

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, 2011**

OR

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

For the transition period from _____ to _____

Commission file number: **1-6663**

COLONIAL COMMERCIAL CORP.

(Exact name of registrant as specified in its charter)

New York

(State or other jurisdiction of incorporation or organization)

11-2037182

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

275 Wagaraw Road, Hawthorne, New Jersey

(Address of principal executive offices)

07506

(Zip Code)

973-427-8224

(Registrant's telephone number, including area code)

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

Yes No

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

Yes No

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

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

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

Yes No

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

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

COLONIAL COMMERCIAL CORP. AND SUBSIDIARIES

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

COLONIAL COMMERCIAL CORP. AND SUBSIDIARIES
Condensed Consolidated Balance Sheets

	September 30, 2011 <u>(Unaudited)</u>	December 31, 2010 <u></u>
Assets		
Current assets:		
Cash	\$ 113,091	\$ 75,390
Accounts receivable, net of allowance for doubtful accounts of \$683,504 in 2011 and \$694,083 in 2010	10,723,903	9,632,829
Inventory	12,175,289	10,781,069
Prepaid expenses and other current assets	1,434,877	1,111,625
Total current assets	<u>24,447,160</u>	<u>21,600,913</u>
Property and equipment	1,023,530	1,126,810
Goodwill	1,416,929	1,416,929
Other assets - noncurrent	183,884	172,913
	<u>\$ 27,071,503</u>	<u>\$ 24,317,565</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Trade payables	\$ 6,821,476	\$ 6,513,506
Accrued liabilities	1,564,453	1,674,403
Income taxes payable	-	2,360
Borrowings under credit facility - revolving credit	11,538,411	10,770,235
Convertible notes payable-related party	200,000	-
Notes payable-current portion; includes related party notes of \$1,032,009 in 2011 and \$32,009 in 2010	1,380,590	1,094,275
Total current liabilities	<u>21,504,930</u>	<u>20,054,779</u>
Convertible notes payable, excluding current portion-related party	-	200,000
Notes payable, excluding current portion; includes related party notes of \$56,017 in 2011 and \$830,024 in 2010	1,306,148	1,686,179
Total liabilities	<u>22,811,078</u>	<u>21,940,958</u>
Commitments and contingencies (Note 7)		
Stockholders' equity:		
Redeemable convertible preferred stock, \$.05 par value, 2,500,000 shares authorized, 293,057 shares issued and outstanding in 2011 and 2010, liquidation preference of \$1,465,285 in 2011 and 2010	14,653	14,653
Common stock, \$.05 par value, 20,000,000 shares authorized, 9,154,953 and 4,654,953 shares issued and outstanding in 2011 and 2010, respectively	457,747	232,747
Additional paid-in capital	12,659,782	10,634,782
Accumulated deficit	<u>(8,871,757)</u>	<u>(8,505,575)</u>
Total stockholders' equity	<u>4,260,425</u>	<u>2,376,607</u>
	<u>\$ 27,071,503</u>	<u>\$ 24,317,565</u>

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

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

	For The Three Months Ended September 30,		For The Nine Months Ended September 30,	
	2011	2010	2011	2010
Sales	\$ 21,367,486	\$ 22,003,412	\$ 56,624,156	\$ 59,402,296
Cost of sales	15,792,324	16,089,865	41,429,239	43,559,942
Gross profit	5,575,162	5,913,547	15,194,917	15,842,354
Selling, general and administrative expenses, net	5,053,022	5,033,330	15,202,146	15,506,852
Operating income (loss)	522,140	880,217	(7,229)	335,502
Other income	56,810	82,578	198,374	212,205
Interest expense, net; includes related party interest of \$15,350 and \$16,310 for the three months ended September 30, 2011 and 2010, respectively, and \$46,769 and \$49,650 for the nine months ended September 30, 2011 and 2010, respectively	(178,422)	(257,099)	(557,327)	(704,155)
Net income (loss)	\$ 400,528	\$ 705,696	\$ (366,182)	\$ (156,448)
Income (loss) per common share:				
Basic	\$ 0.04	\$ 0.15	\$ (0.04)	\$ (0.03)
Diluted	\$ 0.04	\$ 0.14	\$ (0.04)	\$ (0.03)
Weighted average shares outstanding:				
Basic	9,154,953	4,654,953	8,179,129	4,654,953
Diluted	9,448,010	4,948,010	8,179,129	4,654,953

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,	
	2011	2010
Cash flows from operating activities:		
Net loss	\$ (366,182)	\$ (156,448)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Provision for doubtful accounts	244,449	284,503
Depreciation	277,890	337,873
Net gain on disposal of fixed assets	(644)	(6,177)
Amortization of intangibles	-	2,500
Changes in operating assets and liabilities		
Accounts receivable	(1,335,523)	(1,248,815)
Inventory	(1,394,220)	(174,228)
Prepaid expenses and other current assets	(323,252)	(294,269)
Other assets - noncurrent	(10,971)	22,275
Trade payables	307,970	2,318,766
Accrued liabilities	(109,950)	(84,246)
Income taxes payable	(2,360)	(4,374)
Net cash (used in) provided by operating activities	(2,712,793)	997,360
Cash flows from investing activities:		
Additions to property and equipment	(63,656)	(44,447)
Proceeds from disposal of property and equipment	4,383	19,200
Net cash used in investing activities	(59,273)	(25,247)
Cash flows from financing activities:		
Repayments of notes payable; includes related party repayments of \$24,007 in 2011 and 2010	(458,409)	(166,305)
Issuance of notes payable, related party	250,000	-
Issuance of common stock	2,250,000	-
Borrowings (repayments) under credit facility - revolving credit, net	768,176	(1,197,687)
Net cash provided by (used in) financing activities	2,809,767	(1,363,992)
Increase (decrease) in cash	37,701	(391,879)
Cash - beginning of period	75,390	746,629
Cash - end of period	\$ 113,091	\$ 354,750

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, 2011

(Unaudited)

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

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

While the Company incurred net losses of \$366,182 and \$156,448 for the nine months ended September 30, 2011 and 2010, respectively, the Company had net income of \$400,528 and \$705,696 for the three months ended September 30, 2011 and 2010, respectively, and a net income of \$106,398 for the year ended December 31, 2010. At September 30, 2011, the Company had an accumulated deficit of \$8,871,757, stockholders' equity of \$4,260,425 and working capital of \$2,942,230.

