



CCA Industries, Inc. and Subsidiaries

Audited Financial Statements

As Of and For the Year Ended November 30, 2019 and November 30, 2018

**1099 Wall Street West, Suite 275
Lyndhurst, New Jersey 07071**

(201) 935-3232

**CCA INDUSTRIES, INC. AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS**

INDEX

	<u>Page Number</u>
Independent Auditor's Report	3
<u>Financial Statements:</u>	
Consolidated Balance Sheets as of November 30, 2019 and 2018	4
Consolidated Statements of Operations for the years ended November 30, 2019 and 2018	5
Consolidated Statements of Shareholders' Equity for the years ended November 30, 2019 and 2018	6
Consolidated Statements of Cash Flows for the years ended November 30, 2019 and 2018	7
Notes to Consolidated Financial Statements	8

Independent Auditor's Report

To the Board of Directors and Management
CCA Industries, Inc.

We have audited the accompanying consolidated financial statements of CCA Industries, Inc. and Subsidiaries, which comprise the consolidated balance sheets as of November 30, 2019 and 2018, and the related consolidated statements of income, stockholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America as of and for the year ended November 30, 2019, and in accordance with auditing standards of the Public Company Accounting Oversight Board (United States) as of and for the year ended November 30, 2018. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of CCA Industries, Inc. and Subsidiary as of November 30, 2019 and 2018, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



Jericho, New York
February 28, 2020

CCA INDUSTRIES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	November 30, 2019	November 30, 2018
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 188,586	\$ 373,626
Accounts receivable, net of allowances of \$12,228 and \$361,931, respectively	2,313,501	2,598,585
Inventories	3,235,050	3,312,573
Prepaid expenses and sundry receivables	262,404	588,258
Prepaid and refundable income taxes	79,079	25,803
Total Current Assets	6,078,620	6,898,845
Property and equipment, net of accumulated depreciation	66,973	84,595
Intangible assets, net of accumulated amortization	510,455	436,574
Deferred financing fees, net of accumulated amortization	91,241	148,451
Deferred income taxes	5,906,964	6,149,642
Other	436,745	436,745
Total Assets	\$ 13,090,998	\$ 14,154,852
LIABILITIES AND CAPITAL		
Current Liabilities:		
Accounts payable and accrued liabilities	\$ 2,516,165	\$ 3,155,333
Line of credit	-	1,134,726
Notes payable - current portion	375,000	375,000
Total Current Liabilities	2,891,165	4,665,059
Notes payable	468,750	843,750
Long-term accrued liabilities	133,275	174,530
Long-term - other	168,859	168,859
Total Liabilities	3,662,049	5,852,198
Shareholders' Equity:		
Preferred stock, \$1.00 par, authorized 20,000,000, none issued	-	-
Common stock, \$0.01 par, authorized 15,000,000 shares, issued and outstanding 6,563,982 and 6,488,982 shares, respectively	65,640	64,890
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	6,671,353	6,100,270
Retained earnings	2,682,279	2,127,817
Total Shareholders' Equity	9,428,949	8,302,654
Total Liabilities and Shareholders' Equity	\$ 13,090,998	\$ 14,154,852

See Notes to Consolidated Financial Statements.

CCA INDUSTRIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	Years Ended November 30,	
	2019	2018
Revenues:		
Sales of health and beauty aid products - net	\$ 17,125,382	\$ 16,595,499
Other income	12,000	11,254
Total Revenues	17,137,382	16,606,753
Costs and Expenses:		
Cost of sales	6,449,957	6,533,340
Selling, general and administrative expenses	7,466,230	7,868,536
Advertising, cooperative and promotional expenses	1,949,643	1,591,227
Research and development	267,599	62,989
Bad debt expense	1,739	3,860
Interest expense	249,075	488,299
Total Costs and Expenses	16,384,243	16,548,251
Income before provision for income taxes	753,139	58,502
Provision for income taxes	198,677	3,380,268
Net Income (Loss)	\$ 554,462	\$ (3,321,766)
Earnings (Loss) per Share:		
Basic	\$ 0.07	\$ (0.45)
Diluted	\$ 0.07	\$ (0.45)
Weighted Average Common Shares Outstanding:		
Basic	7,464,492	7,375,314
Diluted	7,599,355	7,375,314

See Notes to Consolidated Financial Statements.

