CCOM GROUP, INC.

ANNUAL FINANCIAL STATEMENTS
AND RELATED FOOTNOTES

FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

CCOM GROUP, INC. AND SUBSIDIARIES

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders of
CCOM Group, Inc.

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of CCOM Group, Inc. and subsidiaries, (the "Company"), which comprise the consolidated balance sheets as of December 31, 2014 and 2013, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of CCOM Group, Inc. and subsidiaries as of December 31, 2014 and 2013, and the consolidated results of their operations and their cash flows for each of the years then ended in accordance with accounting principles generally accepted in the United States of America.

EisnerAmper LLP

Iselin, New Jersey
March 27, 2015

CCOM GROUP, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

	December 31, 2014	December 31, 2013
Assets		
Current assets:		
Cash	$ 238,696	$ 377,461
Accounts receivable, net of allowance for doubtful accounts of $892,960 and $657,765, respectively	9,654,270	9,729,122
Inventory	14,121,649	12,349,272
Prepaid expenses and other current assets	730,299	1,065,101
Deferred income tax asset	160,000	200,000
Total current assets	24,904,914	23,720,956
Property and equipment, net	962,504	865,764
Goodwill	1,416,929	1,416,929
Other assets - noncurrent	43,246	107,718
Deferred income tax asset - noncurrent	2,056,500	2,016,500
	$29,384,093	$28,127,867
Liabilities and Stockholders' Equity		
Current liabilities:		
Borrowings under credit facility - revolving credit	$11,940,419	$11,952,588
Notes payable, current portion; includes related party notes of $150,298 and $638,779, respectively	302,877	776,746
Trade payables	4,760,291	3,307,881
Accrued liabilities	1,388,238	1,664,558
Income taxes payable	16,087	14,175
Total current liabilities	18,407,912	17,715,948
Convertible notes payable; related parties	200,000	200,000
Notes payable, non-current portion; includes related party notes of $1,134,934 and $1,285,232, respectively	1,433,257	1,659,235
Deferred income tax liability - noncurrent	567,000	538,000
Total liabilities	20,608,169	20,113,183
Commitments and contingencies		
Stockholders' equity:		
Redeemable convertible preferred stock, $.05 par value, 2,500,000 shares authorized, 284,612 shares issued and outstanding, liquidation preference of $1,423,060	14,231	14,231
Common stock, $.05 par value, 20,000,000 shares authorized, 9,154,953 shares issued and outstanding	457,747	457,747
Additional paid-in capital	12,596,866	12,596,866
Accumulated deficit	(4,292,920)	(5,054,160)
Total stockholders' equity	8,775,924	8,014,684
	$29,384,093	$28,127,867

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

CCOM GROUP, INC. AND SUBSIDIARIES

Consolidated Statements of Income

	For the Years Ended December 31,	
	2014	2013
Sales	$81,048,785	$88,458,677
Cost of sales	59,647,793	66,131,047
Gross profit	21,400,992	22,327,630
Selling, general and administrative expenses, net	20,240,991	20,980,190
Operating income	1,160,001	1,347,440
Other income	196,533	196,180
Interest expense, net; includes related party interest expense of $114,892 and $130,284, respectively	(554,011)	(604,318)
Income before income tax (expense) benefit	802,523	939,302
Income tax (expense) benefit	(41,283)	2,043,910
Net income	$761,240	$2,983,212
Income per common share:		
Basic	$ 0.08	$ 0.33
Diluted	$ 0.08	$ 0.32
Weighted average shares outstanding:		
Basic	9,154,953	9,154,953
Diluted	9,439,565	9,446,564

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

CCOM GROUP, INC. AND SUBSIDIARIES

Consolidated Statements of Stockholders' Equity

For the Years Ended December 31, 2014 and 2013

	Number of shares						
	Redeemable Convertible Preferred Stock	Common Stock	Redeemable Convertible Preferred Stock	Common Stock	Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' Equity
Balance at December 31, 2012	293,057	9,154,953	$ 14,653	$ 457,747	$ 12,659,782	$ (8,037,372)	$ 5,094,810
Net Income	-	-	-	-	-	2,983,212	2,983,212
Preferred Stock Redemption	(8,445)	-	(422)	-	(62,916)	-	(63,338)
Balance at December 31, 2013	284,612	9,154,953	$ 14,231	$ 457,747	$ 12,596,866	$ (5,054,160)	$ 8,014,684
Net Income	-	-	-	-	-	761,240	761,240
Balance at December 31, 2014	284,612	9,154,953	$ 14,231	$ 457,747	$ 12,596,866	$ (4,292,920)	$ 8,775,924