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

We have only one operating segment.

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

Accounting Pronouncement Not Yet Adopted:

In September 2011, the FASB issued Accounting Standards Update No. 2011-08, "Testing Goodwill for Impairment" (ASU 2011-08). Under ASU 2011-08, an entity has the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not (a likelihood of more than 50%) that the fair value of a reporting unit is less than its carrying amount. If an entity believes, as a result of its qualitative assessment that the fair value of a reporting unit is less than its carrying amount, performing the current two-step impairment test is not required. The guidance also includes a number of events and circumstances that an entity consider in conducting the qualitative assessment. ASU 2011-08 is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted, if an entity has not yet issued financial statements for the most recent annual or interim period, provided the entity has not yet performed its annual impairment test. We do not expect this guidance to have a material impact on our financial statements.

2. Stock Options

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

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

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

Options Outstanding and Exercisable

Range of Exercise Prices	Shares	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Aggregate Intrinsic Value
\$ 1.85	75,000	5.19	\$ 1.85	\$ 0

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

3. Equity Transactions

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

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

In March 2011, the Company privately placed 4,500,000 shares of common stock at \$0.50 per share for total proceeds of \$2,250,000. Of these shares, 3,000,000 shares were purchased by Goldman Associates of New York, Inc. (“Goldman Associates”), 600,000 shares were purchased by Rita Folger, 400,000 shares were purchased by Paul Hildebrandt, 200,000 shares were purchased by William Pagano and 300,000 shares were purchased by John A. Hildebrandt. Michael Goldman is the Chief Executive Officer and majority shareholder of Goldman Associates and is also Chairman of the Company. Mr. Pagano is the Chief Executive Officer of the Company.

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, 2011	September 30, 2010
Cash paid during the period for:		
Interest	\$ 549,845	\$ 781,709
Supplemental disclosure of non-cash financing activities:		
Conversion of accounts payable to notes payable	\$ -	\$ 2,000,000
Note issued for purchase of fixed assets	\$ 114,693	\$ 110,905

5. Net Income (Loss) Per Common Share

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

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

6. Financing Arrangements

On October 18, 2011, the Company and KeyBank National Association (“KeyBank”) entered into a three-year Credit and Security Agreement (the “KeyBank Agreement”) that refinanced and replaced a credit facility with Wells Fargo Bank. The Company paid off its entire loan obligation of \$11,061,843 and \$53,976 of fees and related costs to Wells Fargo Bank, and terminated its credit facility. Availability at September 30, 2011 under the Wells Fargo Bank credit facility was \$592,056.

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

The KeyBank Agreement provides for a revolving loan facility under which the Company may borrow up to the lesser of (i) \$15,000,000 or (ii) 85% of eligible accounts receivable, plus 55% (but not more than \$6,500,000) of the lower of cost or market (whichever is lower) of eligible inventory, less designated reserves. Borrowings bear interest at 2.75% above the Eurodollar rate or 0.25% above the base rate, as defined in the agreement, and are secured by a first lien on substantially all of the Company’s assets. Substantially all of the assets of the Company, as well as a pledge of the stock of Colonial Commercial Corp.’s operating subsidiaries, collateralize the loans. The facility contains covenants relating to the financial condition of the Company, its business operations, and restricts, among other things, the payment of dividends, and further restricts subject to specified exceptions, subordinated debt, purchase of securities, and the merger and sale of the Company. As of December 31, 2011, the Company must maintain a consolidated net worth of at least \$2,800,000, plus 50% of positive consolidated net earnings for the fiscal year then ended (with no deduction for losses). The Company must also maintain a fixed charge coverage ratio of 1.00 to 1.00 from October 31, 2011 through September 29, 2012 and 1.10 to 1.00 from and after September 30, 2012. The Company will be considered in default of its credit agreement with KeyBank in the event William Pagano shall cease to hold the position of Chief Executive Officer, or a similar or higher position of the Company, and the Company shall fail to hire a replacement consultant or Chief Executive Officer with technical expertise, experience and management skills, in the opinion of KeyBank, necessary for the successful management of the Company.

Goodman Company, L.P. and certain of its affiliates (“Goodman”) is a supplier to the Company. On October 14, 2011, the Company and Goodman entered into an Amendment and Restatement No. 2 that restated the payment terms to a promissory note in the initial principal amount of \$2,000,000. Amendment and Restatement No. 2 provides that from November 2011 to October 2014 the principal of \$1,299,680 of the promissory note outstanding on October 14, 2011 (balance at September 30, 2011 was \$1,320,074) is to be repaid on a five-year amortization schedule, with the balance of the promissory note to be repaid in November 2014. In connection with the KeyBank Agreement, Goodman, Universal and KeyBank entered into an Intercreditor and Lien Subordination Agreement dated as of October 18, 2011. The Intercreditor and Lien Subordination Agreement sets forth among other things the relative priorities of the security interests of KeyBank and Goodman in the assets of the Company.

In connection with the KeyBank Agreement, Goldman Associates of New York, Inc., William Pagano, Rita Folger, Paul Hildebrandt and John A. Hildebrandt, holders of promissory notes of the Company in the aggregate principal amount of \$1,049,139, entered into subordination agreements dated as of October 18, 2011 in favor of KeyBank.

7. Litigation

(a) Universal Supply Group, Inc.

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

The Company understands that the Universal Predecessor and many other companies have been sued in the Superior Court of New Jersey (Middlesex County) by plaintiffs filing lawsuits alleging injury due to asbestos. As of September 30, 2011, there existed 5 plaintiffs in these lawsuits relating to alleged sales of asbestos products, or products containing asbestos, by the Universal Predecessor. Subsequent to September 30, 2011, 1 plaintiff filed an action, which results in 6 remaining plaintiffs in these lawsuits. The Company never sold any asbestos related products.

Of the existing plaintiffs as of September 30, 2011, 1 filed an action in 2011 and 4 filed actions in 2010. There are 208 other plaintiffs that have had their actions dismissed and 17 other plaintiffs that have settled as of September 30, 2011 for a total of \$3,364,500. There has been no judgment against the Universal Predecessor.

