

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

FORM 10-Q

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

For the quarterly period ended **September 30, 2006**

OR

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

For the transition period from _____ to _____

Commission file number: **1-6663**

COLONIAL COMMERCIAL CORP.

(Exact name of registrant as specified in its charter)

New York

(State or other jurisdiction of incorporation or
organization)

11-2037182

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

275 Wagaraw Road, Hawthorne, New Jersey

(Address of principal executive offices)

07506

(Zip Code)

973-427-8224

(Registrant's telephone number, including area code)

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

Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

Yes No

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

<u>Class</u>	<u>Outstanding at November 1, 2006</u>
Common Stock, \$.05 par value per share	4,593,579 shares
Convertible Preferred Stock, \$.05 par value per share	467,601 shares

COLONIAL COMMERCIAL CORP. AND SUBSIDIARIES

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PART I. FINANCIAL INFORMATION**Item 1. Financial Statements**

COLONIAL COMMERCIAL CORP. AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

	September 30, 2006	December 31, 2005
	(Unaudited)	
Assets		
Current assets:		
Cash	\$ 790,174	\$ 613,456
Accounts receivable, net of allowance for doubtful accounts of \$215,757 in 2006 and \$185,971 in 2005	9,379,331	8,489,717
Inventory	14,123,645	12,214,261
Prepaid expenses and other current assets	1,256,986	1,066,658
Deferred tax asset – current portion	637,500	637,500
Total current assets	26,187,636	23,021,592
Property and equipment	1,598,782	1,669,484
Goodwill	1,628,133	1,628,133
Other intangibles	4,000	11,334
Other assets – noncurrent	118,052	135,832
Deferred tax asset – noncurrent	1,071,000	1,071,000
Total assets	<u>\$ 30,607,603</u>	<u>\$ 27,537,375</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Trade payables	\$ 6,723,810	\$ 5,991,946
Accrued liabilities	2,005,860	2,047,159
Income taxes payable	12,666	12,772
Borrowings under credit facility – revolving credit	13,712,099	11,183,008
Borrowings under credit facility – term loan/overadvance	–	562,977
Notes payable – current portion; includes related party notes of \$30,000 in 2006 and \$60,389 in 2005	136,594	165,112
Total current liabilities	22,591,029	19,962,974
Notes payable, excluding current portion; includes related party notes of \$1,028,750 in 2006 and \$1,000,625 in 2005	1,386,816	1,400,834
Total liabilities	<u>23,977,845</u>	<u>21,363,808</u>
Commitments and contingencies		
Stockholders' equity:		
Redeemable convertible preferred stock, \$.05 par value, 2,500,000 shares authorized, 467,601 in 2006 and 484,721 in 2005 shares issued and outstanding, liquidation preference of \$2,338,005 in 2006 and \$2,423,605 in 2005	23,380	24,236
Common stock, \$.05 par value, 20,000,000 shares authorized, 4,593,579 in 2006 and 4,544,459 in 2005 shares issued and outstanding	229,679	227,223
Additional paid-in capital	10,633,259	10,626,859
Accumulated deficit	(4,256,560)	(4,704,751)
Total stockholders' equity	6,629,758	6,173,567
Total liabilities and stockholders' equity	<u>\$ 30,607,603</u>	<u>\$ 27,537,375</u>

See accompanying notes to unaudited condensed consolidated financial statements.

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

	For The Three Months Ended September 30,	
	2006	2005
Sales	\$ 19,217,556	\$ 17,377,655
Cost of sales	<u>13,504,230</u>	<u>12,285,200</u>
Gross profit	5,713,326	5,092,455
Selling, general and administrative expenses, net	<u>4,857,533</u>	<u>4,449,626</u>
Operating income	855,793	642,829
Other income	63,707	63,546
Interest expense, net; includes related party interest of \$26,431 in 2006 and \$23,684 in 2005	<u>(359,214)</u>	<u>(269,897)</u>
Income before income taxes	560,286	436,478
Income tax expense (benefit)	<u>30,839</u>	<u>(582,141)</u>
Net Income	<u>\$ 529,447</u>	<u>\$ 1,018,619</u>
Income per common share:		
Basic	<u>\$ 0.12</u>	<u>\$ 0.24</u>
Diluted	<u>\$ 0.10</u>	<u>\$ 0.19</u>
Weighted average shares outstanding:		
Basic	<u>4,592,968</u>	<u>4,300,270</u>
Diluted	<u>5,301,782</u>	<u>5,296,133</u>

See accompanying notes to unaudited condensed consolidated financial statements.

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

	For The Nine Months Ended September 30,	
	2006	2005
Sales	\$ 52,257,581	\$ 48,226,815
Cost of sales	<u>36,516,555</u>	<u>33,749,170</u>
Gross profit	15,741,026	14,477,645
Selling, general and administrative expenses, net	<u>14,407,601</u>	<u>13,068,688</u>
Operating income	1,333,425	1,408,957
Other income	192,963	213,282
Interest expense, net; includes related party interest of \$77,825 in 2006 and \$68,225 in 2005	<u>(995,116)</u>	<u>(763,788)</u>
Income before income taxes	531,272	858,451
Income tax expense (benefit)	<u>83,081</u>	<u>(481,417)</u>
Net income	<u>\$ 448,191</u>	<u>\$ 1,339,868</u>
Income per common share:		
Basic	<u>\$ 0.10</u>	<u>\$ 0.32</u>
Diluted	<u>\$ 0.08</u>	<u>\$ 0.25</u>
Weighted average shares outstanding:		
Basic	<u>4,574,227</u>	<u>4,217,250</u>
Diluted	<u>5,300,467</u>	<u>5,290,507</u>

See accompanying notes to unaudited condensed consolidated financial statements.

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

	For The Nine Months Ended September 30,	
	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:		
Net income	\$ 448,191	\$ 1,339,868
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Deferred tax benefit	–	(641,500)
Stock-based compensation	–	(52,525)
Provision for doubtful accounts	116,035	29,343
Depreciation	340,216	285,211
Amortization of intangibles	7,334	12,750
Accretion of debt discount	28,125	28,125
Changes in operating assets and liabilities:		
Accounts receivable	(1,005,649)	(395,053)
Inventory	(1,909,384)	(139,892)
Prepaid expenses and other current assets	(190,328)	(293,483)
Other assets – noncurrent	17,780	40,529
Trade payables	731,864	876,375
Accrued liabilities	(41,299)	164,182
Income taxes payable	(106)	(29,018)
Net cash (used in) provided by operating activities	<u>(1,457,221)</u>	<u>1,224,912</u>
Cash flows from investing activities:		
Additions to property and equipment	<u>(269,514)</u>	<u>(305,359)</u>
Net cash used in investing activities	<u>(269,514)</u>	<u>(305,359)</u>
Cash flows from financing activities:		
Issuance of common stock and exercise of stock options	8,000	19,000
Retirement of preferred stock		(15,400)
Repayments of notes payable: includes related party repayments of \$30,389 in 2006, and \$0.00 in 2005	(83,734)	(48,919)
Issuance of notes payable	13,073	48,400
Repayments under credit facility – term loan/overadvance	(562,977)	(853,690)
Borrowings under credit facility – revolving credit	<u>2,529,091</u>	<u>85,649</u>
Net cash provided by (used in) financing activities	<u>1,903,453</u>	<u>(764,960)</u>
Increase in cash	176,718	154,593
Cash – beginning of period	613,456	310,659
Cash – end of period	<u>\$ 790,174</u>	<u>\$ 465,252</u>

See accompanying notes to unaudited condensed consolidated financial statements.

COLONIAL COMMERCIAL CORP. AND SUBSIDIARIES

Notes To Condensed Consolidated Financial Statements

September 30, 2006

(Unaudited)

1. Summary of Significant Accounting Policies and Practices

The condensed consolidated financial statements of Colonial Commercial Corp. and Subsidiaries (the "Company") included herein have been prepared by the Company and are unaudited; however, such information reflects all adjustments (consisting solely of normal recurring adjustments), which are, in the opinion of management, necessary for a fair presentation of the financial position, results of operations, and cash flows for the interim periods to which the report relates. The results of operations for the period ended September 30, 2006 are not necessarily indicative of the operating results that may be achieved for the full year.

Certain information and footnote disclosures, normally included in consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America, have been condensed or omitted. It is suggested that these consolidated financial statements be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Form 10-K for the year ended December 31, 2005.

We have one continuing industry segment – wholesale distribution of heating, ventilation, air conditioning equipment and plumbing fixtures.

Inventory is comprised of finished goods.

2. Stock Options

The Company adopted SFAS No. 123 (revised 2004), "Share-Based Payment" (SFAS No. 123(R)), which supersedes Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees." The revised statement addresses the accounting for share-based payment transactions with employees and other third parties, eliminates the ability to account for share-based transactions using APB No. 25 and requires that the compensation costs relating to such transactions be recognized in the consolidated financial statements. SFAS No. 123(R) requires additional disclosures relating to the income tax and cash flow effects resulting from share-based payments. The Company has adopted the modified prospective application method of SFAS No. 123(R), effective January 1, 2006, and the adoption of SFAS No. 123(R) has an immaterial impact on its consolidated results of operations and earnings per share.

The Company recognized stock-based compensation related to option repricing for options previously awarded using the intrinsic-value method. For the quarter and nine months ended September 30, 2005, the amount of stock based compensation was \$(26,785) and \$(52,525), respectively. During the quarter and nine months ended September 30, 2006 and 2005, no stock options were granted and all outstanding options were fully vested.

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

At September 30, 2006, a total of 74,000 options were outstanding under the 1996 Plan. The outstanding options have expiration dates ranging from 2009 to 2013.

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

The following is a summary of certain provisions of the 2006 Plan. A copy of the 2006 Plan is filed as Exhibit 10.01 to this Report.

Shares Available. The maximum number of shares of common stock that may be delivered under the 2006 Plan is 1,000,000, subject to adjustment for certain specified changes to the Company's capital structure.

Eligibility. All directors, officers and other employees and other persons who provide services to the Company are eligible to participate in the 2006 Plan.

Administration. The administrator of the 2006 Plan will be the board or any other committee which the board designates to serve as the administrator of the 2006 Plan.

Types of Awards. The types of awards that may be made under the 2006 Plan are stock options, stock appreciation rights, restricted stock awards, and stock units. The board or the committee that administers the 2006 Plan will fix the terms of each award, including, to the extent relevant, the following: (1) exercise price for options, base price for stock appreciation rights, and purchase price, if any, for restricted stock awards, (2) vesting requirements and other conditions to exercise, (3) term and termination, (4) effect, if any, of a change of control and (5) method of exercise and of any required payment by the recipient.

Term of Plan. No award may be granted under the 2006 Plan after the close of business on the day immediately preceding the tenth anniversary of the adoption of the 2006 Plan. However, all awards made prior to such time will remain in effect in accordance with their terms.