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

CCOM GROUP, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows

	For The Years Ended December 31, 2014	2013
Cash flows from operating activities:		
Net income	$ 761,240	$ 2,983,212
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred income taxes	29,000	(2,074,500)
Provision for doubtful accounts	300,327	476,466
Depreciation and amortization	299,356	306,543
Net gain on sale of property and equipment	(14,945)	(9,759)
Changes in operating assets and liabilities:		
Accounts receivable	(225,475)	925,729
Inventory	(1,772,377)	(319,872)
Prepaid expenses and other current assets	334,802	307,289
Other assets – noncurrent	64,472	162,547
Trade payables	1,452,410	(1,934,163)
Accrued liabilities	(276,320)	33,766
Income taxes payable	1,912	14,175
Net cash provided by operating activities	954,402	871,433
Cash flows from investing activities:		
Additions to property and equipment	(335,077)	(138,359)
Proceeds from disposal of property and equipment	21,200	51,147
Net cash used in investing activities	(313,877)	(87,212)
Cash flows from financing activities:		
Repurchase of preferred stock	-	(63,338)
Repayments of notes payable; includes related party repayments of $2,138,779 and $2,123,784, respectively	(2,267,121)	(2,295,958)
Issuance of notes payable, related party	1,500,000	2,000,000
Repayments under credit facility - revolving credit, net	(12,169)	(344,592)
Net cash used in financing activities	(779,290)	(703,888)
(Decrease) increase in cash	(138,765)	80,333
Cash - beginning of year	377,461	297,128
Cash - end of year	$ 238,696	$ 377,461

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

1. <u>Summary of Significant Accounting Policies and Practices</u>

(a) <u>Description of Business</u>

CCOM Group, Inc., through its operating subsidiaries Universal Supply Group, Inc. ("Universal"), The RAL Supply Group, Inc. ("RAL"), and S&A Supply, Inc. ("S&A") (together, the "Company"), is a distributor of heating, ventilating and air conditioning equipment (HVAC), parts and accessories, whole-house generators, climate control systems, appliances and plumbing and electrical fixtures and supplies to building contractors and other users, which the Company considers its only operating segment. The Company's products are marketed primarily to HVAC, plumbing and electrical contractors, who, in turn, sell such products to residential and commercial/industrial customers. The Company's customers are primarily located in New Jersey, New York, Massachusetts and portions of eastern Pennsylvania, Connecticut and Vermont. The Company has no long term agreement with any customer. The Company deals with its customers one sale at a time. The Company has no material long term agreements with any supplier. The Company enters into agreements with vendors which include volume rebates, pricing and advertising, all within the standard practices of the industry. Additionally, certain supplier agreements limit the sale of competitive products in designated markets that the Company serves. All purchases are made with domestic vendors, some of which, however, may manufacture products in foreign locations.

On October 24, 2013, the Company redeemed 8,445 shares of its convertible preferred stock, which resulted in a decrease in the number of convertible preferred shareholders to less than 300 shareholders. The number of the Company's common shareholders was previously less than 300 shareholders. On November 12, 2013, the Company filed a Form 15 with the Securities and Exchange Commission to voluntarily deregister its common stock and convertible preferred stock under the Securities Exchange Act of 1934. The filing suspended the Company's obligation to file certain reports with the SEC, including Forms 10-K, 10-Q, and 8-K.

(b) <u>Principles of Consolidation</u>

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

(c) <u>Revenue Recognition</u>

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.

(d) Accounts Receivable

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

(e) Inventory

Inventory is stated at the lower of cost or market and consists solely of finished goods. Cost is determined using the first-in, first-out method. Inventory is analyzed for potential obsolescence and slow-moving items based upon the aging of the inventory and the inventory turns by product. Inventory items designated as obsolete or slow moving are reduced to their net realizable value. At December 31, 2014 and 2013, the Company did not record any impairment charges.

(f) Distribution Costs

Distribution costs of incoming freight, purchasing, receiving, inspection, warehousing and handling costs are included in selling, general and administrative expenses. Such costs were $475,175 and $483,498 for the years ended December 31, 2014 and 2013, respectively.

