COLONIAL COMMERCIAL CORP
Form 10-Q
August 13, 2001

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTER ENDED JUNE 30, 2001 — COMMISSION FILE NO. 1-6663

COLONIAL COMMERCIAL CORP.
(Exact Name of Company as Specified in its Charter)

| | |
|---|---|
| NEW YORK | 11-2037182 |
| (State or Other Jurisdiction of Incorporation or Organization) | (I.R.S. Employer Identification Number) |
| 3601 HEMPSTEAD TURNPIKE, LEVITTOWN, NEW YORK | 11756-1315 |
| (Address of Principal Executive Offices) | (Zip Code) |

Company's Telephone Number, Including Area Code: 516-796-8400

Indicate by check mark whether the Company (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 Company was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes X No __

Indicate the number of shares outstanding of the Company's Common Stock and Convertible Preferred Stock as of July 31, 2001.

Common Stock, par value $.05 per share -1,603,659 shares
Convertible Preferred Stock, par value $.05 per share - 1,464,387 shares

COLONIAL COMMERCIAL CORP. AND SUBSIDIARIES

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Item 1. Financial Statements

PART 1.

COLONIAL COMMERCIAL CORP. AND SUBSIDIARIES
Consolidated Balance Sheets
June 30, 2001 and December 31, 2000

| Assets | 2001 | 2000 |
|---|---|---|
| | (Unaudited) | |
| Current assets: | | |

| | | |
|---|---|---|
| Cash and cash equivalents | $ 647,070 | 827,371 |
| Accounts receivable, net of allowance for doubtful accounts of $561,000 in 2001 and $757,000 in 2000, respectively | 11,589,381 | 14,288,161 |
| Inventory | 9,971,175 | 9,360,042 |
| Prepaid expenses and other current assets | 668,691 | 725,283 |
| Deferred taxes | 30,940 | 30,940 |
| Total current assets | 22,907,257 | 25,231,797 |
| Deferred taxes | 1,594,062 | 1,594,062 |
| Property and equipment, net | 1,924,171 | 2,012,099 |
| Excess of cost over fair value of net assets acquired and other intangibles, net | 1,507,804 | 1,569,479 |
| Investment securities | 102,339 | 80,236 |
| | $ 28,035,633 | 30,487,673 |

Liabilities and Stockholders' Equity

| | | |
|---|---|---|
| Current liabilities: | | |
| Accounts payable | $ 4,882,676 | 6,119,146 |
| Accrued liabilities | 1,942,468 | 1,941,180 |
| Income taxes payable | 48,225 | 19,000 |
| Borrowings under credit facility | 16,544,991 | 17,123,912 |
| Notes payable - current portion | 180,515 | 180,636 |
| Net liabilities of discontinued operation | -- | 603,410 |
| Total current liabilities | 23,598,875 | 25,987,284 |
| Notes payable, excluding current portion | 124,023 | 195,352 |
| Excess of acquired net assets over cost, net | 442,281 | 498,747 |
| Deferred compensation | 102,339 | 80,236 |
| Total liabilities | 24,267,518 | 26,761,619 |
| Stockholders' equity: | | |
| Convertible preferred stock, $.05 par value, liquidation preference of $7,321,935 and $7,332,255 at June 30, 2001 and December 31, 2000, respectively. 2,468,860 shares authorized, 1,464,387 and 1,466,451 shares issued and outstanding at June 30, 2001 and December 31, 2000, respectively | 73,219 | 73,322 |
| Common stock, $.05 par value, 20,000,000 shares authorized, 1,603,659 and 1,601,595 shares issued and outstanding at June 30, 2001 and December 31, 2000, respectively | 80,184 | 80,081 |
| Additional paid-in capital | 8,966,513 | 8,966,513 |
| Accumulated deficit | (5,351,801) | (5,393,862) |
| Total stockholders' equity | 3,768,115 | 3,726,054 |
| Commitments and contingencies | | |
| | $ 28,035,633 | 30,487,673 |

