

Perfumania Holdings, Inc.
Form 10-Q
September 12, 2011
Table of Contents

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

FORM 10-Q

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

For the Quarterly Period Ended July 30, 2011
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: 0-19714

PERFUMANIA HOLDINGS, INC.
(Exact name of Registrant as specified in its charter)

Florida 65-0977964
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)
35 Sawgrass Drive, Suite 2 11713
Bellport, NY (Zip Code)
(Address of principal executive offices)
Registrant's telephone number, including area code: (631) 866-4100

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 R 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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes R 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 R

Edgar Filing: Perfumania Holdings, Inc. - Form 10-Q

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

The number of shares outstanding of the registrant's common stock, as of the latest practicable date: At September 9, 2011 there were 8,967,751 outstanding shares of its common stock, \$0.01 par value.

Table of Contents

TABLE OF CONTENTS

PERFUMANIA HOLDINGS, INC. AND SUBSIDIARIES

PART I

FINANCIAL INFORMATION

ITEM 1	<u>FINANCIAL STATEMENTS</u>	<u>3</u>
	<u>Condensed Consolidated Balance Sheets as of July 30, 2011 (unaudited) and January 29, 2011</u>	<u>3</u>
	<u>Condensed Consolidated Statements of Operations for the thirteen weeks and twenty-six weeks ended July 30, 2011 and July 31, 2010 (unaudited)</u>	<u>4</u>
	<u>Condensed Consolidated Statements of Cash Flows for the twenty-six weeks ended July 30, 2011 and July 31, 2010 (unaudited)</u>	<u>5</u>
	<u>Notes to Condensed Consolidated Financial Statements (unaudited)</u>	<u>6</u>
ITEM 2	<u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	<u>14</u>
ITEM 3	<u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	<u>19</u>
ITEM 4	<u>CONTROLS AND PROCEDURES</u>	<u>19</u>
	PART II	
	OTHER INFORMATION	
ITEM 1	<u>LEGAL PROCEEDINGS</u>	<u>19</u>
ITEM 1A	<u>RISK FACTORS</u>	<u>19</u>
ITEM 2	<u>UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u>	<u>19</u>
ITEM 3	<u>DEFAULTS UPON SENIOR SECURITIES</u>	<u>20</u>
ITEM 4	<u>REMOVED AND RESERVED</u>	<u>20</u>
ITEM 5	<u>OTHER INFORMATION</u>	<u>20</u>
ITEM 6	<u>EXHIBITS</u>	<u>21</u>
	<u>SIGNATURES</u>	<u>22</u>

Table of Contents

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

PERFUMANIA HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except share amounts)

	July 30, 2011 (unaudited)	January 29, 2011 (Note 1)
ASSETS:		
Current assets:		
Cash	\$1,449	\$1,236
Accounts receivable, net of allowances of \$706 and \$525, as of July 30, 2011 and January 29, 2011, respectively	19,784	20,305
Inventories	224,341	224,645
Prepaid expenses and other current assets	9,251	9,769
Total current assets	254,825	255,955
Property and equipment, net	25,713	28,050
Other assets, net	15,563	16,467
Total assets	\$296,101	\$300,472
LIABILITIES AND SHAREHOLDERS' EQUITY:		
Current liabilities:		
Accounts payable	\$37,949	\$25,789
Accounts payable-affiliates	10,645	14,787
Accrued expenses and other liabilities	16,305	16,734
Current portion of notes payable-affiliate	53	373
Current portion of obligations under capital leases and other long-term debt	779	1,232
Total current liabilities	65,731	58,915
Revolving credit facility	47,054	57,879
Notes payable-affiliates	95,366	95,366
Long-term portion of obligations under capital leases	1,600	1,773
Other long-term liabilities	29,058	26,031
Total liabilities	238,809	239,964
Commitments and contingencies		
Shareholders' equity:		
Preferred stock, \$0.10 par value, 1,000,000 shares authorized, as of July 30, 2011 and January 29, 2011, none issued	—	—
Common Stock, \$0.01 par value, 20,000,000 shares authorized; 9,866,000 shares and 9,865,000 shares issued as of July 30, 2011 and January 29, 2011, respectively	99	99
Additional paid-in capital	125,204	125,186
Accumulated deficit	(59,434	) (56,200)
Treasury stock, at cost, 898,249 shares as of July 30, 2011 and January 29, 2011	(8,577	) (8,577)
Total shareholders' equity	57,292	60,508
Total liabilities and shareholders' equity	\$296,101	\$300,472
See accompanying notes to condensed consolidated financial statements.		

Table of ContentsPERFUMANIA HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(in thousands, except share and per share amounts)

	Thirteen Weeks Ended July 30, 2011	Thirteen Weeks Ended July 31, 2010	Twenty-six Weeks Ended July 30, 2011	Twenty-six Weeks Ended July 31, 2010
Net sales	\$103,595	\$98,094	\$209,376	\$200,903
Cost of goods sold	61,039	61,734	126,698	126,959
Gross profit	42,556	36,360	82,678	73,944
Operating expenses:				
Selling, general and administrative expenses	38,289	38,484	78,120	77,835
Depreciation and amortization	1,879	2,160	3,755	4,352
Total operating expenses	40,168	40,644	81,875	82,187
Income (loss) from operations	2,388	(4,284)	) 803	(8,243)
Interest expense	(1,867)	) (3,198)	) (4,037)	) (6,630)
Income (loss) before income tax expense	521	(7,482)	) (3,234)	) (14,873)
Income tax expense	—	—	—	—
Net income (loss)	\$521	\$(7,482)	) \$(3,234)	) \$(14,873)
Net income (loss) per common share:				
Basic and diluted	\$0.06	\$(0.83)	) \$(0.36)	) \$(1.66)
Weighted average number of common shares outstanding:				
Basic	8,966,773	8,966,527	8,966,762	8,966,472
Diluted	9,740,983	8,966,527	8,966,762	8,966,472

See accompanying notes to condensed consolidated financial statements.

