



CCA Industries, Inc. and Subsidiaries

Financial Statements (Unaudited)

For the Quarters Ended February 29, 2020 and February 28, 2019

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CCA INDUSTRIES, INC. AND SUBSIDIARIES
CONDENSED FINANCIAL STATEMENTS

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CCA INDUSTRIES, INC. AND SUBSIDIARIES
CONDENSED BALANCE SHEETS

	February 29, 2020 <u>(Unaudited)</u>	November 30, 2019 <u></u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 43,348	\$ 188,586
Accounts receivable, net of allowances of \$9,604 and \$12,228, respectively	2,784,711	2,313,501
Inventories	3,291,824	3,235,050
Prepaid expenses and sundry receivables	292,850	262,404
Prepaid and refundable income taxes	78,792	79,079
Total Current Assets	6,491,525	6,078,620
Property and equipment, net of accumulated depreciation	98,490	66,973
Intangible assets, net of accumulated amortization	2,243,954	510,455
Deferred financing fees, net of accumulated amortization	71,690	91,241
Deferred income taxes	5,934,483	5,906,964
Other	436,745	436,745
Total Assets	\$ 15,276,887	\$ 13,090,998
LIABILITIES AND CAPITAL		
Current Liabilities:		
Accounts payable and accrued liabilities	\$ 2,601,718	\$ 2,516,165
Line of credit	1,750,944	-
Lease liability - right of use assets	37,346	-
Notes payable - current portion	750,000	375,000
Total Current Liabilities	5,140,008	2,891,165
Notes payable	-	468,750
Long-term accrued liabilities	75,119	133,275
Long-term - other	168,859	168,859
Total Liabilities	5,383,986	3,662,049
Shareholders' Equity:		
Preferred stock, \$1.00 par, authorized 20,000,000 shares, issued and outstanding 155,000 and 0 shares, respectively	155,000	-
Common stock, \$0.01 par, authorized 15,000,000 shares, issued and outstanding 6,563,982 and 6,488,982 shares, respectively	65,640	65,640
Class A common stock, \$0.01 par, authorized 5,000,000 shares, issued and outstanding 967,702 and 967,702 shares, respectively	9,677	9,677
Additional paid-in capital	7,123,887	6,671,353
Retained earnings	2,538,697	2,682,279
Total Shareholders' Equity	9,892,901	9,428,949
Total Liabilities and Shareholders' Equity	\$ 15,276,887	\$ 13,090,998

See Notes to Unaudited Condensed Financial Statements.

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

	Three Months Ended	
	February 29, 2020	February 28, 2019
Revenues:		
Sales of health and beauty aid products - net	\$ 3,856,084	\$ 3,899,021
Other income	5,000	3,000
Total Revenues	3,861,084	3,902,021
Costs and Expenses:		
Cost of sales	1,495,023	1,350,456
Selling, general and administrative expenses	2,205,576	1,855,991
Advertising, cooperative and promotional expenses	202,527	307,073
Research and development	61,575	72,634
Bad debt expense	(2,624)	(1,014)
Interest expense	67,703	43,209
Total Costs and Expenses	4,029,780	3,628,349
(Loss) Income before (benefit from) provision for income taxes	(168,696)	273,672
(Benefit from) Provision for income taxes	(25,114)	79,433
Net (Loss) Income	\$ (143,582)	\$ 194,239
(Loss) Earnings per Share:		
Basic	\$ (0.02)	\$ 0.03
Diluted	\$ (0.02)	\$ 0.03
Weighted Average Preferred and Common Shares Outstanding:		
Basic	7,552,124	7,456,684
Diluted	7,632,860	7,456,684

See Notes to Unaudited Condensed Financial Statements.

CCA INDUSTRIES, INC. AND SUBSIDIARIES
CONDENSED STATEMENTS OF SHAREHOLDERS' EQUITY
FOR THE QUARTER ENDED FEBRUARY 29, 2020 (UNAUDITED)

