shall have any obligation to the other Creditor with respect to any KeyBank Collateral, Goodman Collateral, Consignment Inventory, or other indebtedness. None of the provisions of this Agreement shall be deemed or construed to constitute or imply any commitment or obligation on the part of KeyBank or Goodman to make any future loans or other extensions of credit or financial accommodations to Universal or any other Borrower.

8. Amendment of Documents. KeyBank hereby acknowledges and agrees that (i) Goodman may from time to time amend, restate or modify the Goodman Security Agreement (provided that the breadth of the collateral description with respect thereto is not expanded) and/or any of its other contractual agreements and arrangements with Universal, including agreements and arrangements related to Consignment Inventory but specifically excluding the Goodman Note, without notice to or consent of KeyBank, and (ii) the Goodman Lien, as amended, restated, or modified from time to time, shall remain superior in all respects to the KeyBank Lien on all Program Payments. No such amendment, restatement or modification of any agreement or arrangement shall affect any of the priorities, subordinations or agreements set forth in this Agreement.

Intercreditor and Lien Subordination Agreement

9. Receipt of Payments. If Goodman receives any payment on account of any indebtedness or other obligations owing to Goodman from one or more Borrowers (other than the Program Payments, or as payment for the Purchased Inventory received in the ordinary course of business, or regularly scheduled payments of principal and interest in respect of the Goodman Note), Goodman will hold the amount so received in trust for KeyBank and will forthwith turn over such payment to KeyBank in the form received (except for the endorsement of Goodman where necessary) for application to the KeyBank Obligations (whether or not due), in such order of application as KeyBank may deem appropriate. Universal shall not be permitted to prepay the Goodman Note, in whole or in part, without the prior written consent of KeyBank, such consent not to be unreasonably withheld or delayed. If, at any time, an event of default, or event which with the passage of time or the giving of notice, or both, would constitute an event of default, has occurred and is continuing under the Credit Agreement, then KeyBank or Universal (as the case may be) may thereafter send written notice of such fact (a “**Credit Agreement Default Notice**”) to Goodman at its address set forth above. Goodman may accept and retain all regularly scheduled payments of principal and interest in respect of the Goodman Note that are received by Goodman prior to its receipt of a Credit Agreement Default Notice from KeyBank or Universal. If Goodman receives any payment in respect of the Goodman Note from Universal after Goodman’s receipt of a Credit Agreement Default Notice from KeyBank or Universal, Goodman will hold the amount so received in trust for KeyBank and will forthwith turn over such payment to KeyBank in the form received (except for the endorsement of Goodman where necessary) for application to the KeyBank Obligations (whether or not due), in such order of application as KeyBank may deem appropriate.

10. Further Assurances. Each of the Creditors will, at the expense of Universal, at any time and from time to time promptly execute and deliver all further instruments and documents, and take all further action, that the other may reasonably request, in order to protect any right or interest granted or purported to be granted hereby or to enable the Creditors to exercise and enforce their respective rights and remedies hereunder.

11. Representations and Warranties. Each of the Creditors represents and warrants to the other as follows:

- a) It has full power and authority to enter into, and perform, its obligations under this Agreement; and
- b) This Agreement is binding upon it.

12. Amendments, Etc. No amendment, consent or waiver of any provision of this Agreement shall in any event be effective unless the same shall be in writing and signed by the Creditors, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given.

Intercreditor and Lien Subordination Agreement

13. Successors and Assigns. This Agreement is made and entered into for the sole protection and benefit of Creditors, their respective successors and assigns, and no other person or persons shall have any right of action hereunder. The terms hereof shall inure to the benefit of and be binding upon the successors and assigns of the Creditors.

14. Entire Agreement. This Agreement is the entire agreement between Creditors with respect to the relative priorities of the KeyBank Lien and the Goodman Lien and the other matters addressed herein, and supersedes any and all other prior agreements and understandings regarding said matters, whether written or oral, formal or informal.

15. No Waiver; Remedies. No failure on the part of either of the Creditors to exercise, and no delay in exercising, any right hereunder shall operate as a waiver thereof; nor shall any single or partial exercise of any right hereunder preclude any other or further exercise thereof or the exercise of any other right. The remedies herein provided are cumulative and not exclusive of any remedies provided by law, except to the extent such remedies provided by law are modified by the terms hereof.

16. Governing Law. This Agreement shall be governed by, and construed in accordance with, the laws of the state of New York.

17. Effect on Security Interests. Nothing contained in this Agreement is intended to affect or limit, in any way whatsoever, the security interests or liens that each of the parties has in any assets of Borrowers or any of their affiliates, whether tangible or intangible, insofar as the rights of Borrowers or any of their affiliates or other third parties not parties hereto are involved. The Creditors specifically reserve any and all of their respective rights, security interests and rights to assert security interests as against Borrowers or any of their affiliates, and any third parties.

18. Termination. The subordinations, agreements and priorities set forth in this Agreement shall remain in full force and effect until all of the KeyBank Obligations have been indefeasibly paid in full and all commitments to each Borrower from KeyBank have been terminated, regardless of whether any party hereto in the future seeks to rescind, amend, terminate or reform, by litigation or otherwise, its respective agreements with any Borrower.

19. Counterparts. This Agreement may be executed in any number of counterparts, each of which shall constitute an original as against any party whose signature appears on it and all of which together shall constitute a single instrument. The Agreement shall become binding when one or more counterparts, individually or taken together, bear the signatures of all parties. Delivery by fax or by encrypted e-mail or e-mail file attachment of any counterpart to this Agreement will be deemed the equivalent of the delivery of the original counterpart.

20. Miscellaneous. Unless the context clearly requires otherwise, the word “or” has the inclusive meaning represented by the phrase “and/or”. The headings in this Agreement are for purposes of reference only and will not limit or otherwise affect the meaning hereof. Any provision of this Agreement which is prohibited or unenforceable shall be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining terms of this Agreement. If the subordination provisions of any agreement, document or instrument by and between a Creditor and Universal or by Universal in favor of a Creditor conflict with the terms of this Agreement, the terms of this Agreement shall govern the relationship between the Creditors.

Intercreditor and Lien Subordination Agreement

21. Notices. All notices, requests, consents, approvals, waivers and other communications under this Agreement shall be in writing and be mailed or delivered to the addresses first above written, or to such other address for a party as shall be designated by such party in a written notice to the other parties. All such notices, requests and communications shall, when transmitted by overnight delivery, be effective when delivered for overnight (next-day) delivery, or if mailed, upon the second business day after the date deposited into the U.S. mail, or if delivered, upon delivery.

[Remainder of page intentionally left blank.]

Intercreditor and Lien Subordination Agreement

22. **WAIVER OF JURY TRIAL** . EACH OF KEYBANK AND GOODMAN WAIVES ANY RIGHT TO TRIAL BY JURY IN ANY ACTION AT LAW OR IN EQUITY OR IN ANY OTHER PROCEEDING BASED ON OR PERTAINING TO THIS AGREEMENT.

IN WITNESS WHEREOF, the Creditors have each caused this Agreement to be duly executed and delivered by its duly authorized officer as of the date first above written.

GOODMAN:

GOODMAN MANUFACTURING COMPANY,
L.P

By: GOODMAN HOLDING COMPANY, its
General Partner

By: _____

Name: Mark M. Dolan

Title: V.P., Corporate Controller & Treasurer

GOODMAN COMPANY, L.P.

By: GOODMAN HOLDING COMPANY, its
General Partner

By: _____

Name: Mark M. Dolan

Title: V.P., Corporate Controller & Treasurer

GOODMAN SALES COMPANY

By: _____

Name: Mark M. Dolan

Title: V.P., Corporate Controller & Treasurer

KEYBANK:

KEYBANK NATIONAL ASSOCIATION

By: _____

Name: Nadine M. Eames

Title: Vice President

Intercreditor and Lien Subordination Agreement

ACKNOWLEDGMENT AND CONSENT

Universal hereby acknowledges the provisions of the foregoing Agreement and agrees to pay any expenses referred to therein as payable by it and otherwise to abide by the terms of such Agreement.

UNIVERSAL:

Universal Supply Group, Inc., a New York corporation

By: _____
Name: _____
Title: _____

SUBORDINATION AGREEMENT

This SUBORDINATION AGREEMENT (as the same may from time to time be amended, restated or otherwise modified, this “Agreement”) is made and entered into, as of October 18, 2011, by and among COLONIAL COMMERCIAL CORP., a New York corporation (“Debtor”), RITA FOLGER, an individual (the “Subordinated Creditor”), and KEYBANK NATIONAL ASSOCIATION, a national banking association (“Lender”).

WHEREAS, Debtor is indebted to the Subordinated Creditor pursuant to a certain Convertible Note dated July 29, 2004 in the original principal amount of One Hundred Thousand Dollars (\$100,000), with an outstanding principal balance on the date hereof of One Hundred Thousand Dollars (\$100,000) (as amended and as the same may from time to time be further amended, restated or otherwise modified or replaced, the “Subordinated Convertible Note”) and that certain Promissory Note dated August 20, 2009 in the original principal amount of One Hundred Thousand Dollars (\$100,000), with an outstanding principal balance on the date hereof of Twenty-Two Thousand Two Hundred Twenty-Seven Dollars (\$22,227) (as the same may from time to time be amended, restated or otherwise modified or replaced, the “Subordinated Promissory Note” and, together with the Subordinated Convertible Note, collectively, the “Subordinated Notes”);

WHEREAS, Lender is, contemporaneously herewith, providing financial accommodations to Debtor pursuant to the Credit and Security Agreement by and among Debtor, Universal Supply Group, Inc., a New York corporation, The RAL Supply Group, Inc., a New York corporation, and S&A Supply, Inc., a New York corporation (together with their respective successors and assigns, collectively, “Borrowers” and, individually, each a “Borrower”) and Lender, dated as of the 18th day of October, 2011, (as the same may from time to time be amended, restated or otherwise modified or replaced, the “Credit Agreement”); and

WHEREAS, in order to induce Lender to provide the financial accommodations established pursuant to the Credit Agreement, the Subordinated Creditor desires to and does hereby subordinate, in accordance with the provisions of this Agreement, the indebtedness and other obligations evidenced by the Subordinated Notes, and all other indebtedness owing from Debtor to the Subordinated Creditor, to any and all indebtedness now or hereafter owing by Debtor to Lender in accordance with the provisions of this Agreement;

NOW, THEREFORE, in consideration of the foregoing, the parties agree as follows:

1. Definitions. As used herein, the following terms shall have the following meanings:

“Proceeding” means that term as defined in Section 9(a)(i) hereof.

“Refinancing” means that term as defined in Section 19 hereof.

“Refinancing Party” means that term as defined in Section 19 hereof.

“Senior Indebtedness” means, collectively, all indebtedness and other obligations of one or more Borrowers and any of their respective affiliates to Lender, or any affiliate thereof, pursuant to the Credit Agreement and any cash management or interest rate protection arrangement with Lender, in each case, whether owing by only one Borrower or by one or more Borrowers with one or more others in a several, joint or joint and several capacity, whether owing absolutely or contingently, whether created by note, overdraft, guaranty of payment or other contract or by quasi-contract, or statute or other operation of law, whether incurred directly to Lender (or any affiliate of Lender) or acquired by Lender (or any affiliate of Lender) by purchase, pledge or otherwise and whether participated to or from Lender (or any affiliate of Lender) in whole or in part, including, without limitation, the loans, letters of credit and other financial accommodations granted to one or more Borrowers pursuant to the Credit Agreement, and any extensions, renewals, modifications, and amendments thereof, all accrued interest thereon, and every other liability, now or hereafter owing to Lender (or any affiliate of Lender) by any Borrower or any of their affiliates.

“Subordinated Creditor’s Conversion Right” means that term as defined in Section 4 hereof.

“Subordinated Debt Documents” means the Subordinated Notes, and any other document executed in connection therewith.

“Subordinated Indebtedness” means, collectively, all indebtedness and other obligations evidenced by the Subordinated Debt Documents and any other indebtedness or other obligations now owing, or that hereafter may become owing, from Debtor or any of its affiliates, to the Subordinated Creditor, howsoever such indebtedness and other obligations may be hereafter created, extended, renewed or evidenced.

2. Subordination of Subordinated Payments. Except as set forth herein, the Subordinated Indebtedness shall at all times and in all respects be subordinate and junior in right of payment to all Senior Indebtedness.

3. Restrictions on Subordinated Payments. Until the Senior Indebtedness shall have been indefeasibly paid in full, no payments of principal or interest, or any other amount payable in connection therewith, shall be made on or with respect to the Subordinated Indebtedness, except as permitted in Section 4 of this Agreement. In addition, until the Senior Indebtedness shall have been indefeasibly paid in full, the Subordinated Indebtedness shall be subject to the following restrictions:

(a) The Subordinated Creditor shall not ask for, demand, sue for, accept or receive payment from Debtor or any other person or entity (except as permitted in Section 4 hereof), by set-off or in any other manner, either in whole or in part, on or with respect to, the Subordinated Indebtedness, or any security therefor, without obtaining the prior written consent of Lender;

(b) In the event of (i) any distribution, division or application, partial or complete, voluntary or involuntary, by operation of law or otherwise, of all or any part of the assets of Debtor or the proceeds thereof, to creditors of Debtor by reason of the liquidation, dissolution or other winding up of the business of Debtor, or (ii) any sale, receivership, insolvency or bankruptcy proceeding, or assignment for the benefit of creditors, or any proceeding by or against Debtor for any relief under any bankruptcy or insolvency laws relating to the relief of debtors, readjustment of indebtedness, reorganization, compositions or extensions, the Subordinated Creditor covenants that any payment or distribution of any kind or character, either in cash, securities or other property that shall be paid or delivered, or payable or deliverable, upon or with respect to the Subordinated Indebtedness immediately shall be paid or delivered directly to Lender for application on the Senior Indebtedness, whether or not due, until the Senior Indebtedness first shall have been fully paid and satisfied; and

(c) So long as any portion of the Senior Indebtedness remains outstanding, the Subordinated Creditor shall not enforce any judgment that it might obtain with respect to the Subordinated Indebtedness (including, without limitation, execution, attachment or foreclosure of judgment liens against any assets of Debtor or any affiliate of Debtor or any other person or entity) without obtaining the prior written consent of Lender, regardless of whether Debtor is in default of any of its obligations to the Subordinated Creditor under the Subordinated Indebtedness.

4. Permitted Payments. Notwithstanding the provisions hereof, (a) Debtor may make, and the Subordinated Creditor may receive from Debtor, regularly scheduled payments of principal and interest to the Subordinated Creditor under the Subordinated Debt Documents, so long as (i) the Subordinated Creditor is not in breach or violation of this Agreement, (ii) no event of default, or event with which the passage of time or the giving of notice, or both, would constitute an event of default (collectively, a "Default") has occurred under the Credit Agreement or any loan document executed in connection therewith, and (iii) no Default will occur as a result of any such payment; and (b) the Subordinated Indebtedness may be converted into stock in accordance with the terms of the Subordinated Convertible Note as in effect on the date hereof ("Subordinated Creditor's Conversion Right"). Anything in this Section 4 to the contrary notwithstanding, in the event that Lender notifies the Subordinated Creditor of such breach or violation of this Agreement or that a Default has occurred or will occur under the Credit Agreement, then the Subordinated Creditor may not receive any further payments on the Subordinated Debt Documents unless and until Lender notifies Debtor and the Subordinated Creditor that a payment may be made (provided that this shall not affect Subordinated Creditor's Conversion Right). In the event that the Subordinated Creditor receives any such payment that is not otherwise permitted under this Section 4, the provisions of Section 6 hereof shall apply.

5. Appointment of Power of Attorney. The Subordinated Creditor hereby irrevocably authorizes, appoints, and empowers Lender to (if the Subordinated Creditor refuses to do so within two business days after request of Lender) demand, sue for, collect, and receive every such payment or distribution (other than pursuant to Subordinated Creditor's Conversion Right) and give acquittance therefor and to file claims and take such other proceedings, in Lender's own name or in the name of and as attorney-in-fact for the Subordinated Creditor, as Lender may deem necessary or advisable for the enforcement of this Agreement; and the Subordinated Creditor shall execute and deliver to Lender such powers of attorney, assignments, or other instruments as may be requested by Lender to enable Lender to enforce any and all claims upon or with respect to the Subordinated Indebtedness and any security therefor and to collect and receive all payments or distributions that may be payable or deliverable at any time upon or with respect to the Subordinated Indebtedness.

