

**FORM 10-Q**

**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

**QUARTERLY REPORT UNDER SECTION 13 OR 15(d)**

**OF THE SECURITIES EXCHANGE ACT OF 1934**

For Quarter Ended August 31, 2005

Commission File Number 1-31643

CCA INDUSTRIES, INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware

04-2795439

(State or other jurisdiction of

(I.R.S. Employer

Incorporation or organization)

Identification Number)

200 Murray Hill Parkway

East Rutherford, NJ

07073

(Address of principal executive offices)

(Zip Code)

(201) 330-1400

Registrant's telephone number, including area code

Indicate by check mark whether the Registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X  
No   

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes    No X

Common Stock, \$.01 Par Value – 6,210,051 shares of as August 31, 2005

Class A Common Stock, \$.01 Par Value – 967,702 shares as of

August 31, 2005

**CCA INDUSTRIES, INC. AND SUBSIDIARIES**

INDEX

Page

Number

**PART I FINANCIAL INFORMATION:**

**Item 1. Financial Statements:**

Consolidated Balance Sheets as of

August 31, 2005 and November 30, 2004

|  |       |
|--|-------|
| Consolidated Statements of Income                      |       |
| for the three months and nine months                   |       |
| ended August 31, 2005 and 2004                         | 3     |
| Consolidated Statements of Comprehensive Income        |       |
| for the three months and nine months                   |       |
| ended August 31, 2005 and 2004                         | 4     |
| Consolidated Statements of Cash Flows for              |       |
| the nine months ended August 31, 2005 and 2004         | 5     |
| Notes to Consolidated Financial Statements             | 6-18  |
| Item 2. Management Discussion and Analysis of          |       |
| Results of Operations and Financial                    |       |
| Condition  | 19-21 |
| Item 3. Quantitative and Qualitative Disclosures about |       |
| Market Risk  | 21    |
| Item 4. Controls and Procedures                        | 21    |
| PART II OTHER INFORMATION                              | 22-23 |
| Item 1. Legal Proceedings                              |       |
| Item 4. Submission of Matters to a Vote of Security    |       |
| Holders  |       |
| Item 5. Other Information                              |       |
| Item 6. Exhibits and Reports on Form 8-K               |       |
| SIGNATURES   | 24    |

CCA INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

A S S E T S

| August 31,  | November 30, |
|-------------|--------------|
| <u>2005</u> | <u>2004</u>  |
|             | (Unaudited)  |

Current Assets

|                           |              |              |
|---------------------------|--------------|--------------|
| Cash and cash equivalents | \$ 1,973,371 | \$ 3,142,230 |
|---------------------------|--------------|--------------|

|  |                     |                     |
|--|---------------------|---------------------|
| Short-term investments and marketable securities                                   | 3,635,996           | 1,952,738           |
| Accounts receivable, net of allowances of \$ 1,278,608 and \$518,127, respectively | 8,605,633           | 8,677,984           |
| Inventories  | 6,943,804           | 6,048,000           |
| Prepaid expenses and sundry receivables  | 444,245             | 695,653             |
| Deferred income taxes  | 708,307             | 650,938             |
| Prepaid income taxes and refunds due   | <u>886,420</u>      | <u>418,651</u>      |
| Total Current Assets   | <u>23,197,776</u>   | <u>21,586,194</u>   |
| Property and Equipment, net of accumulated depreciation and amortization           | <u>500,084</u>      | <u>569,745</u>      |
| Intangible Assets, net of accumulated amortization                                 | <u>578,155</u>      | <u>511,029</u>      |
| Other Assets   |                     |                     |
| Marketable securities  | 8,311,024           | 8,852,198           |
| Deferred taxes   | 49,000              | -                   |
| Other  | <u>48,325</u>       | <u>37,411</u>       |
| Total Other Assets   | <u>8,408,349</u>    | <u>8,889,609</u>    |
| Total Assets   | <u>\$32,684,364</u> | <u>\$31,556,577</u> |

See Notes Consolidated to Financial Statements.

- -1-

## CCA INDUSTRIES, INC. AND SUBSIDIARIES

### CONSOLIDATED BALANCE SHEETS

#### LIABILITIES AND SHAREHOLDERS' EQUITY

|  | August 31,   | November 30, |
|--|--------------|--------------|
|  | <u>2005</u>  | <u>2004</u>  |
|  | (Unaudited)  |              |
| Current Liabilities                      |              |              |
| Accounts payable and accrued liabilities | \$ 7,449,128 | \$ 6,982,835 |
| Income tax payable                       | - -          | 59,888       |
| Dividends payable                        | 575,560      | 483,426      |

|   |                     |                     |
|---|---------------------|---------------------|
| Subordinated debentures   | <u>-</u>            | <u>497,656</u>      |
| Total Current Liabilities   | <u>8,024,688</u>    | <u>8,023,805</u>    |
| Deferred Income Taxes   | <u>-</u>            | <u>10,725</u>       |
| Shareholders' Equity  |                     |                     |
| Preferred stock, \$1.00 par; authorized<br>20,000,000 shares; none issued   |                     |                     |
| Common stock, \$.01 par; authorized<br>15,000,000 shares; 6,210,051 and<br>6,153,503 shares issued, respectively    | 62,101              | 61,535              |
| Class A common stock, \$.01 par; authorized<br>5,000,000 shares; 967,702 and 977,394 shares<br>issued, respectively | 9,677               | 9,774               |
| Additional paid-in capital  | 5,093,325           | 5,094,660           |
| Retained earnings   | 19,739,129          | 18,734,693          |
| Unrealized (losses) on marketable<br>securities   | ( <u>244,556</u> )  | ( <u>228,944</u> )  |
|   | 24,659,676          | 23,671,718          |
| Less: Treasury Stock, 86,703 shares, at cost  | <u>- -</u>          | ( <u>149,671</u> )  |
| Total Shareholders' Equity  | <u>24,659,676</u>   | <u>23,522,047</u>   |
| Total Liabilities and Shareholders' Equity  | <u>\$32,684,364</u> | <u>\$31,556,577</u> |

See Notes to Consolidated Financial Statements.

-2-

**CCA INDUSTRIES, INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF INCOME**

**(UNAUDITED)**

| Three Months Ended |             | Nine Months Ended |             |
|--------------------|-------------|-------------------|-------------|
| August 31,         |             | August 31,        |             |
| <u>2005</u>        | <u>2004</u> | <u>2005</u>       | <u>2004</u> |

