

Perfumania Holdings, Inc.
Form 10-Q
June 15, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended May 2, 2015 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 incorporation or organization) | (I.R.S. Employer 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 ☒ 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 ☒ 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 | <input type="radio"/> | Accelerated Filer | <input type="radio"/> |
| Non-accelerated Filer | <input type="radio"/> (Do not check if a smaller reporting company) | Smaller Reporting Company | <input checked="" type="radio"/> |

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 June 15, 2015, there were 15,476,775 outstanding shares of its common stock, \$0.01 par value.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

PERFUMANIA HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share amounts)

| | May 2, 2015 (unaudited) | January 31, 2015 (Note 1) |
|--|----------------------------|---------------------------------|
| ASSETS: | | |
| Current assets: | | |
| Cash and cash equivalents | \$1,739 | \$1,533 |
| Accounts receivable, net of allowances of \$969 and \$1,271 as of May 2, 2015 and January 31, 2015, respectively | 40,364 | 27,777 |
| Inventories | 243,200 | 253,371 |
| Prepaid expenses and other current assets | 14,564 | 13,775 |
| Total current assets | 299,867 | 296,456 |
| Property and equipment, net | 24,911 | 24,640 |
| Goodwill | 38,769 | 38,769 |
| Intangible and other assets, net | 24,922 | 26,367 |
| Total assets | \$388,469 | \$386,232 |
| LIABILITIES AND SHAREHOLDERS' EQUITY: | | |
| Current liabilities: | | |
| Accounts payable | \$39,743 | \$39,263 |
| Accounts payable-affiliates | 142 | 269 |
| Accrued expenses and other liabilities | 25,513 | 28,254 |
| Current portion of obligations under capital leases | 1,129 | 1,104 |
| Total current liabilities | 66,527 | 68,890 |
| Revolving credit facility | 41,178 | 37,561 |
| Notes payable-affiliates | 125,366 | 125,366 |
| Long-term portion of obligations under capital leases | 2,187 | 2,459 |
| Other long-term liabilities | 57,981 | 56,662 |
| Total liabilities | 293,239 | 290,938 |
| Commitments and contingencies | | |
| Shareholders' equity: | | |
| Preferred stock, \$0.10 par value, 1,000,000 shares authorized; as of May 2, 2015 and January 31, 2015, none issued | — | — |
| Common stock, \$.01 par value, 35,000,000 shares authorized; 16,375,024 shares and 16,374,625 shares issued as of May 2, 2015 and January 31, 2015, respectively | 164 | 164 |
| Additional paid-in capital | 221,708 | 221,607 |
| Accumulated deficit | (118,065) | (117,900) |
| Treasury stock, at cost, 898,249 shares as of May 2, 2015 and January 31, 2015 | (8,577) | (8,577) |
| Total shareholders' equity | 95,230 | 95,294 |
| Total liabilities and shareholders' equity | \$388,469 | \$386,232 |

See accompanying notes to condensed consolidated financial statements.

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PERFUMANIA HOLDINGS, INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(in thousands, except share and per share amounts)

| | Thirteen Weeks Ended May 2, 2015 | Thirteen Weeks Ended May 3, 2014 | |
|---|--|--|---|
| Net sales | \$128,210 | \$132,966 | |
| Cost of goods sold | 65,732 | 71,261 | |
| Gross profit | 62,478 | 61,705 | |
| Operating expenses: | | | |
| Selling, general and administrative expenses | 58,192 | 56,947 | |
| Share-based compensation expense | 100 | 105 | |
| Depreciation and amortization | 2,619 | 2,550 | |
| Total operating expenses | 60,911 | 59,602 | |
| Income from operations | 1,567 | 2,103 | |
| Interest expense | (1,732) | (2,588) |) |
| Loss before income tax provision | (165) | (485) |) |
| Income tax provision | — | — | |
| Net loss | \$(165) | \$(485) |) |
| Net loss per common share: | | | |
| Basic and diluted | \$(0.01) | \$(0.03) |) |
| Weighted average number of common shares outstanding: | | | |
| Basic and diluted | 15,476,661 | 15,369,218 | |

See accompanying notes to condensed consolidated financial statements.

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PERFUMANIA HOLDINGS, INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

(Unaudited)

(in thousands, except share amounts)

| | Common Stock | | Additional | Accumulated | Treasury Stock | | Total |
|----------------------------------|--------------|--------|--------------------|--------------|----------------|------------|----------|
| | Shares | Amount | Paid-In Capital | Deficit | Shares | Amount | |
| Balance at January 31, 2015 | 16,374,625 | \$ 164 | \$221,607 | \$(117,900) | 898,249 | \$(8,577) | \$95,294 |
| Share-based compensation expense | — | — | 100 | — | — | — | 100 |
| Exercise of stock options | 399 | — | 1 | — | — | — | 1 |
| Net loss | — | — | — | (165) | — | — | (165) |
| Balance at May 2, 2015 | 16,375,024 | \$ 164 | \$221,708 | \$(118,065) | 898,249 | \$(8,577) | \$95,230 |

See accompanying notes to condensed consolidated financial statements.