During the quarter and nine months ended September 30, 2006, no stock options were granted under the 2006 Plan.

The following table summarizes information about stock options at September 30, 2006:

Options Outstanding and Exercisable			
Range of Exercise Prices	Shares	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price
\$.25	74,000	5.29	\$.25

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The following table illustrates the effect on income if the fair-value-based method had been applied to all outstanding awards in each period.

	For the Quarter Ended September 30, 2005	For the Nine Months Ended September 30, 2005
Net income, as reported	\$ 1,018,619	\$ 1,339,868
Add: Stock-based compensation related to option repricing	(26,785)	(52,525)
Pro forma net income	<u>\$ 991,834</u>	<u>\$ 1,287,343</u>
Basic income per share, as reported	<u>0.24</u>	<u>0.32</u>
Basic income per share, pro forma	<u>0.23</u>	<u>0.31</u>
Diluted income per share, as reported	<u>0.19</u>	<u>0.25</u>
Diluted income per share, pro forma	<u>0.19</u>	<u>0.24</u>

3. Equity Transactions

On April 3, 2006, Ronald Miller obtained 12,000 shares of common stock, by exercising 12,000 outstanding stock options. Mr. Miller is a Director of the Company.

On April 17, 2006, Jack Rose obtained 12,000 shares of common stock, by exercising 12,000 outstanding stock options. Mr. Rose was a Director of the Company at the time of the transaction.

On May 16, 2006, a non-executive employee of the Company obtained 4,000 shares of common stock by exercising 4,000 outstanding stock options.

On May 31, 2006, a non-executive employee of the Company obtained 4,000 shares of common stock by exercising 4,000 outstanding stock options.

The Company's reports on Form 8-K and Form 8-K/A filed on April 21, 2006 and April 25, 2006, respectively, refer to sales of common stock by former directors of the Company to two current directors and other investors. Concurrently with these transactions, Messrs. Bernard Korn, William Koon, Jack Rose and Carl Sussman resigned as Directors of the Company, and Mr. Korn also resigned as Chief Executive Officer and Chairman of the Board. Michael Goldman, who continues as a Director of the Company, was elected as Chairman of the Board and William Pagano, also continues as a Director and was appointed Chief Executive Officer. On May 11, 2006, Stuart H. Lubow and Phillip Siegel became Directors of the Company. Mr. Siegel also serves on the Audit Committee of the Company.

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During the quarter ended September 30, 2006 and 2005, holders of a total of 1,323 shares and 238,131 shares, respectively, of redeemable preferred stock converted these shares into 1,323 shares and 238,131 shares, respectively, of common stock.

During the nine months ended September 30, 2006 and 2005, holders of a total of 17,120 shares and 257,059 shares, respectively, of redeemable preferred stock converted these shares into 17,120 shares and 257,059 shares, respectively, of common stock.

4. Supplemental Cash Flow Information

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

	For the Nine Months Ended	
	September 30, 2006	September 30, 2005
Cash paid during the period for:		
Interest	\$ 946,646	\$ 704,032
Income taxes	\$ 81,954	\$ 253,046

5. Net Income Per Common Share

	For the Quarter Ended September 30,		For the Nine Months Ended September 30,	
	2006	2005	2006	2005
Net Income (numerator)	<u>\$ 529,447</u>	<u>\$ 1,018,619</u>	<u>\$ 448,191</u>	<u>\$ 1,339,868</u>
Weighted average common shares (denominator for basic income per share)	4,592,968	4,300,270	4,574,227	4,217,250
Effect of dilutive securities:				
Convertible preferred stock	468,212	668,193	474,083	745,333
Convertible notes	175,000	175,000	175,000	175,000
Stock options	<u>65,602</u>	<u>152,670</u>	<u>77,157</u>	<u>152,924</u>
Weighted average common and potential common shares outstanding (denominator for diluted income per share)	<u>5,301,782</u>	<u>5,296,133</u>	<u>5,300,467</u>	<u>5,290,507</u>
Basic net income per share	<u>\$ 0.12</u>	<u>\$ 0.24</u>	<u>\$ 0.10</u>	<u>\$ 0.32</u>
Diluted net income per share	<u>\$ 0.10</u>	<u>\$ 0.19</u>	<u>\$ 0.08</u>	<u>\$ 0.25</u>

6. Financing Arrangements

At September 30, 2006, the amount outstanding under the Company's credit facility with Wells Fargo Business Credit, Inc. ("Wells") was \$13,712,099. In addition, the Company has a standby letter of credit in the amount of \$300,000 which expires on July 31, 2007. Availability under the revolving credit line is determined by a percentage of available assets as defined in the Agreement, less letter of credit and reserves, and was \$887,901 as of September 30, 2006. The interest rate on the credit facility, as of September 30, 2006 was 8.0% (prime minus .25%).

The facility contains covenants relating to the financial condition of the Company, its business operations, and restricts the payment of dividends, subordinated debt, purchase of securities and capital expenditures. The Company is in compliance with all of its financial loan covenants.

7. Litigation

Universal Supply Group, Inc.

Universal Supply Group, Inc. is a New York corporation (“Universal”). On June 25, 1999, Universal acquired substantially all of the assets of Universal Supply Group, Inc., a New Jersey corporation, including its name, pursuant to the terms of a purchase agreement. The Company filed a copy of the purchase agreement with the Securities and Exchange Commission on March 30, 1999 as Exhibit 10(g) on Form 10KSB, and the Company filed a copy of an amendment to the purchase agreement on July 9, 1999 as Exhibit 10(a)(ii) on Form 8-K. Subsequent to the sale, Universal Supply Group, Inc. (the selling corporation) formerly known as Universal Engineering Co., Inc., changed its name to Hilco, Inc. Hilco, Inc. acquired the assets of Amber Supply Co., Inc., formerly known as Amber Oil Burner Supply Co., Inc., in 1998, prior to Hilco's sale of assets to Universal. Hilco, Inc. is hereinafter referred to as the “Predecessor.” The majority shareholders of Hilco, Inc. were John A. Hildebrandt and Paul Hildebrandt.

The Company understands that Predecessor and many other companies have been sued in the Superior Court of New Jersey (Middlesex County) by plaintiffs filing lawsuits alleging injury due to asbestos. Currently, there exist 94 plaintiffs in these lawsuits relating to alleged sales of asbestos products, or products containing asbestos, by the Predecessor. The Company never sold any asbestos related products.

Of the existing plaintiffs, seven filed actions in 2006, 15 filed actions in 2005, 43 filed actions in 2004, 27 filed actions in 2003, and two filed actions in 2002. There are 105 other plaintiffs that have had their actions dismissed and eight other plaintiffs that have settled as of September 30, 2006 for a total of \$3,313,000. There has been no judgment against the Predecessor.

Our Universal subsidiary was named by 24 plaintiffs; of these, two filed actions in 1999, one filed an action in 2000, five filed actions in 2001, eleven filed actions in 2005 and five filed actions in 2006. Six plaintiffs naming Universal have had their actions dismissed and, of the total \$3,313,000 of settled actions, two plaintiffs naming Universal have settled for \$26,500. No money was paid by Universal in connection with any settlement. Following these dismissed and settled actions, there currently exist 16 plaintiffs that name Universal.

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

Based on advice of counsel, the Company believes that none of the litigation that was brought against the Company's Universal subsidiary through September 30, 2006 is material, and that the only material litigation that was brought against Predecessor through that date was Rhodes v. A.O. Smith Corporation, filed on April 26, 2004 in the Superior Court of New Jersey, Law Division, Middlesex County, Docket Number MID-L-2979-04AS. The Company was advised that the Rhodes case was settled for \$3,250,000 under an agreement reached in connection with a \$10,000,000 jury verdict that was rendered on August 5, 2005. The Company was not a defendant in the Rhodes case.

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

Indemnification

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

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

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

Insurance

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

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

There are periods during the years from 1940 to 1999 in which our Predecessor did not have coverage for potential asbestos claims. Subject to litigation, insurance companies may maintain that the existence of these periods' results in coverage for only a portion of a particular injury that varies with the period during which there was asbestos coverage relating to the injury, and that the balance of any settlement or judgment is to be paid by the insured. To date, no insurance company has claimed any contribution for a gap in coverage except for a claim for \$159.64 made by one insurance company to the Predecessor in 1995. The Predecessor asserted that it had no obligation to pay this amount and did not make any payment.

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

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

General

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

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

8. New Accounting Pronouncements

In June 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*—an interpretation FASB No. 109 (“FIN 48”), which prescribes accounting for and disclosure of uncertainty in tax positions. This interpretation defines the criteria that must be met for the benefits of a tax position to be recognized in the financial statements and the measurement of tax benefits recognized. The provisions of FIN 48 are effective as of the beginning of the Company's 2007 fiscal year, with the cumulative effect of the change in accounting principle recorded as an adjustment to opening retained earnings. The Company is currently evaluating the impact of adopting FIN 48 on the Company's consolidated financial statements.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements*, (“SFAS 157”). This Standard defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The adoption of SFAS 157 is not expected to have a material impact on the Company's financial position, results of operations or cash flows.

9. Related Party Transaction

On August 31, 2006, the Company purchased from Goldman Associates of NY, Inc., (“Goldman Associates”), its Speed Queen home laundry equipment inventory and its related accounts receivable at their then book value of \$149,625. Goldman Associates is an affiliate of Michael Goldman, who is the Chairman of Colonial, as well as president and majority shareholder of Goldman Associates. Separately, the Company entered into a non-exclusive agreement with Alliance Laundry Systems, LLC for the distribution of Speed Queen home laundry equipment in the New York metropolitan area, and in portions of Connecticut, Delaware and Eastern Pennsylvania.

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

The wife of Michael Goldman is the holder of a convertible unsecured note in the amount of \$25,000, issued pursuant to the terms of a private placement made on July 29, 2004, with 50% of the principal payable on June 1, 2008 and the balance on June 1, 2009.

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The daughter of Michael Goldman has been a Director of the Company since October 22, 2004, and is the Chief Operating Officer of Goldman Associates as well as a member of their Board of Directors.

10. Subsequent Events

None

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

The Company

Colonial Commercial Corp. ("Colonial") is a New York corporation, which was incorporated on October 28, 1964. Unless otherwise indicated, the term "Company" refers to Colonial Commercial Corp. and its consolidated subsidiaries. The Company's operations are conducted through its wholly-owned subsidiaries, Universal Supply Group, Inc. ("Universal"), The RAL Supply Group, Inc. ("RAL") and American/Universal Supply, Inc. ("American").

