CCA INDUSTRIES INC
Form 10-Q
April 15, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10 – Q
(Mark One)

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

For the quarterly period ended February 28, 2015
or

o 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.) |

200 Murray Hill Parkway
East Rutherford, NJ 07073
(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 ý 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 ý No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting 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] |

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

As of April 15, 2015 there were (i) 6,038,982 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.

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ITEM 1. - FINANCIAL STATEMENTS
CCA INDUSTRIES, INC. AND SUBSIDIARIESCONSOLIDATED BALANCE SHEETS

| | February 28, 2015 (Unaudited) | November 30, 2014 |
|---|---|---|
| ASSETS | | |
| Current assets: | | |
| Cash & cash equivalents | $266,717 | $241,621 |
| Accounts receivable, net of allowances of $2,513,029 and $2,967,668, respectively | 3,217,136 | 2,248,301 |
| Inventories, net of reserve for inventory obsolescence of $735,500 and $992,296, respectively | 4,679,572 | 5,181,490 |
| Prepaid expenses and sundry receivables | 1,092,359 | 631,204 |
| Prepaid and refundable income taxes | 173,236 | 453,598 |
| Deferred income taxes | 2,842,519 | 2,883,285 |
| Total Current Assets | 12,271,539 | 11,639,499 |
| | | |
| Property and equipment, net of accumulated depreciation and amortization | 1,056,343 | 1,108,600 |
| Intangible assets, net of accumulated amortization | 654,743 | 654,840 |
| Deferred financing fees, net of accumulated amortization | 1,008,594 | 1,341,458 |
| Deferred income taxes | 6,989,999 | 6,988,195 |
| Total Assets | $21,981,218 | $21,732,592 |
| | | |
| LIABILITIES AND CAPITAL | | |
| Current Liabilities: | | |
| Accounts payable & accrued liabilities | $9,340,696 | $10,731,031 |
| Capitalized lease obligations - current portion | 7,780 | 7,642 |
| Line of credit - related party | 2,100,000 | — |
| Term loan - related party | 854,360 | — |
| Total current liabilities | 12,302,836 | 10,738,673 |
| | | |
| Line of credit - related party | — | 600,000 |
| Term loan - related party | — | 805,813 |
| Capitalized lease obligations | 20,078 | 22,152 |
| Total Liabilities | 12,322,914 | 12,166,638 |
| | | |
| 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 6,038,982 and 6,038,982 shares, respectively | 60,390 | 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 | 3,849,225 | 3,814,484 |
| Retained earnings | 5,739,012 | 5,681,403 |
| Unrealized gains on marketable securities | — | — |
| Total Shareholders' Equity | 9,658,304 | 9,565,954 |
| Total Liabilities and Shareholders' Equity | $21,981,218 | $21,732,592 |

See Notes to Consolidated Financial Statements.

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

| | Three Months Ended February 28, | |
|---|---|---|
| | 2015 | 2014 |
| Revenues: | | |
| Sales of health and beauty aid products - net | $6,952,857 | $6,065,778 |
| Other income | 4,659 | 236,922 |
| Total Revenues | 6,957,516 | 6,302,700 |
| Costs and Expenses: | | |
| Cost of sales | 2,318,485 | 3,002,116 |
| Selling, general and administrative expenses | 3,089,758 | 3,499,034 |
| Advertising, cooperative and promotional expenses | 948,957 | 810,454 |
| Research and development | 40,524 | 126,696 |
| Bad debt expense (recovery) | 6,971 | (27,143) |
| Interest expense - related party | 326,905 | — |
| Interest expense | 92,296 | 615 |
| Total Costs and Expenses | 6,823,896 | 7,411,772 |
| Restructuring Costs | 35,024 | 547,047 |
| Total Costs and Expenses | 6,858,920 | 7,958,819 |
| Income (Loss) before Provision for (Benefit from) Income Taxes | 98,596 | (1,656,119) |
| Provision for (Benefit from) income taxes | 40,988 | (609,463) |
| Income (Loss) from Continuing Operations | $57,608 | $(1,046,656) |
| Discontinued Operations | | |
| (Loss) from Operations of Discontinued Brands | — | (305,239) |
| (Benefit from) income taxes | — | (112,330) |
| (Loss) from Discontinued Operations | — | (192,909) |
| Net Income (Loss) | $57,608 | $(1,239,565) |
| | | |
| Earnings (Loss) per Share: | | |
| Basic | | |
| Continuing Operations | $0.01 | $(0.15) |
| Discontinued Operations | $— | $(0.03) |
| Income (Loss) | $0.01 | $(0.18) |
| Diluted | | |
| Continuing Operations | $0.01 | $(0.15) |
| Discontinued Operations | $— | $(0.03) |
| Income (Loss) | $0.01 | $(0.18) |
| Weighted Average Common Shares Outstanding | | |
| Basic | 7,006,684 | 7,006,684 |
| Diluted | 7,155,242 | 7,006,684 |

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See Notes to Consolidated Financial Statements.

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

| | Three Months Ended February 28, | | |
|---|---|---|---|
| | 2015 | 2014 | |
| Income (Loss) from Continuing Operations | $57,608 | $(1,046,656 | ) |
| (Loss) from Discontinuing Operations | — | (192,909 | ) |
| Net (Loss) | $57,608 | $(1,239,565 | ) |
| Other Comprehensive Income (Loss) | | | |
| Unrealized Gain (Loss) on Securities: | | | |
| Unrealized holding gain arising during the period, net of tax | — | 2,233 | |
| Less: reclassification adjustment for (gain) included in net income (loss), net of tax | — | (92,142 | ) |
| Comprehensive Income (Loss) (Note 3, Note 11) | $57,608 | $(1,329,474 | ) |

Unrealized holding gain for the quarter ended February 28, 2014 is net of deferred tax expense from unrealized gain of $1,315.

The reclassification adjustment for (gain) for the quarter ended February 28, 2014 is net of a deferred tax expense of 53,901.

See Notes to Consolidated Financial Statements.

