

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

FORM 10-Q

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

For the quarterly period ended **September 30, 2009**

OR

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

For the transition period from _____ to _____

Commission file number: **1-6663**

COLONIAL COMMERCIAL CORP.

(Exact name of registrant as specified in its charter)

New York

(State or other jurisdiction of
incorporation or organization)

11-2037182

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

275 Wagaraw Road, Hawthorne, New Jersey

(Address of principal executive offices)

07506

(Zip Code)

973-427-8224

(Registrant's telephone number, including area code)

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

Yes No

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

Yes No

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

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

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

Yes No

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

Class	Outstanding at November 1, 2009
Common Stock, \$.05 par value per share	4,654,953 shares
Convertible Preferred Stock, \$.05 par value per share	293,057 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, 2009	December 31, 2008
	(unaudited)	
Assets		
Current assets:		
Cash	\$ 608,346	\$ 417,387
Restricted cash	446,033	
Accounts receivable, net of allowance for doubtful accounts of \$565,272 in 2009 and \$472,526 in 2008	10,348,515	8,802,631
Inventory	14,521,518	13,706,594
Prepaid expenses and other current assets	1,185,705	1,090,634
Deferred tax asset - current portion	15,000	170,000
Total current assets	<u>27,125,117</u>	<u>24,187,246</u>
Property and equipment	1,449,294	1,684,932
Goodwill	1,628,133	1,628,133
Other intangibles	3,333	329,485
Other assets - noncurrent	231,033	159,801
Deferred tax asset - noncurrent	515,000	830,000
	<u>\$ 30,951,910</u>	<u>\$ 28,819,597</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Trade payables	\$ 9,004,905	\$ 7,019,742
Accrued liabilities	1,771,678	1,467,244
Income taxes payable	-	558
Borrowings under credit facility - revolving credit	15,155,625	13,163,864
Convertible notes payable, includes related party notes of \$200,000 in 2009 and \$62,500 in 2008	200,000	137,500
Notes payable - current portion; includes related party notes of \$829,207 in 2009 and \$30,000 in 2008	920,715	171,044
Total current liabilities	<u>27,052,923</u>	<u>21,959,952</u>
Convertible notes payable, includes related party notes of \$0 in 2009 and \$200,000 in 2008	-	200,000
Notes payable, excluding current portion; includes related party notes of \$297,025 in 2009 and \$750,000 in 2008	441,920	875,246
Total liabilities	<u>27,494,843</u>	<u>23,035,198</u>
Commitments and contingencies		
Stockholders' equity:		
Redeemable convertible preferred stock, \$.05 par value, 2,500,000 shares authorized, 318,882 shares issued and outstanding in 2009 and 447,891 shares issued and outstanding in 2008, liquidation preference of \$1,594,410 in 2009 and a liquidation preference of \$2,239,455 in 2008	15,944	22,395
Common stock, \$.05 par value, 20,000,000 shares authorized, 4,654,953 shares issued and outstanding in 2009 and 2008	232,747	232,747
Additional paid-in capital	10,662,752	10,797,534
Accumulated deficit	(7,454,376)	(5,268,277)
Total stockholders' equity	<u>3,457,067</u>	<u>5,784,399</u>
	<u>\$ 30,951,910</u>	<u>\$ 28,819,597</u>

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

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

	For The Three Months Ended September 30,		For The Nine Months Ended September 30,	
	2009	2008	2009	2008
Sales	\$ 21,764,171	\$ 22,862,364	\$ 57,581,457	\$ 65,106,677
Cost of sales	<u>16,043,828</u>	<u>16,247,047</u>	<u>42,184,382</u>	<u>46,192,161</u>
Gross profit	5,720,343	6,615,317	15,397,075	18,914,516
Selling, general and administrative expenses, net	5,323,678	5,988,272	16,444,564	18,621,719
Impairment of Other Intangibles	-	-	<u>309,900</u>	-
Operating income (loss)	<u>396,665</u>	<u>627,045</u>	<u>(1,357,389)</u>	<u>292,797</u>
Other income	56,569	59,820	158,751	218,418
Interest expense, net; includes related party interest of \$17,749 and \$17,274 for the three months ended September 30, 2009 and 2008, respectively, and \$46,446 and \$57,397 for the nine months ended September 30, 2009 and 2008, respectively.	<u>(163,665)</u>	<u>(270,232)</u>	<u>(478,913)</u>	<u>(931,500)</u>
Income (loss) before income tax expense	289,569	416,633	(1,677,551)	(420,285)
Income tax expense	<u>490,189</u>	<u>341,404</u>	<u>508,548</u>	<u>363,681</u>
Net (loss) income	<u>\$ (200,620)</u>	<u>\$ 75,229</u>	<u>\$ (2,186,099)</u>	<u>\$ (783,966)</u>
(Loss) income per common share:				
Basic	<u>\$ (0.04)</u>	<u>\$ 0.01</u>	<u>\$ (0.47)</u>	<u>\$ (0.17)</u>
Diluted	<u>\$ (0.04)</u>	<u>\$ 0.01</u>	<u>\$ (0.47)</u>	<u>\$ (0.17)</u>
Weighted average shares outstanding:				
Basic	<u>4,654,953</u>	<u>5,105,030</u>	<u>4,654,953</u>	<u>4,647,640</u>
Diluted	<u>4,654,953</u>	<u>5,120,559</u>	<u>4,654,953</u>	<u>4,647,640</u>

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

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

	For Nine Months Ended	
	September 30,	
	2009	2008
Cash flows from operating activities:		
Net loss	\$ (2,186,099)	\$ (783,966)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Deferred tax expense	470,000	308,500
Stock-based compensation	20,029	20,029
Provision for doubtful accounts	364,028	576,783
Depreciation	389,668	476,431
Net gain on sale of fixed assets	(2,328)	-
Amortization of intangibles	16,252	27,807
Accretion of debt discount	-	43,269
Impairment of other intangibles	309,900	-
Changes in operating assets and liabilities		
Accounts receivable	(1,909,912)	719,592
Inventory	(814,924)	1,239,455
Prepaid expenses and other current assets	(95,071)	53,012
Other assets - noncurrent	(71,232)	37,209
Trade payables	1,985,163	359,167
Accrued liabilities	143,173	135,967
Income taxes payable	(558)	(1,188)
Net cash (used in) provided by operating activities	(1,381,911)	3,212,067
Cash flows from investing activities:		
Additions to property and equipment	(152,046)	(392,394)
Proceeds from disposal of property and equipment	20,215	-
Net cash used in investing activities	(131,831)	(392,394)
Cash flows from financing activities:		
Repayments of notes payable: includes related party repayments of \$92,500 in 2009 and \$0 in 2008	(264,758)	(259,810)
Issuance of notes payable in connection with financing tender offer	446,033	-
Restricted cash in connection with tender offer	(446,033)	-
Repayment of notes payable in connection with financing tender offer; includes related party repayments of \$19,802 in 2009 and \$0 in 2008	(22,302)	-
Borrowings (Repayments) under credit facility - revolving credit	1,991,761	(2,448,949)
Net cash provided by (used in) financing activities	1,704,701	(2,708,759)
Increase in cash	190,959	110,914
Cash - beginning of period	417,387	622,723
Cash - end of period	\$ 608,346	\$ 733,637

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

COLONIAL COMMERCIAL CORP. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

September 30, 2009

(Unaudited)

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

The condensed consolidated financial statements of Colonial Commercial Corp. and subsidiaries (the "Company") included herein have been prepared by the Company and are unaudited; however, such information reflects all adjustments (consisting solely of normal recurring adjustments), which are, in the opinion of management, necessary for a fair presentation of the financial position, results of operations, and cash flows for the interim periods to which the report relates. The results of operations for the period ended September 30, 2009 is not necessarily indicative of the operating results that may be achieved for the full year.

The financial statements have been prepared on a going concern basis. The Company has incurred a net loss of \$200,620 for the quarter ended September 30, 2009, a net loss of \$2,186,099 for the nine months ended September 30, 2009, and a net loss of \$1,008,140 for the year ended December 31, 2008. The Company's credit facility provides that financial covenants are to be determined on an annual basis by agreement between the Company and its lender. The Company and its lender have agreed on financial covenants for the period through December 31, 2009. The Company was in default of its quarterly net income, quarterly cash flow and quarterly tangible net worth covenants for the quarter ended September 30, 2009. Pursuant to a Third Amendment to the Credit and Security Agreement dated November 12, 2009, the lender has waived this event of default for a fee of \$60,000. The Third Amendment also amended the Credit and Security Agreement to provide that effective October 1, 2009 the interest rate has been increased to prime plus 1.25% and to terminate the Company's option to convert the interest rate on up to 75% of the credit facility's outstanding balance to 2½% over LIBOR.

The continuation of the credit agreement is conditioned on the Company and the lender reaching agreement on financial covenants and the Company achieving those covenants in the future. While the Company and the lender have reached mutually agreeable covenants in the past, there can be no assurance that they will be able to do so in the future. If these agreements are not reached, or the Company fails to achieve the agreed upon covenants, the lender may exercise its rights under the credit agreement which may include terminating the credit agreement and demanding repayment of the Company's outstanding borrowings. This condition indicates that the Company may be unable to continue as a going concern. In response to such an event, the Company would pursue alternative financing arrangements but there can be no assurance that such financing may be available on acceptable terms, or at all. The accompanying financial statements do not include any adjustments that might be necessary as a result of the outcome of such uncertainty.