6. Delivery of Payments to Lender. Except for the payments permitted pursuant to Section 4 of this Agreement, if any payment, distribution, security (other than pursuant to Subordinated Creditor's Conversion Right) or proceeds thereof is received by the Subordinated Creditor upon or with respect to any indebtedness of Debtor to the Subordinated Creditor (including the Subordinated Indebtedness) prior to the satisfaction in full of the Senior Indebtedness by each Borrower, the Subordinated Creditor shall receive and hold such payment, distribution, security or proceeds in trust for Lender and immediately shall deliver the same to Lender in precisely the form received (except for the endorsement or assignment of the Subordinated Creditor where necessary), for application to the Senior Indebtedness, whether or not due, and until so delivered the same shall be held in trust by the Subordinated Creditor as property of Lender. In the event of the failure of the Subordinated Creditor to make any such endorsement or assignment, Lender, or any of its officers or employees, hereby irrevocably is constituted and appointed attorney-in-fact of the Subordinated Creditor with full power to make the same.

7. Assignment of Claims. The Subordinated Creditor shall not assign or transfer any claim, or suffer or permit the creation or attachment of any lien, claim, encumbrance, hypothecation or pledge upon any claim, that the Subordinated Creditor has or may have against Debtor, or with respect to the Subordinated Indebtedness, while any portion of the Senior Indebtedness remains unpaid, unless such assignment or transfer is made (a) expressly subject to this Agreement, and (b) upon obtaining Lender's prior written consent to such an assignment or transfer.

8. No Challenge to Senior Indebtedness or Liens. The Subordinated Creditor agrees that it will not at any time contest the validity, perfection, priority or enforceability of the Senior Indebtedness, the Credit Agreement or any security or other document executed in connection therewith, or in connection with any Refinancing, as hereinafter defined, or the liens and security interests of Lender or any Refinancing Party, as hereinafter defined, in the collateral securing the Senior Indebtedness.

9. Proceedings and Distributions.

(a) For the purposes of this Section 9, the following terms shall have the following meanings:

(i) "Proceeding" means any assignment by Debtor for the benefit of creditors, or any filing of a voluntary petition by or involuntary petition against Debtor pursuant to any chapter of the federal bankruptcy code, or any institution of a voluntary proceeding by or involuntary proceeding against Debtor under any other federal or state law relating to relief of debtors, or any appointment of a receiver, trustee or liquidator of Debtor or of all or a substantial part of its assets, or any liquidation or dissolution of Debtor, or any other marshaling of the assets and liabilities of Debtor; and

(ii) “Distributions” means, collectively, all cash securities and other properties payable or otherwise distributable on or in respect of the Subordinated Indebtedness in any Proceeding;

(b) In any Proceeding, Lender shall have the right, but not the duty, to prepare and file a proof of claim based upon the Subordinated Indebtedness and to vote and otherwise enforce and use the same in such manner as Lender shall deem advisable; provided that, if Lender fails to file such proof of claim on or before the fifth day next preceding the last day permitted for such filing, the Subordinated Creditor shall give Lender written notice of such failure and thereupon file a proof of claim, based on the Subordinated Indebtedness and giving effect to this Agreement. In each such Proceeding, the Subordinated Creditor shall, at no cost or expense to Lender, furnish such witnesses and such supporting records and other data, execute and deliver such writings, and make and do all such other and further acts and things as Lender may request; and

(c) Lender shall be entitled to receive Distributions in respect of the Subordinated Indebtedness until the Senior Indebtedness has been paid in full (including, but not limited to, all interest accruing from time to time on the Senior Indebtedness after the commencement of any Proceeding, whether or not a claim for such interest is allowable under such Proceeding). All Distributions (other than cash and bearer instruments) shall be issued in Lender’s name, and all Distributions, whatever the form thereof, shall be delivered directly to Lender. No one delivering any Distributions to Lender shall have any responsibility to follow Lender’s application thereof. If, for any reason, the Subordinated Creditor shall receive any payment of or security for or Distribution in respect of the Subordinated Indebtedness, or any part thereof, before payment in full of the Senior Indebtedness (including, but not limited to, all interest accruing from time to time on the Senior Indebtedness after the commencement of any Proceeding, whether or not a claim for such interest is allowable under such Proceeding), the Subordinated Creditor shall receive the same in trust and shall deliver the same, in the form received, directly to Lender. The Subordinated Creditor shall execute and deliver such endorsements, assignments, transfer powers and other writings in respect of the foregoing as Lender may from time to time demand, and Lender shall have the right to execute and deliver the same for and on behalf of the Subordinated Creditor and in the name of the Subordinated Creditor whenever the Subordinated Creditor omits doing so.

10. Legend. The Subordinated Notes, and any other instrument evidencing any of the Subordinated Indebtedness, or any portion thereof, shall bear the following legend (or other similar language reasonably satisfactory to Lender) on the first page thereof: “THE INDEBTEDNESS EVIDENCED BY THIS NOTE IS SUBORDINATE TO THE INDEBTEDNESS OF THE MAKER (OR ANY SUCCESSOR THERETO) TO KEYBANK NATIONAL ASSOCIATION AND ITS SUCCESSORS AND ASSIGNS PURSUANT TO THE TERMS OF A SUBORDINATION AGREEMENT DATED OCTOBER 18, 2011, AS SUCH AGREEMENT MAY FROM TIME TO TIME BE AMENDED, RESTATED OR OTHERWISE MODIFIED (OR ANY SUCCESSOR AGREEMENT WHICH REPLACES AND REFERENCES SUCH AGREEMENT).”

11. Representation of the Subordinated Creditor; Amendment of Subordinated Debt Documents. The Subordinated Creditor represents and warrants to Lender that, as of the date hereof, the entire indebtedness of Debtor to the Subordinated Creditor is evidenced by the Subordinated Debt Documents. Copies of all of the Subordinated Debt Documents have been delivered to Lender and a copy of the Subordinated Convertible Note is attached hereto as Exhibit A and a copy of the Subordinated Promissory Note is attached hereto as Exhibit B. None of the Subordinated Debt Documents may be amended or modified in any respect without the prior written consent of Lender (which consent shall not be unreasonably withheld).

12. Additional Agreements with Lender. At any time, and from time to time, Lender may enter into any agreements with one or more Borrowers as Lender may deem proper, including extending the time of payment or renewing, increasing the amount, or otherwise altering the terms of the Credit Agreement or any document executed in connection therewith or affecting the security or guaranties, if any, underlying any or all of such obligations, or may exchange, sell, or surrender or otherwise deal with any such security or guaranties, or may release any balance of funds of one or more Borrowers, with Lender, without notice to the Subordinated Creditor, and without in any way impairing or affecting this Agreement thereby.

13. Reliance by Lender on the Subordinated Creditor. The Subordinated Creditor hereby consents and covenants that all obligations and liabilities of each Borrower to Lender shall be deemed to have been made or incurred, in part, in reliance upon this Agreement.

14. Waiver of Lender's Rights. No waiver shall be deemed to be made by Lender of any of its rights hereunder unless the same shall be in writing signed on behalf of Lender. Each waiver, if any, shall be a waiver only with respect to the specific instance involved and shall in no way impair the rights of Lender or the obligations of the Subordinated Creditor to Lender in any other respect at any other time.

15. Waiver of Notice and Successors and Assigns. The undersigned hereby waive (a) notice of acceptance of this Agreement; (b) notice of the existence, creation, extension, refunding, refinancing or non-payment of all or any of the Senior Indebtedness; (c) all diligence in collection or protection of or realization upon the Senior Indebtedness, or any part thereof or any security therefor; and (d) notice of the release, waiver or cancellation of any obligors or guarantors of all or any portion of the Senior Indebtedness or any security therefor. This Agreement shall be immediately binding upon Debtor and the Subordinated Creditor, and its successors, heirs, executors, administrators and permitted assigns, and the subordination described herein shall inure to the benefit of Lender and its successors and assigns.

16. Governing Law. This Agreement shall be construed according to the laws of the State of New York, without regard to principles of conflicts of laws. Wherever possible each provision of this Agreement shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement shall be prohibited by or invalid under such law, such provision shall be ineffective to the extent of such prohibition or invalidity, without invalidating the remainder of such provision or the remaining provisions of this Agreement.

17. Entire Agreement. This Agreement sets forth the entire agreement and understanding among the parties as to the subject matter hereof and merges and supersedes all prior discussions, agreements, and undertakings of every kind and nature among them with respect to the subject matter hereof.

18. Nonwaiver of Payments. In the event that the Subordinated Creditor is required to pay to Lender any funds or other property that the Subordinated Creditor receives from Debtor or any of its affiliates, or in respect of the Subordinated Indebtedness other than as permitted under Section 4 hereof, Lender and Debtor acknowledge that the Subordinated Creditor shall not have waived the rights of the Subordinated Creditor to payment in full under the Subordinated Debt Documents, subject, however, to the terms of this Agreement.

19. Refinancing of Senior Indebtedness. Lender may, from time to time, without notice to the undersigned, assign or transfer any or all of the Senior Indebtedness or any interest therein or permit another person or entity (a "Refinancing Party") to extend credit to one or more Borrowers to enable any such Borrower to repay all or a portion of the Senior Indebtedness (a "Refinancing"), and, notwithstanding any such assignment, transfer or Refinancing or any subsequent assignment, transfer or Refinancing, such indebtedness shall be and remain Senior Indebtedness for the purposes of this Agreement, and every immediate and successive assignee, transferee or Refinancing Party of any of the Senior Indebtedness or of any interest therein, including, without limitation, any Refinancing Party, shall, to the extent of the interest of such assignee, transferee or Refinancing Party in the Senior Indebtedness, be entitled to the rights and benefits of this Agreement to the same extent as if such assignee, transferee or Refinancing Party were Lender, and have the same irrevocable powers of attorney granted hereunder to Lender. On and after the date of the Refinancing, (a) such Refinancing Party shall be deemed to be Lender hereunder, (b) references to the Senior Indebtedness shall be deemed to be the obligations owing to the Refinancing Party, and (c) references to the loan documents of Lender shall be deemed to refer to the loan documents of the Refinancing Party. In connection with any Refinancing, the Subordinated Creditor agrees, promptly upon request of the Refinancing Party, to correct any material defect or error that may be discovered in this Agreement, such that the Refinancing Party fails to obtain the full benefits intended by this Agreement.

20. Termination. The subordinations, agreements and priorities set forth in this Agreement shall remain in full force and effect until all of the Senior Indebtedness has been indefeasibly paid in full and all commitments to each Borrower from Lender (including any Refinancing Party) have been terminated, regardless of whether any party hereto in the future seeks to rescind, amend, terminate or reform, by litigation or otherwise, its respective agreements with any Borrower.

21. Counterparts. This Agreement may be executed in any number of counterparts, by different parties hereto on the same or separate counterparts and by facsimile signature, and each such counterpart, when executed and delivered, shall be deemed to be an original, and all of which taken together shall constitute but one and the same Agreement.

22. Notice. All notices, requests, demands and other communications provided for hereunder shall be in writing and mailed or delivered to Debtor, Lender or the Subordinated Creditor, as the case may be, addressed to the address of Debtor, Lender or the Subordinated Creditor, as the case may be, specified on the signature page of this Agreement. All notices, statements, requests, demands and other communications provided for hereunder shall be deemed to be given or made when delivered or two business days after being deposited in the mails with postage prepaid by registered or certified mail, addressed as aforesaid, or sent by facsimile with telephonic confirmation of receipt. All notices hereunder shall not be effective until received.

23. Jurisdiction and Venue. All judicial proceedings arising out of or relating to this Agreement or any obligation hereunder may be brought in any state or federal court sitting in New York County, New York, and by their respective execution and delivery of this Agreement, the undersigned accept for themselves and in connection with their properties, generally and unconditionally, the jurisdiction of the aforesaid courts and waive any defense of forum nonconveniens, and irrevocably agree to be bound by any judgment rendered thereby in connection with this Agreement.

[Remainder of page intentionally left blank.]

JURY TRIAL WAIVER . THE UNDERSIGNED, TO THE EXTENT PERMITTED BY LAW, EACH HEREBY WAIVES ANY RIGHT TO HAVE A JURY PARTICIPATE IN RESOLVING ANY DISPUTE WHETHER SOUNDING IN CONTRACT, TORT, OR OTHERWISE, AMONG THE SUBORDINATED CREDITOR, DEBTOR, AND LENDER, OR ANY THEREOF, ARISING OUT OF, IN CONNECTION WITH, RELATED TO OR INCIDENTAL TO THE RELATIONSHIP ESTABLISHED AMONG THEM IN CONNECTION WITH THIS AGREEMENT OR ANY DOCUMENT EXECUTED OR DELIVERED IN CONNECTION HEREWITH OR THE TRANSACTIONS RELATED THERETO.

IN WITNESS WHEREOF, the undersigned have executed and delivered this Subordination Agreement as of the date first set forth above.

Address: 275 Wagaraw Road
Hawthorne, NJ 07506
Attention: William Pagano

COLONIAL COMMERCIAL CORP.

By: _____
William Pagano
Chief Executive Officer

Address: 127 Public Square
Cleveland, Ohio 44114
Attention: Asset Based Lending

KEYBANK NATIONAL ASSOCIATION

By: _____
Nadine M. Eames
Vice President

Address: c/o Folger & Folger
521 Fifth Avenue, 24th Floor
New York, NY 10175

Rita Folger, personally

Signature Page to
Subordination Agreement

EXHIBIT A
SUBORDINATED CONVERTIBLE NOTE

Please see attached.

E-1

EXHIBIT B
SUBORDINATED PROMISSORY NOTE

Please see attached.

SUBORDINATION AGREEMENT

This SUBORDINATION AGREEMENT (as the same may from time to time be amended, restated or otherwise modified, this “Agreement”) is made and entered into, as of October 18, 2011, by and among COLONIAL COMMERCIAL CORP., a New York corporation (“Debtor”), GOLDMAN ASSOCIATES OF NEW YORK, INC., a New York corporation (the “Subordinated Creditor”), and KEYBANK NATIONAL ASSOCIATION, a national banking association (“Lender”).

WHEREAS, Debtor is indebted to the Subordinated Creditor pursuant to a certain Secured Note dated July 29, 2004 in the original principal amount of Seven Hundred Fifty Thousand Dollars (\$750,000), with an outstanding principal balance on the date hereof of Seven Hundred Fifty Thousand Dollars (\$750,000) (as amended and as the same may from time to time be further amended, restated or otherwise modified or replaced, the “Subordinated Secured Note”) and that certain Promissory Note dated August 20, 2009 in the original principal amount of One Hundred Seventy-One Thousand Thirty-Three Dollars (\$171,033), with an outstanding principal balance on the date hereof of Thirty-Eight Thousand Fifteen Dollars (\$38,015) (as the same may from time to time be amended, restated or otherwise modified or replaced, the “Subordinated Promissory Note” and, together with the Subordinated Secured Note, collectively, the “Subordinated Notes”);

WHEREAS, Lender is, contemporaneously herewith, providing financial accommodations to Debtor pursuant to the Credit and Security Agreement by and among Debtor, Universal Supply Group, Inc., a New York corporation, The RAL Supply Group, Inc., a New York corporation, and S&A Supply, Inc., a New York corporation (together with their respective successors and assigns, collectively, “Borrowers” and, individually, each a “Borrower”) and Lender, dated as of the 18th day of October, 2011, (as the same may from time to time be amended, restated or otherwise modified or replaced, the “Credit Agreement”); and

WHEREAS, in order to induce Lender to provide the financial accommodations established pursuant to the Credit Agreement, the Subordinated Creditor desires to and does hereby subordinate, in accordance with the provisions of this Agreement, the indebtedness and other obligations evidenced by the Subordinated Notes, and all other indebtedness owing from Debtor to the Subordinated Creditor, to any and all indebtedness now or hereafter owing by Debtor to Lender in accordance with the provisions of this Agreement;

NOW, THEREFORE, in consideration of the foregoing, the parties agree as follows:

1. Definitions. As used herein, the following terms shall have the following meanings:

“Proceeding” means that term as defined in Section 11(a)(i) hereof.

“Refinancing” means that term as defined in Section 21 hereof.

“Refinancing Party” means that term as defined in Section 21 hereof.

“Senior Indebtedness” means, collectively, all indebtedness and other obligations of one or more Borrowers and any of their respective affiliates to Lender, or any affiliate thereof, pursuant to the Credit Agreement and any cash management or interest rate protection arrangement with Lender, in each case, whether owing by only one Borrower or by one or more Borrowers with one or more others in a several, joint or joint and several capacity, whether owing absolutely or contingently, whether created by note, overdraft, guaranty of payment or other contract or by quasi-contract, or statute or other operation of law, whether incurred directly to Lender (or any affiliate of Lender) or acquired by Lender (or any affiliate of Lender) by purchase, pledge or otherwise and whether participated to or from Lender (or any affiliate of Lender) in whole or in part, including, without limitation, the loans, letters of credit and other financial accommodations granted to one or more Borrowers pursuant to the Credit Agreement, and any extensions, renewals, modifications, and amendments thereof, all accrued interest thereon, and every other liability, now or hereafter owing to Lender (or any affiliate of Lender) by any Borrower or any of their affiliates.