Our Universal subsidiary was named by 37 plaintiffs; of these, 1 filed an action in 2010, 11 filed actions in 2007, 6 filed actions in 2006, 11 filed actions in 2005, 5 filed actions in 2001, 1 filed an action in 2000, and 2 filed actions in 1999. Thirty-three plaintiffs naming Universal have had their actions dismissed and, of the total \$3,364,500 of settled actions, 3 plaintiffs naming Universal have settled for \$27,500. No money was paid by Universal in connection with any settlement. Following these dismissed and settled actions there exists 1 plaintiff that named Universal as of September 30, 2011.

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

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

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

(b)(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.

(b)(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, 2011, no insurance company has claimed any contribution for a gap in coverage except for a claim for \$160 made by one insurance company to the Universal Predecessor in 1995. The Universal Predecessor asserted that it had no obligation to pay this amount and did not make any payment.

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

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

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

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

(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.

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

- (a) A subsidiary of the Company leases a warehouse and store in Wharton, New Jersey comprising of 27,000 square feet from a company owned by Mr. Paul Hildebrandt under a lease that expires on July 31, 2017. The Company paid Mr. Hildebrandt's company \$55,091 and \$54,472 during the three months ended September 30, 2011 and 2010, respectively. The Company paid Mr. Hildebrandt's company \$165,594 and \$159,604 during the nine months ended September 30, 2011 and 2010, respectively. William Salek, the Company's Chief Financial Officer, is the son-in-law of Mr. Hildebrandt. Mr. Hildebrandt served as a Director of the Company from July 2004 to January 2005.

- (b) Pursuant to a secured note dated July 29, 2004, as amended by Amendment 1 dated March 27, 2008, Amendment 2 dated February 12, 2009, Amendment 3 dated March 5, 2010, and further amended by Amendment 4 dated March 1, 2011, the Company owes Goldman Associates the principal amount of \$750,000 at September 30, 2011 collateralized by the assets of the Company. The secured note is subordinate to the borrowings under the credit facility, bears interest at the prime rate plus 2% and is due on January 1, 2012.
- (c) Oscar Folger and Jeffrey Folger, of the law firm of Folger & Folger, are counsel to the Company. Rita Folger, a more than 5% shareholder of the Company, is the wife of Oscar Folger and the mother of Jeffrey Folger. Professional fees paid to the law firm of Folger & Folger for the three months ended September 30, 2011 and 2010 were \$8,268 and \$6,121, respectively. Professional fees paid to the law firm of Folger & Folger for the nine months ended September 30, 2011 and 2010 were \$34,424 and \$17,787, respectively.
- (d) Pioneer Realty Holdings, LLC, a New York limited liability company (“Pioneer”), is the owner of the premises located at 836 Route 9, Fishkill, New York, formerly known as 2213 Route 9, Fishkill, New York that is leased to a subsidiary of the Company under a lease that expires on March 31, 2017, subject to two five-year renewal options.

William Pagano, Chief Executive Officer and Director of the Company, has a 55% interest in Pioneer and each of Mrs. Folger and Jeffrey Folger has a 20% interest in Pioneer Realty Partners I, LLC, which has a 40% interest in Pioneer. The Company paid Pioneer \$68,229 and \$66,816 during the three months ended September 30, 2011 and 2010, respectively. The Company paid Pioneer \$201,488 and \$202,266 during the nine months ended September 30, 2011 and 2010, respectively.

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

Interest expense on each of the notes held by Mr. Pagano and Mrs. Folger amounted to \$1,313 for each of the three months ended September 30, 2011 and 2010. Interest expense on each of the notes held by Mr. Pagano and Mrs. Folger amounted to \$3,938 for each of the nine months ended September 30, 2011 and 2010.

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

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

At September 30, 2011 the remaining principal on the above notes were \$20,004, \$38,015, \$7,779 and \$22,227, respectively. Interest expense on the notes held by Mr. Hildebrandt, Goldman Associates, Mr. Pagano and Mrs. Folger amounted to \$655, \$1,244, \$255 and \$727, respectively, for the three months ended September 30, 2011. Interest expense on the notes held by Mr. Hildebrandt, Goldman Associates, Mr. Pagano and Mrs. Folger amounted to \$873, \$1,659, \$339 and \$970, respectively, for the three months ended September 30, 2010.

Interest expense on the notes held by Mr. Hildebrandt, Goldman Associates, Mr. Pagano and Mrs. Folger amounted to \$2,128, \$4,043, \$828 and \$2,364, respectively, for the nine months ended September 30, 2011. Interest expense on the notes held by Mr. Hildebrandt, Goldman Associates, Mr. Pagano and Mrs. Folger amounted to \$2,782, \$5,288, \$1,082 and \$3,092, respectively, for the nine months ended September 30, 2010.

- (g) On March 1, 2011, the Company entered into agreements to privately place 4,500,000 shares of common stock at \$0.50 per share for total proceeds of \$2,250,000. The initial closing of the agreements occurred on March 1, 2011 and the final closing occurred on March 4, 2011. Of these shares, 3,000,000 shares were purchased by Goldman Associates, 600,000 shares were purchased by Rita Folger, 400,000 shares were purchased by Paul Hildebrandt and 200,000 shares were purchased by William Pagano.
- (h) On February 24, 2011, the Board of Directors of the Company appointed Melissa Goldman-Williams to serve as Vice President of Operations. Mrs. Goldman-Williams receives a salary of \$135,000 per year. Mrs. Goldman-Williams is a director of the Company and is the daughter of Michael Goldman, the Chairman of the Board of the Company.
- (i) On May 27, 2011, the Company borrowed \$200,000 from Goldman Associates, which was non-interest bearing and repaid in full on June 28, 2011.
- (j) On July 29, 2011, the Company borrowed \$250,000 from Goldman Associates. Interest accrued on the loan at a per annum rate equal to the lesser of (i) 3% plus 90-day LIBOR and (ii) 4%. Principal and interest of \$251,850 was paid in full on October 20, 2011.