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PERFUMANIA HOLDINGS, INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(in thousands)

| | Thirteen Weeks Ended May 2, 2015 | Thirteen Weeks Ended May 3, 2014 |
|---|--|--|
| Cash flows from operating activities: | | |
| Net loss | \$(165) | \$(485) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Amortization of deferred financing costs | 86 | 354 |
| Depreciation and amortization | 2,619 | 2,550 |
| (Recovery) provision for losses on accounts receivable | (303) | 46 |
| Share-based compensation | 100 | 105 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (12,284) | (11,428) |
| Inventories | 10,171 | 5,712 |
| Prepaid expenses and other assets | (554) | 811 |
| Accounts payable | 480 | (7,830) |
| Accounts payable-affiliates | (127) | (1,462) |
| Accrued expenses and other liabilities and other long-term liabilities | (1,422) | 1,788 |
| Net cash used in operating activities | (1,399) | (9,839) |
| Cash flows from investing activities: | | |
| Additions to property and equipment | (1,766) | (2,890) |
| Additions to tradenames and licenses | — | (300) |
| Net cash used in investing activities | (1,766) | (3,190) |
| Cash flows from financing activities: | | |
| Net borrowings under bank line of credit | 3,617 | 14,991 |
| Principal payments under capital lease obligations | (247) | (233) |
| Payment for deferred financing costs | — | (1,237) |
| Proceeds from exercise of stock options and warrants | 1 | 1 |
| Net cash provided by financing activities | 3,371 | 13,522 |
| Net increase in cash and cash equivalents | 206 | 493 |
| Cash and cash equivalents at beginning of period | 1,533 | 1,553 |
| Cash and cash equivalents at end of period | \$1,739 | \$2,046 |
| Supplemental Information: | | |
| Cash paid during the period for: | | |
| Interest | \$261 | \$669 |
| Income taxes | \$491 | \$482 |
| See accompanying notes to condensed consolidated financial statements. | | |

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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 31, 2015, which has been derived from our audited financial statements as of and for the year ended January 31, 2015, and the accompanying interim unaudited condensed consolidated financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission (the "SEC") for interim financial reporting. 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 consolidated financial statements and the notes thereto included in our Annual Report on Form 10-K for the fiscal year ended January 31, 2015.

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 weeks ended May 2, 2015 (also referred to as the "first quarter of fiscal 2015") 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 conducts business through six wholly-owned operating subsidiaries; Perfumania, Inc. ("Perfumania"), Quality King Fragrance, Inc. ("QFG"), Scents of Worth, Inc. ("SOW"), Perfumania.com, Inc. ("Perfumania.com"), Parlux Fragrances, LLC ("Parlux") 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 businesses include QFG, Parlux and Five Star. 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. It sells principally to retailers such as Kohl's, Marshalls, Nordstrom Rack, Ross Stores, Sears, Wal-Mart and Walgreens. The Company's manufacturing divisions, Parlux and Five Star, own and license designer and other fragrance brands that are sold to regional and national department stores, including Belk, Bon Ton, Boscovs, Dillards, Macy's, Nordstrom and Stage Stores, international distributors, on military bases throughout the United States, by QFG and through the Company's retail business which is discussed below. Parlux also fulfills a selection of fragrances for several online retailers, shipping directly to their customers and billing the retailers. Five Star also manufactures, on behalf of Perfumania, the Jerome Privee product line, which includes bath and body products and which is sold exclusively in Perfumania's retail stores. All manufacturing operations of Parlux and Five Star are outsourced.

Our retail business is conducted through the following 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 May 2, 2015, Perfumania operated a chain of 317 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, our Company-owned website, offers a selection of our more popular products for sale online. SOW operates the largest national designer fragrance consignment program, with contractual relationships to sell products on a consignment basis in approximately 1,900 stores, including approximately 1,000 Kmart locations nationwide. Its other retail customers include Burlington Coat Factory, Steinmart and K & G.

NOTE 2 - RECENT ACCOUNTING PRONOUNCEMENTS

In April 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2015-03, Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs, intended to simplify the presentation of debt issuance costs. The guidance requires that debt issuance costs related to a recognized debt liability be presented on the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with the presentation for debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this ASU. The guidance is effective fiscal years and interim periods within those years beginning after December 15, 2015, and must be applied on a retrospective basis with early adoption permitted. This guidance is not expected to have a material impact on the Company's consolidated financial statements.