“Subordinated Debt Documents” means the Subordinated Notes, and any other document executed in connection therewith.

“Subordinated Indebtedness” means, collectively, all indebtedness and other obligations evidenced by the Subordinated Debt Documents and any other indebtedness or other obligations now owing, or that hereafter may become owing, from Debtor or any of its affiliates, to the Subordinated Creditor, howsoever such indebtedness and other obligations may be hereafter created, extended, renewed or evidenced.

“U.C.C. Financing Statement” means a financing statement filed or to be filed in accordance with the Uniform Commercial Code, as in effect from time to time, in the relevant state or states.

2. Subordination of Subordinated Payments. Except as set forth herein, the Subordinated Indebtedness shall at all times and in all respects be subordinate and junior in right of payment to all Senior Indebtedness.

3. Restrictions on Subordinated Payments. Until the Senior Indebtedness shall have been indefeasibly paid in full, no payments of principal or interest, or any other amount payable in connection therewith, shall be made on or with respect to the Subordinated Indebtedness, except as permitted in Section 4 of this Agreement. In addition, until the Senior Indebtedness shall have been indefeasibly paid in full, the Subordinated Indebtedness shall be subject to the following restrictions:

(a) The Subordinated Creditor shall not ask for, demand, sue for, accept or receive payment from Debtor or any other person or entity (except as permitted in Section 4 hereof), by set-off or in any other manner, either in whole or in part, on or with respect to, the Subordinated Indebtedness, or any security therefor (other than as permitted pursuant to Section 5 hereof), without obtaining the prior written consent of Lender;

(b) In the event of (i) any distribution, division or application, partial or complete, voluntary or involuntary, by operation of law or otherwise, of all or any part of the assets of Debtor or the proceeds thereof, to creditors of Debtor by reason of the liquidation, dissolution or other winding up of the business of Debtor, or (ii) any sale, receivership, insolvency or bankruptcy proceeding, or assignment for the benefit of creditors, or any proceeding by or against Debtor for any relief under any bankruptcy or insolvency laws relating to the relief of debtors, readjustment of indebtedness, reorganization, compositions or extensions, the Subordinated Creditor covenants that any payment or distribution of any kind or character, either in cash, securities or other property that shall be paid or delivered, or payable or deliverable, upon or with respect to the Subordinated Indebtedness immediately shall be paid or delivered directly to Lender for application on the Senior Indebtedness, whether or not due, until the Senior Indebtedness first shall have been fully paid and satisfied; and

(c) So long as any portion of the Senior Indebtedness remains outstanding, the Subordinated Creditor shall not enforce any judgment that it might obtain with respect to the Subordinated Indebtedness (including, without limitation, execution, attachment or foreclosure of judgment liens against any assets of Debtor or any affiliate of Debtor or any other person or entity) without obtaining the prior written consent of Lender, regardless of whether Debtor is in default of any of its obligations to the Subordinated Creditor under the Subordinated Indebtedness.

4. Permitted Payments. Notwithstanding the provisions hereof, Debtor may make, and the Subordinated Creditor may receive from Debtor, regularly scheduled payments of principal and interest to the Subordinated Creditor under the Subordinated Debt Documents, so long as (a) the Subordinated Creditor is not in breach or violation of this Agreement, (b) no event of default, or event with which the passage of time or the giving of notice, or both, would constitute an event of default (collectively, a "Default") has occurred under the Credit Agreement or any loan document executed in connection therewith, and (c) no Default will occur as a result of any such payment. Anything in this Section 4 to the contrary notwithstanding, in the event that Lender notifies the Subordinated Creditor of such breach or violation of this Agreement or that a Default has occurred or will occur under the Credit Agreement, then the Subordinated Creditor may not receive any further payments on the Subordinated Debt Documents unless and until Lender notifies Debtor and the Subordinated Creditor that a payment may be made. In the event that the Subordinated Creditor receives any such payment that is not otherwise permitted under this Section 4, the provisions of Section 8 hereof shall apply.

5. Permitted Security.

(a) Lender hereby consents to the security interests of the Subordinated Creditor in the collateral set forth on Exhibit C hereto (the "Subordinated Creditor Collateral").

(b) The Subordinated Creditor hereby subordinates its existing and any future security interests in the Subordinated Creditor Collateral to the existing and any future security interests of Lender, in any assets of Debtor or any of its affiliates, whether or not perfected.

(c) The Subordinated Creditor agrees that, anything contained in any documents evidencing the Subordinated Indebtedness, any U.C.C. Financing Statement or any existing or future agreement between the Subordinated Creditor and Debtor to the contrary notwithstanding, the Subordinated Creditor does not presently hold, and shall not obtain or acquire, without the prior written consent of Lender, any security interest, lien or other interest in any equipment, assets, or real or other property of Debtor or any of its affiliates, other than the Subordinated Creditor Collateral.

(d) The Subordinated Creditor agrees that each U.C.C. Financing Statement and any other evidence or notice of its security interest or lien on any equipment, assets or real or other property of Debtor shall be limited to the Subordinated Creditor Collateral and shall contain a statement, in form satisfactory to Lender, that Subordinated Creditor's security interest and/or lien is subordinated to the security interest of Lender and that certain rights and remedies of the Subordinated Creditor are subject to the terms of this Agreement. If any security interest of the Subordinated Creditor shall be perfected or filed of record prior to the security interest of Lender, then, upon request of Lender, the Subordinated Creditor shall promptly release such filing and file and perfect subsequent to Lender, or any Refinancing Party, as hereinafter defined. In the event that the Subordinated Creditor fails to so release its security interest as aforesaid, Lender is hereby given an irrevocable power of attorney to so release such security interest.

(e) Without limiting the provisions of Section 4 above, the Subordinated Creditor agrees that it will not enforce or apply its security interests in or liens upon, or in any manner interfere with, any of the Subordinated Creditor Collateral or any other equipment, assets or real or other property of Debtor or any of its affiliates, unless and until Lender has advised the Subordinated Creditor in writing that Borrowers have indefeasibly satisfied in full all Senior Indebtedness to Lender. In this regard, the Subordinated Creditor agrees that it will not seek to notify account debtors or other obligors of its subordinated security interest in the proceeds of the Subordinated Creditor Collateral, nor will Subordinated Creditor collect such proceeds or otherwise enforce or apply its security interests in the proceeds of the Subordinated Creditor Collateral, unless and until Lender has advised the Subordinated Creditor in writing, that Borrowers have indefeasibly satisfied, in full, the Senior Indebtedness.

(f) Pending receipt of the notice from Lender referred to in Section 5(e) above, the Subordinated Creditor (i) agrees that the Subordinated Creditor shall not assert any claim for marshalling, (ii) consents to the disposition of the Subordinated Creditor Collateral by Lender in a commercially reasonable manner and on commercially reasonable terms or, if Lender requests, by Debtor or any of Debtor's affiliates, or any successor to any such party, including a trustee in bankruptcy, (iii) shall, at Lender's request, in connection with the disposition of any of the Subordinated Creditor Collateral in a commercially reasonable manner and on commercially reasonable terms, release its security interest in the Subordinated Creditor Collateral upon the disposition thereof; provided that such release shall not impair the security interest and/or lien of the Subordinated Creditor upon any remaining proceeds of such disposition after the full payment of the Senior Indebtedness to Lender. In the event that the Subordinated Creditor fails to so release its security interest as aforesaid, Lender is hereby given an irrevocable power of attorney to so release such security interest, and to use its sole, but reasonable, discretion to determine if such sale has been in a commercially reasonable manner and on commercially reasonable terms.

(g) Proceeds of the Subordinated Creditor Collateral include insurance proceeds arising from the theft, destruction, casualty or other loss (including business interruption) of or to the Subordinated Creditor Collateral, and the priority of Lender and the Subordinated Creditor provided for herein shall apply to such proceeds. Lender shall have the sole and exclusive right to adjust or enforce settlement of insurance claims in the event of any covered theft, destruction, casualty or other loss (including business interruption) of or to any assets of Debtor or any of its affiliates. All proceeds of such insurance shall inure to Lender; provided that, after full payment of all Senior Indebtedness to Lender owing by Borrowers, any remaining insurance proceeds received by Lender shall be remitted to the Subordinated Creditor or otherwise as required by law.

6. Priorities. The subordinations and priorities specified in this Agreement are applicable irrespective of (a) the time or order of attachment or perfection of security interests or other interests referred to herein, (b) the time and order of filing of U.C.C. Financing Statement, (c) the acquisition of purchase money or other security interests or the time of giving or failure to give notice of the acquisition or expected acquisition or purchase money or other security interests, (d) any provisions of the Uniform Commercial Code as adopted in the State of New York or any applicable law or decision, (e) the terms of the Credit Agreement or the Subordinated Debt Documents or other evidence of indebtedness, or (f) whether Lender (or any affiliate thereof) or the Subordinated Creditor holds possession of any assets of Debtor or its affiliates, or the Subordinated Creditor Collateral, and are applicable irrespective of whether such security interests or other interests have been perfected. The Subordinated Creditor hereby covenants that the Subordinated Creditor will only perfect its security interest in the Subordinated Creditor Collateral through the filing of a U.C.C. Financing Statement that has been approved in writing by Lender prior to the filing thereof. The Subordinated Creditor agrees with Lender that it will take no further action to perfect by “possession”, “control”, filing with any federal agency or any other method of perfection. Any Subordinated Creditor Collateral, or other property of Debtor or any of its affiliates, in the possession of the Subordinated Creditor shall be held in trust solely for the benefit of Lender until such time as the Senior Indebtedness shall have been irrevocably paid in full.

7. Appointment of Power of Attorney. The Subordinated Creditor hereby irrevocably authorizes, appoints, and empowers Lender to (if the Subordinated Creditor refuses to do so within two business days after request of Lender) demand, sue for, collect, and receive every such payment or distribution and give acquittance therefor and to file claims and take such other proceedings, in Lender’s own name or in the name of and as attorney-in-fact for the Subordinated Creditor, as Lender may deem necessary or advisable for the enforcement of this Agreement; and the Subordinated Creditor shall execute and deliver to Lender such powers of attorney, assignments, or other instruments as may be requested by Lender to enable Lender to enforce any and all claims upon or with respect to the Subordinated Indebtedness and any security therefor and to collect and receive all payments or distributions that may be payable or deliverable at any time upon or with respect to the Subordinated Indebtedness.

8. Delivery of Payments to Lender. Except for the payments permitted pursuant to Section 4 of this Agreement, if any payment, distribution, security (other than as permitted pursuant to Section 5 above) or proceeds thereof is received by the Subordinated Creditor upon or with respect to any indebtedness of Debtor to the Subordinated Creditor (including the Subordinated Indebtedness) prior to the satisfaction in full of the Senior Indebtedness by each Borrower, the Subordinated Creditor shall receive and hold such payment, distribution, security or proceeds in trust for Lender and immediately shall deliver the same to Lender in precisely the form received (except for the endorsement or assignment of the Subordinated Creditor where necessary), for application to the Senior Indebtedness, whether or not due, and until so delivered the same shall be held in trust by the Subordinated Creditor as property of Lender. In the event of the failure of the Subordinated Creditor to make any such endorsement or assignment, Lender, or any of its officers or employees, hereby irrevocably is constituted and appointed attorney-in-fact of the Subordinated Creditor with full power to make the same.

9. Assignment of Claims. The Subordinated Creditor shall not assign or transfer any claim, or suffer or permit the creation or attachment of any lien, claim, encumbrance, hypothecation or pledge upon any claim, that the Subordinated Creditor has or may have against Debtor, or with respect to the Subordinated Indebtedness, while any portion of the Senior Indebtedness remains unpaid, unless such assignment or transfer is made (a) expressly subject to this Agreement, and (b) upon obtaining Lender's prior written consent to such an assignment or transfer.

10. No Challenge to Senior Indebtedness or Liens. The Subordinated Creditor agrees that it will not at any time contest the validity, perfection, priority or enforceability of the Senior Indebtedness, the Credit Agreement or any security or other document executed in connection therewith, or in connection with any Refinancing, as hereinafter defined, or the liens and security interests of Lender or any Refinancing Party, as hereinafter defined, in the collateral securing the Senior Indebtedness.

11. Proceedings and Distributions.

(a) For the purposes of this Section 11, the following terms shall have the following meanings:

(i) "Proceeding" means any assignment by Debtor for the benefit of creditors, or any filing of a voluntary petition by or involuntary petition against Debtor pursuant to any chapter of the federal bankruptcy code, or any institution of a voluntary proceeding by or involuntary proceeding against Debtor under any other federal or state law relating to relief of debtors, or any appointment of a receiver, trustee or liquidator of Debtor or of all or a substantial part of its assets, or any liquidation or dissolution of Debtor, or any other marshaling of the assets and liabilities of Debtor; and

(ii) "Distributions" means, collectively, all cash securities and other properties payable or otherwise distributable on or in respect of the Subordinated Indebtedness in any Proceeding;

(b) In any Proceeding, Lender shall have the right, but not the duty, to prepare and file a proof of claim based upon the Subordinated Indebtedness and to vote and otherwise enforce and use the same in such manner as Lender shall deem advisable; provided that, if Lender fails to file such proof of claim on or before the fifth day next preceding the last day permitted for such filing, the Subordinated Creditor shall give Lender written notice of such failure and thereupon file a proof of claim, based on the Subordinated Indebtedness and giving effect to this Agreement. In each such Proceeding, the Subordinated Creditor shall, at no cost or expense to Lender, furnish such witnesses and such supporting records and other data, execute and deliver such writings, and make and do all such other and further acts and things as Lender may request; and

(c) Lender shall be entitled to receive Distributions in respect of the Subordinated Indebtedness until the Senior Indebtedness has been paid in full (including, but not limited to, all interest accruing from time to time on the Senior Indebtedness after the commencement of any Proceeding, whether or not a claim for such interest is allowable under such Proceeding). All Distributions (other than cash and bearer instruments) shall be issued in Lender's name, and all Distributions, whatever the form thereof, shall be delivered directly to Lender. No one delivering any Distributions to Lender shall have any responsibility to follow Lender's application thereof. If, for any reason, the Subordinated Creditor shall receive any payment of or security for or Distribution in respect of the Subordinated Indebtedness, or any part thereof, before payment in full of the Senior Indebtedness (including, but not limited to, all interest accruing from time to time on the Senior Indebtedness after the commencement of any Proceeding, whether or not a claim for such interest is allowable under such Proceeding), the Subordinated Creditor shall receive the same in trust and shall deliver the same, in the form received, directly to Lender. The Subordinated Creditor shall execute and deliver such endorsements, assignments, transfer powers and other writings in respect of the foregoing as Lender may from time to time demand, and Lender shall have the right to execute and deliver the same for and on behalf of the Subordinated Creditor and in the name of the Subordinated Creditor whenever the Subordinated Creditor omits doing so.

12. Legend. The Subordinated Notes, and any other instrument evidencing any of the Subordinated Indebtedness, or any portion thereof, shall bear the following legend (or other similar language reasonably satisfactory to Lender) on the first page thereof: "THE INDEBTEDNESS EVIDENCED BY THIS NOTE IS SUBORDINATE TO THE INDEBTEDNESS OF THE MAKER (OR ANY SUCCESSOR THERETO) TO KEYBANK NATIONAL ASSOCIATION AND ITS SUCCESSORS AND ASSIGNS PURSUANT TO THE TERMS OF A SUBORDINATION AGREEMENT DATED OCTOBER 18, 2011, AS SUCH AGREEMENT MAY FROM TIME TO TIME BE AMENDED, RESTATED OR OTHERWISE MODIFIED (OR ANY SUCCESSOR AGREEMENT WHICH REPLACES AND REFERENCES SUCH AGREEMENT)."

13. Representation of the Subordinated Creditor; Amendment of Subordinated Debt Documents. The Subordinated Creditor represents and warrants to Lender that, as of the date hereof, the entire indebtedness of Debtor to the Subordinated Creditor is evidenced by the Subordinated Debt Documents. Copies of all of the Subordinated Debt Documents have been delivered to Lender and a copy of the Subordinated Secured Note is attached hereto as Exhibit A and a copy of the Subordinated Promissory Note is attached hereto as Exhibit B. None of the Subordinated Debt Documents may be amended or modified in any respect without the prior written consent of Lender (which consent shall not be unreasonably withheld).

14. Additional Agreements with Lender. At any time, and from time to time, Lender may enter into any agreements with one or more Borrowers as Lender may deem proper, including extending the time of payment or renewing, increasing the amount, or otherwise altering the terms of the Credit Agreement or any document executed in connection therewith or affecting the security or guaranties, if any, underlying any or all of such obligations, or may exchange, sell, or surrender or otherwise deal with any such security or guaranties, or may release any balance of funds of one or more Borrowers, with Lender, without notice to the Subordinated Creditor, and without in any way impairing or affecting this Agreement thereby.