Table of ContentsPERFUMANIA HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS(Unaudited)
(in thousands)

	Twenty-six Weeks Ended July 30, 2011	Twenty-six Weeks Ended July 31, 2010
Cash flows from operating activities:		
Net loss	\$(3,234	) \$(14,873
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Amortization of deferred financing costs	449	1,051
Depreciation and amortization	3,755	4,352
Provision for losses on accounts receivable	152	90
Share-based compensation	14	14
Change in operating assets and liabilities:		
Accounts receivable	369	5,221
Inventories	304	(16,550
Prepaid expenses and other assets	719	2,226
Accounts payable-non affiliates	12,160	3,199
Accounts payable-affiliates	(4,142	) (15,657
Accrued expenses and other liabilities, and other long-term liabilities	2,598	4,676
Net cash provided by (used in) operating activities	13,144	(26,251
Cash flows from investing activities:		
Additions to property and equipment	(1,164	) (1,277
Net cash used in investing activities	(1,164	) (1,277
Cash flows from financing activities:		
(Repayments of) net borrowings under bank line of credit	(10,825	) 28,059
Payments on affiliated notes payable	(320	) (320
Principal payments under capital lease obligations	(626	) (513
Payments of long-term debt and other	—	(20
Proceeds from exercise of stock options	4	2
Net cash (used in) provided by financing activities	(11,767	) 27,208
Increase (decrease) in cash	213	(320
Cash at beginning of period	1,236	1,951
Cash at end of period	\$1,449	\$1,631
Supplemental Information:		
Cash paid during the period for:		
Interest	\$1,031	\$1,821
Income taxes	\$488	\$97
See accompanying notes to condensed consolidated financial statements.		

Table of Contents

PERFUMANIA HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1 - BASIS OF PRESENTATION AND OPERATIONS

The condensed consolidated balance sheet of Perfumania Holdings, Inc. and subsidiaries (the “Company”) as of January 29, 2011, which has been derived from our audited financial statements as of and for the year ended January 29, 2011, and the accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission (the “SEC”). Certain information and note disclosures normally included in annual financial statements, prepared in accordance with accounting principles generally accepted in the United States of America (“US GAAP”), have been condensed or omitted pursuant to those rules and regulations. The financial information presented herein, which is not necessarily indicative of results to be expected for the full current fiscal year, reflects all adjustments which, in the opinion of management, are necessary for a fair presentation of the interim unaudited condensed consolidated financial statements. Such adjustments are of a normal, recurring nature. These condensed consolidated financial statements should be read in conjunction with the financial statements and the notes thereto included in our Annual Report on Form 10-K for the fiscal year ended January 29, 2011.

Due to the seasonality of the Company’s business, with the most significant activity occurring from September through December each year, the results of operations for the thirteen and twenty-six weeks ended July 30, 2011 are not necessarily indicative of results to be expected for the full fiscal year.

The Company is an independent, national, vertically integrated wholesale distributor and specialty retailer of perfumes and fragrances that does business through five primary operating subsidiaries; Perfumania, Inc. (“Perfumania”), Quality King Fragrance, Inc. (“QFG”), Scents of Worth, Inc. (“SOW”), Perfumania.com, Inc. (“Perfumania.com”) and Five Star Fragrance Company, Inc. (“Five Star”). We operate in two industry segments, wholesale distribution and specialty retail sales of designer fragrances and related products.

Our wholesale business, which is conducted through QFG, distributes designer fragrances to mass market retailers, drug and other chain stores, retail wholesale clubs, traditional wholesalers, and other distributors throughout the United States. For reporting purposes, the wholesale business also includes the Company’s manufacturing division, operated by Five Star, which owns and licenses designer and other fragrance brands that are sold principally through the Company’s wholesale business, SOW’s consignment business and Perfumania’s retail stores, paying royalties to the licensors based on a percentage of sales. All manufacturing operations are outsourced to third-party manufacturers. Five Star’s sales and results of operations are not significant to the Company’s results on a consolidated basis.

Our retail business is conducted through three subsidiaries:

- Perfumania, a specialty retailer of fragrances and related products,
- SOW, which sells fragrances in retail stores on a consignment basis, and
- Perfumania.com, an Internet retailer of fragrances and other specialty items.

As of July 30, 2011, Perfumania operated a chain of 343 retail stores specializing in the sale of fragrances and related products at discounted prices up to 75% below the manufacturers’ suggested retail prices. Perfumania.com offers a selection of our more popular products for sale over the Internet and serves as an alternative shopping experience to the Perfumania retail stores. SOW operates the largest national designer fragrance consignment program, with contractual relationships to sell products on a consignment basis in approximately 2,400 stores, including more than 1,300 Kmart locations nationwide. Its other retail customers include Burlington Coat Factory, SYMS, Loehmann’s, Daffy’s, Steinmart and K & G.

Table of Contents

OTHER MATTERS - LIQUIDITY ENHANCEMENT

In January 2011, the Company entered into a new \$225 million Senior Credit Facility (the “Senior Credit Facility”) (see Note 5). The Company currently anticipates that cash flows from operations and the projected borrowing availability under the Senior Credit Facility will be sufficient to fund its liquidity requirements for at least the next twelve months. Nevertheless, there can be no certainty that availability under the Senior Credit Facility will be sufficient to fund the Company’s liquidity needs. The sufficiency and availability of the Company’s projected sources of liquidity may be adversely affected by a variety of factors, including, without limitation, the level of the Company’s operating cash flows, which will be impacted by retailer and consumer acceptance of the Company’s products, general economic conditions and the level of consumer spending and the Company’s ability to comply with financial and other covenants included in the Senior Credit Facility.

The Company has incurred substantial indebtedness to fund its business. If the Company does not have a sufficient borrowing base at any given time, borrowing availability under the Senior Credit Facility may not be sufficient to support liquidity needs. Insufficient borrowing availability under the Senior Credit Facility would have a material adverse effect on the Company’s financial condition and results of operations. If the Company were unable to comply with the requirements in the Senior Credit Facility, it would be unable to borrow under such agreement and any amounts outstanding would become immediately due and payable, which would have a material adverse effect on the Company’s financial condition, results of operations and liquidity. If we need to raise additional funds to support our operations, we may not be able to do so on favorable terms, or at all. Without such funding, we may need to modify or abandon our growth strategy or eliminate product offerings, either of which could negatively impact our financial position.

NOTE 2 - RECENT ACCOUNTING PRONOUNCEMENTS

There are no recently issued accounting standards that are expected to have a material effect on our financial condition, results of operations or cash flows.

NOTE 3 - INTANGIBLES

The following table provides information related to intangible assets (in thousands), which are included in other assets, net on the accompanying condensed consolidated balance sheets as of July 30, 2011 and January 29, 2011:

	Useful Life (years)	July 30, 2011			January 29, 2011		
		Original Cost	Accumulated Amortization	Net Book Value	Original Cost	Accumulated Amortization	Net Book Value
Tradenames	7-20	\$9,408	\$6,191	\$3,217	\$9,408	\$6,000	\$3,408
Favorable leases	7	886	295	591	886	232	654
Tradename (non-amortizing)	N/A	8,500	—	8,500	8,500	—	8,500
		\$18,794	\$6,486	\$12,308	\$18,794	\$6,232	\$12,562

There was no recorded goodwill as of July 30, 2011 and January 29, 2011.