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In May 2014, the FASB issued ASC Topic 606, Revenue from Contracts with Customers ("ASC 606"), which supersedes the revenue recognition requirements in ASC Topic 605 Revenue Recognition, including most industry-specific revenue recognition guidance throughout the Industry Topics of the Codification. This guidance requires that an entity recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services, and expands the related disclosure requirements. The new standard was originally scheduled to be effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. In April 2015, the FASB proposed an update to this rule which would defer its effective date for one year. The proposed update stipulates the new standard would be effective for annual reporting periods beginning after December 15, 2017, and interim periods therein, with an option to adopt the standard on the originally scheduled effective date. In April 2015, the FASB issued an exposure draft deferring the effective date for public companies to years, and interim periods within those years, beginning after December 15, 2017, with early application permitted. The Company is currently evaluating the impact that this new guidance may have on its consolidated financial statements.

NOTE 3 - GOODWILL AND INTANGIBLE ASSETS

Goodwill in the amount of \$38.8 million at May 2, 2015 and January 31, 2015 resulted from the April 18, 2012 acquisition of Parlux.

The following table provides information related to goodwill and intangible assets (in thousands). Intangible assets are included in intangible and other assets, net on the accompanying condensed consolidated balance sheets as of May 2, 2015 and January 31, 2015:

| | | May 2, 2015 | | | January 31, 2015 | | |
|----------------------------|---------------------|---------------|--------------------------|----------------|------------------|--------------------------|----------------|
| | Useful Life (years) | Original Cost | Accumulated Amortization | Net Book Value | Original Cost | Accumulated Amortization | Net Book Value |
| Goodwill | N/A | \$38,769 | \$— | \$38,769 | \$38,769 | \$— | \$38,769 |
| Tradenames | 4-20 | 9,608 | 7,604 | 2,004 | 9,608 | 7,504 | 2,104 |
| Customer relationships | 10 | 5,171 | 1,595 | 3,576 | 5,171 | 1,465 | 3,706 |
| Favorable leases | 7 | 886 | 770 | 116 | 886 | 739 | 147 |
| License agreements | 3-5 | 16,413 | 12,107 | 4,306 | 16,413 | 11,243 | 5,170 |
| Tradename (non-amortizing) | N/A | 8,500 | — | 8,500 | 8,500 | — | 8,500 |
| | | \$79,347 | \$22,076 | \$57,271 | \$79,347 | \$20,951 | \$58,396 |

In accordance with US GAAP, goodwill and 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' values may be impaired. Customer relationships are amortized over the expected period of benefit and license agreements are amortized over the remaining contractual term. Impairment testing is based on a review of forecasted operating cash flows and the profitability of the related brand to determine its fair value. There were no triggering events during the thirteen weeks ended May 2, 2015 that would indicate potential impairment and the requirement to review the carrying value of goodwill and 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 \$1.1 million for the thirteen weeks ended May 2, 2015 and May 3, 2014. As of May 2, 2015, estimated future amortization expense associated with intangible assets subject to amortization is

as follows (in thousands):

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| Fiscal Year | Amortization Expense |
|-------------------|----------------------|
| Remainder of 2015 | \$3,375 |
| 2016 | 1,929 |
| 2017 | 1,385 |
| 2018 | 999 |
| 2019 | 715 |
| 2020 | 684 |
| Thereafter | 915 |
| | \$10,002 |

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 1.5% of the shares of common stock outstanding as of the last trading day of the immediately preceding fiscal year; accordingly, 1,961,898 shares of common stock were reserved for issuance as of May 2, 2015. 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 May 2, 2015, 920,000 stock options have been granted pursuant to the 2010 Plan.

The following is a summary of the stock option activity during the thirteen weeks ended May 2, 2015:

| | Number of Shares | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life | Aggregate Intrinsic Value (in thousands) |
|---|------------------|---------------------------------|---|--|
| Outstanding as of January 31, 2015 | 1,230,253 | \$8.43 | | |
| Granted | — | — | | |
| Exercised | (399) | 3.29 | | |
| Forfeited | (13,333) | 4.22 | | |
| Outstanding as of May 2, 2015 | 1,216,521 | \$8.48 | 6.0 | \$123 |
| Vested and expected to vest as of May 2, 2015 | 1,176,517 | \$8.45 | 5.9 | \$123 |
| Exercisable as of May 2, 2015 | 1,176,517 | \$8.45 | 5.9 | \$123 |

The following is a summary of stock warrants activity during the thirteen weeks ended May 2, 2015:

| | Number of Warrants | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life | Aggregate Intrinsic Value (in thousands) |
|------------------------------------|--------------------|---------------------------------|---|--|
| Outstanding as of January 31, 2015 | 6,299,971 | \$11.80 | | |
| Granted | — | — | | |
| Exercised | — | — | | |
| Forfeited | — | — | | |
| Outstanding as of May 2, 2015 | 6,299,971 | \$11.80 | 3.1 | \$— |

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| | | | | |
|-------------------------------|-----------|----------|-----|-----|
| Vested as of May 2, 2015 | 6,299,971 | \$ 11.80 | 3.1 | \$— |
| Exercisable as of May 2, 2015 | 6,299,971 | \$ 11.80 | 3.1 | \$— |

Share-based compensation expense was \$0.1 million during the thirteen weeks ended May 2, 2015 and May 3, 2014.