CCA INDUSTRIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED NOVEMBER 30, 2019 AND 2018

	<u>COMMON STOCK</u>		<u>ADDITIONAL</u>	<u>RETAINED</u>	<u>TOTAL</u>
	<u>SHARES</u>	<u>AMOUNT</u>	<u>PAID IN</u>	<u>EARNINGS</u>	<u>SHAREHOLDERS'</u>
			<u>CAPITAL</u>		<u>EQUITY</u>
Balance - December 1, 2017	7,006,684	\$ 70,067	\$ 4,387,543	\$ 5,449,583	\$ 9,907,193
Net loss for the year	-	-	-	(3,321,766)	(3,321,766)
Stock-based compensation	-	-	290,727	-	290,727
Partial exercise of warrant	450,000	4,500	1,422,000	-	1,426,500
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

See Notes to Consolidated Financial Statements.

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

	Years Ended November 30,	
	2019	2018
Cash Flows from Operating Activities:		
Net Income (Loss)	\$ 554,462	\$ (3,321,766)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	46,483	49,199
Provision for bad debt	1,739	3,860
Deferred financing fees amortization	57,210	218,852
Stock-based compensation	324,333	290,727
Deferred income taxes	242,677	3,352,676
Loss on disposal or sale of property, plant and equipment	4,667	32,859
Change in Operating Assets & Liabilities:		
Decrease (increase) in accounts receivable	209,079	(16,928)
Decrease (increase) in inventory	77,522	(1,433,740)
Decrease in prepaid expenses and other receivables	325,855	53,741
(Increase) decrease in prepaid income and refundable income	(53,276)	12,350
(Decrease) in accounts payable and accrued liabilities	(680,421)	(508,190)
Increase in long-term liabilities	-	80
Net Cash Provided by (Used In) Operating Activities:	<u>1,110,330</u>	<u>(1,266,280)</u>
Cash Flows from Investing Activities:		
Acquisition of property, plant and equipment	(33,144)	(25,586)
Purchase of intangible assets	-	(4,390)
Net Cash (Used In) Investing Activities	<u>(33,144)</u>	<u>(29,976)</u>
Cash Flows from Financing Activities:		
Payments to line of credit, net	(1,134,726)	(881,629)
Proceeds from notes payable, net	(375,000)	1,218,750
Proceeds from exercise of Stock Option	247,500	-
Proceeds from exercise of warrant	-	1,426,500
Payment of deferred financing fees	-	(233,982)
Net Cash (Used In) Provided by Financing Activities	<u>(1,262,226)</u>	<u>1,529,639</u>
Net (Decrease) Increase in Cash	(185,040)	233,383
Cash and Cash Equivalents at Beginning of Year	373,626	140,243
Cash and Cash Equivalents at End of Year	<u>\$ 188,586</u>	<u>\$ 373,626</u>
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the period for:		
Interest	\$ 249,075	\$ 488,299
Income Taxes	\$ 7,558	\$ 11,153
Non-cash investing activities during the period for:		
Purchase of intangible assets	\$ 74,265	-

See Notes to Consolidated Financial Statements

CCA INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED 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 and distributes health and beauty aid products.

NOTE 2 - 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.

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.

CCA INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Estimates and Assumptions (Continued)

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.

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 3.56% and 4.20% of gross sales as of November 30, 2019 and 2018, 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.

CCA INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. 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

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.

CCA INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 \$589,256 in the year ended November 30, 2019 to reduce open cooperative advertising contracts for 2016. The portion of cooperative advertising recorded as sales incentives was reduced by \$535,096 in the year ended November 30, 2018 to reduce open cooperative advertising contracts for 2015.

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 years ended November 30, 2019 and November 30, 2018, included in selling, general and administrative expenses are fulfillment costs of \$632,625 and \$613,440, respectively.

CCA INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - 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 years ended November 30, 2019 and November 30, 2018 were \$1,949,643 and \$1,591,227, 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 years ended November 30, 2019 and November 30, 2018 were \$267,599 and \$62,989, 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 November 30, 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 (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.