In accordance with accounting standards, intangible assets with indefinite lives are not amortized, but rather tested for impairment at least annually by comparing the estimated fair values to their carrying values.

Trademarks, including tradenames and owned licenses having finite lives, are amortized over their respective lives to their estimated residual values and are also reviewed for impairment in accordance with accounting standards when changes in circumstances indicate the assets’ value may be impaired. Impairment testing is based on a review of forecasted operating cash flows and the profitability of the related brand. There were no triggering events during the thirteen weeks or twenty-six weeks ended July 30, 2011 that would indicate potential impairment and the requirement to review the carrying value of intangible assets.

Amortization expense associated with intangible assets subject to amortization is included in depreciation and amortization on the accompanying condensed consolidated statements of operations. Amortization expense for intangible assets subject to amortization was \$0.1 million and \$0.2 million for the thirteen weeks ended July 30, 2011 and July 31, 2010,

7

Table of Contents

respectively and \$0.3 million for both twenty-six week periods ended July 30, 2011 and July 31, 2010. As of July 30, 2011, the weighted average amortization periods for the remaining tradenames with finite lives and for favorable lease agreements are 16.9 years and 7.0 years, respectively. As of July 30, 2011, future amortization expense associated with intangible assets subject to amortization is as follows (in thousands):

Fiscal Year	Amortization Expense
Remainder of 2011	\$254
2012	500
2013	476
2014	476
2015	476
2016	371
Thereafter	1,255
	\$3,808

NOTE 4 - ACCOUNTING FOR SHARE-BASED PAYMENTS

The 2010 Equity Incentive Plan (the "2010 Plan") provides for equity-based awards to the Company's employees, directors and consultants. Under the 2010 Plan, the Company initially reserved 1,000,000 shares of common stock for issuance. This number automatically increases on the first trading day of each fiscal year beginning with fiscal 2011, by an amount equal to 1 1/2% of the shares of common stock outstanding as of the last trading day of the immediately preceding fiscal year; accordingly, 1,134,500 shares of common stock were reserved for issuance as of July 30, 2011. The Company previously had two stock option plans which expired on October 31, 2010. No further awards will be granted under these plans, although all options previously granted and outstanding will remain outstanding until they are either exercised or forfeited. As of July 30, 2011, 15,000 stock options have been granted to the Independent Board Members pursuant to the 2010 Plan.

The following is a summary of the stock option activity during the twenty-six weeks ended July 30, 2011:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
Outstanding as of January 29, 2011	205,626	\$9.84	6.1	\$244
Granted	—	—		
Exercised	(1,000	) 4.79		9
Forfeited	(622	) 3.52		2
Outstanding as of July 30, 2011	204,004	\$9.88	5.6	\$732
Vested as of July 30, 2011	192,671	\$10.18	5.5	\$635
Exercisable as of July 30, 2011	182,161	\$9.66	5.5	\$669

Share-based compensation expense, which is included in selling, general and administrative expenses on the accompanying condensed consolidated statements of operations, was not material in all periods presented.

Table of Contents

NOTE 5 - REVOLVING CREDIT FACILITY, NOTES PAYABLE TO AFFILIATES AND SUBORDINATED CONVERTIBLE NOTE PAYABLE TO AFFILIATE

The Company's revolving credit facility, notes payable to affiliates and subordinated convertible note payable to affiliate consist of the following:

	July 30, 2011 (in thousands)	January 29, 2011
Revolving credit facility interest payable monthly, secured by a pledge of substantially all of the Company's assets	\$47,054	\$57,879
Subordinated convertible note payable-affiliate	5,000	5,000
Subordinated non-convertible notes payable-affiliates	90,419	90,739
	142,473	153,618
Less current portion	(53	) (373
Total long-term debt	\$ 142,420	\$ 153,245

The Company has a \$225 million revolving Senior Credit Facility with a syndicate of banks that is used for the Company's general corporate purposes and those of its subsidiaries, including working capital. This facility does not require amortization of principal and is scheduled to expire in January 2015, when all amounts will be due and payable in full. Under this facility, revolving loans may be drawn, repaid and reborrowed up to the amount available under a borrowing base calculated with reference to specified percentages of the Company's credit card and trade receivables and inventory, which may be reduced by the lender in its reasonable discretion. The Company must maintain availability under the facility of at least \$10 million. As of July 30, 2011, the Company had \$68.4 million of availability.

Interest under the Senior Credit Facility is at variable rates plus specified margins that are determined based upon the Company's excess availability from time to time. The Company is also required to pay monthly commitment fees based on the unused amount of the Senior Credit Facility and a monthly fee with respect to outstanding letters of credit.

All obligations of the Company related to the Senior Credit Facility are secured by first priority perfected security interests in all personal and real property owned by the Company, including without limitation 100% (or, in the case of excluded foreign subsidiaries, 66%) of the outstanding equity interests in the subsidiaries. The Company is subject to customary limitations on its ability to, among other things, pay dividends and make distributions, make investments and enter into joint ventures, and dispose of assets. The Company was in compliance with all financial and operating covenants as of July 30, 2011.

In addition, the Company has outstanding unsecured debt obligations as follows:

- (i) a promissory note in the principal amount of \$35 million, held by Quality King (the "QKD Note"), which provides for payment of principal in quarterly installments between April 30, 2015 and July 31, 2018 and payment of interest in quarterly installments commencing on January 31, 2011 at the then current senior debt rate, as defined in the Senior Credit Facility, plus 1% per annum;
- (ii) promissory notes in the aggregate principal amount of approximately \$55.4 million, held by six estate trusts established by Glenn, Stephen and Arlene Nussdorf (the "Nussdorf Trust Notes"), which provide for payment of the principal in full on April 30, 2015 and payments of interest in quarterly installments commencing on January 31, 2011 at the then current senior debt rate plus 2% per annum; and
- (iii) a convertible note in the principal amount of \$5 million held by Glenn and Stephen Nussdorf (the "Convertible Note"), which allows the holders to convert any or all of the principal and accrued interest into shares of the Company's common stock at \$7.00 per share. This note provides for payment in January 2009 and is currently in default because of the restrictions on payment described below, resulting in an increase of 2% in the nominal interest rate, which is the

prime rate plus 1%.

