CCA Industries, Inc.

Financial Statements (Unaudited)

For the Quarter and Year to Date Ended May 31, 2019

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CCA INDUSTRIES, INC. AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS

INDEX

CCA INDUSTRIES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

		May 31, 2019		November 30, 2018
ASSETS		(Unaudited)		
Current assets:				
Cash and cash equivalents	$	610,288	$	373,626
Accounts receivable, net of allowances of $336,314 and $361,931, respectively		3,139,720		2,598,585
Inventories		2,629,145		3,312,573
Prepaid expenses and sundry receivables		504,343		588,258
Prepaid and refundable income taxes		26,202		25,803
Total Current Assets		**6,909,698**		**6,898,845**
Property and equipment, net of accumulated depreciation		90,409		84,595
Intangible assets, net of accumulated amortization		436,382		436,574
Deferred financing fees, net of accumulated amortization		130,344		148,451
Deferred income taxes		5,951,925		6,149,642
Other		436,745		436,745
Total Assets	**$**	**13,955,503**	**$**	**14,154,852**
LIABILITIES AND CAPITAL				
Current Liabilities:				
Accounts payable and accrued liabilities	$	3,243,316	$	3,155,333
Line of credit		335,043		1,134,726
Notes payable – current portion		375,000		375,000
Total Current Liabilities		**3,953,359**		**4,665,059**
Note payable		656,250		843,750
Long term accrued liabilities		151,086		174,530
Long term - other		168,859		168,859
Total Liabilities		**4,929,554**		**5,852,198**
Shareholders' Equity:				
Preferred stock, $1.00 par, authorized 20,000,000 none issued		—		—
Common stock, $.01 par, authorized 15,000,000 shares, issued and outstanding 6,488,982 and 6,488,982 shares, respectively		64,890		64,890
Class A common stock, $.01 par, authorized 5,000,000 shares, issued and outstanding 967,702 and 967,702 shares, respectively		9,677		9,677
Additional paid-in capital		6,280,006		6,100,270
Retained earnings		2,671,376		2,127,817
Total Shareholders' Equity		**9,025,949**		**8,302,654**
Total Liabilities and Shareholders' Equity	**$**	**13,955,503**	**$**	**14,154,852**

See Notes to Unaudited Consolidated Financial Statements.

CCA INDUSTRIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

	Three Months Ended May 31,		Six Months Ended May 31,	
	2019	2018	2019	2018
Revenues:				
Sales of health and beauty aid products - net	$ 5,454,690	$ 4,222,986	$ 9,353,711	$ 8,217,336
Other income	3,000	2,254	6,000	6,328
Total Revenues	**5,457,690**	**4,225,240**	**9,359,711**	**8,223,664**
Costs and Expenses:				
Cost of sales	2,212,458	1,859,301	3,562,914	3,508,264
Selling, general and administrative expenses	2,009,829	2,077,702	3,865,820	3,922,942
Advertising, cooperative and promotional expenses	602,508	505,745	909,581	855,488
Research and development	69,715	14,879	142,349	29,393
Bad debt expense	1,111	12,622	97	16,713
Interest expense	90,140	61,652	133,349	304,715
Total Costs and Expenses	**4,985,761**	**4,531,901**	**8,614,110**	**8,637,515**
Income (Loss) before provision for (benefit from) income taxes	**471,929**	**(306,661)**	**745,601**	**(413,851)**
Provision for (Benefit from) income taxes	122,609	(14,341)	202,042	3,099,129
Net Income (Loss)	**$ 349,320**	**$ (292,320)**	**$ 543,559**	**$ (3,512,980)**
Earnings (Loss) per Share:				
Basic				
Income (Loss)	$ 0.05	$ (0.04)	$ 0.07	$ (0.48)
Diluted				
Income (Loss)	$ 0.05	$ (0.04)	$ 0.07	$ (0.48)
Weighted Average Common Shares Outstanding				
Basic	7,456,684	7,456,684	7,456,684	7,293,497
Diluted	7,456,684	7,456,684	7,456,684	7,293,497

See Notes to Unaudited Consolidated Financial Statements.

CCA INDUSTRIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Six Months Ended May 31, 2019	Six Months Ended May 31, 2018
Cash Flows from Operating Activities:		
Net Income (Loss)	$ 543,559	$ (3,512,980)
Adjustments to reconcile net income to cash provided by (used in) operating activities:		
Depreciation and amortization	22,736	27,454
Change in allowance for bad debts	97	16,713
Loss on write off of fixed assets	—	782
Deferred financing fees amortization	18,107	61,770
Stock-based compensation	179,736	86,163
Deferred income taxes	197,716	3,049,226
Change in Operating Assets & Liabilities:		
(Increase) in accounts receivable	(541,232)	(290,252)
Decrease (Increase) in inventory	683,427	(518,855)
Decrease (Increase) in prepaid expenses and other receivables	83,916	(307,595)
(Increase) Decrease in prepaid income and refundable income tax	(399)	38,153
Decrease in other assets	—	80
Increase in accounts payable and accrued liabilities	64,540	368,042
Increase in income tax payable	—	3,534
Net Cash Provided by (Used in) Operating Activities	1,252,203	(977,765)
Cash Flows from Investing Activities:		
Acquisition of plant and equipment	(28,358)	(25,586)
Purchase of intangible assets	—	(4,390)
Net Cash (Used in) Investing Activities	(28,358)	(29,976)
Cash Flows from Financing Activities:		
Payment on line of credit, net	(799,683)	(1,744,718)
Payment on notes payable, net	(187,500)	1,406,250
Proceeds from exercise of warrant	—	1,426,500
Payment of deferred financing fees	—	(130,000)
Net Cash (Used in) Provided by Financing Activities	(987,183)	958,032
Net Increase (Decrease) in Cash and Cash Equivalents	236,662	(49,709)
Cash and Cash Equivalents at Beginning of Period	373,626	140,243
Cash and Cash Equivalents at End of Period	$ 610,288	$ 90,534
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the period for:		
Interest	$ 133,349	$ 304,715
Income taxes	$ 4,390	$ 5,075