Revenues

Sales of health and beauty

|                    |              |              |              |              |
|--------------------|--------------|--------------|--------------|--------------|
| aid products – Net | \$15,064,845 | \$16,535,940 | \$48,245,523 | \$47,609,050 |
|--------------------|--------------|--------------|--------------|--------------|

|  |                      |                     |                     |                     |
|--|----------------------|---------------------|---------------------|---------------------|
| Other income                                       | <u>160,045</u>       | <u>160,451</u>      | <u>409,608</u>      | <u>514,076</u>      |
|  | <u>15,224,890</u>    | <u>16,696,391</u>   | <u>48,655,131</u>   | <u>48,123,126</u>   |
| Costs and Expenses                                 |                      |                     |                     |                     |
| Costs of sales                                     | 5,661,245            | 5,413,461           | 17,309,209          | 16,115,571          |
| Selling, general and<br>administrative<br>expenses | 5,737,522            | 4,739,038           | 15,865,753          | 13,038,772          |
| Advertising, cooperative<br>and promotions         | 3,561,093            | 3,932,062           | 10,314,281          | 9,819,958           |
| Research and development                           | 194,642              | 226,283             | 595,441             | 666,755             |
| Provision for doubtful<br>accounts                 | ( 25,304)            | ( 37,605)           | 267,413             | 37,100              |
| Interest expense                                   | <u>4,976</u>         | <u>8,671</u>        | <u>19,912</u>       | <u>25,500</u>       |
|  | <u>15,134,174</u>    | <u>14,281,910</u>   | <u>44,372,009</u>   | <u>39,703,656</u>   |
| Income before Provision for<br>Income Taxes        |                      |                     |                     |                     |
|  | 90,716               | 2,414,481           | 4,283,122           | 8,419,470           |
| Provision for Income Taxes                         | <u>481,550</u>       | <u>957,251</u>      | <u>1,978,471</u>    | <u>3,327,895</u>    |
| Net Income or (Loss)                               | <u>( \$ 390,834)</u> | <u>\$ 1,457,230</u> | <u>\$ 2,304,651</u> | <u>\$ 5,091,575</u> |
| Earnings (Loss) per Share:                         |                      |                     |                     |                     |
| Basic  | <u>( \$.05)</u>      | <u>\$.20</u>        | <u>\$.32</u>        | <u>\$.70</u>        |
| Diluted  | <u>( \$.05)</u>      | <u>\$.19</u>        | <u>\$.31</u>        | <u>\$.67</u>        |
| Cash Dividends Declared per<br>Share               |                      |                     |                     |                     |
|  | <u>\$.00</u>         | <u>\$.00</u>        | <u>\$.16</u>        | <u>\$.14</u>        |

See Notes to Consolidated Financial Statements.

- 3 -

**CCA INDUSTRIES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**(UNAUDITED)**

Three Months Ended

August 31,

Nine Months Ended

August 31,

|                             | <u>2005</u>          | <u>2004</u>        | <u>2005</u>        | <u>2004</u>        |
|-----------------------------|----------------------|--------------------|--------------------|--------------------|
| Net Income (Loss)           | ( <u>\$390,834</u> ) | <u>\$1,457,230</u> | <u>\$2,304,651</u> | <u>\$5,091,575</u> |
| Other Comprehensive Income  |                      |                    |                    |                    |
| Unrealized holding gains    |                      |                    |                    |                    |
| (losses) on investments     | 35,959               | 203,419            | ( 15,612)          | ( 78,459)          |
| Provision (Benefit) for     |                      |                    |                    |                    |
| Income Taxes                | <u>12,168</u>        | <u>80,648</u>      | ( <u>6,245</u> )   | ( <u>31,012</u> )  |
| Other Comprehensive Income  |                      |                    |                    |                    |
| (Loss) – Net                | <u>23,791</u>        | <u>122,771</u>     | ( <u>9,367</u> )   | ( <u>47,447</u> )  |
| Comprehensive Income (Loss) | ( <u>\$367,043</u> ) | <u>\$1,580,001</u> | <u>\$2,295,284</u> | <u>\$5,044,128</u> |
| Earnings Per Share:         |                      |                    |                    |                    |
| Basic                       | ( <u>\$.05</u> )     | <u>\$.22</u>       | <u>\$.32</u>       | <u>\$.69</u>       |
| Diluted                     | ( <u>\$.05</u> )     | <u>\$.21</u>       | <u>\$.31</u>       | <u>\$.66</u>       |

See Notes to Consolidated Financial Statements.

- -4-

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

Nine Months Ended

August 31,                      August 31,  
2005                                      2004

Cash Flows from Operating Activities:

|   |             |              |
|---|-------------|--------------|
| Net income                                    | \$2,304,651 | \$5,091,575  |
| Adjustments to reconcile net income           |             |              |
| to net cash provided by operating activities: |             |              |
| Depreciation and amortization                 | 281,477     | 256,500      |
| Loss on sale of marketable securities         |             |              |
| and repurchase of debentures                  | -           | 9,289        |
| (Increase) decrease in deferred income taxes  | ( 117,094)  | 162,654      |
| Decrease (increase) in accounts receivable    | 72,351      | ( 2,658,551) |

|   |                      |                    |
|---|----------------------|--------------------|
| (Increase) in inventory                                       | ( 895,804)           | ( 810,571)         |
| Decrease in prepaid expenses and<br>miscellaneous receivables | 251,408              | 24,950             |
| (Increase) in deferred advertising                            | --                   | ( 1,911,634)       |
| (Increase) decrease in other assets                           | ( 10,914)            | 1,175              |
| Increase in accounts payable<br>and accrued liabilities       | 466,293              | 1,417,125          |
| (Increase) decrease in prepaid income taxes                   | ( 467,769)           | 236,620            |
| (Decrease) increase in taxes payable                          | ( <u>59,888</u> )    | <u>694,618</u>     |
| Net Cash Provided by Operating Activities                     | <u>1,824,711</u>     | <u>2,513,750</u>   |
| Cash Flows from Investing Activities:                         |                      |                    |
| Acquisition of property, plant and equipment                  | ( 171,600)           | ( 105,613)         |
| Acquisition of intangible assets                              | ( 107,343)           | ( 2,905)           |
| Purchase of marketable securities                             | ( 2,404,512)         | ( 2,703,858)       |
| Proceeds from sale and maturity of<br>marketable securities   | <u>1,246,814</u>     | <u>2,647,162</u>   |
| Net Cash (Used in) Investing Activities                       | ( <u>1,436,641</u> ) | ( <u>165,214</u> ) |
| Cash Flows from Financing Activities:                         |                      |                    |
| Dividends paid  | ( 1,059,275)         | ( 891,131)         |
| Repurchase of matured subordinated<br>debenture               | ( 497,656)           | -                  |
| Proceeds from exercise of common stock options                | <u>-</u>             | <u>5,000</u>       |
| Net Cash (Used in) Financing Activities                       | ( <u>1,556,931</u> ) | ( <u>886,131</u> ) |
| Net (Decrease) Increase in Cash                               | ( 1,168,861)         | 1,462,405          |
| Cash and Cash Equivalents at Beginning<br>of Period           |                      |                    |
|   | <u>3,142,230</u>     | <u>1,206,787</u>   |
| Cash and Cash Equivalents at End<br>of Period                 |                      |                    |
|   | <u>\$1,973,371</u>   | <u>\$2,669,192</u> |
| Supplemental Disclosures of Cash Flow<br>Information:         |                      |                    |
| Cash paid during the period for:                              |                      |                    |
| Interest  | \$ 19,912            | \$ 24,294          |

|  |             |            |
|--|-------------|------------|
| Income taxes                                       | 2,225,685   | 2,203,617  |
| Supplemental Disclosures of Non-Cash Transactions: |             |            |
| Dividends declared and accrued                     | \$1,151,411 | \$ 512,014 |
| Cancellation of treasury stock                     |             |            |
| Common stock                                       | 867         |            |
| Retained earnings                                  | 148,804     |            |

See Notes to Consolidated Financial Statements.

- 5-

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

**NOTE 1 - BASIS OF PRESENTATION**

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the nine-month period ended August 31, 2005 are not necessarily indicative of the results that may be expected for the year ended November 30, 2005. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's annual report on Form 10-K for the year ended November 30, 2004. The accompanying unaudited condensed consolidated financial statements, in the opinion of management, include all adjustments necessary for a fair presentation. All such adjustments are of a normal reoccurring nature.

**NOTE 2 - ORGANIZATION AND DESCRIPTION OF BUSINESS**

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

CCA manufactures and distributes health and beauty aid products.