CCA INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 and 2018; see Note 13 for details.

Recent Accounting Pronouncements:

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-09, Revenue from Contracts with Customers (Topic 606). This guidance outlines a single, comprehensive model for accounting for revenue from contracts with customers to depict the transfer of control over a product to a customer. The Company adopted the standard on December 1, 2018. The Company’s revenue is substantially all generated from the sale of finished consumer products to customers. Those sales predominantly contain a single delivery element and revenue is recognized at a single point in time when ownership, risks and rewards transfer. There was no material impact related to the implementation of the new standard. Other than the presentation of sales returns, discounts, allowances and other sales incentive liabilities, which resulted in a reclassification of certain liabilities into other current assets, all other impacts to the Consolidated Balance Sheet from the adoption of this ASU were not material either individually or in the aggregate as of December 1, 2018. The adoption of this ASU had no net impact to the Consolidated Statement of Cash Flows for the fiscal year ended November 30, 2019. The Company adopted this standard using a modified retrospective approach on December 1, 2018, with the cumulative effect of initially applying the standard recognized in Retained earnings at December 1, 2018. Comparative prior period information has not been adjusted and continues to be reported in accordance with previous revenue recognition guidance in Topic 605. There was no cumulative effect adjustment, as there were no changes to previous accruals on the Consolidated Statement of Operations.

In February 2016, the FASB issued 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. We expect that upon adoption we will recognize ROU assets and lease liabilities on our balance sheets and that the amounts will not be material.

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.

CCA INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3 - INVENTORIES

The components of inventory consist of the following:

	November 30, 2019	November 30, 2018
Raw materials	\$ 378,252	\$ 160,843
Finished goods	2,856,798	3,151,730
	<u>\$ 3,235,050</u>	<u>\$ 3,312,573</u>

NOTE 4 - PROPERTY AND EQUIPMENT

The components of property and equipment consisted of the following:

	November 30, 2019	November 30, 2018
Furniture and equipment	\$ 147,970	\$ 132,221
Tools, dies and masters	138,856	128,861
Leasehold improvements	2,932	2,932
	289,758	264,014
Less: Accumulated depreciation	222,785	179,419
Property and Equipment - Net	<u>\$ 66,973</u>	<u>\$ 84,595</u>

Depreciation expense for the years ended November 30, 2019 and 2018 amounted to \$46,099 and \$48,774, respectively. The Company disposed of fixed assets no longer used of \$4,667 and \$32,859, respectively, for the years ended November 30, 2019 and 2018.

NOTE 5 - INTANGIBLE ASSETS

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

	November 30, 2019	November 30, 2018
Patents and Trademarks	\$ 657,592	\$ 583,327
Less: Accumulated amortization	147,137	146,753
Intangible assets - net	<u>\$ 510,455</u>	<u>\$ 436,574</u>

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 years ended November 30, 2019 and 2018 amounted to \$384 and \$425, respectively. Estimated amortization expenses for the years ending November 30, 2020, 2021, 2022, 2023 and 2024 are \$223, \$223, \$50, \$0 and \$0, respectively.

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

NOTE 6 – CONTRACT LIABILITIES

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

	November 30, 2019	December 1, 2018
Cash discount accrual	\$ 19,293	\$ 23,041
Co-operative advertising contract liabilities	374,084	843,747
Returns and allowances accrual	\$ 198,116	\$ 279,284

NOTE 7 - ACCRUED EXPENSES

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

	November 30, 2019	November 30, 2018
Co-operative advertising	\$ 374,084	\$ 674,997
Returns reserve	198,116	-

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	\$ 133,275	\$ 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 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 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

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

NOTE 8 - DEBT AGREEMENT (CONTINUED)

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. 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 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 November 30, 2019, the Company was in compliance with the covenant. As of November 30, 2019, there were no borrowings on the Revolving Loan and \$843,750 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 CONSOLIDATED 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 November 30, 2019.