See Notes to Unaudited Consolidated Financial Statements

NOTE 1 - BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. Operating results for the three- and six-month periods ending May 31, 2019 are not necessarily indicative of the results that may be expected for the entire year ended November 30, 2019. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's annual report on Form 10-K for the year ended November 30, 2018. The accompanying unaudited consolidated financial statements, in the opinion of management, include all adjustments necessary for a fair presentation. All such adjustments are of a normal recurring nature.

NOTE 2 - ORGANIZATION AND DESCRIPTION OF BUSINESS

CCA Industries, Inc. ("CCA") was incorporated in the State of Delaware on March 25, 1983.

CCA manufactures and distributes health and beauty aid products.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation:

The consolidated financial statements include the accounts of CCA and its wholly-owned subsidiaries (collectively the "Company"). All significant inter-company accounts and transactions have been eliminated.

Estimates and Assumptions:

The consolidated financial statements include the use of estimates, which management believes are reasonable. The process of preparing financial statements in conformity with accounting principles generally accepted in the United States ("GAAP"), requires management to make estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accounting estimates and assumptions are those that management considers to be most critical to the financial statements because they inherently involve significant judgment and uncertainties. All of these estimates and assumptions reflect management's best judgment about current economic and market conditions and their effects on the information available as of the date of the consolidated financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Cash and Cash Equivalents:

The Company considers all highly liquid instruments purchased with an original maturity of three months or less to be cash equivalents.

Accounts Receivable:

Accounts receivable consist of trade receivables recorded at original invoice amount, less an estimated allowance for uncollectible amounts. The accounts receivable balance is further reduced by allowance for cooperative advertising and reserves for returns which are anticipated to be taken as credits against the balances as of May 31, 2019. The reserve for returns may include specific reserves based on individual customer circumstances. The allowances and reserves which are anticipated to be deducted from future invoices are included in accrued liabilities.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Trade credit is generally extended on a short-term basis; thus trade receivables do not bear interest, although a finance charge may be applied to receivables that are past due. 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 uncollectible are offset against the allowance for uncollectible accounts. The Company generally does not require collateral for trade receivables.

Inventories:

Inventories are stated at the lower of cost (weighted average) or net realizable value. Product returns deemed saleable are recorded in inventory when they are received at the lower of their original cost or net realizable value, as appropriate. Obsolete inventory is written off and its value is removed from inventory at the time its obsolescence is determined.

Property and Equipment and Depreciation and Amortization:

Property and equipment are stated at cost. The Company charges to expense repairs and maintenance items, while major improvements and betterments are capitalized.

When the Company sells or otherwise disposes of property and equipment items, the cost and related accumulated depreciation are removed from the respective accounts and any gain or loss is included in earnings.

Depreciation and amortization are provided utilizing the straight-line method over the following estimated useful lives or lease terms of the assets, whichever is shorter:

Computer equipment	5 -7 Years
Furniture and fixtures	3-10 Years
Tools, dies and masters	3 Years
Leasehold improvements	Term of the lease

Intangible Assets:

Intangible assets, which consist of patents and trademarks, are stated at cost. Patents are amortized on the straight-line method over a period of 17 years. Patents are reviewed for impairment when events or changes in business indicate that the carrying amount may not be recoverable. Trademarks are indefinite lived intangible assets and are reviewed for impairment annually or more frequently if impairment conditions occur.

Long-Lived Assets:

Long-lived assets are assets in which the Company has an economic benefit for longer than twelve months from the date of the financial statements. Long-lived assets include property and equipment, intangible assets, deferred financing fees, deferred income taxes and other assets. The Company evaluates impairment losses on long-lived assets used in operations when events and circumstances indicate that the asset might be impaired. If the review indicates that the carrying value of an asset will not be recoverable, based on a comparison of the carrying value of the asset to the undiscounted future cash flows, the impairment will be measured by comparing the carrying value of the asset to its fair value. Fair value will be determined based on discounted cash flows or appraisals. Impairments are recorded in the statement of operations as part of selling, general and administrative expenses.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition: (See also Cooperative Advertising)

The Company recognizes sales in accordance with ASC Topic 605 "Revenue Recognition". Revenue is recognized upon shipment of merchandise. Net sales comprise gross revenues less expected returns, trade discounts, customer allowances and various sales incentives. Included in sales incentives are coupons that the Company issues that are redeemed by its customers. Redemptions are handled by a coupon national clearing house. The Company also has estimated that there is an approximate six-week lag in coupon redemptions, with the estimated cost recorded as an accrued liability. Although no legal right of return exists between the customer and the Company, returns, including return of unsold products, are accepted if it is in the best interests of the Company's relationship with the customer. The Company, therefore, records a reserve for returns based on the historical returns as a percentage of sales in the three preceding months and specific reserve based on customer circumstances and product circumstances. Those returns which are anticipated to be taken as credits against the balances as of May 31, 2019 are offset against the accounts receivable. The reserves which are anticipated to be deducted from future invoices are included in accrued liabilities. Changes in the estimated coupon reserve and sales return reserve are recorded to Sales of health and beauty aid products - net, in the Consolidated Statement of Operations.

