UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended August 31, 2018
or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

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 incorporation or organization)	**(IRS Employer Identification No.)**

1099 Wall Street West, Suite 275
Lyndhurst, New Jersey 07071
(Address of principal executive offices)

(201) 935-3232
(Registrant's telephone number, including area code)

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

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 ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act (Check one).

Large accelerated filer	[ ]	Accelerated filer	[ ]
Non-accelerated filer	[ ] (Do not check if a smaller reporting company)	Smaller reporting company	[X]
		Emerging growth company	[ ]

If an emerging growth company, indicated by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. [ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of 10/22/2018 there were (i) 6,488,982 shares of the issuer's common stock, par value $0.01, outstanding; and (ii) 967,702 shares of the issuer's Class A common stock, par value $0.01, outstanding.

CCA INDUSTRIES, INC. AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS

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Part I - FINANCIAL INFORMATION
ITEM 1. - FINANCIAL STATEMENTS

CCA INDUSTRIES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	August 31, 2018	November 30, 2017
ASSETS	(Unaudited)	
Current assets:		
Cash and cash equivalents	$ 463,952	$ 140,243
Accounts receivable, net of allowances of $790,855 and $540,361, respectively	2,617,810	2,585,517
Inventories, net	3,342,070	1,878,831
Prepaid expenses and sundry receivables	815,573	642,000
Prepaid and refundable income taxes	27,784	38,153
Total Current Assets	**7,267,189**	**5,284,744**
Property and equipment, net of accumulated depreciation	95,030	140,929
Intangible assets, net of accumulated amortization	436,670	432,320
Deferred financing fees, net of accumulated amortization	175,002	133,322
Deferred income taxes	6,498,480	9,502,319
Other	436,745	436,825
Total Assets	**$ 14,909,116**	**$ 15,930,459**
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current Liabilities:		
Accounts payable and accrued liabilities	$ 4,750,784	$ 3,617,543
Income tax payable	950	—
Line of credit	619,679	2,016,355
Note payable - current portion	375,000	—
Total Current Liabilities	**5,746,413**	**5,633,898**
Long term accrued liabilities	244,864	220,509
Notes payable	937,500	—
Long term - other	168,859	168,859
Total Liabilities	**7,097,636**	**6,023,266**
Shareholders' Equity:		
Preferred stock, $1.00 par, authorized 20,000,000 none issued	—	—
Common stock, $.01 par, authorized 15,000,000 shares, issued and outstanding 6,488,982 and 6,038,982 shares, respectively	64,890	60,390
Class A common stock, $.01 par, authorized 5,000,000 shares, issued and outstanding 967,702 and 967,702 shares, respectively	9,677	9,677
Additional paid-in capital	6,004,001	4,387,543
Retained earnings	1,732,912	5,449,583
Total Shareholders' Equity	**7,811,480**	**9,907,193**
Total Liabilities and Shareholders' Equity	**$ 14,909,116**	**$ 15,930,459**

See Notes to Unaudited Consolidated Financial Statements.

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

	Three Months Ended August 31,		Nine Months Ended August 31,	
	2018	2017	2018	2017
Revenues:				
Sales of health and beauty aid products - net	$ 4,222,906	$ 5,329,753	$ 12,440,242	$ 15,706,666
Other income	1,926	4,615	8,254	12,762
Total Revenues	**4,224,832**	**5,334,368**	**12,448,496**	**15,719,428**
Costs and Expenses:				
Cost of sales	1,489,281	1,989,572	4,997,545	6,043,406
Selling, general and administrative expenses	2,097,625	1,720,693	6,020,567	5,404,245
Advertising, cooperative and promotional expenses	816,117	738,635	1,671,605	1,681,999
Research and development	16,426	16,811	45,819	44,143
Bad debt (recovery) expense	(7,974)	4,812	8,739	(5,843)
Interest expense	86,707	131,346	391,422	405,584
Total Costs and Expenses	**4,498,182**	**4,601,869**	**13,135,697**	**13,573,534**
(Loss) Income before (benefit from) provision for income taxes	**(273,350)**	**732,499**	**(687,201)**	**2,145,894**
(Benefit from) Provision for income taxes	(69,678)	354,816	3,029,451	882,910
Net (Loss) Income	**$ (203,672)**	**$ 377,683**	**$ (3,716,652)**	**$ 1,262,984**
(Loss) Earnings per Share:				
Basic				
(Loss) Income	$ (0.03)	$ 0.05	$ (0.51)	$ 0.18
Diluted				
(Loss) Income	$ (0.03)	$ 0.05	$ (0.51)	$ 0.18
Weighted Average Common Shares Outstanding				
Basic	7,456,684	7,006,684	7,348,290	7,006,684
Diluted	7,456,684	7,165,027	7,348,290	7,006,684

See Notes to Unaudited Consolidated Financial Statements.

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

	Nine Months Ended August 31,	
	2018	2017
Cash Flows from Operating Activities:		
Net (Loss) Income	$ (3,716,652)	$ 1,262,984
Adjustments to reconcile net income to cash (used in) provided by operating activities:		
Depreciation and amortization	38,685	66,592
Change in allowance for bad debts	8,739	(5,843)
Loss on write off of fixed assets	32,823	—
Deferred financing fees amortization	88,320	94,699
Stock-based compensation	194,458	126,863
Deferred income taxes	3,003,838	816,846
Change in Operating Assets & Liabilities:		
(Increase) in accounts receivable	(41,033)	(1,503,021)
(Increase) Decrease in inventory	(1,463,238)	170,838
(Increase) in prepaid expenses and other receivables	(173,573)	(179,999)
Decrease (increase) in prepaid income and refundable income tax	10,368	(22,366)
Decrease in other assets	80	—
Increase (Decrease) in accounts payable and accrued liabilities	1,157,596	(624,013)
Increase (Decrease) in income tax payable	950	(20,000)
Net Cash (Used) Provided by Operating Activities	(858,639)	183,580
Cash Flows from Investing Activities:		
Acquisition of plant and equipment	(25,586)	(39,507)
Purchase of intangible assets	(4,390)	—
Net Cash (Used) by Investing Activities	(29,976)	(39,507)
Cash Flows from Financing Activities:		
Payment on line of credit, net	(1,396,676)	(113,585)
Proceeds from notes payable, net	1,312,500	—
Proceeds from exercise of warrant	1,426,500	—
Payment of deferred financing fees	(130,000)	—
Payments for capital lease obligations	—	(2,753)
Net Cash Provided (Used) by Financing Activities	1,212,324	(116,338)
Net Increase in Cash and Cash Equivalents	323,709	27,735
Cash and Cash Equivalents at Beginning of Period	140,243	309,280
Cash and Cash Equivalents at End of Period	$ 463,952	$ 337,015
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the period for:		
Interest	$ 391,422	$ 405,584
Income taxes	$ 11,153	$ 108,413

See Notes to Unaudited Consolidated Financial Statements

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

NOTE 1 - BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information 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 GAAP for complete financial statements. Operating results for the three and nine month periods ending August 31, 2018 are not necessarily indicative of the results that may be expected for the entire year ended November 30, 2018. 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, 2017. The accompanying unaudited consolidated financial statements, in the opinion of management, include all adjustments necessary for a fair presentation. All such adjustments are of a normal recurring nature.

NOTE 2 - ORGANIZATION AND DESCRIPTION OF BUSINESS

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

CCA manufactures and distributes health and beauty aid products.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation:

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

Estimates and Assumptions:

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

Cash and Cash Equivalents:

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

Accounts Receivable:

Accounts receivable consist of trade receivables recorded at original invoice amount, less an estimated allowance for uncollectible amounts. The accounts receivable balance is further reduced by allowance for cooperative advertising and reserves for returns which are anticipated to be taken as credits against the balances as of August 31, 2018. The reserve for returns may include specific reserves based on individual customer circumstances. The allowances and reserves which are anticipated to be deducted from future invoices are included in accrued liabilities. Trade credit is generally extended on a short-term basis; thus trade receivables do not bear interest, although a finance charge may be applied to receivables that are past due. Trade receivables are periodically evaluated for collectability based on past credit history with customers and their current financial condition. Changes in the estimated collectability of trade receivables are recorded in the results of operations for the period in which the estimate is revised. Trade receivables that are deemed uncollectible are offset against the allowance for uncollectible accounts. The Company generally does not require collateral for trade receivables.