Certain information and footnote disclosures, normally included in consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America, have been condensed or omitted as permitted by the interim reporting requirements of the Securities and Exchange Commission. It is suggested that these condensed consolidated financial statements be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Form 10-K for the year ended December 31, 2008.

We have only one operating segment.

Inventory is comprised of finished goods.

2. Stock Options

The Company recognizes equity based compensation expense in accordance with standards that require an entity to measure the cost of employee services received in exchange for an award of equity instruments based on the grant date fair value of the award.

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

The following table summarizes information about stock options at September 30, 2009:

Options Outstanding and Exercisable				
<u>Range of Exercise Prices</u>	<u>Shares</u>	<u>Weighted Average Remaining Contractual Life</u>	<u>Weighted Average Exercise Price</u>	<u>Aggregate Intrinsic Value</u>
\$ 1.85	60,000	7.19	\$1.85	\$ 0
Options Outstanding and Non-exercisable				
\$1.85	15,000	7.19	\$1.85	\$ 0

There were no stock options granted during the nine months ended September 30, 2009 and 2008. For each of the quarters ended September 30, 2009 and 2008, the amount of stock based compensation was \$6,676. For each of the nine months ended September 30, 2009 and 2008, the amount of stock based compensation was \$20,029.

3. Equity Transactions

During the quarter and nine months ended September 30, 2009 no shares of convertible preferred stock were converted into common stock.

During the quarter ended September 30, 2008 no shares of convertible preferred stock were converted into common stock. During the nine months ended September 30, 2008 17,423 shares of convertible preferred stock were converted into common stock, which includes 998 shares converted by William Pagano, Chief Executive Officer of the Company.

No stock options were exercised during the quarters and nine months ended September 30, 2009 and 2008.

On August 20, 2009, the Company offered to purchase any and all shares of its convertible preferred stock at \$1.25 per share. The purpose of this tender offer was to reduce the number of holders of record of convertible preferred stock in order to permit the Company to deregister the convertible preferred stock along with the common stock. Deregistration would result in the Company no longer being a Securities and Exchange Commission ("SEC") reporting company. The Company continues currently as an SEC reporting company because there are currently more than 300 holders of record of convertible preferred stock.

Through September 30, 2009, the Company accrued \$161,261 for 129,009 shares of convertible preferred stock received as of September 30, 2009 to be tendered. The Company accounted for these transactions utilizing the constructive retirement method. Subsequent to September 30, 2009, the Company received an additional 25,825 shares of convertible preferred stock to be tendered.

The tender offer was to expire on September 22, 2009; however, on September 23, 2009 the Company extended the expiration date of the tender offer to October 6, 2009 and on October 7, 2009 the Company again extended the expiration date of the tender offer to October 20, 2009. The Company retired the convertible preferred stock purchased through this tender offer.

4. Supplemental Cash Flow Information

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

	For the Nine Months Ended	
	September 30, 2009	September 30, 2008
Accrual for preferred shares purchases in the tender offer	\$ 161,261	\$ -
Cash paid during the period for:		
Interest	\$ 496,426	\$ 900,921
Income taxes	\$ 19,097	\$ 16,625

5. Net (Loss) Income Per Common Share

	For the Quarter Ended		For the Nine Months Ended	
	September 30,		September 30,	
	2009	2008	2009	2008
Net (loss) income (numerator for basic income per share)	\$(200,620)	\$ 75,229	\$(2,186,099)	\$ (783,966)
Weighted average common shares outstanding	4,654,953	4,654,953	4,654,953	4,647,640
Effect of participating securities-convertible preferred stock	-	450,077	-	-
Weighted average common shares and participating securities outstanding (denominator for basic income per share)	4,654,953	5,105,030	4,654,953	4,647,640
Effect of dilutive securities:				
Stock options	-	15,529	-	-
Weighted average common and potential common shares outstanding (denominator for diluted income per share)	4,654,953	5,120,559	4,654,953	4,647,640
Basic net (loss) income per share	<u>\$ (0.04)</u>	<u>\$ 0.01</u>	<u>\$ (0.47)</u>	<u>\$ (0.17)</u>
Diluted net (loss) income per share	<u>\$ (0.04)</u>	<u>\$ 0.01</u>	<u>\$ (0.47)</u>	<u>\$ (0.17)</u>

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

For the quarter ended September 30, 2009, preferred stock convertible into 446,489 shares of common stock and notes convertible into 66,666 shares of common stock were not included in the basic and diluted net loss per share calculation because their effect would have been anti-dilutive.

For the quarter ended September 30, 2008, the weighted average shares outstanding used for purposes of the basic net income per share calculation include the effect of the convertible preferred stock. Notes convertible into 112,499 shares of common stock are not assumed to be converted for purposes of computing diluted net income per share since the effect would be antidilutive.

For the nine months ended September 30, 2009, preferred stock convertible into 447,424 shares of common stock, notes convertible into 92,185 shares of common stock, and 2,581 stock options were not included in the basic and diluted net loss per share calculation because their effect would have been anti-dilutive.

For the nine months ended September 30, 2008, preferred stock convertible into 457,417 shares of common stock, notes convertible into 138,042 shares of common stock, and 17,065 stock options were not included in the basic and diluted net loss per share calculation because their effect would have been anti-dilutive.

6. Financing Arrangements

The Company has a secured credit facility (“Agreement”) with Wells Fargo Bank, National Association (“Wells”) in the amount of \$25 million which expires August 1, 2012. The \$25 million credit facility includes a \$1 million structural sublimit, as defined in the Agreement, payable in 24 equal monthly installments, and up to \$500,000 of seasonal over-advances. Borrowings under the credit facility are secured by substantially all the assets of the Company, as defined in the Agreement.

Availability under the credit facility was \$250,370 as of September 30, 2009 and is determined by a percentage of available assets as defined in the Agreement, less reserves.

The interest rate on the credit facility during the quarter ended September 30, 2009 was prime minus 0.25%, or 3.0%. Pursuant to a Third Amendment to the Credit and Security Agreement, dated November 12, 2009 (“Third Amendment”), effective October 1, 2009 the interest rate has been increased to prime plus 1.25% and the Company’s option to convert the interest rate on up to 75% of the credit facility’s outstanding balance to 2½% over LIBOR has been terminated. A copy of the Third Amendment is attached hereto as Exhibit 10.04.

Reserves, determined by the bank, reduce the availability of the credit facility by \$171,000. The balance outstanding under the credit facility was \$15,155,625 as of September 30, 2009.

The Company anticipates that liquidity will decline during the first several months in 2010 because of seasonal business downturns, particularly if recessionary forces do not abate. The business of the Company will be materially and adversely affected if the bank substantially reduces the amount of the credit availability under the terms of the loan or the bank demands payment of the loan and the Company is unable to refinance the loan, or if liquidity is otherwise substantially reduced. In the event that Mr. Pagano no longer performs the duties of the President of Universal or the Vice President of RAL for any reason other than death or disability, the Company will be considered in default of its credit agreement with Wells unless a waiver is obtained. The credit facility contains covenants that are determined annually and relate to the Company's quarterly net income, quarterly cash flows, quarterly tangible net worth, and annual capital expenditures. The credit facility also restricts the payment of dividends, subordinated debt and purchase of securities. The continuation of the credit facility is conditioned upon the Company and Wells reaching agreement on the covenants. While the Company and Wells have reached mutually agreeable covenants in the past, there is no assurance that they will be able to do so in the future. As of September 30, 2009, the Company was in default of its quarterly net income, quarterly cash flow and quarterly tangible net worth covenants. Pursuant to the Third Amendment, (i) the lender has waived this event of default for a fee of \$60,000; (ii) the interest rate has been increased to prime plus 1.25% effective October 1, 2009; and (iii) the Company's option to convert the interest rate on up to 75% of the credit facility's outstanding balance to 2½% over LIBOR has been terminated.

7. Other Intangible Assets

The Company assesses the realizability of long-lived assets, including intangible assets, and evaluates such assets for impairment annually, or whenever events or changes in circumstances indicate that the carrying amount of such assets (or group of assets) may not be recoverable. Impairment is determined to exist if the estimated future undiscounted cash flows are less than the asset's carrying value. Future cash flow projections include assumptions regarding future sales levels, the impact of cost reduction programs, and the level of working capital needed to support each business. The Company relies on data developed by management as well as macroeconomic data in making these calculations. There are no assurances that future cash flow assumptions will be achieved. The amount of any impairment then recognized would be calculated as the difference between the estimated fair value and the carrying value of the asset.

As a result of an assessment of S&A's business condition at the end of the quarter ended June 30, 2009, the Company recorded a non-cash charge in the amount of \$309,900 which reflects the impairment of S&A's client list and trade name estimated net book value. The Company assessed S&A's covenant not to compete and concluded that there was no impairment and the net carrying amount as of September 30, 2009 was \$3,333.

The Company has an intangible asset that is subject to amortization. Intangible assets are included in "Other intangibles" in the consolidated balance sheets.

Estimated Amortization Expense:

For the Years Ended December 31,	
2009	\$ 833
2010	2,500
	<u>\$ 3,333</u>

8. Litigation

a. Universal Supply Group, Inc.