CCA INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED 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:

	Years Ended November 30,	
	2019	2018
Gross Sales	\$ 19,062,107	\$ 19,015,025
Less:		
Sales returns	638,882	1,269,398
Sales allowances	430,111	216,601
Coupon expense	59,509	141,029
Sales incentives, net	491,899	449,011
Cash discounts	316,324	343,487
Total	1,936,725	2,419,526
Net Sales	\$ 17,125,382	\$ 16,595,499

NOTE 10 - OTHER INCOME

Other income consists of the following:

	Year Ended November 30,	
	2019	2018
Royalty income	\$ 12,000	\$ 11,254

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:

	Year Ended November 30,	
	2019	2018
Company contributions	\$ 55,077	\$ 58,066

CCA INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED 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 November 30, 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.

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 24.0% for the year ended November 30, 2019.

The SEC issued Staff Accounting Bulletin ("SAB") 118, which provided guidance on accounting for the tax effects of Public Law 115-97. SAB 118 provided 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 it 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 taxes in the first quarter of fiscal 2018.

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

	Previous Rate	New Rate
Federal rate	34.00%	21.00%
State rate, net of federal tax benefit	2.45%	3.00%
Total	36.45%	24.00%

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 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.

CCA INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 12 - INCOME TAXES (CONTINUED)

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

Type	November 30, 2019		November 30, 2018	
	Amount	Deferred Tax	Amount	Deferred Tax
Depreciation	\$ (320,450)	\$ (76,913)	\$ (379,909)	\$ (90,802)
Reserve for bad debts	12,228	2,935	10,489	2,507
Reserve for returns	129,196	31,009	182,692	43,665
Accrued returns	68,920	16,542	96,592	23,086
Reserve for obsolete	196,893	47,258	25,483	6,091
Vacation accrual	68,388	16,414	81,005	19,361
Alternative minimum tax carry forward	—	51,520	—	103,040
Research and development credit carry forward	—	65,175	—	65,175
Deferred compensation	444,402	106,664	351,764	84,075
Bonus obligation unpaid	—	—	70,686	16,895
Charitable contributions	52,341	12,563	245,650	58,713
Section 263A costs	120,423	28,904	206,283	49,304
Loss carry forward	23,499,978	5,604,893	24,277,762	5,768,532
Net deferred tax asset	<u>\$24,272,319</u>	<u>\$ 5,906,964</u>	<u>\$25,168,497</u>	<u>\$ 6,149,642</u>

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

	November 30, 2019	November 30, 2018
Current tax - Federal	\$ -	\$ 17,382
Current tax - State & Local	3,150	10,210
Deferred tax	195,527	3,352,676
Total Income Tax Expense	<u>\$ 198,677</u>	<u>\$ 3,380,268</u>

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

Prepaid and refundable income taxes	Federal	State & Local	Total
November 30, 2019	\$ 71,062	\$ 8,017	\$ 79,079
November 30, 2018	\$ 20,335	\$ 5,468	\$ 25,803

CCA INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 12 - INCOME TAXES (CONTINUED)

A reconciliation of the provision for income taxes computed at the statutory rate to the effective rate for the years ended November 30, 2019, and 2018 is as follows:

	<u>2019</u>		<u>2018</u>	
	<u>Amount</u>	<u>Percent of Pretax Income</u>	<u>Amount</u>	<u>Percent of Pretax Income</u>
Provision for income taxes at federal statutory rate	\$ 158,159	21.00%	\$ 12,285	21.00%
Changes in provision for income taxes resulting from:				
State income taxes, net of federal income tax benefit	22,594	3.00%	1,697	2.90%
Change in tax rate related to future deferred tax benefits	19,914	2.64%	3,146,636	5378.68%
Non-deductible expenses and other adjustments	(1,990)	-0.26%	219,650	375.46%
Provision for income taxes at effective rate	<u>\$ 198,677</u>	<u>26.38%</u>	<u>\$ 3,380,268</u>	<u>5778.04%</u>

CCA INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 13 - COMMITMENTS AND CONTINGENCIES