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

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

Forward-Looking Statements

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

Company Overview

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

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

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

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

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

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

Other Business Considerations

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

Critical Accounting Policies

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

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

The Company maintains an allowance for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. The Company establishes and monitors the allowance for doubtful accounts based on the credit risk of specific customers, customer concentrations, historical trends and other information. The Company had accounts receivable of \$10,723,903, net of an allowance for doubtful accounts of \$683,504, as of September 30, 2011. Although the Company believes its allowance is sufficient, if the financial condition of the Company's customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances would be required.

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

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

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

Results of Operations

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

Sales decreased by 2.9%, or \$635,926, to \$21,367,486 for the three months ended September 30, 2011 from \$22,003,412 for the same period in 2010. The decrease in sales was substantially related to a continuation of the reduction in demand for heating, ventilation and air conditioning units utilized in residential new construction and the reduction of commercial hydronic and plumbing bid and specification work. Additionally, the Company was negatively impacted by the effect of a severe hurricane in late August which made access to and from the Company for our customers and suppliers very difficult for weeks, and, in some cases, certain locations were temporarily shut down.

Gross profit decreased by 5.7%, or \$338,385, to \$5,575,162 for the three months ended September 30, 2011 from \$5,913,547 for the same period in 2010. Gross profit expressed as a percentage of sales decreased to 26.1% in 2011 compared to 26.9% for the comparable period in 2010. The decline in gross profit expressed as a percentage of sales was due to the sales of our commercial equipment products selling at lower than usual margins in order to remain competitive in the market place and the effect of increased sales of the Company's retail appliances, which sell at lower margins than our normal products. 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 may include these distribution costs in the cost of sales. These distribution costs were \$115,156 and \$133,091 for the three months ended September 30, 2011 and 2010, respectively.

Selling, general and administrative expenses increased by 0.4%, or \$19,692, to \$5,053,022 for the three months ended September 30, 2011 from \$5,033,330 for the same period in 2010. The increase in selling, general and administrative expense is primarily related to a \$68,191 increase in rent related to property tax reassessments in prior years, and a \$37,297 increase in vehicle expenses, offset by a \$35,390 reduction in office expense, a \$41,850 reduction in professional fees, and an \$18,872 reduction in depreciation and amortization.

Net interest expense decreased by 30.6%, or \$78,677, to \$178,422 for the three months ended September 30, 2011 from \$257,099 for the same period in 2010. The net interest expense decrease is primarily the result of decreased interest charges related to a third party note and a reduction in the interest rate under the credit line.

The Company's net income decreased by 43.2%, or \$305,168 to \$400,528 for the three months ended September 30, 2011, compared to \$705,696 for the same period in 2010. The decrease in net income is primarily the result of the \$338,385 decrease in gross profit and \$19,692 increase in selling, general and administrative expenses, partially offset by the \$78,677 decrease in interest charges.

Results of Operations for the Nine Months Ended September 30, 2011 and 2010

Sales decreased by 4.7%, or \$2,778,140, to \$56,624,156 for the nine months ended September 30, 2011 from \$59,402,296 for the same period in 2010. The decrease in sales was substantially related to a continuation of the reduction in demand for heating, ventilation and air conditioning units utilized in residential new construction and the reduction of commercial hydronic and plumbing bid and specification work. Additionally, the Company was negatively impacted by the effect of a severe hurricane in late August which made access to and from our customers and suppliers very difficult for weeks, and, in some cases, certain locations were temporarily shut down.

Gross profit decreased by 4.1%, or \$647,437, to \$15,194,917 for the nine months ended September 30, 2011 from \$15,842,354 for the same period in 2010. Gross profit expressed as a percentage of sales of 26.8% in 2011 were substantially unchanged compared to 26.7% for the comparable period in 2010. 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 may include these distribution costs in the cost of sales. These distribution costs were \$350,744 and \$373,317 for the nine months ended September 30, 2011 and 2010, respectively.

Selling, general and administrative expenses decreased by 2.0%, or \$304,706, to \$15,202,146 for the nine months ended September 30, 2011 from \$15,506,852 for the same period in 2010. The decrease in selling, general and administrative expense is primarily related to a \$80,858 reduction in payroll costs, a \$254,464 reduction in rent, a \$62,484 reduction in depreciation and amortization, a \$40,054 reduction in bad debt expense and a \$118,461 reduction in office expense, offset by a \$51,742 increase in facility expense, a \$68,121 increase in vehicle expenses and a \$122,514 increase in professional fees related to property tax reassessments.

Net interest expense decreased by 20.9%, or \$146,828, to \$557,327 for the nine months ended September 30, 2011 from \$704,155 for the same period in 2010. The net interest expense decrease is primarily the result of a reduction in the interest rate under the credit line.

The Company's net loss increased by \$209,734 to a net loss of \$366,182 for the nine months ended September 30, 2011, compared to a net loss of \$156,448 for the same period in 2010. The increase in net loss is primarily the result of the \$647,437 decrease in gross profit, partially offset by the \$304,706 decrease in selling, general and administrative expenses and \$146,828 decrease in interest expense.

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2011	2010	2011	2010
Sales	100.0%	100.0%	100.0%	100.0%
Cost of sales	73.9	73.1	73.2	73.3
Gross profit	26.1	26.9	26.8	26.7
Selling, general and administrative expenses	23.7	22.9	26.8	26.1
Operating income (loss)	2.4	4.0	(0.0)	0.6
Other income	0.3	0.4	0.4	0.3
Interest expense, net	(0.8)	(1.2)	(1.0)	(1.2)
Net income (loss)	1.9%	3.2%	(0.6) %	(0.3) %

Liquidity and Capital Resources

See Part I Financial Information, Item 1 Financial Statements, Note 6 Financing Arrangements, of this Report on Form 10-Q for a description of the Company's secured credit facility with KeyBank, the Company's credit arrangement with Goodman, and of subordination agreements by Goodman, Goldman Associates of New York, Inc. ("Goldman Associates"), William Pagano, Rita Folger, Paul Hildebrandt and John A. Hildebrandt in favor of KeyBank.

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

On May 27, 2011, the Company borrowed \$200,000 from Goldman Associates, which was non-interest bearing and repaid in full on June 28, 2011. On July 29, 2011, the Company borrowed \$250,000 from Goldman Associates. Interest accrued on the loan at a per annum rate equal to the lesser of (i) 3% plus 90-day LIBOR and (ii) 4%. Principal and interest of \$251,850 was paid in full on October 20, 2011.