Universal Supply Group, Inc., a wholly owned subsidiary of the Company, is a New York corporation (“Universal”). On June 25, 1999, Universal acquired substantially all of the assets of Universal Supply Group, Inc., a New Jersey corporation, including its name, pursuant to the terms of a purchase agreement. The Company filed a copy of the purchase agreement with the Securities and Exchange Commission on March 30, 1999 as Exhibit 10(g) on Form 10KSB, and the Company filed a copy of an amendment to the purchase agreement on July 9, 1999 as Exhibit 10(a)(ii) on Form 8-K. Subsequent to the 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 “Universal Predecessor.” The majority shareholders of Hilco, Inc. were John A. Hildebrandt and Paul Hildebrandt.

The Company understands that the Universal Predecessor and many other companies have been sued in the Superior Court of New Jersey (Middlesex County) by plaintiffs filing lawsuits alleging injury due to asbestos. As of September 30, 2009, there existed 15 plaintiffs in these lawsuits relating to alleged sales of asbestos products, or products containing asbestos, by the Universal Predecessor. Subsequent to September 30, 2009, 4 plaintiffs have had their actions dismissed, 1 plaintiff has had its action settled and 1 plaintiff filed an action against the Universal Predecessor, which results in 11 remaining plaintiffs in these lawsuits. The Company never sold any asbestos related products.

Of the existing plaintiffs as of September 30, 2009, 1 filed an action in 2009, 8 filed actions in 2007, 2 filed actions in 2006, 1 filed an action in 2005, 2 filed actions in 2004, and 1 filed an action in 2003. There are 195 other plaintiffs that have had their actions dismissed and 14 other plaintiffs that have settled as of September 30, 2009 for a total of \$3,359,500. There has been no judgment against the Universal Predecessor.

In the past, our Universal subsidiary was named by 36 plaintiffs; of these, 11 filed actions in 2007, 6 filed actions in 2006, 11 filed actions in 2005, 5 filed actions in 2001, 1 filed an action in 2000, and 2 filed actions in 1999. Twenty-six plaintiffs naming Universal have had their actions dismissed and, of the total \$3,359,500 of settled actions, 2 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 exist 8 plaintiffs that name Universal as of September 30, 2009.

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

Based on advice of counsel, the Company believes that none of the litigation that was brought against the Company’s Universal subsidiary through September 30, 2009 is material, and that the only material litigation that was brought against the Universal Predecessor through that date was Rhodes v. A.O. Smith Corporation, filed on April 26, 2004 in the Superior Court of New Jersey, Law Division, Middlesex County, Docket Number MID-L-2979-04AS. The Company was advised that the Rhodes case was settled for \$3,250,000 (“Settlement”) under an agreement reached in connection with a \$10,000,000 jury verdict that was rendered on August 5, 2005. The Company was not a defendant in the Rhodes case.

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

i. Indemnification

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

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

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

ii. Insurance

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

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

There are periods during the years from 1940 to 1999 in which our Universal Predecessor did not have coverage for potential asbestos claims. Subject to litigation, insurance companies may maintain that the existence of these periods' results in coverage for only a portion of a particular injury that varies with the period during which there was asbestos coverage relating to the injury, and that the balance of any settlement or judgment is to be paid by the insured. As of September 30, 2009, no insurance company has claimed any contribution for a gap in coverage except for a claim for \$160 made by one insurance company to the Universal Predecessor in 1995. The Universal Predecessor asserted that it had no obligation to pay this amount and did not make any payment.

Insurance companies have, as of September 30, 2009, defended us and the Universal Predecessor, and have paid all settlement amounts and defense costs. Except for \$160 referred to above, the insurance companies have not requested any payments from us or from the Universal Predecessor.

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

b. The RAL Supply Group, Inc.

The RAL Supply Group, Inc., a wholly owned subsidiary of the Company, is a New York corporation (“RAL”), formerly known as RAL Purchasing Corp. On September 30, 2003, RAL acquired substantially all of the assets of The RAL Supply Group, Inc., formerly known as The LAR Acquisition Corp., also a New York corporation, including its name, pursuant to the terms of a purchase agreement. The Company filed a copy of the purchase agreement (“RAL APA”) with the Securities and Exchange Commission on October 15, 2003 as Exhibit 10(a)(i) on Form 8-K. Subsequent to the sale, The RAL Supply Group, Inc. (the selling corporation) changed its name to RSG, Inc. RSG, Inc. is hereinafter referred to as the “RAL Predecessor.”

The RAL Predecessor acquired certain assets from Dyson-Kissner-Moran Corporation (“RSG Predecessor”) in 1993, prior to the RAL Predecessor’s sale of assets to RAL.

Our RAL subsidiary and other companies had been sued in the Supreme Court of New York (Orange County) by a plaintiff filing a lawsuit on or about July 30, 2008 alleging injury due to asbestos.

The RAL Predecessor agreed in the RAL APA to indemnify and hold harmless our RAL subsidiary from and against, among other things, damages that relate to products sold or manufactured or services performed or other actions taken or omitted by the RAL Predecessor prior to the closing of the acquisition. The Company cannot be certain that the indemnitor has the financial wherewithal to meet its obligations to indemnify the Company.

As of September 30, 2009, this plaintiff had its action dismissed. The lawsuit alleged injury due to asbestos during the 1970’s, prior to RAL Predecessor’s acquisition of assets from the RSG Predecessor and RAL’s acquisition of assets from the RAL Predecessor. The Company never sold any asbestos related products.

c. General

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

Since we regard as remote the potential payment of any asbestos-based claim, we have not accrued any 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.

d. Other Litigation

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

9. New Accounting Pronouncements

In September 2006, the FASB issued new accounting guidance that defines fair value, establishes a framework for measuring fair value, and expands disclosure requirements about fair value measurements. However, in February 2008, the FASB delayed the effective date of the new accounting guidance for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), until January 1, 2009. The adoption of this new accounting guidance for our nonfinancial assets and nonfinancial liabilities did not have a material impact on the Company's financial position.

In December 2007, the FASB amended its guidance on accounting for business combinations. This standard requires that entities recognize the assets acquired, liabilities assumed, contractual contingencies and contingent consideration measured at their fair value at the acquisition date for any business combination consummated after the effective date. It further requires that acquisition-related costs are to be recognized separately from the acquisition and expensed as incurred. This guidance is effective for fiscal years beginning after December 15, 2008 and will be applied prospectively for acquisitions beginning in 2009 and thereafter.

In December 2007, the FASB issued new accounting guidance related to noncontrolling interest in subsidiaries. This guidance requires that the ownership interests in subsidiaries held by parties other than the parent be clearly identified, labeled, and presented in the consolidated statement of financial position within equity, in the amount of consolidated net income attributable to the parent and to the noncontrolling interest on the face of the consolidated statement of income, and that entities provide sufficient disclosures that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. This guidance is effective for fiscal years, beginning on or after December 15, 2008 and cannot be applied earlier. The adoption of this guidance did not have a material impact on the Company's financial position.

In April 2008, the FASB issued new accounting guidance related to the determination of the useful life of intangible assets. This guidance amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset. The intent of this guidance is to improve the consistency between the useful life of a recognized intangible asset and the period of expected cash flows used to measure the fair value of the asset. This guidance was adopted as of January 1, 2009 and did not have a material impact on the Company's financial position.

In April 2009, the FASB issued new accounting and disclosure guidance related to interim disclosures about fair value of financial instruments. This guidance requires disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements and requires those disclosures in summarized financial information at interim reporting periods. This guidance was adopted as of June 1, 2009, and did not have a material impact on the Company's financial position.

In May 2009, the FASB issued new accounting and disclosure guidance for the disclosure of events that occur after the balance sheet date but before financial statements are issued. This guidance requires the Company to recognize in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the balance sheet date, including the estimates inherent in the process of preparing financial statements. This guidance became effective for the Company as of June 30, 2009. The Company has provided the required disclosures regarding subsequent events in Note 13.

In June 2009, the FASB issued new accounting guidance establishing a new hierarchy of GAAP sources for non-governmental entities under the FASB Accounting Standards Codification and will supersede all accounting standards in U.S. GAAP, aside from those issued by the Securities and Exchange Commission. This guidance is effective for all financial statements issued for the interim and annual periods ending after September 15, 2009. The adoption of this codification does not change or alter existing GAAP and, therefore, has not had any impact on the Company's financial statements.

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

- a. A subsidiary of the Company leases a warehouse and store in Wharton, New Jersey comprising of 27,000 square feet from a company owned by Mr. Paul Hildebrandt under a lease that expires in July 31, 2017. The Company paid Mr. Hildebrandt's company \$81,607 and \$60,112 during the quarters ended September 30, 2009 and 2008, respectively. The Company paid Mr. Hildebrandt's company \$198,575 and \$180,918 during the nine months ended September 30, 2009 and 2008, respectively.

On June 1, 2009 the Company paid to Mr. Hildebrandt \$25,000 as the final payment under a convertible note dated December 31, 2004 in the initial principal amount of \$150,000. William Salek, the Company's Chief Financial Officer, is the son-in-law of Mr. Hildebrandt. Mr. Hildebrandt served as a Director of the Company from July 2004 to January 2005.

- b. Pursuant to a secured note dated July 29, 2004, as amended by Amendment 1 dated March 27, 2008 and further amended by Amendment 2 dated February 12, 2009, the Company owes Goldman Associates of New York, Inc. ("Goldman Associates"), the principal amount of \$750,000 collateralized by the assets of the Company. The secured note is subordinate to the borrowings under the credit facility, bears interest at the prime rate plus 2% and is due on January 1, 2010. Michael Goldman is the Chief Executive Officer and Chairman of the Board of Goldman Associates and is Chairman of the Board of the Company.