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NOTE 5 - REVOLVING CREDIT FACILITY AND NOTES PAYABLE TO AFFILIATES

The Company's revolving credit facility and notes payable to affiliates consist of the following:

| | May 2, 2015 | January 31, 2015 |
|---|----------------|------------------|
| | (in thousands) | |
| Revolving credit facility, interest payable monthly, secured by a pledge of substantially all of the Company's assets | \$41,178 | \$37,561 |
| Subordinated notes payable-affiliates | 125,366 | 125,366 |
| | 166,544 | 162,927 |
| Less current portion | — | — |
| Total long-term debt | \$ 166,544 | \$ 162,927 |

The Company has a 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 and capital expenditures. The maximum borrowing amount under the Senior Credit Facility is \$175 million and the termination date is April 2019. Under this facility, which does not require amortization of principal, 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 excess availability under the facility of at least \$10 million. As of May 2, 2015, the Company had \$66.5 million of net availability which includes \$25 million for letters of credit.

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. As of May 2, 2015, the interest rate on LIBOR Rate borrowings was 2.2% and the interest rate on base rate borrowings was 4.3%.

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 May 2, 2015.

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

(i) a promissory note in the principal amount of \$35 million, (the "QKD Note") held by Quality King Distributors, Inc. ("Quality King"), which provides for payment of principal in quarterly installments between July 31, 2019 and October 31, 2022, with a final installment on October 31, 2022 of the remaining balance, 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 \$85.4 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 July 31, 2019 and payments of interest in quarterly installments commencing on July 31, 2012 at the then current senior debt rate plus 2% per annum; and

(iii) a promissory note in the principal amount of \$5 million held by Glenn and Stephen Nussdorf (the "2004 Note"), which provided 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%.

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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 the greater of \$17.5 million or 17.5% of the borrowing base certificate after giving effect to the payment, and a fixed charge coverage ratio, as defined in the credit agreement, of 1.1:1.0. Interest expense on these notes was approximately \$1.3 million and \$1.6 million for the thirteen weeks ended May 2, 2015 and May 3, 2014, 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 or the Nussdorf Trust Notes. On the 2004 Note, no payments of principal have been made and no interest payments have been made since October 2008. Accrued interest payable due at May 2, 2015 and January 31, 2015 on the Nussdorf Trust Notes, the QKD Note, and the 2004 Note was approximately \$40.8 million and \$39.5 million, respectively, and is included in other long-term liabilities on the accompanying condensed consolidated balance sheets as of May 2, 2015 and January 31, 2015, respectively.

NOTE 6 - ACCOUNTING FOR INCOME TAXES

The Company conducts business throughout the United States, Puerto Rico and the United States Virgin Islands and, as a result, files income tax returns in the U.S. Federal and various state jurisdictions, Puerto Rico and the United States Virgin Islands. 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 2008. 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 continues to provide a full valuation allowance against its net 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 benefit on its operating loss for the thirteen weeks ended May 2, 2015. During the thirteen weeks ended May 2, 2015, 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 the income tax provision 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 May 2, 2015 and January 31, 2015 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 LOSS PER COMMON SHARE

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

Diluted net loss per common share includes, in periods in which they are dilutive, the effect of those potentially dilutive securities where the average market price of the common stock exceeds the exercise prices for the respective periods.

During the thirteen weeks ended May 2, 2015 and May 3, 2014 there were 7,516,492 and 7,507,267, respectively, potential shares of common stock related to stock options and warrants which were excluded from the diluted loss per share calculation because the effect of including these 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 assumptions

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As of May 2, 2015, the Company had no material financial assets or liabilities measured on a recurring basis at 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 weeks ended May 2, 2015 and May 3, 2014.

The fair values of the Company's assets and liabilities that qualify as financial instruments, including cash and cash equivalents, accounts receivable, accounts payable, short-term debt, and accrued expenses, are carried at cost, which approximates fair value due to the short-term maturity of these instruments. The reported amounts of long-term obligations approximate fair value, given management's evaluation of the instruments' current rates compared to market rates of interest and other factors.

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.