	<u>PREFERRED STOCK</u>		<u>COMMON STOCK</u>		<u>ADDITIONAL</u>	<u>RETAINED</u>	<u>TOTAL</u>
	<u>SHARES</u>	<u>AMOUNT</u>	<u>SHARES</u>	<u>AMOUNT</u>	<u>PAID IN</u>	<u>EARNINGS</u>	<u>SHAREHOLDERS'</u>
					<u>CAPITAL</u>		<u>EQUITY</u>
Balance - November 30, 2018	-	-	7,456,684	74,567	6,100,270	2,127,817	8,302,654
Net income for the year	-	-	-	-	-	554,462	554,462
Stock-based compensation	-	-	-	-	324,333	-	324,333
Exercise of stock option	-	-	75,000	750	246,750	-	247,500
Balance - November 30, 2019	-	-	7,531,684	\$ 75,317	\$ 6,671,353	\$ 2,682,279	\$ 9,428,949
Net income for the quarter ended February 29, 2020	-	-	-	-	-	(143,582)	(143,582)
Stock-based compensation	-	-	-	-	65,034	-	65,034
Issuance of preferred stock	155,000	\$ 155,000	-	-	\$ 387,500	-	\$ 542,500
Balance - February 29, 2020	155,000	\$ 155,000	7,531,684	\$ 75,317	\$ 7,123,887	\$ 2,538,697	\$ 9,892,901

See Notes to Unaudited Condensed Financial Statements.

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

	Three Months Ended	
	February 29, 2020	February 28, 2019
Cash Flows from Operating Activities:		
Net (Loss) Income	\$ (143,582)	\$ 194,239
Adjustments to reconcile net (loss) income to net cash (used in) operating activities:		
Depreciation and amortization	9,708	10,630
Provision for bad debt	(2,624)	(1,014)
Deferred financing fees amortization	19,551	(1,445)
Stock-based compensation	65,034	89,868
Deferred income taxes	(27,519)	76,672
Change in Operating Assets & Liabilities:		
(Increase) in accounts receivable	(468,585)	(480,586)
(Increase) in inventory	(56,773)	(44,281)
(Increase) decrease in prepaid expenses and other receivables	(30,446)	40,430
Decrease in prepaid income and refundable income tax	287	1,481
Increase (decrease) in accounts payable and accrued liabilities	27,397	(217,458)
Net Cash (Used In) Operating Activities:	<u>(607,552)</u>	<u>(331,464)</u>
Cash Flows from Investing Activities:		
Acquisition of property, plant and equipment	(3,825)	(9,340)
Purchase of intangible assets	(1,191,055)	-
Net Cash (Used In) Investing Activities	<u>(1,194,880)</u>	<u>(9,340)</u>
Cash Flows from Financing Activities:		
Proceeds from line of credit, net	1,750,944	112,353
Payments to notes payable, net	(93,750)	(93,750)
Net Cash Provided by Financing Activities	<u>1,657,194</u>	<u>18,603</u>
Net (Decrease) in Cash	(145,238)	(322,201)
Cash and Cash Equivalents at Beginning of Year	188,586	373,626
Cash and Cash Equivalents at End of Year	<u>\$ 43,348</u>	<u>\$ 51,425</u>
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the period for:		
Interest	\$ 39,000	\$ 43,209
Income Taxes	\$ 2,117	\$ 1,280
Non-cash investing activities during the period for:		
Issuance of Preferred Stock for purchase of intangible asset	\$ 542,500	-

See Notes to Unaudited Condensed Financial Statements

CCA INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS

NOTE 1 - ORGANIZATION AND DESCRIPTION OF BUSINESS

CCA Industries, Inc. ("CCA") was incorporated in the State of Delaware on March 25, 1983. CCA conducts business as Core Care America.

CCA manufactures, distributes and sells health and beauty aid products.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

An accounting estimate is deemed to be critical if it is reasonably possible that a subsequent correction could have a material effect on future operating results or financial condition. The following are estimates that management has deemed to be critical:

1 - Allowance for Doubtful Accounts – The allowance for doubtful accounts is an estimate of the loss that could be incurred if our customers do not make required payments. Trade receivables are periodically evaluated by management 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. Estimates are made based on specific disputes and additional reserves for bad debt based on the accounts receivable aging ranging from 0.35% for invoices currently due to 2.00% for invoices more than ninety-days overdue. Trade receivables that are deemed uncollectible are offset against the allowance for uncollectible accounts. The Company generally does not require collateral for trade receivables.

2 - Inventory Obsolescence Reserve – Management reviews the inventory records on a monthly basis. Management deems to be obsolete finished good items that are no longer being sold and have no possibility of sale within the ensuing twelve months. Components and raw materials are deemed to be obsolete if management has no planned usage of those items within the ensuing twelve months. In addition, management conducts periodic testing of inventory to make sure that the value reflects the lower of cost or net realizable value. If the value is below market, a provision is made within the inventory obsolescence reserve. This reserve is adjusted monthly, with changes recorded as part of cost of sales in the results of operations.