Forward-Looking Statements

This report on Form 10-Q contains forward-looking statements relating to such matters as anticipated financial performance and business prospects. When used in this report, the words, "anticipates," "expects," "believes," "may," "intends," and similar expressions are intended to be among the statements that identify forward-looking statements. From time to time, the Company may also publish forward-looking statements. The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements. Forward-looking statements involve risks and uncertainties, including, but not limited to, the consummation of certain events referred to in this report, technological changes, competitive factors, maintaining customer and vendor relationships, inventory obsolescence and availability, and other risks detailed in the Company's periodic filings with the Securities and Exchange Commission, which could cause the Company's actual results and experience to differ materially from the anticipated results or other expectations expressed in the Company's forward-looking statements.

Critical Accounting Policies

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires that we make estimates and judgments on the reported amounts of assets, liabilities, revenues and expenses, and the related disclosure of contingent assets and liabilities. We base our estimates on historical experience and on various other assumptions we believe to be applicable and reasonable under the current circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

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

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

Principles of Consolidation

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

Revenue Recognition

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

Accounts Receivable

Accounts receivable consist of trade receivables recorded at original invoice amount, less an estimated allowance for uncollectible accounts. Trade credit is generally extended on a short-term basis; thus trade receivables generally do not bear interest. However, a service charge may be applied to receivables that are past due. These service charges are not recognized until collected, and are then included in other income. Trade receivables are periodically evaluated for collectibility based on past credit history with customers and their current financial condition. Changes in the estimated collectibility of trade receivables are recorded in the results of operations for the period in which the estimate is revised. Trade receivables that are deemed uncollectible are offset against the allowance for uncollectible accounts. The Company generally does not require collateral for trade receivables.

Inventory

Inventory is stated at the lower of cost or market and consists solely of finished goods. Cost is determined using the first-in, first-out method.

Distribution costs of incoming freight, purchasing, receiving, inspection, warehousing and handling costs are included in selling, general and administrative expenses. Such costs were \$114,189 and \$102,592 for the quarter ended September 30, 2006 and 2005, respectively, and \$305,496 and \$291,590 for the nine months ended September 30, 2006 and 2005, respectively.

Property and Equipment

Property and equipment are stated at cost. Depreciation is calculated on the straight line method over the estimated useful lives of the assets as follows:

Computer hardware and software	3–5 years
Furniture and fixtures	5 years
Automobiles	3–5 years

Leasehold improvements are amortized over the shorter of the lease term or the estimated useful life of the asset.

Deferred Income Tax Asset

The Company's deferred income tax asset represents certain future tax benefits related to the expected utilization of net operating loss carryforwards. The Company records a valuation allowance against any portion of the deferred income tax asset when it believes, based on the weight of available evidence, it is more likely than not that some portion of the deferred tax asset will not be realized.

Goodwill and Other Intangible Assets

Statement of Financial Accounting Standards (SFAS) 142, "Goodwill and Other Intangible Assets," requires that goodwill having indefinite lives not be amortized, but instead be tested for impairment at least annually. Intangible assets determined to have finite lives are amortized over their remaining useful lives.

Results of Operations For the Quarter Ended September 30, 2006 and 2005

Sales increased by 10.6%, or \$1,839,901, to \$19,217,556 for the quarter ended September 30, 2006 from \$17,377,655 for the same period in 2005. The increase in sales is primarily a result of increased market penetration at two of the Company's subsidiaries, an increase in general industry pricing, and a continuing strong demand for residential and light commercial heating, air conditioning and plumbing fixtures, supplies and accessories. The increases in these areas were offset by weaknesses in sales of commercial control systems.

Gross profit increased by 12.2%, or \$620,871, to \$5,713,326 for the quarter ended September 30, 2006 from \$5,092,455 for the same period in 2005. Gross profit expressed as a percentage of sales increased by 0.4% to 29.7% in 2006 compared to 29.3% for the comparable period in 2005. The increase in the percentage of gross profit is primarily the result of improved pricing received from manufacturers, purchasing of additional inventory prior to price increases to preserve price protection, and sales of higher margin, more efficient models of air conditioning and heating systems. Cost of sales excludes the distribution costs of incoming freight, purchasing, receiving, inspection, warehousing and handling costs, as these costs are included in our selling, general and administrative expenses. Our gross margins may not be comparable to those of other entities since some entities include these distribution costs in the cost of sales. These distribution costs were \$114,189 and \$102,592 for the quarter ended September 30, 2006 and 2005, respectively.

Operating income increased by 33.1%, or 212,964, to \$855,793 for the quarter ended September 30, 2006 from \$642,829 for the same period in 2005. This percentage increase in operating income reflects the effect of the difference between the increase in gross profit of 12.2% compared to the increase in selling, general and administrative expenses of 9.2%. The increase in selling, general and administrative expenses was \$407,907, to \$4,857,533 for the quarter ended September 30, 2006 from \$4,449,626 for the same period in 2005. This was caused by increased expenses for personnel to improve customer service, expansion of our commercial departments, and added cost for increased health insurance, gasoline, utility expenses and interest expenses and decreasing sales in our commercial control systems business. Staffing costs increased by \$246,115, while costs for trucking and fuel increased by \$26,011.

Pre-tax income increased by 28.4%, or \$123,808, to \$560,286 for the quarter ended September 30, 2006 from \$436,478 for the same period in 2005. Interest expense, net increased by 33.1%, or \$89,317, to \$359,214 for the quarter ended September 30, 2006 from \$269,897 for the same period in 2005. The interest expense increase is primarily the result of increasing interest rates and increased borrowings under the credit line to support higher inventory levels and accounts receivable related to the increased sales of air conditioning products and higher inventory levels in the third quarter of 2006. The revolving credit line bears interest at .25% below prime rate, which was 8.25% at September 30, 2006 compared to 6.75% at September 30, 2005.

The Company's net income decreased by 48.0%, or \$489,172, to \$529,447 for the quarter ended September 30, 2006, compared to net income of \$1,018,619 for the same period in 2005. The primary reason for the decrease in the Company's net income was the inclusion of a deferred tax benefit in the quarter ended September 30, 2005 in the amount of \$641,500 with no benefit recognized in the quarter ended September 30, 2006. In 2005, the tax benefit resulted from extending the tax benefit calculation from a two year earnings projection to a three year earnings projection, due to improved earnings predictability.

Results of Operations For the Nine Months Ended September 30, 2006 and 2005

Sales increased by 8.4%, or \$4,030,766, to \$52,257,581 for the nine months ended September 30, 2006 from \$48,226,815 for the same period in 2005. The increase in sales is primarily a result of increased market penetration at two of the Company's subsidiaries, an increase in general industry pricing, and a continuing strong demand for residential and light commercial heating, air conditioning and plumbing fixtures, supplies and accessories. The increases in these areas were offset by weaknesses in sales of commercial control systems.

Gross profit increased by 8.7%, or \$1,263,381, to \$15,741,026 for the nine months ended September 30, 2006 from \$14,477,645 for the same period in 2005. Gross profit expressed as a percentage of sales increased by 0.1% to 30.1% in 2006 compared to 30.0% for the comparable period in 2005. Cost of sales excludes the distribution costs of incoming freight, purchasing, receiving, inspection, warehousing and handling costs, as these costs are included in our selling, general and administrative expenses. Our gross margins may not be comparable to those of other entities since some entities include these distribution costs in the cost of sales. These distribution costs were \$305,496 and \$291,590 for the nine months ended September 30, 2006 and 2005, respectively.

Operating income decreased by 5.4%, or \$75,532, to \$1,333,425 for the nine months ended September 30, 2006 from \$1,408,957 for the same period in 2005. This percentage decrease in operating income reflects the effect of the difference between the increase in gross profit of 8.7% compared to the increase in selling, general and administrative expenses of 10.2%. The increase in selling, general and administrative expenses was \$1,338,913, to \$14,407,601 for the nine months ended September 30, 2006 from \$13,068,688 for the same period in 2005. This was caused by increased expenses for personnel to improve customer service, expansion of our commercial departments, and added cost for increased health insurance, gasoline, utility expenses and interest expenses and decreasing sales in our commercial control systems business. Staffing costs increased by \$797,022, while costs for trucking, fuel, and facilities increased by \$197,670.

Pre tax income decreased by 38.1%, or \$327,179, to \$531,272 for the nine months ended September 30, 2006 from \$858,451 for the same period in 2005. Other income decreased by 9.5%, or \$20,319, to \$192,963 for the nine months ended September 30, 2006 from \$213,282 for the same period in 2005. This decrease is primarily the result of a decrease in service charges collected from customers' past due invoices in the nine months ended September 30, 2006. Interest expense, net increased by 30.3%, or \$231,328, to \$995,116 for the nine months ended September 30, 2006 from \$763,788 for the same period in 2005. The interest expense increase is primarily the result of increasing interest rates and increased borrowings under the credit line to support higher inventory levels and accounts receivable related to the increased sales of air conditioning products and higher inventory levels in the third quarter of 2006. The revolving credit line bears interest at .25% below prime rate, which was 8.25% at September 30, 2006 compared to 6.75% at September 30, 2005.

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The Company's net income decreased by 66.5%, or \$891,677, to \$448,191 for the nine months ended September 30, 2006, compared to net income of \$1,339,868 for the same period in 2005. This decrease in net income was caused by the decrease in pre-tax income of \$327,179, as stated above, in addition to the effect of the inclusion of a deferred tax benefit in the nine months ended September 30, 2005 in the amount of \$641,500 with no benefit recognized in the nine months ended September 30, 2006. In 2005, the tax benefit resulted from extending the tax benefit calculation from a two year earnings projection to a three year earnings projection, due to improved earnings predictability.

The following table summarizes information derived from the Company's consolidated statements of income expressed as a percentage of sales for the quarter and nine months September 30, 2006 and 2005.

	For the Quarter Ended September 30,		For the Nine Months Ended September 30,	
	2006	2005	2006	2005
Sales	100.0%	100.0%	100.0%	100.0%
Cost of sales	70.3	70.7	69.9	70.0
Gross profit	29.7	29.3	30.1	30.0
Selling, general and administrative expenses	25.3	25.6	27.5	27.1
Operating income	4.4	3.7	2.6	2.9
Other income	0.4	0.4	0.3	0.4
Interest expense, net	(1.9)	(1.6)	(1.9)	(1.6)
Income before taxes	2.9	2.5	1.0	1.7
Income taxes	(0.1)	3.4	(0.1)	1.1
Net income	<u>2.8%</u>	<u>5.9%</u>	<u>0.9%</u>	<u>2.8%</u>

Liquidity and Capital Resources

The Company has a \$15,000,000 secured loan facility pursuant to a credit and security agreement (“Agreement”) with Wells. On May 11, 2006 the Company received a \$500,000 overadvance, payable in equal installments of \$12,500 each business day commencing July 11, 2006. The overadvance was paid in full on September 5, 2006. Effective June 23, 2006, the Agreement was amended to extend the maturity date from August 1, 2009 to August 1, 2010. The facility consists of a revolving line of credit which expires on August 1, 2010. In addition, the Company has a standby letter of credit in the amount of \$300,000 which expires on July 31, 2007. Availability under the revolving credit line is determined by a percentage of available assets as defined in the Agreement, less letter of credit and reserves, and was \$887,901 as of September 30, 2006. The balance outstanding under the revolving line of credit was \$13,712,099 as of September 30, 2006. The revolving credit line bears interest at .25% below prime. Substantially all of the assets of the Company, as well as a pledge of the stock of Colonial Commercial Corp.'s operating subsidiaries, collateralize the loans. The facility contains covenants relating to the financial condition of the Company, its business operations, and restricts the payment of dividends, subordinated debt, purchase of securities and capital expenditures. The Company is in compliance with all of its financial loan covenants. All loans are due on demand by the bank, and accordingly, have been classified as current liabilities.