NOTE 10 - RELATED-PARTY TRANSACTIONS

Glenn, Stephen and Arlene Nussdorf owned an aggregate 7,742,282 shares or approximately 50.0% of the total number of shares of the Company's common stock as of May 2, 2015, excluding shares issuable upon exercise of certain warrants and not assuming the exercise of any outstanding options. 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, is also an executive of Quality King.

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

Transactions With Affiliated Companies

Glenn Nussdorf has an ownership interest in Lighthouse Beauty Marketing, LLC, Lighthouse Beauty, LLC and Lighthouse Beauty KLO, LLC (collectively the "Lighthouse Companies"), all of which are manufacturers and distributors of prestige fragrances. He also has an ownership interest in Cloudbreak Holdings, LLC ("Cloudbreak"), a manufacturer and distributor of prestige fragrances. The Company has purchased merchandise from the Lighthouse Companies and Cloudbreak.

The Company purchases merchandise from Jacavi Beauty Supply, LLC ("Jacavi"), a fragrance distributor. Jacavi's managing member is Rene Garcia. Rene Garcia, his family trusts and related entities are members of a group (the "Garcia Group") that owned an aggregate 2,211,269 shares, or approximately 14.3%, of the total number of shares of the Company's common stock as of May 2, 2015, excluding shares issuable upon exercise of certain warrants. During the thirteen weeks ended May 2, 2015, Perfumania purchased merchandise from Jacavi.

The Company sells merchandise to Reba Americas LLC ("Reba"), which distributes fragrances primarily in Puerto Rico and the Caribbean. Family trusts of Rene Garcia own 50% of Reba. Net sales to Reba during the thirteen weeks ended May 2, 2015 and May 3, 2014 were approximately \$1.3 million and \$0.5 million, respectively. The balance due from Reba as of May 2, 2015 and January 31, 2015 was approximately \$1.0 million and \$0.3 million, respectively, and is included in accounts receivable, net of allowances, on the accompanying condensed consolidated balance sheets. The Company also purchased certain merchandise from Reba during the thirteen weeks ended May 2, 2015 and May 3, 2014.

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. Transactions for merchandise purchases with these related companies during the thirteen weeks ended May 2, 2015 and May 3, 2014 were as follows (in thousands):

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| | Total Purchases Thirteen Weeks Ended May 2, 2015 | Total Purchases Thirteen Weeks Ended May 3, 2014 | Balance Due May 2, 2015 | Balance Due January 31, 2015 |
|----------------------|---|---|----------------------------|------------------------------------|
| Lighthouse Companies | \$ — | \$ 725 | \$ — | \$ 128 |
| Jacavi | 1,574 | 2,067 | — | (4) |
| Quality King | 31 | 106 | — | 4 |
| Cloudbreak | — | 32 | 18 | 18 |
| Reba | 408 | 188 | 54 | 98 |
| | \$ 2,013 | \$ 3,118 | \$ 72 | \$ 244 |

On May 1, 2014, pursuant to a termination and trademark license agreement and in consideration for \$0.1 million, the Company acquired the license for Isaac Mizrahi fragrances and related products from Cloudbreak. The license agreement has a three-year term with applicable renewal options. The Company has a credit of \$0.3 million for advance royalty payments which have been paid by Cloudbreak to the licensor, and will not be liable for additional royalties until royalties earned under the new agreement between the Company and the licensor exceed \$0.3 million. Effective May 1, 2014, and pursuant to certain termination, consent, representation and trademark license agreements, the Company acquired the license for Major League Baseball (“MLB”) fragrances and related products from Cloudbreak. Pursuant to these agreements, the Company paid approximately \$0.1 million of fees that were due by Cloudbreak and is permitted to purchase Cloudbreak’s May 1, 2014 on-hand MLB finished goods fragrance inventory. The license agreement terminates on December 31, 2017.

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 weeks ended May 2, 2015 and May 3, 2014, total payments to GSN for transportation services provided were \$0 million and less than \$0.1 million, respectively. There was no balance due to GSN at May 2, 2015 or January 31, 2015.

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 May 2, 2015, the monthly current sublease payments are approximately \$226,000 and increase by 3% annually. Total payments by the Company to Quality King were approximately \$0.7 million during the thirteen weeks ended May 2, 2015 and May 3, 2014 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 \$0.5 million and less than \$0.1 million during the thirteen weeks ended May 2, 2015 and May 3, 2014, respectively. The balance due to Quality King for expenses charged under the Services Agreement was less than \$0.1 million at both May 2, 2015 and January 31, 2015, respectively.