(g) Vendor Rebates

The Company has arrangements with several vendors that provide rebates to be payable to the Company when the Company achieves any of a number of measures, generally related to the volume level of purchases. The Company accounts for such rebates as a reduction of inventory until the sale of the product. Rebates under arrangements with vendors that require a specified cumulative level of purchases are recognized by the Company based on progress toward achieving such levels, provided the rebates are probable and estimable.

(h) Property and Equipment

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

Computer hardware and software	3-5 years
Furniture and fixtures	5 years
Automobiles	3-5 years
Showroom fixtures and displays	3 years

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

(i) Goodwill

Goodwill is reviewed at least annually for impairment. The Company evaluated goodwill for impairment as of December 2014. In assessing the recoverability of the Company's goodwill, 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. To conduct impairment tests of goodwill, the fair value of the reporting unit is compared to its carrying value. If the reporting unit's carrying value of goodwill exceeds its fair value, an impairment loss to the extent the carrying value of goodwill exceeds the fair value of goodwill will be recorded. 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. At December 31, 2014, goodwill on the Company's books of $1,416,929 related entirely to Universal. Based on valuation results, the Company determined that the fair value of its reporting unit at December 31, 2014 was 107% of its carrying value based solely on a discounted cash flow method. Therefore, management determined that no goodwill impairment charge was required as of December 31, 2014.

(j) Stock-Based Compensation

The Company recognizes equity based compensation expense for employees and board members in accordance with established standards for transactions in which an entity exchanges its equity instruments for goods or services. The Company measures the cost of services received in exchange for an award of equity instruments based on the grant date fair value of the award.

(k) Net Income Per Common Share

Basic income per share excludes any dilution. It is based upon the weighted average number of common shares outstanding during the period. Dilutive earnings per share reflect the potential dilution that would occur if securities or other contracts to issue common stock were exercised or converted into common stock.

(l) Income Taxes

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.

In 2013, management evaluated the deferred tax asset and determined that based on the cumulative recent history of income and income projections, including the expense related to the amortization of goodwill for tax purposes, that it will be more likely than not that an additional portion of the deferred tax asset will be realized. As a result of these projections in 2013, management determined that a deferred tax asset of approximately $2,200,000 is appropriate and, accordingly, released the valuation allowance of approximately $2,100,000. In 2014, based on income projections and estimated utilizations of net operating loss carryforwards, management again determined that a deferred tax asset of approximately $2,200,000 will be realized.

The Company follows the provisions that tax positions must meet a “more-likely-than-not” recognition threshold at the effective date to be recognized. The Company had no unrecognized tax benefits recorded for the years ended December 31, 2014 and 2013. When an accrual for interest and penalties is required, interest and penalties will be recognized in tax expense.

The Company files income tax returns in the U.S. federal jurisdiction and various states. There are currently no federal or state income tax examinations in process. The 2009 through 2013 tax years remain subject to examination by the Internal Revenue Service and other taxing authorities for U.S. federal and state/local tax purposes. The Company does, however, have net operating losses dating back to 2000, which are subject to examination.

(m) <u>Impairment of Long-Lived Assets and Long-Lived Assets to Be Disposed Of</u>

Long-lived assets, such as furniture, equipment and leasehold improvements, are evaluated for impairment when events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable through estimated undiscounted future cash flows from the use of these assets. When any such impairment exists, the related assets will be written down to fair value. No such impairments were recorded in 2014 or 2013.

(n) <u>Use of Estimates</u>

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates include valuation reserves for accounts receivable, inventory, income taxes, assessment of goodwill impairment and the impairment of long lived assets. Actual results could differ from those estimates.

(o) <u>Recent Issued Accounting Pronouncements</u>

In May 2014, the FASB issued Accounting Standards Update (“ASU”) 2014-09, “Revenue from Contracts with Customers.” This ASU is a comprehensive new revenue recognition model that requires a company to recognize revenue to depict the transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. This ASU is effective for annual reporting periods beginning after December 15, 2016 and early adoption is not permitted. Accordingly, the Company will adopt this ASU on January 1, 2017. Companies may use either a full retrospective or modified retrospective approach to adopt this ASU and management is currently evaluating which transition approach to use. The Company is currently evaluating the impact of ASU 2014-09.

In July 2013, the FASB issued ASU No. 2013-11, *Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists,* which is included in ASC Topic 740 (Income Taxes). ASU 2013-11 requires an entity to net its liability for unrecognized tax positions against a net operating loss carryforward, a similar tax loss or a tax credit carryforward when settlement in this manner is available under the tax law. The provisions of this new guidance are effective for reporting periods beginning after December 15, 2013. The adoption of this guidance did not have an impact on the Company's consolidated financial statements.