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

As of September 30, 2006, the Company had \$790,174 in cash compared with \$613,456 at December 31, 2005.

Net cash used in operating activities was \$1,457,221 for the nine months ended September 30, 2006. The net cash used in operating activities for the 2006 period is primarily a result of a net income of \$448,191 and non-cash charges of \$491,710, offset by cash used in operating assets and liabilities of \$2,397,122. The increase in accounts receivable of \$1,005,649 was primarily a result of increased sales during the third quarter. Accounts payable increased due to a \$1,909,384 increase in inventory over the nine months ended September 30, 2006. The increase in inventory was primarily the result of additional product lines, inventory purchased prior to expected vendor-announced price increases and seasonal purchases in preparation for increased demand for heating products in the fourth quarter.

Cash flows used in investing activities of \$269,514 during the nine months ended September 30, 2006 were due to purchases of equipment.

The cash flows provided by financing activities of \$1,903,453 consisted of \$2,529,091 in borrowings under the credit facility-revolving credit, \$500,000 in borrowings under the credit facility-overadvance, \$8,000 received from the exercise of stock options and \$13,073 from the issuance of notes payable. Cash flows used in financing activities consisted of \$562,977 for repayments under the credit facility-term loan, \$500,000 repayments under the credit facility-overadvance and \$83,734 for repayments on notes payable.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

The Company's pre-tax earnings and cash flows are exposed to changes in interest rates. All borrowings under its credit facility bear interest based on the prime rate less .25% and a \$750,000 note to Goldman Associates of NY, Inc. which bears interest at prime. A hypothetical 10% adverse change in such rates would reduce the pre-tax earnings and cash flows by approximately \$116,000 over a one-year period, assuming the borrowing level remains consistent with the outstanding borrowings as of September 30, 2006. The fair value of the borrowings under the credit facility is not affected by changes in market interest rates.

The Company's remaining interest-bearing obligations are at fixed rates of interest and as such, do not expose the pre-tax earnings and cash flows to changes in market interest rates. The change in fair value of the Company's fixed rate obligations resulting from a hypothetical 10% adverse change in interest rates would not be material.

Item 4. Controls and Procedures

a. Evaluation of Disclosure Controls and Procedures

An evaluation has been carried out under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and the operation of our "disclosure controls and procedures" (as such term is defined in Rule 13a-15(e) under the Securities Exchange Act of 1934) as of September 30, 2006 ("Evaluation Date"). Based on such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the Evaluation Date, the disclosure controls and procedures are reasonably designed and effective to ensure that (i) information required to be disclosed by us in the reports we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and (ii) such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

b. Changes in Internal Controls

Subsequent to that evaluation, there have been no changes in our internal controls or other factors that could materially affect these controls after such evaluation.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

The Company's Legal Proceedings are incorporated by reference from Part I Financial Information, Item 1 Financial Statements, Section 6 Litigation, of this Report on Form 10-Q.

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

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

- a. A Special Meeting of Shareholders was held on September 29, 2006.
- b. On September 29, 2006, the common and preferred shareholders voted in favor of the following proposals:
 - i. To adopt an amendment to the Restated Certificate of Incorporation, as amended, that would allow the Company to issue up to 10,000,000 shares of preferred stock in one or more series, the terms of any such series to be determined by the Board of Directors from time to time.
 - ii. To adopt a restated Certificate of Incorporation to include only those articles that are currently applicable to the Company and that incorporates all amendments to date.
 - iii. To adopt the Colonial Commercial Corp. 2006 Stock Plan.

<u>PROPOSAL</u>	<u>FOR</u>	<u>AGAINST</u>	<u>ABSTAINED</u>
To adopt an amendment to the Restated Certificate of Incorporation, as amended, that would allow the Company to issue up to 10,000,000 shares of preferred stock in one or more series, the terms of any such series to be determined by the Board of Directors from time to time.	3,143,995	318,895	10,179
To adopt a restated Certificate of Incorporation to include only those articles that are currently applicable to the Company and that incorporates all amendments to date.	3,150,949	313,625	8,495
To adopt the Colonial Commercial Corp. 2006 Stock Plan.	3,075,472	311,862	85,735

A copy of the Restated Certificate of Incorporation is filed as Exhibit 3.01 to this Report. A copy of the Colonial Commercial Corp. 2006 Stock Plan is filed as an Exhibit 10.01 to this Report.

Item 5 is not applicable and has been omitted.

Item 6. Exhibits

3.01	Restated Certificate of Incorporation of Colonial Commercial Corp. dated September 29, 2006.
10.01	Colonial Commercial Corp. 2006 Stock Plan.
31.01	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes–Oxley Act of 2002.
31.02	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes–Oxley Act of 2002.
32.01	Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes–Oxley Act of 2002.
32.02	Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes–Oxley Act of 2002.

SIGNATURES

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

Dated: November 13, 2006

COLONIAL COMMERCIAL CORP.

/s/ William Pagano
William Pagano,
Chief Executive Officer

/s/ William Salek
William Salek,
Chief Financial Officer

RESTATED CERTIFICATE OF INCORPORATION
OF
COLONIAL COMMERCIAL CORP.
(Under Section 807 of the Business Corporation Law)

RESTATED CERTIFICATE OF INCORPORATION
OF
COLONIAL COMMERCIAL CORP.
(Under Section 807 of the Business Corporation Law)

ARTICLE I

The name of the Corporation is Colonial Commercial Corp.

ARTICLE II

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

ARTICLE III

The certificate of incorporation is hereby restated in its entirety as follows:

1. Article SECOND is restated to describe the purposes of the Corporation.
2. Article THIRD is restated to state: "The county, within this state, in which the office of the Corporation is to be located is Nassau County."
3. Article FOURTH is restated:
 - (a) to change the number and par value of shares authorized to be issued by the Corporation to 32,500,000 shares of capital stock, consisting of 20,000,000 shares of common stock of \$.05 par value, 2,500,000 shares of the Corporation's convertible preferred stock of \$.05 par value ("Convertible Preferred Stock") and 10,000,000 shares of Preferred Stock par value \$.05 per share ("Preferred Stock").
 - (b) to add a new subsection (c) providing for the authorization of 10,000,000 shares of Preferred Stock in one or more series, the terms of any such series to be determined by the Board of Directors from time to time.
4. There are currently less than 600,000 shares of Convertible Preferred Stock outstanding. The Company's Restated Certificate of Incorporation, as amended, provides that the Board of Directors is to consist of one class of Directors if there are less than 600,000 shares Convertible Preferred Stock outstanding. Accordingly, Article FOURTH, SIXTH, SEVENTH and EIGHTH are each restated as more fully described below in order to reflect the current status of the existence of a single Board of Directors of the Corporation elected by the holders of the Convertible Preferred Stock and Common Stock Directors voting together as one class on a share for share basis.
5. The following sections set forth in subsection (b) of Article FOURTH of the Certificate of Incorporation are restated:
 - (a) Section 1 is restated to reflect that there are 2,500,000 shares of Convertible Preferred Stock designated as the "Convertible Preferred Stock."
 - (b) the last sentence of Section 2(a), relating to mandatory redemption, is no longer applicable and is accordingly deleted.
 - (c) Section 3(a) is restated to reflect that the current liquidation preference payment of the Convertible Preferred Stock is \$5.00 per share in accordance with the Certificate of Amendment to the Certificate of Incorporation filed with the Secretary of State on February 3, 1998.

- (d) Section 4(a), relating to mandatory redemption, is no longer applicable and, in accordance with the affirmative vote of the Board of Directors, is deleted in its entirety.
 - (e) “Section 4(b)(i),” renumbered as “Section 4(a)(i),” is restated to reflect that the current optional redemption price of the Convertible Preferred Stock is \$7.50 per share in accordance with the Certificate of Amendment to the Certificate of Incorporation filed with the Secretary of State on February 3, 1998.
 - (f) Section 7 titled “Voting Rights” is restated by deleting the reference to “Preferred Stock Directors” in subsections (a) and (b) in order to reflect the current status of the existence of a single Board of Directors of the Corporation elected by the holders of the Convertible Preferred Stock and Common Stock Directors voting together as one class on a share for share basis.
 - i) Subsection (a) is deleted in its entirety.
 - ii) “Subsection (b),” renumbered as “Subsection (a),” is restated to state: “Each holder of record of shares of Convertible Preferred Stock shall be entitled to one vote per share on each matter on which the holders of record of Common Stock of the Corporation shall be entitled to vote, voting together with the holders of record of the Common Stock on a share for share basis, and not as a separate class.”
 - iii) Subsection (d), which restricted the Corporation from issuing non voting shares of capital stock, is deleted in its entirety.
6. Article FIFTH relating to the post office address to which the Secretary of State shall mail a copy of any process against the Corporation served upon him is restated to provide for the following address: 275 Wagaraw Road, Hawthorne, New Jersey 07506
7. Article SIXTH relating to the removal of Directors is restated to reflect the current status of the existence of a single Board of Directors of the Corporation elected by the holders of the Convertible Preferred Stock and Common Stock Directors voting together as one class on a share for share basis.
8. The following subsections set forth in Article SEVENTH of the Certificate of Incorporation is restated in order to reflect the current status of the existence of a single Board of Directors of the Corporation elected by the holders of the Convertible Preferred Stock and Common Stock Directors voting together as one class on a share for share basis:
- (a) Subsections (a), (b)(i), (b)(ii) and (e).
 - i) Subsection (a) is deleted in its entirety;
 - ii) “Subsection (b)(i),” renumbered as “Subsection (a)(i),” is restated to state: “Directors shall be elected for a term of one year. Each Director shall hold office for the term of office for which he is elected and until his successor is elected and qualified.”
 - iii) “Subsection (b)(ii),” renumbered as “Subsection (a)(ii),” is restated to reflect the current status of the existence of a single Board of Directors of the Corporation.
 - iv) “Subsection (e),” renumbered as “Subsection (b),” is restated to state: “If the office of any Director or Directors becomes vacant for any reason, the Directors in office, although less than a quorum, may by majority vote choose a successor or successors, who shall hold office for the unexpired term in respect of which vacancy or vacancies occurred or until the next election of Directors; or any such vacancy may be filled by the shareholders at any meeting thereof. Newly created directorships resulting from an increase in the number of Directors shall be filled in the same manner as vacancies as aforesaid.”