CCA INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Estimates and Assumptions (Continued)

3 - The deferred taxes are an estimate of the 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 is also reflected in the deferred tax assets. A substantial portion of the deferred tax asset is due to the loss 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 its belief that the Company will continue to be profitable and generate taxable income. However, profits can be impacted in the future if the Company's sales decrease.

Revenue Related Reserves:

Consideration promised in the Company's contracts with customers is variable due to anticipated reductions such as sales returns, discounts and miscellaneous claims from customers. The Company estimates the most likely amount it will be entitled to receive and records an anticipated reduction against Revenues, with an offsetting increase to Accrued liabilities, at the time revenues are recognized

1 – Returns reserve – The estimated return rate was 2.99% and 3.27% of gross sales as of February 29, 2020 and February 28, 2019, respectively. Management estimates that any returns of product received from customers are not placed back into inventory, and subsequently destroyed. Any changes in this accrued liability are recorded as a debit or credit to sales of health and beauty aid products - net, in the Consolidated Statement of Operations. The Company may increase the reserve for returns in excess of the current estimated return rate for specific return circumstances.

2 - Cooperative Advertising Reserve – The cooperative advertising reserve is an estimate of the amount of the liability for the cooperative advertising agreements with the Company's customers. The reserve is recorded as an accrued expense. Management reviews the cooperative advertising agreements for the current fiscal year with its customers on a monthly basis and adjusts this reserve based on actual cooperative advertising events. The Company maintains an open liability for cooperative advertising contracts for which a customer has not claimed a deduction for the three years prior to the current fiscal year. Management evaluates the open liability for the prior three years on a monthly basis to determine if the liability continues to exist. Changes to the reserve are charged as a current period expense.

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.

CCA INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounts Receivable:

Accounts receivable consist of trade receivables recorded at original invoice amount, less an estimated allowance for uncollectible amounts. Trade credit is generally extended on a short-term basis; thus, trade receivables do not bear interest. 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

Right of Use Assets and Liabilities:

In February 2016, the FASB issued ASU No. 2016-02, Leases. The new standard established 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 are classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard was effective beginning December 1, 2019. The Company recorded a ROU asset of \$47,624 and a lease liability in the same amount on December 1, 2019. The ROU assets are amortized over the life of the respective leases. The ROU asset, net of accumulated amortization is included as part of Property and Equipment on the balance sheet. The lease liability is shown as part of current liabilities on the balance sheet as all underlying leases are due to expire within twelve months of February 29, 2020.

CCA INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Revenue Recognition:

The Company recognizes sales in accordance with Accounting Standards Codification (“ASC”) Topic 606 “Revenue Recognition”. Revenue is recognized at a point in time when control of the product transfers to the customer, typically upon shipment from our third-party logistics facility or directly from a supplier. 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, adjusting for returns that can be put back into inventory, and a specific reserve based on customer circumstances. Those returns which are anticipated to be taken as credits against the balances as of November 30, 2019 or 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 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 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 balance of the remaining open cooperative advertising is recorded as an accrued liability. The portion of cooperative advertising recorded as sales incentives was reduced by \$10,516 in the three months ended February 29, 2020 to reduce open cooperative advertising contracts for 2017. The portion of cooperative advertising recorded as sales incentives was reduced by \$147,783 in the three months ended February 29, 2019 to reduce open cooperative advertising contracts for 2016.

CCA INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Shipping Costs:

The Company has elected to account for shipping and handling activities as fulfillment costs, which are included in selling, general and administrative expenses as incurred. For the quarters ended February 29, 2020 and February 28, 2019, included in selling, general and administrative expenses are fulfillment costs of \$222,708 and \$156,488, respectively.

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 February 29, 2020 and February 28, 2019 were \$202,527 and \$307,073, 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 February 29, 2020 and February 28, 2019 were \$61,575 and \$72,634, 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 is 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 and generating taxable income. 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 February 29, 2020 and November 30, 2019. 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.

CCA INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 (loss) per share is computed on the basis of the average number of common shares outstanding plus the dilutive effect of any common stock equivalents using the “treasury stock method”. Common stock equivalents consist of stock options and unexercised warrants outstanding.

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 2019; see Note 13 for details.

Recent Accounting Pronouncements:

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.