15. Reliance by Lender on the Subordinated Creditor. The Subordinated Creditor hereby consents and covenants that all obligations and liabilities of each Borrower to Lender shall be deemed to have been made or incurred, in part, in reliance upon this Agreement.

16. Waiver of Lender's Rights. No waiver shall be deemed to be made by Lender of any of its rights hereunder unless the same shall be in writing signed on behalf of Lender. Each waiver, if any, shall be a waiver only with respect to the specific instance involved and shall in no way impair the rights of Lender or the obligations of the Subordinated Creditor to Lender in any other respect at any other time.

17. Waiver of Notice and Successors and Assigns. The undersigned hereby waive (a) notice of acceptance of this Agreement; (b) notice of the existence, creation, extension, refunding, refinancing or non-payment of all or any of the Senior Indebtedness; (c) all diligence in collection or protection of or realization upon the Senior Indebtedness, or any part thereof or any security therefor; and (d) notice of the release, waiver or cancellation of any obligors or guarantors of all or any portion of the Senior Indebtedness or any security therefor. This Agreement shall be immediately binding upon Debtor and the Subordinated Creditor, and its successors and permitted assigns, and the subordination described herein shall inure to the benefit of Lender and its successors and assigns.

18. Governing Law. This Agreement shall be construed according to the laws of the State of New York, without regard to principles of conflicts of laws. Wherever possible each provision of this Agreement shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement shall be prohibited by or invalid under such law, such provision shall be ineffective to the extent of such prohibition or invalidity, without invalidating the remainder of such provision or the remaining provisions of this Agreement.

19. Entire Agreement. This Agreement sets forth the entire agreement and understanding among the parties as to the subject matter hereof and merges and supersedes all prior discussions, agreements, and undertakings of every kind and nature among them with respect to the subject matter hereof.

20. Nonwaiver of Payments. In the event that the Subordinated Creditor is required to pay to Lender any funds or other property that the Subordinated Creditor receives from Debtor or any of its affiliates, or in respect of the Subordinated Indebtedness other than as permitted under Section 4 hereof, Lender and Debtor acknowledge that the Subordinated Creditor shall not have waived the rights of the Subordinated Creditor to payment in full under the Subordinated Debt Documents, subject, however, to the terms of this Agreement.

21. Refinancing of Senior Indebtedness. Lender may, from time to time, without notice to the undersigned, assign or transfer any or all of the Senior Indebtedness or any interest therein or permit another person or entity (a "Refinancing Party") to extend credit to one or more Borrowers to enable any such Borrower to repay all or a portion of the Senior Indebtedness (a "Refinancing"), and, notwithstanding any such assignment, transfer or Refinancing or any subsequent assignment, transfer or Refinancing, such indebtedness shall be and remain Senior Indebtedness for the purposes of this Agreement, and every immediate and successive assignee, transferee or Refinancing Party of any of the Senior Indebtedness or of any interest therein, including, without limitation, any Refinancing Party, shall, to the extent of the interest of such assignee, transferee or Refinancing Party in the Senior Indebtedness, be entitled to the rights and benefits of this Agreement to the same extent as if such assignee, transferee or Refinancing Party were Lender, and have the same irrevocable powers of attorney granted hereunder to Lender. On and after the date of the Refinancing, (a) such Refinancing Party shall be deemed to be Lender hereunder, (b) references to the Senior Indebtedness shall be deemed to be the obligations owing to the Refinancing Party, and (c) references to the loan documents of Lender shall be deemed to refer to the loan documents of the Refinancing Party. In connection with any Refinancing, the Subordinated Creditor agrees, promptly upon request of the Refinancing Party, to correct any material defect or error that may be discovered in this Agreement, such that the Refinancing Party fails to obtain the full benefits intended by this Agreement.

22. Effect on Security Interests. Nothing contained in this Agreement is intended to affect or limit, in any way whatsoever, the security interests or liens that each of the parties has in any assets of Debtor, whether tangible or intangible, insofar as the rights of Debtor or any of its affiliates or other third parties not parties hereto are involved. The parties hereto specifically reserve any and all of their respective rights, security interests and rights to assert security interests as against Debtor or any of its affiliates, and any third parties.

23. Termination. The subordinations, agreements and priorities set forth in this Agreement shall remain in full force and effect until all of the Senior Indebtedness has been indefeasibly paid in full and all commitments to each Borrower from Lender (including any Refinancing Party) have been terminated, regardless of whether any party hereto in the future seeks to rescind, amend, terminate or reform, by litigation or otherwise, its respective agreements with any Borrower.

24. Counterparts. This Agreement may be executed in any number of counterparts, by different parties hereto on the same or separate counterparts and by facsimile signature, and each such counterpart, when executed and delivered, shall be deemed to be an original, and all of which taken together shall constitute but one and the same Agreement.

25. Notice. All notices, requests, demands and other communications provided for hereunder shall be in writing and mailed or delivered to Debtor, Lender or the Subordinated Creditor, as the case may be, addressed to the address of Debtor, Lender or the Subordinated Creditor, as the case may be, specified on the signature page of this Agreement. All notices, statements, requests, demands and other communications provided for hereunder shall be deemed to be given or made when delivered or two business days after being deposited in the mails with postage prepaid by registered or certified mail, addressed as aforesaid, or sent by facsimile with telephonic confirmation of receipt. All notices hereunder shall not be effective until received.

26. Jurisdiction and Venue. All judicial proceedings arising out of or relating to this Agreement or any obligation hereunder may be brought in any state or federal court sitting in New York County, New York, and by their respective execution and delivery of this Agreement, the undersigned accept for themselves and in connection with their properties, generally and unconditionally, the jurisdiction of the aforesaid courts and waive any defense of forum nonconveniens, and irrevocably agree to be bound by any judgment rendered thereby in connection with this Agreement.

[Remainder of page intentionally left blank.]

JURY TRIAL WAIVER . THE UNDERSIGNED, TO THE EXTENT PERMITTED BY LAW, EACH HEREBY WAIVES ANY RIGHT TO HAVE A JURY PARTICIPATE IN RESOLVING ANY DISPUTE WHETHER SOUNDING IN CONTRACT, TORT, OR OTHERWISE, AMONG THE SUBORDINATED CREDITOR, DEBTOR, AND LENDER, OR ANY THEREOF, ARISING OUT OF, IN CONNECTION WITH, RELATED TO OR INCIDENTAL TO THE RELATIONSHIP ESTABLISHED AMONG THEM IN CONNECTION WITH THIS AGREEMENT OR ANY DOCUMENT EXECUTED OR DELIVERED IN CONNECTION HEREWITH OR THE TRANSACTIONS RELATED THERETO.

IN WITNESS WHEREOF, the undersigned have executed and delivered this Subordination Agreement as of the date first set forth above.

Address: 275 Wagaraw Road
Hawthorne, NJ 07506
Attention: William Pagano

COLONIAL COMMERCIAL CORP.

By: _____
William Pagano
Chief Executive Officer

Address: 127 Public Square
Cleveland, Ohio 44114
Attention: Asset Based Lending

KEYBANK NATIONAL ASSOCIATION

By: _____
Nadine M. Eames
Vice President

Address: 17305 St. James Court
Boca Raton, FL 33496
Attention: Michael Goldman

**GOLDMAN ASSOCIATES OF NEW YORK,
INC.**

By: _____
Name: _____
Title: _____

Signature Page to
Subordination Agreement

EXHIBIT A
SUBORDINATED SECURED NOTE

Please see attached.

E-1

EXHIBIT B
SUBORDINATED PROMISSORY NOTE

Please see attached.

EXHIBIT C

SUBORDINATED CREDITOR COLLATERAL

All personal and fixture property of every kind and nature including, without limitation, all furniture, fixtures, equipment, raw materials, inventory, other goods, accounts, contract rights, rights to the payment of money, insurance refund claims and all other insurance claims and proceeds, tort claims, chattel paper, electronic chattel paper, documents, instruments, securities and other investment property, deposit accounts, rights to proceeds of letters of credit, letter-of-credit rights, supporting obligations of every nature, and general intangibles including, without limitation, all tax refund claims, license fees, patents, patent applications, trade secrets and know-how (whether or not patentable or patented), trademarks, trademark applications, trade names, copyrights, copyright applications, rights to sue and recover for past infringement of patents, trademarks and copyrights, computer programs, computer software, engineering drawings, service marks, customer lists, goodwill, and all licenses, permits, agreements of any kind or nature pursuant to which (i) the Grantor operates or has authority to operate, (ii) the Grantor possesses, uses or has authority to possess or use property (whether tangible or intangible) of others, or (iii) others possess, use, or have authority to possess or use property (whether tangible or intangible) of the Grantor, and all recorded data of any kind or nature, regardless of the medium of recording, including, without limitation, all software, writings, plans, specifications, and schematics.

SUBORDINATION AGREEMENT

This SUBORDINATION AGREEMENT (as the same may from time to time be amended, restated or otherwise modified, this "Agreement") is made and entered into, as of October 18, 2011, by and among COLONIAL COMMERCIAL CORP., a New York corporation ("Debtor"), JOHN A. HILDEBRANDT, an individual (the "Subordinated Creditor"), and KEYBANK NATIONAL ASSOCIATION, a national banking association ("Lender").

WHEREAS, Debtor is indebted to the Subordinated Creditor pursuant to a certain Subordinated Promissory Note dated August 20, 2009 in the original principal amount of Fifty Thousand Dollars (\$50,000), with an outstanding principal balance on the date hereof of Eleven Thousand One Hundred Thirteen Dollars (\$11,113) (as the same may from time to time be amended, restated or otherwise modified or replaced, the "Subordinated Note" and, together with any other document executed in connection therewith, collectively, the "Subordinated Debt Documents");

WHEREAS, Lender is, contemporaneously herewith, providing financial accommodations to Debtor pursuant to the Credit and Security Agreement by and among Debtor, Universal Supply Group, Inc., a New York corporation, The RAL Supply Group, Inc., a New York corporation, and S&A Supply, Inc., a New York corporation (together with their respective successors and assigns, collectively, "Borrowers" and, individually, each a "Borrower") and Lender, dated as of the 18th day of October, 2011, (as the same may from time to time be amended, restated or otherwise modified or replaced, the "Credit Agreement"); and

WHEREAS, in order to induce Lender to provide the financial accommodations established pursuant to the Credit Agreement, the Subordinated Creditor desires to and does hereby subordinate, in accordance with the provisions of this Agreement, the indebtedness and other obligations evidenced by the Subordinated Note, and all other indebtedness owing from Debtor to the Subordinated Creditor, to any and all indebtedness now or hereafter owing by Debtor to Lender in accordance with the provisions of this Agreement;

NOW, THEREFORE, in consideration of the foregoing, the parties agree as follows:

1. Definitions. As used herein, the following terms shall have the following meanings:

"Proceeding" means that term as defined in Section 9(a)(i) hereof.

"Refinancing" means that term as defined in Section 19 hereof.

"Refinancing Party" means that term as defined in Section 19 hereof.

"Senior Indebtedness" means, collectively, all indebtedness and other obligations of one or more Borrowers and any of their respective affiliates to Lender, or any affiliate thereof, pursuant to the Credit Agreement and any cash management or interest rate protection arrangement with Lender, in each case, whether owing by only one Borrower or by one or more Borrowers with one or more others in a several, joint or joint and several capacity, whether owing absolutely or contingently, whether created by note, overdraft, guaranty of payment or other contract or by quasi-contract, or statute or other operation of law, whether incurred directly to Lender (or any affiliate of Lender) or acquired by Lender (or any affiliate of Lender) by purchase, pledge or otherwise and whether participated to or from Lender (or any affiliate of Lender) in whole or in part, including, without limitation, the loans, letters of credit and other financial accommodations granted to one or more Borrowers pursuant to the Credit Agreement, and any extensions, renewals, modifications, and amendments thereof, all accrued interest thereon, and every other liability, now or hereafter owing to Lender (or any affiliate of Lender) by any Borrower or any of their affiliates.

“Subordinated Indebtedness” means, collectively, all indebtedness and other obligations evidenced by the Subordinated Debt Documents and any other indebtedness or other obligations now owing, or that hereafter may become owing, from Debtor or any of its affiliates, to the Subordinated Creditor, howsoever such indebtedness and other obligations may be hereafter created, extended, renewed or evidenced.

2. Subordination of Subordinated Payments. Except as set forth herein, the Subordinated Indebtedness shall at all times and in all respects be subordinate and junior in right of payment to all Senior Indebtedness.

3. Restrictions on Subordinated Payments. Until the Senior Indebtedness shall have been indefeasibly paid in full, no payments of principal or interest, or any other amount payable in connection therewith, shall be made on or with respect to the Subordinated Indebtedness, except as permitted in Section 4 of this Agreement. In addition, until the Senior Indebtedness shall have been indefeasibly paid in full, the Subordinated Indebtedness shall be subject to the following restrictions:

(a) The Subordinated Creditor shall not ask for, demand, sue for, accept or receive payment from Debtor or any other person or entity (except as permitted in Section 4 hereof), by set-off or in any other manner, either in whole or in part, on or with respect to, the Subordinated Indebtedness, or any security therefor, without obtaining the prior written consent of Lender;

(b) In the event of (i) any distribution, division or application, partial or complete, voluntary or involuntary, by operation of law or otherwise, of all or any part of the assets of Debtor or the proceeds thereof, to creditors of Debtor by reason of the liquidation, dissolution or other winding up of the business of Debtor, or (ii) any sale, receivership, insolvency or bankruptcy proceeding, or assignment for the benefit of creditors, or any proceeding by or against Debtor for any relief under any bankruptcy or insolvency laws relating to the relief of debtors, readjustment of indebtedness, reorganization, compositions or extensions, the Subordinated Creditor covenants that any payment or distribution of any kind or character, either in cash, securities or other property that shall be paid or delivered, or payable or deliverable, upon or with respect to the Subordinated Indebtedness immediately shall be paid or delivered directly to Lender for application on the Senior Indebtedness, whether or not due, until the Senior Indebtedness first shall have been fully paid and satisfied; and

(c) So long as any portion of the Senior Indebtedness remains outstanding, the Subordinated Creditor shall not enforce any judgment that it might obtain with respect to the Subordinated Indebtedness (including, without limitation, execution, attachment or foreclosure of judgment liens against any assets of Debtor or any affiliate of Debtor or any other person or entity) without obtaining the prior written consent of Lender, regardless of whether Debtor is in default of any of its obligations to the Subordinated Creditor under the Subordinated Indebtedness.

4. Permitted Payments. Notwithstanding the provisions hereof, Debtor may make, and the Subordinated Creditor may receive from Debtor, regularly scheduled payments of principal and interest to the Subordinated Creditor under the Subordinated Debt Documents, so long as (a) the Subordinated Creditor is not in breach or violation of this Agreement, (b) no event of default, or event with which the passage of time or the giving of notice, or both, would constitute an event of default (collectively, a "Default") has occurred under the Credit Agreement or any loan document executed in connection therewith, and (c) no Default will occur as a result of any such payment. Anything in this Section 4 to the contrary notwithstanding, in the event that Lender notifies the Subordinated Creditor of such breach or violation of this Agreement or that a Default has occurred or will occur under the Credit Agreement, then the Subordinated Creditor may not receive any further payments on the Subordinated Debt Documents unless and until Lender notifies Debtor and the Subordinated Creditor that a payment may be made. In the event that the Subordinated Creditor receives any such payment that is not otherwise permitted under this Section 4, the provisions of Section 6 hereof shall apply.

5. Appointment of Power of Attorney. The Subordinated Creditor hereby irrevocably authorizes, appoints, and empowers Lender to (if the Subordinated Creditor refuses to do so within two business days after request of Lender) demand, sue for, collect, and receive every such payment or distribution and give acquittance therefor and to file claims and take such other proceedings, in Lender's own name or in the name of and as attorney-in-fact for the Subordinated Creditor, as Lender may deem necessary or advisable for the enforcement of this Agreement; and the Subordinated Creditor shall execute and deliver to Lender such powers of attorney, assignments, or other instruments as may be requested by Lender to enable Lender to enforce any and all claims upon or with respect to the Subordinated Indebtedness and any security therefor and to collect and receive all payments or distributions that may be payable or deliverable at any time upon or with respect to the Subordinated Indebtedness.