- (b) Subsections (b)(iii), (c) and (d) are each deleted in its entirety. Such subsections are applicable only so long as there are issued and outstanding in excess of 600,000 shares of Convertible Preferred Stock. There were 467,726 shares of Convertible Preferred Stock issued and outstanding as of August 18, 2006.
9. Article EIGHTH is restated so that it reflects the current status of the existence of a single Board of Directors of the Corporation elected by the holders of the Convertible Preferred Stock and Common Stock Directors voting together as one class on a share for share basis.
10. Article NINTH is restated to reflect the current status providing for the indemnification of the Directors and officers of the Corporation to the fullest extent permitted by law in accordance with the Certificate of Amendment to the Certificate of Incorporation filed with the Secretary of State on July 12, 1988.

ARTICLE IV

The restatement of the Certificate of Incorporation of the Corporation herein provided for was authorized by the Board of Directors and by the vote of holders of outstanding shares of the Corporation entitled to vote on the said restatement of the Certificate of Incorporation, having not less than the minimum request proportion of votes.

ARTICLE V

The Certificate of Incorporation is restated in its entirety to read as follows:

RESTATED
CERTIFICATE OF INCORPORATION
OF
COLONIAL COMMERCIAL CORP.

FIRST: The name of the corporation is COLONIAL COMMERCIAL CORP., hereinafter referred to as the “Corporation.”

SECOND: The purposes for which the Corporation is formed are: to engage in any lawful act or activity for which a corporation may be organized under the Business Corporation Law, provided that it is not formed to engage in any act or activity requiring the consent or approval of any state official, department, board, agency or other body without such consent or approval first being obtained.

THIRD: The county, within this state, in which the office of the Corporation is to be located is Nassau County.

FOURTH:

(a) The aggregate number of shares which the Corporation shall have the authority to issue is 32,500,000 divided into the following classes:

<u>Number Of Shares</u>	<u>Class</u>	<u>Par Value Per Share</u>
20,000,000	Common Stock	\$.05
2,500,000	Convertible Preferred Stock	\$.05
10,000,000	Preferred Stock	\$.05

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

(1) Designation. The 2,500,000 shares of Convertible Preferred Stock shall be designated the “Convertible Preferred Stock.”

(2) Dividends.

(a) Concurrently with, and as a condition precedent to, the declaration of any dividend on each share of Common Stock (a “Common Dividend”) the Board of Directors shall declare a dividend on each share of Convertible Preferred Stock outstanding as of the record date for the Common Dividend in an amount equal to the greater of (x) .0000072% of the aggregate amount determined by the Board of Directors to be distributed on such record date to the holders of all classes of the Corporation's capital stock or (y) 112.5% of the amount of the Common Dividend, with the balance to be distributed to the holders of the Common Stock.

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

(3) Liquidation Preference.

- (a) In the event of any, voluntary or involuntary, complete or partial, liquidation, dissolution or winding up of the Corporation (hereinafter called "liquidation"), before any amount shall be paid to or set aside for, or any assets shall be distributed among, the holders of shares of any Junior Stock (as hereinafter defined), each holder of a share of Convertible Preferred Stock shall be entitled to receive out of the assets of the Corporation or the proceeds thereof, a preferential payment in an amount equal to \$5.00 per share, plus any dividends thereon declared but not paid.
- (b) In the event amounts available for distribution as liquidation preference payments to holders of Convertible Preferred Stock are insufficient to pay the full amount of its preference, such amounts shall be paid to such holders ratably in proportion to the respective amounts which would be payable to such holders if paid in full.
- (c) Neither the consolidation or merger of the Corporation with or into any other corporation or corporations, nor the reduction of the capital stock of the Corporation, nor the sale or transfer by the Corporation of all or any part of its assets, shall be deemed to be a liquidation of the Corporation for the purposes of this Section 3.
- (d) The term "Junior Stock" means the Common Stock and any other series of capital stock which shall be designated in this Certificate of Incorporation or any amendment thereto as "Junior Stock."

(4) Redemption.

(a) Optional Redemption.

- (i) The shares of Convertible Preferred Stock may be redeemed, in whole or in part, at the option of the Corporation by resolution of its Board of Directors, at any time and from time to time at the price of \$7.50 per share of Convertible Preferred Stock, plus any dividends thereon declared but not paid.
- (ii) In the event that less than the entire number of the shares of Convertible Preferred Stock outstanding is at any one time redeemed by the Corporation, the shares of Convertible Preferred Stock to be redeemed shall be selected by lot or other equitable manner as may be prescribed by resolution of the Board of Directors of the Corporation.
- (iii) Notice of redemption of Convertible Preferred Stock pursuant to paragraph 4(a) shall be given by first-class mail, postage prepaid, mailed not less than 75 nor more than 100 days prior to the date fixed for redemption, to each holder of Convertible Preferred Stock to be redeemed, at this last address appearing in the Convertible Preferred Stock register.
- (iv) Notice of the redemption shall state:

- i. the redemption date;
- ii. the redemption price;
- iii. if less than all outstanding shares of Convertible Preferred Stock of the holder are to be redeemed, the identification of the shares of Convertible Preferred Stock to be redeemed;
- iv. the Conversion Rate on the date of the notice;
- v. that on the redemption date the redemption price will become due and payable upon each share of the Convertible Preferred Stock to be redeemed and the right to convert each such share shall cease as of the close of business on the fourteenth day prior to the redemption date, unless default shall be made in the payment of the redemption price; and
- vi. the place or places where such shares of Convertible Preferred Stock to be redeemed are to be surrendered for payment of the redemption price, which places shall be the office or agency of the Corporation in each place of payment.

(b) General Provisions With Respect to Redemption

- (i) If on the redemption date, funds necessary for such redemption have been deposited in trust with a bank or trust company, or have been set aside in trust, by the Corporation, for the purpose of redeeming shares of Convertible Preferred Stock, the holders of shares of Convertible Preferred Stock to be redeemed shall, as of the close of business on such date, cease to be shareholders with respect to such shares. Such shares of Convertible Preferred Stock shall no longer be transferable on the books of the Corporation or, as of the close of business on the fourteenth day prior to such date, convertible into shares of Common Stock, and the holders thereof shall be entitled only to receive the redemption price without interest thereon (together with a certificate for any unredeemed shares of Convertible Preferred Stock) upon surrender of the certificates for such shares.
- (ii) In case any holder of shares of Convertible Preferred Stock which shall have been redeemed shall not within three years of the date of redemption thereof claim the amount deposited in trust for the redemption of such shares, such bank or trust company, upon request of the Corporation, shall pay over to the Corporation such unclaimed amount and shall thereupon be relieved of all responsibility in respect thereof. The Corporation shall not be required to hold the amount so paid over to it, or any amount theretofore set aside by it, in trust after such three-year period, separate and apart from its other funds, and thereafter the holders of such shares of Convertible Preferred Stock shall look only to the Corporation for payment of the redemption price thereof, without interest. All liability of the Corporation to any holder of shares of Convertible Preferred Stock for payment of the redemption price for shares of Convertible Preferred Stock called for redemption shall cease and terminate as of the close of business on the fourth anniversary of the redemption date for such shares.

- (5) Conversion Rights. Each share of Convertible Preferred Stock shall be convertible, subject to adjustment as provided in paragraph 5(c), into one fully paid and non-assessable share of Common Stock at any time and from time to time after the date of issue of such share of Convertible Preferred Stock, at the option of the holder thereof. Shares of Common Stock shall be delivered upon conversion without the payment of any additional amounts by the holders of the Convertible Preferred Stock except as required by paragraph 5(e). All conversions of shares of Convertible Preferred Stock into shares of Common Stock shall be subject to the following terms and conditions:
- (a) The Corporation shall make no payment or adjustment on account of any dividends declared but unpaid on the Common Stock issuable upon conversion.
 - (b) In case of any redemption of any shares of Convertible Preferred stock pursuant to paragraph 4 hereof, the right of conversion of the shares to be redeemed shall cease and terminate at the close of business on the fourteenth day prior to the redemption date, unless default shall be made in the payment of the redemption price.
 - (c) The number of shares of Common Stock into which shares of Convertible Preferred Stock are convertible (the "Conversion Rate") shall be subject to adjustment from time to time as follows, except that no adjustment need be made unless, by reason of the happening of any or more of the events specified in this paragraph 5(c), the Conversion Rate then in effect shall be changed by 5% or more, but any adjustment of less than 5% that would otherwise be required then to be made shall be carried forward and shall be made at the time of and together with any subsequent adjustment which, together with any adjustment or adjustments so carried forward, amounts to 5% or more.
 - (i) In case the Corporation shall at any time or times subdivide or combine the outstanding shares of Common Stock into a greater or lesser number of shares, then, in each such case, the number of shares of Common Stock into which each share of Convertible Preferred stock may be converted (such Conversion Rate being initially one share of Common Stock for each share of Convertible Preferred stock) in effect immediately prior thereto shall be adjusted to a Conversion Rate (including any applicable fraction of a share) determined by multiplying the Conversion Rate in effect immediately prior to the happening of any of the events described above by a fraction, the numerator of which shall be the total number of shares of Common Stock outstanding immediately after such event and the denominator of which shall be the total number of Common Stock outstanding immediately prior to such event. An adjustment made pursuant to this paragraph 5 (c) (i) shall become effective immediately after the effective date of any event specified in this paragraph 5 (c) (i).

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

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

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

- (e) The issuance of stock certificates on conversions of shares of Convertible Preferred Stock into shares of Common Stock shall be without charge to the converting stockholders for any issue tax. The Corporation shall not, however, be required to pay any tax which may be payable in respect of any transfer involved in the issue and delivery of shares of Common Stock in any name other than that of the registered holder of the shares of Convertible Preferred Stock converted, and the Corporation shall not be required to issue or deliver any such stock certificate unless and until the person or persons requesting the issuance thereof shall have paid to the Corporation the amount of such tax or shall have established to the satisfaction of the Corporation that such tax has been paid or that no such tax is payable.
- (f) Any holder of Convertible Preferred Stock who shall choose to convert shares of Convertible Preferred Stock held by him pursuant to this Section 5 shall, as a condition of conversion, present the certificates for such Convertible Preferred Stock (which certificate or certificates, if the Corporation shall so require, shall be duly endorsed or accompanied by appropriate instruments of transfer satisfactory to the Corporation) at the office of the transfer agent or agents for Convertible Preferred Stock, or at such other office as may be designated by the Corporation, and shall give written notice to the Corporation at said office that such holder elects to convert the same or part thereof and shall state in writing therein the name or names in which such holder wishes the certificate or certificates for shares of Common Stock to be issued. The Corporation will as soon as practicable thereafter, issue and deliver at said office to such holder, or to the designee of such holder, certificates for the number of full shares of Common Stock to which such holder or its designee shall be entitled as aforesaid, together with cash or scrip in lieu of any fraction of a share as hereinabove provided and certificates for the shares of Convertible Preferred Stock, if any, not converted. Shares of Convertible Preferred Stock shall be deemed to have been converted as of the close of business on the date of the presentation of such shares for conversion as provided above, and the person or persons entitled to receive the shares of Common Stock issuable upon such conversion shall be treated for all purposes as the record holder or holders of such shares of Common Stock as of such time and date.
- (6) Shares to be Retired. All shares of Convertible Preferred Stock redeemed or purchased by the Corporation or converted into Common Stock of the Corporation shall be retired and cancelled, and may not thereafter be issued in any form.
- (7) Voting Rights
 - (a) Each holder of record of shares of Convertible Preferred Stock shall be entitled to one vote per share on each matter on which the holders of record of Common Stock of the Corporation shall be entitled to vote, voting together with the holders of record of the Common Stock on a share for share basis, and not as a separate class.