9

Table of Contents

These notes are subordinated to the Senior Credit Facility. No principal may be paid on any of them until three months after the Senior Credit Facility terminates and is paid in full, and payment of interest is subject to satisfaction of certain conditions, including the Company's maintaining excess availability under the Senior Credit Facility of \$17.5 million (or 17.5% of commitment) and a fixed charge coverage ratio, as defined in the credit agreement, of 1.1:1.0. Interest expense on these notes was approximately \$1.2 million and \$1.5 million for the thirteen weeks ended July 30, 2011 and July 31, 2010, respectively, and \$2.6 million and \$3.3 million for the twenty-six weeks ended July 30, 2011 and July 31, 2010, respectively, and is included in interest expense on the accompanying condensed consolidated statements of operations. No payments of principal or interest have been made on the QKD Note and the Nussdorf Trust Notes. On the Convertible Note, no payments of principal have been made and no interest payments have been made since October 2008. Accrued interest payable due at July 30, 2011 and January 29, 2011, respectively on the Nussdorf Trust Notes, the Quality King Note and the Convertible Note was approximately \$19.1 million and \$16.5 million and is included in other long-term liabilities on the accompanying condensed consolidated balance sheets as of July 30, 2011 and January 29, 2011, respectively.

NOTE 6 - ACCOUNTING FOR INCOME TAXES

The Company conducts business throughout the United States and Puerto Rico and as a result, files income tax returns in the U.S. federal jurisdiction and various state jurisdictions and Puerto Rico. In the normal course of business the Company is subject to examinations in these jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal, state, local or Puerto Rico income tax examinations for fiscal years prior to 2007. State and foreign income tax returns are generally subject to examination for a period of three to five years after filing of the respective return. The state impact of any federal changes remains subject to examination by various states for a period of up to one year after formal notification to the states. The Company is not currently under examination in any state or foreign jurisdictions.

The Company continues to provide a full valuation allowance against all deferred tax assets due to the uncertainty as to when business conditions will improve sufficiently to enable it to utilize its deferred tax assets. As a result, the Company did not record a federal or state tax provision (benefit) on its operating income (loss) for the thirteen or twenty-six weeks ended July 30, 2011.

During the thirteen and twenty-six weeks ended July 30, 2011, there were no changes to the liability for income tax associated with uncertain tax positions. The Company accrues interest related to unrecognized tax benefits as well as any related penalties in operating expenses in its condensed consolidated statements of operations, which is consistent with the recognition of these items in prior reporting periods. The accrual for interest and penalties related to uncertain tax positions as of July 30, 2011 and January 29, 2011 was not significant.

The Company does not anticipate any material adjustments relating to unrecognized tax benefits within the next twelve months; however the ultimate outcome of tax matters is uncertain and unforeseen results can occur.

NOTE 7 - BASIC AND DILUTED NET INCOME (LOSS) PER COMMON SHARE

Basic net income (loss) per common share has been computed by dividing net income (loss) by the weighted average number of common shares outstanding during the period.

Diluted net income (loss) per common share includes, in periods in which they are dilutive, the effect of those common stock equivalents where the average market price of the common stock exceeds the exercise prices for the respective periods. For the thirteen weeks ended July 31, 2010, the twenty-six weeks ended July 30, 2011 and the twenty-six weeks ended July 31, 2010, all common stock equivalents, which include outstanding stock options, the subordinated convertible note payable to affiliate and warrants outstanding were excluded from the diluted net loss per share calculation because the results would be antidilutive. For the thirteen weeks ended July 30, 2011, warrants outstanding were excluded from the diluted net income per share calculation because the result would be antidilutive. A reconciliation of the numerator and denominator of basic and diluted net income (loss) per share is as follows (in thousands except per share amounts):

Table of Contents

	Thirteen Weeks Ended July 30, 2011	Thirteen Weeks Ended July 31, 2010	Twenty-six Weeks Ended July 30, 2011	Twenty-six Weeks Ended July 31, 2010
Numerator:				
Net income (loss) - basic	\$521	\$(7,482	) \$(3,234	) \$(14,873
Add interest expense on convertible note	79	—	—	—
Net income (loss) - diluted	\$600	\$(7,482	) \$(3,234	) \$(14,873
Denominator:				
Weighted average number of common shares - basic	8,967	8,967	8,967	8,966
Incremental shares from assumed exercise of equity based awards	60	—	—	—
Assumed conversion of convertible note	714	—	—	—
Weighted average number of common shares - diluted	9,741	8,967	8,967	8,966
Basic income (loss) per common share	\$0.06	\$(0.83	) \$(0.36	) \$(1.66
Diluted income (loss) per common share	\$0.06	\$(0.83	) \$(0.36	) \$(1.66

During the thirteen weeks ended July 30, 2011 and July 31, 2010, there were 1,510,500 and 2,405,578, respectively, potential shares of common stock which were excluded from the diluted loss per share calculation because the effect of including these potential shares was antidilutive. During the twenty-six weeks ended July 31, 2011 and July 30, 2010, there were 2,418,290 and 2,405,578, respectively, potential shares of common stock which were excluded from the diluted loss per share calculation because the effect of including those potential shares was antidilutive.

NOTE 8 - FAIR VALUE MEASUREMENTS

The Company applies authoritative accounting guidance regarding fair value and disclosures as it applies to financial and non-financial assets and liabilities. The guidance defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market in an orderly transaction between market participants on the measurement date. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability on the measurement date. The three levels are defined as follows:

Level 1: Observable inputs such as quoted prices in active markets (the fair value hierarchy gives the highest priority to

Level 1 inputs);

Level 2: Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and

Level 3: Unobservable inputs in which there is little or no market data and require the reporting entity to develop its own

own assumptions

As of July 30, 2011, the Company had no material financial assets or liabilities measured on a recurring basis that required adjustments or write-downs and the carrying values of current assets and liabilities approximate their fair value. The Company measures certain assets at fair value on a non-recurring basis, specifically long-lived assets evaluated for impairment. No such impairments were recorded during the thirteen and twenty-six weeks ended July 30, 2011. There were no non-financial liabilities outstanding as of July 30, 2011 and January 29, 2011.

NOTE 9 - CONTINGENCIES

The Company is involved in various legal proceedings in the ordinary course of business. Management cannot presently predict the outcome of these matters, although management believes, based in part on the advice of counsel, that the ultimate resolution of these matters will not have a materially adverse effect on the Company's consolidated financial position, results of operations or cash flows.