On February 5, 2013, the FASB issued ASU No. 2013-02, *Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income,* which adds additional disclosure requirements relating to the reclassification of items out of accumulated other comprehensive income. This ASU is effective for the first quarter of 2013. The adoption of this guidance did not have an impact on the Company's consolidated financial statements.

(p) Subsequent Event

The Company has evaluated subsequent events through the date that the consolidated financial statements were available to be issued on March 27, 2015.

(q) Other Comprehensive Income

The Company does not currently have any items of other comprehensive income and therefore has not included a statement of comprehensive income in its consolidated financial statements.

2. Property and Equipment

Property and equipment consists of the following at December 31:

	2014	2013
Computer hardware and software	$1,638,191	$1,472,142
Furniture and fixtures	261,614	242,614
Leasehold improvements	1,887,900	1,812,970
Showroom fixtures and displays	425,559	425,559
Automobiles	870,966	887,050
	5,084,230	4,840,335
Less accumulated depreciation and amortization	(4,121,726)	(3,974,571)
	$ 962,504	$ 865,764

Depreciation and amortization expense amounted to $299,356 and $306,543 for the years ended December 31, 2014 and 2013, respectively and is included in general and administrative expenses.

3. Financing Arrangements

The Company and KeyBank National Association ("KeyBank") are parties to a Credit and Security Agreement dated as of October 18, 2011, as amended (the "KeyBank Agreement"). The KeyBank Agreement provides for a revolving credit facility under which the Company may borrow up to the lesser of (i) $17,000,000 or (ii) 85% of eligible accounts receivable, plus 55% (but not more than $7,500,000) of the lower of cost or market of eligible inventory, plus during any Temporary Increase Period, the Temporary Increase Amount in effect during such period (as each of these terms are defined), less designated reserves. Any Temporary Increase Amount during any Temporary Increase Period is subject to the Company having then met the Temporary Increase Conditions (as defined).

Borrowings bear interest at 2.25% above the Eurodollar Rate (as defined) or 0.25% above the Base Rate (as defined), and are secured by a first lien on substantially all of the Company's assets, as well as a pledge of the stock of CCOM Group, Inc.'s operating subsidiaries. The facility contains covenants relating to the financial condition of the Company and its business operations. Among other things, the covenants require that as of December 31, 2014, the Company maintain a consolidated net worth of at least $6,880,620, and a Fixed Charge Coverage Ratio (as defined) of 1.1. As of December 31, 2014, the Company's net worth was $8,775,924 and its Fixed Charge Ratio was 1.66, both exceeding the loan covenants.

On September 19, 2014, the KeyBank Agreement was amended to, among other things, extend the termination date from October 17, 2014 to September 18, 2017, and to increase the credit facility from (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 of eligible inventory to (i) $17,000,000 or (ii) 85% of eligible accounts receivable, plus 55% (but not more than $7,500,000) of the lower of cost or market of eligible inventory.

Subsequent to December 31, 2014, the KeyBank Agreement was amended to, among other things, temporarily raise the inventory cap and provide for a special over advance from March 12, 2015 to July 30, 2015.

During the year ended December 31, 2014, the Company borrowed an aggregate of $90,170,077 and repaid an aggregate of $90,157,909 under the revolving credit facility with KeyBank. As of December 31, 2014, the balance outstanding under the facility was $11,940,419 and availability was $2,187,011.

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 KeyBank substantially reduces the amount of the credit availability under the terms of the facility or KeyBank demands payment and the Company is unable to refinance the facility, or if liquidity is otherwise substantially reduced.

On February 1, 2013, Michael Goldman loaned $500,000 to the Company. Interest accrued on the loan at 4% per annum and the loan was repaid on April 30, 2013. A $500,000 increase in the Borrowing Base that KeyBank made on February 1, 2013 ended on April 30, 2013.

On May 1, 2013, Michael Goldman loaned $500,000 to the Company. Interest accrued on the loan at 4% per annum and the loan was repaid on July 29, 2013. A $500,000 increase in the Borrowing Base that KeyBank made on May 1, 2013 ended on July 24, 2013.

On February 3, 2014, Goldman Associates of New York, Inc. (“Goldman Associates”) loaned $500,000 to the Company. Interest accrued on the loan at 4% per annum and the loan was repaid on April 30, 2014. A $500,000 increase in the Borrowing Base that KeyBank made on February 18, 2014 ended on April 30, 2014.