- (b) No holder of shares of the Corporation of any class, now or hereafter authorized, shall be entitled as such, as a matter of right, to any preferential or preemptive right or otherwise to subscribe for, purchase or receive any shares of the Corporation of any class, now or hereafter authorized, or any options or warrants for such shares, or any securities convertible into or exchangeable for such shares, which may at any time be issued, sold or offered for sale by the Corporation.
- (c) The Preferred Stock shall have the designation, and shall be entitled to the rights, interests, preferences, limitations, and restrictions hereinafter set forth.
 - (1) Shares of Preferred Stock may be issued from time to time in one or more series as may from time to time be determined by the Board of Directors, each of said series to be distinctly designated. All shares of any one series of Preferred Stock shall be alike in every particular, except that there may be different dates from which dividends, if any, thereon shall be cumulative, if made cumulative. The voting powers and the preferences and relative, participating, optional and other special rights of each such series, and the qualifications, limitations or restrictions thereof, if any, may differ from those of any and all other series at any time outstanding; and the Board of Directors of the Corporation is hereby expressly granted authority to fix by resolution or resolutions adopted prior to the issuance of any shares of a particular series of Preferred Stock, the voting powers and the designation, preferences and relative, optional and other special rights, and the qualifications, limitations and restrictions of such series, including, but without limiting the generality of the foregoing, the following:
 - (a) The distinctive designation of, and the number of shares of Preferred Stock which shall constitute such series, which number may be increased (except where otherwise provided by the Board of Directors) or decreased (but not below the number of shares thereof then outstanding) from time to time by like action of the Board of Directors;
 - (b) The rate and times at which, and the terms and conditions on which, dividends, if any, on Preferred Stock of such series shall be paid, the extent of the preference or relation, if any, of such dividends to the dividends payable on any other class or classes, or series of the same or other classes of stock and whether such dividends shall be cumulative or non-cumulative;
 - (c) The right, if any, of the holders of Preferred Stock of such series to convert the same into or exchange the same for, shares of any other class or classes or of any series of the same or any other class or classes of stock of the Corporation and the terms and conditions of such conversion or exchange;
 - (d) Whether or not Preferred Stock of such series shall be subject to redemption, and the redemption price or prices and the time or times at which, and the terms and conditions on which, Preferred Stock of such series may be redeemed;

- (e) The rights, if any, of the holders of Preferred Stock of such series upon the voluntary or involuntary liquidation, merger, consolidation, distribution or sale of assets, dissolution or winding-up, of the Corporation;
 - (f) The terms of the sinking fund or redemption or purchase account, if any, to be provided for the Preferred Stock of such series; and
 - (g) The voting powers, if any, of the holders of such series of Preferred Stock which may, without limiting the generality of the foregoing, include the right, voting as a series or by itself or together with other series of Preferred Stock or all series of Preferred Stock as a class, to elect one or more Directors of the Corporation if there shall have been a default in the payment of dividends on any one or more series of Preferred Stock or under such other circumstances and on such conditions as the Board of Directors may determine.
- (2) The relative powers, preferences and rights of each series of Preferred Stock in relation to the powers, preferences and rights of each other series of Preferred Stock shall, in each case, be as fixed from time to time by resolution of the Board of Directors, and the consent, by class or series vote or otherwise, of the holders of such of the series of Preferred Stock as are from time to time outstanding shall not be required for the issuance by the Board of Directors of any other series of Preferred Stock whether or not the powers, preferences and rights of such other series shall be fixed by the Board of Directors as senior to, or on a parity with, the powers, preferences and rights of such outstanding series, or any of them; provided, however, that the Board of Directors may provide in such resolution that the consent of the holders of a majority (or such greater proportion as shall be therein fixed) of the outstanding shares of such series voting therein shall be required for the issuance of any or all other series of Preferred Stock.

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

275 Wagaraw Road, Hawthorne, New Jersey 07506

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

SEVENTH:

(a)

- (i) Directors shall be elected for a term of one year. Each Director shall hold office for the term of office for which he is elected and until his successor is elected and qualified.
 - (ii) Without affecting the fiduciary duties of any Director of the Corporation under law, in determining whether to vote for or against any proposal brought before the Board of Directors, each Director shall be entitled to take into account the benefit or adverse effect of such proposal to the Corporation and its shareholders as a whole (both on a short-term and on a long-term basis).
- (b) If the office of any Director or Directors becomes vacant for any reason, the Directors in office, although less than a quorum, may by majority vote choose a successor or successors, who shall hold office for the unexpired term in respect of which vacancy or vacancies occurred or until the next election of Directors; or any such vacancy may be filled by the shareholders at any meeting thereof. Newly created directorships resulting from an increase in the number of Directors shall be filled in the same manner as vacancies as aforesaid.

EIGHTH: Any by-law of the Corporation may be amended or repealed and new or additional by-laws may be adopted only by the affirmative vote of a majority of the Board of Directors or by the affirmative vote of the shareholders entitled to vote in the election of Directors voting at a meeting of such shareholders, voting together as one class on a share for share basis.

NINTH:

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

IN WITNESS WHEREOF, COLONIAL COMMERCIAL CORP. has caused this Restated Certificate of Incorporation to be signed by William Pagano, on this 29th day of September, 2006.

COLONIAL COMMERCIAL CORP.

By: /s/ William Pagano
William Pagano
Chief Executive Officer

COLONIAL COMMERCIAL CORP. 2006 STOCK PLAN

ARTICLE I

General

1.1. Purpose. The purpose of the Colonial Commercial Corp. 2006 Stock Plan, (the "Plan"), is to provide additional incentive to officers, directors, employees and others who render services to Colonial Commercial Corp. (the "Corporation") and any present or future Subsidiary. It is intended that Awards granted under the Plan strengthen the desire of such persons to join and remain in the employ of the Corporation, or otherwise render services to the Corporation, and stimulate their efforts on behalf of the Corporation.

1.2. Term. No Award shall be granted under the Plan after the close of business on the day immediately preceding the 10-year anniversary of the adoption of the plan. Subject to other applicable provisions of the Plan, all Awards made under the Plan prior to such termination of the Plan shall remain in effect until such Awards have been satisfied or terminated in accordance with the Plan and the terms of such Awards.

1.3. Shares Subject to the Plan. Subject to adjustments as provided in Article IX, the number of shares of Stock that may be delivered, purchased or used for reference purposes (with respect to SARs or Stock Units) with respect to Awards granted under the Plan shall be 1,000,000 shares of Common Stock of Colonial Commercial Corp., ("Stock"). If any Award, or portion of an Award, under the Plan expires or terminates unexercised, becomes unexercisable or is forfeited or otherwise terminated, surrendered or canceled as to any shares without the delivery of shares of Stock or other consideration, the shares subject to such Award shall thereafter be available for further Awards under the Plan.

1.4. Subject to adjustments as provided in Article IX, the maximum number of shares of Stock subject to Awards of any combination that may be granted during any one fiscal year of the Corporation to any one individual shall be limited to 1,000,000 shares; provided that such number shall be adjusted pursuant to Article IX, and shares otherwise counted against such number, only in a manner which will not cause Awards granted under the Plan to fail to qualify as "performance-based compensation" under Code section 162(m).

ARTICLE II

Definitions

For purposes of the Plan, the following terms shall be defined as set forth below.

2.1. Administrator means the Board, the Special Stock Committee or any other committee which is designated by the Board as the "Administrator."

- 2.2. Award means any Stock Options (including ISOs and NSOs), SARs (including free-standing and tandem SARs), Restricted Stock Awards, Stock Units, or any combination of the foregoing granted pursuant to the Plan, except, however, when the term is being used under the Plan with respect to a particular category of grant in which case it shall only refer to that particular category of grant.
- 2.3. Board means the Board of Directors of the Corporation.
- 2.4. Code means the Internal Revenue Code of 1986, as amended.
- 2.5 Fair Market Value means, as of any date,
- 2.5.1 if the Stock is not traded on any over-the-counter market or on a national securities exchange, the fair market value determined by the Board in good faith using a reasonable valuation method;
- 2.5.2 if the Stock is traded in the over-the-counter market, based on most recent closing price for the Stock on the date the calculation thereof shall be made; or
- 2.5.3 if the Stock is listed on a national securities exchange, based on the most recent closing price for the Stock of the Corporation on such exchange.
- 2.6. Grant Agreement means the agreement between the Corporation and the Participant pursuant to which the Corporation authorizes an Award hereunder. Each Grant Agreement entered into between the Corporation and a Participant with respect to an Award granted under the Plan shall contain such provisions, consistent with the provisions of the Plan, as may be established by the Administrator.
- 2.7. Grant Date means the date on which the Administrator formally acts to grant an Award to a Participant or such other date as the Administrator shall so designate at the time of taking such formal action.
- 2.8. ISO means any Stock Option designated and qualified as an "incentive stock option" as defined in Code section 422.
- 2.9. NSO means any Option that is not an ISO.
- 2.10. Option means any option to purchase shares of Stock granted under Article V.
- 2.11. Parent means a corporation, whether now or hereafter existing, within the meaning of the definition of "Parent Corporation" provided in Code section 424(e), or any successor to such definition.
- 2.12. Participant means any person to whom any Award is granted pursuant to the Plan.