6. Delivery of Payments to Lender. Except for the payments permitted pursuant to Section 4 of this Agreement, if any payment, distribution, security or proceeds thereof is received by the Subordinated Creditor upon or with respect to any indebtedness of Debtor to the Subordinated Creditor (including the Subordinated Indebtedness) prior to the satisfaction in full of the Senior Indebtedness by each Borrower, the Subordinated Creditor shall receive and hold such payment, distribution, security or proceeds in trust for Lender and immediately shall deliver the same to Lender in precisely the form received (except for the endorsement or assignment of the Subordinated Creditor where necessary), for application to the Senior Indebtedness, whether or not due, and until so delivered the same shall be held in trust by the Subordinated Creditor as property of Lender. In the event of the failure of the Subordinated Creditor to make any such endorsement or assignment, Lender, or any of its officers or employees, hereby irrevocably is constituted and appointed attorney-in-fact of the Subordinated Creditor with full power to make the same.

7. Assignment of Claims. The Subordinated Creditor shall not assign or transfer any claim, or suffer or permit the creation or attachment of any lien, claim, encumbrance, hypothecation or pledge upon any claim, that the Subordinated Creditor has or may have against Debtor, or with respect to the Subordinated Indebtedness, while any portion of the Senior Indebtedness remains unpaid, unless such assignment or transfer is made (a) expressly subject to this Agreement, and (b) upon obtaining Lender's prior written consent to such an assignment or transfer.

8. No Challenge to Senior Indebtedness or Liens. The Subordinated Creditor agrees that it will not at any time contest the validity, perfection, priority or enforceability of the Senior Indebtedness, the Credit Agreement or any security or other document executed in connection therewith, or in connection with any Refinancing, as hereinafter defined, or the liens and security interests of Lender or any Refinancing Party, as hereinafter defined, in the collateral securing the Senior Indebtedness.

9. Proceedings and Distributions.

(a) For the purposes of this Section 9, the following terms shall have the following meanings:

(i) "Proceeding" means any assignment by Debtor for the benefit of creditors, or any filing of a voluntary petition by or involuntary petition against Debtor pursuant to any chapter of the federal bankruptcy code, or any institution of a voluntary proceeding by or involuntary proceeding against Debtor under any other federal or state law relating to relief of debtors, or any appointment of a receiver, trustee or liquidator of Debtor or of all or a substantial part of its assets, or any liquidation or dissolution of Debtor, or any other marshaling of the assets and liabilities of Debtor; and

(ii) "Distributions" means, collectively, all cash securities and other properties payable or otherwise distributable on or in respect of the Subordinated Indebtedness in any Proceeding;

(b) In any Proceeding, Lender shall have the right, but not the duty, to prepare and file a proof of claim based upon the Subordinated Indebtedness and to vote and otherwise enforce and use the same in such manner as Lender shall deem advisable; provided that, if Lender fails to file such proof of claim on or before the fifth day next preceding the last day permitted for such filing, the Subordinated Creditor shall give Lender written notice of such failure and thereupon file a proof of claim, based on the Subordinated Indebtedness and giving effect to this Agreement. In each such Proceeding, the Subordinated Creditor shall, at no cost or expense to Lender, furnish such witnesses and such supporting records and other data, execute and deliver such writings, and make and do all such other and further acts and things as Lender may request; and

(c) Lender shall be entitled to receive Distributions in respect of the Subordinated Indebtedness until the Senior Indebtedness has been paid in full (including, but not limited to, all interest accruing from time to time on the Senior Indebtedness after the commencement of any Proceeding, whether or not a claim for such interest is allowable under such Proceeding). All Distributions (other than cash and bearer instruments) shall be issued in Lender's name, and all Distributions, whatever the form thereof, shall be delivered directly to Lender. No one delivering any Distributions to Lender shall have any responsibility to follow Lender's application thereof. If, for any reason, the Subordinated Creditor shall receive any payment of or security for or Distribution in respect of the Subordinated Indebtedness, or any part thereof, before payment in full of the Senior Indebtedness (including, but not limited to, all interest accruing from time to time on the Senior Indebtedness after the commencement of any Proceeding, whether or not a claim for such interest is allowable under such Proceeding), the Subordinated Creditor shall receive the same in trust and shall deliver the same, in the form received, directly to Lender. The Subordinated Creditor shall execute and deliver such endorsements, assignments, transfer powers and other writings in respect of the foregoing as Lender may from time to time demand, and Lender shall have the right to execute and deliver the same for and on behalf of the Subordinated Creditor and in the name of the Subordinated Creditor whenever the Subordinated Creditor omits doing so.

10. Legend. The Subordinated Note, and any other instrument evidencing any of the Subordinated Indebtedness, or any portion thereof, shall bear the following legend (or other similar language reasonably satisfactory to Lender) on the first page thereof: "THE INDEBTEDNESS EVIDENCED BY THIS NOTE IS SUBORDINATE TO THE INDEBTEDNESS OF THE MAKER (OR ANY SUCCESSOR THERETO) TO KEYBANK NATIONAL ASSOCIATION AND ITS SUCCESSORS AND ASSIGNS PURSUANT TO THE TERMS OF A SUBORDINATION AGREEMENT DATED OCTOBER 18, 2011, AS SUCH AGREEMENT MAY FROM TIME TO TIME BE AMENDED, RESTATED OR OTHERWISE MODIFIED (OR ANY SUCCESSOR AGREEMENT WHICH REPLACES AND REFERENCES SUCH AGREEMENT)."

11. Representation of the Subordinated Creditor; Amendment of Subordinated Debt Documents. The Subordinated Creditor represents and warrants to Lender that, as of the date hereof, the entire indebtedness of Debtor to the Subordinated Creditor is evidenced by the Subordinated Debt Documents. Copies of all of the Subordinated Debt Documents have been delivered to Lender and a copy of the Subordinated Note is attached hereto as Exhibit A. None of the Subordinated Debt Documents may be amended or modified in any respect without the prior written consent of Lender (which consent shall not be unreasonably withheld).

12. Additional Agreements with Lender. At any time, and from time to time, Lender may enter into any agreements with one or more Borrowers as Lender may deem proper, including extending the time of payment or renewing, increasing the amount, or otherwise altering the terms of the Credit Agreement or any document executed in connection therewith or affecting the security or guaranties, if any, underlying any or all of such obligations, or may exchange, sell, or surrender or otherwise deal with any such security or guaranties, or may release any balance of funds of one or more Borrowers, with Lender, without notice to the Subordinated Creditor, and without in any way impairing or affecting this Agreement thereby.

13. Reliance by Lender on the Subordinated Creditor. The Subordinated Creditor hereby consents and covenants that all obligations and liabilities of each Borrower to Lender shall be deemed to have been made or incurred, in part, in reliance upon this Agreement.

14. Waiver of Lender's Rights. No waiver shall be deemed to be made by Lender of any of its rights hereunder unless the same shall be in writing signed on behalf of Lender. Each waiver, if any, shall be a waiver only with respect to the specific instance involved and shall in no way impair the rights of Lender or the obligations of the Subordinated Creditor to Lender in any other respect at any other time.

15. Waiver of Notice and Successors and Assigns. The undersigned hereby waive (a) notice of acceptance of this Agreement; (b) notice of the existence, creation, extension, refunding, refinancing or non-payment of all or any of the Senior Indebtedness; (c) all diligence in collection or protection of or realization upon the Senior Indebtedness, or any part thereof or any security therefor; and (d) notice of the release, waiver or cancellation of any obligors or guarantors of all or any portion of the Senior Indebtedness or any security therefor. This Agreement shall be immediately binding upon Debtor and the Subordinated Creditor, and its successors, heirs, executors, administrators and permitted assigns, and the subordination described herein shall inure to the benefit of Lender and its successors and assigns.

16. Governing Law. This Agreement shall be construed according to the laws of the State of New York, without regard to principles of conflicts of laws. Wherever possible each provision of this Agreement shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement shall be prohibited by or invalid under such law, such provision shall be ineffective to the extent of such prohibition or invalidity, without invalidating the remainder of such provision or the remaining provisions of this Agreement.

17. Entire Agreement. This Agreement sets forth the entire agreement and understanding among the parties as to the subject matter hereof and merges and supersedes all prior discussions, agreements, and undertakings of every kind and nature among them with respect to the subject matter hereof.

18. Nonwaiver of Payments. In the event that the Subordinated Creditor is required to pay to Lender any funds or other property that the Subordinated Creditor receives from Debtor or any of its affiliates, or in respect of the Subordinated Indebtedness other than as permitted under Section 4 hereof, Lender and Debtor acknowledge that the Subordinated Creditor shall not have waived the rights of the Subordinated Creditor to payment in full under the Subordinated Debt Documents, subject, however, to the terms of this Agreement.

19. Refinancing of Senior Indebtedness. Lender may, from time to time, without notice to the undersigned, assign or transfer any or all of the Senior Indebtedness or any interest therein or permit another person or entity (a "Refinancing Party") to extend credit to one or more Borrowers to enable any such Borrower to repay all or a portion of the Senior Indebtedness (a "Refinancing"), and, notwithstanding any such assignment, transfer or Refinancing or any subsequent assignment, transfer or Refinancing, such indebtedness shall be and remain Senior Indebtedness for the purposes of this Agreement, and every immediate and successive assignee, transferee or Refinancing Party of any of the Senior Indebtedness or of any interest therein, including, without limitation, any Refinancing Party, shall, to the extent of the interest of such assignee, transferee or Refinancing Party in the Senior Indebtedness, be entitled to the rights and benefits of this Agreement to the same extent as if such assignee, transferee or Refinancing Party were Lender, and have the same irrevocable powers of attorney granted hereunder to Lender. On and after the date of the Refinancing, (a) such Refinancing Party shall be deemed to be Lender hereunder, (b) references to the Senior Indebtedness shall be deemed to be the obligations owing to the Refinancing Party, and (c) references to the loan documents of Lender shall be deemed to refer to the loan documents of the Refinancing Party. In connection with any Refinancing, the Subordinated Creditor agrees, promptly upon request of the Refinancing Party, to correct any material defect or error that may be discovered in this Agreement, such that the Refinancing Party fails to obtain the full benefits intended by this Agreement.

20. Termination. The subordinations, agreements and priorities set forth in this Agreement shall remain in full force and effect until all of the Senior Indebtedness has been indefeasibly paid in full and all commitments to each Borrower from Lender (including any Refinancing Party) have been terminated, regardless of whether any party hereto in the future seeks to rescind, amend, terminate or reform, by litigation or otherwise, its respective agreements with any Borrower.

21. Counterparts. This Agreement may be executed in any number of counterparts, by different parties hereto on the same or separate counterparts and by facsimile signature, and each such counterpart, when executed and delivered, shall be deemed to be an original, and all of which taken together shall constitute but one and the same Agreement.

22. Notice. All notices, requests, demands and other communications provided for hereunder shall be in writing and mailed or delivered to Debtor, Lender or the Subordinated Creditor, as the case may be, addressed to the address of Debtor, Lender or the Subordinated Creditor, as the case may be, specified on the signature page of this Agreement. All notices, statements, requests, demands and other communications provided for hereunder shall be deemed to be given or made when delivered or two business days after being deposited in the mails with postage prepaid by registered or certified mail, addressed as aforesaid, or sent by facsimile with telephonic confirmation of receipt. All notices hereunder shall not be effective until received.

23. Jurisdiction and Venue. All judicial proceedings arising out of or relating to this Agreement or any obligation hereunder may be brought in any state or federal court sitting in New York County, New York, and by their respective execution and delivery of this Agreement, the undersigned accept for themselves and in connection with their properties, generally and unconditionally, the jurisdiction of the aforesaid courts and waive any defense of forum nonconveniens, and irrevocably agree to be bound by any judgment rendered thereby in connection with this Agreement.

JURY TRIAL WAIVER . THE UNDERSIGNED, TO THE EXTENT PERMITTED BY LAW, EACH HEREBY WAIVES ANY RIGHT TO HAVE A JURY PARTICIPATE IN RESOLVING ANY DISPUTE WHETHER SOUNDING IN CONTRACT, TORT, OR OTHERWISE, AMONG THE SUBORDINATED CREDITOR, DEBTOR, AND LENDER, OR ANY THEREOF, ARISING OUT OF, IN CONNECTION WITH, RELATED TO OR INCIDENTAL TO THE RELATIONSHIP ESTABLISHED AMONG THEM IN CONNECTION WITH THIS AGREEMENT OR ANY DOCUMENT EXECUTED OR DELIVERED IN CONNECTION HEREWITH OR THE TRANSACTIONS RELATED THERETO.

IN WITNESS WHEREOF, the undersigned have executed and delivered this Subordination Agreement as of the date first set forth above.

Address: 275 Wagaraw Road
Hawthorne, NJ 07506
Attention: William Pagano

COLONIAL COMMERCIAL CORP.

By:

William Pagano
Chief Executive Officer

Address: 127 Public Square
Cleveland, Ohio 44114
Attention: Asset Based Lending

KEYBANK NATIONAL ASSOCIATION

By:

Nadine M. Eames
Vice President

Address: 331 West Shore Drive
Wyckoff, NJ 07481

John A. Hildebrandt, personally

Signature Page to
Subordination Agreement

EXHIBIT A
SUBORDINATED NOTE

Please see attached.

E-1

SUBORDINATION AGREEMENT

This SUBORDINATION AGREEMENT (as the same may from time to time be amended, restated or otherwise modified, this "Agreement") is made and entered into, as of October 18, 2011, by and among COLONIAL COMMERCIAL CORP., a New York corporation ("Debtor"), PAUL H. HILDEBRANDT, an individual (the "Subordinated Creditor"), and KEYBANK NATIONAL ASSOCIATION, a national banking association ("Lender").

WHEREAS, Debtor is indebted to the Subordinated Creditor pursuant to a certain Subordinated Promissory Note dated August 20, 2009 in the original principal amount of Ninety Thousand Dollars (\$90,000), with an outstanding principal balance on the date hereof of Twenty Thousand Four Dollars (\$20,004) (as the same may from time to time be amended, restated or otherwise modified or replaced, the "Subordinated Note" and, together with any other document executed in connection therewith, collectively, the "Subordinated Debt Documents");

WHEREAS, Lender is, contemporaneously herewith, providing financial accommodations to Debtor pursuant to the Credit and Security Agreement by and among Debtor, Universal Supply Group, Inc., a New York corporation, The RAL Supply Group, Inc., a New York corporation, and S&A Supply, Inc., a New York corporation (together with their respective successors and assigns, collectively, "Borrowers" and, individually, each a "Borrower") and Lender, dated as of the 18th day of October, 2011, (as the same may from time to time be amended, restated or otherwise modified or replaced, the "Credit Agreement"); and

WHEREAS, in order to induce Lender to provide the financial accommodations established pursuant to the Credit Agreement, the Subordinated Creditor desires to and does hereby subordinate, in accordance with the provisions of this Agreement, the indebtedness and other obligations evidenced by the Subordinated Note, and all other indebtedness owing from Debtor to the Subordinated Creditor, to any and all indebtedness now or hereafter owing by Debtor to Lender in accordance with the provisions of this Agreement;

NOW, THEREFORE, in consideration of the foregoing, the parties agree as follows:

1. Definitions. As used herein, the following terms shall have the following meanings:

"Proceeding" means that term as defined in Section 9(a)(i) hereof.

"Refinancing" means that term as defined in Section 19 hereof.

"Refinancing Party" means that term as defined in Section 19 hereof.

"Senior Indebtedness" means, collectively, all indebtedness and other obligations of one or more Borrowers and any of their respective affiliates to Lender, or any affiliate thereof, pursuant to the Credit Agreement and any cash management or interest rate protection arrangement with Lender, in each case, whether owing by only one Borrower or by one or more Borrowers with one or more others in a several, joint or joint and several capacity, whether owing absolutely or contingently, whether created by note, overdraft, guaranty of payment or other contract or by quasi-contract, or statute or other operation of law, whether incurred directly to Lender (or any affiliate of Lender) or acquired by Lender (or any affiliate of Lender) by purchase, pledge or otherwise and whether participated to or from Lender (or any affiliate of Lender) in whole or in part, including, without limitation, the loans, letters of credit and other financial accommodations granted to one or more Borrowers pursuant to the Credit Agreement, and any extensions, renewals, modifications, and amendments thereof, all accrued interest thereon, and every other liability, now or hereafter owing to Lender (or any affiliate of Lender) by any Borrower or any of their affiliates.

“Subordinated Indebtedness” means, collectively, all indebtedness and other obligations evidenced by the Subordinated Debt Documents and any other indebtedness or other obligations now owing, or that hereafter may become owing, from Debtor or any of its affiliates, to the Subordinated Creditor, howsoever such indebtedness and other obligations may be hereafter created, extended, renewed or evidenced.

2. Subordination of Subordinated Payments. Except as set forth herein, the Subordinated Indebtedness shall at all times and in all respects be subordinate and junior in right of payment to all Senior Indebtedness.