In January 2008, the Company paid \$13,221 in premiums for Michael Goldman's COBRA health insurance for the calendar year 2008.

- c. Oscar and Jeffrey Folger, of the law firm Folger & Folger, are counsel to the Company. Rita Folger, a more than 5% shareholder of the Company, is the wife of Oscar Folger and the mother of Jeffrey Folger. Professional fees paid to Folger & Folger for the quarters ended September 30, 2009 and 2008 were \$51,745 and \$25,950, respectively. Professional fees paid to Folger & Folger for the nine months ended September 30, 2009 and 2008 were \$116,571 and \$49,637, respectively.
- d. Pioneer Realty Holdings, LLC, a New York limited liability company ("Pioneer"), is the owner of the premises located at 836 Route 9, Fishkill, New York, formerly known as 2213 Route 9, Fishkill, New York that is leased to a subsidiary of the Company under a lease that expires on March 31, 2017, subject to two five-year renewal options.

William Pagano, Chief Executive Officer and Director of the Company, has a 55% interest in Pioneer and each of Mrs. Folger and Jeffrey Folger has an 8% interest in Pioneer Realty Partners I, LLC, which has a 40% interest in Pioneer. The Company paid Pioneer Realty Holdings, LLC \$64,220 and \$63,182 during the quarters ended September 30, 2009 and 2008, respectively. The Company paid Pioneer Realty Holdings, LLC \$186,968 and \$186,104 during the nine months ended September 30, 2009 and 2008, respectively.

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

Mr. Salek and the wife of Michael Goldman were holders of convertible unsecured notes in the amounts of \$25,000 and \$12,500, respectively, issued pursuant to the terms of a private placement made on July 29, 2004. The convertible unsecured notes bore interest at 11% and were due and paid on June 1, 2009.

Interest expense on each of the notes held by Mr. Pagano and Mrs. Folger amounted to \$1,313 and \$2,750 for the quarters ended September 30, 2009 and 2008, respectively. Interest expense on the each of the notes held by Mr. Pagano and Mrs. Folger amounted to \$3,938 and \$8,250 for the nine months ended September 30, 2009 and 2008, respectively

Interest expense on the note held by Mr. Salek amounted to \$0 and \$688 for the quarters ended September 30, 2009 and 2008, respectively. Interest expense on the note held by Mr. Salek amounted to \$1,146 and \$4,125 for the nine months ended September 30, 2009 and 2008, respectively.

Interest expense on the note held by the wife of Michael Goldman amounted to \$0 and \$344 for the quarters ended September 30, 2009 and 2008, respectively. Interest expense on the note held by the wife of Michael Goldman amounted to \$573 and \$1,604 for the nine months ended September 30, 2009 and 2008, respectively.

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

Interest expense on the notes held by Mr. Hildebrandt, Goldman Associates, Mr. Pagano and Mrs. Folger amounted to \$1,200, \$2,280, \$467 and \$1,333, respectively, for the quarter and nine months ended September 30, 2009.

Subsequent to the expiration of the Company's tender offer, principal payments on the notes held by Mr. Hildebrandt, Goldman Associates, Mr. Pagano and Mrs. Folger were made using the unused portion originally obtained for the purchase of convertible preferred stock. These principal payments amounted to \$50,947, \$96,818, \$19,813 and \$56,608, respectively. As a result of these repayments, Mr. Hildebrandt, Goldman Associates, Mr. Pagano and Mrs. Folger are each holders of unsecured notes in the amounts of \$39,053, \$74,215, \$15,187 and \$43,392, respectively.

11. Income Taxes

The Company recorded a net federal tax expense of \$470,000 for the quarter and nine months ended September 30, 2009 based on the Company's evaluation of the realizability of its deferred tax asset.

The Company's income tax expense for the quarter ended September 30, 2009 was \$490,189 compared to \$341,404 for the same period in 2008. The Company records state income tax expense based on year-to-date taxable income of the Company and its subsidiaries and records federal alternative minimum tax expense as the Company utilizes its net operating loss carryforwards to offset any federal taxes due.

The Company's income tax expense for the nine months ended September 30, 2009 was \$508,548 compared to \$363,681 for the same period in 2008. The Company records state income tax expense based on year-to-date taxable income of the Company and its subsidiaries and records federal alternative minimum tax expense as the Company utilizes its net operating loss carryforwards to offset any federal taxes due.

Comparison of the Company's effective tax rate from period to period may not be consistent, as state taxes vary with the taxable income of the Company and its subsidiaries, while federal taxes are based upon the consolidation of the Company and its subsidiaries.

As of December 31, 2008, the gross deferred tax asset of \$8,492,844 was reduced by a valuation allowance in the amount of \$7,492,844, which reflected management's likelihood of utilizing the net operating losses in the future based upon projected taxable income.

At September 30, 2009, gross deferred tax assets of \$9,185,641 have been reduced by a valuation allowance in the amount of \$8,655,641. Such valuation allowance includes a reduction to the net deferred tax asset of \$470,000 for the nine months ended September 30, 2009 based on future projected taxable income and management's assessment of future utilization of net operating loss carryforwards.

12. Restricted Cash

In connection with the Company's August 20, 2009 tender offer, the Company issued \$446,033 in unsecured notes to Mr. Hildebrandt, Goldman Associates, Mr. Pagano, Mrs. Folger and a private investor in the amounts of \$90,000, \$171,033, \$35,000, \$100,000 and \$50,000, respectively. The unsecured notes bear interest at 12% and are payable in twenty equal quarterly payments beginning October 10, 2009.

The tender offer expired on October 20, 2009. An aggregate of 154,834 shares of convertible preferred stock were tendered pursuant to the tender offer. The Company accounted for these transactions utilizing the constructive retirement method and has retired the convertible preferred stock purchased through this tender offer. The Company paid an aggregate of \$193,543 to those stockholders that tendered their shares of convertible preferred stock pursuant to the tender offer.

The Company re-paid \$252,490 in principal of these notes using the unused portion of the \$446,033 originally obtained for the purchase of convertible preferred stock. These principal payments amounted to \$50,947, \$96,818, \$19,813, \$56,608 and \$28,304, respectively, and as a result, Mr. Hildebrandt, Goldman Associates, Mr. Pagano, Mrs. Folger and a private investor are each holders of unsecured notes in the amounts of \$39,053, \$74,215, \$15,187, \$43,392 and \$21,969, respectively.

13. Subsequent Events

The Company evaluated all events or transactions that occurred after September 30, 2009 up through November 13, 2009, the date the Company issued these condensed consolidated financial statements.

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

We begin Management's Discussion and Analysis of Financial Condition and Results of Operations of Colonial Commercial Corp. and subsidiaries with a discussion of our business, and other business considerations, to provide a context for understanding. This is followed by a discussion of the "Critical Accounting Policies" that we believe are important to understanding the assumptions and judgments incorporated into our reported financial results which we discuss under "Results of Operations." We then provide an analysis of cash flows, and discuss our financial commitments under "Liquidity and Capital Resources." It is suggested that Management's Discussion and Analysis of Financial Condition and Results of Operations be read in conjunction with the consolidated financial statements and notes included in the Company's Form 10-K for the year ended December 31, 2008.

Forward-Looking Statements

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

Company Overview

Colonial Commercial Corp. ("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 S&A Supply, Inc ("S&A"). We distribute heating, ventilating and air conditioning equipment (HVAC), parts and accessories, climate control systems, appliances, and plumbing and electrical fixtures and supplies, primarily in New Jersey, New York, Massachusetts and portions of eastern Pennsylvania, Connecticut and Vermont.

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

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

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

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

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

Other Business Considerations

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

Tender Offer

On August 20, 2009, the Company offered to purchase any and all shares of its convertible preferred stock at \$1.25 per share. The purpose of this tender offer was to reduce the number of holders of record of convertible preferred stock in order to permit the Company to deregister the preferred stock along with the common stock. Deregistration would result in the Company no longer being a Securities and Exchange Commission ("SEC") reporting company. There are currently 541 holders of record of convertible preferred stock. The Company continues currently as an SEC reporting company because there are currently more than 300 holders of record of convertible preferred stock.

Pursuant to the tender offer, 154,834 shares of convertible preferred stock were tendered through October 20, 2009. The Company accounted for these transactions utilizing the constructive retirement method and has retired the convertible preferred stock purchased through this tender offer.

Critical Accounting Policies

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

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

The Company maintains an allowance for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. The Company establishes and monitors the allowance for doubtful accounts based on the credit risk of specific customers, customer concentrations, historical trends and other information. The Company had accounts receivable of \$10,348,515, net of an allowance for doubtful accounts of \$565,272, as of September 30, 2009. Although the Company believes its allowance is sufficient, if the financial condition of the Company's customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances would be required.

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

Goodwill and other intangibles are reviewed at least annually for impairment. In assessing the recoverability of the Company's goodwill and other intangibles, the Company must make assumptions regarding estimated future cash flows and other factors to determine the fair value of the respective assets and liabilities of the reporting unit. Upon adoption and again as a result of the Company's annual impairment test, as of December 31, 2008 there was no indication of impairment for goodwill and other intangibles acquired in prior business combinations. If the Company's estimates or its related assumptions change, the Company may be required to record impairment charges related to its goodwill or other intangibles. As a result of an assessment of S&A's business condition at the end of the quarter ended June 30, 2009, the Company recorded a non-cash charge in the amount of \$309,900 which reflects the impairment of S&A's client list and trade name estimated net book value. Goodwill and other intangible assets amounting to \$1,628,133 and \$3,333 at September 30, 2009, respectively, consist of assets arising from acquisitions.