Leases

In April 2015, the Company moved from its facility at 200 Murray Hill Parkway, East Rutherford, New Jersey to a new facility at 65 Challenger Road, Suite 340, Ridgefield Park, New Jersey. The East Rutherford facility consisted of warehouses and offices totaling approximately 81,000 square feet of space. As a result of the outsourcing to the Emerson Group, the Company had not been using the warehouse space since December 2014. The facility at Ridgefield Park is located in an office building and consists of 7,414 square feet of office and allocated common space with an annual rental cost beginning at \$159,401 per year. The lease provides for annual rent increases. In addition, the Company pays an electric charge of \$1.75 per square foot per year. The lease is for five years and four months, commencing April 10, 2015, and contains a provision for four months of rent at no charge. In June 2015, the Company sub-let the East Rutherford facility. The terms of the sublet are for a monthly rent of \$36,963 plus all common charges and utilities for a term of six years and ten and one half months, expiring in May 2022. The sub-lease provides for annual increases of 2% per year. The Company was leasing the East Rutherford facility for \$41,931 per month, with annual increases equal to the change in the Consumer Price Index. The Company recorded an expense of \$407,094 during fiscal 2015 as a restructuring charge as an estimate for the difference between the rent that the Company pays its landlord and the rent received from the sub-tenant over the term of the sub-lease.

In December 2017, the Company moved from its facility at 65 Challenger Road, Suite 340, Ridgefield Park, New Jersey to a new facility at 1099 Wall Street West, Suite 275, Lyndhurst, New Jersey, as a result of downsizing and not needing as much office space. The suite at Lyndhurst is located in an office building and consists of 1,751 square feet of space including allocated common space. The lease is for three years commencing December 15, 2017, with an annual rent cost of \$34,145 for the first eighteen months of the lease and \$35,020 for the second eighteen months of the lease. In addition, the Company pays an electric charge of \$1.75 per square foot per annum. The Company sub-let the Ridgefield Park offices for the remainder of the lease. The sub-let is for annual rent of \$126,038 plus all operating expenses and utilities for the term of the sub-lease. The Company recorded an expense of \$94,992 in the first quarter of fiscal 2018 as an estimate for the difference between the rent that the Company pays its landlord and the rent received from the sub-tenant over the term of the sub-lease for the Ridgefield Park facility.

In addition, the Company has entered into various property and equipment operating leases with expiration dates ranging through May 2022.

Future commitments, sub-lease rental income and net commitments under non-cancelable operating lease agreements for each of the next five (5) years and in the aggregate for the years 2024 and thereafter are as follows:

YEAR ENDING NOVEMBER 30,	Commitments	Sub-lease rental income	Net Commitments
2020	\$ 945,684	\$ 822,105	\$ 123,579
2021	790,501	740,805	49,696
2022	392,121	374,378	17,743
2023	-	-	-
2024 and thereafter	-	-	-

CCA INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 13 - COMMITMENTS AND CONTINGENCIES (Continued)

Royalty Agreements

In 1986, the Company entered into a license agreement with Alleghany Pharmacal Corporation now known as Inspired Beauty Brands, Inc. (the “Inspired Beauty License”). The license agreement, which is for the exclusive rights to Nutra Nail, Hair Off, Properm and IPR-3 was amended in 2011. The Company no longer markets products under the Properm and IPR-3 brand names. The Inspired Beauty License agreement, as amended, requires the Company to pay a royalty rate of 2.5% on net sales of said licensed products, and a minimum royalty of \$250,000 per annum. The license agreement was further amended to eliminate the minimum royalty payment effective July 1, 2016 and continuing until June 30, 2017. Concurrent during the period that eliminates the minimum royalty, the royalty rate was changed to 10.0% of gross sales. Effective November 30, 2017, the Company entered into two amended license agreements for the Hair Off and Nutra Nail brands, that permanently eliminates the minimum royalty and increases the royalty rate to 10.0% of gross sales. The amended license agreements are for a term of three years, with an option to extend for two additional one-year terms. The Company also has an option to purchase the Hair Off and Nutra Nail brands for an amount equal to the greater of: (a) ten (10) times the annual royalty for the Nutra Nail and or Hair Off brands for the preceding twelve months, or (b) (i) \$500,000 for the period November 30, 2017 through November 30, 2019; (ii) \$750,000 for the period December 1, 2019 through November 30, 2020; and (iii) \$1,000,000 for the period December 1, 2020 through November 30, 2022; subject to the negotiation of a definitive purchase and sale agreement containing terms customary for transactions of such nature. The Company incurred royalties of \$37,844 for Alleghany Pharmacal for the fiscal year ended November 30, 2019. Of that amount, \$17,026 was for the Nutra Nail brand and \$20,818 was for the Hair Off brand. In December 2019, the Company acquired the Hair Off brand from Inspired Beauty Brands, Inc. See Note 18 – Subsequent Events for further information on the acquisition.