As of September 30, 2011, the Company had \$113,091 in cash compared with \$75,390 at December 31, 2010.

Net cash used in operating activities was \$2,712,793 for the nine months ended September 30, 2011. The net cash used in operating activities for the 2011 period is a result of net loss of \$366,182 and changes in operating and asset and liabilities of \$2,868,306, offset by non-cash charges of \$521,695. The increase in accounts receivable of \$1,335,523 is primarily related to the increased sales volume during the three months ended September 30, 2011 compared to the three months ended December 31, 2010. The increase in inventory of \$1,394,220 is to support the increased seasonal sales volume.

Cash flows provided by financing activities of \$2,809,767 for the nine months ended September 30, 2011 consisted of \$2,250,000 in the issuance of common stock, \$250,000 in the issuance of notes payable and \$768,176 in borrowings under the credit facility-revolving credit, offset by repayments of notes payable in the amount of \$458,409.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not applicable.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Control Over Financial Reporting

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

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

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

Item 6. Exhibits

Exhibit No. Description

[31.01](#) Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

[31.02](#) Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

[32.01](#) Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

[32.02](#) Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

101.INS* XBRL Instance Document

101.SCH* XBRL Taxonomy Extension Schema Document

101.CAL* XBRL Taxonomy Extension Calculation Linkbase Document

101.DEF* XBRL Taxonomy Extension Definition Linkbase Document

101.LAB* XBRL Taxonomy Extension Label Linkbase Document

101.PRE* XBRL Taxonomy Extension Presentation Linkbase Document

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

SIGNATURES

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

Dated: November 14, 2011

COLONIAL COMMERCIAL CORP.

/s/ William Pagano

William Pagano,
Chief Executive Officer

/s/ William Salek

William Salek,
Chief Financial Officer

CERTIFICATION

I, William Pagano, certify that:

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

Date: November 14, 2011

/s/ William Pagano
William Pagano
Chief Executive Officer

CERTIFICATION

I, William Salek, certify that:

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

Date: November 14, 2011

/s/ William Salek

William Salek

Chief Financial Officer

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

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

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

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

Date: November 14, 2011

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

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

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

By: /s/ William Salek
Name: William Salek
Chief Financial Officer

Date: November 14, 2011

Document And Entity Information

Document And Entity Information (USD \$)	9 Months Ended 09/30/2011	11/01/2011	06/30/2010
Entity Registrant Name	COLONIAL COMMERCIAL CORP		
Entity Central Index Key	0000021828		
Current Fiscal Year End Date	--12-31		
Entity Well-known Seasoned Issuer	No		
Entity Voluntary Filers	No		
Entity Current Reporting Status	Yes		
Entity Filer Category	Smaller Reporting Company		
Entity Public Float			\$ 478,331
Entity Common Stock, Shares Outstanding		9,448,010	
Document Fiscal Year Focus	2,011		
Document Fiscal Period Focus	Q3		
Document Type	10-Q		
Amendment Flag	false		
Document Period End Date	2011-09-30		

Condensed Consolidated Balance Sheets (unaudited)

Condensed Consolidated Balance Sheets (unaudited) (USD \$)	09/30/2011	12/31/2010
Assets		
Current assets:		
Cash	\$ 113,091	\$ 75,390
Accounts receivable, net of allowance for doubtful accounts of \$683,504 in 2011 and \$694,083 in 2010	10,723,903	9,632,829
Inventory	12,175,289	10,781,069
Prepaid expenses and other current assets	1,434,877	1,111,625
Total current assets	<u>24,447,160</u>	<u>21,600,913</u>
Property and equipment	1,023,530	1,126,810
Goodwill	1,416,929	1,416,929
Other assets - noncurrent	183,884	172,913
Total Assets	<u>27,071,503</u>	<u>24,317,565</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Trade payables	6,821,476	6,513,506
Accrued liabilities	1,564,453	1,674,403
Income taxes payable	0	2,360
Borrowings under credit facility - revolving credit	11,538,411	10,770,235
Convertible notes payable-related party	200,000	0
Notes payable-current portion; includes related party notes of \$1,032,009 in 2011 and \$32,009 in 2010	1,380,590	1,094,275
Total current liabilities	<u>21,504,930</u>	<u>20,054,779</u>
Convertible notes payable, excluding current portion-related party	0	200,000
Notes payable, excluding current portion; includes related party notes of \$56,017 in 2011 and \$830,024 in 2010	1,306,148	1,686,179
Total liabilities	<u>22,811,078</u>	<u>21,940,958</u>
Commitments and contingencies (Note 7)		
Stockholders' equity:		
Redeemable convertible preferred stock, \$.05 par value, 2,500,000 shares authorized, 293,057 shares issued and outstanding in 2011 and 2010, liquidation preference of \$1,465,285 in 2011 and 2010	14,653	14,653
Common stock, \$.05 par value, 20,000,000 shares authorized, 9,154,953 and 4,654,953 shares issued and outstanding in 2011 and 2010, respectively	457,747	232,747
Additional paid-in capital	12,659,782	10,634,782
Accumulated deficit	(8,871,757)	(8,505,575)
Total stockholders' equity	<u>4,260,425</u>	<u>2,376,607</u>
Total of all Liabilities and Stockholders' Equity	<u>\$ 27,071,503</u>	<u>\$ 24,317,565</u>

Condensed Consolidated Balance Sheets (Parenthetical) (unaudited)

Condensed Consolidated Balance Sheets (Parenthetical) (unaudited) (USD \$)	09/30/2011	12/31/2010
Current assets:		
Accounts receivable, net of allowance for doubtful accounts	\$ 683,504	\$ 694,083
Current liabilities:		
Notes payable-current portion; related party notes	1,032,009	32,009
Notes payable, excluding current portion; related party notes	56,017	830,024
Stockholders' equity:		
Redeemable convertible preferred stock, Par value (in dollars per share)	\$ 0.05	\$ 0.05
Redeemable convertible preferred stock, Share authorized (in shares)	2,500,000	2,500,000
Redeemable convertible preferred stock, Shares issued (in shares)	293,057	293,057
Redeemable convertible preferred stock, Shares outstanding (in shares)	293,057	293,057
Redeemable convertible preferred stock, liquidation preferences	\$ 1,465,285	\$ 1,465,285
Common stock, par value (in dollars per share)	\$ 0.05	\$ 0.05
Common stock, share authorized (in shares)	20,000,000	20,000,000
Common stock, shares issued (in shares)	9,154,953	4,654,953
Common stock, shares outstanding (in shares)	9,154,953	4,654,953