3. Restrictions on Subordinated Payments. Until the Senior Indebtedness shall have been indefeasibly paid in full, no payments of principal or interest, or any other amount payable in connection therewith, shall be made on or with respect to the Subordinated Indebtedness, except as permitted in Section 4 of this Agreement. In addition, until the Senior Indebtedness shall have been indefeasibly paid in full, the Subordinated Indebtedness shall be subject to the following restrictions:

(a) The Subordinated Creditor shall not ask for, demand, sue for, accept or receive payment from Debtor or any other person or entity (except as permitted in Section 4 hereof), by set-off or in any other manner, either in whole or in part, on or with respect to, the Subordinated Indebtedness, or any security therefor, without obtaining the prior written consent of Lender;

(b) In the event of (i) any distribution, division or application, partial or complete, voluntary or involuntary, by operation of law or otherwise, of all or any part of the assets of Debtor or the proceeds thereof, to creditors of Debtor by reason of the liquidation, dissolution or other winding up of the business of Debtor, or (ii) any sale, receivership, insolvency or bankruptcy proceeding, or assignment for the benefit of creditors, or any proceeding by or against Debtor for any relief under any bankruptcy or insolvency laws relating to the relief of debtors, readjustment of indebtedness, reorganization, compositions or extensions, the Subordinated Creditor covenants that any payment or distribution of any kind or character, either in cash, securities or other property that shall be paid or delivered, or payable or deliverable, upon or with respect to the Subordinated Indebtedness immediately shall be paid or delivered directly to Lender for application on the Senior Indebtedness, whether or not due, until the Senior Indebtedness first shall have been fully paid and satisfied; and

(c) So long as any portion of the Senior Indebtedness remains outstanding, the Subordinated Creditor shall not enforce any judgment that it might obtain with respect to the Subordinated Indebtedness (including, without limitation, execution, attachment or foreclosure of judgment liens against any assets of Debtor or any affiliate of Debtor or any other person or entity) without obtaining the prior written consent of Lender, regardless of whether Debtor is in default of any of its obligations to the Subordinated Creditor under the Subordinated Indebtedness.

4. Permitted Payments. Notwithstanding the provisions hereof, Debtor may make, and the Subordinated Creditor may receive from Debtor, regularly scheduled payments of principal and interest to the Subordinated Creditor under the Subordinated Debt Documents, so long as (a) the Subordinated Creditor is not in breach or violation of this Agreement, (b) no event of default, or event with which the passage of time or the giving of notice, or both, would constitute an event of default (collectively, a "Default") has occurred under the Credit Agreement or any loan document executed in connection therewith, and (c) no Default will occur as a result of any such payment. Anything in this Section 4 to the contrary notwithstanding, in the event that Lender notifies the Subordinated Creditor of such breach or violation of this Agreement or that a Default has occurred or will occur under the Credit Agreement, then the Subordinated Creditor may not receive any further payments on the Subordinated Debt Documents unless and until Lender notifies Debtor and the Subordinated Creditor that a payment may be made. In the event that the Subordinated Creditor receives any such payment that is not otherwise permitted under this Section 4, the provisions of Section 6 hereof shall apply.

5. Appointment of Power of Attorney. The Subordinated Creditor hereby irrevocably authorizes, appoints, and empowers Lender to (if the Subordinated Creditor refuses to do so within two business days after request of Lender) demand, sue for, collect, and receive every such payment or distribution and give acquittance therefor and to file claims and take such other proceedings, in Lender's own name or in the name of and as attorney-in-fact for the Subordinated Creditor, as Lender may deem necessary or advisable for the enforcement of this Agreement; and the Subordinated Creditor shall execute and deliver to Lender such powers of attorney, assignments, or other instruments as may be requested by Lender to enable Lender to enforce any and all claims upon or with respect to the Subordinated Indebtedness and any security therefor and to collect and receive all payments or distributions that may be payable or deliverable at any time upon or with respect to the Subordinated Indebtedness.

6. Delivery of Payments to Lender. Except for the payments permitted pursuant to Section 4 of this Agreement, if any payment, distribution, security or proceeds thereof is received by the Subordinated Creditor upon or with respect to any indebtedness of Debtor to the Subordinated Creditor (including the Subordinated Indebtedness) prior to the satisfaction in full of the Senior Indebtedness by each Borrower, the Subordinated Creditor shall receive and hold such payment, distribution, security or proceeds in trust for Lender and immediately shall deliver the same to Lender in precisely the form received (except for the endorsement or assignment of the Subordinated Creditor where necessary), for application to the Senior Indebtedness, whether or not due, and until so delivered the same shall be held in trust by the Subordinated Creditor as property of Lender. In the event of the failure of the Subordinated Creditor to make any such endorsement or assignment, Lender, or any of its officers or employees, hereby irrevocably is constituted and appointed attorney-in-fact of the Subordinated Creditor with full power to make the same.

7. Assignment of Claims. The Subordinated Creditor shall not assign or transfer any claim, or suffer or permit the creation or attachment of any lien, claim, encumbrance, hypothecation or pledge upon any claim, that the Subordinated Creditor has or may have against Debtor, or with respect to the Subordinated Indebtedness, while any portion of the Senior Indebtedness remains unpaid, unless such assignment or transfer is made (a) expressly subject to this Agreement, and (b) upon obtaining Lender's prior written consent to such an assignment or transfer.

8. No Challenge to Senior Indebtedness or Liens. The Subordinated Creditor agrees that it will not at any time contest the validity, perfection, priority or enforceability of the Senior Indebtedness, the Credit Agreement or any security or other document executed in connection therewith, or in connection with any Refinancing, as hereinafter defined, or the liens and security interests of Lender or any Refinancing Party, as hereinafter defined, in the collateral securing the Senior Indebtedness.

9. Proceedings and Distributions.

(a) For the purposes of this Section 9, the following terms shall have the following meanings:

(i) "Proceeding" means any assignment by Debtor for the benefit of creditors, or any filing of a voluntary petition by or involuntary petition against Debtor pursuant to any chapter of the federal bankruptcy code, or any institution of a voluntary proceeding by or involuntary proceeding against Debtor under any other federal or state law relating to relief of debtors, or any appointment of a receiver, trustee or liquidator of Debtor or of all or a substantial part of its assets, or any liquidation or dissolution of Debtor, or any other marshaling of the assets and liabilities of Debtor; and

(ii) "Distributions" means, collectively, all cash securities and other properties payable or otherwise distributable on or in respect of the Subordinated Indebtedness in any Proceeding;

(b) In any Proceeding, Lender shall have the right, but not the duty, to prepare and file a proof of claim based upon the Subordinated Indebtedness and to vote and otherwise enforce and use the same in such manner as Lender shall deem advisable; provided that, if Lender fails to file such proof of claim on or before the fifth day next preceding the last day permitted for such filing, the Subordinated Creditor shall give Lender written notice of such failure and thereupon file a proof of claim, based on the Subordinated Indebtedness and giving effect to this Agreement. In each such Proceeding, the Subordinated Creditor shall, at no cost or expense to Lender, furnish such witnesses and such supporting records and other data, execute and deliver such writings, and make and do all such other and further acts and things as Lender may request; and

(c) Lender shall be entitled to receive Distributions in respect of the Subordinated Indebtedness until the Senior Indebtedness has been paid in full (including, but not limited to, all interest accruing from time to time on the Senior Indebtedness after the commencement of any Proceeding, whether or not a claim for such interest is allowable under such Proceeding). All Distributions (other than cash and bearer instruments) shall be issued in Lender's name, and all Distributions, whatever the form thereof, shall be delivered directly to Lender. No one delivering any Distributions to Lender shall have any responsibility to follow Lender's application thereof. If, for any reason, the Subordinated Creditor shall receive any payment of or security for or Distribution in respect of the Subordinated Indebtedness, or any part thereof, before payment in full of the Senior Indebtedness (including, but not limited to, all interest accruing from time to time on the Senior Indebtedness after the commencement of any Proceeding, whether or not a claim for such interest is allowable under such Proceeding), the Subordinated Creditor shall receive the same in trust and shall deliver the same, in the form received, directly to Lender. The Subordinated Creditor shall execute and deliver such endorsements, assignments, transfer powers and other writings in respect of the foregoing as Lender may from time to time demand, and Lender shall have the right to execute and deliver the same for and on behalf of the Subordinated Creditor and in the name of the Subordinated Creditor whenever the Subordinated Creditor omits doing so.

10. Legend. The Subordinated Note, and any other instrument evidencing any of the Subordinated Indebtedness, or any portion thereof, shall bear the following legend (or other similar language reasonably satisfactory to Lender) on the first page thereof: "THE INDEBTEDNESS EVIDENCED BY THIS NOTE IS SUBORDINATE TO THE INDEBTEDNESS OF THE MAKER (OR ANY SUCCESSOR THERETO) TO KEYBANK NATIONAL ASSOCIATION AND ITS SUCCESSORS AND ASSIGNS PURSUANT TO THE TERMS OF A SUBORDINATION AGREEMENT DATED OCTOBER 18, 2011, AS SUCH AGREEMENT MAY FROM TIME TO TIME BE AMENDED, RESTATED OR OTHERWISE MODIFIED (OR ANY SUCCESSOR AGREEMENT WHICH REPLACES AND REFERENCES SUCH AGREEMENT)."

11. Representation of the Subordinated Creditor; Amendment of Subordinated Debt Documents. The Subordinated Creditor represents and warrants to Lender that, as of the date hereof, the entire indebtedness of Debtor to the Subordinated Creditor is evidenced by the Subordinated Debt Documents. Copies of all of the Subordinated Debt Documents have been delivered to Lender and a copy of the Subordinated Note is attached hereto as Exhibit A. None of the Subordinated Debt Documents may be amended or modified in any respect without the prior written consent of Lender (which consent shall not be unreasonably withheld).

12. Additional Agreements with Lender. At any time, and from time to time, Lender may enter into any agreements with one or more Borrowers as Lender may deem proper, including extending the time of payment or renewing, increasing the amount, or otherwise altering the terms of the Credit Agreement or any document executed in connection therewith or affecting the security or guaranties, if any, underlying any or all of such obligations, or may exchange, sell, or surrender or otherwise deal with any such security or guaranties, or may release any balance of funds of one or more Borrowers, with Lender, without notice to the Subordinated Creditor, and without in any way impairing or affecting this Agreement thereby.

13. Reliance by Lender on the Subordinated Creditor. The Subordinated Creditor hereby consents and covenants that all obligations and liabilities of each Borrower to Lender shall be deemed to have been made or incurred, in part, in reliance upon this Agreement.

14. Waiver of Lender's Rights. No waiver shall be deemed to be made by Lender of any of its rights hereunder unless the same shall be in writing signed on behalf of Lender. Each waiver, if any, shall be a waiver only with respect to the specific instance involved and shall in no way impair the rights of Lender or the obligations of the Subordinated Creditor to Lender in any other respect at any other time.

15. Waiver of Notice and Successors and Assigns. The undersigned hereby waive (a) notice of acceptance of this Agreement; (b) notice of the existence, creation, extension, refunding, refinancing or non-payment of all or any of the Senior Indebtedness; (c) all diligence in collection or protection of or realization upon the Senior Indebtedness, or any part thereof or any security therefor; and (d) notice of the release, waiver or cancellation of any obligors or guarantors of all or any portion of the Senior Indebtedness or any security therefor. This Agreement shall be immediately binding upon Debtor and the Subordinated Creditor, and its successors, heirs, executors, administrators and permitted assigns, and the subordination described herein shall inure to the benefit of Lender and its successors and assigns.

16. Governing Law. This Agreement shall be construed according to the laws of the State of New York, without regard to principles of conflicts of laws. Wherever possible each provision of this Agreement shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement shall be prohibited by or invalid under such law, such provision shall be ineffective to the extent of such prohibition or invalidity, without invalidating the remainder of such provision or the remaining provisions of this Agreement.

17. Entire Agreement. This Agreement sets forth the entire agreement and understanding among the parties as to the subject matter hereof and merges and supersedes all prior discussions, agreements, and undertakings of every kind and nature among them with respect to the subject matter hereof.

18. Nonwaiver of Payments. In the event that the Subordinated Creditor is required to pay to Lender any funds or other property that the Subordinated Creditor receives from Debtor or any of its affiliates, or in respect of the Subordinated Indebtedness other than as permitted under Section 4 hereof, Lender and Debtor acknowledge that the Subordinated Creditor shall not have waived the rights of the Subordinated Creditor to payment in full under the Subordinated Debt Documents, subject, however, to the terms of this Agreement.

19. Refinancing of Senior Indebtedness. Lender may, from time to time, without notice to the undersigned, assign or transfer any or all of the Senior Indebtedness or any interest therein or permit another person or entity (a "Refinancing Party") to extend credit to one or more Borrowers to enable any such Borrower to repay all or a portion of the Senior Indebtedness (a "Refinancing"), and, notwithstanding any such assignment, transfer or Refinancing or any subsequent assignment, transfer or Refinancing, such indebtedness shall be and remain Senior Indebtedness for the purposes of this Agreement, and every immediate and successive assignee, transferee or Refinancing Party of any of the Senior Indebtedness or of any interest therein, including, without limitation, any Refinancing Party, shall, to the extent of the interest of such assignee, transferee or Refinancing Party in the Senior Indebtedness, be entitled to the rights and benefits of this Agreement to the same extent as if such assignee, transferee or Refinancing Party were Lender, and have the same irrevocable powers of attorney granted hereunder to Lender. On and after the date of the Refinancing, (a) such Refinancing Party shall be deemed to be Lender hereunder, (b) references to the Senior Indebtedness shall be deemed to be the obligations owing to the Refinancing Party, and (c) references to the loan documents of Lender shall be deemed to refer to the loan documents of the Refinancing Party. In connection with any Refinancing, the Subordinated Creditor agrees, promptly upon request of the Refinancing Party, to correct any material defect or error that may be discovered in this Agreement, such that the Refinancing Party fails to obtain the full benefits intended by this Agreement.

20. Termination. The subordinations, agreements and priorities set forth in this Agreement shall remain in full force and effect until all of the Senior Indebtedness has been indefeasibly paid in full and all commitments to each Borrower from Lender (including any Refinancing Party) have been terminated, regardless of whether any party hereto in the future seeks to rescind, amend, terminate or reform, by litigation or otherwise, its respective agreements with any Borrower.

21. Counterparts. This Agreement may be executed in any number of counterparts, by different parties hereto on the same or separate counterparts and by facsimile signature, and each such counterpart, when executed and delivered, shall be deemed to be an original, and all of which taken together shall constitute but one and the same Agreement.

22. Notice. All notices, requests, demands and other communications provided for hereunder shall be in writing and mailed or delivered to Debtor, Lender or the Subordinated Creditor, as the case may be, addressed to the address of Debtor, Lender or the Subordinated Creditor, as the case may be, specified on the signature page of this Agreement. All notices, statements, requests, demands and other communications provided for hereunder shall be deemed to be given or made when delivered or two business days after being deposited in the mails with postage prepaid by registered or certified mail, addressed as aforesaid, or sent by facsimile with telephonic confirmation of receipt. All notices hereunder shall not be effective until received.

23. Jurisdiction and Venue. All judicial proceedings arising out of or relating to this Agreement or any obligation hereunder may be brought in any state or federal court sitting in New York County, New York, and by their respective execution and delivery of this Agreement, the undersigned accept for themselves and in connection with their properties, generally and unconditionally, the jurisdiction of the aforesaid courts and waive any defense of forum nonconveniens, and irrevocably agree to be bound by any judgment rendered thereby in connection with this Agreement.

JURY TRIAL WAIVER . THE UNDERSIGNED, TO THE EXTENT PERMITTED BY LAW, EACH HEREBY WAIVES ANY RIGHT TO HAVE A JURY PARTICIPATE IN RESOLVING ANY DISPUTE WHETHER SOUNDING IN CONTRACT, TORT, OR OTHERWISE, AMONG THE SUBORDINATED CREDITOR, DEBTOR, AND LENDER, OR ANY THEREOF, ARISING OUT OF, IN CONNECTION WITH, RELATED TO OR INCIDENTAL TO THE RELATIONSHIP ESTABLISHED AMONG THEM IN CONNECTION WITH THIS AGREEMENT OR ANY DOCUMENT EXECUTED OR DELIVERED IN CONNECTION HEREWITH OR THE TRANSACTIONS RELATED THERETO.

IN WITNESS WHEREOF, the undersigned have executed and delivered this Subordination Agreement as of the date first set forth above.

Address: 275 Wagaraw Road
Hawthorne, NJ 07506
Attention: William Pagano

COLONIAL COMMERCIAL CORP.

By: _____
William Pagano
Chief Executive Officer

Address: 127 Public Square
Cleveland, Ohio 44114
Attention: Asset Based Lending

KEYBANK NATIONAL ASSOCIATION

By: _____
Nadine M. Eames
Vice President

Address: 450 Brookside Avenue
Allendale, NJ 07401

Paul H. Hildebrandt, personally

Signature Page to
Subordination Agreement

EXHIBIT A
SUBORDINATED NOTE

Please see attached.