CCA has several wholly-owned subsidiaries, CCA Cosmetics, Inc., CCA Labs, Inc., Berdell, Inc., Nutra Care Corporation, CCA Online Industries, Inc., and CCA Industries Canada (2003) Inc., all of which are currently inactive.

**NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Principles of Consolidation:**

The consolidated financial statements include the accounts of CCA and its wholly-owned subsidiaries (collectively the "Company").

- 6-

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

**NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**



Use of Estimates:

The consolidated financial statements include the use of estimates, which management believes are reasonable. The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of 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. Accordingly, upon settlement, actual results may differ from estimated amounts.

Short-Term Investments and Marketable Securities:

Short-term investments and marketable securities consist of corporate and government bonds and equity securities. The Company has classified its investments as Available-for-Sale securities. Accordingly, such investments are reported at fair market value, with the resultant unrealized gains and losses reported as a separate component of shareholders' equity.

Statements of Cash Flows Disclosure:

For purposes of the statement of cash flows, the Company considers all highly liquid instruments purchased with an original maturity of less than three months to be cash equivalents.

Inventories:

Inventories are stated at the lower of cost (first-in, first-out) or market.

Product returns are recorded in inventory when they are received at the lower of their original cost or market, as appropriate. Obsolete inventory is written off and its value is removed from inventory at the time its obsolescence is determined.

- -7-

**CCA INDUSTRIES, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(UNAUDITED)**

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 on the straight-line method over the following estimated useful lives or lease terms of the asset s:

|                          |                             |
|--------------------------|-----------------------------|
| Machinery and equipment  | 5-7 Years                   |
| Furniture and fixtures   | 3-10 Years                  |
| Tools, dies and masters  | 3 Years                     |
| Transportation equipment | 5 Years                     |
| Leasehold improvements   | Remaining life of the lease |

(ranging from 1-9 years)

Intangible Assets:

Intangible assets are stated at cost. Patents are amortized on the straight-line method over a period of 17 years. Such intangible assets are reviewed for potential impairment whenever events or circumstances indicate that carrying amounts may not be recoverable.

Financial Instruments:

The carrying value of assets and liabilities considered financial instruments approximate their respective fair value.

Income Taxes:

Income tax expense includes federal and state taxes currently payable and deferred taxes arising from temporary differences between income for financial reporting and income tax purposes.

Tax Credits:

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

- 8 -

**CCA INDUSTRIES, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(UNAUDITED)**

**NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Earnings Per Common Share:

Basic earnings per share is calculated using the average weighted number of shares of common stock outstanding during the year. Diluted earnings per share is computed on the basis of the weighted average number of common shares outstanding plus the effect of outstanding stock options using the "treasury stock method" and convertible debentures using the "if-converted" method. Common stock equivalents consist of stock options.

Revenue Recognition:

The Company recognizes sales upon shipment of merchandise. Net sales are comprised of gross sales less expected returns, trade discounts, customer allowances and various sales incentives. Although no legal right of return exists between the customer and the Company, it is an industry-wide practice to accept returns from customers. The Company, therefore, records a reserve for returns equal to its gross profit on its historical percentage of returns on its last five months sales.

Accounts Receivable:

Accounts receivable consist of trade receivables recorded at original invoice amount, less an estimated allowance for uncollectible accounts. Trade credit is generally extended on a short-term basis; thus trade receivables do not bear interest, although a finance charge may be applied to receivables that are past due. Trade receivables are periodically evaluated for collectibility based on past credit history with customers and their current financial condition. Changes in the estimated collectibility 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.

Accounts receivable are presented net of an allowance for doubtful accounts of \$349,671 and \$111,572 as of August 31, 2005 and November 30, 2004, respectively.

Shipping and Handling Costs:

The Company presents shipping and handling costs as part of selling, general and administrative expense and not as part of cost of sales. Freight costs were \$2,835,944 and \$2,113,035 for the nine months ended August 31, 2005 and 2004, respectively.

## Comprehensive Income:

The Company adopted SFAS #130, Comprehensive Income, which considers the Company's financial performance in that it includes all changes in equity during the period from transactions and events from non-owner sources.

## Reclassifications:

Certain prior year amounts have been reclassified to conform to the fiscal 2005 presentation.

9-

## CCA INDUSTRIES, INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

#### NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### Recent Accounting Pronouncements:

In December 2003, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 46R, "Consolidation of Variable Interest Entities" ("FIN 46R"), which supercedes Interpretation No. 46, "Consolidation of Variable Interest Entities" issued in January 2003. FIN 46R requires a company to consolidate a variable interest entity ("VIE"), as defined, when the company will absorb a majority of the VIE's expected losses, receives a majority of the VIE's expected residual returns or both. FIN 46R also requires consolidation of existing, non-controlled affiliates if the VIE is unable to finance its operations without investor support, or where the other investors do not have exposure to the significant risks and rewards of ownership. FIN 46R applies immediately to a VIE created or acquired after January 31, 2003. For a VIE created before February 1, 2003, FIN 46R applies in the first fiscal year or interim period beginning after March 15, 2004, our third fiscal quarter beginning June 1, 2004. Application of FIN 46R is also required in financial statements that have interests in structures that are commonly referred to as special-purpose entities for periods after December 15, 2003. The adoption of FIN 46R did not have an impact on our financial position, results of operations or cash flows.

In November 2004, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 151, "Inventory Costs" ("SFAS 151"). SFAS 151 amends the guidance in Accounting Research Bulletin No. 43, Chapter 4, "Inventory Pricing", to clarify that abnormal amounts of idle facility expense, freight, handling costs and wasted materials (spoilage) should be recognized as current-period charges and required the allocation of fixed production overheads to inventory based on normal capacity of the production facilities. This statement is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The adoption of SFAS 151 is not expected to have an impact on our financial position, results of operations or cash flows.

In November 2004, the Emerging Issues Task Force ("EITF") reached a consensus on Issue No. 03-13, "Applying the Conditions in Paragraph 42 of FASB Statement No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" in Determining Whether to Report Discontinued Operations" (EITF 03-13"). Under the consensus, the approach for assessing whether cash flows of the component have been eliminated from the ongoing operations of the entity focuses on whether continuing cash flows are direct or indirect cash flows. Cash flows of the component would not be eliminated if the continuing cash flows to the entity are considered direct cash flows. The consensus should be applied to a component of an enterprise that is either disposed of or classified as held for sale in fiscal period beginning after December 15, 2004. The adoption of EITF 03-13 is not expected to have an impact on our financial position, results of operations or cash flows.

In December 2004, the FASB issued SFAS No. 123 (revised 2004), "Share-Based Payment" ("SFAS 123R"), which is a revision of SFAS No. 123, "Accounting for Stock-Based Compensation". SFAS 123R supercedes APB Opinion No. 25, "Accounting for Stock Issued to Employees" and amends SFAS No. 95, "Statement of Cash Flows". SFAS 123R focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions and requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Accordingly, the adoption of SFAS 123R's fair

value method will have a significant impact on our results of operations, although it will have no impact on our overall financial position. The impact of the adoption of SFAS 123R cannot be predicted at this time because it will depend on the levels of share-based payments granted in the future. SFAS 123R also requires the benefits of tax deductions in excess of recognized compensation costs to be reported as a financing cash flow, rather than

-10-

## CCA INDUSTRIES, INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

#### NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### Recent Accounting Pronouncements (Continued):

as an operating cash flow as required under current literature. This requirement would reduce net operating cash flows and increase net financing cash flows in periods after adoption. While we cannot estimate what those amounts will be in the future (because they depend on, among other things, the issuance of future options and when they would be exercised), the amount of operating cash flows recognized in prior periods for such excess tax deductions were not material to our consolidated financial position or results of operations. This statement is effective for our fiscal year beginning December 1, 2005.