2.13. Performance Goals means any one or more of the following performance criteria, either individually, alternatively or in any combination, and subject to such modifications or variations as specified by the Administrator, applied to either the Corporation as a whole or to a business unit or Subsidiary, either individually, alternatively or in any combination, and measured over a period of time including any portion of a year, annually or cumulatively over a period of years, on an absolute basis or relative to a pre-established target, to previous years' results or to a designated comparison group, in each case as specified by the Administrator: cash flow; cash flow from operations; earnings (including, but not limited to, earnings before interest, taxes, depreciation and amortization); earnings per share, diluted or basic; earnings per share from continuing operations; net asset turnover; inventory turnover; capital expenditures; debt; debt reduction; working capital; return on investment; return on sales; net or gross sales; market share; economic value added; cost of capital; change in assets; expense reduction levels; productivity; delivery performance; safety record; stock price; return on equity; total stockholder return; return on capital; return on assets or net assets; revenue; income or net income; operating income or net operating income; operating profit or net operating profit; gross margin, operating margin or profit margin; and completion of acquisitions, business expansion, product diversification, new or expanded market penetration and other non-financial operating and management performance objectives. To the extent consistent with Code section 162(m) and the regulations promulgated thereunder and unless otherwise determined by the Administrator at the time the Performance Goals are established, the Administrator shall, in applying the Performance Goals, exclude the adverse affect of any of the following events that occur during a performance period: the impairment of tangible or intangible assets; litigation or claim judgments or settlements; changes in tax law, accounting principles or other such laws or provisions affecting reported results; business combinations, reorganizations and/or restructuring programs that have been approved by the Board; reductions in force and early retirement incentives; and any extraordinary, unusual, infrequent or non-recurring items separately identified in the financial statements and/or notes thereto in accordance with generally accepted accounting principles.

2.14. Restricted Stock Award means any Award of shares of restricted Stock granted pursuant to Article VII of the Plan.

2.15. SAR means a stock appreciation right, as awarded under Article VI.

2.16. Stock means the voting common stock of the Corporation, subject to adjustments pursuant to the Plan.

2.17. Stock Unit means credits to a bookkeeping reserve account solely for accounting purposes, where the amount of the credit shall equal the Fair Market Value of a share of Stock on the Grant Date (unless the Administrator provides otherwise in the Grant Agreement) and which shall be subsequently increased or decreased to reflect the Fair Market Value of a share of Stock. Stock Units do not require segregation of any of the Corporation's assets. Stock Units are awarded under Article VII.

2.18. Subsidiary means any corporation or other entity (other than the Corporation) in any unbroken chain of corporations or other entities, beginning with the Corporation, if each of the corporations or entities (other than the last corporation or entity in the unbroken chain) owns stock or other interests possessing 50% or more of the economic interest or the total combined voting power of all classes of stock or other interests in one of the other corporations or entities in the chain.

ARTICLE III

Administration

3.1. General. The Plan shall be administered by the Administrator. The Administrator's determinations under the Plan (including without limitation determinations of the persons to receive Awards, the form, amount and timing of such Awards, the terms and provisions of such Awards and the agreements evidencing same) need not be uniform and may be made by the Administrator selectively among persons who receive, or are eligible to receive, Awards under the Plan, whether or not such persons are similarly situated.

3.2. Duties. The Administrator shall have full power and authority to administer and interpret the Plan and to adopt such rules, regulations, agreements, guidelines and instruments for the administration of the Plan and for the conduct of its business as the Administrator deems necessary or advisable, all within the Administrator's sole and absolute discretion. The Administrator shall have full power and authority to take all other actions necessary to carry out the purpose and intent of the Plan, including, but not limited to, the authority to:

3.2.1. Construe the Plan and any Award under the Plan;

3.2.2. Subject to Section 4.1, select the persons to whom Awards may be granted and the time or times at which Awards shall be granted;

3.2.3. Determine the number of shares of Stock to be covered by or used for reference purposes for any Award;

3.2.4. Determine and modify from time to time the terms and conditions, including restrictions, of any Award (including provisions that would allow for cashless exercise of Awards and/or reduction in the exercise price of outstanding Awards) and to approve the form of written instrument evidencing Awards;

3.2.5. Accelerate the time or times at which an Award becomes vested or when an Award may be exercised or becomes payable and to waive or accelerate the lapse, in whole or in part, of any restriction or condition with respect to such Award, including, but not limited to, any restriction or condition with respect to the vesting or exercisability of an Award following a Participant's termination of employment or death;

3.2.6. Impose limitations on Awards, including limitations on transfer and repurchase provisions; and

3.2.7. Modify, extend or renew outstanding Awards, or accept the surrender of outstanding Awards and substitute new Awards.

ARTICLE IV

Eligibility and Participation

4.1. Eligibility. The persons eligible to participate in the Plan are officers, directors, employees of the Corporation or its Subsidiaries and others who render services to the Corporation or its subsidiaries.

ARTICLE V

Stock Options

5.1. General. Subject to the other applicable provisions of the Plan, the Administrator may from time to time grant to eligible Participants Awards of ISOs or NSOs. The ISO or NSO Awards granted shall be subject to the following terms and conditions.

5.2. Grant of Option. The grant of an Option shall be evidenced by a Grant Agreement, executed by the Corporation and the Participant, describing the number of shares of Stock subject to the Option, whether the Option is an ISO or NSO, the Exercise Price of the Option, the vesting period for the Option and such other terms and conditions that the Administrator deems, in its sole discretion, to be appropriate, provided that such terms and conditions are not inconsistent with the Plan.

5.3. Exercise Price. The price per share payable upon the exercise of each Option (the "Exercise Price") shall be determined by the Administrator and set forth in the Grant Agreement; provided, however, that in the case of ISOs the Exercise Price shall not be less than 100% of the Fair Market Value of the shares on the Grant Date. Notwithstanding the immediately preceding sentence, the Exercise Price of any ISO granted to a Participant who owns, within the meaning of Code section 422(b)(6), after application of the attribution rules in Code section 424(d), more than ten percent (10%) of the total combined voting power of all classes of shares of the Corporation, or Subsidiary corporations, shall not be less than 110% of the Fair Market Value of the Stock on the Grant Date

5.4 Payment for shares of Stock upon exercise of an Option, the full payment of the Exercise Price shall be made:

(i) in cash or

(ii) with the consent of the Administrator and to the extent permitted by it:

- (A) with Stock of the Corporation valued at Fair Market Value on date of exercise;
- (B) with a full recourse interest bearing promissory note of the Participant secured by a pledge of the shares of Stock received upon exercise of such Options, and having such other terms and conditions as determined by the Administrator;
- (C) by delivering a properly executed exercise notice together with irrevocable instructions to a broker to sell shares acquired upon exercise of the Option and promptly deliver to the Corporation a portion of the proceeds thereof equal to the Exercise Price; or
- (D) any combination or any of the foregoing.

5.4. Payment. Options may be exercised in whole or in part by payment of the Exercise Price of the shares to be acquired in accordance with the provisions of the Grant Agreement, and/or such rules and regulations as the Administrator may prescribe, and/or such determinations, orders, or decisions as the Administrator may make.

5.5. Terms of Options. The term during which each Option may be exercised shall be determined by the Administrator; provided, however, that in no event shall an ISO be exercisable more than ten years from the date it is granted.

5.6. Reload Options. The terms of an Option may provide for the automatic grant of a new Option Award when the Exercise Price of the Option and/or any related tax withholding obligation is paid by tendering shares of Stock.

5.7. Restrictions on ISOs. ISO Awards granted under the Plan shall comply in all respects with Code section 422 and, as such, shall meet the following additional requirements:

5.7.1. Grant Date. An ISO must be granted within ten (10) years of the earlier of the Plan's adoption by the Board of Directors or approval by the Corporation's shareholders but will be an NSO and not an ISO if the Plan is not approved by shareholders within twelve months from the grant of the option.

5.7.2. Term. The term of an ISO shall not exceed ten (10) years. Notwithstanding the immediately preceding sentence, the term of any ISO granted to a Participant who owns, within the meaning of Code section 422(b)(6), after application of the attribution rules in Code section 424(d), more than ten percent (10%) of the total combined voting power of all classes of shares of the Corporation, or Subsidiary corporations, shall not exceed five (5) years.

5.7.3. Maximum Grant. The aggregate Fair Market Value (determined as of the Grant Date) of shares of Stock with respect to which all ISOs first become exercisable by any Participant in any calendar year under this or any other plan of the Corporation and Subsidiary corporations may not exceed \$100,000 or such other amount as may be permitted from time to time under Code section 422. To the extent that such aggregate Fair Market Value shall exceed \$100,000, or other applicable amount, such Options shall be treated as NSOs. In such case, the Corporation may designate the shares of Stock that are to be treated as stock acquired pursuant to the exercise of an ISO by issuing a separate certificate for such shares and identifying the certificate as ISO shares in the stock transfer records of the Corporation.

5.7.4. Participant. ISOs shall only be issued to employees of the Corporation, or Subsidiary of the Corporation.

5.7.5. Tandem Options Prohibited. An ISO may not be granted in tandem with a NSO in such a manner that the exercise of one affects a Participant's right to exercise the other.

5.7.6. Designation. No option shall be an ISO unless so designated by the Administrator at the time of grant or in the Grant Agreement evidencing such Option.

5.7.7. Period of Exercise. Any Option which is an ISO shall in all events lapse unless exercised by the Participant:

(i) prior to the 89th day after the date on which employment terminated, if termination was other than by reason of death; and

(ii) within a twelve-month period next succeeding the death of the Participant if termination is by reason of death.

5.8. Exercisability. Options shall be exercisable as provided in the Grant Agreement.

5.9. Transferability. ISOs shall be non-transferable. Except as provided in the Grant Agreement, NSOs shall not be assignable or transferable by the Participant, except by will, or by the laws of descent and distribution.

5.10 Code Section 162(m). With respect to any Options intended to qualify as "performance-based compensation" under Code section 162(m), this Article V (including the substance of the Performance Goals, the timing of establishment of the Performance Goals, the adjustment of the Performance Goals and determination of the Award) shall be implemented by the Administrator in a manner designed to preserve such Awards as such "performance-based compensation."

ARTICLE VI

Stock Appreciation Rights

- 6.1. Award of SARs. Subject to the other applicable provisions of the Plan, the Administrator may at any time and from time to time grant SARs to eligible Participants, either on a free-standing basis (without regard to or in addition to the grant of an Option) or on a tandem basis (related to the grant of an underlying Option).
- 6.2. Restrictions on Tandem SARs. ISOs may not be surrendered in connection with the exercise of a tandem SAR unless the Fair Market Value of the Stock subject to the ISO is greater than the Exercise Price for such ISO. SARs granted in tandem with Options shall be exercisable only to the same extent and subject to the same conditions as the related Options are exercisable. The Administrator may, in its discretion, prescribe additional conditions to the exercise of any such tandem SAR.
- 6.3. Base Price. The base price per share of each SAR (the "Base Price") shall be determined by the Administrator and set forth in the Grant Agreement.
- 6.3. Amount of Payment Upon Exercise of SARs. A SAR shall entitle the Participant to receive, subject to the provisions of the Plan and the Grant Agreement, a payment having an aggregate value equal to the product of (i) the excess of (A) the Fair Market Value on the exercise date of one share of Stock over (B) the Base Price per share specified in the Grant Agreement, times (ii) the number of shares specified by the SAR, or portion thereof, which is exercised. In the case of exercise of a tandem SAR, such payment shall be made in exchange for the surrender of the unexercised related Option (or any portions thereof which the Participant from time to time determines to surrender for this purpose).
- 6.4. Form of Payment Upon Exercise of SARs. Payment by the Corporation of the amount receivable upon any exercise of a SAR may be made by the delivery of Stock or cash, or any combination of Stock and cash, as determined in the sole discretion of the Administrator.
- 6.5. Transferability. SARs shall be transferable only as provided in the Grant Agreement.
- 6.6. Code Section 162(m). With respect to any SARs intended to qualify as "performance-based compensation" under Code section 162(m), this Article VI (including the substance of the Performance Goals, the timing of establishment of the Performance Goals, the adjustment of the Performance Goals and determination of the Award) shall be implemented by the Administrator in a manner designed to preserve such Awards as such "performance-based compensation."