NOTE 3 - INVENTORIES

The components of inventory consist of the following:

	February 29, 2020	February 28, 2019
Raw materials	\$ 319,171	\$ 191,564
Finished goods	2,972,653	3,165,290
	<u>\$ 3,291,824</u>	<u>\$ 3,356,854</u>

NOTE 4 - PROPERTY AND EQUIPMENT

The components of property and equipment consisted of the following:

	29-Feb 2020	November 30, 2019
Furniture and equipment	\$ 147,970	\$ 147,970
Tools, dies and masters	142,681	138,856
Right of use assets	47,624	-
Leasehold improvements	2,932	2,932
	<u>341,207</u>	<u>289,758</u>
Less: Accumulated depreciation	242,717	222,785
Property and Equipment - Net	<u>\$ 98,490</u>	<u>\$ 66,973</u>

Depreciation expense for the three months ended February 29, 2020 and February 28, 2019 amounted to \$9,653 and \$10,534, respectively. In accordance with ASU No. 2016-02, Leases, issued by the FASB, the Company recorded right of use assets of \$47,624 for operating leases in effect as of December 1, 2019. See Right of Use Assets and Liabilities in Note 2 – Summary of Significant Accounting Policies for further information.

CCA INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS

NOTE 5 - INTANGIBLE ASSETS

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

	February 29, 2020	November 30, 2019
Patents and Trademarks	\$ 2,391,147	\$ 657,592
Less: Accumulated amortization	147,193	147,137
Intangible assets - net	\$ 2,243,954	\$ 510,455

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 February 29, 2020 and February 28, 2019 amounted to \$56 and \$96, respectively. Estimated amortization expenses for the years ending November 30, 2020, 2021, 2022, 2023 and 2024 are \$223, \$223, \$50, \$0 and \$0, respectively.

On December 27, 2019, the Company exercised its option to purchase the Hair Off brand from Inspired Beauty, Inc. The purchase price was \$500,000 as provided for in the Hair Off License Agreement, which was effective November 30, 2017. The Hair Off License Agreement was terminated as of the purchase date, and no further royalties will be due for periods subsequent to the purchase date. The purchased assets included in the Asset Purchase Agreement are trademarks and trademark registrations, and all intellectual property rights including brand names, domain names, formulas and packaging designs related to the Hair Off products. The Company did not assume any liabilities or obligations of Inspired Beauty, Inc. in the transaction. The Company recorded a trademark asset of \$521,964 which included the purchase price and related legal fees.

In January 2019, the Company acquired the Solar Sense trademark and settled the litigation with the Solar Sense Corporation. The Company previously disclosed that on March 16, 2018, K.E.L.K. Corp. formerly known as Solar Sense Corporation ("Solar") filed a complaint in the United States District Court for the Middle District of Florida, Tampa Division. The complaint alleges that the Company violated provisions of the license agreement between the Company and Solar granting the Company the right to market products utilizing certain trademarks under the license agreement. The settlement agreement provided for the payment of \$25,000 to settle the complaint, and the Company purchasing the Solar Sense trademark for a payment of \$600,000, and the issuance of 155,000 shares of preferred stock. The preferred stock has a stated minimum value of \$3.50 per share upon a liquidity event and has no voting rights. The preferred stock would be entitled to the same dividend paid to common stockholders. In the event that a liquidity event does not occur within two years after the date of the settlement agreement, Solar is entitled to be issued an additional 5,000 shares of preferred stock per year until a liquidity event occurs. The Company has the right to redeem the preferred stock at any time for the stated minimum value. The Company received all rights to the Solar Sense trademark in the transaction. The Company recorded a trademark asset of \$1,211,591 which included the purchase price paid in cash, the value of the preferred stock and related legal fees.

CCA INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS

NOTE 6 – CONTRACT LIABILITIES

The following are liabilities of the Company as a result of the sale of products to its customers:

	February 29, 2020	November 30, 2019
Cash discount accrual	\$ 18,293	\$ 19,293
Co-operative advertising contract liabilities	409,818	374,084
Returns and allowances accrual	\$ 153,675	\$ 198,116

NOTE 7 - ACCRUED EXPENSES

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

	February 29, 2020	November 30, 2019
Co-operative advertising	\$ 409,818	\$ 374,084
Returns reserve	*	198,116
* less than 5%		

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

	November 30, 2019	November 30, 2018
Sub-lease rent differential	\$ 75,119	\$ 133,275

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 plus 1% 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

CCA INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS

NOTE 8 - DEBT AGREEMENT (CONTINUED)

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.