Cooperative Advertising:

Cooperative advertising is accrued based on a combination of new contracts given to the customers in the current fiscal year, along with liabilities open from prior years. Specific new contracts in the current fiscal year are identified as sales incentives (see sales incentives) and those contracts reduce revenues for the current period. The balances for all years open are reduced throughout the year by either the customer advertising and submitting the proof according to the contract or by customer post audit adjustments that finalize any amount due. Any item open more than three years is closed unless management believes that a deduction may still be taken by the customer. The portion of cooperative advertising recorded as sales incentives was reduced by $147,159 and $294,942, respectively, in the three and six months ended May 31, 2019 to reduce open cooperative advertising contracts for 2016 for events that have been finalized. There were reductions of $133,762 and $267,595, respectively, for open cooperative advertising contracts that were finalized during the three and six months ended May 31, 2018. The balance of the remaining open cooperative advertising is allocated between accrued liabilities and the allowance for cooperative advertising based on the customer's open accounts receivable balance.

Sales Incentives:

The Company has accounted for certain sales incentives offered to customers by charging them directly to sales as opposed to advertising and promotional expense. These accounting adjustments do not affect net income (loss).

Shipping Costs:

The Company's policy for financial reporting is to charge shipping costs as part of selling, general and administrative expenses as incurred. Shipping costs included for the three months ended May 31, 2019 and May 31, 2018 were $192,239 and $205,235, respectively. Shipping costs included for the six months ended May 31, 2019 and May 31, 2018 were $348,728 and $303,385, respectively.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Advertising Costs:

The Company's policy for financial reporting is to charge advertising cost to expense as incurred. Advertising, cooperative and promotional expenses for the three months ended May 31, 2019 and May 31, 2018 were $602,508 and $505,745, respectively. Advertising, cooperative and promotional expenses for the six months ended May 31, 2018 and May 31, 2017 were $909,581 and $855,488, respectively.

Research and Development Costs:

The Company's policy for financial reporting is to charge research and development costs to expense as incurred. Research and development costs for the three months ended May 31, 2019 and May 31, 2018 were $69,715 and $14,879, respectively. Research and development costs for the six months ended May 31, 2019 and May 31, 2018 were $142,349 and $29,393, respectively.

Income Taxes:

Income taxes are accounted for under ASC Topic 740 "Income Taxes", which utilizes the asset and liability method. Deferred tax assets and liabilities are recognized for future tax consequences attributable to the temporary differences between the carrying amounts of assets and liabilities as recorded on the Company's financial statements and the carrying amounts as reflected on the Company's income tax return. In addition, the portion of charitable contributions that cannot be deducted in the current period and are carried forward to future periods are also reflected in the deferred tax assets. A substantial portion of the deferred tax asset is due to the losses incurred in fiscal 2015 and prior years, the benefit of which will be carried forward into future tax years. Deferred tax assets and liabilities are valued using the tax rates expected to apply in the years in which those temporary differences are expected to be recovered or settled. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion, or all of the deferred tax asset will not be realized. Management has estimated that it will utilize the entire deferred tax asset in future years based on projections of future profits. However, profits can be impacted if the Company's sales decrease.

The Company previously adopted the provisions of ASC Subtopic 740-10-25, "Uncertain Tax Positions." Management believes that there were no unrecognized tax benefits, or tax positions that would result in uncertainty regarding the deductions taken, as of May 31, 2019 and November 30, 2018. ASC Subtopic 740-10-25 prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more-likely-than-not to be sustained upon examination by taxing authorities.

Tax Credits:

Tax credits, when present, are accounted for using the flow-through method as a reduction of income taxes in the years utilized.

Earnings (Loss) Per Common Share:

Basic earnings (loss) per share are calculated in accordance with ASC Topic 260, "Earnings Per Share", which requires using the average number of shares of common stock outstanding during the year. Diluted earnings per share is computed on the basis of the average number of common shares outstanding plus the dilutive effect of any common

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

stock equivalents using the "treasury stock method". Common stock equivalents consist of stock options and unexercised warrants.

Stock Options:

ASC Topic 718, "Stock Compensation," requires stock grants to employees to be recognized in the consolidated statement of operations based on their fair values. The Company issued stock options in fiscal 2018 and 2017; see Note 12 for details.

Recent Accounting Pronouncements:

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") No. 2016-02, Leases. The new standard establishes a right-of-use (ROU) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. While we are still evaluating the impact of our pending adoption of the new standard on our consolidated financial statements, we expect that upon adoption we will recognize ROU assets and lease liabilities and that the amounts could be material.

In March 2019, the FASB issued ASU No. 2019-01, which is an amendment to Topic 842, Leases. The amendments align the guidance for fair value of the underlying asset by lessors that are not manufacturers or dealers in Topic 842 with that of existing guidance. As a result, the fair value of the underlying asset at lease commencement is its cost, reflecting any volume or trade discounts that may apply. However, if there has been a significant lapse of time between when the underlying asset is acquired and when the lease commences, the definition of fair value (in Topic 820, Fair Value Measurement) should be applied. The ASU exempts both lessees and lessors from having to provide certain interim disclosures in the fiscal year in which a company adopts the new leases standard.