Inventories:

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

Property and Equipment and Depreciation and Amortization:

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

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

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

Computer equipment	5 -7 Years
Furniture and fixtures	3-10 Years
Tools, dies and masters	3 Years
Leasehold improvements	Remaining life of the lease (2 years, 4 months)

Intangible Assets:

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

Long-Lived Assets:

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

Revenue Recognition: (See also Cooperative Advertising)

The Company recognizes sales in accordance with ASC Topic 605 “Revenue Recognition”. Revenue is recognized upon shipment of merchandise. Net sales comprise gross revenues less expected returns, trade discounts, customer allowances and various sales incentives. Included in sales incentives are coupons that the Company issues that are redeemed by its customers. Redemptions are handled by a coupon national clearing house. The Company also has estimated that there is an approximate six week lag in coupon redemptions, with the estimated cost recorded as an accrued liability. Although no legal right of return exists between the customer and the Company, returns, including return of unsold products, are accepted if it is in the best interests of the Company's relationship with the customer. The Company, therefore, records a reserve for returns based on the historical returns as a percentage of sales in the three preceding months and specific reserve based on customer circumstances and product circumstances. Those returns which are anticipated to be taken as credits against the balances as of August 31, 2018 are offset against the accounts receivable. The reserves which are anticipated to be deducted from future invoices are included in accrued liabilities. Changes in the estimated coupon reserve and sales return reserve are recorded to Sales of health and beauty aid products - net, in the Consolidated Statement of Operations.

Cooperative Advertising:

Cooperative advertising is accrued based on a combination of new contracts given to the customers in the current fiscal year, along with liabilities open from prior years. Specific new contracts in the current fiscal year are identified as sales incentives (see sales incentives) and those contracts reduce revenues for the current period. The balances for all years open are reduced throughout the year by either the customer advertising and submitting the proof according to the contract or by customer post audit adjustments that finalize any amount due. Any item open more than three years is closed unless management believes that a deduction may still be taken by the customer. The portion of cooperative advertising recorded as sales incentives was reduced by $133,755 and $401,350, respectively, in the three and nine months ended August 31, 2018 to reduce open cooperative advertising contracts for 2015 for events that have been finalized. There were reductions of $204,527 and $613,723, respectively, for open cooperative advertising contracts that were finalized during the three and nine month periods ending August 31, 2018. The balance of the remaining open cooperative advertising is allocated between accrued liabilities and the allowance for cooperative advertising based on the customer's open accounts receivable balance.

Sales Incentives:

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

Shipping Costs:

The Company's policy for financial reporting is to charge shipping costs as part of selling, general and administrative expenses as incurred. Shipping costs included for the three months ended August 31, 2018 and August 31, 2017 were $217,265 and $93,566, respectively. Shipping costs included for the nine months ended August 31, 2018 and August 31, 2017 were $520,650 and $271,810, respectively.

Advertising Costs:

The Company's policy for financial reporting is to charge advertising cost to expense as incurred. Advertising, cooperative and promotional expenses for the three months ended August 31, 2018 and August 31, 2017 were $816,117 and $738,635, respectively. Advertising, cooperative and promotional expenses for the nine months ended August 31, 2018 and August 31, 2017 were $1,671,605 and $1,681,999, respectively.

Research and Development Costs:

The Company's policy for financial reporting is to charge research and development costs to expense as incurred. Research and development costs for the three months ended August 31, 2018 and August 31, 2017 were $16,426 and $16,811, respectively. Research and development costs for the nine months ended August 31, 2018 and August 31, 2017 were $45,819 and $44,143, respectively.

Income Taxes:

Income taxes are accounted for under ASC Topic 740 "Income Taxes", which utilizes the asset and liability method. Deferred tax assets and liabilities are recognized for future tax consequences attributable to the temporary differences between the carrying amounts of assets and liabilities as recorded on the Company's financial statements and the carrying amounts as reflected on the Company's income tax return. In addition, the portion of charitable contributions that cannot be deducted in the current period and are carried forward to future periods are also reflected in the deferred tax assets. A substantial portion of the deferred tax asset is due to the losses incurred in fiscal 2015 and prior years, the benefit of which will be carried forward into future tax years. Deferred tax assets and liabilities are valued using the tax rates expected to apply in the years in which those temporary differences are expected to be recovered or settled. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion, or all of the deferred tax asset will not be realized. Management has estimated that it will utilize the entire deferred tax asset in future years based on anticipated future profitability. However, anticipated future profitability may be impacted if the Company's sales decrease from current levels or due to other factors discussed under Item 1A - Risk Factors in our Fiscal 2017 Annual Report on Form 10-K filed with the Securities and Exchange Commission as supplemented in this Form 10-Q. Beginning in the first quarter of fiscal 2018, in accordance with ASU 2015-17, all deferred tax assets and liabilities have been recorded as long-term. Previously, the portion that management expected to utilize in the twelve months following the end of the period was recorded as a short-term asset, and the portion that management expected to utilize in periods beyond the twelve months was recorded as a long-term asset. The Company reclassified $2,079,988 that was originally recorded as a current asset as of November 30, 2017 to non-current in conformity with the requirement to report the changes required by ASU 2015-17 on a retrospective basis.

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 August 31, 2018 and November 30, 2017. 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.

(Loss) Earnings Per Common Share:

Basic (loss) earnings 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 (loss) earnings 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 warrants.

Stock Options:

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

Recent Accounting Pronouncements:

In June 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2018-07, Compensation - Stock Compensation, which updated Topic 718 to include share based compensation issued to non-employees. The Company previously issued non-qualified stock option awards to its directors. The updated standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company does not believe that the implementation of ASU No. 2018-07 will have a material effect on its results of operations and financial condition.

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, 2018, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. While we are still evaluating the impact of our pending adoption of the new standard on our consolidated financial statements, we expect that upon adoption we will recognize ROU assets and lease liabilities and that the amounts could be material.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers. This new standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The underlying principle of this new standard is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration for which the entity expects to be entitled in exchange for those goods or services. Entities may adopt this new standard either retrospectively for all periods presented in the financial statements (i.e., the full retrospective method) or as a cumulative-effect adjustment as of the date of adoption (i.e., the modified retrospective method), without applying to comparative years' financial statements. In August 2015, the FASB issued ASU No. 2015-14, Revenue from Contracts with Customers: Deferral of the Effective Date, which changed the effective date for implementation to annual reporting periods, including interim reporting periods within those periods, beginning after December 15, 2017. Early adoption is permitted as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within those annual periods. The Company does not plan to adopt ASU 2014-09 until its 2019 fiscal year which begins on December 1, 2018. The Company is currently in the process of evaluating the impact that ASU No. 2014-09 will have on the Company's results of operations, financial condition and financial statement disclosures and will provide further updates in future periods.

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

NOTE 4 - INVENTORIES

The components of inventory consist of the following:

	August 31, 2018	November 30, 2017
Raw materials	$ 230,832	$ 231,558
Finished goods	3,111,238	1,647,273
	$ 3,342,070	$ 1,878,831

NOTE 5 - PROPERTY AND EQUIPMENT

The components of property and equipment consisted of the following:

	August 31, 2018	November 30, 2017
Furniture and equipment	$ 132,228	$ 163,062
Tools, dies and masters	128,861	127,361
Capitalized lease obligations	—	15,286
Leasehold improvements	2,932	—
	$ 264,021	$ 305,709
Less: Accumulated depreciation	168,991	164,780
Property and Equipment—Net	$ 95,030	$ 140,929

Depreciation expense for the three months ended August 31, 2018 and August 31, 2017 amounted to $11,096 and $20,738, respectively. Depreciation expense for the nine months ended August 31, 2018 and August 31, 2017 amounted to $38,356 and $66,301, respectively.