In December 2004, the FASB issued SFAS 153, "Exchanges of Nonmonetary Assets" ("SFAS 153"). SFAS 153 amends the guidance in APB Opinion No. 29, "Accounting for Nonmonetary Transactions" to eliminate certain exceptions to the principle that exchanges of nonmonetary assets be measured based on the fair value of the assets exchanged. SFAS 153 eliminates the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. This statement is effective for nonmonetary asset exchanges in fiscal years beginning after June 15, 2005. The adoption of SFAS 153 is not expected to have an impact on our financial position, results of operations or cash flows.

The American jobs Creation Act of 2004 (the "AJCA") was enacted on October 22, 2004. The AJCA repeals an export incentive, creates a new deduction for qualified domestic manufacturing activities and includes a special one-time deduction of 85% of certain earnings repatriated to the U.S.

The FASB issued Staff Position FAS 109-1, "Application of FASB Statement No. 109, Accounting for Income Taxes, to the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2004" ("FSP FAS 109-1") on December 21, 2004. In accordance with FSP FAS 109-1, we will treat the deduction for qualified domestic manufacturing activities, which is effective upon issuance, as a reduction of the income tax provision in future years as realized.

In December 2004, the FASB issued Staff Position 109-2 "Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision Within the American Jobs creation Act of 2004, "allowing companies additional time to evaluate the effect of the AJCA on plans for reinvestment or repatriation of foreign earnings. We are in the process of evaluating the effects of the repatriation provision.

#### NOTE 4 - INVENTORIES

The components of inventory consist of the following:

|                | August 31,       | November 30,     |
|----------------|------------------|------------------|
|                | <u>2005</u>      | <u>2004</u>      |
| Raw materials  | \$4,554,617      | \$3,764,473      |
| Finished goods | <u>2,389,187</u> | <u>2,283,527</u> |

\$6,943,804

\$6,048,000

At August 31, 2005 and November 30, 2004, the Company had a reserve for obsolescence of \$624,177 and \$871,488, respectively.

-11-

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

NOTE 5 - PROPERTY AND EQUIPMENT

The components of property and equipment consisted of the following:

|  | August 31,<br><u>2005</u> | November 30,<br><u>2004</u> |
|--|---------------------------|-----------------------------|
| Machinery and equipment                            | \$ 124,550                | \$ 115,104                  |
| Furniture and equipment                            | 779,821                   | 708,184                     |
| Transportation equipment                           | 10,918                    | 10,918                      |
| Tools, dies, and masters                           | 520,733                   | 433,221                     |
| Leasehold improvements                             | <u>294,067</u>            | <u>291,063</u>              |
|  | 1,730,090                 | 1,558,490                   |
| Less: Accumulated depreciation<br>and amortization | <u>1,230,005</u>          | <u>988,745</u>              |
| Property and Equipment - Net                       | <u>\$ 500,085</u>         | <u>\$ 569,745</u>           |

Depreciation expense for the nine months ended August 31, 2005 and 2004 amounted to \$241,260 and \$220,409, respectively.

NOTE 6 - INTANGIBLE ASSETS

Intangible assets consist of the following:

|                                | August 31,<br><u>2005</u> | November 30,<br><u>2004</u> |
|--------------------------------|---------------------------|-----------------------------|
| Patents and trademarks         | \$893,773                 | \$786,430                   |
| Less: Accumulated amortization | <u>315,618</u>            | <u>275,401</u>              |
| Intangible Assets - Net        | <u>\$578,155</u>          | <u>\$511,029</u>            |

Amortization expense for the nine months ended August 31, 2005 and 2004 amounted to \$40,217 and \$36,091, respectively. Estimated amortization expense for each quarter of the ensuing five years through February 28, 2009 is \$12,000.

-12-

**CCA INDUSTRIES, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(UNAUDITED)**

**NOTE 7 - DEFERRED ADVERTISING**

Effective August 2005, the Company changed the way it estimates the benefits received from its advertising during its interim periods to be consistent with its year-end. Accordingly there is no deferral of expense as of August 31, 2005.

The table below sets forth the calculation as of August 31, 2004:

|  |                    |
|--|--------------------|
| Media advertising budget for the fiscal year | <u>\$10.00</u>     |
| Pro-rata portion for nine months             | 7.50               |
| Media advertising spent                      | <u>8.99</u>        |
| Accrual (deferral)                           | ( <u>\$ 1.49</u> ) |
| Anticipated co-op advertising commitments    | <u>\$ 5.50</u>     |
| Pro-rata portion for nine months             | \$4.13             |
| Co-op advertising spent                      | <u>4.55</u>        |
| Accrual (deferral)                           | ( <u>\$ .42</u> )  |

**NOTE 8 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

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

|                      | August 31,<br><u>2005</u> | November 30,<br><u>2004</u> |
|----------------------|---------------------------|-----------------------------|
|                      | (In Thousands)            | (In Thousands)              |
| a) Media advertising | \$ *                      | \$ *                        |
| b) Coop advertising  | 1,484                     | 932                         |
| c) Accrued returns   | 1,981                     | 980                         |
| d) Accrued bonuses   | <u>779</u>                | <u>470</u>                  |
|                      | <u>\$3,578</u>            | <u>\$2,382</u>              |

\* under 5%

All other liabilities were for trade payables or individually did not exceed 5% of total current liabilities.

**NOTE 9 - OTHER INCOME**

Other income consists of the following:

|                              | August 31,<br><u>2005</u> | 2004      |
|------------------------------|---------------------------|-----------|
| Interest and dividend income | \$326,438                 | \$388,898 |

|                |                  |                  |
|----------------|------------------|------------------|
| Royalty income | 77,455           | 90,053           |
| Miscellaneous  | <u>5,715</u>     | <u>35,125</u>    |
|                | <u>\$406,608</u> | <u>\$514,076</u> |

-13-

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

**NOTE 10 - NOTES PAYABLE AND SUBORDINATED DEBENTURES**

The Company has an available line of credit of \$10,000,000. Interest is calculated at the Company's option, either on the outstanding balance at prime rate minus 1% or Libor plus 150 basis points. The line of credit is unsecured and the Company must adhere to certain financial covenants pertaining to net worth and debt coverage. The Company was not utilizing their available credit line at August 31, 2005 or November 30, 2004.

On August 1, 2000, the Company repurchased (pursuant to a tender offer) 278,328 shares of its outstanding common stock by issuing subordinated debentures equal to \$2 per share, which accrued interest at 6% and matured on August 1, 2005. The interest was payable semi-annually.

**NOTE 11 - COMMITMENTS AND CONTINGENCIES**

**Litigation**

The only material legal proceedings sets forth the fact that there were originally 13 cases filed in which the Company was named along with other defendants as a result of their purchasing and ingesting our diet suppressant containing phenylpropanolamine (PPA), which the Company utilized as its active ingredient in its products prior to November 2000. Eleven cases have been dismissed with prejudice. These cases cannot be legally reinstated. The one case in Philadelphia in which one of the defendants filed for bankruptcy has been delayed. The court is rendering a decision on our motion to dismiss. We agree with independent counsel that, as concluded under the decision in Seattle, unless a plaintiff ingested a product with PPA within three days of a stroke, there can be no causation to prove that a product caused the stroke. We feel that the case should be dismissed inasmuch as plaintiff at the deposition deposed that she took our product months before the stroke.