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. 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 then 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 February 29, 2020, the Company was in compliance with the covenant. As of February 29, 2020, there was \$1,750,944 borrowed on the Revolving Loan and \$750,000 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

CCA INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS

NOTE 8 - DEBT AGREEMENT (Continued)

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 Company's Loan Agreement with Capital Preservation Solutions, LLC described below. The balance of the funds drawn was 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. On February 5, 2018, Capital exercised the Warrant in part and purchased 450,000 shares at the purchase price of \$3.17 per share. On June 5, 2019, the independent members of the Company's board of directors agreed to extend the expiration date of the Warrant by six months, from September 5, 2019 to March 5, 2020 in exchange for a fee equal to the value of the extension as determined by an independent valuation firm. The fee was determined to be \$0.05 per share, to be paid at the time of exercise. There were 1,442,744 shares underlying the Warrant that were unexercised as of February 29, 2020.

CCA INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS

NOTE 9 – REVENUE RECOGNITION

The Company's net sales comprise gross revenues less expected returns, trade discounts, customer allowances, coupon expense and various sales incentives. The following are the components of net sales that the Company recorded:

	Three Months Ended	
	February 29, 2020	February 28, 2019
Gross Sales	\$ 4,283,921	\$ 4,151,481
Less:		
Sales returns	71,480	58,868
Sales allowances	119,182	77,295
Coupon expense	21,482	7,734
Sales incentives, net	153,542	43,573
Cash discounts	62,150	64,990
Total	427,836	252,460
Net Sales	\$ 3,856,084	\$ 3,899,021

NOTE 10 - OTHER INCOME

Other income consists of the following:

	Three Months Ended	
	February 29, 2020	February 28, 2019
Royalty income	\$ 5,000	\$ 3,000

NOTE 11 - 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	
	February 29, 2020	February 28, 2019
Company contributions	\$ 18,023	\$ 11,754

CCA INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS

NOTE 12 - 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 February 29, 2020 and November 30, 2019. 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.

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 has valued its deferred tax assets and liabilities based on an estimated future tax rate of 24.0% for the three months ended February 29, 2020.

The deferred compensation amount in the table below is from the issuance of stock options (see Note 15 - Stock-Based Compensation) and will be realized in future years if the options are exercised.

At February 29, 2020 and November 30, 2019, respectively, the Company had temporary differences arising from the following:

Type	February 29, 2020		November 30, 2019	
	Amount	Deferred Tax	Amount	Deferred Tax
Depreciation	\$ (315,338)	\$ (75,687)	\$ (320,450)	\$ (76,913)
Reserve for bad debts	9,604	2,305	12,228	2,935
Accrued returns	153,675	36,885	198,116	47,551
Reserve for obsolete inventory	158,091	37,945	196,893	47,258
Vacation accrual	52,446	12,588	68,388	16,414
Alternative minimum tax carry forward	-	51,520	-	51,520
Research and development credit carry forward	-	65,175	-	65,175
Deferred compensation	445,111	106,834	444,402	106,664
Charitable contributions	66,341	15,923	52,341	12,563
Section 263A costs	122,537	29,411	120,423	28,904
Loss carry forward	23,697,147	5,651,584	23,499,978	5,604,893
Net deferred tax asset	<u>\$ 24,389,614</u>	<u>\$ 5,934,483</u>	<u>\$ 24,272,319</u>	<u>\$ 5,906,964</u>

CCA INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS

NOTE 12 - INCOME TAXES (CONTINUED)

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

	February 29, 2020	February 28, 2019
Current tax - Federal	\$ -	\$ -
Current tax - State & Local	788	1,981
Deferred tax	(25,902)	77,452
Total Income Tax Expense	<u>\$ (25,114)</u>	<u>\$ 79,433</u>

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

Prepaid and refundable income taxes	Federal	State & Local	Total
February 29, 2020	<u>\$ 71,062</u>	<u>\$ 7,730</u>	<u>\$ 78,792</u>
November 30, 2019	<u>\$ 71,062</u>	<u>\$ 8,017</u>	<u>\$ 79,079</u>

A reconciliation of the provision for income taxes computed at the statutory rate to the effective rate for the three months ended February 29, 2020 and February 28, 2019 is as follows:

	February 29, 2020		February 28, 2019	
	Amount	Percent of Pretax Income	Amount	Percent of Pretax Income
Provision for income taxes at federal statutory rate	\$ (35,426)	21.00%	\$ 57,471	21.00%
Changes in provision for income taxes resulting from:				
State income taxes, net of federal income tax benefit	(5,061)	3.00%	7,936	2.90%
Non-deductible expenses and other adjustments	15,373	-9.11%	14,026	5.12%
Provision for income taxes at effective rate	<u>\$ (25,114)</u>	<u>14.89%</u>	<u>\$ 79,433</u>	<u>29.02%</u>

CCA INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS

NOTE 13 - 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 \$65,034 and \$89,868, respectively, for the three months ended February 29, 2020 and February 28, 2019 for all outstanding stock options granted.