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 purchased 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 one-year, effective March 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 term ending February 28, 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 Company renewed the agreement for a second one-year term ending February 28, 2020, which also provided for the royalty rate to be decreased from 10% to 8%. In addition, the option to purchase provision was replaced with a right of first refusal to purchase the brand. The Company intends on amending the license agreement to provide for an additional extension of two years. In the event the Company purchases the brand, the Agreement shall thereafter terminate, and no further royalties or compensation will be due thereunder. The Company incurred royalties of \$171,097 for the fiscal year ended November 30, 2019.

CCA INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 13 - COMMITMENTS AND CONTINGENCIES (Continued)

Royalty Agreements (Continued)

The Company is not a party to any other license agreement that is currently material to its operations.

Employment Agreements

On March 21, 2011, the compensation committee of the board of directors, acting on behalf of the Company, entered into an Employment Agreement (each, an "Employment Agreement") with Stephen A. Heit. Pursuant to his Employment Agreement, Mr. Heit has been engaged to continue to serve as the Company's Executive Vice President and Chief Financial Officer.

The term of employment under Mr. Heit's Employment Agreement runs from March 21, 2011 through December 31, 2013 and has been continued thereafter for successive one-year periods unless the Company or the Executive chooses not to renew the respective Employment Agreement.

Under the Employment Agreement, the base salary of Mr. Heit is \$250,000 per annum, and may be increased each year at the discretion of the Company's Board of Directors. Mr. Heit's base salary was increased to \$280,000, effective October 1, 2014 and was further increased to \$300,000, effective December 31, 2017. Mr. Heit is eligible to receive an annual performance-based bonus under his Employment Agreement and entitled to participate in Company equity compensation plans. In addition, Mr. Heit receives an automobile allowance, health insurance and certain other benefits.

In the event of termination of the Employment Agreement as a result of the disability or death of the Executive, the Executive (or his estate or beneficiaries) shall be entitled to receive all base salary and other benefits earned and accrued until such termination as well as a single-sum payment equal to the Executive's base salary and a single-sum payment equal to the value of the highest bonus earned by the Executive in the one-year period preceding the date of termination pro-rated for the number of days served in that fiscal year.

If the Company terminates the Executive for Cause (as defined in the respective Employment Agreement), or the Executive terminates his employment in a manner not considered to be for Good Reason (as defined in the respective Employment Agreement), the Executive shall be entitled to receive all base salary and other benefits earned and accrued prior to the date of termination. If the Company terminates the Executive in a manner that is not for Cause or due to the Executive's death or disability, the Executive terminates his employment for Good Reason, or the Company does not renew the Employment Agreement after December 31, 2013, the Executive shall be entitled to receive a single-sum payment equal to his unpaid base salary and other benefits earned and accrued prior to the date of termination and a single-sum payment of an amount equal to three times (a) the average of the annual base salary amounts paid to Executive over the three calendar years prior to the date of termination, (b) if less than three years have elapsed between March 21, 2011 and the date of termination, the highest base salary paid to the Executive in any calendar year prior to the date of termination, or (c) if less than twelve months have elapsed between March 21, 2011 and the date of termination, the highest base salary received in any month times twelve. In addition, the Executive is entitled to the same benefits if the Executive terminates his employment with the Company in connection with a Change of Control (as defined in the Employment Agreement).