NOTE 6 - INTANGIBLE ASSETS

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

	August 31, 2018	November 30, 2017
Patents and trademarks	$ 583,327	$ 578,937
Less: Accumulated amortization	146,657	146,617
Intangible Assets - Net	$ 436,670	$ 432,320

Patents are amortized on a straight-line basis over their legal life of17 years. Trademarks have an indefinite life and are reviewed annually for impairment or more frequently if impairment indicators occur. Amortization expense for the three months ended August 31, 2018 and 2017 amounted to $135 and $97, respectively. Amortization expense for the nine months ended August 31, 2018 and August 31, 2017 amounted to $329 and $291, respectively. Estimated amortization expenses for the years ending November 30, 2019, 2020, 2021, 2022 and 2023 are $384, $223, $223, $50 and $0, respectively.

NOTE 7 - ACCRUED EXPENSES

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

	August 31, 2018	November 30, 2017
Co-operative advertising	$ 933,477	$ 1,122,904
Accrued bonuses *	$ —	$ 400,166

* represents less than 5% as of total current liabilities

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

	August 31, 2018	November 30, 2017
Sub-lease rent differential	$ 197,975	$ 220,509

NOTE 8 - DEBT AGREEMENT

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. The Credit Agreement provides 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, payable monthly in arrears. The Company was also required to pay a monthly unused line fee and collateral management fee. The commitment under the Credit Agreement would have expired three years after the Closing Date. The Revolving Loan and all other amounts due and owing under the Credit Agreement and related documents were secured by a first priority perfected security interest in, and lien on, substantially all of the assets of the Company. Amounts available for borrowing under the Line of Credit equaled 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 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. The Company repaid the Revolving Loan in full on February 5, 2018 and terminated the Credit Agreement. The Company paid an early termination charge of $55,000 as provided by the Credit Agreement.

On February 5, 2018 the Company entered into the Revolving Credit, Term Loan and Security Agreement (the “2018 Credit Agreement”) with PNC Bank, National Association ("PNC"). The 2018 Credit Agreement provides for a term loan in an amount of $1,500,000 (the “Term Loan”) and a revolving line of credit up to a maximum of $4,500,000 (the “2018 Revolving Loan” and together with the Term Loan, the “Loans”). The proceeds of the Loans were used to
pay off the Company's existing debt with CNH Finance Fund I, L.P., formerly known as SCM Specialty Finance Opportunities Fund, L.P. (“CNH”), and for general working capital purposes. The Term Loan is payable in consecutive monthly installments of $31,250 commencing March 1, 2018 and bears interest, at the election of the Company, at either the PNC base rate plus1% or 30, 60 or 90 day LIBOR rate plus 3.50%. All outstanding amounts under the 2018 Revolving Loan bear interest, at the election of the Company, at either the PNC base rate plus 0.25% or 30, 60 or 90 day LIBOR rate plus2.75%, payable monthly in arrears. The Company is also required to pay a quarterly unused line fee and collateral management fee. The commitment under the 2018 Credit Agreement expires three years after the Closing Date. The Loans and all other amounts due and owing under the 2018 Credit Agreement and related documents are secured by a first priority perfected security interest in, and lien on, substantially all of the assets of the Company. Amounts available for borrowing under the Revolving Loan equal the lesser of the Borrowing Base (as defined below), and $4,500,000, in each case, as the same is reduced by the aggregate principal amount outstanding under the 2018 Revolving Loan. “Borrowing Base” under the Credit Agreement means, generally, the amount equal to (i) 85% of the Company’s eligible accounts receivable, plus (ii) 65% of the value of eligible inventory, less (iii) certain reserves. The 2018 Credit Agreement contains customary representations, warranties and covenants on the part of the Company, including a financial covenant requiring the Company to maintain a fixed charge coverage ratio of no less than 1.10 to 1.0. Due to the Company's loss in the second and third quarter of fiscal 2018, the fixed charge coverage ratio was less than the amount provided for in the covenant. PNC has waived the fixed charge ratio covenant for the second and third quarter of fiscal 2018. 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.

NOTE 9 - OTHER INCOME

Other income consists of the following:

	Three Months Ended August 31,		Nine Months Ended August 31,	
	2018	2017	2018	2017
Royalty income	$ 1,926	$ 3,000	$ 8,254	$ 9,000
Miscellaneous	—	1,615	—	3,762
Total Other Income	$ 1,926	$ 4,615	$ 8,254	$ 12,762

NOTE 10 - 401(K) PLAN

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

	Three Months Ended		Nine Months Ended	
	August 31, 2018	August 31, 2017	August 31, 2018	August 31, 2017
Company Contributions	$ 9,950	$ 8,925	$ 36,541	$ 16,568

NOTE 11 - INCOME TAXES

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

The Company previously adopted the provisions of ASC Subtopic 740-10-25, Uncertain Tax Positions. Management believes that there were no unrecognized tax benefits, or tax positions that would result in uncertainty regarding the deductions taken, as of August 31, 2018 and August 31, 2017. 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 have been reduced to 21%. The Company's federal rate was previously 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 determined that its deferred tax assets and liabilities should be valued based on an estimated future tax rate of 24.13%, effective in the first quarter of fiscal 2018.

The SEC issued Staff Accounting Bulletin ("SAB") 118, which provides guidance on accounting for the tax effects of public law 115-97. SAB 118 provides a measurement period that should not extend beyond one year from the enactment date for companies to complete the accounting under ASC 740. To the extent that a company's accounting for certain income tax effects of public law 115-97 is incomplete but is able to determine a reasonable estimate, it must record a provisional estimate in the financial statements. The change in rate caused the Company to record an additional tax expense as part of the provision for income tax in the first quarter of fiscal 2018. In addition, ASU 2015-17 is effective with the first quarter of fiscal 2018 which requires that all deferred tax assets be classified as long-term. The Company as of November 30, 2017 had $2,079,988 of deferred tax assets that were recorded as a current asset. This amount has been retrospectively reclassified as a non-current asset as of November 30, 2017.

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

	Previous Rate	New Rate
Federal rate	34.00 %	21.00 %
State rate, net of federal tax benefit	2.45 %	3.13 %
Total	36.45 %	24.13 %

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A portion of the loss carry forward deferred tax asset was valued at a slightly higher blended rate of25.19%, due to the tax law taking effect on January 1, 2018.

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

At August 31, 2018 and November 30, 2017, respectively, the Company had temporary differences arising from the following:

	August 31, 2018		November 30, 2017	
Type	Amount	Deferred Tax	Amount	Deferred Tax
Depreciation	$ (468,017)	$ (112,925)	$ (378,580)	$ (137,992)
Reserve for bad debts	15,368	3,708	6,629	2,416
Reserve for returns	619,185	149,399	246,513	89,854
Accrued returns	110,436	26,646	109,646	39,966
Reserve for obsolete inventory	135,164	32,613	158,269	57,689
Vacation accrual	52,233	12,603	70,856	25,827
Alternative minimum tax carry forward	—	103,040	—	122,360
Research and development tax credit	—	65,175	—	—
Deferred Compensation	491,382	118,563	487,061	177,534
Bonus obligation unpaid	—	—	400,166	145,861
Charitable contributions	242,650	58,548	305,633	111,403
Section 263A costs	208,120	50,216	48,317	17,612
Loss carry forward	24,789,723	5,990,894	24,279,259	8,849,789
Net deferred tax asset	$ 26,196,244	$ 6,498,480	$ 25,733,769	$ 9,502,319

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

	Three Months Ended		Nine Months Ended	
	August 31, 2018	August 31, 2017	August 31, 2018	August 31, 2017
Current tax - Federal	$ —	$ 43,875	$ —	$ 59,875
Current tax - State & Local	595	312	5,944	6,189
Deferred tax	(70,273)	310,629	3,023,507	816,846
Total Income Tax (Benefit) Expense	$ (69,678)	$ 354,816	$ 3,029,451	$ 882,910

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

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Prepaid and refundable income taxes	Federal	State & Local	Total
August 31, 2018	$ 20,335	$ 7,449	$ 27,784
November 30, 2017	$ 1,015	$ 37,138	$ 38,153

Income taxes payable are made up of the following components:

Income Taxes Payable	Federal	State & Local	Total
August 31, 2018	$ —	$ 950	$ 950

A reconciliation of the provision for income taxes computed at the statutory rate to the effective rate for the three months and nine months ended August 31, 2018, and August 31, 2017 is as follows:

	Three Months Ended August 31, 2018		Three Months Ended August 31, 2017	
	Amount	Percent of Pretax Income	Amount	Percent of Pretax Income
Provision for income taxes at federal statutory rate	$ (57,404)	21.00%	$ 249,050	34.00%
Changes in provision for income taxes resulting from:				
State income taxes, net of federal income tax benefit	(8,556)	3.13%	21,242	2.90%
Non-deductible expenses and other adjustments	(3,718)	1.36%	84,524	11.54%
(Benefit from) Provision for income taxes at effective rate	$ (69,678)	25.49%	$ 354,816	48.44%

	Nine Months Ended August 31, 2018		Nine Months Ended August 31, 2017	
	Amount	Percent of Pretax Income	Amount	Percent of Pretax Income
Provision for (benefit from) income taxes at federal statutory rate	$ (144,312)	21.00 %	$ 729,604	34.00%
Increases in taxes resulting from:				
State income taxes, net of federal income tax benefit	(21,509)	3.13 %	62,231	2.90%
Change in tax rate related to future deferred tax benefits	3,150,147	(458.40)%	—	—%
Non-deductible expenses and other adjustments	45,125	(6.57)%	91,075	4.24%
Provision for income taxes at effective rate	$ 3,029,451	(440.84)%	$ 882,910	41.14%

NOTE 12 - STOCK-BASED COMPENSATION

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

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

The Company recorded a charge against earnings in the amount of $108,295 and $48,392, respectively, for the three months ended August 31, 2018 and August 31, 2017 and $194,458 and $126,863, respectively, for the nine months ended August 31, 2018 and August 31, 2017 for all outstanding stock options granted.

On June 20, 2018, the Company granted incentive stock options for an aggregate of270,000 shares to fourteen employees of the Company at $2.85 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 19, 2028. The Company had estimated the fair value of the options granted to be $398,169 as of the grant date.

On June 20, 2018, the Company granted non-qualified stock options for an aggregate of150,000 shares to two directors of the Company at $2.85 per share, which was the closing price of the Company's stock on that day. The options vest one year after the date of grant. The options expire on June 19, 2023. The Company had estimated the fair value of the options granted to be $153,945 as of the grant date.

On January 4, 2018, the Company granted incentive stock options for7,500 shares to an employee of the Company at $3.15 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 January 3, 2028. The Company had estimated the fair value of the options granted to be $11,692 as of the grant date.

The fair value of the stock options granted was estimated on the date of the grant using a Black-Scholes valuation model and the assumptions in the following table:

	Assumptions:			
Option Grant Date	Risk-free Interest Rate	Dividend Yield	Stock Volatility	Option Term (years)
June 20, 2018	2.80 %	—%	37.14 %	10
June 20, 2018	2.36 %	—%	37.14 %	5
January 4, 2018	1.82 %	—%	37.63 %	10

As of August 31, 2018, there were 396,800 stock options outstanding that were exercisable. The total compensation cost of non-vested stock option awards that has not yet been recognized was $912,691 as of August 31,

2018. The weighted average period over which the unrecognized compensation is expected to be recognized is 43 months.

	Number of Options	Weighted-Average Exercise Price	Weighted-Average Remaining Term (years)	Aggregate Intrinsic Value
Outstanding at November 30, 2016	564,000	$ 3.25	5.8	—
Granted	307,500	$ 3.30		
Exercised	—			
Canceled or Forfeited	—			
Outstanding at November 30, 2017	871,500	$ 3.27	6.0	—
Granted	7,500	$ 3.15		
Exercised	—			
Canceled or Forfeited	82,500	$ 3.35		
Outstanding at February 28, 2018	796,500	$ 3.26	6.0	—
Granted	—			
Exercised	—			
Canceled or Forfeited	—			
Outstanding at May 31, 2018	796,500	$ 3.26	5.8	—
Granted	420,000	$ 2.85		
Exercised	—			
Canceled or Forfeited	20,000	$ 3.30		
Outstanding at August 31, 2018	1,196,500	$ 3.09	7.3	—

NOTE 13 - (LOSS) INCOME PER SHARE

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

	Three Months Ended		Nine Months Ended	
	August 31, 2018	August 31, 2017	August 31, 2018	August 31, 2017
Net (loss) income available for common shareholders	$ (203,672)	$ 377,683	$ (3,716,652)	$ 1,262,984
Weighted average common shares outstanding-Basic	7,456,684	7,006,684	7,348,290	7,006,684
Net effect of dilutive stock options and warrants	—	158,343	—	—
Weighted average common shares and common shares equivalents—Diluted	7,456,684	7,165,027	7,348,290	7,006,684
Earnings per Share:				
Basic				
(Loss) Earnings per Share	$ (0.03)	$ 0.05	$ (0.51)	$ 0.18
Diluted				
(Loss) Earnings per Share	$ (0.03)	$ 0.05	$ (0.51)	$ 0.18

For the three months ended August 31, 2018 and August 31, 2017, there were 2,639,244 and 421,500 shares, respectively, underlying previously issued stock options and warrants that were excluded from diluted loss per share because the effects of such shares were anti-dilutive. For the nine months ended August 31, 2018 and August 31, 2017, there were 2,639,244 and 2,689,244 shares, respectively, underlying previously issued stock options and warrants that were excluded from diluted loss per share because the effects of such shares were anti-dilutive.

NOTE 14 - CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

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

The Company signed an agreement in December 2014 with Funston Media Management Services, Inc. ("FMM"), which is owned by Lance Funston, who is the Company's Chairman of the Board and Chief Executive

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Officer. The agreement provided for FMM to provide consumer advertising purchasing services and brand management for the Company. The agreement ended on November 19, 2015. The Company signed a new agreement in December 2015 with FMM. The agreement provided for FMM to provide consumer advertising purchasing services and brand management for a fee equal to 10.0% of the advertising costs with no minimum fee or monthly management fee. The agreement automatically renews unless canceled by the Company or FMM. The Company incurred costs of $42,725 and $58,565, respectively, for the three months ended August 31, 2018 and August 31, 2017 for fees to FMM. The Company incurred costs of $99,206 and $123,743, respectively, for the nine months ended August 31, 2018 and August 31, 2017. As of August 31, 2018, there were unpaid fees of $58,833 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 one year, effective April 1, 2017 and ending March 31, 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. The Agreement requires 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 has 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. In the event of such purchase, the Agreement shall thereafter terminate and no further royalties or compensation will be due thereunder. The Company incurred an expense of $43,081 and $48,172, respectively, for the three months ended May 31, 2018 and May 31, 2017 for royalties under the Agreement. The Company incurred an expense of $134,992 and $83,419, respectively, for the nine months ended August 31, 2018 and August 31, 2017.

In June 2017, the Company rented office space at 193 Conshohocken State Road, Penn Valley, Pennsylvania. The Company paid a monthly rental of $1,000 per month during fiscal 2017 commencing June 2017. The rent was increased to $2,500 per month beginning December 1, 2017, and was increased further to$6,000 per month effective March 1, 2018. The building is owned by Lance Funston, the Company's Chairman of the Board and Chief Executive Officer. The Company's Pennsylvania offices house its marketing and sales staff, as well as the office of the Chief Executive Officer. There is no written lease for the facility.

NOTE 15 - SUBSEQUENT EVENTS

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 will be tested only for the fiscal quarter then ending; for the quarter ending February 28, 2019, the covenant will be tested for the two fiscal quarter period then ending; and for the quarter ending May 31, 2019, the covenant will be tested for the three fiscal quarter period then ending. Thereafter, the covenant will be tested on a rolling four quarter basis.

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

Cautionary Statements Regarding Forward-Looking Statements

Our disclosure and analysis in this report contain forward-looking information that involves risks and uncertainties. Our forward-looking statements express our current expectations or forecasts of possible future results or events, including projections of future performance, liquidity, statements of management's plans and objectives, future contracts, and forecasts of trends and other matters. Forward-looking statements speak only as of the date of this filing, and we undertake no obligation to update or revise such statements to reflect new circumstances or unanticipated events as they occur. You can identify these statements by the fact that they do not relate strictly to historic or current facts and often use words such as "anticipate", "estimate", "expect", "believe", "will likely result", "should", "outlook", "plan" "project" and other words and expressions of similar meaning. No assurance can be given that the results in any forward-looking statement will be achieved and actual results could be affected by one or more factors, which could cause them to differ materially. The cautionary statements made in this Quarterly Report on Form 10-Q should be read as being applicable to all forward-looking statements whenever they appear in this report. For these statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act. In addition to the information in this Quarterly Report on Form 10-Q, you should carefully consider the risk factors and risks and uncertainties included in our Annual Report on Form 10-K for the fiscal year ended November 30, 2017 and other periodic reports filed with the United States Securities and Exchange Commission.

