

Perfumania Holdings, Inc.
Form 10-K
April 17, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

ý ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended January 28, 2012

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 (State or other jurisdiction of incorporation or organization) 35 Sawgrass Drive, Suite 2 Bellport, New York (Address of principal executive offices) Registrant's telephone number, including area code: (631) 866-4100	65-0977964 (I.R.S. Employer Identification No.) 11713 (Zip Code)
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Securities registered pursuant to Section 12(b) of the Act:

Title of each class Common Stock, \$.01 par value	Name of each exchange on which registered The Nasdaq Stock Market
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Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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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

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

The aggregate market value of the voting stock held by non-affiliates of the registrant was approximately \$16.7 million as of July 31, 2011, based on the closing sale price of \$13.33 per share.

The number of shares outstanding of the registrant’s common stock as of April 13, 2012: 8,970,918 shares

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PART I.

ITEM 1. BUSINESS

General Overview

Perfumania Holdings, Inc. and subsidiaries (“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 fragrance 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, 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.

During fiscal 2011 and 2010, approximately 71.8% and 67.5% of our net sales and 82.0% and 79.1% of our gross profit were provided by our retail division, and approximately 28.2% and 32.5% and 18.0% and 20.9%, respectively, by our wholesale division. Further information for each of the industry segments in which we operate is provided in Note 12 to our consolidated financial statements included in Item 8 of this Form 10-K.

Our executive offices are located at 35 Sawgrass Drive, Suite 2, Bellport, NY 11713, our telephone number is (631) 866-4100, our retail internet address is www.perfumania.com and our business internet address is www.perfumaniaholdingsinc.com. Through our business website, we make available, free of charge, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports as soon as is reasonably practicable after we electronically file them with, or furnish them to, the Securities and Exchange Commission (the “SEC”). The public may read and copy materials we file with the SEC at the SEC’s Public Reference Room at 100 F Street, NE, Washington D.C. 20549. The public may obtain information on the operations of the Public Reference Room by calling the SEC at 1-800-SEC-0330. These reports and amendments are also available at www.sec.gov. In addition, we have made our Code of Business Conduct and Ethics available through our business website under “About us – Corporate Compliance.” The reference to our website does not constitute incorporation by reference of the information contained on our website and the information contained on the website is not part of this Form 10-K.

In this Form 10-K, we refer to the fiscal year beginning January 30, 2011 and ending on January 28, 2012 as “fiscal 2011” and the fiscal year beginning January 31, 2010 and ending January 29, 2011 as “fiscal 2010”.

Pending Merger

The Company has entered into a merger agreement dated as of December 23, 2011, under which it plans to acquire Parlux Fragrances, Inc. (“Parlux”), a publicly-traded company that is in the business of creating, designing, manufacturing, distributing and selling prestige fragrances and beauty related products. Parlux, which markets its products primarily through specialty stores, national department stores and perfumeries on a worldwide basis, had net sales of \$123 million for its most recently audited fiscal year ended March 31, 2011. The consideration to be delivered by Perfumania to Parlux stockholders for the acquisition (which we refer to as the “Merger”) will consist of cash and Company stock with an aggregate value of approximately \$115.5 million, based on the \$9.05 closing sale price of Perfumania common stock on the Nasdaq Stock Market on April 13, 2012.

Upon completion of the Merger, the Company expects to have annual revenues on a pro forma basis of over \$550 million and total assets on a pro forma basis of over \$450 million, subject to the determination of the final purchase price and completion of the purchase price allocation.

The Company expects to obtain financing for the cash portion of the merger consideration from two sources. First, it will

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use borrowings under its existing Senior Credit Facility of up to \$32 million (which amount would be reduced to the extent that cash and cash equivalents held by Parlux at the closing of the merger are less than \$15 million) to fund a portion of the merger consideration and up to \$11 million to fund costs of the merger and related transactions. Second, it will borrow a total of \$30 million from certain family trusts of its principal shareholders, Stephen Nussdorf, Glenn Nussdorf, and Arlene Nussdorf. The new loans will be subordinated to the Senior Credit Facility on the same basis as the Company's existing indebtedness to the Nussdorf trusts.