Table of Contents

NOTE 10 - RELATED-PARTY TRANSACTIONS

Glenn and Stephen Nussdorf and their sister, Arlene Nussdorf, owned an aggregate 6,649,476 shares or approximately 74% of the total number of shares of the Company's common stock as of July 30, 2011, excluding shares issuable upon conversion of certain Warrants or the Convertible Note discussed in Note 5, and not assuming the exercise of any outstanding options held by the Company's officers and directors. Stephen Nussdorf has served as the Chairman of the Company's Board of Directors since February 2004 and Executive Chairman of the Board since April 2011.

The Nussdorfs are officers and principals of Quality King, which distributes pharmaceuticals and health and beauty care products, and the Company's President and Chief Executive Officer, Michael W. Katz ("Mr. Katz"), is also an executive of Quality King.

See Note 5 for a discussion of notes payable to affiliates.

Effective August 1, 2008, the 2003 Stockholder Agreement between our predecessor company, Model Reorg, Inc. and Mr. Katz was amended and restated (the "Agreement") and the Company's subsidiary, Model Reorg Acquisition LLC, issued a \$1.9 million promissory note payable to Mr. Katz. The note, which bears interest at 4% and is payable in equal monthly installments of \$53,333 commencing September 1, 2008 and terminating August 1, 2011, liquidated Model Reorg's preexisting obligation to Mr. Katz under the Agreement, which had provided for stock ownership and an earnings participation in Model Reorg. Under the Agreement, Mr. Katz is bound by certain non-compete, non-solicitation and confidentiality covenants. The note payable is included in current and long-term notes payable-affiliate as of July 30, 2011 and January 29, 2011, in the aggregate amount of \$0.1 million and \$0.4 million, respectively.

Transactions With Affiliated Companies

Glenn Nussdorf beneficially owns approximately 11.1% of the outstanding common stock of Parlux Fragrances, Inc. ("Parlux"), a publicly traded manufacturer and distributor of prestige fragrances and beauty products. The Company has historically purchased merchandise from Parlux. Glenn Nussdorf also has an ownership interest in Lighthouse Beauty Marketing, LLC and Lighthouse Beauty, LLC, both of which are manufacturers and distributors of prestige fragrances. Starting in fiscal 2010, the Company began purchasing merchandise from both entities. Starting in fiscal 2009, the Company has also purchased merchandise from Quality King. The amounts due to these related companies are non-interest bearing and are included in accounts payable-affiliates in the accompanying condensed consolidated balance sheets. Purchases from related parties are generally payable in 90 days; however, due to the seasonality of the Company's business, these terms are generally extended. Related party accounts have historically been brought closer to terms at the end of the holiday season. During the rest of the year, the Company has relied upon these extended terms to provide a portion of its liquidity. Transactions with these related companies during the thirteen and twenty-six weeks ended July 30, 2011 and July 31, 2010 were as follows:

	Total Purchases Thirteen Weeks July 30, 2011	Total Purchases Twenty-six Weeks Ended July 31, 2010	Total Purchases Twenty-six Weeks Ended July 30, 2011	Total Purchases Twenty-six Weeks Ended July 31, 2010	Balance Due July 30, 2011	Balance Due January 29, 2011
	(in thousands)					
Parlux	\$6,466	\$ 11,214	\$16,501	\$18,884	\$9,437	\$14,015
Quality King	—	797	—	3,529	—	—
Lighthouse Beauty Marketing, LLC	77	—	427	—	128	318
Lighthouse Beauty, LLC	1,110	—	1,638	—	1,050	406
	\$7,653	\$ 12,011	\$18,566	\$22,413	\$10,615	\$14,739

Glenn, Stephen and Arlene Nussdorf own GSN Trucking, Inc. (“GSN”) which provides general transportation and freight services. The Company periodically utilizes GSN to transport both inbound purchases of merchandise and outbound shipments to wholesale customers. During the thirteen and twenty-six weeks ended July 30, 2011, total payments to GSN for transportation services provided were less than \$0.1 million. There was no balance due to GSN at July 30, 2011.

Quality King occupies a leased 560,000 square foot facility in Bellport, NY. The Company began occupying approximately half of this facility in December 2007 under a sublease that terminates on September 30, 2027, and this location serves as the Company’s principal offices. As of July 30, 2011, the monthly current sublease payments are approximately

Table of Contents

\$211,000 and increase by 3% annually. Total payments by the Company to Quality King were approximately \$0.6 million during both thirteen week periods ended July 30, 2011 and July 31, 2010, and \$1.3 million for both twenty-six week periods ended July 30, 2011 and July 31, 2010 for this sublease.

The Company and Quality King are parties to a Services Agreement providing for the Company's participation in certain third party arrangements at the Company's respective share of Quality King's cost, including allocated overhead, plus a 2% administrative fee, and the provision of legal services. The Company also shares with Quality King the economic benefit of the bulk rate contract that the Company has with UPS to ship Quality King's merchandise and related items. The Services Agreement will terminate on thirty days' written notice from either party. The expenses charged under these arrangements to the Company were \$0.2 million during the thirteen weeks ended July 30, 2011 and July 31, 2010, and \$0.3 million during the twenty-six weeks ended July 30, 2011 and July 31, 2010. The balance due to Quality King for expenses charged under the Services Agreement was less than \$0.1 million at both July 30, 2011 and January 29, 2011.

NOTE 11 - SEGMENT INFORMATION

The Company operates in two industry segments, wholesale distribution and specialty retail sales of designer fragrance and related products. Management reviews segment information by segment and on a consolidated basis each month. Retail sales include sales through Perfumania retail stores, the Scents of Worth consignment business and the Company's internet site, perfumania.com. Transactions between Five Star and unrelated customers are included in our wholesale segment information. The accounting policies of the segments are the same as those described in the summary of significant accounting policies in the Annual Report on Form 10-K for the fiscal year ended January 29, 2011. The Company's chief operating decision maker who is its Chief Executive Officer, assesses segment performance by reference to gross profit. Each of the segments has its own assets, liabilities, revenues and cost of goods sold. While each segment has certain unallocated operating expenses, these expenses are not reviewed by the chief operating decision maker on a segment basis but rather on a consolidated basis. Financial information for these segments is summarized in the following table:

	Thirteen Weeks Ended July 30, 2011 (in thousands)	Thirteen Weeks Ended July 31, 2010	Twenty-six Weeks Ended July 30, 2011	Twenty-six Weeks Ended July 31, 2010
Net sales:				
Retail	\$78,851	\$ 71,659	\$151,233	\$137,574
Wholesale	24,744	26,435	58,143	63,329
	\$103,595	\$ 98,094	\$209,376	\$200,903
Gross profit:				
Retail	\$35,765	\$ 29,969	\$68,134	\$58,157
Wholesale	6,791	6,391	14,544	15,787
	\$42,556	\$ 36,360	\$82,678	\$73,944
	July 30, 2011	January 29, 2011		
Total assets:				
Wholesale	\$326,798	\$ 324,726		
Retail	240,935	246,961		
	567,733	571,687		
Eliminations (a)	(271,632	) (271,215)	
Consolidated assets	\$296,101	\$ 300,472		

(a) Adjustment to eliminate intercompany receivables and investment in subsidiaries

Table of Contents

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

Members of senior management and a principal shareholder of the Company have had preliminary discussions with Parlux Fragrances, Inc. ("Parlux") regarding the possible terms of a business combination between the Company and Parlux. Based upon these preliminary discussions, representatives of the Company and Parlux may continue to engage in discussions regarding a potential combination of the two companies; however they are under no obligation to do so. There can be no assurance that any agreement between the Company and Parlux regarding a potential business combination will ever be reached, or if such an agreement is reached, that such a transaction will be consummated. Parlux is one of the Company's largest trading partners. Information about the Company's purchases from, and amounts owed to, Parlux is provided in Note 10 to the financial statements included in Item 1 of this Form 10-Q. At June 30, 2011, Parlux had assets of \$114.5 million, and its sales and net loss for the quarter ended June 30, 2011 were \$22.9 million and \$2.9 million, respectively. Its current market capitalization is approximately \$68 million. Further information about Parlux may be found in its filings with the Securities and Exchange Commission at www.sec.gov/edgar/searchedgar/companysearch.html. The Company expects that, if any such transaction were to occur, the consideration provided to the Parlux shareholders would consist of both cash and Company common stock, and that it expects to finance the cash portion through further borrowing and, possibly, the issuance of equity. The Company's management has not yet quantified the possible impact of any such business combination on the Company's capital needs or results of operations.

Comparison of the Thirteen Weeks Ended July 30, 2011 with the Thirteen Weeks Ended July 31, 2010.

Net Sales

	Thirteen Weeks Ended July 30, 2011	Percentage of Net Sales	Thirteen Weeks Ended July 31, 2010	Percentage of Net Sales
	(\$ in thousands)			
Retail	\$78,851	76.1%	\$71,659	73.1%
Wholesale	24,744	23.9%	26,435	26.9%
Total net sales	\$103,595	100.0%	\$98,094	100.0%

Net sales increased 5.6% from \$98.1 million in the thirteen weeks ended July 31, 2010 to \$103.6 million in the thirteen weeks ended July 30, 2011. The increase in sales was primarily due to an increase in retail sales of \$7.2 million.

Retail sales increased by 10.0% from \$71.7 million in the thirteen weeks ended July 31, 2010 to \$78.9 million in the thirteen weeks ended July 30, 2011. The increase was due to an increase in Perfumania's retail sales of \$6.4 million and an increase in SOW's consignment sales of \$0.8 million.

Perfumania's retail sales increased from \$56.6 million in the thirteen weeks ended July 31, 2010 to \$63.0 million in the thirteen weeks ended July 30, 2011. The average number of stores operated was 344 in the thirteen weeks ended July 30, 2011 compared with 367 in the comparable period last year. Perfumania's comparable store sales increased by 14.6% during the thirteen weeks ended July 30, 2011 from the same period in 2010. Comparable store sales measure sales from stores that have been open for one year or more. We exclude stores that are closed for renovation from

comparable store sales from the month during which renovation commences until the first full month after reopening. The average retail price per unit sold during the thirteen weeks ended July 30, 2011 increased 5.6% from the prior year's comparable period while the total number of units sold increased by 5.4%. We attribute the increase in the average retail price per unit sold and the increase in the number of units sold to an increase in mall traffic and various store level pricing promotions.

SOW's consignment sales increased from \$15.1 million in the thirteen weeks ended July 31, 2010 to \$15.9 million in the thirteen weeks ended July 30, 2011. The increase in SOW's net sales is due to an increase in sales to existing accounts and addition of one new account, offset by the termination of several consignment relationships.

Table of Contents

The decrease in wholesale sales of \$1.7 million is the result of lower customer demand during the thirteen weeks ended July 30, 2011 compared to the thirteen weeks ended July 31, 2010.

Gross Profit

	Thirteen Weeks Ended July 30, 2011 (in thousands)	Thirteen Weeks Ended July 31, 2010
Retail	\$35,765	\$29,969
Wholesale	6,791	6,391
Total gross profit	\$42,556	\$36,360

Gross Profit Percentages

	Thirteen Weeks Ended July 30, 2011	Thirteen Weeks Ended July 31, 2010
Retail	45.4%	41.8%
Wholesale	27.4%	24.2%
Total gross profit percentage	41.1%	37.1%

Gross profit increased 17.0% from \$36.4 million in the thirteen weeks ended July 31, 2010 to \$42.6 million in the thirteen weeks ended July 30, 2011. The increase in gross profit was due to the increase in retail sales volume as discussed above as well as a higher retail gross profit percentage, and an increase in wholesale gross profit due to less discounting during the thirteen weeks ended July 30, 2011.

Perfumania's retail gross profit dollars for the thirteen weeks ended July 30, 2011 increased by 21.6% to \$30.3 million compared with the comparable period in 2010. For these same periods, Perfumania's retail gross margins were 48.1% and 44.1%, respectively. The increase in Perfumania's retail gross profit percentage was due to decreased promotional activity during the thirteen weeks ended July 30, 2011.

Expenses

Selling, general and administrative expenses include payroll and related benefits for our distribution center, sales, store operations, field management, purchasing and other corporate office and administrative personnel; rent, common area maintenance, real estate taxes and utilities for our stores, distribution center and corporate office; advertising, consignment fees, sales promotion, insurance, supplies, freight out, and other administrative expenses. Selling, general and administrative expenses were \$38.3 million in the thirteen weeks ended July 30, 2011, compared to \$38.5 million in the thirteen weeks ended July 31, 2010. Also included in selling, general and administrative expenses are expenses in connection with the Services Agreement with Quality King, which were \$0.2 million for both thirteen week periods ended July 30, 2011 and July 31, 2010.

Depreciation and amortization was approximately \$1.9 million in the thirteen weeks ended July 30, 2011, compared to \$2.2 million for the thirteen weeks ended July 31, 2010.