The Company has accounted for, and currently accounts for, income taxes in accordance with the asset and liability approach for financial accounting and reporting of income taxes. This statement establishes financial accounting and reporting standards for the effects of income taxes that result from an enterprise's activities during the current and preceding years. The realization of future tax benefits of deductible temporary differences and operating loss or tax credit carryforwards will depend on whether the Company will have sufficient taxable income of an appropriate character within the carryback and carryforward period permitted by the tax law to allow for utilization of the deductible amounts and carryforwards. Without sufficient taxable income to offset the deductible amounts and carryforwards, the related tax benefits will expire unused. The Company evaluates both positive and negative evidence in making a determination as to whether it is more likely than not that all or some portion of the deferred tax asset will not be realized. As of December 31, 2008, the gross deferred tax asset of \$8,492,844 was reduced by a valuation allowance in the amount of \$7,492,844, which reflected management's likelihood of utilizing the net operating losses in the future based upon projected taxable income.

At September 30, 2009, gross deferred tax assets of \$9,185,641 have been reduced by a valuation allowance in the amount of \$8,655,641. Such valuation allowance includes a reduction to the net deferred tax asset of \$470,000 for the nine months ended September 30, 2009 based on future projected taxable income and management's assessment of future utilization of net operating loss carryforwards.

Results of Operations

Results of Operations for the Quarters Ended September 30, 2009 and 2008

Sales decreased by 4.8%, or \$1,098,193, to \$21,764,171 for the quarter ended September 30, 2009 from \$22,862,364 for the same period in 2008. The decline reflects a general economic slowdown, as well as a decline in both residential and commercial construction and renovations.

Gross profit decreased by 13.5%, or \$894,974, to \$5,720,343 for the quarter ended September 30, 2009 from \$6,615,317 for the same period in 2008. Gross profit expressed as a percentage of sales decreased to 26.3% in 2009 compared to 28.9% for the comparable period in 2008. The decline in gross profit and the decrease in gross margins expressed as a percentage of sales were primarily caused by decreasing sales, price reductions, reduced cash discounts taken on purchases, and the results of a more competitive marketplace. 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 \$125,106 and \$134,315 for the quarters ended September 30, 2009 and 2008, respectively.

Selling, general and administrative expenses decreased by 11.1%, or \$664,594, to \$5,323,678 for the quarter ended September 30, 2009 from \$5,988,272 for the same period in 2008. The decrease in selling, general and administrative expense is primarily related to a reduction in payroll and benefit costs in the amount of \$474,474, a reduction in vehicle costs in the amount of \$54,092, a reduction in bad debt expense in the amount of \$45,449, and a reduction in depreciation and amortization in the amount of \$42,104, partially offset by costs in the amount of \$125,909 related to the Company's tender offer.

Net interest expense decreased by 39.4%, or \$106,567, to \$163,665 for the quarter ended September 30, 2009 from \$270,232 for the same period in 2008. The net interest expense decrease is primarily the result of decreased borrowings under the credit line and a decrease in the interest rate. The average interest rate on the line of credit for the quarter ended September 30, 2009 was 3.0% compared to 4.75% for the same period in 2008.

The Company's income tax expense for the quarter ended September 30, 2009 was \$490,189 compared to \$341,404 for the same period in 2008. The Company recorded a net federal tax expense of \$470,000 for the quarter ended September 30, 2009 based on the Company's evaluation of the realizability of its deferred tax asset. The Company records state income tax expense based on year-to-date taxable income of the Company and its subsidiaries and records federal alternative minimum tax expense as the Company utilizes its net operating loss carryforwards to offset any federal taxes due. Comparison of the Company's effective tax rate from period to period may not be consistent as the Company's subsidiaries file separate state tax returns and the Company files a consolidated federal return. State taxes vary with the taxable income of the Company and its separate subsidiaries, while federal taxes are based upon the consolidation of the Company and its subsidiaries.

The Company's net income decreased by \$275,849 to a net loss of \$200,620 for the quarter ended September 30, 2009, compared to a net income of \$75,229 for the same period in 2008. The decrease in net income is primarily the result of a decrease in gross margins in the amount of \$894,974, an expense based on the Company's revaluation of its deferred tax asset in the amount of \$470,000 and costs related to the Company's tender offer in the amount of \$125,909, partially offset by a decrease in selling, general and administrative expense in the amount of \$790,503, excluding tender offer expenses, and a decrease in interest expense in the amount \$106,567.

Results of Operations for the Nine Months Ended September 30, 2009 and 2008

Sales decreased by 11.6%, or \$7,525,220, to \$57,581,457 for the nine months ended September 30, 2009 from \$65,106,677 for the same period in 2008. The decline reflects a general economic slowdown, a decline in both residential and commercial construction and renovations, and a significantly cooler month of June which negatively impacted the sales of HVAC equipment.

Gross profit decreased by 18.6%, or \$3,517,441, to \$15,397,075 for the nine months ended September 30, 2009 from \$18,914,516 for the same period in 2008. Gross profit expressed as a percentage of sales decreased to 26.7% in 2009 compared to 29.1% for the comparable period in 2008. The decline in gross profit and the decrease in gross margins expressed as a percentage of sales were primarily caused by decreasing sales, price reductions, reduced cash discounts taken on purchases, and the results of a more competitive marketplace. 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 \$358,524 and \$396,825 for the nine months ended September 30, 2009 and 2008, respectively.

Selling, general and administrative expenses decreased by 11.7%, or \$2,177,155, to \$16,444,564 for the nine months ended September 30, 2009 from \$18,621,719 for the same period in 2008. The decrease in selling, general and administrative expense is primarily related to a reduction in payroll and benefit costs in the amount of \$1,507,995, a reduction in vehicle costs in the amount of \$173,024, a reduction in accounting and professional fees in the amount of \$83,859, a reduction in bad debt expense in the amount of \$212,755, and a reduction in facility costs, utilities and telephone expenses in the amount of \$104,375, partially offset by costs in the amount of \$208,311 related to the Company's tender offer.

The Company also incurred a non-cash charge to intangible assets, including customer lists and trade name of our S&A subsidiary, in the amount of \$309,900 as a result of an assessment of S&A's business condition at the end of the quarter ended June 30, 2009.

Net interest expense decreased by 48.6%, or \$452,587, to \$478,913 for the nine months ended September 30, 2009 from \$931,500 for the same period in 2008. The net interest expense decrease is primarily the result of decreased borrowings under the credit line and a decrease in the interest rate. The average interest rate on the line of credit for the nine months ended September 30, 2009 was 3.0% compared to 5.18% for the same period in 2008.

The Company's income tax expense for the nine months ended September 30, 2009 was \$508,548 compared to \$363,681 for the same period in 2008. The Company recorded a net federal tax expense of \$470,000 for the nine months ended September 30, 2009 based on the Company's revaluation of its deferred tax asset. The Company records state income tax expense based on year-to-date taxable income of the Company and its subsidiaries and records federal alternative minimum tax expense as the Company utilizes its net operating loss carryforwards to offset any federal taxes due. Comparison of the Company's effective tax rate from period to period may not be consistent as the Company's subsidiaries file separate state tax returns and the Company files a consolidated federal return. State taxes vary with the taxable income of the Company and its separate subsidiaries, while federal taxes are based upon the consolidation of the Company and its subsidiaries.

The Company's net loss increased by \$1,402,133 to \$2,186,099 for the nine months ended September 30, 2009, compared to a net loss of \$783,966 for the same period in 2008. The increase in net loss is primarily the result of a decrease in gross margins in the amount of \$3,517,441, an expense based on the Company's revaluation of its deferred tax asset in the amount of \$470,000 and costs related to the Company's tender offer in the amount of \$208,311, partially offset by a decrease in selling, general and administrative expense in the amount of \$2,385,466, excluding tender offer expenses, and a decrease in interest expense in the amount \$452,587. The Company also incurred a non-cash charge to intangible assets, including customer lists and trade name of our S&A subsidiary, in the amount of \$309,900 as a result of an assessment of S&A's business condition at the end of the quarter ended June 30, 2009.

The following table summarizes information derived from the Company's consolidated statements of operations expressed as a percentage of sales for the quarters and nine months ended September 30, 2009 and 2008.

	For the Quarter Ended September 30,		For the Nine Months Ended September 30,		
	2009	2008	2009	2008	%
Sales	100.0	100.0	100.0	100.0	%
Cost of sales	73.7	71.1	73.3	70.9	
Gross profit	26.3	28.9	26.7	29.1	
Selling, general and administrative expenses	24.5	26.2	28.6	28.6	
Impairment of other intangibles	0.0	0.0	0.5	0.0	
Operating income (loss)	1.8	2.7	(2.4)	0.5	
Other income	0.2	0.3	0.3	0.3	
Interest expense, net	(0.7)	(1.2)	(0.8)	(1.4)	
Income (loss) before taxes	1.3	1.8	(2.9)	(0.6)	
Income taxes	(2.2)	(1.5)	(0.9)	(0.6)	
Net (loss) income	(0.9) %	0.3 %	(3.8) %	(1.2) %	

The Company expects continued weakness in the construction industry for the remainder of 2009 through 2010.

Liquidity and Capital Resources

The Company has a secured credit facility (“Agreement”) with Wells Fargo Bank, National Association (“Wells”) in the amount of \$25 million which expires August 1, 2012. The \$25 million credit facility includes a \$1 million structural sublimit, as defined in the Agreement, payable in 24 equal monthly installments, and up to \$500,000 of seasonal over-advances. Borrowings under the credit facility are secured by substantially all the assets of the Company, as defined in the Agreement.