The Merger is subject to the approval of the shareholders of both companies. Special shareholder meetings are scheduled for April 17, 2012. Assuming the necessary approvals, and subject to the satisfaction or waiver of other conditions set forth in the merger agreement, we expect the Merger to close shortly after the shareholder meetings. You should refer to the Company's joint proxy statement / prospectus, which includes a copy of the merger agreement, for more information about Parlux, the terms of the proposed Merger, and the financing arrangements. The Company has mailed a copy of the joint proxy statement / prospectus to each Perfumania shareholder and has also posted it on the Company's website at www.perfumaniainc.com/proxy_materials.aspx.

Wholesale Business

The wholesale division, which operates 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. It buys designer fragrances principally from the brand owners/manufacturers. QFG strives to increase its selection of brands, sizes and price points in order to be a one stop shop for its customers. QFG's sales are principally to retailers such as Wal-Mart, Walgreens, Kohl's, Nordstrom Rack, Marshalls, Target, Ross Stores and CVS. QFG also operates a direct sales department that services over 10,000 pharmacies and specialty stores, through partnerships with AmerisourceBergen and Cardinal Health, throughout the United States.

Five Star's owned and licensed brands are sold principally through the Company's wholesale business, SOW's consignment business, and Perfumania's retail stores. Five Star handles the manufacturing, on behalf of Perfumania, of the Jerome Privee® product line, which includes bath and body products, and which is sold exclusively in Perfumania's retail stores.

There were no customers who accounted for more than 10% of revenues in fiscal 2011 or 2010.

Retail Business

Perfumania is a leading specialty retailer and distributor of a wide range of brand name and designer fragrances. At January 28, 2012, Perfumania operated a chain of 344 "full service" retail stores, specializing in the sale of fragrances and related products at discounted prices up to 75% below the manufacturers' suggested retail prices. Each of Perfumania's retail stores generally offers approximately 2,000 different fragrance items for women, men and children. These stores stock brand name and designer brands such as Estee Lauder®, Cartier®, Issey Miyake®, Bvlgari®, Yves Saint Laurent®, Calvin Klein®, Giorgio Armani®, Hugo Boss®, Ralph Lauren/Polo®, Perry Ellis®, Liz Claiborne®, Giorgio®, Halston®, Escada®, Christian Dior®, Sean Jean®, Lacoste®, Burberry®, Azzaro®, Guess®, Donna Karan® and Paris Hilton®.¹ Perfumania also carries a private label line of bath & body treatment products under the name Jerome Privee®. The retail business is principally operated through Magnifique Parfumes and Cosmetics, Inc., a subsidiary of Perfumania, although the stores are generally operated under the name "Perfumania." Perfumania's retail stores are generally located in regional malls, manufacturers' outlet malls, lifestyle centers, airports and suburban strip shopping centers.

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. We benefit from our ability to reach a large group of customers from a central site. This also enables us to display a larger number of products than traditional store-based or catalog sellers, and the ability to frequently adjust featured selections and edit content and pricing provides significant merchandising flexibility. During fiscal 2010, we launched a newly designed e-commerce website. The website was revamped in its entirety, providing customers with a more functional, personalized and simplified shopping experience.

SOW operates the largest national designer fragrance consignment program, with contractual relationships to sell products on a consignment basis in approximately 2,300 stores, including more than 1,300 Kmart locations nationwide, as well as through customers such as Burlington Coat Factory, Loehmann's, Daffy's, Steinmart and K&G.

SOW determines the pricing and the products displayed in each of its retail consignment locations and pays a percentage of the sales proceeds to the retailer

¹ Trademarks used in this Form 10-K are the property of the Company or of our licensors. The ® and ™ symbols are deemed to apply to each instance of the respective mark in this report.

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for its profit and overhead applicable to these sales. Overhead includes sales associate payroll and benefits, rental of fragrance space and, in some instances, an inventory shrink allowance. Consignment fees vary depending in part on whether SOW or the retailer absorbs inventory shrinkage.