Overview

For the three months ended August 31, 2018, the company had a net loss of $203,672, and losses per share, basic and fully diluted of $0.03 as compared to net income of $377,683, and earnings per share, basic and fully diluted of $0.05 for the same period in fiscal 2017. For the nine months ended August 31, 2018 and August 31, 2017, the Company had a net loss of $3,716,652 and net income of $1,262,984, respectively, and losses per share, basic and fully of $0.51 and earnings per share of $0.18, respectively.

The Company had a number of factors that affected its earnings for the first nine months of fiscal 2018:

- The first nine months of fiscal 2018 was impacted by an additional accounts receivable reserve of $479,052 due to a dispute with an international customer. This additional reserve was recorded as a reduction of net sales in the second quarter. The Company does not believe that it will recover the accounts receivable in dispute.
- Due to changes in the tax law that were enacted effective January 1, 2018, the Company's tax rate decreased from 36.45% to 24.13% resulting in the Company revaluing its deferred tax assets. The change in the tax rate resulted in the Company recording an additional tax expense of $3,150,146 in the first quarter of fiscal 2018. This tax expense is a non-cash item and will not have any effect on the Company's current cash flow.
- The Company moved its master broker sales representation to Advantage Sales and Marketing ("Advantage"), effective January 15, 2018. The Company believes that this change will allow the Company in the 2019 fiscal year to regain distribution that was lost over the past four years and lead to better implementation of its co-operative advertising programs with retailers. However, the move did result in decreased order fulfillment during the month of January 2018. Order fulfillment went back to normal levels as of March 1, 2018.

- In conjunction with the move to Advantage, the Company also moved its warehousing operations from Geodis Contract Logistics (formerly OHL) to Casestack, Inc., effective January 15, 2018. The Geodis warehouse was located in Plainfield, Indiana. The Casestack, Inc. warehouse is located outside of Scranton, Pennsylvania. Due to a shift in the mix of customers, shipping costs managed by Casestack have increased substantially as compared to fiscal 2017.
- Additional charges during the first quarter of fiscal 2018 due to moving its offices to a smaller facility in December 2017 and sub-leasing the old facility.
- Entering into a new credit agreement with PNC Bank, National Association on February 5, 2018, and paying off the balance of the Revolving Loan with CNH resulting in a write-off of $112,277, which was the balance of deferred financing fees incurred with the CNH facility and $55,000 for termination charges.

As of August 31, 2018, the Company had $7,267,189 in current assets and $5,746,413 in current liabilities.

Operating Results for the Three Months Ended August 31, 2018

For the three months ended August 31, 2018, the Company had total revenues of $4,224,832 and a net loss of $203,672 after a benefit from tax of $69,678. For the same three month period in 2017, total revenues were $5,334,368 and net income was $377,683 after a provision for tax of $354,816. The basic and fully diluted loss per share was $0.03 for the third quarter of fiscal 2018 as compared to earnings per share of $0.05 for the third quarter of fiscal 2017. In accordance with ASC Topic 605-10-S99, “Revenue Recognition,” 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 fiscal 2018 were reduced by $257,965, comprised of cooperative advertising recorded as sales incentives of $149,216, and coupons of $108,749. This amount was offset by an equal reduction of trade promotional expenses, which were included in the Company's advertising expenses. In the same period of the prior year, net sales were reduced by $401,721, comprised of cooperative advertising recorded as sales incentives of $403,370 and coupons of $(1,649). The $401,721 was offset by an equal reduction of trade promotional expenses, which were included in the Company's advertising expense. These accounting adjustments under ASC Topic 605-10-S99 do not affect net income. In the third quarter ended August 31, 2018, the Company wrote-off co-operative advertising contracts of $133,755, and in the same period in fiscal 2017 wrote-off $204,527. The Company records co-operative advertising expense as the commitments are made to its retail customers. There is a lag of up to three years before the retailers determine the final amounts due under the commitment. The adjustment made in the quarter ended August 31, 2018 was for write-offs to close out cooperative advertising contracts that had been finalized from fiscal year 2015 that the Company determined would not be utilized. The adjustment made in fiscal 2017 was to write-off open 2014 co-operative advertising contracts that were finalized. The write-off to close out cooperative advertising contracts results in a decrease to the Company's liabilities and an increase to net sales for the current period in which the adjustment is made.

The Company’s net sales of health and beauty aid products decreased $1,106,847 to $4,222,906 for the three months ended August 31, 2018 from $5,329,753 for the three months ended August 31, 2017, a decrease of 20.8%. Sales returns and allowances, not including sales incentives, were 5.6% of gross sales or $259,555 for the three months ended August 31, 2018 as compared to 4.3% or $247,268 for the same period last year. Sales returns were higher due to returns in the ordinary course of business. Sales incentives consists of co-operative advertising with the Company’s retail partners and coupons. Sales incentives were $257,965, in the third quarter 2018 as compared to $401,721 for the same period in 2017, a decrease of $143,756. The cost of the coupons issued by the Company was $108,749 for the third quarter 2018 as compared to $1,649 for the same period in 2017. The Company uses a national clearing house for the receipt and processing of coupons from our retail partners. The national clearing house renders invoices to the Company on a weekly basis for coupons that they have processed which are recorded as an expense in the period for which the invoice is dated. The Company also records an expense accrual at the end of each period equal to the prior six weeks of invoices rendered based on information from the national clearing house that there is an average lag time of six weeks between the time that the retailer receives the coupon and when the Company receives the invoice. The amount recorded as an expense or an accrual includes the retailer cost of the coupon in addition to any processing charges by the national coupon clearing house. Coupons are issued by the Company to be used with the purchase of specific products, with an expiration date noted on the coupon.

The Company's net sales, by category, for the third quarter 2018 as compared to the same quarter in 2017 were:

	Three Months Ended August 31,			
	2018		2017	
Category	Net Sales	%TTL	Net Sales	%TTL
Skin Care	$ 2,799,268	66.3%	$ 2,644,554	49.6 %
Oral Care	1,372,270	32.5%	1,628,216	30.5 %
Miscellaneous	45,051	1.1%	283,996	5.3 %
Nail Care	5,332	0.1%	(50,618)	(0.9)%
Analgesic	—	—%	3,629	0.1 %
Fragrance	985	—%	819,976	15.4 %
Total Net Sales	$ 4,222,906	100%	$ 5,329,753	100.0 %

Net sales were affected by the following factors:

- Net sales of skin care products increased $154,714 for the three months ended August 31, 2018, as compared to the same period in 2017.
- Net sales of oral care products decreased $255,946 for the three months ended August 31, 2018 as compared to the same period in fiscal 2017. Net sales were lower due to decreased retail distribution of the Company's toothpaste products.
- The Company has begun to re-launch its Nutra-Nail nail core products.
- Net sales of the Company's fragrance products decreased $818,991 for the three months ended August 31, 2018 , as compared to the same period in fiscal 2017. The Company had a dispute with an international customer who was the sole purchaser of the fragrance products. The dispute caused the Company to record an additional accounts receivable reserve of $479,052, which resulted in a reduction of net sales. In addition, the Company did not record any sales of fragrance products with the international customer in the second or third quarter of fiscal 2018. The customer has placed an order for fragrance products that will ship in the fourth quarter of fiscal 2018. Payment for the order has been secured by a letter of credit from the customer with the Company as beneficiary.

	Three Months Ended August 31,	
	2018	2017
Sales of health and beauty aid products - Net	$ 4,222,906	$ 5,329,753
Cost of Sales	1,489,281	1,989,572
Gross Margin	$ 2,733,625	$ 3,340,181
	64.7%	62.7%

Gross profit margins increased to 64.7% for the three months ended August 31, 2018 from 62.7% for the same period in fiscal 2017. The increase in gross profit margin was mostly due to lower cost of goods as a result of manufacturing efficiencies.