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

| | Three Months Ended February 28, | | | |
|---|---|---|---|---|
| | 2015 | | 2014 | |
| Cash Flows from Operating Activities: | | | | |
| Net Income (Loss) | $57,608 | | $(1,239,565 | ) |
| Adjustments to reconcile net income (loss) to cash used in operating activities: | | | | |
| Depreciation and amortization | 57,402 | | 86,498 | |
| Change in allowance for bad debts | 6,971 | | (27,143 | ) |
| (Gain) on sale of securities | — | | (146,025 | ) |
| Debt discount amortization | 48,547 | | — | |
| Deferred financing fees amortization | 332,864 | | — | |
| Stock based compensation | 34,741 | | 2,700 | |
| Deferred income taxes | 38,962 | | (722,993 | ) |
| Change in Operating Assets & Liabilities: | | | | |
| (Increase) decrease in accounts receivable | (975,806 | ) | 235,537 | |
| Decrease in inventory | 501,918 | | 223,521 | |
| (Increase) in prepaid expenses and other receivables | (461,155 | ) | (12,537 | ) |
| Decrease in prepaid income and refundable income tax | 280,362 | | 1,500 | |
| Decrease in other assets | — | | 4,500 | |
| (Decrease) increase in accounts payable and accrued liabilities | (1,390,335 | ) | 385,381 | |
| Net Cash Used in Operating Activities | (1,467,921 | ) | (1,208,626 | ) |
| Cash Flows from Investing Activities: | | | | |
| Acquisition of property, plant and equipment | (5,050 | ) | (3,509 | ) |
| Proceeds from sale and maturity of investments | — | | 746,071 | |
| Net Cash (used in) provided by Investing Activities | (5,050 | ) | 742,562 | |
| Cash Flows from Financing Activities: | | | | |
| Proceeds from line of credit - related party | 1,500,000 | | — | |
| Payments for capital lease obligations | (1,933 | ) | (1,830 | ) |
| Net Cash Provided by (Used in) Financing Activities | 1,498,067 | | (1,830 | ) |
| Net Increase (Decrease) in Cash | 25,096 | | (467,894 | ) |
| Cash and Cash Equivalents at Beginning of Period | 241,621 | | 3,199,020 | |
| Cash and Cash Equivalents at End of Period | $266,717 | | $2,731,126 | |
| Supplemental Disclosures of Cash Flow Information: | | | | |
| Cash paid during the period for: | | | | |
| Interest | $29,908 | | $615 | |
| Income taxes | $900 | | $500 | |

See Notes to Consolidated Financial Statements

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CCA INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO 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 month period ended February 28, 2015 are not necessarily indicative of the results that may be expected for the entire year ended November 30, 2015. 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, 2014. 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.

CCA has two wholly-owned subsidiaries, CCA Online Industries, Inc. and CCA IND., S.A. DE C.V., a Variable Capital Corporation organized pursuant to the laws of Mexico, both of which are currently inactive.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation:

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

Comprehensive Income (Loss):

Comprehensive income (loss) includes changes in equity that are excluded from the consolidated statements of operations and are recorded directly into a separate section of consolidated statements of comprehensive income (loss). The Company’s accumulated other comprehensive income (loss) shown on the consolidated balance sheets consist of unrealized gains and losses on investment holdings, net of deferred tax expense or benefit.

Cash and Cash Equivalents:

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

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

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 February 28, 2015. 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 market. Product returns are either recorded in inventory when they are received at the lower of their original cost or market or destroyed, 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:

| | |
|---|---|
| Machinery and equipment | 5-7 Years |
| Furniture and fixtures | 3-10 Years |
| Tools, dies and masters | 3 Years |
| Transportation equipment | 5 Years |
| Leasehold improvements | Remaining life of the lease (7.5 years) |

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 statement. Long-lived assets include property and equipment, intangible assets 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. No impairments were recorded in the three months ended February 28, 2015 and 2014.

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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 five 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 February 28, 2015 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 what is left 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 open 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 $444,109 in the first quarter of fiscal 2015 to close out cooperative advertising for fiscal year 2012 and $0 for the same period in 2014. The balance of the remaining open cooperative advertising is allocated between accrued liabilities and the allowance for cooperative advertising based the customer's open accounts receivable balance.

Sales Incentives:

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

Shipping Costs:

The Company’s policy for financial reporting is to charge shipping costs as part of selling, general and administrative expenses as incurred. Shipping costs included for the three months ended February 28, 2015 and 2014 were $182,991 and $453,507, respectively.

Advertising Costs:

The Company’s policy for financial reporting is to charge advertising cost to expense as incurred. Advertising, cooperative and promotional expenses for the three months ended February 28, 2015 and February 28, 2014 were $948,957 and $810,454, respectively.

Research and Development Costs:

The Company's policy for financial reporting is to charge research and development costs to expense as incurred. Research and development costs for the three months ended February 28, 2015 and February 28, 2014 were $40,524 and $126,696, 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

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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 2013 and fiscal 2014, 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 which is contingent on the successful realization of anticipated cost savings associated with the outsourcing of many functions to The Emerson Group, the substantial reduction in personnel and a reduction in other expenses. 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, 2015 as supplemented in this Form 10-Q. The portion that management expects to utilize in fiscal 2015 is recorded as a short term asset, and the portion that management expects to utilize in fiscal years subsequent to fiscal 2015 is recorded as a long term asset.

The Company previously adopted the provisions of ASC Subtopic 740-10-25, "Uncertain Tax Positions". Management believes that there were no unrecognized tax benefits, or tax positions that would result in uncertainty regarding the deductions taken, as of February 28, 2015 and November 30, 2014. ASC Subtopic 740-10-25 prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more-likely-than-not to be sustained upon examination by taxing authorities.

Tax Credits:

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

Earnings (Loss) Per Common Share:

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

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 2015 and 2014, see Note 11 for details.

NOTE 4 - INVENTORIES

The components of inventory consist of the following:

| | February 28, 2015 | November 30, 2014 |
|---|---|---|
| Raw materials | $2,248,110 | $2,408,220 |
| Finished goods | 2,431,462 | 2,773,270 |
| | $4,679,572 | $5,181,490 |

At February 28, 2015 and November 30, 2014, the Company had a reserve for obsolescence of $735,500 and $992,296, respectively.