The retail segment's overall profitability depends principally on our ability to purchase a wide assortment of merchandise at favorable prices, attract customers and successfully conclude retail sales. Other factors affecting our profitability include general economic conditions, competition, availability of volume discounts, number of stores in operation, timing of store openings and closings and the effect of special promotions. Retail store sales, internet sales, and consignment sales represented approximately 71.8% and 67.5% of the Company's total sales in fiscal 2011 and 2010, respectively.

Seasonality and Quarterly Results

The Company's business is highly seasonal, with the most significant activity occurring from September through December each year. Wholesale sales are stronger during the months of September through November, since retailers need to receive merchandise well before the holiday season begins, with approximately 33.9% and 37.2% of total wholesale revenues being generated during these three months in fiscal 2011 and 2010, respectively. Retail revenues are the greatest in December, with approximately 22.7% and 22.8% of retail revenues being generated this month in fiscal 2011 and 2010, respectively, as is typical for a retail operation. In fiscal 2011 and 2010, the Company realized losses from operations during the first nine months and generated income from operations during the fourth quarter due to the seasonality of its business. However, there can be no assurance that future results will be consistent with historical results.

Strategy

The Company's business strategy is to use its experience in the fragrance industry, knowledge of the fragrance market, and business relationships to procure products, enabling it to sell its products to customers at competitive prices. In addition, the Company supplements its offerings with owned or licensed designer and other fragrance brands. It seeks to increase the portfolio of brands for both wholesale distribution and retail sale by presenting a diverse sales opportunity for a designer's brand, thereby enhancing its purchasing opportunities.

The Company emphasizes future growth by broadening its product offering to wholesale customers while also growing the retail business. It also expects to take advantage of opportunities to license or purchase mature designer brands that do not require significant additional expenditure to create retail market demand.

Perfumania's current business strategy focuses on maximizing sales and store productivity by raising the average dollar sale per transaction, increasing transactions per hour, reducing expenses at existing stores, selectively opening new stores in proven geographic markets and closing under-performing stores. When opening new stores, Perfumania seeks locations primarily in high traffic manufacturers' outlet malls, regional malls and selectively, on a stand-alone basis in suburban shopping centers in metropolitan areas. To achieve economies of scale with respect to advertising and management costs, Perfumania evaluates whether to open additional stores in markets where it already has a presence or whether to expand into additional markets that it believes have a population density and demographics to support a cluster of stores.

As of January 28, 2012, we operated 344 Perfumania stores in the United States and Puerto Rico. The following chart shows the number of Perfumania stores operated in each state in which those stores are located.

Perfumania Stores as of January 28, 2012

Alaska	2	Louisiana	5	North Carolina	11
Alabama	2	Maine	1	Ohio	8
Arizona	9	Maryland	8	Oklahoma	1
California	26	Massachusetts	8	Oregon	5
Colorado	3	Michigan	12	Pennsylvania	12
Connecticut	3	Minnesota	3	Puerto Rico	19
Delaware	2	Mississippi	3	South Carolina	8
Florida	53	Missouri	7	Tennessee	5
Georgia	13	Nevada	8	Texas	41

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Hawaii	1	New Hampshire	4	Utah	1
Illinois	13	New Jersey	9	Virginia	3
Indiana	6	New York	20	Washington	6
				Wisconsin	3

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In fiscal 2011 and 2010, Perfumania opened 7 and 3 stores, respectively, excluding seasonal locations. Perfumania continuously monitors store performance and from time to time closes under-performing stores, which typically have been older stores in less trafficked locations. During fiscal 2011 and 2010, Perfumania closed 21 and 16 stores, respectively, excluding seasonal locations. For fiscal 2012, Perfumania intends to continue to focus on improving the profitability of its existing stores and management currently expects to open a minimum of 9 new stores and expects to close approximately 3 stores.