On May 1, 2014, Goldman Associates loaned $500,000 to the Company. Interest accrued on the loan at 4% per annum and the loan was repaid on July 29, 2014. A $500,000 increase in the Borrowing Base that KeyBank made on May 1, 2014 ended on July 28, 2014.

On July 30, 2014, Goldman Associates loaned $500,000 to the Company. Interest accrued on the loan at 4% per annum and the loan was repaid on October 27, 2014.

On January 6, 2015, Goldman Associates loaned $750,000 to the Company. Interest accrued on the loan at 4% per annum and the loan was repaid on February 6, 2015.

On February 9, 2015, Goldman Associates loaned $750,000 to the Company. Interest accrues on the loan at 4% per annum and the loan is repayable on May 8, 2015. On February 10, 2015, KeyBank increased the Borrowing Base by $500,000.

All increases to the Borrowing Base were made pursuant to the KeyBank Agreement that provides, in the event the Company then meets the Temporary Increase Conditions, for KeyBank to make up to $500,000 in additional loans to the Company to match loans in the same aggregate amount that one or more Investor Subordinated Creditors (as defined) elect to make.

Michael Goldman is the majority shareholder, Chief Executive Officer and Chairman of the Board of Goldman Associates. Michael Goldman is the Chairman of the Board of the Company. Mr. Goldman served as Chief Executive Officer of the Company from February 15, 2013 until his resignation as Chief Executive Officer on July 1, 2013. On July 1, 2013, Peter Gasiewicz was appointed Chief Executive Officer of the Company. Prior to July 1, 2013, Peter Gasiewicz served as President and Chief Operating Officer of the Company. The Company will be considered in default of the KeyBank Agreement in the event Peter Gasiewicz 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. Additionally, the facility 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. The KeyBank Agreement terminates on September 18, 2017.

4. Notes Payable

Notes payable consist of the following at December 31:

	2014	2013
Various term notes payable: (collateralized by equipment, the purchase of which such notes financed) with aggregate monthly principal and interest installments of $11,380 and $10,156 for 2014 and 2013, respectively, bearing interest between 0% and 7.9%.	$308,159	$332,229
Term notes payable to related parties: subordinated unsecured convertible notes payable, bearing interest at the prime rate, which was 3.25% at December 31, 2014, plus 2%, interest payable quarterly, with the principal payable on January 1, 2016. The notes are convertible into 66,666 shares of common stock at $3.00 per share during the term of the notes. Interest expense amounted to $10,500 for each of the years ended December 31, 2014 and 2013.	200,000	200,000
Term note of $750,000 payable to a related party entity: subordinated secured note payable, bearing interest at the prime rate, which was 3.25% at December 31, 2014, plus 2%, interest payable quarterly, with the principal payable on January 1, 2016. Interest expense amounted to $39,375 for each of the years ended December 31, 2014 and 2013.	750,000	750,000
Promissory notes payable to related parties, a related party entity and a private investor: subordinated unsecured notes payable, bearing interest at 8% per annum, repaid in equal monthly installments aggregating $19,810 commencing April 2013 and ending March 2018. Interest expense amounted to $61,948 and $82,325 for the years ended December 31, 2014 and 2013, respectively.	677,975	853,752
Promissory notes payable to a related party entity: subordinated unsecured notes payable, bearing interest at 4% per annum. Interest expense amounted to $1,667 and $3,167 for the years ended December 31, 2014 and 2013, respectively. The 2013 loan was repaid in full on January 31, 2014.	0	500,000
	1,936,134	2,635,981
Less current installments	(302,877)	(776,746)
	$1,633,257	$1,859,235

Maturities of notes payable are as follows:

2015	$302,877
2016	1,259,540
2017	290,983
2018	74,042
2019	8,692
	$1,936,134

5. Capital Stock

Each share of the Company’s convertible preferred stock is convertible into one share of the Company’s common stock. Convertible preferred stockholders will be entitled to a dividend, based upon a formula, when and if any dividends are declared on the Company’s common stock. The convertible preferred stock is redeemable, at the option of the Company, at $7.50 per share. The shares contain a liquidation preference provision entitling the holder to receive payments equaling $5.00 per share.