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

NOTE 5 - PROPERTY AND EQUIPMENT

The components of property and equipment consisted of the following:

| | February 28, 2015 | November 30, 2014 |
|---|---|---|
| Furniture and equipment | 672,477 | 672,477 |
| Tools, dies and masters | 454,912 | 449,862 |
| Transportation equipment | 16,538 | 16,538 |
| Capitalized lease obligations | 41,326 | 41,326 |
| Leasehold improvements | 1,054,363 | 1,054,365 |
| | $2,239,616 | $2,234,568 |
| Less: Accumulated depreciation | 1,183,273 | 1,125,968 |
| Property and Equipment—Net | $1,056,343 | $1,108,600 |

Depreciation expense for the three months ended February 28, 2015 and February 28, 2014 amounted to $57,305 and $81,389, respectively.

NOTE 6 - INTANGIBLE ASSETS

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

| | February 28, 2015 | November 30, 2014 |
|---|---|---|
| Patents and trademarks | $800,293 | $800,293 |
| Less: Accumulated amortization | 145,550 | 145,453 |
| Intangible Assets - Net | $654,743 | $654,840 |

Patents are amortized on a straight-line basis over their legal life of 17 years. Trademarks have an indefinite life and are reviewed annually for impairment or more frequently if impairment indicators occur. Amortization expense for the three months ended February 28, 2015 and February 28, 2014 amounted to $97 and $5,110, respectively. . Estimated amortization expenses for the years ending November 30, 2015, 2016, 2017, 2018 and 2019 are $388, $388, $388, $388 and $376, respectively.

NOTE 7 - ACCRUED EXPENSES

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

| | February 28, 2015 | November 30, 2014 |
|---|---|---|
| Co-operative advertising | $1,959,089 | $2,368,808 |
| Restructuring Costs | $961,003 | $1,043,897 |
| Accrued returns | $— | $653,855 |

NOTE 8 - OTHER INCOME

Other income consists of the following:

| | Three Months Ended February 28, | |
|---|---|---|
| | 2015 | 2014 |
| Interest and dividend income | $157 | $174 |
| Dividend Income | — | 7,938 |
| Realized gain on sale of securities | — | 146,025 |
| Royalty income | 3,000 | 3,000 |
| Miscellaneous | 1,502 | 79,785 |
| Total Other income (loss) | $4,659 | $236,922 |

NOTE 9 - 401(K) PLAN

The Company has a 401(K) Profit Sharing Plan for both union and non-union employees. The union plan requires one year of service and the non-union plan requires six months of service in order to be eligible to participate. Employees for both plans 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. For all periods to date, the Company did not make any contributions.

NOTE 10 - INCOME TAX

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

The Company previously adopted the provisions of ASC Subtopic 740-10-25, “Uncertain Tax Positions”. Management believes that there were no unrecognized tax benefits, or tax positions that would result in uncertainty regarding the deductions taken, as of February 28, 2015 and February 28, 2014. 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. There were penalties and related interest of $0 for the three months ended February 28, 2015, and $669 for the three months ended February 28, 2014. Penalties are recorded in selling, general and administrative expenses.

As of February 28, 2015, the Company had no investments. As of February 28, 2014, the Company had unrealized gain on its investments of $146,552. This amount was reduced by a deferred tax expense of $54,083. The charitable contributions portion of the deferred tax asset and the loss carry forward has $273,471 and $6,960,553, respectively, that has been reclassified as a long-term asset, based on an estimate of the amount that will be realizable in periods greater than twelve months from February 28, 2015.

At February 28, 2015 and November 30, 2014, respectively, the Company had temporary differences arising from the following:

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

NOTE 10 - INCOME TAXES

| | February 28, 2015 | | Classified As | |
|---|---|---|---|---|
| Type | Amount | Deferred Tax | Short-Term Asset | Long-Term Asset |
| Depreciation | $(661,250) | $(244,025) | $— | $(244,025) |
| Reserve for bad debts | 32,095 | 11,844 | 11,844 | — |
| Reserve for returns | 2,480,934 | 915,556 | 915,556 | — |
| Reserve for obsolete inventory | 735,500 | 271,427 | 271,427 | — |
| Vacation accrual | 156,337 | 57,694 | 57,694 | — |
| Accrued bonus | 222,000 | 81,926 | 81,926 | |
| Charitable contributions | 1,101,040 | 406,324 | 132,853 | 273,471 |
| Section 263A costs | 115,672 | 42,687 | 42,687 | — |
| Loss carry forward | 22,914,148 | 8,289,085 | 1,328,532 | 6,960,553 |
| Net deferred tax asset (liability) | | $9,832,518 | $2,842,519 | $6,989,999 |

| | November 30, 2014 | | Classified As | |
|---|---|---|---|---|
| Type | Amount | Deferred Tax | Short-Term Asset | Long-Term (Liability) |
| Depreciation | $(685,154) | $(252,883) | $— | $(252,883) |
| Unrealized (gain) on investments | — | — | — | — |
| Reserve for bad debts | 25,124 | 9,272 | 9,272 | — |
| Reserve for returns | 2,942,544 | 1,085,907 | 1,085,907 | — |
| Reserve for obsolete inventory | 608,504 | 224,560 | 224,560 | — |
| Vacation accrual | 148,751 | 54,895 | 54,895 | — |
| Charitable contributions | 1,100,940 | 406,287 | 132,853 | 273,434 |
| Section 263A costs | 128,079 | 47,266 | 47,266 | — |
| Loss carry forward | 22,933,333 | 8,296,176 | 1,328,532 | 6,967,644 |
| Net deferred tax asset (liability) | | $9,871,480 | $2,883,285 | $6,988,195 |