Suppliers

The Company purchases approximately 80% of its fragrances directly from brand owners/manufacturers and the balance from distributors. Its suppliers include most of the largest fragrance manufacturers in the United States. The distributors represent, for the most part, long-standing relationships, some of which are also customers of the Company. The Company maintains a regular dialogue with all designer fragrance brand manufacturers directed toward broadening its product offerings to its customers. The Company believes that having both wholesale and retail customers is desirable to most designer fragrance brand manufacturers and enhances its opportunities to further expand these relationships. In addition, the recent consolidation in the United States department store business and the weak global economy which has impacted United States department store fragrance sales has resulted in favorable buying opportunities for the Company with some of the largest fragrance manufacturers. As is customary in the fragrance industry, the Company has no long-term or exclusive contracts with suppliers.

Marketing and Sales

The Company works with consignment retailers to develop in-store promotions employing signage, displays or unique packaging to merchandise and promote products in addition to developing ad campaigns for specific events as required by the retailers, e.g., mailers, inserts and national print advertising. The cornerstone of our marketing philosophy for our own stores is to develop customer awareness that the stores offer an extensive assortment of brand name and designer fragrances at discount prices.

Wholesale sales representatives maintain regular dialogue with customers to generate selling opportunities and to assist them in finding scarce products at low prices. All sales personnel have access to current inventory information that is generally updated with each order, allowing immediate order confirmation to customers and ensuring that ordered products are in stock for prompt shipment. The Company's management information system affords customers access to current information on price and product availability to enable them to better plan inventory investments. Customers may elect to receive this information in a variety of electronic formats that are updated daily, and can transmit orders electronically directly to the Company's data processing system. The reports generated for customers by the management information system also provide information on manufacturers' special price offerings and promotional programs to demonstrate the savings that can be generated so that customers can validate the value of purchasing from the Company compared to other sources. The Company believes that this gives its salespeople a competitive advantage in customer interactions.

Intellectual Property Rights

The Company's portfolio of fragrance brands is of great importance to its business. Five Star owns the Lutece[®], Norell[®], Pavlova[®], Realm[®], Raffinee[®] and Royal Secret[®] brands, among others. It licenses designer and other fragrance brands, such as Bijan[®], Gale Hayman[®], Michael Jordan[®], Pierre Cardin[®], Royal Copenhagen[®], Vicky Tiel[®], Donald Trump[®], XOXO[®], Snookie[®], and Ivanka Trump[®], often acquiring exclusive worldwide distribution rights. Some of these licenses are renewable on a year-to-year basis or for longer periods, while the rest have terms that typically run from two to five years. Current expiration dates for these licenses (whereupon automatic or discretionary renewal periods may commence) range from October 31, 2012 to September 30, 2017. In addition to the trade name and service mark Perfumania, Perfumania's stores operate under the trade names Fragrance Depot and Perfumania Plus.

We primarily rely on trademark law to protect our intellectual property rights. In addition to using registered trademarks covering licensed brands, we have a proprietary portfolio of approximately 60 U.S. registered trademarks and applications and approximately 200 foreign registered trademarks and applications. U.S. trademark ownership depends on use and remains effective as long as the trademark is used. Trademark registration provides certain additional protections. U.S. trademark registrations are generally renewable for as long as the trademark is used.

Trademark ownership in foreign countries applying common law also depends on continued use, with registration providing certain additional protections. In the European Union and other foreign countries, ownership rights are based on registration. Terms of registrations in such countries range from seven to fifteen years and are generally renewable. We occasionally register the copyright to packaging materials, and we also rely on trade secret and other contractual restrictions to protect the commercial terms of our licenses. From time to time, we bring litigation against those who, in our opinion, infringe our proprietary rights, but there can be no assurance that either such efforts, or any contractual restrictions used, will be adequate or effective. Also, owners of other brands may, from time to time, allege that we have violated their intellectual property rights, which may lead to litigation and material legal expense.