Table of Contents

Interest expense was approximately \$1.9 million for the thirteen weeks ended July 30, 2011 compared with approximately \$3.2 million for the thirteen weeks ended July 31, 2010. The decrease in interest expense is due primarily to a lower average outstanding balance and a lower overall average interest rate on the Company's revolving credit facility, as well as a lower overall average interest rate on the Company's outstanding notes payable to affiliates during the thirteen weeks ended July 30, 2011 compared with the thirteen weeks ended July 31, 2010. The interest rates on total variable interest debt decreased by approximately 1.9% during the thirteen weeks ended July 30, 2011 as compared to the thirteen weeks ended July 31, 2010.

Since the Company continues to record a full valuation allowance against all deferred tax assets, no income tax provision (benefit) was recorded during the thirteen week periods ended July 30, 2011 and July 31, 2010.

As a result of the foregoing, we realized net income of approximately \$0.5 million in the thirteen weeks ended July 30, 2011 compared to a net loss of \$7.5 million in the thirteen weeks ended July 31, 2010.

Comparison of the Twenty-six Weeks Ended July 30, 2011 with the Twenty-six Weeks Ended July 31, 2010.

Net Sales

	Twenty-six Weeks Ended July 30, 2011 (in thousands)	Percentage of Net Sales	Twenty-six Weeks Ended July 31, 2010	Percentage of Net Sales
Retail	\$151,233	72.2%	\$137,574	68.5%
Wholesale	58,143	27.8%	63,329	31.5%
Total net sales	\$209,376	100.0%	\$200,903	100.0%

Net sales increased 4.2% from \$200.9 million in the twenty-six weeks ended July 31, 2010 to \$209.4 million in the twenty-six weeks ended July 30, 2011. The increase in sales was primarily due to an increase in retail sales of \$13.7 million offset by a decrease in wholesale sales of \$5.2 million.

Retail sales increased by 9.9% from \$137.6 million in the twenty-six weeks ended July 31, 2010 to \$151.2 million in the twenty-six weeks ended July 30, 2011. The increase was due to an increase in Perfumania's retail sales of \$12.2 million and an increase in SOW's consignment sales of \$1.5 million.

Perfumania's retail sales increased from \$108.5 million in the twenty-six weeks ended July 31, 2010 to \$120.7 million in the twenty-six weeks ended July 30, 2011. Perfumania's comparable store sales increased by 14.4% during the twenty-six weeks ended July 30, 2011. The average retail price per unit sold during the twenty-six weeks ended July 30, 2011 increased 5.3% from the prior year's comparable period while the total number of units sold increased by 5.6%. We attribute the increase in the average retail price per unit sold and the increase in the number of units sold to an increase in mall traffic and various store level pricing promotions. The average number of stores operated was 349 in the twenty-six week period ended July 30, 2011, versus 367 in the prior year's comparable period.

SOW's consignment sales increased from \$29.0 million in the twenty-six weeks ended July 31, 2010 to \$30.5 million in the twenty-six weeks ended July 30, 2011. The increase in SOW's net sales is due to an increase in sales to existing accounts and addition of one new account, offset by the termination of several consignment relationships.

The decrease in wholesale sales of \$5.2 million is the result of less customer demand during the twenty-six weeks ended July 30, 2011 compared to the twenty-six weeks ended July 31, 2010.

Table of Contents

Gross Profit

	Twenty-six Weeks Ended July 30, 2011 (in thousands)	Twenty-six Weeks Ended July 31, 2010
Retail	\$68,134	\$58,157
Wholesale	14,544	15,787
Total gross profit	\$82,678	\$73,944

	Twenty-six Weeks Ended July 30, 2011	Twenty-six Weeks Ended July 31, 2010
Retail	45.1%	42.3%
Wholesale	25.0%	24.9%
Total gross profit percentage	39.5%	36.8%

Gross profit increased 11.8% from \$73.9 million in the twenty-six weeks ended July 31, 2010 to \$82.7 million in the twenty-six weeks ended July 30, 2011. The increase in gross profit was due to the increase in retail sales volume as discussed above as well as a higher retail gross profit percentage offset by a decrease in wholesale gross profit due to lower sales.

Perfumania's retail gross profit for the twenty-six weeks ended July 30, 2011 increased by 19.4% to \$57.5 million compared with the comparable period in 2010. For these same periods, Perfumania's retail gross margins were 47.7% and 44.4%, respectively.

Expenses

Selling, general and administrative expenses were \$78.1 million in the twenty-six weeks ended July 30, 2011, compared to \$77.8 million in the twenty-six weeks ended July 31, 2010. Also included in selling, general and administrative expenses are expenses in connection with the Services Agreement with Quality King, which were \$0.3 million for both the twenty-six week periods ended July 30, 2011 and July 31, 2010.

Depreciation and amortization was approximately \$3.8 million in the twenty-six weeks ended July 30, 2011, compared to \$4.4 million for the twenty-six weeks ended July 31, 2010.

Interest expense was approximately \$4.0 million for the twenty-six weeks ended July 30, 2011 compared with approximately \$6.6 million for the twenty-six weeks ended July 31, 2010. The interest rates on total variable interest debt decreased by approximately 2.1% during the twenty-six weeks ended July 30, 2011 as compared to the twenty-six weeks ended July 31, 2010. The decrease in interest expense is due primarily to a lower average outstanding balance and a lower overall average interest rate on the Company's revolving credit facility, as well as a lower overall average interest rate on the Company's outstanding notes payable to affiliates during the twenty-six weeks ended July 30, 2011 compared with the twenty-six weeks ended July 31, 2010.

Since the Company continues to record a full valuation allowance against all deferred tax assets, no income tax benefit was recorded during either of the twenty-six week periods ended July 30, 2011 and July 31, 2010.

As a result of the foregoing, we realized a net loss of approximately \$3.2 million in the twenty-six weeks ended July 30, 2011, compared to a net loss of \$14.9 million in the twenty-six weeks ended July 31, 2010.

Table of Contents

LIQUIDITY AND CAPITAL RESOURCES

Net cash provided by operating activities during the twenty-six weeks ended July 30, 2011 was approximately \$13.1 million, compared with approximately \$26.3 million used in operating activities during the twenty-six weeks ended July 31, 2010. The \$39.4 million increase in cash flows from operating activities during the twenty-six weeks ended July 30, 2011 compared with the prior year's comparable period resulted primarily from an increase in accounts payable due to the timing of repayments to our vendors, a decrease in inventory levels during the twenty-six weeks ended July 30, 2011 due to a reduction in inventory purchases and a reduction in our net loss. The seasonality of our operations may lead to significant fluctuations in certain asset and liability accounts between fiscal year-end and subsequent interim periods.