Selling, general and administrative expenses for the three months ended August 31, 2018 were $2,097,625 as compared to $1,720,693 for the same period in fiscal 2017, an increase of $376,932. The increase was due to higher freight out costs and personnel costs. Freight out costs have increased due to lower shipping consolidation savings as a result of a change in the customer mix. The Company added additional marketing personnel during fiscal 2018.

Advertising, cooperative and promotions expenses for the three months ended August 31, 2018 were $816,117 as compared to $738,635 for the three months ended August 31, 2017. The increased expense of $77,482 was due to increased media spending on the internet and social media. The Company is evaluating the effect of its media spend on the internet and will adjust its future spending accordingly.

Research and development costs decreased slightly to $16,426 in the third quarter of fiscal 2018 as compared to $16,811 for the same period in fiscal 2017. The Company outsources most of its product development to its third party contract manufacturers.

The loss before benefit from income taxes was $273,350 for the quarter ended August 31, 2018, and the benefit from income taxes was $69,678.

The benefit from income tax had an effective rate for the third quarter of fiscal 2018 of 25.5% as compared to an effective rate of 48.4% of the net income before tax for the same period in fiscal 2017. The difference in the rate was mainly due to a change in federal income tax rates. See Note 11 - Income Taxes for further information.

Operating Results for the nine months ended August 31, 2018

For the nine months ended August 31, 2018, the Company had total revenues of $12,448,496 and a net loss of $3,716,652 after a tax provision of $3,029,451. For the same nine month period in 2017, total revenues were $15,719,428 and the net income was $1,262,984 after a provision for income tax of $882,910. The basic and fully diluted loss per share was $0.51 for the first nine months ended August 31, 2018 as compared to earnings per share of $0.18 for the first nine months of fiscal 2017. In accordance with ASC Topic 605-10-S99, “Revenue Recognition”, 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 nine months ended August 31, 2018 were reduced by $872,206 and offset by an equal reduction of trade promotional expenses, which were included in the Company’s advertising expense. In the same period of the prior year, net sales were reduced by $1,058,876 and trade promotion was offset by an equal reduction of that amount. These accounting adjustments under ASC Topic 605-10-S99 do not affect net income. In the first nine months of fiscal 2018, the Company wrote-off co-operative advertising contracts of $401,350, and in the same period in fiscal 2017 wrote-off $613,723. The Company records co-operative advertising expense as the commitments are made to its retail customers. There is a lag of up to three years before the retailers determine the final amounts due under the commitment. The adjustment made in the first nine months of fiscal 2018 was for write-offs to close out cooperative advertising from fiscal year 2015 that the Company determined had been finalized. The adjustment made in fiscal 2017 was to write-off open 2014 co-operative advertising contracts that were finalized. The write-off to close out cooperative advertising contracts results in a decrease to the Company's liabilities and an increase to net sales for the current period in which the adjustment is made.

The Company’s net sales of health and beauty aid products decreased $3,266,424 to $12,440,242 for the nine months ended August 31, 2018 from $15,706,666 for the same period in fiscal 2017, a decrease of 20.8%. Included in net sales are the cost of sales incentives which consist of co-operative advertising with the Company’s retail partners and coupons. The amount of cooperative advertising included in sales incentives decreased by $293,821 to $762,105 in the nine months ended August 31, 2018 as compared to $1,055,926 in the same period in 2017. The cost of the coupons issued by the Company was $110,101 for the nine months ended August 31, 2018 as compared to $2,950 for the same period in 2017. The Company began increasing the coupons it issues in the third quarter of fiscal 2018. The Company uses a national clearing house for the receipt and processing of coupons from our retail partners. The national clearing house renders invoices to the Company on a weekly basis for coupons that they have processed which are recorded as an expense in the period for which the invoice is dated. The Company also records an expense accrual at the end of each period equal to the prior six weeks of invoices rendered based on information from the national clearing house that there is an average lag time of six weeks between the time that the retailer receives the coupon and when the Company receives the invoice. The amount recorded as an expense or an accrual includes the retailer cost of the coupon in addition to any processing charges by the national coupon clearing house. Coupons are issued by the Company to be used with the purchase of specific products, with an expiration date noted on the coupon.

The Company's net sales by category for the nine months ended August 31, 2018 as compared to the same period in 2017 were:

	Nine Months Ended August 31,			
	2018		2017	
Category	Net Sales	%TTL	Net Sales	%TTL
Skin Care	$ 7,942,155	63.8 %	$ 7,998,691	50.9%
Oral Care	4,309,791	34.6 %	5,840,844	37.2%
Miscellaneous	197,177	1.6 %	624,665	4.0%
Nail Care	(26,868)	(0.1)%	74,927	0.5%
Fragrance	17,987	0.1 %	1,167,539	7.4%
Total Net Sales	$ 12,440,242	100 %	$ 15,706,666	100.0%

The following were factors that affected net sales for the nine months ended August 31, 2018:

- Net sales of skin care products decreased $56,536 for the nine months ended August 31, 2018, as compared to the same period in fiscal 2017 primarily due to the Company discontinuing the Solar Sense brand, which was the Company's sun care product.
- Net sales of oral care products decreased $1,531,053 for the nine months ended August 31, 2018, as compared to the same period in fiscal 2017 due to decreased distribution at retail of its toothpaste products.
- Net sales of nail care products decreased $101,795 for the nine months ended August 31, 2018, as compared to the same period in fiscal 2017. The Company began its re-launch of its Nutra-Nail core products in the third quarter of fiscal 2018.
- Net sales of the Company's fragrance products decreased $1,149,552 for the nine months ended August 31, 2018, as compared to the same period in fiscal 2017. The Company had a dispute with an international customer who was the sole purchases of the fragrance products. The dispute caused the Company to record an additional accounts receivable reserve of $479,052 in the second quarter of fiscal 2018, which resulted in a reduction of net sales. In addition, the Company did not record any sales of fragrance products with the international customer in the second or third quarter of fiscal 2018. The customer has placed an order for fragrance products that will ship in the fourth quarter of fiscal 2018. Payment for the order has been secured by a letter of credit from the customer with the Company as beneficiary.

		Nine Months Ended August 31,		
		2018		2017
Sales of health and beauty aid products - Net	$	12,440,242	$	15,706,666
Cost of Sales		4,997,545		6,043,406
Gross Margin	$	7,442,697	$	9,663,260
		59.8%		61.5%

The gross margin percentage for the nine months ended August 31, 2018 decreased to 59.8%, as compared to 61.5% for the same period in 2017. The decrease was mostly due to the additional accounts receivable reserve of $479,052 recorded in the second quarter of fiscal 2018, which reduced net sales, as a result of the dispute with an international customer.

Selling, general and administrative expenses increased to $6,020,567 for the nine months ended August 31, 2018 as compared to $5,404,245 for the same period in 2017, or an increase of $616,322. The following factors contributed to the increase:

- Rent costs increased approximately $84,991 in the nine months ended August 31, 2018 as compared to the same period in fiscal 2017. Rent costs increased due to the move of the Company's offices from 65 Challenger Road, Ridgefield Park, New Jersey to smaller offices at 1099 Wall Street West, Lyndhurst, New Jersey. The Ridgefield Park office was sub-let. The move and sub-let resulted in the following charges:

  - An expense of $94,992 for the difference between the rent due under the Ridgefield Park office master lease and the sub-let, over the course of the balance of the lease term. Accounting rules require this to be accrued at the time of the sub-let, and then amortized over the remaining life of the lease.
  - Real estate commissions of $24,420 for the sub-lease of the Ridgefield Park office.

- Personnel costs increased approximately $117,114 in the nine months ended August 31, 2018 as compared to the same period in fiscal 2017 due to the addition of sales and marketing positions. In addition, the Company had increased expense of $67,595 for stock options issued to employees and directors, and increased director fees of $86,475.

- Freight out expense increased approximately $248,840 in the nine months ended August 31, 2018 as compared to the same period in fiscal 2017. The increase was due to less consolidation savings as a result of a change in the mix of customers. The Company is working to decrease its freight out expense.

- Moving costs of $47,905 to move the finished goods inventory from the Company's former outsourced warehouse in Plainfield, Indiana to the current warehouse in Scranton, Pennsylvania.