Condensed Consolidated Statements of Operations (unaudited)

Condensed Consolidated Statements of Operations (unaudited) (USD \$)	3 Months Ended 09/30/2011	3 Months Ended 09/30/2010	9 Months Ended 09/30/2011	9 Months Ended 09/30/2010
Sales	\$ 21,367,486	\$ 22,003,412	\$ 56,624,156	\$ 59,402,296
Cost of sales	15,792,324	16,089,865	41,429,239	43,559,942
Gross profit	<u>5,575,162</u>	<u>5,913,547</u>	<u>15,194,917</u>	<u>15,842,354</u>
Selling, general and administrative expenses, net	5,053,022	5,033,330	15,202,146	15,506,852
Operating income (loss)	<u>522,140</u>	<u>880,217</u>	<u>(7,229)</u>	<u>335,502</u>
Other income	56,810	82,578	198,374	212,205
Interest expense, net; includes related party interest of \$15,350 and \$16,310 for the three months ended September 30, 2011 and 2010, respectively, and \$46,769 and \$49,650 for the nine months ended September 30, 2011 and 2010, respectively	(178,422)	(257,099)	(557,327)	(704,155)
Net income (loss)	<u>\$ 400,528</u>	<u>\$ 705,696</u>	<u>\$ (366,182)</u>	<u>\$ (156,448)</u>
Income (loss) per common share:				
Basic (in dollars per share)	\$ 0.04	\$ 0.15	\$ (0.04)	\$ (0.03)
Diluted (in dollars per share)	\$ 0.04	\$ 0.14	\$ (0.04)	\$ (0.03)
Weighted average shares outstanding:				
Basic (in shares)	9,154,953	4,654,953	8,179,129	4,654,953
Diluted (in shares)	9,448,010	4,948,010	8,179,129	4,654,953

Condensed Consolidated Statements of Operations (Parenthetical) (unaudited)

Condensed Consolidated Statements of Operations (Parenthetical) (unaudited) (USD \$)	3 Months Ended 09/30/2011	3 Months Ended 09/30/2010	9 Months Ended 09/30/2011	9 Months Ended 09/30/2010
Interest expense, related party interest	\$ 15,350	\$ 16,310	\$ 46,769	\$ 49,650

Condensed Consolidated Statements of Cash Flows (unaudited)

Condensed Consolidated Statements of Cash Flows (unaudited) (USD \$)	9 Months Ended 09/30/2011	9 Months Ended 09/30/2010
Cash flows from operating activities:		
Net loss	\$ (366,182)	\$ (156,448)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Provision for doubtful accounts	244,449	284,503
Depreciation	277,890	337,873
Net gain on disposal of fixed assets	(644)	(6,177)
Amortization of intangibles	0	2,500
Changes in operating assets and liabilities		
Accounts receivable	(1,335,523)	(1,248,815)
Inventory	(1,394,220)	(174,228)
Prepaid expenses and other current assets	(323,252)	(294,269)
Other assets - noncurrent	(10,971)	22,275
Trade payables	307,970	2,318,766
Accrued liabilities	(109,950)	(84,246)
Income taxes payable	(2,360)	(4,374)
Net cash (used in) provided by operating activities	<u>(2,712,793)</u>	<u>997,360</u>
Cash flows from investing activities:		
Additions to property and equipment	(63,656)	(44,447)
Proceeds from disposal of property and equipment	4,383	19,200
Net cash used in investing activities	<u>(59,273)</u>	<u>(25,247)</u>
Cash flows from financing activities:		
Repayments of notes payable; includes related party repayments of \$24,007 in 2011 and 2010	(458,409)	(166,305)
Issuance of notes payable, related party	250,000	0
Issuance of common stock	2,250,000	0
Borrowings (repayments) under credit facility - revolving credit, net	768,176	(1,197,687)
Net cash provided by (used in) financing activities	<u>2,809,767</u>	<u>(1,363,992)</u>
Increase (decrease) in cash	<u>37,701</u>	<u>(391,879)</u>
Cash - beginning of period	75,390	746,629
Cash - end of period	\$ 113,091	\$ 354,750

Condensed Consolidated Statements of Cash Flows (Parenthetical) (unaudited)

Condensed Consolidated Statements of Cash Flows (Parenthetical) (unaudited) (USD \$)	9 Months Ended 09/30/2011	9 Months Ended 09/30/2010
Repayments of notes payable, related party repayment	\$ 24,007	\$ 24,007

Summary of Significant Accounting Policies and Practices and Basis of Presentation

Summary of Significant Accounting Policies and Practices and Basis of Presentation
(USD \$)

9 Months Ended
09/30/2011

Summary of Significant Accounting Policies and Practices and Basis of Presentation

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, 2011 is not necessarily indicative of the operating results that may be achieved for the full year.

While the Company incurred net losses of \$366,182 and \$156,448 for the nine months ended September 30, 2011 and 2010, respectively, the Company had net income of \$400,528 and \$705,696 for the three months ended September 30, 2011 and 2010, respectively, and a net income of \$106,398 for the year ended December 31, 2010. At September 30, 2011, the Company had an accumulated deficit of \$8,871,757, stockholders' equity of \$4,260,425 and working capital of \$2,942,230.

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

We have only one operating segment.

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

Accounting Pronouncement Not Yet Adopted:

In September 2011, the FASB issued Accounting Standards Update No. 2011-08, "Testing Goodwill for Impairment" (ASU 2011-08). Under ASU 2011-08, an entity has the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not (a likelihood of more than 50%) that the fair value of a reporting unit is less than its carrying amount. If an entity believes, as a result of its qualitative assessment that the fair value of a reporting unit is less than its carrying amount, performing the current two-step impairment test is not required. The guidance also includes a number of events and circumstances that an entity consider in conducting the qualitative assessment. ASU 2011-08 is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted, if an entity has not yet issued financial statements for the most recent annual or interim period, provided the entity has not yet

performed its annual impairment test. We do not expect this guidance to have a material impact on our financial statements.