The voting rights of the common stockholders and preferred stockholders are based upon the number of shares of convertible preferred stock outstanding. The Company's Restated Certificate of Incorporation provides that the Board of Directors is to consist of one class of Directors if there are less than 600,000 shares Convertible Preferred Stock outstanding. As of December 31, 2014, the number of preferred shares outstanding was 284,612; accordingly, the Board of Directors to be elected at the annual shareholders' meetings will consist of one class of Directors elected by the holders of common stock and convertible preferred stock voting together as one class on a share for share basis.

At December 31, 2014, there were 426,278 shares of common stock reserved for conversion of convertible preferred stock and for the exercise of vested stock options and convertible notes.

On October 24, 2013, the Company redeemed its shares of convertible preferred stock from each shareholder who at all times from July 29, 2013 until October 24, 2013 owned of record less than 100 shares. The total number of shares of convertible preferred stock which were redeemed was 8,445 shares for a total redemption price of $63,338. The $7.50 per share redemption price is fixed in the Company's certificate of incorporation for optional redemptions by the Company.

6. Stock Option Plans

On September 29, 2006, the Company adopted the CCOM Group, Inc. (formerly 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 us to provide incentives that will (1) strengthen the desire of highly competent persons to provide services to us and (2) further stimulate their efforts on the Company's behalf.

The following is a summary of certain provisions of the 2006 Plan.

Shares Available. The maximum number of shares of common stock that may be delivered under the 2006 Plan is 1,000,000, subject to adjustment for certain specified changes to the Company's capital structure. As of December 31, 2014, 925,000 options were available to be issued.

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

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

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

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

No options were granted, exercised or forfeited during the years ended December 31, 2014 and 2013.

The Company used the Black-Scholes valuation method to estimate the fair value of stock options at the grant date. The Black-Scholes valuation model uses the option exercise price and the number of options expected to be exercised as well as assumptions related to the expected price volatility of the Company's stock, the rate of return on risk-free investments, the period during which the options will be outstanding, and the expected dividend yield for the Company's stock to estimate the fair value of the stock option on the grant date. The fair value of the stock options, which are subject to graded vesting, is expensed on a straight-line basis over the vesting life of the stock options. In 2014 and 2013, the amount of stock-based compensation was $0 and as of December 31, 2014, the Company had no unrecognized compensation.

The following table summarizes information about stock options at December 31, 2014:

Options Outstanding and Exercisable			
Range of Exercise Prices	Shares	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price
$ 1.85	75,000	2.93	$1.85

7. Net Income Per Common Share

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

For the years ended December 31, 2014 and 2013, convertible preferred stock, convertible into 284,612 shares of common stock were included as common stock equivalents when calculating diluted earnings per share. Employee stock options totaling 75,000 for the years ended December 31, 2014 and 2013 were not included in the net income per share calculation because their 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 income per share calculation for the years ended December 31, 2014 and 2013, because their effect would have been anti-dilutive.

8. Income Taxes

The benefit for income taxes consists of the following:

	2014			2013		
	Federal	State And Local	Total	Federal	State And Local	Total
Current	$5,747	$ 6,536	$12,283	$ 16,500	$ 14,090	$ 30,590
Deferred	26,100	2,900	29,000	(1,868,700)	(205,800)	(2,074,500)
Total tax benefit	$ 31,847	$ 9,436	$41,283	$(1,852,200)	$(191,710)	$(2,043,910)

The components of deferred tax benefit are as follows:

	2014	2013
Decrease to the beginning of the year valuation allowance for deferred tax assets	$ -	$(2,116,500)
Increase in deferred tax liability	29,000	42,000
	$29,000	$ (2,074,500)

A reconciliation of the provision for income taxes computed at the Federal statutory rate to the reported provision for income taxes follows:

	2014	2013
Tax provision at Federal statutory rate	34.00 %	34.00 %
State income tax, net of federal benefit	0.78%	0.99%
Change in valuation allowance for deferred tax assets	(36.25)%	(254.12)%
Other	4.60%	-
Permanent differences	2.01%	1.53%
Total	5.14%	(217.60)%

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities at December 31, 2014 and 2013 are presented below.