The remaining case in Louisiana is fully insured to the extent of \$5,000,000. After reviewing the plaintiff's medical records, it does not appear that there is ongoing significant medical problems that would cause a jury to render a substantial judgment. Counsel evidently in discussing the matter with Phoenix Insurance Company, has not made any substantial efforts to settle the case which we have been led to believe could be settled for under \$250,000.

We do not believe that any further litigations would be ensuing because the Statute of Limitations throughout the country provided that the case must be instituted within three to four years within the time frame in which a plaintiff had constructive notice of the product that proximately caused a stroke. The FDA put out a news release nationally in October 2000. However, there can be no assurance that the current PPA litigation will not have a material adverse effect upon the Company's operations.

**Dividends**

CCA declared a dividend of \$0.16 per share payable to all holders of the Company's common stock, \$0.08 to shareholders of record on May 1, 2005 payable on June 1, 2005 and \$0.08 to shareholders of record on November 1, 2005, payable on December 1, 2005.

-14-

CCA INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

NOTE 12 - PENSION PLANS

The Company has adopted a 401(K) Profit Sharing Plan that covers union and non-

union employees with over one year of service and attained age 21. Employees may make salary reduction contributions up to twenty-five percent of compensation not to exceed the federal government limits. The Company is not required to match any employee contributions but may make a voluntary Company contribution at the discretion of the Board of Directors. No voluntary contributions were made by the company.

NOTE 13 - SHORT-TERM INVESTMENTS AND MARKETABLE SECURITIES

Short-term investments and marketable securities, which consist of stock and various corporate and government obligations, are stated at market value. The Company has classified its investments as Available-for-Sale securities and considers as current assets those investments which will mature or are likely to be sold in the next fiscal year. The remaining investments are considered non-current assets. The cost and market values of the investments at August 31, 2005 and November 30, 2004 were as follows:

|                       | <u>August 31, 2005</u> |                  | <u>November 30, 2004</u> |                  |
|-----------------------|------------------------|------------------|--------------------------|------------------|
| Current:              | COST                   | MARKET           | COST                     | MARKET           |
| Corporate             |                        |                  |                          |                  |
| Obligations           | \$ 2,199,445           | \$ 2,179,654     | \$ 1,475,000             | \$ 1,470,690     |
| Government            |                        |                  |                          |                  |
| obligations           |                        |                  |                          |                  |
| (including mortgage   |                        |                  |                          |                  |
| backed securities)    | 1,220,570              | 1,210,078        | 296,814                  | 297,045          |
| Common stock          | 51,649                 | 54,924           | 51,649                   | 52,656           |
| Mutual funds          | 195,672                | 136,546          | 188,247                  | 132,347          |
| Other equity          |                        |                  |                          |                  |
| investments           | <u>59,329</u>          | <u>54,794</u>    | <u>-</u>                 | <u>-</u>         |
| Total                 | <u>3,726,665</u>       | <u>3,635,996</u> | <u>2,011,710</u>         | <u>1,952,738</u> |
| Non-Current:          |                        |                  |                          |                  |
| Corporate obligations | 5,313,749              | 5,193,551        | 5,546,097                | 5,446,625        |
| Government obli-      |                        |                  |                          |                  |
| gations               | 2,226,319              | 2,190,201        | 2,751,228                | 2,689,721        |
| Preferred stock       | 824,845                | 827,272          | 624,845                  | 615,852          |
| Other equity invest-  |                        |                  |                          |                  |
| ments                 | <u>100,000</u>         | <u>100,000</u>   | <u>100,000</u>           | <u>100,000</u>   |
| Total                 | <u>8,464,913</u>       | <u>8,311,024</u> | <u>9,022,170</u>         | <u>8,852,198</u> |



|       |                     |                     |                     |                     |
|-------|---------------------|---------------------|---------------------|---------------------|
| Total | <u>\$12,191,578</u> | <u>\$11,947,020</u> | <u>\$11,033,880</u> | <u>\$10,804,936</u> |
|-------|---------------------|---------------------|---------------------|---------------------|

- -15-

**CCA INDUSTRIES, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(UNAUDITED)**

**NOTE 13 - SHORT-TERM INVESTMENTS AND MARKETABLE SECURITIES (CONTINUED)**

The market value at August 31, 2005 was \$ 11,947,020 as compared to \$10,804,936 at November 30, 2004. The gross unrealized gains and losses were \$13,864 and (\$258,422) for August 31, 2005 and \$4,227 and (\$233,171) for November 30, 2004.

**NOTE 14 - CHANGE IN ESTIMATE**

In accordance with discussions with the SEC, the Company changed its estimate of the future benefits it derives from its advertising expenditures and the effect it has on its allocation of advertising expense among the interim periods. Previously each quarter was charged an equal share of the annual advertising budget. The Company will now expense its advertising based on when the advertising actually runs. As a result of the change, the Company charged all of the previously deferred media advertising to expense in the third quarter, instead of continuing to defer a portion to the fourth quarter as it had done in previous years. The deferral coupled with the actual expenditures for advertising in the third quarter resulted in a total advertising expense for the third quarter of \$3.5 million.

APB 28 Interim Financial Reporting states “Advertising costs may be deferred within a fiscal year if the benefits of an expenditure made clearly extend beyond the interim period in which the expenditure is made.”

This APB requires an estimate to be made by the company as to how much benefit of incurred advertising will be realized in subsequent quarters. As stated in the previously filed 10Q’s, over the past years the Company has reported its advertising expense consistently according to its interpretation of APB 28 Interim Financial Reporting by expensing its annualized budgeted advertising expense equally over the four quarters. The Company believed that its budgeted advertising expense for any year affected its sales for the entire year regardless of when the advertisement actually ran. The strategy adopted by the company to get the most value for its advertising dollars is to saturate the market during the first two quarters of each fiscal year so that an impression can be made on the consumer. The benefit of that advertising is then reflected in the brand recognition achieved, which carries over into the last two quarters of the year. By the beginning of the next fiscal year the Company believes it must, once again, saturate the market to rekindle the interest in its products. The Company does not believe that the advertising spent in a particular quarter results solely to the sales in that quarter, but results in future sales. However, since it is impossible to determine exactly how much benefit is derived in future periods from current advertising, the Company, beginning with the quarter ending August 31, 2005, will no longer defer any of its advertising expense during the interim quarters and will expense all costs of advertising that ran as of the end of each period.