On April 18, 2012, Parlux, Artistic Brands Development LLC (“Artistic Brands”) (a company controlled by Rene Garcia), Shawn Carter and S. Carter Enterprises, LLC entered into a sublicense agreement and Artistic Brands, Shawn Carter and S. Carter Enterprises, LLC entered into a license agreement. In connection with these agreements, the Company issued to Artistic Brands and its designees, including Shawn Carter, warrants for the purchase of an aggregate of 1,599,999 shares of the Company’s common stock at an exercise price of \$8.00 per share. Pursuant to the license agreement, Artistic Brands obtained the exclusive right and license to manufacture, promote, distribute, and

sell prestige fragrances and related products under the Jay-Z trademark. The initial term of the license agreement expires at the earlier of (i) five years following the first date on which licensed products are shipped and (ii) December 31, 2018. Artistic Brands has the right to renew the license agreement, so long as certain financial conditions are met and it has not otherwise breached the agreement. Pursuant to the license agreement, Artistic Brands agreed to make certain royalty payments, including certain guaranteed minimum royalties. Pursuant to the sublicense agreement, Artistic Brands sublicensed all rights granted under the license agreement to the Company, and in return the Company assumed all of Artistic Brands' obligations under the license agreement, including making all royalty

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payments and certain guaranteed minimum royalties owed to S. Carter Enterprises, LLC. The Company paid \$0.3 million of guaranteed minimum royalties pursuant to the sublicense agreement during the thirteen weeks ended May 2, 2015.

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 SOW consignment business and the Company's internet site, Perfumania.com. Wholesale sales include sales through QFG, Parlux and Five Star to unrelated customers. 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 31, 2015. 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 May 2, 2015 (in thousands) | Thirteen Weeks Ended May 3, 2014 |
|---|--|--|
| Net sales: | | |
| Retail | \$68,670 | \$72,211 |
| Wholesale | 59,540 | 60,755 |
| | \$128,210 | \$132,966 |
| Gross profit: | | |
| Retail | \$33,480 | \$33,531 |
| Wholesale | 28,998 | 28,174 |
| | \$62,478 | \$61,705 |
| | May 2, 2015 | January 31, 2015 |
| Total assets: | | |
| Wholesale | \$628,168 | \$608,119 |
| Retail | 359,945 | 353,356 |
| | 988,113 | 961,475 |
| Eliminations (a) | (599,644 |) (575,243 |
| Consolidated assets | \$388,469 | \$386,232 |
| (a) Adjustment to eliminate intercompany receivables and investment in subsidiaries | | |

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

We are an independent, national, vertically integrated wholesale distributor and specialty retailer of designer perfumes and fragrances. We source the majority of these products directly from the brand owners/manufacturers. We also own and license certain designer brands that we manufacture, through subcontractors, and sell through our wholesale and retail operating subsidiaries.

Net sales during the thirteen weeks ended May 2, 2015, our first quarter in fiscal 2015, decreased 3.6% compared to the first quarter of fiscal 2014. Our wholesale segment's net sales during the first quarter of fiscal 2015 decreased by 2.0% from the first quarter of fiscal 2014. During the year, wholesale sales fluctuate due to seasonal demand, new

product launches, the size and timing of certain orders from our customers, additions or losses of brand distribution rights, changes in foreign exchange rates against the U.S. dollar and the timing of industry trade shows, and accordingly sales and results of operations can vary significantly from quarter to quarter. Our retail segment's net sales decreased by 4.9% from the first quarter of fiscal 2014 primarily because we had fewer Perfumania stores compared with last year's first quarter and also lower mall traffic at Perfumania stores.

Gross profit during the thirteen weeks ended May 2, 2015 was \$62.5 million, an increase of 1.3% compared to last year's first quarter. The increases in gross profit are due to higher retail and wholesale gross margins.

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Total operating expenses were \$60.9 million during the thirteen weeks ended May 2, 2015, an increase of 2.2% compared to last year's first quarter. The increase is attributable to higher advertising expense to support licensed brands and higher spending on the ongoing implementation of new computer systems.

As a result of the above, our net loss decreased by 66.0% to \$0.2 million during the thirteen weeks ended May 2, 2015 from \$0.5 million during last year's first quarter.

Comparison of the Thirteen Weeks Ended May 2, 2015 with the Thirteen Weeks Ended May 3, 2014.

Net Sales

| | Thirteen Weeks Ended May 2, 2015 (\$ in thousands) | Percentage of Net Sales | Thirteen Weeks Ended May 3, 2014 | Percentage of Net Sales | Dollar Change |
|-----------------|---|-------------------------------|--|-------------------------------|---------------|
| Retail | \$68,670 | 53.6% | \$72,211 | 54.3% | \$(3,541) |
| Wholesale | 59,540 | 46.4% | 60,755 | 45.7% | (1,215) |
| Total net sales | \$128,210 | 100.0% | \$132,966 | 100.0% | \$(4,756) |

Net sales decreased 3.6% from \$133.0 million in the thirteen weeks ended May 3, 2014 to \$128.2 million in the thirteen weeks ended May 2, 2015. The decrease in sales included a \$1.2 million decrease in wholesale sales and a \$3.6 million decrease in retail sales.