Management does not believe that any recently issued, but not yet effective, accounting standards if currently adopted would have a material effect on the accompanying financial statements, other than any that were disclosed in prior Company filings with the SEC.

NOTE 4 - INVENTORIES

The components of inventory consist of the following:

	May 31, 2019	November 30, 2018
Raw materials	$ 193,746	$ 160,843
Finished goods	2,435,399	3,151,730
	$ 2,629,145	$ 3,312,573

NOTE 5 - PROPERTY AND EQUIPMENT

The components of property and equipment consisted of the following:

	May 31, 2019	November 30, 2018
Furniture and equipment	$ 150,584	$ 132,221
Tools, dies and masters	138,856	128,861
Leasehold improvements	2,932	2,932
	292,372	264,014
Less: Accumulated depreciation	201,963	179,419
Property and Equipment - Net	$ 90,409	$ 84,595

Depreciation expense for the three months ended May 31, 2019 and May 31, 2018 amounted to $12,010 and $13,778, respectively. Depreciation expense for the six months ended May 31, 2019 and May 31, 2018 amounted to $22,544 and $27,260, respectively.

NOTE 6 - INTANGIBLE ASSETS

Intangible assets consist of owned trademarks and patents for ten product lines.

	May 31, 2019	November 30, 2018
Patents and trademarks	$ 583,327	$ 583,327
Less: Accumulated amortization	146,945	146,753
Intangible Assets - Net	$ 436,382	$ 436,574

Patents are amortized on a straight-line basis over their legal life of 17 years. Trademarks have an indefinite life and are reviewed annually for impairment or more frequently if impairment indicators occur. Amortization expense for the three months ended May 31, 2019 and 2018 amounted to $96 and $97, respectively. Amortization expense for the six months ended May 31, 2019 and May 31, 2018 amounted to $192 and $194, respectively. Estimated amortization expenses for the years ending November 30, 2020, 2021, 2022, 2023 and 2024 are $243, $243, $243, $243 and $243, respectively.

NOTE 7 - ACCRUED EXPENSES

The following items which exceeded 5% of total current liabilities are included in accrued expenses as of:

	May 31, 2019	November 30, 2018
Co-operative advertising	$ 536,020	$ 674,997
Master broker commissions	$ 371,630	$ *

* represents less than 5% as of total current liabilities

The following items which exceeded 5% of total long-term liabilities are included in long-term accrued expenses as of:

	May 31, 2019	November 30, 2018
Sub-lease rent differential	$ 151,086	$ 174,350

NOTE 8 - DEBT AGREEMENT

On February 5, 2018, the Company entered into the Revolving Credit, Term Loan and Security Agreement (the “2018 Credit Agreement”) with PNC Bank, National Association ("PNC"). The 2018 Credit Agreement provides for a term loan in an amount of $1,500,000 (the “Term Loan”) and a revolving line of credit up to a maximum of $4,500,000 (the “2018 Revolving Loan” and together with the Term Loan, the “Loans”). The proceeds of the Loans were used to pay off the Company's existing debt with CNH Finance Fund I, L.P., formerly known as SCM Specialty Finance Opportunities Fund, L.P. (“CNH”), and for general working capital purposes. The Term Loan is payable in consecutive monthly installments of $31,250 commencing March 1, 2018 and bears interest, at the election of the Company, at either the PNC base rate plus1% or 30, 60- or 90-day LIBOR rate plus 3.50%. All outstanding amounts under the 2018 Revolving Loan bear interest, at the election of the Company, at either the PNC base rate plus 0.25% or 30, 60 or 90 day LIBOR rate plus 2.75%, payable monthly in arrears. The Company is also required to pay a quarterly unused line fee and collateral management fee. The commitment under the 2018 Credit Agreement expires three years after the Closing Date. The Loans and all other amounts due and owing under the 2018 Credit Agreement and related documents are secured by a first priority perfected security interest in, and lien on, substantially all of the assets of the Company. Amounts available for borrowing under the Revolving Loan equal the lesser of the Borrowing Base (as defined below), and $4,500,000, in each case, as the same is reduced by the aggregate principal amount outstanding under the 2018 Revolving Loan. “Borrowing Base” under the Credit Agreement means, generally, the amount equal to (i) 85% of the Company’s eligible accounts receivable, plus (ii) 65% of the value of eligible inventory, less (iii) certain reserves. The 2018 Credit Agreement contains customary representations, warranties and covenants on the part of the Company, including a financial covenant requiring the Company to maintain a fixed charge coverage ratio of no less than 1.10 to 1.0. The 2018 Credit Agreement also provides for events of default, including failure to repay principal and interest when due and failure to perform or violation of the provisions or covenants of the agreement, as a result of which amounts due under the 2018 Credit Agreement may be accelerated. On the Closing Date, the Company borrowed the entire $1,500,000 Term Loan. These amounts were used, in part, to pay off the total amount due under the Company's Credit and Security Agreement with CNH.