-16-

**CCA INDUSTRIES, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(UNAUDITED)**

**NOTE 14 - CHANGE IN ESTIMATE (CONTINUED)**

Proforma financial information based on using the current basis for estimating advertising benefits is as follows:

|        |       |        |       |        |      |
|--------|-------|--------|-------|--------|------|
| Fiscal | First | Second | Third | Fourth | Year |
|--------|-------|--------|-------|--------|------|

| Year            | Quarter    | Quarter  | Quarter  | Quarter  | End      |
|-----------------|------------|----------|----------|----------|----------|
|                 | (000)      | (000)    | (000)    | (000)    | (000)    |
| 2005 - Proforma |            |          |          |          |          |
| Revenues        | \$14,814   | \$18,616 | \$15,225 |          |          |
| Advertising     | \$ 5,323   | \$ 4,285 | \$ 1,632 |          |          |
| Income before   |            |          |          |          |          |
| tax provision   | (\$ 701)   | \$ 2,038 | \$ 2,020 |          |          |
| NI              | (\$ 435)   | \$ 1,337 | \$ 1,249 |          |          |
| EPS             | (\$ .06)   | \$ .18   | \$ .16   |          |          |
| 2004 - Proforma |            |          |          |          |          |
| Revenues        | \$13,087   | \$18,339 | \$16,696 | \$13,395 | \$61,518 |
| Advertising     | \$ 6,547   | \$ 4,633 | \$ 551   | \$ 1,387 | \$13,119 |
| Income before   |            |          |          |          |          |
| tax provision   | (\$ 2,364) | \$ 3,077 | \$ 5,795 | \$ 2,866 | \$ 9,374 |
| NI              | (\$ 1,462) | \$ 1,902 | \$ 3,584 | \$ 1,772 | \$ 5,797 |
| EPS             | (\$ .20)   | \$ .25   | \$ .47   | \$ .24   | \$ .75   |
| 2003 - Proforma |            |          |          |          |          |
| Revenues        | \$12,515   | \$17,611 | \$12,853 | \$11,758 | \$54,737 |
| Advertising     | \$ 4,036   | \$ 3,893 | \$ 1,085 | \$ 1,314 | \$10,329 |
| Income before   |            |          |          |          |          |
| tax provision   | (\$ 353)   | \$ 3,069 | \$ 3,320 | \$ 2,461 | \$ 8,497 |
| NI              | (\$ 218)   | \$ 1,897 | \$ 2,052 | \$ 1,521 | \$ 5,252 |
| EPS             | (\$ .03)   | \$ .25   | \$ .28   | \$ .20   | \$ .68   |

This reporting change would have had no effect on the year end financials whatsoever. It simply would have skewed the quarterly earnings to reflect significantly less earnings in the first two quarters when we typically spend the bulk of our advertising dollars and significantly more income in the third and fourth quarters when we significantly reduce our current spending.

-17-

**CCA INDUSTRIES, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(UNAUDITED)**

**NOTE 14 - CHANGE IN ESTIMATE (CONTINUED)**

For comparison purposes, the historical numbers with a proforma of the 3<sup>rd</sup> quarter as if our basis for estimating had not changed are shown below:

2005

|               |          |          |          |
|---------------|----------|----------|----------|
| Revenues      | \$14,814 | \$18,616 | \$15,225 |
| Advertising   | \$ 3,098 | \$ 3,655 | \$ 2,635 |
| Income before |          |          |          |
| tax provision | \$ 1,526 | \$ 2,668 | \$ 1,016 |
| NI            | \$ 945   | \$ 1,751 | \$ 164   |
| EPS           | \$ .13   | \$ .24   | \$ .02   |

2004

|               |          |          |          |          |          |
|---------------|----------|----------|----------|----------|----------|
| Revenues      | \$13,087 | \$18,339 | \$16,696 | \$13,395 | \$61,518 |
| Advertising   | \$ 2,824 | \$ 3,064 | \$ 3,932 | \$ 3,299 | \$13,119 |
| Income before |          |          |          |          |          |
| tax provision | \$ 1,359 | \$ 4,646 | \$ 2,414 | \$ 955   | \$ 9,374 |
| NI            | \$ 836   | \$ 2,798 | \$ 1,457 | \$ 705   | \$ 5,797 |
| EPS           | \$ .11   | \$ .36   | \$ .19   | \$ .09   | \$ .75   |

2003

|               |          |          |          |          |          |
|---------------|----------|----------|----------|----------|----------|
| Revenues      | \$12,515 | \$17,611 | \$12,853 | \$11,758 | \$54,737 |
| Advertising   | \$ 2,723 | \$ 2,634 | \$ 2,405 | \$ 2,568 | \$10,329 |
| Income before |          |          |          |          |          |
| tax provision | \$ 960   | \$ 4,329 | \$ 2,001 | \$ 1,207 | \$ 8,497 |
| NI            | \$ 574   | \$ 2,584 | \$ 1,287 | \$ 807   | \$ 5,252 |
| EPS           | \$ .08   | \$ .34   | \$ .17   | \$ .11   | \$ .68   |

As shown, the year-end numbers are exactly the same; the change simply reallocates when the advertising dollars are expensed.

-18-

## **ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION (UNAUDITED)**

Except for historical information contained herein, this "Management's Discussion and Analysis of Financial Condition and Results of Operations" contains forward-looking statements. These statements involve known and unknown risks and uncertainties that may cause actual results or outcomes to be materially different from any future results, performances or achievements expressed or implied by such forward-looking statements, and statements which explicitly describe such issues. Investors are urged to consider any statement labeled with the terms "believes," "expects," "intends" or "anticipates" to be uncertain and forward-looking.

After discussions with the staff of the SEC, the Company changed its estimate of the future benefits it derives from its advertising expenditures and the effect it had on its allocation of advertising expense among the interim periods. Previously, each quarter was charged an equal share of the annual advertising budget. In its future reports, the Company will expense its advertising based on when the advertising actually runs. As a result of the change, the

Company charged all of the previously deferred media advertising to expense in the third quarter, instead of continuing to defer a portion to the fourth quarter as it had done in previous years. The deferral coupled with the actual expenditures for advertising in the third quarter resulted in a total advertising expense for the third quarter of \$3.5 million.

For comparison purposes, the company will set forth a proforma statement of operations showing the advertising expense that was actually incurred in each quarter for the four quarters of the fiscal year ended 11/30/04 and the first three quarters of the current fiscal year. Commencing in the fourth quarter of 2005, the Company's advertising expense will reflect only the advertising expense that ran in the quarter. There will be no interim deferral of expense.

For the three-month period ending August 31, 2005, the company had revenues of \$15,224,890 and net loss of \$(390,834) after provision for taxes of \$481,550. For the same quarter in 2004, revenues were \$16,696,391 and net income was \$1,457,230 after a provision for taxes of \$957,251. Earnings per share was \$.(.05) (diluted) for the third quarter 2005 as compared to earnings \$.19 (diluted) for the third quarter 2004. In accordance with EITF 00-14, the Company has accounted for certain sales incentives offered to customers by charging them directly to sales as opposed to advertising and promotional expenses. Net sales for the third quarter of 2005 were reduced by \$477,627 and offset by an equal reduction of trade promotional expenses, which were included in the Company's advertising expense budget. In the same period of the prior year, gross sales were reduced by \$595,544 and trade promotion was credited by that amount. These accounting adjustments under EIFT 00-14 do not affect net income.

The Company's net sales decreased from \$16,535,940 for the three-month period ending August 31, 2004 to \$15,064,845 for the three-month period ending August 31, 2005, primarily due to an additional reserve of \$1 million to account for the possible returns of its recently launched new skin care produce line. Sales returns and allowances increased to 13.8% of gross sales for the three-month period ending August 31, 2005 from 4.9% for the same period last year. This increase was primarily caused by the increase in the reserve of \$1 million plus the actual returns of approximately \$200,000 from the skin care line. Gross profit margins decreased to 62.4% for three-month period ending August 31, 2005 compared to 67.3% for the same three-month period in the prior year, partially as a result of the returns referred to above.