Wholesale sales decreased by 2.0% from \$60.8 million in the thirteen weeks ended May 3, 2014 to \$59.5 million in the thirteen weeks ended May 2, 2015. QFG's sales decreased from \$36.5 million in the thirteen weeks ended May 3, 2014 to \$36.4 million in the thirteen weeks ended May 2, 2015. Parlux's sales decreased from \$23.4 million in the thirteen weeks ended May 3, 2014 to \$23.0 million in the thirteen weeks ended May 2, 2015. Five Star's sales decreased by \$0.8 million due to the launch of a new brand during the thirteen weeks ended May 3, 2014.

Retail sales decreased by 4.9% from \$72.2 million in the thirteen weeks ended May 3, 2014 to \$68.7 million in the thirteen weeks ended May 2, 2015. Perfumania's retail sales decreased by \$3.9 million while SOW's consignment sales increased by \$0.4 million.

Perfumania's retail sales decreased from \$57.7 million in the thirteen weeks ended May 3, 2014 to \$53.8 million in the thirteen weeks ended May 2, 2015. The decrease in Perfumania's sales was due primarily to fewer stores being operated and lower mall traffic. The average number of stores operated was 318 in the thirteen weeks ended May 2, 2015 and 326 in the thirteen weeks ended May 3, 2014. Perfumania's comparable store sales decreased by 7.3% during the thirteen weeks ended May 2, 2015 from the same period in 2014 due to lower mall traffic. 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 May 2, 2015 decreased by 2.3% from the prior year's comparable period, while the total number of units sold decreased by 4.6%.

SOW's consignment sales increased from \$14.5 million in the thirteen weeks ended May 3, 2014 to \$14.8 million in the thirteen weeks ended May 2, 2015. The majority of the increase in SOW's net sales is due to an increase in sales at SOW's largest account.

Gross Profit

| | Thirteen Weeks Ended May 2, 2015 (\$ in thousands) | Thirteen Weeks Ended May 3, 2014 | Dollar Change |
|--------|---|--|---------------|
| Retail | \$33,480 | \$33,531 | \$(51) |

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| | | | |
|--------------------|----------|----------|-------|
| Wholesale | 28,998 | 28,174 | 824 |
| Total gross profit | \$62,478 | \$61,705 | \$773 |

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Gross Profit Percentages

| | Thirteen Weeks Ended May 2, 2015 | Thirteen Weeks Ended May 3, 2014 |
|-------------------------------|--|--|
| Retail | 48.8% | 46.4% |
| Wholesale | 48.7% | 46.4% |
| Total gross profit percentage | 48.7% | 46.4% |

Gross profit increased 1.3% from \$61.7 million in the thirteen weeks ended May 3, 2014 to \$62.5 million in the thirteen weeks ended May 2, 2015.

Perfumania's retail gross profit dollars increased from \$26.5 million during the thirteen weeks ended May 3, 2014 to \$26.7 million during the thirteen weeks ended May 2, 2015. For these same periods, Perfumania's retail gross margins were 45.8% and 49.6%, respectively. The increase in Perfumania's gross margins is attributable to higher selling prices.

SOW's gross profit dollars decreased from \$7.0 million during the thirteen weeks ending May 3, 2014 to \$6.8 million during the thirteen weeks ended May 2, 2015. For these same periods, SOW's gross margins were 48.9% and 45.6%, respectively. The decrease in gross margins is due to lower selling prices.

QFG's gross profit dollars increased from \$12.8 million during the thirteen weeks ended May 3, 2014 to \$15.8 million during the thirteen weeks ended May 2, 2015. Parlux's gross profit dollars decreased from \$15.0 million during the thirteen weeks ended May 3, 2014 to \$13.4 million during the thirteen weeks ended May 2, 2015. Wholesale gross profit percentage increased from 46.4% during the thirteen weeks ended May 3, 2014 to 48.7% during the thirteen weeks ended May 2, 2015. The increase in wholesale gross margins is due primarily to a higher proportion of sales by QFG of owned and licensed brands, which yield a higher margin.

Expenses

Selling, general and administrative expenses include payroll and related benefits for our distribution centers, 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 centers and corporate office; advertising, consignment fees, sales promotion, royalties, insurance, supplies, freight out, and other administrative expenses.

Selling, general and administrative expenses were \$58.2 million in the thirteen weeks ended May 2, 2015, compared to \$56.9 million in the thirteen weeks ended May 3, 2014. The increase in selling, general and administrative expenses is attributable to higher advertising expenses to support licensed brands and higher spending on the ongoing implementation of new computer systems. Included in selling, general and administrative expenses are expenses in connection with the Services Agreement with Quality King, which were \$0.5 million and less than \$0.1 million during the thirteen weeks ended May 2, 2015 and May 3, 2014, respectively.