See accompanying notes to consolidated financial statements

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COLONIAL COMMERCIAL CORP. AND SUBSIDIARIES

Consolidated Statements of Operations

Three Months ended June 30, 2001 and 2000
(unaudited)

| | 2001 | 2000 |
|---|---|---|
| Net sales | $ 14,318,497 | 16,180,110 |
| Cost of sales | 10,377,857 | 11,580,002 |
| Gross profit | 3,940,640 | 4,600,108 |
| Selling, general and administrative expenses, net | 3,658,106 | 3,945,604 |
| Operating income | 282,534 | 654,504 |
| Interest income | 3,006 | 80,826 |
| Other income | 46,249 | 15,248 |
| Interest expense | (346,115) | (382,146) |
| Income (loss) from continuing operations before income tax | (14,326) | 368,432 |
| Income taxes | (29,900) | (72,300) |
| Income from continuing operations | $ 15,574 | 440,732 |
| Loss from operation of discontinued segment | -- | (902,776) |
| Net income (loss) | $ 15,574 | (462,044) |
| Income (loss) per common share: | | |
| Basic: | | |
| Continuing operations | $ 0.01 | 0.29 |
| Loss on discontinued operations | -- | (0.59) |
| Net income (loss) per common share | $ 0.01 | (0.30) |
| Diluted: | | |

| | | |
|---|---|---|
| Continuing operations | $ 0.01 | 0.14 |
| Loss on discontinued operation | -- | (0.28) |
| Net income (loss) per common share | $ 0.01 | (0.14) |
| Weighted average shares outstanding: | | |
| Basic | 1,603,659 | 1,523,521 |
| Diluted | 3,071,094 | 3,244,307 |

See accompanying notes to consolidated financial statements

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COLONIAL COMMERCIAL CORP. AND SUBSIDIARIES

Consolidated Statements of Operations

Six Months ended June 30, 2001 and 2000
(Unaudited)

| | 2001 | 2000 |
|---|---|---|
| Net sales | $ 28,020,864 | 27,784,440 |
| Cost of sales | 20,019,831 | 19,660,567 |
| Gross profit | 8,001,033 | 8,123,873 |
| Selling, general and administrative expenses, net | 7,306,271 | 7,661,798 |
| Operating income | 694,762 | 462,075 |
| Interest income | 7,689 | 103,973 |
| Other income | 86,116 | 29,688 |
| Interest expense | (712,506) | (638,807) |
| Income (loss) from continuing operations before income taxes | 76,061 | (43,071) |
| Income taxes | 34,000 | (300,600) |
| Income from continuing operations | $ 42,061 | 257,529 |

| | | |
|---|---|---|
| Loss from operation of discontinued segment | -- | (1,060,672) |
| Net income (loss) | $ 42,061 | (803,143) |
| Income (loss) per common share: | | |
| Basic: | | |
| Continuing operations | $ 0.03 | 0.17 |
| Loss on discontinued operation | -- | (0.70) |
| Net income (loss) per common share | $ 0.03 | (0.53) |
| Diluted: | | |
| Continuing operations | $ 0.01 | 0.08 |
| Loss on discontinued operation | -- | (0.33) |
| Net income (loss) per common share | $ 0.01 | (0.25) |
| Weighted average shares outstanding: | | |
| Basic | 1,602,630 | 1,523,368 |
| Diluted | 3,093,568 | 3,203,290 |

See accompanying notes to consolidated financial statements

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COLONIAL COMMERCIAL CORP. AND SUBSIDIARIES

Consolidated Statements of Cash Flows
Six Months ended June 30, 2001 and 2000
(Unaudited)

| | 2001 | 2000 |
|---|---|---|
| Reconciliation of net income (loss) to net cash provided by (used in) operating activities: | | |
| Net income (loss) | $ 42,061 | (803,143) |
| Adjustments to reconcile net income (loss) to cash used in operating activities: | | |
| Loss from discontinued operation | -- | 1,060,672 |
| Deferred tax expense (benefit) | -- | (331,000) |
| Provision for allowance for doubtful accounts | 202,553 | 209,480 |
| Depreciation | 254,753 | 231,827 |
| Amortization of intangibles | 66,475 | 76,288 |
| Amortization of excess of net assets over cost | (56,466) | (56,466) |
| Changes in assets and liabilities, net of effects of cash used in discontinued operation: | | |