Under the Employment Agreement, the Executive has agreed to non-competition restrictions for a period of six months following the end of the term of his Employment Agreement, during which period the Executive will be paid an amount equal to his base salary for a period of six months, and an amount equal to the pro rata share of any

CCA INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 13 - COMMITMENTS AND CONTINGENCIES (Continued)

Employment Agreements (Continued)

bonus attributable to the portion of the year completed prior to the date of termination. The Executive has also agreed to confidentiality and non-solicitation restrictions under the Employment Agreements.

The foregoing summary of the Employment Agreement is qualified in its entirety by the full text of the Employment Agreement, copies of which may be found in Form 8-K that was filed by Company on March 21, 2011 with the United States Securities and Exchange Commission.

On February 22, 2017, the Company entered into a Severance Agreement with Douglas Haas ("Employee"), the Company's President and Chief Operating Officer. In the event of termination of the Employee's employment as a result of the disability or death of the Employee, the Employee (or his estate or beneficiaries) shall be entitled to receive all base salary and other benefits earned and accrued until such termination as well as a single-sum payment equal to the Employee's base salary and a single-sum payment equal to the value of the highest bonus earned by the Employee in the one-year period preceding the date of termination pro-rated for the number of days served in that fiscal year. If the Company terminates the Employee for Cause (as defined in the Severance Agreement), or the Employee terminates his employment in a manner not considered to be for Good Reason (as defined in the Severance Agreement), the Employee shall be entitled to receive all base salary and other benefits earned and accrued prior to the date of termination. If the Company terminates the Employee in a manner that is not for Cause or due to the Employee's death or disability or the Employee terminates his employment for Good Reason, the Employee shall be entitled to receive a single-sum payment equal to his unpaid base salary and other benefits earned and accrued prior to the date of termination and a single-sum payment of an amount equal to one times the average of the base salary amounts paid to Employee over the three calendar years prior to the date of termination. In addition, the Employee is entitled to certain benefits in connection with a Change of Control (as defined in the Severance Agreement). The base salary of Mr. Haas at the time the Company entered into the Severance Agreement was \$275,000 per annum. Effective December 31, 2017, Mr. Haas' base salary was increased to \$300,000 per annum. Under the Severance Agreement, the Employee has agreed to non-competition restrictions for a period of six months following the end of his employment, during which period the Employee will be paid an amount equal to his base salary for a period of six months, and an amount equal to the pro rata share of any bonus attributable to the portion of the year completed prior to the date of termination. The Employee has also agreed to confidentiality and non-solicitation restrictions under the Severance Agreement.

Dividends and Capital Transactions

There were no dividends issued by the Company in fiscal years 2019 and 2018.

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, who also is 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. On February 5, 2018, Capital Preservation Solutions, LLC exercised

CCA INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 13 - COMMITMENTS AND CONTINGENCIES (Continued)

Dividends and Capital Transactions (Continued)

450,000 of the warrants for proceeds of \$1,426,500. The remaining balance of 1,442,744 shares underlying the Warrant remains outstanding. The line of credit and term loan with Capital were paid in full on December 4, 2015. 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. See Note 8 - Debt Agreement for further information regarding the Agreement.

NOTE 14 - CONCENTRATION OF RISK

Most of the Company's products are sold to major drug and food chain merchandisers, and wholesale beauty-aids distributors throughout the United States and Canada.

During the fiscal years ended November 30, 2019 and 2018, certain customers each accounted for more than 5% of the Company's net sales, as follows:

Customer	For the Year Ended November 30,	
	2019	2018
Walmart	42.6%	41.5%
Walgreens	12.0%	16.3%
Target	7.3%	10.4%
CVS	*	7.3%
Foreign Sales	*	8.8%

* less than 5%

The loss of any one of these customers could have a material adverse effect on the Company's earnings and financial position.

During the fiscal years November 30, 2019 and 2018, certain products within the Company's product lines accounted for more than 10% of the Company's net sales as follows:

Category	For the Year Ended November 30,	
	2019	2018
Skin Care	57.8%	59.3%
Oral Care	34.4%	34.2%

CCA INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 15 - 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 \$324,332 and \$290,727, respectively, for the years ended November 30, 2019 and 2018 for all outstanding stock options granted.