Stock Options

Stock Options (USD \$)	9 Months Ended 09/30/2011
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Stock Options

2. Stock Options

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

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

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

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	75,000	5.19	\$ 1.85	\$ 0

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

Equity Transactions

Equity Transactions (USD \$)	9 Months Ended 09/30/2011
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Equity Transactions 3. Equity Transactions

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

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

In March 2011, the Company privately placed 4,500,000 shares of common stock at \$0.50 per share for total proceeds of \$2,250,000. Of these shares, 3,000,000 shares were purchased by Goldman Associates of New York, Inc. ("Goldman Associates"), 600,000 shares were purchased by Rita Folger, 400,000 shares were purchased by Paul Hildebrandt, 200,000 shares were purchased by William Pagano and 300,000 shares were purchased by John A. Hildebrandt. Michael Goldman is the Chief Executive Officer and majority shareholder of Goldman Associates and is also Chairman of the Company. Mr. Pagano is the Chief Executive Officer of the Company.

Supplemental Cash Flow Information

Supplemental Cash Flow Information (USD \$)	9 Months Ended 09/30/2011
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Supplemental Cash Flow Information 4. Supplemental Cash Flow Information

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

	For the Nine Months Ended	
	September 30, 2011	September 30, 2010
Cash paid during the period for:		
Interest	\$ 549,845	\$ 781,709
Supplemental disclosure of non-cash financing activities:		
Conversion of accounts payable to notes payable	\$ -	\$ 2,000,000
Note issued for purchase of fixed assets	\$ 114,693	\$ 110,905

Net Income (Loss) Per Common Share

Net Income (Loss) Per Common Share (USD \$)	9 Months Ended 09/30/2011
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Net Income (Loss) Per Common Share 5. Net Income (Loss) Per Common Share

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

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

Financing Arrangements

Financing Arrangements
(USD \$)

9 Months Ended
09/30/2011

Financing Arrangements 6. Financing Arrangements

On October 18, 2011, the Company and KeyBank National Association (“KeyBank”) entered into a three-year Credit and Security Agreement (the “KeyBank Agreement”) that refinanced and replaced a credit facility with Wells Fargo Bank. The Company paid off its entire loan obligation of \$11,061,843 and \$53,976 of fees and related costs to Wells Fargo Bank, and terminated its credit facility. Availability at September 30, 2011 under the Wells Fargo Bank credit facility was \$592,056.

The KeyBank Agreement provides for a revolving loan facility under which the Company may borrow up to the lesser of (i) \$15,000,000 or (ii) 85% of eligible accounts receivable, plus 55% (but not more than \$6,500,000) of the lower of cost or market (whichever is lower) of eligible inventory, less designated reserves. Borrowings bear interest at 2.75% above the Eurodollar rate or 0.25% above the base rate, as defined in the agreement, and are secured by a first lien on substantially all of the Company's assets. Substantially all of the assets of the Company, as well as a pledge of the stock of Colonial Commercial Corp.'s operating subsidiaries, collateralize the loans. The facility contains covenants relating to the financial condition of the Company, its business operations, and restricts, among other things, the payment of dividends, and further restricts subject to specified exceptions, subordinated debt, purchase of securities, and the merger and sale of the Company. As of December 31, 2011, the Company must maintain a consolidated net worth of at least \$2,800,000, plus 50% of positive consolidated net earnings for the fiscal year then ended (with no deduction for losses). The Company must also maintain a fixed charge coverage ratio of 1.00 to 1.00 from October 31, 2011 through September 29, 2012 and 1.10 to 1.00 from and after September 30, 2012. The Company will be considered in default of its credit agreement with KeyBank in the event William Pagano shall cease to hold the position of Chief Executive Officer, or a similar or higher position of the Company, and the Company shall fail to hire a replacement consultant or Chief Executive Officer with technical expertise, experience and management skills, in the opinion of KeyBank, necessary for the successful management of the Company.

Goodman Company, L.P. and certain of its affiliates (“Goodman”) is a supplier to the Company. On October 14, 2011, the Company and Goodman entered into an Amendment and Restatement No. 2 that restated the payment terms to a promissory note in the initial principal amount of \$2,000,000. Amendment and Restatement No. 2 provides that from November 2011 to October 2014 the principal of \$1,299,680 of the promissory note outstanding on October 14, 2011 (balance at September 30, 2011 was \$1,320,074) is to be repaid on a five-year amortization schedule, with the balance of the promissory note to be repaid in November 2014. In connection with the KeyBank Agreement, Goodman, Universal and KeyBank entered into an Intercreditor and Lien Subordination Agreement dated as of October 18, 2011. The Intercreditor and Lien Subordination Agreement sets forth among other things the relative priorities of the security interests of KeyBank and Goodman in the assets of the Company.

In connection with the KeyBank Agreement, Goldman Associates of New York, Inc., William Pagano, Rita Folger, Paul Hildebrandt and John A. Hildebrandt, holders of promissory notes of the Company in the aggregate principal amount of \$1,049,139, entered into subordination agreements dated as of October 18, 2011 in favor of KeyBank.

Litigation

Litigation (USD \$) 9 Months Ended 09/30/2011

Litigation 7. Litigation

(a) Universal Supply Group, Inc.

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

The Company understands that the Universal Predecessor and many other companies have been sued in the Superior Court of New Jersey (Middlesex County) by plaintiffs filing lawsuits alleging injury due to asbestos. As of September 30, 2011, there existed 5 plaintiffs in these lawsuits relating to alleged sales of asbestos products, or products containing asbestos, by the Universal Predecessor. Subsequent to September 30, 2011, 1 plaintiff filed an action, which results in 6 remaining plaintiffs in these lawsuits. The Company never sold any asbestos related products.

Of the existing plaintiffs as of September 30, 2011, 1 filed an action in 2011 and 4 filed actions in 2010. There are 208 other plaintiffs that have had their actions dismissed and 17 other plaintiffs that have settled as of September 30, 2011 for a total of \$3,364,500. There has been no judgment against the Universal Predecessor.