| | | |
|---|---|---|
| Accounts receivable | 2,496,227 | (2,882,707) |
| Inventory | (611,133) | (1,780,345) |
| Prepaid expenses and other current assets | 56,592 | (122,361) |
| Accounts payable | (1,236,470) | 3,189,497 |
| Investment securities - trading | (22,103) | -- |
| Accrued liabilities | 1,288 | (636,153) |
| Income taxes payable | 29,225 | 24,699 |
| Deferred compensation | 22,103 | -- |
| Net cash provided by (used in) operating activities | 1,245,105 | (1,819,712) |
| Cash flows from investing activities: | | |
| Purchase of licensing agreements | (4,800) | (22,000) |
| Payments received on notes receivable | -- | 316,069 |
| Additions to property and equipment | (148,332) | (1,848,535) |
| Net cash used in investing activities | (153,132) | (1,554,466) |
| Cash flows from financing activities: | | |
| Payments of notes payable | (89,943) | (52,375) |
| Exercise of employee stock options | -- | 8,249 |
| Net borrowings (repayments) under credit facility | (578,921) | 6,311,418 |
| Net cash (used in) provided by financing activities | (668,864) | 6,267,292 |
| Net cash used in discontinued operation | (603,410) | (2,980,083) |
| Decrease in cash and cash equivalents | (180,301) | (86,969) |
| Cash and cash equivalents - beginning of period | 827,371 | 1,759,954 |
| Cash and cash equivalents - end of period | $ 647,070 | 1,672,985 |

See accompanying notes to consolidated financial statements.



COLONIAL COMMERCIAL CORP. AND SUBSIDIARIES

Notes To Consolidated Financial Statements

June 30, 2001 and December 31, 2000
(Unaudited)

(1) The 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 periods ended June 30, 2001 are not necessarily indicative of the operating results that may be achieved for the full year.

Certain reclassifications have been made to the three and six months ended June 30, 2000 information to conform to the corresponding current period's presentation. The results of operations for the three months and six months ended June 30, 2000 have been restated to reflect the discontinued operation of Well-Bilt Steel Products, Inc. that was accounted for as of December 31, 2000.

Certain information and footnote disclosures, normally included in consolidated financial statements prepared in accordance with generally accepted accounting principles, have been condensed or omitted. It is suggested that these consolidated financial statements be read in conjunction with the consolidated financial statements and notes thereto included in the Company's 2000 Annual Report filed on Form 10-K.

(2) SUPPLEMENTAL CASH FLOW INFORMATION

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

| | Six Months Ended | |
|---|---|---|
| | June 30, 2001 | June 30, 2000 |
| Cash paid during the period for: | | |
| Interest | $ 661,044 | $ 704,210 |
| Income taxes | $ 7,700 | $ 86,234 |

During the six months ended June 30, 2001 and 2000, the Company retired 2,064 and 458 shares, respectively, of convertible preferred stock, which were converted to a similar number of common shares.



During the six months ended June 30, 2001 and 2000, notes payable of $18,493 and $41,525, respectively, were incurred for the purchase of automobiles.

(3) Comprehensive Income (Loss)

The Company has no items of other comprehensive income; therefore, there is no difference between the Company's comprehensive income (loss) and net income (loss) for the periods presented.

(4) Net Income (Loss) Per Common Share

A reconciliation between the numerators and denominators of the basic and diluted income (loss) per common share is as follows:

| | Six Months Ended June 30, 2001 | Six Months Ended June 30, 2000 | Three Mo 2001 |
|---|---|---|---|
| Net income (loss) numerator | $ 42,061 | (803,143) | 15,574 |
| Weighted average common shares (denominator for basic income per share) | 1,602,630 | 1,523,368 | 1,603,659 |
| Effect of dilutive securities: | | | |
| Convertible preferred stock | 1,465,416 | 1,532,678 | 1,464,387 |
| Employee stock options | 25,522 | 147,244 | 3,048 |
| Weighted average common and potential common shares outstanding (denominator for diluted income per share) | 3,093,568 | 3,203,290 | 3,071,094 |
| Income (loss) per common share: | | | |
| Basic: | | | |
| Continuing operations | $ 0.03 | 0.17 | 0.01 |
| Loss on discontinued operation | - | (0.70) | - |
| Net income (loss) per common share | $ 0.03 | (0.53) | 0.01 |
| Diluted: | | | |
| Continuing operations | $ 0.01 | 0.08 | 0.01 |
| Loss on discontinued operation | - | (0.33) | - |
| Net income (loss) per common share | $ 0.01 | (0.25) | 0.01 |

The diluted weighted average shares were used to calculate diluted income per share for discontinued operations in accordance with Accounting Principles Board Opinion No. 30, "Reporting the Results of Operations-Reporting the Effects of Disposal of a Segment of a Business and Extraordinary, Unusual and Infrequently Occurring Events and Transactions."

Employee stock options totaling 249,600 and 169,600 for the three and six months ended June 30, 2001 were not included in the net income per share calculation because their effect would have been anti-dilutive. There were no anti-dilutive stock options for the three or six months ended June 30, 2000.