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

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NOTE 10 - INCOME TAXES

| | February 28, 2015 | February 28, 2014 | |
|---|---|---|---|
| Continuing Operations | | | |
| Current tax - Federal | $— | $— | |
| Current tax - State & Local | 2,000 | 2,000 | |
| Deferred tax | 38,988 | (611,463 | ) |
| Tax - Continuing Operations | $40,988 | $(609,463 | ) |
| Discontinued Operations | | | |
| Current tax - Federal | — | — | |
| Current tax - State & Local | — | — | |
| Deferred tax | — | (112,330 | ) |
| Tax - Discontinued Operations | $— | $(112,330 | ) |

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

| Prepaid and refundable income taxes | Federal | State & Local | Total |
|---|---|---|---|
| February 28, 2015 | $167,075 | $6,161 | $173,236 |
| November 30, 2014 | $167,075 | $286,523 | $453,598 |

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NOTE 10 - INCOME TAXES

A reconciliation of the provision for (benefit from) income taxes computed at the statutory rate to the effective rate for the three months ended February 28, 2015, and February 28, 2014 is as follows:

| | Three Months Ended February 28, 2015 | | Three Months Ended February 28, 2014 | |
|---|---|---|---|---|
| | Amount | Percent of Pretax Income | Amount | Percent of Pretax Income |
| Continuing Operations | | | | |
| Provision for (benefit from) income taxes at federal statutory rate | $33,523 | 34.00% | $(563,080) | 34.00% |
| Changes in provision (benefit) for income taxes resulting from: | | | | |
| State income taxes, net of federal income tax benefit | 2,859 | 2.90% | (48,027) | 2.90% |
| Non-deductible expenses and other adjustments | 4,606 | 4.67% | 1,644 | (0.10)% |
| Provision for (Benefit from) income taxes at effective rate | 40,988 | 41.57% | (609,463) | 36.80% |
| Discontinued Operations | | | | |
| (Benefit from) income taxes at federal statutory rate | $— | —% | $(103,781) | 34.00% |
| Changes in benefit from income taxes resulting from: | | | | |
| State income taxes, net of federal income tax benefit | — | —% | (8,851) | 2.90% |
| Non-deductible expenses and other adjustments | — | —% | 302 | (0.10)% |
| Benefit from income taxes at effective rate for Discontinued Operations | $— | —% | $(112,330) | 36.80% |
| Total provision for (benefit from) income taxes at effective rate | $40,988 | 41.57% | $(721,793) | 36.80% |

NOTE 11 - STOCK-BASED COMPENSATION

On June 15, 2005, the shareholders approved an amended and Restated Stock Option Plan amending the 2003 Stock Option Plan (the “Plan”). The 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 plan expires in April, 2015.
On January 1, 2006, the Company adopted 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 fair value of the stock option grants below were estimated on the date of the grant using a Black-Scholes valuation model and the assumptions in the following table:

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| | |
|---|---|
| Option Grant Date | January 5, 2015 |
| Assumptions: | |
| Risk-free interest rate | 1.57% |
| Dividend yield | — |
| Stock volatility | 37.74% |
| Option Term (years) | 10.0 |

On January 5, 2015, the Company granted incentive stock options for 175,000 shares to eight Company employees, including Richard Kornhauser, the Company's Chief Executive Officer for 100,000 shares and Stephen Heit, the Company's Chief Financial Officer for 35,000 shares. All options were granted at $3.48 per share. The closing price of the Company's stock on the date of grant was $3.48 per share. The options vest in equal 20% increments commencing on January 5, 2015, and for each of the four subsequent anniversaries of such date. The options expire on January 5, 2024. The Company has estimated the fair value of the options granted to be $297,834 as of the grant date, which amount shall be amortized as an expense over a five year period. The Company recorded a charge against earnings in the amount of $34,744 for the three months ended February 28, 2015 for all outstanding stock options granted through the period ended February 28, 2015 .

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

| | Number of Options | Weighted-Average Exercise Price | Weighted-Average Remaining Term (years) | Aggregate Intrinsic Value |
|---|---|---|---|---|
| Outstanding at November 30, 2013 | — | — | 0 | — |
| Granted | 137,000 | $3.40 | 5.7 | — |
| Exercised | — | — | — | — |
| Canceled or Forfeited | — | — | — | — |
| Outstanding at November 30, 2014 | 137,000 | $3.40 | 5.7 | — |
| Granted | 175,000 | $3.48 | 9.9 | — |
| Exercised | — | — | | — |
| Canceled or Forfeited | — | — | — | — |
| Outstanding at February 28, 2015 | 312,000 | $3.45 | 7.9 | |

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NOTE 12 - INCOME (LOSS) PER SHARE

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

| | Three Months Ended | | |
|---|---|---|---|
| | February 28, 2015 | February 28, 2014 | |
| Net Income (loss) income available for common shareholders | $57,608 | $(1,239,565 | ) |
| Weighted average common shares outstanding-Basic | 7,006,684 | 7,006,684 | |
| Net effect of dilutive stock options | 148,558 | — | |
| Weighted average common shares and common shares equivalents—Diluted | 7,155,242 | 7,006,684 | |
| | | | |
| Earnings (Loss) per Share: | | | |
| Basic | | | |
| Continuing Operations | $0.01 | $(0.15 | ) |
| Discontinued Operations | $— | $(0.03 | ) |
| Income (Loss) | $0.01 | $(0.18 | ) |
| | | | |
| Diluted | | | |
| Continuing Operations | $0.01 | $(0.15 | ) |
| Discontinued Operations | $— | $(0.03 | ) |
| Income (Loss) | $0.01 | $(0.18 | ) |

312,000 and 100,000 shares underlying stock options were excluded from the diluted loss per share for the quarters ended February 28, 2015 and 2014, respectively, because the effects of such shares were anti-dilutive.