NOTE 8 - DEBT AGREEMENT (CONTINUED)

The foregoing description of the Credit Agreement does not purport to be complete and is qualified in its entirety by reference to the Form 8-K filed by the Company with the SEC on February 8, 2018. The 2018 Credit Agreement contains a financial covenant requiring the Company to maintain a fixed charge coverage ratio of no less than 1.10 to 1.0 as of the end of each fiscal quarter measured on a rolling four quarter basis. Although the Company was in compliance with this covenant as of the end of the first quarter of fiscal 2018, the Company was not in compliance with this covenant as of the end of the second and third quarters of fiscal 2018 due to the Company's losses in those quarters, which constituted events of default under the 2018 Credit Agreement. Under the terms of the 2018 Credit Agreement, an event of default permits PNC to, among other things, terminate the agreement and accelerate any indebtedness outstanding thereunder. PNC waived compliance with the financial covenant for the second and third quarters of fiscal 2018. In addition, on October 19, 2018, the 2018 Credit Agreement was amended to reset the commencement date of the fixed charge coverage ratio covenant to begin with the fiscal quarter ending November 30, 2018. For the quarter ending November 30, 2018, the covenant was tested only for the fiscal quarter then ending; for the quarter ending February 28, 2019, the covenant was tested for the two fiscal quarter periods ending; and for the quarter ending May 31, 2019, the covenant was tested for the three fiscal quarter periods then ending. Thereafter, the covenant will be tested on a rolling four quarter basis. As of May 31, 2019, the Company was in compliance with the covenant. As of May 31, 2019, there was $335,043 borrowed on the Revolving Loan and $1,031,250 borrowed on the Term Loan.

On December 4, 2015 (the "Closing Date"), CCA Industries, Inc., a Delaware corporation (the "Company"), entered into the Credit and Security Agreement (the "Credit Agreement") with SCM Specialty Finance Opportunities Funds, L.P., an affiliate of CNH Finance, L.P. All amounts borrowed or due under the Credit Agreement were paid off when the Company entered into the 2018 Credit Agreement with PNC. The Credit Agreement provided for a line of credit up to a maximum of $5,500,000 (the "Revolving Loan"). The proceeds of the Revolving Loans were used to pay off the Company's existing debt with Capital Preservation Solutions, LLC and for general working capital purposes.

Pursuant to the Credit Agreement, all outstanding amounts under the Revolving Loan bore interest at the 30-day LIBOR rate plus 6% per annum (currently in the aggregate, 6.21% per annum), payable monthly in arrears. The Company was also required to pay a monthly unused line fee and collateral management fee. The Revolving Loan and all other amounts due and owing under the Credit Agreement and related documents were secured by a first priority perfected security interest in, and lien on, substantially all of the assets of the Company. Amounts available for borrowing under the Line of Credit equal the lesser of the Borrowing Base (as defined below), and $5,500,000, in each case, as the same is reduced by the aggregate principal amount outstanding under the Line of Credit. "Borrowing Base" under the Loan Agreement means, generally, the amount equal to (i) 85% of the Company's eligible accounts receivable, plus (ii) 65% of the value of eligible inventory, less (iii) certain reserves. The Credit Agreement contained customary representations, warranties and covenants on the part of the Company, including a financial covenant requiring the Company to maintain a fixed charge coverage ratio of no less than 1.0 to 1.0. The Credit Agreement imposed an early termination fee and also provided for events of default, including failure to repay principal and interest when due and failure to perform or violation of the provisions or covenants of the agreement.

On the Closing Date, the Company drew $4,100,000 on the Revolving Loan. Of the amount drawn, $3,721,583 was used to pay the principal amount of $3,700,000 and accrued interest of $21,583 due under the

NOTE 8 - DEBT AGREEMENT (Continued)

Company's Loan Agreement with Capital Preservation Solutions, LLC described below. The balance of the funds drawn were used to pay certain fees and expenses related to entering into the Credit Agreement, with a balance of $46,032 remitted to the Company.

On September 5, 2014, the Company entered into a Loan and Security Agreement (the “Agreement”) with Capital Preservation Solutions, LLC (“Capital”) for a $5,000,000 working capital line of credit and a term loan for working capital purposes not to exceed $1,000,000. Capital is controlled by Lance Funston, the Chairman of the Board and Chief Executive Officer of the Company, who owns 19,958 shares of the Company's common stock and all of the Class A common stock. Contemporaneously with the signing of the Agreement, the Company issued a Warrant to Purchase Common Stock (the “Warrant”) to Capital whereby Capital may acquire upon exercise of the Warrant 1,892,744 shares of the Company’s Common Stock. The Warrant may be exercised in whole or in part at any time during the exercise period which is five years from the date of the Warrant. The Warrant bears a purchase price of $3.17 per share, subject to adjustments. The value of the Agreement was allocated to the relative fair values of the Loan and Security Agreement and Warrant, resulting in an allocation of value to the Warrant of $1,456,400, which was recorded on the financial statements as additional paid-in capital as of September 5, 2014, with an asset of $1,213,667 recorded as deferred financing fees and a reduction of Term Loan-Related Party of $242,733 recorded as debt discount. The deferred financing fees and related debt discount were fully amortized as of November 30, 2015. At closing, the Company executed a warrant agreement that was exercisable into a variable number of shares. The term was not consistent with the terms agreed to with the lender. The Warrant was corrected in January 2015. The Company has accounted for the transaction as if the corrected Warrant agreement was issued at closing. The working capital and term loan under the Agreement was paid in full on December 4, 2015, and the Agreement expired on December 5, 2015. The warrant remains outstanding. On February 5, 2018, Capital exercised the Warrant in part and purchased 450,000 shares at the purchase price of $3.17 per share.