(5) INDUSTRY SEGMENTS

The Company has two reportable segments: (1) door hardware and door distribution and (2) HVAC. Summarized financial information for each of the Company's segments for the three months and six months ended June 30, 2001 and 2000 follows:

THREE MONTHS ENDED JUNE 30, 2001

| | Door hardware and door distribution | HVAC | Corporate and unallocated | Eliminations |
|---|---|---|---|---|
| Net sales | $ 6,641,907 | 7,676,590 | -- | -- |
| Operating income (loss) | 232,457 | 247,814 | (197,737) | -- |
| Interest expense | 175,691 | 170,424 | -- | -- |
| Income (loss) before income taxes | (5,634)(a) | 61,239(a) | (69,931) (a) | -- |
| Income (loss) from continuing operations, net of tax | 44,366(a) | 61,239(a) | (90,031)(a)(b) | -- |
| Total assets | 16,962,719 | 16,550,840 | 9,655,220(c) | (15,133,146) |

SIX MONTHS ENDED JUNE 30, 2001

| | Door hardware and door distribution | HVAC | Corporate and unallocated | Eliminations |
|---|---|---|---|---|
| Net sales | $13,740,098 | 14,280,766 | -- | -- |
| Operating income (loss) | 927,048 | 187,054 | (419,340) | -- |
| Interest expense | 355,357 | 357,149 | -- | -- |
| Income (loss) before income taxes | 446,891(a) | (208,779)(a) | (162,051)(a) | -- |
| Income (loss) from continuing operations, net of tax | 358,891(a) | (208,779)(a) | (108,051)(a)(b) | -- |
| Total assets | 16,962,719 | 16,550,840 | 9,655,220(c) | (15,133,146)( |

THREE MONTHS ENDED
JUNE 30, 2000

| | Door hardware and door distribution | HVAC | Corporate and unallocated | Eliminatio |
|---|---|---|---|---|
| Net sales | $ 7,521,670 | 8,658,440 | -- | -- |
| Operating income (loss) | 661,636 | 359,420 | (366,552) | -- |
| Interest expense | 193,830 | 205,731 | -- | (17,415 |
| Income (loss) before income taxes | 467,664(a) | 107,069(a) | (206,301)(a) | -- |
| Income (loss) from continuing operations, net of tax | 356,402(a) | 94,131(a) | (9,801)(a)(b) | -- |
| Total assets | 22,147,610 | 17,512,961 | 12,451,321 (c) | (11,465,062 |

SIX MONTHS ENDED
JUNE 30, 2000

| | Door hardware and door distribution | HVAC | Corporate and unallocated | Eliminatio |
|---|---|---|---|---|
| Net sales | $11,858,169 | 15,926,271 | -- | -- |
| Operating income (loss) | 609,354 | 496,812 | (644,091) | -- |
| Interest expense | 280,020 | 392,156 | -- | (33,369 |
| Income (loss) before income taxes | 266,311(a) | 10,696(a) | (320,078)(a) | -- |
| Income (loss) from continuing operations, net of tax | 187,381(a) | 6,026(a) | 64,122(a)(b) | -- |
| Total assets | 22,147,610 | 17,512,961 | 12,451,321(c) | (11,465,062 |

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### FORWARD-LOOKING STATEMENTS

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

Results of Operations - Three Months Ended June 30, 2001 and 2000

The Company reported a net profit of $15,574 for the second quarter of 2001, which includes net income of $44,366 from Atlantic Hardware and Supply Corporation ("Atlantic") and net income of $61,239 from Universal Supply Group, Inc. ("Universal"), as compared to a net loss of $462,044 for the second quarter of 2000, which included $356,402 of net income from Atlantic, $94,131 of net income from Universal and $902,776 of net loss from the discontinued operations of Well-Bilt Steel Products, Inc. ("Well-Bilt").

Sales decreased $1,861,613 (11.5%) to $14,318,497 as compared to the prior year's quarter due to a decrease in sales at Atlantic of $879,763 (11.7%) and a decrease in sales at Universal of $981,850 (11.3%). Sales decreased at Atlantic due to the timing of shipments from its backlog of confirmed contracts. Universal's sales declined due to the uncertainty of economic conditions in its geographical region, principally New Jersey.



Selling, general and administrative expenses decreased $287,498 (7.3%) due primarily to reductions in commissions and bonuses resulting from revisions to the Company's compensation policy for salesmen.