NOTE 13 - RESTRUCTURING

On January 20, 2014, the Company announced that its Board of Directors had approved management's plan to restructure the Company's operations, and enter into a key business partnership with The Emerson Group, a premier sales and marketing company located in Wayne, Pennsylvania. As part of this change, the Company has outsourced to Emerson certain sales and administrative functions effective February 1, 2014. In addition, warehousing and shipping was outsourced to Ozburn-Hessey Logistics "OHL", one of the largest integrated global supply chain management companies in the United States. The Company's inventory was moved to an OHL-managed facility in Indianapolis, Indiana and shipping commenced from there as of the week of February 3, 2014. A key benefit of the outsourcing move is that it shifted a substantial portion of the Company's current fixed costs into a variable cost structure moving forward which can ultimately help keep expenses in better alignment with any future revenue generated by its brands. As a result of the outsourcing, the Company will have reduced its work force from 97 to 21 employees when complete. As of February 28, 2015, the Company's workforce has been reduced to 30 employees. The Company has estimated that it will incur severance costs related to the reduction in work force of $2,773,594. As of February 28, 2015, $961,003 of severance costs have not been paid as of yet, which is recorded as an accrued expense on the Company's consolidated balance sheet. As of November 30, 2014, accrued restructuring costs were $1,043,897. During the quarter ended February 28, 2015, the Company incurred expense of $35,024, related to the termination of employees during the quarter and made payments of $117,918. This unpaid balance will be paid out during the balance of Fiscal 2015.

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NOTE 14 - DISCONTINUED OPERATIONS
The Company discontinued the Gel Perfect color nail polish business effective as of May 31, 2014. The Gel Perfect brand had declining sales in fiscal 2013 and fiscal 2014. During the third quarter of fiscal 2014 the Company discontinued its operations of the Mega-T brand of weight loss and dietary supplement business and on August 26, 2014, the Company entered into an asset purchase agreement (“Asset Purchase Agreement”) with Mega-T, LLC (“LLC”), an entity formed by Casla Partners Capital Fund I, LP for the sale of inventory, trademarks and other intellectual property rights related to the Mega-T brand. The Company decided to sell the Mega-T brand in order to focus its resources behinds its five remaining core brands. Both brands have been recorded as discontinued operations and are reflected as such in the Company's statement of operations.
The following table summarizes those components of the statement of operations for discontinued brands for the three months ended February 28, 2015 and 2014 :

| | Three Months Ended February 28, 2014 | | |
|---|---|---|---|
| | Mega | GP | Total |
| Net Sales | $1,195,508 | $252,044 | $1,447,552 |
| Income before Provision for Income Taxes | 166,208 | (471,447) | (305,239) |
| Provision for Income Tax | 61,166 | (173,496) | (112,330) |
| Net Income (Loss) | $105,042 | $(297,951) | $(192,909) |
| Earnings (loss) per Share: | | | |
| Basic | $0.01 | $(0.04) | $(0.03) |
| Diluted | $0.01 | $(0.04) | $(0.03) |
| Weighted average shares outstanding | | | |
| Basic | 7,006,684 | 7,006,684 | 7,006,684 |
| Diluted | 7,006,684 | 7,006,684 | 7,006,684 |

NOTE 15 - CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS
David Edell served as a director during fiscal 2014 until September 5, 2014. Ira Berman is a former director. On September 5, 2014, the Company entered into Separation Agreements with David Edell and Ira Berman, (the “Founders”) whereby they are no longer required to perform any consulting services pursuant to their Amended and Restated Employment Agreements. The Company is required per the Separation Agreements to make an additional payment of $200,000 in the aggregate to the Founders on October 1, 2015 and pay $794,620 in the aggregate in fifteen equal monthly installments of $52,975 commencing on October 3, 2014.

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On September 5, 2014, the Company entered into a Loan and Security Agreement (the “Agreement”) with Capital Preservation Solutions, LLC (“Capital”) for a $5,000,000 working capital line of credit and a term loan for working capital purposes not to exceed $1,000,000. Capital Preservation Solutions, LLC is owned by Lance Funston, who also is the managing partner of Capital Preservations Holdings, LLC which owns common stock and all of the Company's Class A common stock. Contemporaneously with the signing of the Agreement, the Company issued a Warrant to Purchase Common Stock (the “Warrant”) to Capital whereby Capital may acquire upon exercise of the Warrant 1,892,744 shares of the Company’s Common Stock. The Warrant may be exercised in whole or in part at any time during the exercise period which is five years from the date of the Warrant. The Warrant bears a purchase price of $3.17 per share, subject to adjustments. The working capital line of credit and term loan have been recorded on the consolidated balance sheet as of February 28, 2015 as from a related party. Interest and amortized financing costs in the amount of $326,905 was incurred to Capital and is recorded on the consolidated statement of operations for the year ended February 28, 2015 as interest expense to a related party.

## NOTE 16 – SUBSEQUENT EVENTS

In April 2015 the Company signed a lease for new office space and will be moving from its existing space at 200 Murray Hill Parkway, East Rutherford, NJ to the new space located at 65 Challenger Road, Ridgefield Park, NJ. The new lease is for 7,414 square feet of space, with an annual rental cost of $159,401 per year. In addition, the Company will pay an electric charge of $1.75 per square foot per year. The lease is for five years and four months, commencing April 10, 2015, and contains a provision for four months of rent at no charge. The Company anticipates signing a lease to sub-lease out its existing space at 200 Murray Hill Parkway to a sub-tenant in April. The sub-tenant plans on leasing the entire 200 Murray Hill premises. The Company estimates that it will take a one-time charge in the second quarter of fiscal 2015 of $448,000 for exit costs, and in addition will write off approximately $731,110 of leasehold improvements for the 200 Murray Hill Parkway facility.

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

### Cautionary Statements Regarding Forward-Looking Statements

Our disclosure and analysis in this report contains 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, 2013 and other periodic reports filed with the United States Securities and Exchange Commission.

Overview

For the three months ended February 28, 2015, the company had a net income from continuing operations of $57,608, and earnings per share, basic and fully diluted of $0.01 as compared to a net loss from continuing operations of $1,046,656, and a loss per share, basic and fully diluted of $0.15 for the same period in fiscal 2014. For the three months ended February 28, 2015, the Company had net income from discontinued operations of $0, and earnings per

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share, basic and fully diluted of $0.00 as compared to a net loss of $192,909, and losses per share, basic and fully diluted, of $0.03 for the same period in fiscal 2014. The total of continuing and discontinued operations for the three months ended February 28, 2015 was net income of $57,608 compared to net loss of $1,239,565 for the same period ended February 28, 2014. The total earnings per share, basic and fully diluted was $0.01 for the three months ended February 28, 2015 compared to losses per share, basic and fully diluted of $0.18 for the same period ended February 28, 2014. As of February 28, 2015, the Company had $12,271,539 in current assets and $12,302,836 in current liabilities. The Company had decided to discontinue the Gel Perfect brand in the second quarter and sold the Mega-T brand in the third quarter of fiscal 2014 . Accordingly, the Company has shown the results of operations pertaining to the Gel Perfect and Mega-T brands as Discontinued Operations in the Consolidated Statement of Operations for the three months ended February 28, 2015 and February 28, 2014.