NOTE 9 - OTHER INCOME

Other income consists of the following:

	Three Months Ended May 31,		Six Months Ended May 31,	
	2019	2018	2019	2018
Royalty income	$ 3,000	$ 2,254	$ 6,000	$ 6,000
Miscellaneous	—	—	—	328
Total Other Income	$ 3,000	$ 2,254	$ 6,000	$ 6,328

NOTE 10 - 401(K) PLAN

The Company has a 401(K) Profit Sharing Plan for its employees. The plan requires six months of service in order to be eligible to participate. Employees must be 21 years or older to participate. Employees may make salary reduction contributions up to 25% of compensation not to exceed the federal government limits. The Plan allows for the Company to make discretionary contributions to match employee contributions up to 3% of compensation. The Company's matching contributions vest immediately at 100% with the employee. The Company made the following matching contributions:

	Three Months Ended		Six Months Ended	
	May 31, 2019	May 31, 2018	May 31, 2019	May 31, 2018
Company Contributions	$ 13,952	$ 6,392	$ 25,706	$ 26,591

NOTE 11 - INCOME TAXES

CCA and its subsidiaries file a consolidated federal income tax return.

The Company previously adopted the provisions of ASC Subtopic 740-10-25, “Uncertain Tax Positions”. Management believes that there were no unrecognized tax benefits, or tax positions that would result in uncertainty regarding the deductions taken, as of May 31, 2019 and May 31, 2018. ASC Subtopic 740-10-25 prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more-likely-than-not to be sustained upon examination by taxing authorities.

As a result of the enactment by the United States Government of public law 115-97, an Act to provide for reconciliation pursuant to titles II and V of the concurrent resolution on the budget for fiscal year 2018 (formerly known as the Tax Cut and Jobs Act of 2017), federal corporate tax rates for periods beginning after January 1, 2018 were reduced to 21%. The Company's federal rate prior to January 1, 2018 was 34%. The Company values its deferred tax assets and liabilities using the tax rates expected to apply in the years in which those temporary differences are expected to be recovered or settled. The Company, prior to the enactment of public law 115-97, had valued its deferred tax assets and liabilities at a combined federal and state tax rate of 36.45%. Due to the corporate tax rate change, the Company has valued its deferred tax assets and liabilities based on an estimated future tax rate of 23.9% for the quarter and six months ended May 31, 2019.

The SEC issued Staff Accounting Bulletin ("SAB") 118, which provides guidance on accounting for the tax effects of Public Law 115-97. SAB 118 provides a measurement period that should not extend beyond one year from the enactment date for companies to complete the accounting under ASC 740. To the extent that a company’s accounting for certain income tax effects of public law 115-97 is incomplete but is able to determine a reasonable estimate, it must record a provisional estimate in the financial statements. The Company's accounting was complete as of November 30, 2018. The change in rate caused the Company to record an additional tax expense as part of the provision for income tax in the first quarter of fiscal 2018.

NOTE 11 - INCOME TAXES (CONTINUED)

The following chart shows the calculation of the previous tax rate and the new tax rate:

	Previous Rate	New Rate
Federal rate	34.00%	21.00%
State rate, net of federal tax benefit	2.45%	2.90%
Total	36.45%	23.90%

A portion of the loss carry forward deferred tax asset was valued at a slightly higher blended rate of 25.19% in fiscal 2018, due to the tax law taking effect on January 1, 2018.

The deferred compensation amount is from the issuance of stock options (see Note 12 - Stock-Based Compensation) and will be realized in future years if the options are exercised.

At May 31, 2019 and November 30, 2018, respectively, the Company had temporary differences arising from the following:

	May 31, 2019		November 30, 2018	
Type	Amount	Deferred Tax	Amount	Deferred Tax
Depreciation	$ (466,964)	$ (111,609)	$ (379,909)	$ (90,802)
Reserve for bad debts	10,586	2,530	10,489	2,507
Reserve for returns	191,723	45,824	182,692	43,665
Accrued returns	96,309	23,019	96,592	23,086
Reserve for obsolete	116,783	27,912	25,483	6,091
Vacation accrual	30,378	7,261	81,005	19,361
Alternative minimum tax carry forward	—	103,040	—	103,040
Research and development credit carry forward	—	65,175	—	65,175
Deferred compensation	431,322	103,090	351,764	84,075
Bonus obligation unpaid	—	—	70,686	16,895
Charitable contributions	186,908	44,673	245,650	58,713
Section 263A costs	163,724	39,132	206,283	49,304
Loss carry forward	23,580,827	5,601,878	24,277,762	5,768,532
Net deferred tax asset	$ 24,341,596	$ 5,951,925	$ 25,168,497	$ 6,149,642

NOTE 11 - INCOME TAXES (CONTINUED)

Income tax expense (benefit) is made up of the following components:

	Three Months Ended		Six Months Ended	
	May 31, 2019	May 31, 2018	May 31, 2019	May 31, 2018
Current tax - Federal	$ —	$ —	$ —	$ —
Current tax - State & Local	1,232	2,675	3,213	5,349
Deferred tax	121,377	(17,016)	198,829	3,093,780
Total Income Tax Expense	$ 122,609	$ (14,341)	$ 202,042	$ 3,099,129

Prepaid and refundable income taxes are made up of the following components:

Prepaid and refundable income taxes	Federal	State & Local	Total
May 31, 2019	$ 20,335	$ 5,867	$ 26,202
November 30, 2018	$ 20,335	$ 5,468	$ 25,803

A reconciliation of the provision for income taxes computed at the statutory rate to the effective rate for the three months and six months ended May 31, 2019, and May 31, 2018 is as follows:

	Three Months Ended May 31, 2019		Three Months Ended May 31, 2018	
	Amount	Percent of Pretax	Amount	Percent of Pretax
Provision for (benefit from) income taxes at federal statutory rate	$ 99,105	21.00 %	$ (64,399)	21.00%
Changes in provision for income taxes resulting from:				
State income taxes, net of federal income tax benefit	13,686	2.90 %	(9,598)	3.13%
Non-deductible expenses and other adjustments	9,818	2.08 %	59,656	(19.45)%
Provision for (benefit from) income taxes at effective rate	$ 122,609	25.98 %	$ (14,341)	4.68%

NOTE 11 - INCOME TAXES (CONTINUED)

	Six Months Ended May 31, 2019		Six Months Ended May 31, 2018	
	Amount	Percent of Pretax	Amount	Percent of Pretax
Provision for (benefit from) income taxes at federal statutory rate	$ 156,576	21.00 %	$ (86,909)	21.00%
Increases in taxes resulting from:				
State income taxes, net of federal income tax benefit	21,622	2.90 %	(12,954)	3.13%
Change in tax rate related to future deferred tax benefits	—	—	3,150,147	(761.18)%
Non-deductible expenses and other adjustments	23,844	3.2 %	48,845	(11.8)%
Provision for (benefit from) income taxes at effective rate	$ 202,042	27.1 %	$ 3,099,129	(748.85)%

NOTE 12 - STOCK-BASED COMPENSATION

On June 15, 2005, the shareholders approved an amended and Restated Stock Option Plan amending the 2003 Stock Option Plan (the “2005 Plan”). The 2005 Plan authorizes the issuance of up to one million shares of common stock (subject to customary adjustments set forth in the plan) pursuant to equity awards, which may take the form of incentive stock options, nonqualified stock options restricted shares, stock appreciation rights and/or performance shares. The 2005 Plan expired in April 2015, but awards made under the 2005 Plan prior to its expiration will remain in effect until such awards have been satisfied or terminated in accordance with the terms and provisions of the 2005 Plan. On August 13, 2015, the shareholders approved the 2015 CCA Industries, Inc. Incentive Plan (the "2015 Plan"). The 2015 Plan authorized the issuance of up to 700,000 shares of common stock (subject to customary adjustments set forth in the plan) pursuant to equity awards, which may take the form of incentive stock options, nonqualified stock options, stock appreciation rights, restricted stock, performance shares and cash awards. On June 7, 2017, the shareholders approved the 2015 CCA Industries, Inc. Incentive Plan as Amended. The sole purpose of the amendment was to increase the shares available for issuance under the 2015 Plan from 700,000 to 1,400,000.

The Company adheres to the provisions of ASC Topic 718, "Stock Compensation," which requires an entity to recognize the grant-date fair value of stock options and other equity-based compensation issued to employees in the financial statements.

The Company recorded a charge against earnings in the amount of $89,868 and $53,685, respectively, for the three months ended May 31, 2019 and May 31, 2018 and $179,736 and $86,163, respectively, for the six months ended May 31, 2019 and May 31, 2018 for all outstanding stock options granted.

As of May 31, 2019, there were 434,600 stock options outstanding that were exercisable. The total compensation cost of non-vested stock option awards that has not yet been recognized was $637,853 as of May 31, 2019. The weighted average period over which the unrecognized compensation is expected to be recognized is 40 months.

NOTE 12 - STOCK-BASED COMPENSATION (CONTINUED)

A summary of stock option activity for the Company is as follows:

	Number of Options	Weighted-Average Exercise Price	Weighted-Average Remaining Term (years)	Aggregate Intrinsic Value
Outstanding at November 30, 2017	871,500	$3.27	6	—
Granted	420,000	$3.30		
Exercised	—	—		
Canceled or Forfeited	177,500	—		
Outstanding at November 30, 2018	1,114,000	$3.11	7.5	
Granted	—	—	—	—
Exercised	—	—	—	—
Canceled or Forfeited	—	—	—	—
Outstanding at February 28, 2019	1,114,000	$3.11	7.2	—
Granted	—	—	—	—
Exercised	—	—	—	—
Canceled or Forfeited	—	—	—	—
Outstanding at May 31, 2019	1,114,000	$3.11	6.9	—

NOTE 13 - EARNINGS (LOSS) PER SHARE

Basic earnings (loss) per share is calculated using the average number of common shares outstanding. Diluted income (loss) per share is computed on the basis of the average number of common shares outstanding plus the effect of outstanding stock options and warrants using the "treasury stock method".

	Three Months Ended		Six Months Ended	
	May 31, 2019	May 31, 2018	May 31, 2019	May 31, 2018
Net income (loss) available for common shareholders	$ 349,320	$ (292,320)	$ 543,559	$ (3,512,980)
Weighted average common shares outstanding-Basic	7,456,684	7,456,684	7,456,684	7,293,497
Net effect of dilutive stock options and warrants	—	—	—	—
Weighted average common shares and common shares equivalents—	7,456,684	7,456,684	7,456,684	7,293,497
Earnings per Share:				
Basic				
Earnings (loss) per Share	$ 0.05	$ (0.04)	$ 0.07	$ (0.48)
Diluted				
Earnings (loss) per Share	$ 0.05	$ (0.04)	$ 0.07	$ (0.48)

For the three months ended May 31, 2019 and May 31, 2018, there were 2,556,744 and 2,239,244 shares, respectively, underlying previously issued stock options and warrants that were excluded from diluted loss per share because the effects of such shares were anti-dilutive. For the six months ended May 31, 2019 and May 31, 2018, there were 2,556,744 and 2,239,244 shares, respectively, underlying previously issued stock options and warrants that were excluded from diluted loss per share because the effects of such shares were anti-dilutive.