The balance of the increase or decrease in expense comprised a number of smaller expense categories.

Advertising expense was $1,671,605 for the nine months ended August 31, 2018 as compared to $1,681,999 for the same period in fiscal 2017. The advertising expense decrease of $10,394 was due to lower media spend.

The loss before provision for income taxes was $687,201 for the nine months ended August 31, 2018. The provision for income taxes was $3,029,451. The income before provision for income tax was $2,145,894 for the nine months ended August 31, 2017, and the provision for income tax was $882,910. The large provision for income taxes for the nine months ended August 31, 2018 was due to changes in the tax law that were effective as of January 1, 2018 (see Note 11 - Income Taxes for further information on the effects of the new tax law).

<u>Financial Position as of August 31, 2018</u>

As of August 31, 2018, the Company had working capital of $1,520,776 as compared to $(349,154) as of the year ended November 30, 2017. The ratio of total current assets to current liabilities is 1.3 to 1.0 as of August

31, 2018, as compared to 0.9 to 1.0 as of November 30, 2017. The improvement in the Company's working capital was due to the 2018 Credit Agreement entered into with PNC, which provided for a term loan, classified as a non-current liability and a revolving line of credit, classified as a current liability (see Note 8 - Debt Agreement for further information). The Company is current with vendor payments. The Company's cash position at August 31, 2018 was $463,952, as compared to $140,243 as of November 30, 2017. As of August 31, 2018, there were no dividends declared but not paid.

Accounts receivable as of August 31, 2018 and November 30, 2017 were $2,617,810 and $2,585,517, respectively. The increase in accounts receivable was due to higher gross sales for the preceding months. Included in net accounts receivable are an allowance for doubtful accounts, a reserve for returns and allowances and a reduction based on an estimate of cooperative advertising that will be taken as credit against payments. The allowance for doubtful accounts was $15,368 and $6,629 for August 31, 2018 and November 30, 2017, respectively. The allowance for doubtful accounts is a combination of specific and general reserve amounts relating to accounts receivable. The general reserve is calculated based on historical percentages applied to aged accounts receivable and the specific reserve is established and revised based on individual customer circumstances.

The reserve for returns and allowances is based on the historical returns as a percentage of sales in the three preceding months and a specific reserve based on customer circumstances and product lines. This allowance increased to $729,621 as of August 31, 2018 from $356,159 as of November 30, 2017. The increase was primarily due to a special returns reserves of $479,052 as a result of a dispute with an international customer. Of the total reserve amounts, allowances and reserves of $110,436 as of August 31, 2018, which are anticipated to be deducted from future invoices, are included in accrued liabilities.

Gross receivables were further reduced by $156,302 as of August 31, 2018, which was reclassified from accrued liabilities, as an estimate of the co-operative advertising that will be taken as a credit against current accounts receivable balances. In addition, accrued liabilities include $933,477, which is an estimate of co-operative advertising expense which are anticipated to be deducted from future invoices rather than current accounts receivable.

Inventories were $3,342,070 and $1,878,831, as of August 31, 2018 and November 30, 2017, respectively. The inventory is marked down to the lower of cost or net realizable value based on a detailed analysis of the individual inventory items. Mark downs of the inventory are recorded as an increase to the cost of sales. The inventory increased due to new products that the Company will be selling in future quarters.

Prepaid expenses and sundry receivables increased to $815,573 as of August 31, 2018 from $642,000 as of November 30, 2017 in the normal course of business.

Prepaid and refundable income taxes decreased to $27,784 as of August 31, 2018, from $38,153 as of November 30, 2017.

All deferred taxes are now classified as non-current in conformity with ASU 2015-17. Net deferred income tax assets were $6,498,480 as of August 31, 2018 as compared to $9,502,319 as of November 30, 2017. The decrease was due to a revaluation of deferred tax assets as a result of changes in the tax law that were effective January 1, 2018 (see Note 11 - Income Taxes for further information on the tax changes).

The Company's investment in property and equipment consisted mostly of leasehold improvements, office furniture and equipment, and computer hardware and software to accommodate our personnel in addition to tools and dies used in the manufacturing process. The Company acquired $25,586 of additional property and equipment during the first nine months of fiscal 2018, primarily for computer equipment and software.

Current liabilities were $5,746,413 and $5,633,898, as of August 31, 2018 and November 30, 2017 respectively. Current liabilities at August 31, 2018 consisted of accounts payable, accrued liabilities, the outstanding balance on the Company's line of credit with PNC and the current portion of the term loan with PNC. As of August 31, 2018, there was $1,089,779 of open cooperative advertising commitments, of which $531,410 is from 2018, $235,141 is from 2017, $606,136 is from 2016, $133,751 from 2015 and a reduction of $416,659 for co-op claims which had not been processed yet as of August 31, 2018. Of the total amount of $1,089,779, $156,302 is reflected as a reduction of gross accounts receivables, and $933,477 is recorded as an accrued expense. Cooperative advertising is advertising that is run by the retailers in which the Company shares in part of the cost. If it becomes apparent that this cooperative advertising was not utilized, the unclaimed cooperative advertising will be offset against the expense during the fiscal year in which it is determined that it did not run. This procedure is consistent with the prior year's methodology with regard to the accrual of unsupported cooperative advertising commitments.

The Company's long-term obligations are long-term accrued liabilities, the term loan with PNC and a security deposit received from the sub-tenant of the Company's former facilities in East Rutherford, New Jersey and Ridgefield Park, New Jersey. The long-term accrued liabilities consist of the accrued sub-lease differential resulting from the sub-lease of the Company's former facilities.

Stockholders' equity decreased to $7,811,480 as of August 31, 2018 from $9,907,193 as of November 30, 2017. The decrease was due to decreases in retained earnings as a result of the net loss in the first three quarters of fiscal 2018 partially offset by an increase in additional paid-in capital. The Company had previously issued a warrant to Capital Preservation Solutions, LLC who exercised 450,000 shares on February 5, 2018. This resulted in an increase to the common stock par value of $4,500 and an increase to additional paid-in capital of $1,422,000. The Company had issued stock options to the board of directors and employees during the current and prior fiscal years. The fair value of the stock option grants was estimated on the date of the grant using a Black-Scholes valuation model. As a result, $194,458 was recorded as a deferred compensation expense in the first nine months of fiscal 2018 and additional paid-in capital was increased by the same amount (See Note 12, Stock-Based Compensation for further information).

The Company's cash flow had $858,639 used in operating activities during the first nine months of fiscal 2018, as compared to $183,580 that was provided by operating activities during the same period in fiscal 2017. The change in cash flow from operations for the first nine months of fiscal 2018 as compared to the same period in fiscal 2017 was impacted by the following:

- A loss of $3,716,652 in the first nine months of fiscal 2018 as compared to income of $1,262,984 for the same period in fiscal 2017.
- There was a decrease in deferred tax assets of $3,003,838, most of which was recorded as an additional tax expense in the first quarter of fiscal 2018. This expense did not affect the cash balance.
- There was an increase in accounts receivable of $41,033 which utilized cash provided during the nine months of fiscal 2018 as compared to an increase in accounts receivable of $1,503,021 during the nine months of fiscal 2017. The increase in accounts receivable was in the normal course of business and due to the increase in gross sales and receivable during the preceding months.
- There was an increase in inventory of $1,463,238, utilizing cash, in the first nine months of fiscal 2018 as compared to a decrease in inventory of $170,838 during the same period in fiscal 2017. The Company increased inventory to bring in new products that will be introduced in future quarters.
- Accounts payable and accrued liabilities increased $1,157,596 during the first three quarters of fiscal 2018, providing cash, as compared to a decrease of $624,013 during the first three quarters of fiscal 2017. The increase in accounts payable and accrued liabilities was in the ordinary course of business and mainly consists of media invoices. The media invoices will be paid in the fourth quarter of fiscal 2018.
- Pre-paid expenses and other receivables increased $173,573 during the first nine months of fiscal 2018. The increase was due to a hold back of amounts owed to the Company as of August 31, 2018 from Emerson that are being held until January 15, 2020 to pay for any potential customer charge backs.