Availability under the credit facility was \$250,370 as of September 30, 2009 and is determined by a percentage of available assets as defined in the Agreement, less reserves.

The interest rate on the credit facility during the quarter ended September 30, 2009 was prime minus 0.25%, or 3.0%. Pursuant to a Third Amendment to the Credit and Security Agreement, dated November 12, 2009 (“Third Amendment”), effective October 1, 2009 the interest rate has been increased to prime plus 1.25% and the Company’s option to convert the interest rate on up to 75% of the credit facility’s outstanding balance to 2½% over LIBOR has been terminated. A copy of the Third Amendment is attached hereto as Exhibit 10.04.

Reserves, determined by the bank, reduce the availability of the credit facility by \$171,000. The balance outstanding under the credit facility was \$15,155,625 as of September 30, 2009.

During the period from January 1, 2009 to August 27, 2009, Wells made credit facility loans to the Company against inventory at 57% of eligible inventory, pursuant to the Credit and Security Agreement. On August 28, 2009, the availability rate on inventory was reduced from 57% to 55%. The availability rate on inventory was again reduced on October 12, 2009 from 55% to 54%, on October 26, 2009 from 54% to 53% and further reduced on November 2, 2009 from 53% to 52%, subject to further adjustment based on an appraisal currently being conducted. The reductions to date have reduced the Company’s liquidity by approximately \$700,000 based on the inventory available under the credit facility as of September 30, 2009. The Company anticipates that liquidity will decline during the first several months in 2010 because of seasonal business downturns, particularly if recessionary forces do not abate. The business of the Company will be materially and adversely affected if the bank substantially reduces the amount of the credit availability under the terms of the loan or the bank demands payment of the loan and the Company is unable to refinance the loan, or if liquidity is otherwise substantially reduced.

In the event that Mr. Pagano no longer performs the duties of the President of Universal or the Vice President of RAL for any reason other than death or disability, the Company will be considered in default of its credit agreement with Wells unless a waiver is obtained. The credit facility contains covenants that are determined annually and relate to the Company’s quarterly net income, quarterly cash flows, quarterly tangible net worth, and annual capital expenditures. The credit facility also restricts the payment of dividends, subordinated debt and purchase of securities. The continuation of the credit facility is conditioned upon the Company and Wells reaching agreement on the covenants. While the Company and Wells have reached mutually agreeable covenants in the past, there is no assurance that they will be able to do so in the future. As of September 30, 2009, the Company was in default of its quarterly net income, quarterly cash flow and quarterly tangible net worth covenants. Pursuant to the Third Amendment, (i) the lender has waived this event of default for a fee of \$60,000; (ii) the interest rate has been increased to prime plus 1.25% effective October 1, 2009; and (iii) the Company’s option to convert the interest rate on up to 75% of the credit facility’s outstanding balance to 2½% over LIBOR has been terminated.

As of September 30, 2009, the Company had \$608,346 in cash compared with \$417,387 at December 31, 2008.

Net cash used in operating activities was \$1,381,911 for the nine months ended September 30, 2009. The net cash used in operating activities for the 2009 period is primarily a result of a net loss of \$2,186,099 and cash used in operating assets and liabilities of \$763,361, offset by non-cash charges of \$1,567,549. The increase in accounts receivable of \$1,909,912 is primarily related to increased sales volume in September 2009 compared to December 2008. The increase in trade payables of \$1,985,163 is primarily a result of the decrease in cash availability under the credit facility, which is related to the decrease of assets available for borrowing.

Cash flows used in investing activities were \$131,831 during the nine months ended September 30, 2009, due to purchases of equipment in the amount of \$152,046, offset by proceeds from disposal of property and equipment in the amount of \$20,215.

Cash flows provided by financing activities of \$1,704,701 for the nine months ended September 30, 2009 consisted of \$1,991,761 in borrowings under the credit facility-revolving credit and the issuance of notes payable in the amount of \$446,033 related to the tender offer, offset by \$264,758 for repayments of notes payable, repayments of notes payable in the amount of \$22,302 related to the tender offer and the retirement of preferred stock in the amount of \$161,261.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not applicable.

Item 4T. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Control Over Financial Reporting

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

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

The Company's Legal Proceedings are incorporated by reference from Part I Financial Information, Item 1 Financial Statements, Note 8 Litigation, of this Report on Form 10-Q.

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

Item 5. Other Information.

As noted in the Liquidity and Capital Resources section set forth in Item 2 of Part I, titled "Management's Discussion and Analysis of Financial Condition and Results of Operations," as of September 30, 2009, the Company was in default of its quarterly net income, quarterly cash flow and quarterly tangible net worth covenants. The Company and Wells entered into a Third Amendment to the Credit and Security Agreement, dated November 12, 2009 (the "Third Amendment"). Pursuant to the Third Amendment, Wells waived this event of default for a fee of \$60,000. The Third Amendment also amended the Credit and Security Agreement to provide that effective October 1, 2009 the interest rate has been increased to prime plus 1.25% and to terminate the Company's option to convert the interest rate on up to 75% of the credit facility's outstanding balance to 2½% over LIBOR.

The description of the amendment is qualified by reference to Exhibit 10.04 attached as an exhibit hereto.

Item 6. Exhibits

<u>Exhibit No.</u>	<u>Description</u>
10.01	Credit Security Agreement dated July 28, 2004 between American/Universal Supply, Inc., The RAL Supply Group, Inc. and Universal Supply Group, Inc. to Wells Fargo Business Credit, Inc. ("Credit Security Agreement"). Incorporated herein by reference from Exhibit 10.1 to the Company's Form 10-Q filed on August 16, 2004.
10.02	First Amendment to the Credit Security Agreement. Incorporated herein by reference from Exhibit 10.02 to the Company's Form 8-K filed on June 27, 2006.
10.03	Second Amendment to the Credit Security Agreement. Incorporated herein by reference from Exhibit 10.08 to the Company's Form 8-K filed on September 14, 2007.
10.04	Third Amendment to the Credit Security Agreement, filed herewith.
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, 2009

COLONIAL COMMERCIAL CORP.

/s/ William Pagano

William Pagano,
Chief Executive Officer

/s/ William Salek

William Salek,
Chief Financial Officer

EXHIBIT 10.04

THIRD AMENDMENT, dated as of November 12, 2009 (this “Amendment”), to and under **CREDIT AND SECURITY AGREEMENT**, dated as of July 28, 2004 (as amended from time to time, the “Credit Agreement”), among **THE RAL SUPPLY GROUP, INC.**, a New York corporation (both in its original capacity as a party thereto and as successor-by-merger to American/Universal Supply, Inc., a New York corporation), **UNIVERSAL SUPPLY GROUP, INC.**, a New York corporation, and **S&A SUPPLY, INC.** (formerly known as S&A Purchasing Corp.), a New York corporation (collectively, the “Borrowers”) and **WELLS FARGO BANK, NATIONAL ASSOCIATION**, acting through its Wells Fargo Business Credit operating division, as successor to Wells Fargo Business Credit, Inc. (the “Lender”). Terms which are capitalized in this Amendment and not otherwise defined shall have the meanings ascribed to such terms in the Credit Agreement.

WHEREAS, Borrowers and Colonial have made in favor of Lender that certain Guaranty By Corporations, dated as of July 28, 2004 (as amended, modified, supplemented or restated from time to time, the “Guaranty”);

WHEREAS, based on the financial statements of Colonial and its consolidated Subsidiaries delivered to Lender pursuant to Section 6.1 of the Credit Agreement, and as acknowledged by Borrowers in the most recent Compliance Certificate delivered to Lender pursuant to Section 6.1 of the Credit Agreement, Borrowers have failed to comply with certain of the financial covenants under the Credit Agreement as follows: (i) as of September 30, 2009, Borrowers have failed to maintain the minimum Tangible Net Worth required pursuant to Section 7.18 of the Credit Agreement, (ii) for the fiscal quarter ended as of September 30, 2009, Borrowers have failed to maintain the minimum quarterly Net Income required pursuant to Section 7.19 of the Credit Agreement and (iii) for the fiscal quarter ended as of September 30, 2009, Borrowers have failed to maintain the minimum quarterly Net Cash Flow required pursuant to Section 7.20 of the Credit Agreement. These failures of the Borrowers to comply with these specified covenants under the Credit Agreement constitute Events of Default under Section 8.1(c) of the Credit Agreement (the “Designated Events of Default”).

WHEREAS, on October 29, 2009, Lender sent a formal notice of default and reservation of rights letter (the “Default Notice”) to Borrowers and also to certain “Subordinated Creditors” (as defined therein) who are party to certain respective Subordination Agreements with Lender relating to certain “Junior Indebtedness” (as defined therein) owing to such Subordinated Creditors. Under the Default Notice, inter alia, Lender gave notice to the Subordinated Creditors that the Designated Events of Default also constituted “Payment Blockage Events” under Section 3 of each of the respective Subordination Agreements, and that Lender was invoking and exercising its rights under Section 3 of each Subordination Agreement to require that no further payments of all or any portion of the Junior Indebtedness owing to any Subordinated Creditor, whether of interest, principal or otherwise, be made by Borrower or Colonial or accepted by any Subordinated Creditor until such time as the Designated Events of Default are no longer continuing.