Our Universal subsidiary was named by 37 plaintiffs; of these, 1 filed an action in 2010, 11 filed actions in 2007, 6 filed actions in 2006, 11 filed actions in 2005, 5 filed actions in 2001, 1 filed an action in 2000, and 2 filed actions in 1999. Thirty-three plaintiffs naming Universal have had their actions dismissed and, of the total \$3,364,500 of settled actions, 3 plaintiffs naming Universal have settled for \$27,500. No money was paid by Universal in connection with any settlement. Following these dismissed and settled actions there exists 1 plaintiff that named Universal as of September 30, 2011.

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

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

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

(b)(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.

(b)(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, 2011, no insurance company has claimed any contribution for a gap in coverage except for a claim for \$160 made by one insurance company to the Universal Predecessor in 1995. The Universal Predecessor asserted that it had no obligation to pay this amount and did not make any payment.

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

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

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

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

(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.

Transactions with Related Persons, Promoters and Certain Control Persons

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

9 Months Ended
09/30/2011

Transactions with Related Persons, Promoters and Certain Control Persons

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

- (a) A subsidiary of the Company leases a warehouse and store in Wharton, New Jersey comprising of 27,000 square feet from a company owned by Mr. Paul Hildebrandt under a lease that expires on July 31, 2017. The Company paid Mr. Hildebrandt's company \$55,091 and \$54,472 during the three months ended September 30, 2011 and 2010, respectively. The Company paid Mr. Hildebrandt's company \$165,594 and \$159,604 during the nine months ended September 30, 2011 and 2010, respectively. William Salek, the Company's Chief Financial Officer, is the son-in-law of Mr. Hildebrandt. Mr. Hildebrandt served as a Director of the Company from July 2004 to January 2005.
- (b) Pursuant to a secured note dated July 29, 2004, as amended by Amendment 1 dated March 27, 2008, Amendment 2 dated February 12, 2009, Amendment 3 dated March 5, 2010, and further amended by Amendment 4 dated March 1, 2011, the Company owes Goldman Associates the principal amount of \$750,000 at September 30, 2011 collateralized by the assets of the Company. The secured note is subordinate to the borrowings under the credit facility, bears interest at the prime rate plus 2% and is due on January 1, 2012.
- (c) Oscar Folger and Jeffrey Folger, of the law firm of Folger & Folger, are counsel to the Company. Rita Folger, a more than 5% shareholder of the Company, is the wife of Oscar Folger and the mother of Jeffrey Folger. Professional fees paid to the law firm of Folger & Folger for the three months ended September 30, 2011 and 2010 were \$8,268 and \$6,121, respectively. Professional fees paid to the law firm of Folger & Folger for the nine months ended September 30, 2011 and 2010 were \$34,424 and \$17,787, respectively.
- (d) Pioneer Realty Holdings, LLC, a New York limited liability company ("Pioneer"), is the owner of the premises located at 836 Route 9, Fishkill, New York, formerly known as 2213 Route 9, Fishkill, New York that is leased to a subsidiary of the Company under a lease that expires on March 31, 2017, subject to two five-year renewal options.

William Pagano, Chief Executive Officer and Director of the Company, has a 55% interest in Pioneer and each of Mrs. Folger and Jeffrey Folger has a 20% interest in Pioneer Realty Partners I, LLC, which has a 40% interest in Pioneer. The Company paid Pioneer \$68,229 and \$66,816 during the three months ended September 30, 2011 and 2010, respectively. The Company paid Pioneer \$201,488 and \$202,266 during the nine months ended September 30, 2011 and 2010, respectively.

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

Interest expense on each of the notes held by Mr. Pagano and Mrs. Folger amounted to \$1,313 for each of the three months ended September 30, 2011 and 2010. Interest expense on each of the notes held by Mr. Pagano and Mrs. Folger amounted to \$3,938 for each of the nine months ended September 30, 2011 and 2010.

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

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

At September 30, 2011 the remaining principal on the above notes were \$20,004, \$38,015, \$7,779 and \$22,227, respectively. Interest expense on the notes held by Mr. Hildebrandt, Goldman Associates, Mr. Pagano and Mrs. Folger amounted to \$655, \$1,244, \$255 and \$727, respectively, for the three months ended September 30, 2011. Interest expense on the notes held by Mr. Hildebrandt, Goldman Associates, Mr. Pagano and Mrs. Folger amounted to \$873, \$1,659, \$339 and \$970, respectively, for the three months ended September 30, 2010.

Interest expense on the notes held by Mr. Hildebrandt, Goldman Associates, Mr. Pagano and Mrs. Folger amounted to \$2,128, \$4,043, \$828 and \$2,364, respectively, for the nine months ended September 30, 2011. Interest expense on the notes held by Mr. Hildebrandt, Goldman Associates, Mr. Pagano and Mrs. Folger amounted to \$2,782, \$5,288, \$1,082 and \$3,092, respectively, for the nine months ended September 30, 2010.

- (g) On March 1, 2011, the Company entered into agreements to privately place 4,500,000 shares of common stock at \$0.50 per share for total proceeds of \$2,250,000. The initial closing of the agreements occurred on March 1, 2011 and the final closing occurred on March 4, 2011. Of these shares, 3,000,000 shares were purchased by Goldman Associates, 600,000 shares were purchased by Rita Folger, 400,000 shares were purchased by Paul Hildebrandt and 200,000 shares were purchased by William Pagano.
- (h) On February 24, 2011, the Board of Directors of the Company appointed Melissa Goldman-Williams to serve as Vice President of Operations. Mrs. Goldman-Williams receives a salary of \$135,000 per year. Mrs. Goldman-Williams is a director of the Company and is the daughter of Michael Goldman, the Chairman of the Board of the Company.
- (i) On May 27, 2011, the Company borrowed \$200,000 from Goldman Associates, which was non-interest bearing and repaid in full on June 28, 2011.
- (j) On July 29, 2011, the Company borrowed \$250,000 from Goldman Associates. Interest accrued on the loan at a per annum rate equal to the lesser of (i) 3% plus 90-day LIBOR and (ii) 4%. Principal and interest of \$251,850 was paid in full on October 20, 2011.