-19-

## **ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION (UNAUDITED) (CONTINUED)**

The Company's net sales were \$48,245,523 for the nine months ending August 31, 2005 to \$47,609,050 for the nine months ending August 31, 2004. Sales returns and allowances increased to 12.6% of gross sales this year from 9.7% last year for the nine months ending August 31, due to substantial returns resulting from the unsuccessful launch of its new skin care brand. Gross profit margins were 64.1% for the nine months ending August 31, 2005 compared to 66.1% for the same period in the prior year. The Company's gross sales net of returns by category were: Cosmetics and Fragrances \$6,103,378, 11.7%; Health and Beauty Aids \$29,207,716, 56.2%; and miscellaneous over-the-counter \$16,685,895, 32.1% for an aggregate total of \$51,996,989. The Company makes every effort to control the cost of manufacturing and has had no substantial cost increases. Income before taxes is \$4,283,122 as compared to \$8,419,470 for the same quarter in 2004. The 50.9% decrease in income before taxes was a result of an increase of an additional \$1,000,000 in its reserve against possible future returns and expensing of its deferred media advertising expenses from the prior six month period. Returns and reserves accounted for \$3,101,130 that was expensed against earnings for this quarter. In accordance with GAAP, the Company reclassified certain advertising expenditures as a reduction of sales rather than report them as advertising expenses. The reclassification is the adoption by the Company of the EITF 00-14 GAAP standard. The reclassification reflects a reduction in sales for the nine months ending August 31, 2005, and 2004 by \$1,891,740 and \$1,857,368. The reclassification reduces the gross profit margin but does not affect the net income.

For the nine-month period ending August 31, 2005, the Company had revenues of \$48,655,131 and net income of \$2,304,651 after a provision for taxes of \$1,978,471. For the same period in 2004, revenues were \$48,123,126 and net income of \$5,091,575 after a provision for taxes of \$3,327,895.

For the nine month period ending August 31, 2005, advertising, cooperative and promotional allowance expenses were \$10,314,281 as compared to \$9,819,958 in the same period in 2004, increasing \$494,323.

Advertising expenditures were 21.4% of sales for the current year vs. 20.6% last year. The SG&A expenses increased

\$2,826,981 to \$15,865,753 from \$13,038,772 in 2004. The increase was due mainly to freight out which increased by \$722,909 from 2004 to 2005. That increase is due to the increase of oil prices passed on to CCA, and immediate ship dates of our skin care product line. To promote sales, CCA has offered IRC coupons in skus which increased expenses \$125,077. Additionally, royalty expenses have increased by \$189,597 due to the new royalty licenses. Consulting and temporary help expense increased to \$206,687 due to the marketing of new products.

The Company's financial position as of August 31, 2005 consists of current assets of \$23,197,776 and current liabilities of \$8,024,688, or a current ratio of 2.89 to 1. In addition, shareholders' equity increased from \$23,522,047 to \$24,659,676.

All of the company's investments as of August 31, 2005 are presented as long-term investments. Assuming these long-term investments can be sold and turned into liquid assets at any time, it would result in a current ratio of 3.93 to 1.

Accounts receivable were \$8,605,633 as compared to \$8,677,984 for periods ending August 31, 2005 and November 30, 2004, respectively. Inventories were \$6,943,804 for period ending August 31, 2005 a compared to \$6,048,000 as of November 30, 2004. Accounts payable and accrued expenses increased primarily due to the increase in co-op advertising payable and accrual for returns for the period. As of August 31, 2005, the Company was not utilizing any of the funds available under its \$10,000,000 unsecured credit line.

-20-

## **ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS**

### **OF OPERATIONS AND FINANCIAL CONDITION (UNAUDITED) (CONTINUED)**

For the period ended August 31, 2005, there was approximately \$2,247,932 of open co-op commitments, \$72,873 from 2003, \$556,184 from 2004 and \$1,618.873 for the current year. If it becomes apparent that this co-op will not be utilized, the unclaimed co-op will be offset against the expense during the rest of the fiscal year. This procedure is consistent with prior years' methodology with regard to the unclaimed co-op expenses.

Please refer to footnote 14 of the financial statements with regard to the Statement of Operations for the quarter under the former estimate and the proforma Statement of Operations using the current estimate of expensing the advertising in the actual period it was incurred.

The new accounting of advertising expense during the interim periods will have no effect on the Company's year-end statement of operations.

## **ITEM 3. QUANTITATIVE AND QUALITATIVE**

### **DISCLOSURE ABOUT MARKET RISK**

The Company's financial statements record the Company's investments under the "mark to market" method ( *i.e.*, at date-of-statement market value). The investments are, categorically listed, in "Common Stock", "Mutual Funds", "Other Equity", "Preferred Stock", "Government Obligations" and "Corporate Obligations." \$209,659 of the Company's \$11,535,869 portfolio of investments (approximate, as at May 31, 2005) is invested in the "Common Stock" and "Other Equity" categories, and approximately \$617,844 in that category are Preferred Stock holdings. Whereas the Company does not take positions or engage in transactions in risk-sensitive market instruments in any substantial degree, nor as defined by SEC rules and instructions; therefore, the Company does not believe that its investment-market risk is material.

## **ITEM 4. CONTROLS AND PROCEDURES**

With the participation of our Chief Executive Officer and Chief Financial Officer, management has carried out an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the

Securities Exchange Act of 1934). Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of May 31, 2005.

There were no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) subsequent to the date the controls were evaluated that materially affect, or are reasonably likely to materially affect, our internal control over financial reporting.

-21-

## **CCA INDUSTRIES, INC.**

### **PART II OTHER INFORMATION**

#### Item 1. Legal Proceedings:

See Part I - Note 11 of the Financial Statements regarding litigation.

#### Item 4. Submission of Matters to a Vote of Security Holders:

None.

#### Item 5. Other Information:

The Company has held its Annual Meeting of Shareholders on June 15, 2005 with proxy materials mailed to shareholders of record on May 1, 2005 prior to the meeting date.

On June 16, 2004, the audit committee revised the audit committee charter. The charter is filed as an exhibit to this report.

Owners of Common Stock and owners of Class A Common Stock are entitled to one vote for each share of stock held, and the voting and other rights of each class are equivalent except in respect to the election of directors.

In respect to the election of directors, the Class A Common Stock shareholders have the right to elect four directors and the Common Stock shareholders have the right to elect three. (In consequence, no proposal to alter or change the right of Class A Common Stock shareholders to elect a majority of directors could be effectively voted unless a separate majority of Class A Common Stock shares were voted therefor.)

#### Item 6. Exhibits and Reports on Form 8-K:

##### (a) Exhibits

(10.1) Audit Committee Revised Charter – June 16, 2004 \*

(31.1) Certification of Chief Executive Officer pursuant to Rule 13a-14(a)\*

-22-

## **CCA INDUSTRIES, INC.**

### **PART II OTHER INFORMATION (CONTINUED)**

(31.2) Certification of Chief Financial Officer pursuant to Rule 13a-14(a)\*

(32.1) Certification of Chief Executive Officer pursuant to 18 U.S.C. 1350\*

(32.2) Certification of Chief Financial Officer pursuant to 18 U.S.C. 1350\*

\* Filed herewith.

(b) Reports on Form 8-K.

None.

-23-

class=Section13>

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date:

CCA INDUSTRIES, INC.

By: \_\_\_\_\_

David Edell, Chief Executive Officer

By: \_\_\_\_\_

Ira W. Berman, Chairman of the Board

- 24 -

**CCA Industries, Inc. Audit Committee Charter**

**Status**

The Audit Committee is a committee of the Board of Directors.

MembershipError! No bookmark name given.