ARTICLE VII

Restricted Stock and Stock Units

7.1. Grants. Subject to the other applicable provisions of the Plan, the Administrator may grant Restricted Stock or Stock Units to Participants in such amounts and for such consideration as may be required by law, as it determines. Such Awards shall be made pursuant to a Grant Agreement.

7.2. Terms and Conditions. A Restricted Stock Award entitles the recipient to acquire shares of Stock and a Stock Unit Award entitles the recipient to be paid the Fair Market Value of the Stock on the exercise date. Stock Units may be settled in Stock, cash or a combination thereof, as determined by the Administrator. Restricted Stock Awards and Stock Unit Awards are subject to vesting periods and other restrictions and conditions as the Administrator may include in the Grant Agreement.

7.3. Restricted Stock.

7.3.1. The Grant Agreement for each Restricted Stock Award shall specify the applicable restrictions on such shares of Stock, the duration of such restrictions, and the times and/or Performance Goals upon which such restrictions shall lapse with respect to all or a specified number of shares of Stock that are part of the Award. Notwithstanding the foregoing, the Administrator may reduce or shorten the duration of any restriction applicable to any shares of Stock awarded to any Participant under the Plan.

7.3.2. Share certificates with respect to restricted shares of Stock may be issued at the time of grant of the Restricted Stock Award, subject to forfeiture if the restrictions do not lapse, or upon lapse of the restrictions. If share certificates are issued at the time of grant of the Restricted Stock Award, the certificates shall bear an appropriate legend with respect to the restrictions applicable to such Restricted Stock Award (as described in Section 11.1) or, alternatively, the Participant may be required to deposit the certificates with the Corporation during the period of any restriction thereon and to execute a blank stock power or other instrument of transfer.

7.3.3. The extent of the Participant's rights as a shareholder with respect to the Restricted Stock shall be specified in the Grant Agreement.

7.4. Stock Units.

7.4.1. The grant of Stock Units shall be evidenced by a Grant Agreement that states the number of Stock Units evidenced thereby and the terms and conditions of such Stock Units, including, but not limited to, any Performance Goals, if any, that must be satisfied before a Participant earns such Stock Units.

7.4.2. Stock Units may be exercised in the manner described in the Grant Agreement.

7.4.3. The extent of the Participant's rights as a shareholder with respect to the Stock Units shall be specified in the Grant Agreement.

7.5. Transferability. Unvested Restricted Stock Awards or Stock Units may not be sold, assigned, transferred, pledged or otherwise encumbered or disposed of except as specifically provided in the Grant Agreement.

7.6 Code Section 162(m). With respect to any Restricted Stock Awards or Stock Units intended to qualify as "performance-based compensation" under Code section 162(m), this Article VII (including the substance of the Performance Goals, the timing of establishment of the Performance Goals, the adjustment of the Performance Goals and determination of the Award) shall be implemented by the Administrator in a manner designed to preserve such Awards as such "performance-based compensation."

ARTICLE VIII

8.1. Tax Withholding

8.1.1. Subject to subparagraph 8.1.2., as a condition to taking any action otherwise required under the Plan or any Grant Agreement, the Corporation shall have the right to require assurance that the Participant will remit to the Corporation when required an amount sufficient to satisfy federal, state and local tax withholding requirements. The Administrator may permit such withholding obligations to be satisfied through cash payment by the Participant, through the surrender of shares of Stock which the Participant already owns or through the surrender of shares of Stock to which the Participant is otherwise entitled under the Plan or through any other method determined by the Administrator.

8.1.2. If a Participant makes a disposition of shares of Stock acquired upon the exercise of an ISO within either two (2) years after the Option was granted or one (1) year after its exercise by the Participant, the Participant shall promptly notify the Corporation or respond to an inquiry by the Corporation concerning a disposition and the Corporation shall have the right to require the Participant to pay to the Corporation an amount sufficient to satisfy federal, state and local tax withholding requirements.

ARTICLE IX

Corporate Transactions

9.1. Adjustments Due to Special Circumstances.

9.1.1. In the event of any change in the capital structure or business of the Corporation by reason of any stock dividend or extraordinary dividend, stock split or reverse stock split, recapitalization, reorganization, merger, consolidation, split-up, combination or exchange of shares, non-cash distributions with respect to its outstanding Stock, reclassification of the Corporation's capital stock, any sale or transfer of all or part of the Corporation's assets or business, or any similar change affecting the Corporation's capital structure or business or the capital structure of any business of any subsidiary, as determined by the Administrator, if the Administrator determines that an adjustment is equitable, then the Administrator shall adjust the Plan and Awards as it deems necessary or appropriate to prevent enlargement or dilution of rights, including, without limitation, in: (i) the number of shares of Stock that can be granted or used for reference purposes pursuant to the Plan; (ii) the number and kind of shares or other securities subject to any then outstanding Awards under the Plan; and (iii) the exercise price, base price, or purchase price applicable to outstanding Awards under the Plan. The adjustment by the Administrator shall be final, binding and conclusive.

9.1.2. The Administrator may cancel outstanding Awards, but not outstanding Stock or Restricted Stock Awards, in connection with any merger, consolidation of the Corporation, or any sale or transfer of all or part of the Corporation's assets or business, or any similar event. The Administrator may determine to pay no compensation whatsoever for any canceled Awards that are not in-the-money (as hereinafter defined) or for any canceled Awards to the extent not vested. The Corporation shall provide payment in cash or other property for the in-the-money value of the vested portion of Awards that are in-the-money and that are canceled as aforesaid. Awards are "in-the-money" only to the extent of their then realizable market value, without taking into account the potential future increase in the value of the Award (whether under Black-Scholes-type formulas or otherwise). The opinion by the Administrator of the in-the-money value of any Award shall be final, binding and conclusive.

9.1.3. Any adjustment of ISOs under this Section 9.1 shall be made only to the extent not constituting a "modification" within the meaning of Code section 424(h)(3). Further, with respect to Awards intended to qualify as "performance-based compensation" under Code section 162(m), such adjustments shall be made only to the extent that the Administrator determines that such adjustments may be made without causing the Company to be denied a tax deduction on account of Code section 162(m).

9.2. Substitution of Options. In the event that, by reason of a corporate merger, consolidation, acquisition of property or stock, separation, reorganization or liquidation, the Board shall authorize the issuance or assumption of a stock option or stock options in a transaction to which Code section 424(a) applies, then, notwithstanding any other provision of the Plan, the Administrator may grant options upon such terms and conditions as it may deem appropriate for the purpose of assumption of the old option, or substitution of a new option for the old option, in conformity with the provisions of Code section 424(a) and the rules and regulations thereunder, as they may be amended from time to time.

ARTICLE X

Amendment and Termination

Amendment and Termination. The Board may amend, alter, suspend, discontinue, or terminate the Plan or any portion thereof at any time; provided that no such amendment, alteration, suspension, discontinuation or termination shall be made without shareholder approval if such approval is necessary to comply with any tax or regulatory requirement applicable to the Plan (including as necessary to prevent the Corporation from being denied a tax deduction on account of Code section 162(m)); and provided further that any such amendment, alteration, suspension, discontinuance or termination that would impair the rights of any Participant or any holder or beneficiary of any Award theretofore granted shall not to that extent be effective without the consent of the affected Participant, holder or beneficiary.

ARTICLE XI

Miscellaneous

11.1. Restrictive Legends. The Corporation may at any time place legends referencing any restrictions described in the Grant Agreement and any applicable federal or state securities law restrictions on all certificates representing shares of Stock underlying an Award.

11.2. Compliance with Governmental Regulations. Notwithstanding any provision of the Plan or the terms of any Grant Agreement entered into pursuant to the Plan, the Corporation shall not be required to issue any shares hereunder prior to registration of the shares subject to the Plan under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, if such registration shall be necessary, or before compliance by the Corporation or any Participant with any other provisions of either of those acts or of regulations or rulings of the Securities and Exchange Commission thereunder, or before compliance with other federal and state laws and regulations and rulings thereunder, including the rules of any applicable securities exchange or quotation system.

11.3. No Guarantee of Employment. Participation in this Plan shall not be construed to confer upon any Participant the legal right to be retained in the employ of the Corporation or give any person any right to any payment whatsoever, except to the extent of the benefits provided for hereunder.

11.4. Governing Law. The provisions of this Plan shall be governed by, construed and administered in accordance with applicable federal law; provided, however, that to the extent not in conflict with federal law, this Plan shall be governed by, construed and administered under the laws of New York, other than its laws respecting choice of law.

11.5. Severability. If any provision of the Plan shall be held invalid, the remainder of this Plan shall not be affected thereby and the remainder of the Plan shall continue in force.

CERTIFICATION

I, William Pagano, Chief Executive Officer of Colonial Commercial Corp., certify that:

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

Date: November 13, 2006

/s/ William Pagano

William Pagano

Chief Executive Officer

CERTIFICATION

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

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

Date: November 13, 2006

/s/ William Salek

William Salek
Chief Financial Officer

CERTIFICATION PURSUANT TO

SECTION 906 OF THE SARBANES–OXLEY ACT OF 2002

In connection with the quarterly report on Form 10–Q of Colonial Commercial Corp. (the “Company”) for the quarter ended September 30, 2006 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, William Pagano, Chief Executive Officer of the Company, certify, pursuant to section 18 U.S.C. 1350 as adopted pursuant to section 906 of the Sarbanes–Oxley Act of 2002, that:

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

By: /s/ William Pagano

Name: William Pagano

Chief Executive Officer

Date: November 13, 2006

CERTIFICATION PURSUANT TO

SECTION 906 OF THE SARBANES–OXLEY ACT OF 2002

In connection with the quarterly report on Form 10–Q of Colonial Commercial Corp. (the “Company”) for the quarter ended September 30, 2006 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, William Salek, Chief Financial Officer of the Company, certify, pursuant to section 18 U.S.C. 1350 as adopted pursuant to section 906 of the Sarbanes–Oxley Act of 2002, that:

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

By: /s/ William Salek

Name: William Salek

Chief Financial Officer

Date: November 13, 2006