On September 26, 2013, the Company began executing a reduction in work force to reduce overhead and on January 20, 2014, the Company announced that its Board of Directors approved management's plan to restructure the Company's operations, and enter into a key business partnership with The Emerson Group, a premier sales and marketing company located in Wayne, Pennsylvania. As part of this change, the Company outsourced to The Emerson Group certain sales and administrative functions effective February 1, 2014. In addition, warehousing and shipping was outsourced through Emerson to Ozburn-Hessey Logistics "OHL", one of the largest integrated global supply chain management companies in the United States. The Company's inventory was moved to an OHL-managed facility in Indianapolis, Indiana, and shipping commenced from there the week of February 3, 2014. A key benefit of the outsourcing move is that it shifted a substantial portion of the Company's current fixed costs into a variable cost structure moving forward which can ultimately help keep expenses in better alignment with any future revenue generated by its brands.

The Company completed most of this restructuring, which includes our outsourcing arrangement and reduction in work force, during the Company's 2014 fiscal year. The Company has also outsourced other operations, including shipments to international customers, and estimates that all restructuring will be completed by the end of the second quarter of fiscal 2015. Severance costs as a result of the reduction in work force are recorded as a restructuring expense. The Company recorded a restructuring expense of $35,024 in the first quarter of fiscal 2015.

Operating Results for the Three Months Ended February 28, 2015

For the three months ended February 28, 2015, the Company had total revenues of $6,957,516 and a net income from continuing operations of $57,608 after a provision for taxes of $40,988. For the same three month period in 2014, total revenues were $6,302,700 and a net loss from continuing operations of $1,046,656 after a tax benefit of $609,463 and net loss from discontinuing operations of $192,909 after a tax benefit of $112,330 for a total net loss of $1,239,565. The basic and fully diluted earnings per share from continuing operations was $0.01 for the first quarter of fiscal 2015 as compared to a net loss of $0.15 per share for continuing operations and a net loss of $0.03 per share for discontinuing operations for the first quarter of fiscal 2014. 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 first quarter of fiscal 2015 were reduced by $43,267, comprised of cooperative advertising recorded as sales incentives of $487,376 which was reduced by $444,109 to close out cooperative advertising for fiscal year 2012. The $487,376 was 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 $910,899 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.

The Company's net sales of health and beauty aid products increased $887,079 to $6,952,857 for the three months ended February 28, 2015 from $6,065,778 for the three months ended February 28, 2014, an increase of 14.6%. Sales returns and allowances, not including sales incentives, were 6.0% of gross sales or $446,500 for the three months ended February 28, 2015 as compared to 10.7% or $822,243 for the same period last year. Sales incentives consist of co-operative advertising with the Company's retail partners and coupons, which decreased by $1,058,760 to $86,745 in the first quarter 2015 as compared to $1,145,504 in the same period in 2014. The cost of the coupons issued by the

Company was $43,477 for the first quarter 2015 as compared to $234,605 for the same period in 2014. Also, a portion

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of cooperative advertising recorded as sales incentives was reduced by $444,109 in the first quarter of fiscal 2015 to close out cooperative advertising for fiscal year 2012. The Company has changed its marketing strategy to focus on media advertising rather than coupons. 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 first quarter 2015 as compared to the first quarter 2014 were:

| | Three Months Ended February 28, | | | |
|---|---|---|---|---|
| | 2015 | | 2014 | |
| Category | Net Sales | %TTL | Net Sales | %TTL |
| Skin Care | $3,099,246 | 44.6 % | $2,572,259 | 42.4 % |
| Oral Care | 2,557,695 | 36.8 % | 2,301,942 | 37.9 % |
| Nail Care | 1,047,579 | 15.1 % | 747,883 | 12.3 % |
| Miscellaneous | 132,305 | 1.9 % | 107,948 | 1.8 % |
| Analgesic | 117,810 | 1.6 % | 48,731 | 0.8 % |
| Hair | $105 | — % | $11,410 | 0.2 % |
| Fragrance | (1,883) | — % | 275,605 | 4.5 % |
| Total Continued Operations | $6,952,857 | 100.0 % | $6,065,778 | 100.0 % |

Net sales were affected by the following factors:

- Net sales of skin care products increased $526,987 for the three months ended February 28, 2015, as compared to the same period in 2014. The write off of 2012 cooperative advertising accounted for $215,417 of this increase. The balance of the net sales increase was due to higher gross sales, lower returns and lower 2015 sales incentives. Included in skin care is Sudden Change, which the Company advertised as part of its media program for fiscal 2015.
- Net sales of oral care products increased $255,753 for the three months ended February 28, 2015 as compared to the same period in fiscal 2014. The write off of 2012 cooperative advertising accounted for $138,758 of this increase. The balance of the net sales increase was due to slightly higher gross sales, lower returns and lower 2015 sales incentives. The Company advertised the Plus White whitening kit as part of its media program for fiscal 2015.
- Net sales of nail care products increased $299,696 for the three months ended February 28, 2015 as compared to the same period in fiscal 2014. The write off of 2012 cooperative advertising accounts for $24,419 of this increase. The net sales increased due to lower returns and lower 2015 sales incentives.

Gross profit margins increased to 66.7% for the three months ended February 28, 2015 from 50.5% for the same period in fiscal 2014. The gross margin was lower in the first quarter of fiscal 2014 due to close out sales of discontinued products and write offs of obsolete inventory. In addition, as part of the Company's restructuring program, manufacturing overhead was eliminated that reduced the cost of goods sold for fiscal 2015 and which is expected to reduce further in fiscal 2016.