Depreciation and amortization was approximately \$2.6 million in each of the thirteen weeks ended May 2, 2015 and May 3, 2014.

Interest expense was approximately \$1.7 million for the thirteen weeks ended May 2, 2015 compared with approximately \$2.6 million for the thirteen weeks ended May 3, 2014. The decrease in interest expense is due to a lower average outstanding balance and lower average interest rate on the Company's revolving credit facility compared with the thirteen weeks ended May 3, 2014.

The Company continues to record a full valuation allowance against all deferred tax assets, thus no income tax benefit was recorded during each of the thirteen weeks ended May 2, 2015 and May 3, 2014.

As a result of the foregoing, we realized net loss of approximately \$0.2 million in the thirteen weeks ended May 2, 2015 compared to net loss of \$0.5 million in the thirteen weeks ended May 3, 2014.

LIQUIDITY AND CAPITAL RESOURCES

Net cash used in operating activities during the thirteen weeks ended May 2, 2015 was approximately \$1.4 million, compared with approximately \$9.8 million used in operating activities during the thirteen weeks ended May 3, 2014.

This decrease primarily reflected changes in working capital. The changes in working capital are due primarily to the reduction in inventory levels and the timing of payables. The seasonality of our operations may lead to significant fluctuations in certain asset and liability accounts between fiscal year-end and subsequent interim periods.

Net cash used in investing activities was approximately \$1.8 million in the thirteen weeks ended May 2, 2015 compared to \$3.2 million in the thirteen weeks ended May 3, 2014. Investing activities during the thirteen weeks ended May 2, 2015

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consisted of Perfumania store construction and remodels, capital expenditures related to an ongoing purchase and implementation of new computer systems and other corporate and information technology enhancements. During the thirteen weeks ended May 2, 2015, Perfumania closed 3 stores. We plan to open a minimum of 5 stores and close approximately 2 stores for the remainder of fiscal 2015. 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 provided by financing activities during the thirteen weeks ended May 2, 2015 was approximately \$3.4 million, compared with \$13.5 million provided by financing activities for the thirteen weeks ended May 3, 2014. The \$10.1 million decrease in cash provided by financing activities is due to lower borrowings under our bank line of credit. Our borrowings under our line of credit decreased due to a reduction in inventory levels and corresponding payments to trade vendors, as well as lower capital expenditures during the thirteen weeks ended May 2, 2015 compared with the thirteen weeks ended May 3, 2014. Capital expenditures decreased due to more Perfumania store openings and higher spending on the implementation of the new computer systems in the thirteen weeks ended May 3, 2014 than the current period.

The Company has a \$175 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 May 2, 2015. As of May 2, 2015, the Company had \$66.5 million available to borrow under the Senior Credit Facility based on the borrowing base at that date.

The Company has various unsecured notes payable outstanding to affiliates which in aggregate total \$125.4 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, 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 funds from operations. 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.

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, income taxes 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 31, 2015.

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 (May 2, 2015), 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 our 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 first quarter of fiscal 2015 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

There have been no material changes to the risk factors described in Item 1A to our Annual Report on Form 10-K for the year ended January 31, 2015.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Form 10-Q, may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are typically identified by words or phrases such as “may,” “will,” “anticipate,” “estimate,” “expect,” “project,” “intend,” “plan,” “believe,” “target,” “forecast,” “objective,” “assume,” “strategies” and terms of similar meaning. Forward-looking statements involve estimates, expectations, projections, goals, forecasts, assumptions, risks and uncertainties. We caution readers that any forward-looking statement is not a guarantee of future performance and that actual results could differ materially from those contained in the forward-looking statement.

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 deterioration of general economic conditions, including weaker than anticipated 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. Copies of our SEC filings are available from the SEC or may be obtained upon request from us.

You should also consider carefully the statements under “Risk Factors” in our Form 10-K which address additional factors that could cause our actual results to differ from those set forth in the forward-looking statements and could materially and adversely affect our business, operating results and financial condition. We cannot assess the impact of each factor on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. The forward-looking statements speak only as of the date on which they are made, and, except to the extent required by federal securities laws, we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which the statement is made or to reflect the occurrence of unanticipated events.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

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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 | Articles of Amendment to Amended and Restated Articles of Incorporation, filed April 17, 2012 (incorporated by reference to Exhibit 3.1 to the Company's Form 8-K filed April 19, 2012). |
| 3.3 | 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 |

PERFUMANIA HOLDINGS, INC. AND SUBSIDIARIES

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: June 15, 2015

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
Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)