WHEREAS, the Borrower has requested that the Lender: (a) waive the Designated Events of Default, and (b) modify certain other terms of the Credit Agreement, and the Lender has agreed to the foregoing request, on the terms and conditions set forth herein.

NOW, THEREFORE, in consideration of the mutual promises contained herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged by each party hereto, the Borrowers and the Lender hereby agree as follows:

Section One. Waivers of Designated Events of Default and Default Interest; Agreement Regarding Consultant's Report.

(a) Acknowledgement of Designated Events of Default. Borrowers hereby acknowledge, represent and warrant that, as of the date hereof immediately prior to the effectiveness of this Amendment, (x) the Designated Events of Default have occurred, have not been waived and remain outstanding and continuing under the Credit Agreement and (y) no other Default or Event of Default has occurred and is continuing which has not been waived by Lender.

(b) Waiver of Specified Events of Default. Upon the effectiveness of this Amendment as provided for in Section Five below, Lender hereby waives the Designated Events of Default as of the date hereof. Such waiver by Lender of the Designated Events of Default shall in no way be construed as an agreement to waive any other Events of Default under the Credit Agreement that may have occurred prior to the date hereof other than the Designated Events of Default, nor to waive any Events of Default arising after the date hereof, in either case whether or not any such existing or future Event of Default is of the same type and/or arises from the same or similar events or circumstances as the Designated Events of Default, including without limitation, any other Event of Default arising from a violation of any financial covenant provided for in the Credit Agreement as in effect from time to time (any such existing or future Event of Default other than the Designated Events of Default, an "Excluded Default"). Lender reserves all of its rights and remedies under the Credit Agreement and the other Loan Documents, under applicable law and at equity as to any such Excluded Default which may exist and/or may hereafter occur. The Lender shall have no obligation to grant any waivers with respect to any such existing or future Excluded Default, and the granting of the waiver of the Designated Events of Default under this Amendment shall not be construed as a course of conduct or dealing on the part of the Lender that would obligate or create any duty on the part of Lender to waive any such Excluded Default.

(c) Borrowers and Lender acknowledge and agree that (i) pursuant to the Default Notice, Lender elected to exercise the rights and remedies available to it under Section 2.7(b) of the Credit Agreement to charge interest at the Default Rate from and after October 1, 2009 until such time (if any) as Lender may, in its sole, complete and absolute discretion, notify Borrowers in writing that Designated Events of Default has been waived and (ii) as of the date hereof, in accordance with the terms and provisions of the Default Notice, Borrowers have not yet made any payments in respect of the "Default Interest Amount" (as defined in the Default Notice). In consideration of the amendments to the Credit Agreement and other agreements provided for herein, Lender hereby agrees to waive its rights to receive and be paid any of the Default Interest Amount that has accrued through the date hereof. Lender further acknowledges

that, as a result of the waiver of the Designated Events of Default provided for herein, the Default Period that commenced upon the occurrence of the Designated Events of Default has ended and interest shall no longer accrue at the Default Rate.

(d) As consideration for the waivers of the Designated Events of Default and Default Interest Amount provided for above, Borrowers hereby covenant that Borrowers shall cause Phoenix Management Services, Inc., the consulting firm retained by Borrowers, to deliver to Borrowers and to Lender a report on Borrower's business and financial condition, covering such subjects and providing analysis as to such matters as Lender may require in its sole discretion, no later than December 15, 2009. Borrowers further agree and acknowledge that any failure to fulfill their obligations under this paragraph shall result in the immediate and automatic occurrence of an Event of Default under the Credit Agreement.

(e) Lender hereby acknowledges and agrees that, as a result of the waiver of the Designated Events of Default provided for herein, the Payment Blockage Events under the Subordinated Agreements have ceased to exist and payments on the Junior Indebtedness may once again be paid by Colonial and accepted by Subordinated Creditors, in each case as and to the extent expressly permitted by the terms and conditions of the respective Subordination Agreements.

Section Two. Amendments to Credit Agreement. Effective upon satisfaction of the conditions precedent set forth in Section Four hereof, the Credit Agreement is hereby amended as follows:

(i) **Section 1.1. Definitions.** The following defined terms contained in Section 1.1 of the Credit Agreement are amended and restated as follows. Notwithstanding anything to the contrary provided for herein or in the Credit Agreement, the parties hereto expressly agree that the changes to the rates of interest applicable under the Credit Agreement resulting from these amendments shall be retroactively effective as of October 1, 2009, and that all interest with respect to the Advances outstanding from time to time from October 1, 2009 through the date hereof shall be calculated at the applicable interest rates as so calculated.

“Floating Rate” means, with respect to all Floating Rate Advances, an annual rate equal to the Prime Rate plus one and one-quarter of one percent (1.25%).

(ii) **No LIBOR Option.** Notwithstanding the waiver of the Designated Events of Default provided in this Amendment, and notwithstanding anything to the contrary provided for in the Credit Agreement, Borrower hereby agrees that from and after the effective date of this Amendment, LIBOR Advances shall not be available either as an initial revolving Advance requested and made pursuant to Section 2.1 of the Credit Agreement or as the conversion and/or continuation of an existing Advance to a LIBOR Advance under Section 2.21 of the Credit Agreement.

Section Three. Amendment Fee. In consideration for the waivers and amendments provided herein, the Borrowers shall pay to the Lender a non-refundable fee in the amount of \$60,000 (the “Amendment Fee”), which fee shall be fully earned, non-refundable, due and payable on the date hereof.

Section Four. Representations and Warranties. To induce the Lender to enter into this Amendment, each Loan Party warrants and represents to the Lender as follows:

(i) except for the representation and warranty that there has been no material adverse change in any Borrower's business, properties or condition (financial or otherwise), for which no Loan Party makes any representation or warranty in this Amendment, all of the representations and warranties contained in the Credit Agreement and each other Loan Document, in each case, after giving effect to this Amendment, continue to be true and correct in all material respects as of the date hereof, as if repeated as of the date hereof, except for such representations and warranties which, by their terms, are only made as of a previous date;

(ii) the execution, delivery and performance of this Amendment by each Borrower is within its corporate powers, has been duly authorized by all necessary corporate action on its part, and each Borrower has received all necessary consents and approvals (if any shall be required) for the execution and delivery of this Amendment;

(iii) the execution, delivery and performance by each Borrower of this Amendment, the consummation of the transactions herein contemplated and the compliance with the provisions hereof have been duly authorized by all necessary corporate action and do not and will not (i) require any consent or approval of such Borrower's stockholders; (ii) require any authorization, consent, license, permit or approval by, or registration, declaration or filing with, or notice to, any governmental department, commission, board, bureau, agency or instrumentality, domestic or foreign, or any third party, except such authorization, consent, license, permit, approval, registration, declaration, filing or notice as has been obtained, accomplished or given prior to the date hereof and such filings with the Securities and Exchange Commission as are required by applicable law; (iii) violate any provision of any law, rule or regulation (including, without limitation, Regulation X of the Board of Governors of the Federal Reserve System) or of any order, writ, injunction or decree presently in effect having applicability to such Borrower or of such Borrower's articles of incorporation or bylaws; (iv) result in a breach of or constitute a default under any indenture or loan or credit agreement or any other material agreement, lease or instrument to which such Loan Party is a party or by which it or its properties may be bound or affected; or (v) result in, or require, the creation or imposition of any Lien (other than in favor of the Lender) upon or with respect to any of the properties now owned or hereafter acquired by such Loan Party;

(iv) upon its execution, this Amendment shall constitute the legal, valid and binding obligation of each Borrower, enforceable against each Borrower in accordance with its terms; and

(v) after giving effect to the waiver of the Designated Events of Default as provided for in this Amendment above, no Default or Event of Default has occurred and is continuing;

Section Five. Conditions Precedent. This Amendment shall become effective upon the date on which all of the following events shall have occurred:

(i) the Lender shall have received this Amendment, duly executed by each Borrower and acknowledged by Colonial and William Pagano;

(ii) the Lender shall have received a certificate of the secretary or assistant secretary of each Borrower, certifying (i) as true and correct a copy of resolutions adopted by Borrower's board of directors approving and authorizing the execution, delivery and performance by such Borrower of this Amendment and of the transactions contemplated herein and therein, (ii) that there have been no amendments, supplements, or other modifications to such Borrower's articles of incorporation and bylaws since the date of the closing on the Second Amendment to the Credit Agreement between Borrowers and Lender dated September 10, 2007 and that the copies of such articles of incorporation and bylaws delivered to Lender on such date as a part of the secretary's certificates of each Borrower delivered by Borrowers on such date in connection with such closing are true, correct and complete copies of such articles of incorporation and bylaws as in full force and effect on the date hereof (or, if there have been any such amendments, supplements, or other modifications to such Borrower's articles of incorporation and bylaws since the date of such closing, attaching and certifying true, correct and complete copies of such articles of incorporation and bylaws as in full force and effect on the date hereof) and (iii) the name(s) and signature(s) of one or more officers or agents of such Borrower authorized to execute and deliver this Amendment on behalf of such Borrower pursuant to the resolutions referenced in clause (i) above; and

(iii) Lender shall have received payment of (i) the Amendment Fee and (ii) all fees, costs and expenses (including without limitation any and all legal fees and expenses) incurred by the Lender in connection with the preparation, negotiation and closing of this Amendment and the transactions contemplated to occur hereunder (collectively, the "Amendment Fees and Expenses"), and Borrowers hereby authorize Lender to charge the Borrowers' loan account with Lender with the aggregate amount of such Amendment Fees and Expenses, and requests that Lender make one or more revolving Floating Rate Advance(s) on or after the date hereof in an aggregate amount not to exceed the aggregate amount of such Amendments Fees and Expenses and that Lender disburse the proceeds of such revolving Floating Rate Advance(s) in satisfaction thereof.