Selling, general and administrative expenses for the three months ended February 28, 2015 were $3,089,758 as compared to $3,499,034 for the three months ended February 28, 2014, a decrease of $409,276. The following factors contributed to the decrease:

- Shipping costs decreased $270,516 in the first quarter of fiscal 2015 as compared to the same period in fiscal 2014. The decrease was mainly due to the outsourcing of logistics to OHL where the Company was able to obtain significantly lower shipping rates.

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- Personnel costs decreased $826,751 in the first quarter of fiscal 2015 as compared to the same period in fiscal 2014 due to the reduction in work force implemented as a result of the outsourcing plan.
- Consulting and related costs decreased $336,990 in the first quarter of fiscal 2015 as compared to the second quarter of fiscal 2014. The decrease was due to the termination of consulting contracts in fiscal 2014.
- The decreases in selling, general and administrative expenses were offset by fees and expenses from the Emerson Group of $532,893.
- Legal and accounting increased $41,962.
- The balance of the increase or decrease in expenses comprised a number of smaller expense categories.

Advertising, cooperative and promotions expenses for the three months ended February 28, 2015 were $948,957 as compared to $810,454 for the three months ended February 28, 2014. The increased expense of $138,503 was mainly comprised of increased media spending and commercial costs primarily for the Sudden Change and Plus White brands. The increased expense is part of the Company's marketing strategy to have a television advertising campaign focusing on its key brands.

Research and development costs decreased to $40,524 in the first quarter of fiscal 2015 as compared to $126,696 for the same period in fiscal 2014. The decrease was due to the outsourcing of part of the Company's product development efforts.

The income before provision for income taxes was $98,596 for the quarter ended February 28, 2015 from continuing operations, and the provision for income tax from continuing operations was $40,988.

The Company, as previously disclosed, discontinued the Gel Perfect nail color brand in the second quarter of fiscal 2014 and sold the Mega-T dietary supplement brand in the third quarter of fiscal 2014. Accordingly, the Company has recorded the results of the operations of both brands as discontinued operations in the consolidated statements of operations. The components of discontinued operations for the three months ended February 28, 2015 and 2014 were:

| | Three Months Ended February 28, 2014 |
|---|---|
| Revenues: | |
| Sales of health and beauty-aid products-net | $1,447,552 |
| Total revenues | 1,447,552 |
| Costs and Expenses: | |
| Cost of sales | 1,304,525 |
| Selling, general and administrative expenses | 219,820 |
| Advertising, cooperative and promotions | 228,446 |
| Total expenses | 1,752,791 |
| Loss before provision for income taxes | (305,239) |
| Benefit from income taxes | (112,330) |
| Loss from Discontinued Operations | $(192,909) |

The provision for income tax had an effective rate for the first quarter of fiscal 2015 of 41.6% as compared to a tax benefit at an effective rate 36.8% of the net loss before tax for the same period in fiscal 2014.

Comprehensive income, including continuing and discontinued operations, was $57,608 for the quarter ended February 28, 2015 as compared to comprehensive losses of $1,329,474 for the quarter ended February 28, 2014. The comprehensive income for the quarter ended February 28, 2015 reflects the Company’s net income of $57,608 from continuing operations. There were no further adjustments, as the Company did not have any investments during the first quarter of fiscal 2015.

Financial Position as of February 28, 2015

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As of February 28, 2015, the Company had working capital of $(31,297) as compared to $900,826 as of the year ended November 30, 2014. The decrease in working capital was due to an increase in prepaid expenses and reclassification of the line of credit and term loan from long term to current liability. The ratio of total current assets to current liabilities is 1.0 to 1.0 as of February 28, 2015, which is unchanged from November 30, 2014. The Company's cash position at February 28, 2015 was $266,717, versus $241,621 as of November 30, 2014. As of February 28, 2015, there were no dividends declared but not paid.

Accounts receivable as of February 28, 2015 and November 30, 2014 were $3,217,136 and $2,248,301, respectively. The increase in accounts receivable was due to higher gross receivables and a decrease in reserves for returns . The gross receivables were higher due to an increase in gross sales. 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 $32,095 and $25,124 for February 28, 2015 and November 30, 2014, 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 five preceding months and a specific reserve based on customer circumstances and product lines. This allowance decreased to $2,513,029 as of February 28, 2015 from $2,967,668 as of November 30, 2014. Of this amount, allowances and reserves of $887,719 as of February 28, 2015, which are anticipated to be deducted from future invoices, are included in accrued liabilities. Included in the reserve for returns and allowances as of February 28, 2015 is a specific reserve of $1,104,060 for the Gel Perfect brand, which we expect to have settled by the end of Fiscal 2015.

Gross receivables were further reduced by $489,772 as of February 28, 2015, 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 $1,959,089, 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 $4,679,572 and $5,181,490, as of February 28, 2015 and November 30, 2014, respectively. The reserve for inventory obsolescence is based on a detailed analysis of inventory movement. The inventory obsolescence reserve decreased to $735,500 as of February 28, 2015 from $992,296 as of November 30, 2014. This decrease was primarily due to the disposal of obsolete inventory during the first quarter of fiscal 2015. Changes to the inventory obsolescence reserves are recorded as an increase or decrease to the cost of sales.

Prepaid expenses and sundry receivables increased to $1,092,359 as of February 28, 2015 from $631,204 as of November 30, 2014. The increase was primarily due to prepayments to our turn key vendor.

Prepaid and refundable income taxes decreased to $173,236 as of February 28, 2015, from $453,598 as of November 30, 2014 due to the receipt of income tax refunds.

The amount of deferred income tax reflected as a current asset decreased to $2,842,519 as of February 28, 2015 from $2,883,285 as of November 30, 2014. The $40,766 decrease was primarily due to the Company's net operating income during the first quarter of fiscal 2015. The amount of deferred income tax recorded as a non-current asset was $6,989,999 as of February 28, 2015. Deferred taxes that the Company estimates will be realized in periods beyond the next twelve months are recorded as a non-current asset.