E-1

SUBORDINATION AGREEMENT

This SUBORDINATION AGREEMENT (as the same may from time to time be amended, restated or otherwise modified, this “Agreement”) is made and entered into, as of October 18, 2011, by and among COLONIAL COMMERCIAL CORP., a New York corporation (“Debtor”), WILLIAM PAGANO, an individual (the “Subordinated Creditor”), and KEYBANK NATIONAL ASSOCIATION, a national banking association (“Lender”).

WHEREAS, Debtor is indebted to the Subordinated Creditor pursuant to a certain Convertible Note dated July 29, 2004 in the original principal amount of One Hundred Thousand Dollars (\$100,000), with an outstanding principal balance on the date hereof of One Hundred Thousand Dollars (\$100,000) (as amended and as the same may from time to time be further amended, restated or otherwise modified or replaced, the “Subordinated Convertible Note”) and that certain Promissory Note dated August 20, 2009 in the original principal amount of Thirty-Five Thousand Dollars (\$35,000), with an outstanding principal balance on the date hereof of Seven Thousand Seven Hundred Seventy-Nine Dollars (\$7,779) (as the same may from time to time be amended, restated or otherwise modified or replaced, the “Subordinated Promissory Note” and, together with the Subordinated Convertible Note, collectively, the “Subordinated Notes”);

WHEREAS, Lender is, contemporaneously herewith, providing financial accommodations to Debtor pursuant to the Credit and Security Agreement by and among Debtor, Universal Supply Group, Inc., a New York corporation, The RAL Supply Group, Inc., a New York corporation, and S&A Supply, Inc., a New York corporation (together with their respective successors and assigns, collectively, “Borrowers” and, individually, each a “Borrower”) and Lender, dated as of the 18th day of October, 2011, (as the same may from time to time be amended, restated or otherwise modified or replaced, the “Credit Agreement”); and

WHEREAS, in order to induce Lender to provide the financial accommodations established pursuant to the Credit Agreement, the Subordinated Creditor desires to and does hereby subordinate, in accordance with the provisions of this Agreement, the indebtedness and other obligations evidenced by the Subordinated Notes, and all other indebtedness owing from Debtor to the Subordinated Creditor, to any and all indebtedness now or hereafter owing by Debtor to Lender in accordance with the provisions of this Agreement;

NOW, THEREFORE, in consideration of the foregoing, the parties agree as follows:

1. Definitions. As used herein, the following terms shall have the following meanings:

“Proceeding” means that term as defined in Section 9(a)(i) hereof.

“Refinancing” means that term as defined in Section 19 hereof.

“Refinancing Party” means that term as defined in Section 19 hereof.

“Senior Indebtedness” means, collectively, all indebtedness and other obligations of one or more Borrowers and any of their respective affiliates to Lender, or any affiliate thereof, pursuant to the Credit Agreement and any cash management or interest rate protection arrangement with Lender, in each case, whether owing by only one Borrower or by one or more Borrowers with one or more others in a several, joint or joint and several capacity, whether owing absolutely or contingently, whether created by note, overdraft, guaranty of payment or other contract or by quasi-contract, or statute or other operation of law, whether incurred directly to Lender (or any affiliate of Lender) or acquired by Lender (or any affiliate of Lender) by purchase, pledge or otherwise and whether participated to or from Lender (or any affiliate of Lender) in whole or in part, including, without limitation, the loans, letters of credit and other financial accommodations granted to one or more Borrowers pursuant to the Credit Agreement, and any extensions, renewals, modifications, and amendments thereof, all accrued interest thereon, and every other liability, now or hereafter owing to Lender (or any affiliate of Lender) by any Borrower or any of their affiliates.

“Subordinated Creditor’s Conversion Right” means that term as defined in Section 4 hereof.

“Subordinated Debt Documents” means the Subordinated Notes, and any other document executed in connection therewith.

“Subordinated Indebtedness” means, collectively, all indebtedness and other obligations evidenced by the Subordinated Debt Documents and any other indebtedness or other obligations now owing, or that hereafter may become owing, from Debtor or any of its affiliates, to the Subordinated Creditor, howsoever such indebtedness and other obligations may be hereafter created, extended, renewed or evidenced.

2. Subordination of Subordinated Payments. Except as set forth herein, the Subordinated Indebtedness shall at all times and in all respects be subordinate and junior in right of payment to all Senior Indebtedness.

3. Restrictions on Subordinated Payments. Until the Senior Indebtedness shall have been indefeasibly paid in full, no payments of principal or interest, or any other amount payable in connection therewith, shall be made on or with respect to the Subordinated Indebtedness, except as permitted in Section 4 of this Agreement. In addition, until the Senior Indebtedness shall have been indefeasibly paid in full, the Subordinated Indebtedness shall be subject to the following restrictions:

(a) The Subordinated Creditor shall not ask for, demand, sue for, accept or receive payment from Debtor or any other person or entity (except as permitted in Section 4 hereof), by set-off or in any other manner, either in whole or in part, on or with respect to, the Subordinated Indebtedness, or any security therefor, without obtaining the prior written consent of Lender;

(b) In the event of (i) any distribution, division or application, partial or complete, voluntary or involuntary, by operation of law or otherwise, of all or any part of the assets of Debtor or the proceeds thereof, to creditors of Debtor by reason of the liquidation, dissolution or other winding up of the business of Debtor, or (ii) any sale, receivership, insolvency or bankruptcy proceeding, or assignment for the benefit of creditors, or any proceeding by or against Debtor for any relief under any bankruptcy or insolvency laws relating to the relief of debtors, readjustment of indebtedness, reorganization, compositions or extensions, the Subordinated Creditor covenants that any payment or distribution of any kind or character, either in cash, securities or other property that shall be paid or delivered, or payable or deliverable, upon or with respect to the Subordinated Indebtedness immediately shall be paid or delivered directly to Lender for application on the Senior Indebtedness, whether or not due, until the Senior Indebtedness first shall have been fully paid and satisfied; and

(c) So long as any portion of the Senior Indebtedness remains outstanding, the Subordinated Creditor shall not enforce any judgment that it might obtain with respect to the Subordinated Indebtedness (including, without limitation, execution, attachment or foreclosure of judgment liens against any assets of Debtor or any affiliate of Debtor or any other person or entity) without obtaining the prior written consent of Lender, regardless of whether Debtor is in default of any of its obligations to the Subordinated Creditor under the Subordinated Indebtedness.

4. Permitted Payments. Notwithstanding the provisions hereof, (a) Debtor may make, and the Subordinated Creditor may receive from Debtor, regularly scheduled payments of principal and interest to the Subordinated Creditor under the Subordinated Debt Documents, so long as (i) the Subordinated Creditor is not in breach or violation of this Agreement, (ii) no event of default, or event with which the passage of time or the giving of notice, or both, would constitute an event of default (collectively, a "Default") has occurred under the Credit Agreement or any loan document executed in connection therewith, and (iii) no Default will occur as a result of any such payment; and (b) the Subordinated Indebtedness may be converted into stock in accordance with the terms of the Subordinated Convertible Note as in effect on the date hereof ("Subordinated Creditor's Conversion Right"). Anything in this Section 4 to the contrary notwithstanding, in the event that Lender notifies the Subordinated Creditor of such breach or violation of this Agreement or that a Default has occurred or will occur under the Credit Agreement, then the Subordinated Creditor may not receive any further payments on the Subordinated Debt Documents unless and until Lender notifies Debtor and the Subordinated Creditor that a payment may be made (provided that this shall not affect Subordinated Creditor's Conversion Right). In the event that the Subordinated Creditor receives any such payment that is not otherwise permitted under this Section 4, the provisions of Section 6 hereof shall apply.

5. Appointment of Power of Attorney. The Subordinated Creditor hereby irrevocably authorizes, appoints, and empowers Lender to (if the Subordinated Creditor refuses to do so within two business days after request of Lender) demand, sue for, collect, and receive every such payment or distribution (other than pursuant to Subordinated Creditor's Conversion Right) and give acquittance therefor and to file claims and take such other proceedings, in Lender's own name or in the name of and as attorney-in-fact for the Subordinated Creditor, as Lender may deem necessary or advisable for the enforcement of this Agreement; and the Subordinated Creditor shall execute and deliver to Lender such powers of attorney, assignments, or other instruments as may be requested by Lender to enable Lender to enforce any and all claims upon or with respect to the Subordinated Indebtedness and any security therefor and to collect and receive all payments or distributions that may be payable or deliverable at any time upon or with respect to the Subordinated Indebtedness.

6. Delivery of Payments to Lender. Except for the payments permitted pursuant to Section 4 of this Agreement, if any payment, distribution, security (other than pursuant to Subordinated Creditor's Conversion Right) or proceeds thereof is received by the Subordinated Creditor upon or with respect to any indebtedness of Debtor to the Subordinated Creditor (including the Subordinated Indebtedness) prior to the satisfaction in full of the Senior Indebtedness by each Borrower, the Subordinated Creditor shall receive and hold such payment, distribution, security or proceeds in trust for Lender and immediately shall deliver the same to Lender in precisely the form received (except for the endorsement or assignment of the Subordinated Creditor where necessary), for application to the Senior Indebtedness, whether or not due, and until so delivered the same shall be held in trust by the Subordinated Creditor as property of Lender. In the event of the failure of the Subordinated Creditor to make any such endorsement or assignment, Lender, or any of its officers or employees, hereby irrevocably is constituted and appointed attorney-in-fact of the Subordinated Creditor with full power to make the same.

7. Assignment of Claims. The Subordinated Creditor shall not assign or transfer any claim, or suffer or permit the creation or attachment of any lien, claim, encumbrance, hypothecation or pledge upon any claim, that the Subordinated Creditor has or may have against Debtor, or with respect to the Subordinated Indebtedness, while any portion of the Senior Indebtedness remains unpaid, unless such assignment or transfer is made (a) expressly subject to this Agreement, and (b) upon obtaining Lender's prior written consent to such an assignment or transfer.

8. No Challenge to Senior Indebtedness or Liens. The Subordinated Creditor agrees that it will not at any time contest the validity, perfection, priority or enforceability of the Senior Indebtedness, the Credit Agreement or any security or other document executed in connection therewith, or in connection with any Refinancing, as hereinafter defined, or the liens and security interests of Lender or any Refinancing Party, as hereinafter defined, in the collateral securing the Senior Indebtedness.

9. Proceedings and Distributions.

(a) For the purposes of this Section 9, the following terms shall have the following meanings:

(i) "Proceeding" means any assignment by Debtor for the benefit of creditors, or any filing of a voluntary petition by or involuntary petition against Debtor pursuant to any chapter of the federal bankruptcy code, or any institution of a voluntary proceeding by or involuntary proceeding against Debtor under any other federal or state law relating to relief of debtors, or any appointment of a receiver, trustee or liquidator of Debtor or of all or a substantial part of its assets, or any liquidation or dissolution of Debtor, or any other marshaling of the assets and liabilities of Debtor; and

(ii) “Distributions” means, collectively, all cash securities and other properties payable or otherwise distributable on or in respect of the Subordinated Indebtedness in any Proceeding;

(b) In any Proceeding, Lender shall have the right, but not the duty, to prepare and file a proof of claim based upon the Subordinated Indebtedness and to vote and otherwise enforce and use the same in such manner as Lender shall deem advisable; provided that, if Lender fails to file such proof of claim on or before the fifth day next preceding the last day permitted for such filing, the Subordinated Creditor shall give Lender written notice of such failure and thereupon file a proof of claim, based on the Subordinated Indebtedness and giving effect to this Agreement. In each such Proceeding, the Subordinated Creditor shall, at no cost or expense to Lender, furnish such witnesses and such supporting records and other data, execute and deliver such writings, and make and do all such other and further acts and things as Lender may request; and

(c) Lender shall be entitled to receive Distributions in respect of the Subordinated Indebtedness until the Senior Indebtedness has been paid in full (including, but not limited to, all interest accruing from time to time on the Senior Indebtedness after the commencement of any Proceeding, whether or not a claim for such interest is allowable under such Proceeding). All Distributions (other than cash and bearer instruments) shall be issued in Lender’s name, and all Distributions, whatever the form thereof, shall be delivered directly to Lender. No one delivering any Distributions to Lender shall have any responsibility to follow Lender’s application thereof. If, for any reason, the Subordinated Creditor shall receive any payment of or security for or Distribution in respect of the Subordinated Indebtedness, or any part thereof, before payment in full of the Senior Indebtedness (including, but not limited to, all interest accruing from time to time on the Senior Indebtedness after the commencement of any Proceeding, whether or not a claim for such interest is allowable under such Proceeding), the Subordinated Creditor shall receive the same in trust and shall deliver the same, in the form received, directly to Lender. The Subordinated Creditor shall execute and deliver such endorsements, assignments, transfer powers and other writings in respect of the foregoing as Lender may from time to time demand, and Lender shall have the right to execute and deliver the same for and on behalf of the Subordinated Creditor and in the name of the Subordinated Creditor whenever the Subordinated Creditor omits doing so.

10. Legend. The Subordinated Notes, and any other instrument evidencing any of the Subordinated Indebtedness, or any portion thereof, shall bear the following legend (or other similar language reasonably satisfactory to Lender) on the first page thereof: “THE INDEBTEDNESS EVIDENCED BY THIS NOTE IS SUBORDINATE TO THE INDEBTEDNESS OF THE MAKER (OR ANY SUCCESSOR THERETO) TO KEYBANK NATIONAL ASSOCIATION AND ITS SUCCESSORS AND ASSIGNS PURSUANT TO THE TERMS OF A SUBORDINATION AGREEMENT DATED OCTOBER 18, 2011, AS SUCH AGREEMENT MAY FROM TIME TO TIME BE AMENDED, RESTATED OR OTHERWISE MODIFIED (OR ANY SUCCESSOR AGREEMENT WHICH REPLACES AND REFERENCES SUCH AGREEMENT).”

11. Representation of the Subordinated Creditor; Amendment of Subordinated Debt Documents. The Subordinated Creditor represents and warrants to Lender that, as of the date hereof, the entire indebtedness of Debtor to the Subordinated Creditor is evidenced by the Subordinated Debt Documents. Copies of all of the Subordinated Debt Documents have been delivered to Lender and a copy of the Subordinated Convertible Note is attached hereto as Exhibit A and a copy of the Subordinated Promissory Note is attached hereto as Exhibit B. None of the Subordinated Debt Documents may be amended or modified in any respect without the prior written consent of Lender (which consent shall not be unreasonably withheld).

12. Additional Agreements with Lender. At any time, and from time to time, Lender may enter into any agreements with one or more Borrowers as Lender may deem proper, including extending the time of payment or renewing, increasing the amount, or otherwise altering the terms of the Credit Agreement or any document executed in connection therewith or affecting the security or guaranties, if any, underlying any or all of such obligations, or may exchange, sell, or surrender or otherwise deal with any such security or guaranties, or may release any balance of funds of one or more Borrowers, with Lender, without notice to the Subordinated Creditor, and without in any way impairing or affecting this Agreement thereby.

13. Reliance by Lender on the Subordinated Creditor. The Subordinated Creditor hereby consents and covenants that all obligations and liabilities of each Borrower to Lender shall be deemed to have been made or incurred, in part, in reliance upon this Agreement.

14. Waiver of Lender's Rights. No waiver shall be deemed to be made by Lender of any of its rights hereunder unless the same shall be in writing signed on behalf of Lender. Each waiver, if any, shall be a waiver only with respect to the specific instance involved and shall in no way impair the rights of Lender or the obligations of the Subordinated Creditor to Lender in any other respect at any other time.

15. Waiver of Notice and Successors and Assigns. The undersigned hereby waive (a) notice of acceptance of this Agreement; (b) notice of the existence, creation, extension, refunding, refinancing or non-payment of all or any of the Senior Indebtedness; (c) all diligence in collection or protection of or realization upon the Senior Indebtedness, or any part thereof or any security therefor; and (d) notice of the release, waiver or cancellation of any obligors or guarantors of all or any portion of the Senior Indebtedness or any security therefor. This Agreement shall be immediately binding upon Debtor and the Subordinated Creditor, and its successors, heirs, executors, administrators and permitted assigns, and the subordination described herein shall inure to the benefit of Lender and its successors and assigns.

16. Governing Law. This Agreement shall be construed according to the laws of the State of New York, without regard to principles of conflicts of laws. Wherever possible each provision of this Agreement shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement shall be prohibited by or invalid under such law, such provision shall be ineffective to the extent of such prohibition or invalidity, without invalidating the remainder of such provision or the remaining provisions of this Agreement.

17. Entire Agreement. This Agreement sets forth the entire agreement and understanding among the parties as to the subject matter hereof and merges and supersedes all prior discussions, agreements, and undertakings of every kind and nature among them with respect to the subject matter hereof.