Section Six. General Provisions.

(i) Except as herein expressly amended, the Credit Agreement and all of the other Loan Documents are ratified and confirmed in all respects and shall remain in full force and effect in accordance with their respective terms as so amended. Each Borrower hereby confirms its existing pledge, assignment and grant to the Lender of a security interest and a Lien upon all of the Collateral, as security for the payment and performance of all of the Obligations (including any interest accruing under the Credit Agreement from and after October 1, 2009 at the amended rate(s) provided for herein). The Borrower hereby confirms that all security interests at any time granted by it to the Lender in any and all of the Borrower's property and assets, including the

security interest and a Lien upon all of the Collateral, continue in full force and effect and secure and shall continue to secure the Obligations and the “Indebtedness” (as defined in the Guaranty) so long as any such Obligations and Indebtedness remain outstanding and that all Collateral subject thereto remain free and clear of any liens or encumbrances other than (i) those in favor of the Lender provided for under the Loan Documents, and (ii) other Permitted Liens. Nothing herein contained is intended to in any manner impair or limit the validity, priority and extent of the Lender’s existing security interest and Lien in and upon the Collateral.

(ii) All references to the Credit Agreement in the Loan Documents shall mean the Credit Agreement as amended as of the effective date hereof, and as amended hereby and as hereafter amended, supplemented and modified from time to time.

(iii) Except as expressly provided in this Amendment, the execution, delivery and effectiveness of this Amendment shall not operate as a waiver of any right, power or remedy of the Lender under the Credit Agreement or any of the other Loan Documents, nor constitute a waiver of any other provision of the Credit Agreement or any of the other Loan Documents.

(iv) This Amendment embodies the entire agreement between the parties hereto with respect to the subject matter hereof and supercedes all prior agreements, commitments, arrangements, negotiations or understandings, whether written or oral, of the parties with respect thereto.

(v) This Amendment shall be governed by and construed in accordance with the substantive laws (other than conflict laws) of the State of New York. The provisions of Section 9.15 of the Credit Agreement regarding consents to jurisdiction and venue, consents and waivers regarding service of process and waivers of rights to jury trial, of Section 9.7 of the Credit Agreement regarding costs and expenses and of Section 9.8 of the Credit Agreement regarding indemnities are incorporated herein by reference.

(vi) This Amendment shall be binding upon and inure to the benefit of each Borrower and Lender and their respective successors and assigns, except that no Borrower shall have the right to assign its rights hereunder or any interest herein without the Lender’s prior written consent.

(vii) Any provision of this Amendment which is prohibited or unenforceable shall be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof

(viii) Each Borrower hereby confirms and agrees, and represents and warrants, that all Obligations (whether representing outstanding principal, accrued and unpaid interest, accrued and unpaid fees or any other Obligations of any kind or nature) currently owing by each and all Borrowers under the Credit Agreement and the other Loan Documents, as reflected in the books and records of Lender as of the date hereof, are unconditionally owing from and payable by each and all Borrowers to Lender and that Borrowers are jointly and severally indebted to Lender with respect thereto, all without any set-off, deduction, counterclaim or defense. **Each Borrower acknowledges and agrees that it has no actual or potential claim or cause of action against Lender relating to the Credit Agreement or any Loan Document and/or the Obligations**

arising thereunder or related thereto, in any such case arising on or before the date hereof. As further consideration for Lender's agreements to grant the waivers, amendments and accommodations set forth herein, each Borrower hereby waives and releases and forever discharges Lender and each of its officers, directors, attorneys, agents, professionals and employees (the "Released Parties") from any liability, damage, claim, loss or expense of any kind that such Borrower had, may now have or may hereafter have against any one or more of the Released Parties arising out of or relating to the Loan Documents, (including this Amendment and any documents, agreements being executed in connection herewith), any and all Advances made through the date hereof, any other Obligations heretofore made and/or now outstanding under the Loan Documents, any transactions related to any of the foregoing or contemplated by the Loan Documents and/or any other action (or failure to act) taken (or, as applicable, not taken or taken only after any delay or satisfaction of any conditions) by any of the Released Parties in connection with any of the foregoing or contemplated by the Loan Documents or in connection with the negotiation or administration thereof.

Section Seven. Acknowledgement of Guarantors. By executing this Amendment, each Borrower and Colonial (by its signature below), each in its capacity as a "Guarantor" under the Guaranty, hereby acknowledges and agrees to all the terms and provisions of this Amendment, and agrees that its obligations under the Guaranty are unaffected, undiminished and unmodified hereby, and also hereby ratifies, reaffirms and restates all of the provisions, terms and conditions, covenants, representations and warranties made and all of the obligations undertaken by such Guarantor in the Guaranty. Each Guarantor further acknowledges and agrees that the foregoing acknowledgements, agreements, ratifications and reaffirmations are being given in an abundance of caution and for the avoidance of any doubt, and that nothing contained in the foregoing is intended to limit or contradict the provisions of and agreements and waivers contained in Section 7 and 8 of the Guaranty, and further that the giving by such Guarantor of the foregoing acknowledgements, agreements, ratifications and reaffirmations shall not be interpreted or construed under any circumstances as having established a course of dealing or course of conduct binding upon the Lender in the future or otherwise creating any future obligations on the Lender to obtain any similar acknowledgements, agreements, ratifications and reaffirmations in connection with any future amendments to the Credit Agreement and/or any other Loan Document.

Section Eight. Acknowledgment of Liens by Colonial. Colonial (by its signature below), in its capacity as the "Guarantor" under the General Security Agreement dated as of July 28, 2004 (as amended, modified, supplemented or restated from time to time, the "Colonial Security Agreement") by Colonial in favor of Lender and as the "Pledgor" under the Securities Pledge Agreement dated as of July 28, 2004 (as amended, modified, supplemented or restated from time to time, the "Colonial Pledge Agreement"), hereby confirms that all security interests at any time granted by it to the Lender in any and all of Colonial's property and assets, including the security interest and a Lien upon all of the "Collateral" (as defined under the Colonial Security Agreement) and the "Pledged Collateral" (as defined under the Colonial Pledge Agreement) (collectively, the "Colonial Collateral"), continue in full force and effect and secure and shall continue to secure the Obligations and the "Indebtedness" (as defined under the Guaranty) and the "Indebtedness" (as defined under the Colonial Security Agreement) so long as any such Obligations, Indebtedness and Indebtedness remain outstanding and that all Colonial

Collateral subject thereto remain free and clear of any liens or encumbrances other than (i) those in favor of the Lender provided for under the Loan Documents, and (ii) other Liens expressly permitted under the Colonial Security Agreement and the Colonial Pledge Agreement. Nothing herein contained is intended to in any manner impair or limit the validity, priority and extent of the Lender's existing security interest and Lien in and upon the Colonial Collateral.

Section Nine. Acknowledgement of Guarantors. By executing this Amendment, each Borrower and William Pagano (by his signature below), each in its/its capacity as a party (in such capacity, a "Support Party") to that certain Support Agreement dated as of July 28, 2004 (as amended, modified, supplemented or restated from time to time, the "Support Agreement") among Borrowers, Mr. Pagano and Lender, hereby acknowledges and agrees to all the terms and provisions of this Amendment, and agrees that its obligations under the Support Agreement are unaffected, undiminished and unmodified hereby, and also hereby ratifies, reaffirms and restates all of the provisions, terms and conditions, covenants, representations and warranties made and all of the obligations undertaken by such Support Party under the Support Agreement. Each Support Party further acknowledges and agrees that the foregoing acknowledgements, agreements, ratifications and reaffirmations are being given in an abundance of caution and for the avoidance of any doubt, and that nothing contained in the foregoing is intended to limit or contradict the provisions of and agreements and waivers contained in the Support Agreement, and further that the giving by such Support Party of the foregoing acknowledgements, agreements, ratifications and reaffirmations shall not be interpreted or construed under any circumstances as having established a course of dealing or course of conduct binding upon the Lender in the future or otherwise creating any future obligations on the Lender to obtain any similar acknowledgements, agreements, ratifications and reaffirmations in connection with any future amendments to the Credit Agreement and/or any other Loan Document.

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IN WITNESS WHEREOF, the Loan Parties and the Lender have signed below to indicate their agreement with the foregoing and their intent to be bound thereby.

THE RAL SUPPLY GROUP, INC.

By: /s/ William Pagano
Name: William Pagano
Title: Executive Vice President

UNIVERSAL SUPPLY GROUP, INC.

By: /s/ William Pagano
Name: William Pagano
Title: President

S&A SUPPLY, INC..

By: /s/ William Pagano
Name: William Pagano
Title: President

WELLS FARGO BANK, NATIONAL ASSOCIATION,
acting through its Wells Fargo Business Credit
operating division

By: _____
Name:
Title:

ACKNOWLEDGED AND AGREED TO:

COLONIAL COMMERCIAL CORP.

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

/s/ William Pagano
WILLIAM PAGANO

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 officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this quarterly report based on such evaluation; and
 - d. 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, 2009

/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 officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this quarterly report based on such evaluation; and
 - d. 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, 2009

/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, 2009 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, 2009

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, 2009 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, 2009