As of February 29, 2020, there were 1,306,500 stock options outstanding, of which there were 638,900 stock options that were exercisable. The total compensation cost of stock option awards that have not yet been recognized was \$747,569 as of February 29, 2020. The weighted average period over which the unrecognized compensation is expected to be recognized is 40 months.

CCA INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS

NOTE 13 - 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, 2018	1,114,000	\$ 3.11	7.5	—
Granted	275,000	\$ 2.00		—
Exercised	75,000	\$ 3.30		—
Canceled or Forfeited	7,500	—		—
Outstanding at November 30, 2019	1,306,500	\$ 2.87	7.6	—
Granted	—	—		—
Exercised	—	—		—
Canceled or Forfeited	—	—		—
Outstanding at February 29, 2020	1,306,500	\$ 2.87	7.3	—

CCA INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS

NOTE 13 - STOCK-BASED COMPENSATION (Continued)

The following table summarizes information about currently outstanding and vested stock options at February 29, 2020:

Exercise Price	Number of Options Granted	Weighted- Average Remaining Term (years)	Number of Option Shares Vested
\$2.00	275,000	9.26	—
\$2.85	262,500	8.30	52,500
\$2.85	150,000	3.30	150,000
\$3.03	14,000	1.60	8,400
\$3.16	225,000	0.75	225,000
\$3.18	10,000	5.10	8,000
\$3.30	205,000	7.30	82,000
\$3.35	130,000	6.31	78,000
\$3.48	35,000	4.85	35,000
Total	<u>1,306,500</u>		<u>638,900</u>

NOTE 14 - (LOSS) EARNINGS PER SHARE

Basic (loss) earnings per share is calculated using the average number of common shares outstanding. Diluted (loss) income 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”.

	For the Three Months Ended	
	February 29, 2020	February 28, 2019
Net income (loss) available for common shareholders	\$ (143,582)	\$ 194,239
Weighted average common shares outstanding - Basic	7,552,124	7,456,684
Net effect of dilutive stock options and warrant	80,736	-
Weighted average common shares and common shares equivalent - Diluted	<u>7,632,860</u>	<u>7,456,684</u>
Earnings (Loss) per Share:		
Basic	\$ (0.02)	\$ 0.03
Diluted	\$ (0.02)	\$ 0.03

1,031,500 shares underlying stock options and 1,442,744 of shares underlying the outstanding warrant for the three months ended February 29, 2020, and 1,114,000 shares underlying stock options and 1,442,744 of shares underlying the outstanding warrant for the three months ended February 28, 2019 were excluded from the diluted (loss) income per share because the effects of such shares were anti-dilutive.

CCA INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS

NOTE 15 - 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 remains outstanding. On June 5, 2019, the independent members of the Company's board of directors agreed to extend the expiration date of the Warrant by six months, from September 5, 2019 to March 5, 2020 in exchange for a fee equal to the value of the extension as determined by an independent valuation firm. The fee was determined to be \$0.05 per share, to be paid at the time of exercise.

The Company signed an agreement in December 2015 with Funston Media Management Services, Inc. The agreement provided for Funston Media Management Services, Inc. ("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 Funston Media Management Services, Inc. Under the agreement, the Company incurred costs of \$12,160 for the three months ended February 29, 2020 and \$22,598 for the three months ended February 28, 2019. As of February 29, 2020, there were unpaid media charges and management fees of \$119,476 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.

CCA INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS

NOTE 15 - CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS (CONTINUED)

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 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 \$31,374 and \$43,552, respectively, for the three months ended February 29, 2020 and February 28, 2019 for royalties under the Agreement. As of February 29, 2020, there were unpaid royalties of 31,374 due to Ultimark. The Company intends on renewing the Agreement for an additional two-year term.

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 16 – SUBSEQUENT EVENTS

The Independent members of the Company's board of directors are considering an extension of the expiration date of the Warrant held by Capital Preservation Solutions, LLC in conjunction with the provision of a \$1.0 million sub-debt facility with terms to be determined.