	2014	2013
Deferred Tax Assets:		
Federal net operating loss carryforwards	$ 7,556,252	$ 7,858,584
State net operating loss carryforwards	218,423	267,117
Allowance for doubtful accounts	390,244	303,282
Additional costs inventoried for tax purposes	507,862	455,609
Alternative Minimum Tax Credit Carryforward	65,047	63,314
Compensation	75,102	71,721
Rent	84,319	91,616
Goodwill and intangible assets	92,554	113,115
Depreciation	(789)	55,568
Deferred Tax Assets	8,989,014	9,279,926
Less Valuation Allowance	(6,772,514)	(7,063,426)
Net Deferred Tax Assets	$ 2,216,500	$ 2,216,500
Deferred Tax Liability:		
Goodwill	567,000	538,000
Deferred Tax Liability	$ 567,000	$ 538,000

In 2013, management evaluated the deferred tax asset and determined that based on the cumulative recent history of income and income projections, including the expense related to the amortization of goodwill for tax purposes, that it will be more likely than not that an additional portion of the deferred tax asset will be realized. As a result of these projections, management determined that a deferred tax asset of approximately $2,200,000 is appropriate and, accordingly, released the valuation allowance of approximately $2,100,000. In 2014, based on income projections and estimated utilizations of net operating loss carryforwards, management again determined that a deferred tax asset of approximately $2,200,000 will be realized.

As of December 31, 2014, the Company’s pre-tax net operating loss carryforwards available for federal income tax purposes were approximately $24,720,000. Various amounts of net operating loss carryforwards will expire from 2020 through 2032.

Expiration Year	Net Operating Losses
2020	$4,309,000
2021	2,737,000
2022	14,532,000
2028	1,010,000
2029	1,878,000
2030	134,000
2031	16,000
2032	104,000
	$ 24,720,000

The difference between the net operating losses above and the net operating losses used to calculate the deferred tax assets is due to the additional goodwill amortization for tax purposes which will be recognized when realized by the Company.

Section 382 of the Internal Revenue Code (“Section 382”) imposes a limitation on a corporation's ability to utilize net operating loss carryforwards (“NOLs”) if it experiences an “ownership change.” In general, an ownership change may result from transactions increasing the ownership of certain stockholders in the stock of a corporation by more than 50 percentage points over a three-year period. The Company has not had an ownership change under Section 382. If such a change did occur, a limitation could be placed on the Company's ability to utilize its NOLs.

9. Fair Value of Financial Instruments

The Company uses the standard that defines the fair value of an asset or liability as the amount at which the asset or liability could be exchanged in a current transaction between willing parties. The carrying value of all financial instruments classified as current assets or liabilities is deemed to approximate fair value because of the short term nature of these instruments and the interest rate applicable to the Company’s financial status. Based on the current estimated market rates at December 31, 2014, the fair value of the non-current debt approximates its carrying value.

10. Supplemental Cash Flow Information

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

Cash paid during the years for:	2014	2013
Interest	$563,275	$610,439
Supplemental disclosure of non-cash financing and investing activities:		
Notes issued for purchase of fixed assets	$ 67,274	$ 38,626

11. Employee Benefit Plans

The Company has a 401(k) plan, which covers substantially all employees. Participants in the plan may contribute a percentage of compensation, but not in excess of the maximum allowed under the Internal Revenue Code. In 2014 and 2013, the plan did not provide for matching contributions.

12. Business and Credit Concentrations

The top five suppliers accounted for 44% and 54% of the Company's purchases for each of the years 2014 and 2013, respectively. As of December 31, 2014, the Company's outstanding balance payable to these suppliers was $1,698,725. The loss of one or all of these suppliers could have a material adverse effect upon its business for a short-term period.

During the years ended December 31, 2014 and 2013, the Company derived approximately 4% and 13%, respectively, of its revenues from the sale of Speed Queen washer-dryer appliances under a distributorship agreement with the manufacturer. In January 2013 the manufacturer asserted that it was terminating the distributorship agreement effective June 1, 2013. In June 2013 the manufacturer and the Company agreed that the distributorship be terminated on May 31, 2014.

13. Commitments and Contingencies

(a) Leases

The Company records lease payments via the straight line method and, for leases with step rent provisions whereby the rental payments increase over the life of the lease, the Company recognizes the total minimum lease payments on a straight-line basis over the lease term. The Company is obligated under operating leases for warehouse, office facilities and certain office equipment which amounted to $3,291,672 and $3,368,995 for the years ended December 31, 2014 and 2013, respectively and is included in general and administrative expenses. At December 31, 2014, future minimum lease payments in the aggregate and for each of the five succeeding years are as follows:

2015	$ 3,048,604
2016	2,952,945
2017	2,119,185
2018	1,596,129
2019	1,386,137
Thereafter	4,665,225
Total	$ 15,768,225

(b) Litigation

(1) 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. Subsequent to the acquisition, Universal Supply Group, Inc. (the selling corporation) 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 H. 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 December 31, 2014, there existed 5 plaintiffs in these lawsuits relating to alleged sales of asbestos products, or products containing asbestos, by the Universal Predecessor. The Company never sold any asbestos related products.