Interest expense decreased $36,031 principally due to lower outstanding borrowings on the credit line as well as a reduction in the applicable interest rate on outstanding borrowings. The lower outstanding borrowings were attributable to increased collections on trade receivables. Interest income decreased $77,820 due to lower average invested cash balances resulting from the additional cash utilized in the Company's investment in Well-Bilt subsequent to June 30, 2000. Other income increased $31,001 due to increased finance charges collected on Universal's accounts receivable.

During the three months ended June 30, 2001, the Company reversed the deferred federal tax expense recorded in the first quarter in the amount of $12,900. The amount was reversed as the Company is in a year to date federal loss position due to a significant level of permanent differences, as of June 30, 2001. The Company also recorded a current state tax benefit of $17,000 for the quarter, due to a reduction in Atlantic's estimated taxable state income for the six month period ended June 30, 2001. During the 2000 quarter, the Company provided for a federal and state tax benefit of $72,300.

Results of Operations - Six Months Ended June 30, 2001 and 2000

The Company reported a net profit of $42,061 for the first half of 2001, which includes $358,891 of net income from Atlantic and a net loss of $208,779 from Universal, as compared to a net loss of $803,143 for the first half of 2000, which included $187,381 of net income from Atlantic, $6,026 of net income from Universal and $1,060,672 of net loss from the discontinued operations of Well-Bilt.

Sales increased $236,424 (0.9%) to $28,020,864 principally due to increased sales at Atlantic of $1,881,929 (15.9%) offset by a decrease in sales at Universal of $1,645,505 (10.3%). Sales increased at Atlantic due to the timing of shipments from its backlog of confirmed contracts. Atlantic's backlog of firm contracts decreased $4,400,000 to $8,600,000 from December 31, 2000 and $5,300,000 from June 30, 2000 due to timing of shipments during the six months ended June 30, 2001, as well as softer economic conditions. Universal's sales declined due to the uncertainty of economic conditions in its geographical region, principally New Jersey.

Selling, general and administrative expenses decreased $355,527 (4.6%) from last year principally due to reductions in commissions resulting from revisions to the Company's compensation program, as well as reductions in bonuses and advertising and promotions.



Interest expense increased $73,699 due primarily to increased borrowings related to the acquisition and operation of Well-Bilt. Interest income decreased $96,284 due to lower average invested cash balances resulting from the Company's investment in Well-Bilt. Other income increased $56,428 largely due to increased finance charges collected on Universal's accounts receivable.

For the six months ended June 30, 2001, the Company is in a federal tax loss position and therefore has not provided for deferred federal tax expense on the net income of $42,061. The Company did, however, record an estimated state tax expense of $34,000 on the taxable income of Atlantic. During the first half of 2000, the Company provided for a federal and state tax benefit of $300,600.

Liquidity and Capital Resources

As of June 30, 2001, the Company had $647,070 in cash and cash equivalents compared with $827,371 at December 31, 2000.

Cash flows provided by operations were $1,245,105 during the six months ended June 30, 2001. Accounts receivable declined due to a decrease in sales at Universal and increased collections at Atlantic. Inventory increased as a result of the stage of completion of Atlantic's current contracts and the purchase of a large volume of air conditioners and related accessories by Universal in preparation for the summer season. Accounts payable also decreased due to the Company's concentrated efforts at Atlantic to pay the outstanding payables to vendors.

Cash flows used in investing activities of $153,132 during the six months ended June 30, 2001 were primarily due to $148,332 for the purchase of property and equipment.

Cash flows used in financing activities of $668,864 were primarily for repayments made on the credit facility. These repayments were principally the result of increased collections on trade receivables.

Net cash used in discontinued operation of $603,410 for the six months ended June 30, 2001 reflects the results of the disposal of Well-Bilt. Net cash used of $2,980,083 for the six months ended June 30, 2000 reflects the acquisition and operating losses of Well-Bilt.

At June 30, 2001, amounts outstanding under the $18,000,000 credit facility were $16,544,991 of which $2,599,500 represents amounts under a term loan, payable in 60 equal monthly installments of $76,500. Although the term loan is payable over 60



months, the Bank can demand payment at any time. As monthly repayments are made on the term loan, the available line of credit portion of the facility increases by the amount of the principal repayment. At June 30, 2001, the amount of unused available credit was $1,455,009.

The Company believes that the remaining credit available under the credit facility is sufficient to finance its current operating needs, however, the Company's ability to finance future growth in operations or non-operating activities through the credit facility is limited.