Our purchases from related parties are generally payable in 90 days; however due to the seasonality of our business, these terms are generally extended. Related party accounts have historically been brought closer to terms at the end of the holiday season. During the rest of the year, the Company has relied upon these extended terms to provide a portion of its liquidity.

Net cash used in investing activities was approximately \$1.2 million in the twenty-six weeks ended July 30, 2011 compared to \$1.3 million in the twenty-six weeks ended July 31, 2010. The current period's investing activities primarily represented spending for renovation of existing stores and information technology enhancements. During the twenty-six weeks ended July 30, 2011, Perfumania opened two new stores and closed 19 stores. We plan to open approximately five stores for the remainder of fiscal 2011 and currently do not plan to close any more. We continuously evaluate the appropriate new store growth rate in light of economic conditions and may adjust the growth rate as conditions change. Furthermore, we continue to evaluate the need to close, remodel or relocate existing stores.

Net cash used in financing activities during the twenty-six weeks ended July 30, 2011 was approximately \$11.8 million, primarily from net repayments under our credit facility, compared with approximately \$27.2 million provided by financing activities from net borrowings under our credit facility for the twenty-six weeks ended July 31, 2010. The Company has a \$225 million revolving credit facility with a syndicate of banks (the "Senior Credit Facility"), which is used for the Company's general corporate purposes and those of its subsidiaries, including working capital. The Company and certain of its subsidiaries are co-borrowers under the Senior Credit Facility, and the Company's other subsidiaries have guaranteed all of their obligations thereunder. The Company was in compliance with all financial and operating covenants under the Senior Credit facility as of July 30, 2011. As of July 30, 2011, the Company had \$68.4 million available to borrow under the Senior Credit Facility based on the borrowing base at that date. Further information about the Senior Credit Facility is included in Note 5 of our condensed consolidated financial statements included in this Form 10-Q.

The Company has various unsecured notes payable outstanding to affiliates which in aggregate total \$95 million of principal. No payments of principal may be made on any of these notes payable to affiliates before the maturity of the Senior Credit Facility although interest payments are permitted under certain conditions. See further discussion of our notes payable to affiliates and our Senior Credit Facility in Note 5 of our condensed consolidated financial statements included in this Form 10-Q.

Our liquidity is impacted by a number of factors, including our sales levels, the amount of credit that our vendors extend to us and our borrowing capacity under our Senior Credit Facility. Our principal funding requirements are for inventory purchases, financing extended terms on accounts receivable, paying down accounts payable and debt, and to a lesser extent, information system enhancements, opening new stores and renovation of existing stores. These capital requirements generally have been satisfied through borrowings under the Senior Credit Facility and notes payable to affiliates. Based on current internal sales and cash flow projections, current vendor payable support and our projected available borrowing capacity under our Senior Credit Facility, as well as other initiatives to maximize cash flow, we believe that these resources will be adequate to meet our requirements in both the short and long-term.

Table of Contents

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our condensed consolidated financial statements have been prepared in accordance with US GAAP. Preparation of these statements requires management to make judgments and estimates that affect the reported amounts of assets, liabilities, revenues and expenses. On an on-going basis, management evaluates its estimates, including those related to bad debts, inventories, asset impairments, sales returns and allowances, and other contingent assets and liabilities. As such, some accounting policies have a significant impact on amounts reported in these financial statements. The judgments and estimates made can significantly affect results. Materially different amounts might be reported under different conditions or by using different assumptions. We consider an accounting policy to be critical if it is both important to the portrayal of our financial condition and results of operations, and requires significant judgment and estimates by management in its application. We have identified certain critical accounting policies that affect the significant estimates and judgments used in the preparation of its financial statements. There have been no significant changes to our critical accounting policies and estimates as discussed in our Annual Report on Form 10-K for the year ended January 29, 2011.

FORWARD LOOKING STATEMENTS

Some of the statements in this quarterly report, including those that contain the words “anticipate,” “believe,” “plan,” “estimate,” “expect,” “should,” “intend,” and other similar expressions, are “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements of those of our industry to be materially different from any future results, performance or achievements expressed or implied by those forward-looking statements. Among the factors that could cause actual results, performance or achievement to differ materially from those described or implied in the forward-looking statements are our ability to service our obligations, our ability to comply with the covenants in our Senior Credit Facility, any failure of general economic conditions to improve, including any weaker than anticipated recovery in discretionary spending by consumers, competition, the ability to raise additional capital to finance our expansion and other factors included in our filings with the SEC, including the Risk Factors included in our 2010 Annual Report on Form 10-K. Those Risk Factors contained in our 2010 Annual Report on Form 10-K are incorporated herein by this reference to them. Copies of our SEC filings are available from the SEC or may be obtained upon request from us.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable

ITEM 4. CONTROLS AND PROCEDURES

As of the end of the period covered by this report (July 30, 2011), we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of the disclosure controls and procedures, as defined in Rule 13a-15(e) under the Exchange Act. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective.

During the second quarter of fiscal 2011, there were no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) that materially affected or are reasonably likely to materially affect our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None.

ITEM 1A. RISK FACTORS

Not applicable.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

19

Table of Contents

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. REMOVED AND RESERVED

ITEM 5. OTHER INFORMATION

None.

20

Table of Contents

ITEM 6. EXHIBITS

The exhibits listed in the following Exhibit Index are filed herewith.

- 3.1 Amended and Restated Articles of Incorporation, as amended through August 8, 2008 (Incorporated by reference to Exhibit 3.1 to the Company's Form 10-K filed July 2, 2009).
- 3.2 Bylaws (Incorporated by reference to Exhibit 3.2 to the Company's Registration Statement on Form S-1 (No 33-46833)).
- 31.1 Certification by Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification by Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification by Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification by Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101.INS XBRL Instance Document
- 101.SCH XBRL Taxonomy Extension Schema Document
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document
- 101.LAB XBRL Taxonomy Extension Label Linkbase Document
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

Table of Contents

PERFUMANIA HOLDINGS, INC.

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.

PERFUMANIA HOLDINGS, INC.
(Registrant)

Date: September 12, 2011

By: By: /s/ Michael W. Katz
Michael W. Katz
President and Chief Executive Officer
(Principal Executive Officer)

By: By: /s/ Donna L. Dellomo
Donna L. Dellomo
Chief Financial Officer
(Principal Financial and
Accounting Officer)