18. Nonwaiver of Payments. In the event that the Subordinated Creditor is required to pay to Lender any funds or other property that the Subordinated Creditor receives from Debtor or any of its affiliates, or in respect of the Subordinated Indebtedness other than as permitted under Section 4 hereof, Lender and Debtor acknowledge that the Subordinated Creditor shall not have waived the rights of the Subordinated Creditor to payment in full under the Subordinated Debt Documents, subject, however, to the terms of this Agreement.

19. Refinancing of Senior Indebtedness. Lender may, from time to time, without notice to the undersigned, assign or transfer any or all of the Senior Indebtedness or any interest therein or permit another person or entity (a "Refinancing Party") to extend credit to one or more Borrowers to enable any such Borrower to repay all or a portion of the Senior Indebtedness (a "Refinancing"), and, notwithstanding any such assignment, transfer or Refinancing or any subsequent assignment, transfer or Refinancing, such indebtedness shall be and remain Senior Indebtedness for the purposes of this Agreement, and every immediate and successive assignee, transferee or Refinancing Party of any of the Senior Indebtedness or of any interest therein, including, without limitation, any Refinancing Party, shall, to the extent of the interest of such assignee, transferee or Refinancing Party in the Senior Indebtedness, be entitled to the rights and benefits of this Agreement to the same extent as if such assignee, transferee or Refinancing Party were Lender, and have the same irrevocable powers of attorney granted hereunder to Lender. On and after the date of the Refinancing, (a) such Refinancing Party shall be deemed to be Lender hereunder, (b) references to the Senior Indebtedness shall be deemed to be the obligations owing to the Refinancing Party, and (c) references to the loan documents of Lender shall be deemed to refer to the loan documents of the Refinancing Party. In connection with any Refinancing, the Subordinated Creditor agrees, promptly upon request of the Refinancing Party, to correct any material defect or error that may be discovered in this Agreement, such that the Refinancing Party fails to obtain the full benefits intended by this Agreement.

20. Termination. The subordinations, agreements and priorities set forth in this Agreement shall remain in full force and effect until all of the Senior Indebtedness has been indefeasibly paid in full and all commitments to each Borrower from Lender (including any Refinancing Party) have been terminated, regardless of whether any party hereto in the future seeks to rescind, amend, terminate or reform, by litigation or otherwise, its respective agreements with any Borrower.

21. Counterparts. This Agreement may be executed in any number of counterparts, by different parties hereto on the same or separate counterparts and by facsimile signature, and each such counterpart, when executed and delivered, shall be deemed to be an original, and all of which taken together shall constitute but one and the same Agreement.

22. Notice. All notices, requests, demands and other communications provided for hereunder shall be in writing and mailed or delivered to Debtor, Lender or the Subordinated Creditor, as the case may be, addressed to the address of Debtor, Lender or the Subordinated Creditor, as the case may be, specified on the signature page of this Agreement. All notices, statements, requests, demands and other communications provided for hereunder shall be deemed to be given or made when delivered or two business days after being deposited in the mails with postage prepaid by registered or certified mail, addressed as aforesaid, or sent by facsimile with telephonic confirmation of receipt. All notices hereunder shall not be effective until received.

23. Jurisdiction and Venue. All judicial proceedings arising out of or relating to this Agreement or any obligation hereunder may be brought in any state or federal court sitting in New York County, New York, and by their respective execution and delivery of this Agreement, the undersigned accept for themselves and in connection with their properties, generally and unconditionally, the jurisdiction of the aforesaid courts and waive any defense of forum nonconveniens, and irrevocably agree to be bound by any judgment rendered thereby in connection with this Agreement.

[Remainder of page intentionally left blank.]

JURY TRIAL WAIVER . THE UNDERSIGNED, TO THE EXTENT PERMITTED BY LAW, EACH HEREBY WAIVES ANY RIGHT TO HAVE A JURY PARTICIPATE IN RESOLVING ANY DISPUTE WHETHER SOUNDING IN CONTRACT, TORT, OR OTHERWISE, AMONG THE SUBORDINATED CREDITOR, DEBTOR, AND LENDER, OR ANY THEREOF, ARISING OUT OF, IN CONNECTION WITH, RELATED TO OR INCIDENTAL TO THE RELATIONSHIP ESTABLISHED AMONG THEM IN CONNECTION WITH THIS AGREEMENT OR ANY DOCUMENT EXECUTED OR DELIVERED IN CONNECTION HEREWITH OR THE TRANSACTIONS RELATED THERETO.

IN WITNESS WHEREOF, the undersigned have executed and delivered this Subordination Agreement as of the date first set forth above.

Address: 275 Wagaraw Road
Hawthorne, NJ 07506
Attention: William Pagano

COLONIAL COMMERCIAL CORP.

By:

William Pagano
Chief Executive Officer

Address: 127 Public Square
Cleveland, Ohio 44114
Attention: Asset Based Lending

KEYBANK NATIONAL ASSOCIATION

By:

Nadine M. Eames
Vice President

Address (Home): 50 East 89th Street, Apt. 25C
New York, NY 10128

William Pagano, personally

Signature Page to
Subordination Agreement

EXHIBIT A
SUBORDINATED CONVERTIBLE NOTE

Please see attached.

E-1

EXHIBIT B
SUBORDINATED PROMISSORY NOTE

Please see attached.



Wells Fargo Capital Finance
100 Park Avenue, 3rd Floor
New York, NY 10017

**WELLS FARGO BANK, NATIONAL ASSOCIATION,
acting through its Wells Fargo Business Credit operating division
100 Park Avenue
New York, NY 10017**

October 18, 2011

Via Facsimile

The RAL Supply Group, Inc.
Universal Supply Group, Inc.
S&A Supply, Inc.
(collectively the "Company")
275 Wagaraw Road
Hawthorne, New Jersey 07506

Attn: William Pagano,
President

Re: Request of Company for termination of Credit and Security Agreement dated as of July 28, 2004 (as amended, the "Credit Agreement") and payment of all Obligations

Dear Company:

You have requested that Wells Fargo Bank, National Association ("Wells Fargo"), accept payment in full of all Obligations of Company under the Credit Agreement that are due and payable as of October 18, 2011 (the "Payoff Date"), and terminate each credit facility extended to Company thereunder as well as Wells Fargo's lien on and security interest (collectively "Security Interest") in all Collateral, and in all assets and properties of any other Person which secure the Obligations (collectively the "Third Party Collateral"). You have advised us that concurrently with such payment, you will be entering into a new financing arrangement with Key Bank ("Replacement Lender"). Capitalized terms not otherwise defined in this letter agreement shall have the meaning set forth in the Credit Agreement.

CONDITIONS TO TERMINATION OF CREDIT AGREEMENT AND SECURITY INTEREST

In order to meet your request, Wells Fargo must receive, no later than 3:00 p.m., New York time on the Payoff Date, delivery of the following:

Together we'll go far



- (i) immediately available funds in the amount of \$11,115,818.98 (the "Payoff Amount"), representing all unpaid principal, interest, fees, costs and expenses under the Credit Agreement, as fully set forth on attached Exhibit A;
 - (ii) the Indemnity Cash Collateral (as defined below and included in Payoff Amount);
- and
- (iii) a fully executed counterpart to this letter agreement.

TERMINATION OF CREDIT AGREEMENT AND SECURITY INTEREST

Upon receipt of the foregoing,

1. Wells Fargo shall release, terminate and satisfy its Security Interest in the Collateral, and the Third Party Collateral, and execute and deliver such releases, termination statements or directions to terminate as Company or Replacement Lender may reasonably request, which must be prepared and filed by Company at Company's sole cost and expense.

2. Company and Replacement Lender are each authorized by Wells Fargo to file UCC termination statements, and such other documents as are necessary, to terminate Wells Fargo's Security Interest in all Collateral and all Third Party Collateral, other than Wells Fargo's Security Interest in the Indemnity Cash Collateral, which shall continue as provided under the terms of this letter.

3. The Credit Agreement, the Loan Documents, and each credit facility extended by Wells Fargo thereunder shall be terminated and the obligations of each party thereunder shall cease to be of any further force or effect; provided, however, that all provisions of the Credit Agreement and the other Loan Documents which by their terms survive termination of the Credit Agreement and the Loan Documents, including, without limitation, the Company's obligation to repay all Obligations under the Credit Agreement and Company's obligation to pay Wells Fargo's continuing costs and expenses and to indemnify and hold Wells Fargo harmless, shall survive and not be deemed terminated, but shall remain in full force and effect.

PAYMENT OF PAYOFF AMOUNTS AND ADJUSTMENTS

The Payoff Amount should be sent as follows:

Wells Fargo Bank, National Association
ABA 121000248
Account No. 4124923723
For Wells Fargo Bank N.A
for further credit to Universal Supply Group
Phone Advice: 646-728-3287

In the event that Wells Fargo does not receive the Payoff Amount in immediately available funds no later than 3:00 p.m., New York time on the Payoff Date, an additional per diem charge of \$1,092.63 shall be added to the Payoff Amount. The Payoff Amount is subject to adjustment in the event that any checks, instruments, and payment orders deposited to any of Company's accounts are returned for insufficient funds or have not been processed or because of errors in computation or other clerical or computer errors, or for any other reason.

If, by reason of adjustments made no more than seventy-five (75) days after the Payoff Date, additional amounts are found to be due and owing to Wells Fargo, you agree to promptly reimburse Wells Fargo for such additional indebtedness. Our demand for such payment shall be conclusive upon you and Wells Fargo shall not be obligated to make demand for payment upon any other indemnitor. This letter shall be effective from the Payoff Date through and including November 1, 2011, after which date it shall be null and void.

CONTINUATION OF DEPOSIT ACCOUNTS AND TREASURY MANAGEMENT PRODUCTS

Notwithstanding anything to the contrary in this letter, Company has requested, and Wells Fargo hereby agrees, that Wells Fargo will continue to offer Company, on an interim basis only, depository account services ("Deposit Accounts") and treasury management products ("Treasury Management Products") pursuant to the terms of the Commercial Account Agreement and Master Agreement for Treasury Services and any other agreements for banking services that are currently in existence between Wells Fargo and Company.

The Replacement Lender agrees that so long as any Deposit Accounts and Treasury Management Products are outstanding, the Replacement Lender shall have no security interest or claim of any kind in same or any deposit accounts or brokerage accounts maintained with any affiliate of Wells Fargo. Company agrees to close the Deposit Accounts and terminate its Treasury Management Products with Wells Fargo within seventy-five (75) days of the date of this letter; provided, however, that Wells Fargo reserves the right to close the Deposit Accounts and terminate all Treasury Management Products at any time in its discretion in accordance with its normal policies and procedures.

Company further agrees that Wells Fargo has no obligation to consider requests for overdraft advances with respect to the Deposit Accounts, and that checks, instruments, and payment orders drawn thereon will be honored only to the extent that sufficient available funds are deposited therein at the time that any such checks, instruments, and payment orders are presented for payment. In addition to and not in limitation of any and all rights of offset that Wells Fargo may have under applicable law, Wells Fargo has a Security Interest in all Deposits Accounts that Company maintains with Wells Fargo and any monies or cash in Wells Fargo's possession, and may apply same to the payment of all Obligations, as well as any unpaid fees, costs or expenses owing by Company to Wells Fargo.

Notwithstanding anything to the contrary in this letter agreement, Wells Fargo also reserves all of its rights with respect to any checks, instruments, and payment orders received by it in connection with the Deposit Accounts. Company acknowledges and agrees that Wells Fargo may not have yet received full and final credit for all checks, instruments, and payment orders deposited by us for collection, which may nevertheless have been credited to Company in the computation of the Payoff Amount. Company agrees to promptly indemnify and hold Wells Fargo harmless for and from any losses arising from Wells Fargo's failure or inability to collect the full face amount of any such checks, instruments, and payment orders payable to Company, including without limitation, all usual bank charges and direct costs and expenses relating to same which have been credited to any of Company's credit facilities under the Credit Agreement or to its deposit accounts.

In order to secure Company's indemnity obligations described in the preceding paragraph, Company shall deliver to Wells Fargo no later than 3:00 p.m. New York time on the Payoff Date cash collateral in the amount of \$75,000 (the "Indemnity Cash Collateral"), which amount shall be deposited to a non interest bearing blocked account maintained with Wells Fargo, with respect to which Company hereby grants Wells Fargo a Security Interest, together with all amounts deposited thereto, the balance of which Indemnity Cash Collateral shall be returned to Company no earlier than twenty-one (21) days after all checks and other items described in the preceding paragraph have been fully collected and all costs and expenses described in the preceding paragraph have been paid in full.

It is understood and agreed that our cancellation and termination of the Credit Agreement, and the termination of the Security Interest of Wells Fargo in the Collateral of Company and in the Third Party Collateral, is being undertaken in consideration of and in reliance upon the agreement of Company to indemnify Wells Fargo as provided in this letter. After satisfaction of all of Company's obligations to Wells Fargo, we shall remit to you any proceeds or items that we subsequently receive in connection with Company's Collateral, but we shall be under no obligation to further pursue any collection and/or exercise any remedies respecting any such collateral, other than delivering it to you, endorsed or assigned, as necessary, without recourse to Wells Fargo.

This letter agreement may be signed and exchanged in counterparts, all of which when taken together shall constitute one and the same agreement. This letter agreement shall be governed by and construed in accordance with the internal laws of the State of New York. Signature by facsimile will also bind the parties to this letter agreement.

Very truly yours,

**WELLS FARGO BANK,
NATIONAL ASSOCIATION**, acting through

By: /s/ Christopher Hill
Name: Christopher Hill
Title: Authorized Signatory SVP

ACKNOWLEDGED AND AGREED TO:

**The RAL Supply Group, Inc.
Universal Supply Group, Inc.
S&A Supply, Inc.**

By: /s/ William Salck
Name: William Salck
Title: Secretary



Colonial Commercial Corp. Enters into Credit and Security Agreement with KeyBank

HAWTHORNE, New Jersey (October 19, 2011) – Colonial Commercial Corp. (the “Company”) (OTCQB: “CCOM,” “CCOMP”), today announced that the Company has signed a three-year \$15,000,000 revolving loan facility with KeyBank National Association. The facility bears interest at 2.75% above the Eurodollar rate or 0.25% above the base rate, and is secured by a first lien on substantially all of the Company’s assets. It replaces the Company’s prior loan facility with Wells Fargo Bank.

Borrowings under the new KeyBank facility will be tied to a borrowing base of up to 85% of eligible accounts receivable, plus up to 55% of the lower of cost or market (whichever is lower) of the eligible inventory, subject to an overall inventory advance limit of \$6,500,000, minus designated reserves. The Company is also obligated to maintain a fixed charge coverage ratio of 1.00 to 1.00 from October 31, 2011 through September 29, 2012 and 1.10 to 1.00 from and after September 30, 2012, as well as a consolidated net worth of at least \$2,800,000.

William Pagano, Chief Executive Officer of the Company, said, “This new credit facility provides the Company with additional cash availability, and should enable us to improve vendor relationships and take further advantage of cash discounts and special purchasing programs.”

About Colonial Commercial Corp.

Colonial distributes heating, ventilating and air conditioning, (“HVAC”), equipment, parts and accessories, climate control systems, customized control panels, and plumbing and electrical supplies and equipment to professional contractors in the states of New York, New Jersey, Massachusetts, Connecticut and eastern Pennsylvania through its subsidiaries; Universal Supply Group, Inc., www.usginc.com, The RAL Supply Group, Inc., www.ralsupply.com, American/Universal Supply Division, www.ausupplyinc.com, and S&A Supply, Inc., www.sasupplyinc.com. The Company also distributes home appliances to dealer groups and appliance stores through its Goldman Universal division. The Company is headquartered in New Jersey, and, with its affiliates, operates out of 19 locations in its geographic trading area. For more information on Colonial’s operations, products and/or services, please visit www.colonialcomm.com.

Safe Harbor Statement

The foregoing press release may contain statements concerning Colonial Commercial Corp.’s financial performance, markets and business operations that may be considered "forward-looking" under applicable securities laws. Colonial cautions readers of this press release that actual results might differ materially from those projected in any forward-looking statements. Factors which might cause actual results to differ materially from any results that are projected in the forward-looking statements include the following: continued acceptance of the company's products in the marketplace, competitive factors, dependence upon third-party vendors, and other risks detailed in the company's periodic report filings with the Securities and Exchange Commission. These and certain other factors which might cause actual results to differ materially from those projected are detailed from time to time in Colonial's periodic reports and registration statements filed with the Securities and Exchange Commission. Colonial undertakes no obligation to update forward looking statements to reflect changed assumptions, the occurrence of unanticipated events, or changes in future operating results, financial condition or business over time.

**For further information, please contact William Pagano, Chief Executive Officer, or
William Salek, Chief Financial Officer, at (973) 427-8224.**