Recent Accounting Pronouncements

In July 2001, the Financial Accounting Standards Board (FASB) issued Statement 141, "Business Combinations" (Statement 141) and Statement No. 142, "Goodwill and Other Intangible Assets" (Statement 142). Statement 141 requires companies to account for acquisitions entered into after June 30, 2001 using the purchase method and establishes criteria to be used in determining whether acquired intangible assets are to be recorded separately from goodwill. These criteria are to be applied to business combinations completed after June 30, 2001. Statement 141 will require, upon adoption of Statement 142, that the Company evaluate its existing intangible assets and goodwill that were acquired in a prior purchase business combination, and make any necessary reclassifications in order to conform with the new criteria in Statement 141 for recognition apart from goodwill. The Company does not believe that implementation of Statement 141 will have an impact on the Company's financial position and results of operations.

Statement 142 requires that goodwill and intangible assets with indefinite useful lives no longer be amortized, but rather will be tested for impairment at least annually. Statement 142 also requires that intangible assets with definite useful lives be amortized over their respective estimated useful lives to their estimated residual values and reviewed for impairment in accordance with SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." Upon adoption of Statement 142, the Company will be required to perform an assessment of whether there is an indication that goodwill (and equity-method goodwill) is impaired as of the date of adoption. To accomplish this, the Company must identify its reporting units and determine the carrying value of each reporting unit by assigning the assets and liabilities, including the existing goodwill and intangible assets, to those reporting units as of the date of adoption. Statement No. 142 also requires that any unamortized negative goodwill existing at the date Statement

No. 142 is adopted, must be written off as a cumulative effect of a change in accounting principle. The Company is required to



adopt the provisions of Statement 142 effective January 1, 2002 and, accordingly, will reverse into income the unamortized negative goodwill, which will approximate $385,815 at December 31, 2001. The Company has not yet determined any additional impact that the adoption of Statement 142 will have on its financial position or results of operations.

## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company's pre-tax earnings and cash flows are exposed to changes in interest rates as borrowings under its credit facility bear interest at the prime rate, plus 1%. A hypothetical 10% adverse change in such rates would reduce pre-tax earnings and cash flow by approximately $136,000 over a one-year period, assuming the borrowing level remains consistent with the outstanding borrowings as of June 30, 2001. The fair value of the borrowings under the credit facility is not significantly affected by changes in market interest rates.

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

# PART II. OTHER INFORMATION

## ITEM 1. LEGAL PROCEEDINGS - None

## ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

(a) Annual Meeting of Shareholders on June 13, 2001

(b) On June 13, 2001, the preferred shareholders elected William Koon, William Pagano, Ronald Miller and Jack Rose as preferred stock directors of the Company, and the common shareholders elected Gerald S. Deutsch, Bernard Korn, James W. Stewart, Paul Selden and Carl L. Sussman as common stock directors. The common and preferred shareholders voted in favor of a resolution appointing KPMG LLP as the independent public accountants for the Company for the fiscal year ending December 31, 2001.

| PROPOSAL | FOR | AGAINST | ABSTAINED |
|---|---|---|---|
| For the preferred shareholders to elect William Koon, Ronald Miller, Jack Rose and William Pagano as Preferred Stock directors: | | | |
| William Koon | 687,026 | - | 13,163 |
| Ronald Miller | 687,090 | - | 13,101 |
| Jack Rose | 686,867 | - | 13,322 |
| William Pagano | 687,024 | - | 13,163 |
| For the common shareholders to elect Gerald S. Deutsch, Bernard Korn, Paul Selden, James W. Stewart and Carl L. Sussman as Common Stock directors: | | | |
| Gerald S. Deutsch | 1,376,301 | - | 18,877 |
| Bernard Korn | 1,375,740 | - | 19,438 |
| Paul Selden | 1,376,301 | - | 18,877 |
| James W. Stewart | 1,375,844 | - | 19,334 |
| Carl L. Sussman | 1,376,301 | - | 18,877 |
| To ratify the selection of KPMG LLP as independent public accountants of the Company for the fiscal year ending December 31, 2001 | 2,068,409 | 12,409 | 14,230 |



## ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Reports on Form 8-K. During the three months ended June 30, 2001, the Registrant did not file any reports on Form 8-K.

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: August 13, 2001

COLONIAL COMMERCIAL CORP.

/S/ BERNARD KORN
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Bernard Korn,
Chairman of the Board and President

/S/ JAMES W. STEWART
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James W. Stewart,
Executive Vice President and Treasurer