The Audit Committee shall consist of three or more directors, all of whom, in the judgment of the Board of Directors, shall be independent in accordance with the American Stock Exchange listing standards. Each member shall, in the judgment of the Board of Directors, have the ability to read and understand the Company's basic financial statements or shall, at the time of appointment, undertake training for that purpose. At least one member of the Audit Committee shall, in the judgment of the Board of Directors, be an audit committee financial expert in accordance with the rules and regulations of the Securities and Exchange Commission and at least one member (who may also serve as the audit committee financial expert) shall, in the judgment of the Board of Directors, have accounting or related financial management expertise in accordance with the American Stock Exchange listing standards.

**Purpose**

The Audit Committee shall represent and assist the Board of Directors with the oversight of (a) the integrity of the Company's financial statements and internal controls, (b) the Company's compliance with legal and regulatory requirements, (c) the independent auditor's qualifications and independence and (d) the performance of the Company's independent auditor. Except, as otherwise required by applicable laws, regulations or listing standards, all major decisions are considered by the Board of Directors as a whole.

**Responsibilities**

Select and retain (subject to approval by the Company's stockholders), and terminate when appropriate, the independent auditor, set the independent auditor's compensation, and pre-approve all audit services to be provided by the independent auditor.

Pre-approve all permitted non-audit services to be performed by the independent auditor and establish policies and procedures for the engagement of the independent auditor to provide permitted not-audit services.

Receive and review: (a) a report by the independent auditor describing the independent auditor's internal quality-control procedures and any material issues raised by the most recent internal quality-control review or peer review of the independent auditing firm, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the firm, and any steps taken to deal with any such issues; and (b) other required reports from the independent auditor.

At least annually, consider the independence of the independent auditor, including whether the provision by the independent auditor of permitted non-audit services is compatible with independence, and obtain and review a report from the independent auditor describing all relationships between the auditor and the Company.

Review the independent auditor: (a) the scope and results of the audit; (b) any problems or difficulties that the auditor encountered in the course of the auditor work, and management's response; and (c) any questions, comments or suggestion the auditor may have relating to the internal controls, and accounting practices and procedures of the Company or its subsidiaries.

Review with the independent auditor and management: (a) the adequacy and effectiveness of the systems of internal controls (including any significant deficiencies and significant changes in internal controls reported to the Audit Committee by the independent auditor or management), accounting practices, and disclosure controls and procedures (and management's reports thereon), of the Company and its subsidiaries; and (b) current accounting trends and developments, and take such action with respect to thereto as may be deemed appropriate.

Review with management and the independent auditor the annual and quarterly financial statements of the Company, including: (a) the Company's disclosures under the "Management's Discussion and Analysis of the



Financial Condition and Results of Operations,” (b) any material changes in accounting principles or practices used in preparing the financial statements prior to the filing of a report on Form 10-K or 10-Q with the Securities and Exchange Commission; and (c) the terms required by the Statement of Auditing Standards 61 as in effect at that time in the case of the annual statements, and Statement of Auditing Standards 71 as in effect in the case of the quarterly statements.

Recommend to the Board of Directors, based on the review described in paragraphs 4 and 7 above, whether the financial statements should be included in the annual report on Form 10-K.

Review earnings press releases, as well as Company policies with respect to earnings press releases, financial information and earnings guidance provided to analysts and rating agencies.

Discuss Company policies with respect to risk assessment and risk management, and review contingent liabilities and risks that may be material to the Company and major legislative and regulatory developments which could materially impact the Company’s contingent liabilities and risks.

Review: (a) the status of compliance with laws, regulations, and internal procedures, and (b) the scope and status of systems designed to promote Company compliance with laws, regulations and internal procedures, through receiving reports from management, legal counsel and third parties as determined by the Audit Committee.

Establish procedures for the confidential and anonymous receipt, retention and treatment of complaints regarding the Company’s accounting, internal controls and auditing matters.

Establish policies for the hiring of employees and former employees of the independent auditor.

Obtain the advice and assistance, as appropriate, of independent counsel and other advisors as necessary to fulfill the responsibilities of the Audit Committee.

Conduct an annual performance evaluation of the Audit Committee and annually evaluate the adequacy of its charter.

MeetingsError! No bookmark name given.

The Audit Committee shall meet as such other times as it deems necessary to fulfill its responsibilities. The Audit Committee shall periodically meet separately, in executive session, with management and the independent auditor. The Audit Committee shall report regularly to the Board of Directors with respect to its activities and make recommendations to the Board of Directors as appropriate.

CERTIFICATION

I, John Bingman, Chief Financial Officer of the Registrant, certify that:

I have reviewed this quarterly report on Form 10-Q of CCA Industries, Inc.;

Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report.

The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the Registrant and have:

Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relation to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to affect, the Registrant's internal control over financial reporting; and

5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal controls over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):

All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and

Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: October 17, 2005

/s/-----

John Bingman

Chief Financial Officer

CERTIFICATION

I, David Edell, Chief Executive Officer of the Registrant, certify that:

I have reviewed this quarterly report on Form 10-Q of CCA Industries, Inc.;

To the best of my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

To the best of my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report.

The Registrant's other certifying officer, John Bingman, and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the Registrant and have:

Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relation to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to affect, the Registrant's internal control over financial reporting; and

5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal controls over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):

All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and

Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: October 17, 2005

/s/

-----

David Edell

Chief Executive Officer

**Exhibit 11****CCA INDUSTRIES, INC. AND SUBSIDIARIES  
COMPUTATION OF EARNINGS PER SHARE  
(UNAUDITED)**

|  | Three Months Ended         |                      | Nine Months Ended    |                      |
|--|----------------------------|----------------------|----------------------|----------------------|
|  | August 31,                 |                      | August 31,           |                      |
|  | <u>2005</u>                | <u>2004</u>          | <u>2005</u>          | <u>2004</u>          |
| <u>Item 6.</u>   |                            |                      |                      |                      |
| Weighted average shares outstanding -  |                            |                      |                      |                      |
| Basic  | 7,219,152                  | 7,316,491            | 7,132,137            | 7,301,942            |
| Net effect of dilutive stock<br>options--based on the<br>treasury stock method<br>using average market price | <u>                  -</u> | <u>      361,170</u> | <u>      194,301</u> | <u>      363,087</u> |
| Weighted average shares outstanding -  |                            |                      |                      |                      |
| Diluted  | 7,219,152                  | 7,677,661            | 7,326,438            | 7,665,029            |
| Net Income (Loss)  | (\$ 390,834)               | \$2,798,203          | \$2,304,651          | \$3,634,345          |
| Per share amount   |                            |                      |                      |                      |
| Basic  | (\$.05)                    | \$.38                | \$.32                | \$.50                |
| Diluted  | (\$.05)                    | \$.36                | \$.31                | \$.47                |

Exhibit 32.1

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO SECTION 906 OF THE  
SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of CCA Industries, Inc. (the "Registrant") on Form 10-Q for the quarterly period ended May 31, 2005 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David Edell, Chief Executive Officer of the Registrant, certify, in accordance with 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

The Report, to which this certification is attached, fully complies with the requirements of section 13(a) of the Securities Exchange Act of 1934; and

The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

Date: October 17, 2005

/s/ -----

David Edell

Chief Executive Officer

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO SECTION 906 OF THE  
SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of CCA Industries, Inc. (the "Registrant") on Form 10-Q for the quarterly period ended May 31, 2005 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, John Bingman, Chief Financial Officer of the Registrant, certify, in accordance with 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

(1) The Report, to which this certification is attached, fully complies with the requirements of section 13(a) of the Securities Exchange Act of 1934; and

The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

Date: October 17, 2005

/s/ -----

John Bingman

Chief Financial Officer