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 $5,050 of additional property and equipment during the first quarter of fiscal 2015.

Current liabilities are $12,302,836 and $10,738,673, as of February 28, 2015 and November 30, 2014 respectively. Current liabilities at February 28, 2015 consisted of accounts payable, accrued liabilities, line of credit, term loan and short-term capital lease obligations. As of February 28, 2015, there was $2,448,861 of open cooperative advertising commitments, of which $437,249 is from 2014, $925,191 is from 2014, and $1,086,421 is from 2013. Of the total

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amount of $2,448,861, $489,772 is reflected as a reduction of gross accounts receivables, and $1,959,089 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 is a portion of its capitalized leases, which is for certain office and warehouse equipment. The Company has borrowed $2,100,000 from its line of credit as of February 28, 2015 and owed $854,360 on its term loan as of the same date. Please see note 15, Certain Relationships and Related Transactions for further information. The capitalized lease obligation liability decreased to $20,078 as of February 28, 2015 as compared to $22,152 as of November 30, 2014.

Stockholders' equity increased to $9,658,304 as of February 28, 2015 from $9,565,954 as of November 30, 2014. The increase was due to decreases in retained earnings as a result of the net income in the first quarter of fiscal 2015. The Company issued stock options to management employees during the first quarter of fiscal 2015. The Company has previously issued options in fiscal 2014. The fair value of the stock option grants were estimated on the date of the grant using a Black-Scholes valuation model As a result, $34,741 was recorded as a deferred compensation expense in the first quarter of fiscal 2015 and additional paid-in capital was increased by the same amount. See note 11, Stock Based Compensation for further information.

The Company's cash flow had $1,467,921 that was used by operating activities during the first three months of fiscal 2015, as compared to $1,208,626 that was used in operating activities during the same period in fiscal 2014. The increase in operating cash flow use for the three months of fiscal 2015 as compared to the same period in fiscal 2014 was mainly due to the increase in accounts receivable and pre-paid expenses, as well as the decrease in accounts payable and accrued liabilities offset in part by decreases in inventory and pre-paid income taxes. In addition, the Company had significant non-cash expenditures reported on the cash flow for the first quarter of fiscal 2015 as a result of the amortization of deferred financing fees from the financing in September 2014. Net cash used by investing activities was $5,050 for the first three months of fiscal 2015 for the acquisition of equipment, as compared to $3,509 for equipment purchases in the 2014 comparable period. The Company had proceeds from the sale of investments of $746,071 reported as part of investing activity for the first quarter of fiscal 2014. The Company did not have any investments during the first quarter of fiscal 2015. Net cash provided by financing activities during the first three months of fiscal 2015 was $1,498,067 as compared to $1,830 cash used in financing activities for the same period in fiscal 2014. The increase was due to borrowing $1,500,000 from the Company's line of credit during the first quarter of fiscal 2015.

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;
- Loss from continuing operations;
- Large product returns from customers which are deducted from cash remittances;
- Dividend payments;
- Capital expenditures.

Our primary capital needs are seasonal working capital requirements. As of February 28, 2015, the Company had cash of $266,717. The Company's long term liabilities as of February 28, 2015, consist of long-term capitalized lease obligations of $20,078. The Company had borrowings against its line of credit of $2,100,000 and a term loan of $854,360 as of February 28, 2015. The Company previously announced that 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. The Company believes that the financing agreement entered into on September 5, 2014 together with its restructuring plan will provide sufficient cash resources over the next twelve months to support its operations, vendor payments,

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media and marketing programs. Cash used in operations was driven by the increase in accounts receivable as well as the payment of accrued liabilities from fiscal 2014. The Company recorded a reserve for mark down allowances and returns for the discontinued Gel Perfect brand during fiscal 2014, which has a balance of $1,104,060 as of February 28, 2015. The reserves are the amounts that the Company estimates will be deducted from future accounts receivable cash remittances from its retail customers. The Company is continuing its work to complete its outsourcing of operations which is expected to result in additional cash flow savings to be realized over future quarters.

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 7.0% 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 - Special Reserve for Gel Perfect - The special reserve for the Gel Perfect brand was calculated based on an estimate of the inventory held by the Company's retail customers that could be returned to the Company. In addition, the Company considered the mark down contracts that had been previously issued and the potential success of the mark down programs. To the extent that mark down programs are successful, the Company's liability for returns is reduced.

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

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

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in the deferred tax assets. A substantial portion of the deferred tax asset is due to the loss incurred in fiscal 2013 and fiscal 2014, 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 which is contingent on the successful realization of anticipated cost savings associated with the outsourcing of many functions to The Emerson Group, the substantial reduction in personnel and a reduction in other expenses. 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, 2015 for the year ended November 30, 2014. The portion that management expects to utilize in fiscal 2015 is recorded as a short term asset, and the portion that management expects to utilize in fiscal years subsequent to fiscal 2014 is recorded as a long term asset.

6 - 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.

## 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 February 28, 2015 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 February 28, 2015 that have materially affected, or are reasonably likely to materially affect, the Company's internal control overall financial reporting.

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Item 1A. Risk Factors

The risk factor set forth below supplements the risk factors disclosed in Part I. Item 1A. “Risk Factors” in the Company’s Annual Report on Form 10-K for the year ended November 30, 2014 ("2013 Form 10-K"). In addition to this risk factor and other information set forth in this report, you should carefully consider the various risks and uncertainties contained in Part I, "Item 1A. Risk Factors" in the 2013 Form 10-K. Aside from the below risk factor, the Company has not identified any material change to the risk factors described in the 2014 Form 10-K.
We believe the risk factors in our 2014 Form 10-K, as supplemented by this report, are the most relevant to our business and could cause our results to differ materially from the forward-looking statements made by us. However, those are not the only risks that we face. Additional risks that we do not consider material, or of which we are not currently aware, may also have an adverse impact on the Company. Our business, financial condition, and results of operations could be seriously harmed if any of these risks or uncertainties actually occurs or materializes.

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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CCA INDUSTRIES, INC. AND SUBSIDIARIES

| Exhibit No. | Description |
|---|---|
| 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 |

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: April 15, 2015

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