Of the existing plaintiffs as of December 31, 2014, 2 filed actions in 2014, 1 filed an action in 2013, 1 filed an action in 2012 and 1 filed an action in 2010. There are 215 other plaintiffs that have had their actions dismissed and 17 other plaintiffs that have settled as of December 31, 2014 for a total of $3,364,500 paid by defendants other than Universal. There has been no judgment against the Universal Predecessor.

The Company's Universal subsidiary was previously named by 39 plaintiffs; of these, 1 filed an action in 2014, 1 filed an action in 2012, 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-five 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 was 1 plaintiff that named Universal as of December 31, 2014.

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 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.

(1)(a) Indemnification

John A. Hildebrandt, Paul H. Hildebrandt and the Universal Predecessor have jointly and severally agreed to indemnify the Company's 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 H. 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 the Company's rights to indemnification. The Company cannot be certain that the indemnitors have the financial wherewithal to meet their obligations to indemnify the Company.

(1)(b) Insurance

The assets that the Universal Predecessor sold to the Company 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 the 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 December 31, 2014, 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 December 31, 2014, defended the Company 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 the Company or from the Universal Predecessor.

The Company's 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.

(2) The RAL Supply Group, Inc.

The RAL Supply Group, Inc., a wholly owned subsidiary of the Company, is a New York corporation ("RAL"), formerly known as RAL Purchasing Corp. On September 30, 2003, RAL acquired substantially all of the assets of The RAL Supply Group, Inc., formerly known as The LAR Acquisition Corp., also a New York corporation, including its name, pursuant to the terms of a purchase agreement. Subsequent to the acquisition, The RAL Supply Group, Inc. (the selling corporation) changed its name to RSG, Inc. RSG, Inc. is hereinafter referred to as the "RAL Predecessor."

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

The Company, our RAL subsidiary and other companies have been sued in the Supreme Court of New York (New York County) by a plaintiff alleging injury due to asbestos. The original Complaint was filed on April 19, 2013 and an Amended Complaint naming RAL and the Company was filed on or about June 3, 2013.

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

The lawsuit alleged injury due to asbestos between 1960 and 1979, prior to RAL Predecessor's acquisition of assets from the RSG Predecessor and RAL's acquisition of assets from the RAL Predecessor. The Company never sold any asbestos related products.

(3) General

Regardless of indemnification and insurance coverage, management does not in any event consider the Company to be liable for the asbestos-based lawsuits that name the Company or for any other claim that arises as a result of actions or omissions by the Universal Predecessor or RAL Predecessor companies. The Company expressly disclaimed the assumption of any liabilities when the Company purchased the assets of the Universal Predecessor and RAL Predecessor. It is the opinion of management that the existing asbestos litigation will not have a material adverse effect on the Company. Nevertheless, the Company could be materially and adversely affected if it is held liable for substantial asbestos claims or if it 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 management regards as remote the potential payment of any asbestos-based claim, no amounts have been accrued for any period relating to asbestos claims, and no amounts have been recorded for asbestos claims for any period in the consolidated financial statements.

(4) 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.

14. Related Party Transactions

(a) The Company leases five warehouses and stores from related parties. The Company paid these related parties $1,028,305 and $512,243 for the years ended December 31, 2014 and 2013, respectively.

(b) A related party provided legal services to the Company in the amount of $15,648 and $89,850 for the years ended December 31, 2014 and 2013, respectively.

(c) A related party provided consulting services to the Company in the amount of $60,000 and $52,500 for the years ended December 31, 2014 and 2013, respectively.

(d) During the year ended December 31, 2013, a related party entity made short term loans to the Company aggregating $1,000,000 in principal amount, all of which have been repaid with interest aggregating $4,778 in 2013 and $1,667 in 2014.

(e) During the year ended December 31, 2013, a related party made short term loans to the Company aggregating $1,000,000 in principal amount, all of which have been repaid with interest aggregating $9,778 in 2013 and $0 in 2014.

(f) During the year ended December 31, 2014, a related party entity made short term loans to the Company aggregating $1,500,000 in principal amount, all of which have been repaid with interest aggregating $14,444 in 2014.

(g) Please refer to Note 4. Notes Payable, above, for additional information pertaining to notes payable to related parties and related party entities at each of the years ended December 31, 2014 and 2013.