NOTE 14 - CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

On September 5, 2014, the Company entered into a Loan and Security Agreement (the "Agreement") with Capital Preservation Solutions, LLC ("Capital") for a $5,000,000 working capital line of credit and a term loan for working capital purposes not to exceed $1,000,000. Capital Preservation Solutions, LLC is owned by Lance Funston, the Company's Chairman of the Board and Chief Executive Officer and is also the managing partner of Capital Preservations Holdings, LLC which owns common stock and all of the Company's Class A common stock. Contemporaneously with the signing of the Agreement, the Company issued a Warrant to Purchase Common Stock (the "Warrant") to Capital whereby Capital may acquire upon exercise of the Warrant 1,892,744 shares of the Company's Common Stock. The Warrant may be exercised in whole or in part at any time during the exercise period which is five years from the date of the Warrant. The Warrant bears a purchase price of $3.17 per share, subject to adjustments. The working capital line of credit and term loan principal balances were repaid on December 4, 2015 (see Note 8 - Debt Agreement for further information). On February 5, 2018, Capital Preservation Solutions, LLC exercised 450,000 of the warrants for proceeds of $1,426,500. The remaining balance of 1,442,744 shares underlying the Warrant remain outstanding.

The Company signed an agreement in December 2014 with Funston Media Management Services, Inc. ("FMM"), which is owned by Lance Funston, the Company's Chairman of the Board and Chief Executive Officer. The agreement provided for FMM to provide consumer advertising purchasing services and brand management for the Company. The agreement ended on November 19, 2015. The Company signed a new agreement in December 2015 with FMM. The agreement provided for FMM to provide consumer advertising purchasing services and brand management for a fee equal to 10.0% of the advertising costs with no minimum fee or monthly management fee. The agreement automatically renews unless canceled by the Company or FMM. The Company incurred costs of 52,697 and $35,942, respectively, for the quarters ended May 31, 2019 and May 31, 2018 for fees to FMM. The Company incurred costs of $75,295 and $56,481, respectively, for the six months ended May 31, 2019 and May 31, 2018 for fees to FMM. As of May 31, 2019, there were unpaid fees of $13,250 due to FMM.

On March 23, 2017, the Company entered into a License Agreement (the "Agreement") with Ultimark Products, Inc. ("Ultimark") for the exclusive right to manufacture, market and sell the Porcelana brand of skin care products. The Company's Chairman of the Board and Chief Executive Officer, Lance Funston, is also the Chairman of the Board and Chief Executive Officer of Ultimark. Porcelana is designed to reduce dark spots and brighten the skin. Under the Agreement, the Company acquired the exclusive right and license to use the Porcelana brand, formulas, packaging designs and trademarks (collectively, the "Porcelana Brand") in connection with the design, development, manufacture, advertising, marketing, promotion, offering, sale and distribution of Porcelana products worldwide. In addition, the Company shall purchase all good and saleable inventory of Porcelana products in Ultimark's possession or control as of April 1, 2017 at Ultimark's cost, without markup. The Agreement has a term of eleven months, effective April 1, 2017 and ending February 28, 2018. The Agreement may be renewed, at the Company's option, for up to two additional one-year terms. The Company renewed the Agreement for an additional one-year term in February 2018 and February 2019. The Agreement required the Company to pay Ultimark a royalty of 10% on the gross sales of Porcelana products manufactured and sold under the Agreement. Royalties are payable quarterly, commencing the first fiscal quarter in which Porcelana products are sold pursuant to the Agreement. There is no minimum royalty for any period under the Agreement. In addition, the Company had the option to purchase the Porcelana Brand from Ultimark during the term of the Agreement for an amount not to exceed $3.2 million, subject to a fairness opinion. The February 2019 renewal, which was effective March 1, 2019, included a revision to the Agreement that reduced the royalty from 10% to 8% and eliminated the Company's option to purchase the Porcelana

NOTE 14 - CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS (CONTINUED)

Brand and instead gave the Company a right of first refusal on any offer that Ultimark may receive for the Porcelana Brand. The Company incurred costs of $48,907 and $59,105, respectively, for the three months ended May 31, 2019 and May 31, 2018 for royalties under the Agreement. The Company incurred costs of $92,459 and $91,912, respectively, for the six months ended May 31, 2019 and May 31, 2018 for royalties under the Agreement.

The Company rents office space at 193 Conshohocken State Road, Penn Valley, Pennsylvania for a monthly rental of $6,000 per month. The building is owned by Lance Funston, the Company's Chairman of the Board and Chief Executive Officer. The Company's Pennsylvania offices house its marketing and sales staff, as well as the office of the Chief Executive Officer. There is no written lease for the facility.

NOTE 15 - SUBSEQUENT EVENTS

On June 5, 2019, the Company granted incentive stock options to twelve employees. The awards were for an aggregate of 275,000 option shares with an exercise price of 2.00 per share, the closing market price as of that day. The options vest in equal 20% increments commencing one year after the date of grant, and for each of the four subsequent anniversaries of such date. The options expire on June 4, 2029.