The fair value of the stock option grants in fiscal years 2019 and 2018 was estimated on the date of the grant using a Black-Scholes valuation model and the assumptions in the following table:

Option Grant Date	Assumptions:				Option Term (years)
	Risk-free Interest Rate	Dividend Yield	Stock Volatility		
June 20, 2018	2.80 %	— %	37.14 %		10
June 20, 2018	2.36 %	— %	37.14 %		5
June 5, 2019	2.12 %	— %	49.09 %		5

On June 5, 2019, the Company granted incentive stock options for an aggregate of 275,000 shares to twelve employees of the Company at \$2.00 per share, which was the closing price of the Company’s stock on that day. The options vest in equal 20% increments beginning 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. The Company had estimated the fair value of the options granted to be \$335,500 as of the grant date.

In September 2019, Justin W. Mills, III (“Mills”), a former director of the Company, exercised stock options held by him for 75,000 shares, at the option price of \$3.30 per share. The non-qualified stock option award was granted to Mills on October 2, 2017. The option price of \$3.30 per share was the closing price of the stock on that day. Mills served as a director of the Company from September 2017 to June 2019.

As of November 30, 2019, there were 1,306,500 stock options outstanding, of which there were 631,900 stock options that were exercisable. The total compensation cost of stock option awards that have not yet been recognized

CCA INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 15 - STOCK-BASED COMPENSATION (Continued)

was \$817,452 as of November 30, 2019. The weighted average period over which the unrecognized compensation is expected to be recognized is 42 months.

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 December 1, 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	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	—

A summary of the future amortization expense of stock options outstanding as of November 30, 2019 is as follows:

<u>For the years ending November 30,</u>				
<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>
\$ 255,104	\$ 234,012	\$ 182,523	\$ 112,263	\$ 33,550

CCA INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 15 - STOCK-BASED COMPENSATION (Continued)

The following table summarizes information about currently outstanding and vested stock options at November 30, 2019:

Exercise Price	Number of Options Granted	Weighted- Average Remaining Term (years)	Number of Option Shares Vested
\$2.00	275,000	9.52	—
\$2.85	262,500	8.56	52,500
\$2.85	150,000	3.55	150,000
\$3.03	14,000	1.85	8,400
\$3.16	225,000	1.00	225,000
\$3.18	10,000	5.36	8,000
\$3.30	205,000	7.56	82,000
\$3.35	130,000	6.56	78,000
\$3.48	35,000	5.10	28,000
Total	1,306,500		631,900

NOTE 16 - 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”.

	<u>For the Year Ended November 30,</u>	
	2019	2018
Net income (loss) available for common shareholders	\$ 554,462	\$ (3,321,766)
Weighted average common shares outstanding - Basic	7,464,492	7,375,314
Net effect of dilutive stock options and warrant	134,863	-
Weighted average common shares and common shares equivalent - Diluted	7,599,355	7,375,314
Earnings (Loss) per Share:		
Basic	\$ 0.07	\$ (0.45)
Diluted	\$ 0.07	\$ (0.45)

1,031,500 shares underlying stock options and 1,442,744 of shares underlying the outstanding warrant for the year ended November 30, 2019, and 1,114,000 shares underlying stock options and 1,442,744 of shares underlying the outstanding warrant for the year ended November 30, 2018 were excluded from the diluted income (loss) per share because the effects of such shares were anti-dilutive.

CCA INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 17 - 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 \$157,550 for the year ended November 30, 2019 and \$99,206 for the year ended November 30, 2018. As of November 30, 2018, there were unpaid media charges and management fees of \$14,263 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 \$3.2 million, subject to a fairness opinion.

CCA INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 17 - 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 \$171,097 and \$177,791, respectively, for the years ended November 30, 2019 and 2018 for royalties under the Agreement. As of November 30, 2019, there were unpaid royalties of \$35,706 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 18 – SUBSEQUENT EVENTS

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 Company incurred royalties of \$20,818 for the year ended November 30, 2019 under the Hair Off License Agreement. 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 purchase price of \$500,000 and related legal expenses will be recorded as a trademark asset as of the date of purchase.

In January 2019, the Company 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 purchase price of \$625,000, the preferred stock value of \$542,500 and related legal expenses will be recorded as a trademark asset as of the date of purchase.