Net cash used by investing activities was $29,976 for the first nine months of fiscal 2018 was primarily for the cost of computer related equipment and software, as well as a portion of tools and dies used in the manufacturing process, as compared to $39,507 during the same period in fiscal 2017. Net cash provided by financing activities during the first nine months of fiscal 2018 was $1,212,324 as compared to cash used of $116,338 for the same period in fiscal 2017. Included in financing activities was the refinancing of the Company's debt with PNC (See Note 8 - Debt Agreement for further information regarding the financing) and the exercise of a portion of the Company's warrant with Capital Preservation Solutions, LLC (see Note 14 - Certain Relationships and Related Transactions for further information regarding the warrant).

Liquidity and Capital Resources

Liquidity is defined as the ability to generate adequate amounts of cash to meet short-term and long-term business needs. We assess our liquidity in terms of our total cash flow and the amounts of cash, short-term and long-term marketable securities on hand. Significant factors that could affect our liquidity include the following:

- Cash flow generated or used by operating activities
- Inability to receive favorable credit terms from the Company's vendors
- Large product returns from customers which are deducted from cash remittances

Our primary capital needs are working capital requirements for the purchase of inventory and to support increases in accounts receivable. As of August 31, 2018, the Company had cash of $463,952. The Company’s long term liabilities as of August 31, 2018 were long term accrued liabilities of$244,864, the outstanding balance on the Company's term loan with PNC of $937,500 and a security deposit received from the sub-tenants of the Company's former facilities of$168,859. The Company had borrowings against its line of credit of $619,679 as of August 31, 2018. The Company believes that it has sufficient resources to fund its operations over the next twelve months from the date of this filing.

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 will be tested only for the fiscal quarter then ending; for the quarter ending February 28, 2019, the covenant will be tested for the two fiscal quarter period then ending; and for the quarter ending May 31, 2019, the covenant will be tested for the three fiscal quarter period then ending. Thereafter, the covenant will be tested on a rolling four quarter basis.

Critical Accounting Estimates

Our 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 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 - Reserve for Returns—The allowances and reserves which are anticipated to be deducted from future invoices are included in accrued liabilities. The estimated reserve is based in part on historical returns as a percentage of gross sales. The current estimated return rate is 4.8% of gross sales. Management estimates that the returns received will be disposed of. Any changes in this accrued liability are recorded as a debit or credit to the reserve for returns and allowances account.

2 - 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-one 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.

3 - Inventory – 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 market. If the value is below market, a provision is made within inventory. Inventory is adjusted monthly, with changes recorded as part of cost of sales in the results of operations.

4 - Co-operative Advertising Reserve – The co-operative advertising reserve is an estimate of the amount of the liability for the co-operative advertising agreements with the Company's customers. A portion of the reserve that is estimated to be deducted from future payments is a direct reduction of accounts receivable. The portion that the Company estimates to be deducted from future invoices rather than current accounts receivable is recorded as an accrued expense. Management reviews the co-operative advertising agreements for the current fiscal year with its customers on a monthly basis and adjusts them based on actual co-operative advertising events. The Company maintains an open liability for co-operative 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.

5 - Deferred Taxes - 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 are 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 anticipated future profitability. However, anticipated future profitability may be impacted if the Company's sales decrease from current levels or due to other factors discussed under Item 1A - Risk Factors in our Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 28, 2018 for the year ended November 30, 2017.

6 - Income Taxes - The provision for income taxes is based on Management's estimate of the tax rates applicable to the Company for both federal and the various state jurisdictions that the Company files in. The Company has estimated a federal tax rate of 21% and a state rate, net of federal tax benefit of 3.13%, effective January 1, 2018. In addition, the Company has estimated a blended federal rate of 22.1% and a blended state rate, net of federal tax benefit of 3.08%. The blended rate has been applied to value the carry forward loss portion of the deferred tax asset that will be utilized during fiscal 2018. The estimated federal, state and blended rates

are Management's reasonable estimates and the actual rate could vary when the Company files its tax returns for the 2018 fiscal year.

Item 4. CONTROLS AND PROCEDURES

The Company has established disclosure controls and procedures designed to provide reasonable assurance that information required to be disclosed in the reports that the Company files or submits under the Securities Exchange Act of 1934, as amended (the “Exchange Act”) is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms and is accumulated and communicated to management, including the principal executive officer (our Chief Executive Officer) and principal financial officer (our Chief Financial Officer), to allow timely decisions regarding required disclosure. Notwithstanding the foregoing, there can be no assurance that the Company’s disclosure controls and procedures will detect or uncover all failures of persons within the Company to

disclose material information otherwise required to be set forth in the Company’s periodic reports. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable, not absolute, assurance of achieving their control objectives.

An evaluation was performed under the supervision of the Company’s management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company’s disclosure controls and procedures (as defined in the Exchange Act Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this report. Based on that evaluation, the Company’s management, including the Chief Executive Officer and Chief Financial Officer, concluded that, as of August 31, 2018 the Company’s disclosure controls and procedures were effective at the reasonable assurance level to ensure that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms, and is accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

There have been no changes in the Company’s internal control over financial reporting during the quarterly period ended August 31, 2018 that have materially affected, or are reasonably likely to materially affect, the Company’s internal control overall financial reporting.

PART II

Item 6. EXHIBITS

In reviewing the agreements included as exhibits to this Form 10-Q, please remember that they are included to provide you with information regarding their terms and are not intended to provide any other factual or disclosure information about the Company or the other parties to the agreements. The agreements may contain representations and warranties by each of the parties to the applicable agreement. These representations and warranties have been made solely for the benefit of the parties to the applicable agreement and:

- should not in all instances be treated as categorical statements of fact, but rather as a way of allocating the risk to one of the parties if those statements prove to be inaccurate;
- have been qualified by disclosures that were made to the other party in connection with the negotiation of the applicable agreement, which disclosures are not necessarily reflected in the agreement;
- may apply standards of materiality in a way that is different from what may be viewed as material to you or other investors; and
- were made only as of the date of the applicable agreement or such other date or dates as may be specified in the agreement and are subject to more recent developments.

Accordingly, these representations and warranties may not describe the actual state of affairs as of the date they were made or at any other time. Additional information about the Company may be found elsewhere in this Form 10-Q and the Company’s other public filings, which are available without charge through the SEC’s website at http://www.sec.gov.

The following exhibits are included as part of this report:

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Exhibit No.	*Description*
10.1	Revolving Credit, Term Loan and Security Agreement with PNC Bank, National Association is incorporated by reference to the Company's Form 8-K filed with the SEC on February 9, 2018 (SEC file number reference 001-31643).
31.1	Certification of Chief Executive Officer pursuant to Section 302 the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Section 302 the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.Def	Definition Linkbase Document
101.Pre	Presentation Linkbase Document
101.Lab	Labels Linkbase Document
101.Cal	Calculation Linkbase Document
101.Sch	Schema Document
101.Ins	Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document

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: October 22, 2018

CCA INDUSTRIES, INC.

By: /s/ STEPHEN A. HEIT

Stephen A. Heit
Chief Financial Officer and Chief Accounting Officer, and
duly authorized signatory on behalf of Registrant

Exhibit 31.1

CERTIFICATION

I, Lance Funston, certify that:

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

2. 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;

3. 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.

4. 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating 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;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) 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

   (d) 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 materially 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 control 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):

   (a) 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

   (b) 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 22, 2018

/s/ LANCE FUNSTON
Lance Funston
Chief Executive Officer

Exhibit 31.2

CERTIFICATION

I, Stephen A. Heit, certify that:

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

2. 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;

3. 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.

4. 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating 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;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) 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

   (d) 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 materially 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 control 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):

   (a) 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

   (b) 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 22, 2018

/s/ STEPHEN A. HEIT
Stephen A. Heit
Chief Financial Officer and Chief Accounting Officer

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 August 31, 2018 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Lance Funston, 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:

(1) The Report, to which this certification is attached, fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

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

Date: October 22, 2018

/s/ LANCE FUNSTON
Lance Funston
Chief Executive Officer

Exhibit 32.2

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 August 31, 2018 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Stephen A. Heit, 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) or 15(d) of the Securities Exchange Act of 1934; and

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

Date: October 22, 2018

/s/ STEPHEN A. HEIT
Stephen A. Heit
Chief Financial Officer and Chief Accounting Officer