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Competition

Competition varies among the markets in which the Company competes. As a retailer, the Company competes with a wide range of chains and large and small stores, as well as manufacturers, including some of the Company's suppliers. In the wholesale business, the Company competes with many distributors, of which Elizabeth Arden is the largest. Generally, the basis of competition is brand recognition, quality and price. The Company believes that the most important reasons for its competitive success in the wholesale business include its established relationships with manufacturers and large customers, popular recognition of its proprietary and licensed brands, and its efficient, low-cost sourcing strategy and ability to deliver products to consumers at competitive prices. Perfumania's retail competitors include department stores, regional and national retail chains, drug stores, supermarkets, duty-free shops and other specialty retail stores. Some of its competitors sell fragrances at discount prices and some are part of large national or regional chains that have substantially greater resources and name recognition than Perfumania. Perfumania's stores compete on the basis of selling price, promotions, customer service, merchandise variety, store location and ambiance. Internet fragrance sales are highly competitive and Perfumania.com competes on the basis of selling price, merchandise variety, ease of selection and cost of delivery. Some of the Company's competitors may enjoy competitive advantages, including greater financial resources that can be devoted to competitive activities, such as sales and marketing, brand development and strategic acquisitions.

Employees

At January 28, 2012, the Company had 2,025 employees, of whom 195 were involved in warehousing, 1,672 were employed in Perfumania's retail stores, 96 in marketing, sales and operations, and 62 in finance and administration. Temporary and part-time employees are added between Thanksgiving and Christmas. Substantially all the warehouse employees are represented by a union. The Company has never experienced a work stoppage, strike or other interruption in business as a result of a labor dispute.

Distribution

Perfumania utilizes independent national trucking companies, primarily UPS, to deliver merchandise to its stores and wholesale customers. Retail store deliveries generally are made weekly, with more frequent deliveries during the holiday season. Such deliveries permit the stores to minimize inventory storage space and increase the space available for display and sale of merchandise. Sales of Perfumania.com are shipped primarily via UPS and are typically delivered within a few days of being ordered.

Forward Looking Statements

Some of the statements in this 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 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 any additional capital necessary to finance our expansion, and the matters discussed in "Risk Factors" below.

ITEM 1A. RISK FACTORS

The following sets forth certain risk factors known to us that may materially adversely affect the Company and its results of operations or our shareholders' investment.

Risks Relating to the Merger

We may be unable to obtain the financing necessary to consummate the merger.

We entered into an amendment to our existing senior secured revolving credit facility which permits us to borrow up to \$32 million (which amount would be reduced to the extent that cash and cash equivalents held by Parlux at the closing of the Merger are less than \$15 million) to fund a portion of the merger consideration and up to \$11 million to fund costs of the Merger and related transactions. In addition, we received commitments from Nussdorf family trusts

to make a total of \$30 million in new loans to finance the balance of the cash consideration. The newly committed financings will be used to fund the cash portion of the merger consideration and pay Merger-related transaction costs. Our receipt of the financing arrangements

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contemplated by the merger agreement is not a condition to closing the merger. Accordingly, under the merger agreement, if the conditions to the closing of the Merger are satisfied, and financing is not available in full, the closing of the Merger must still proceed or Perfumania must pay a termination fee of \$4 million and expenses of up to \$2 million to Parlux.

We may not realize the benefits of integrating Parlux and Perfumania

To be successful after the Merger, we will need to combine and integrate the operations of Perfumania and Parlux into one company. Integration will require substantial management attention and could detract attention from the day-to-day business of the combined company. We could encounter difficulties in the integration process, such as the need to revisit assumptions about reserves, future production, revenues, capital expenditures and operating costs, including synergies, the loss of key employees or commercial relationships or the need to address unanticipated liabilities. If we cannot integrate the Perfumania and Parlux businesses successfully, we may fail to realize the expected benefits of the Merger.

Failure to complete the Merger could negatively affect Perfumania's stock price and future business and operations

If the merger is not completed for any reason, we may be subject to a number of risks, including the following:

- we will not realize the benefits expected from the merger, including a potentially enhanced financial and competitive position;

- the current market price of our common stock may reflect a market assumption that the Merger will occur and a failure to complete the Merger could result in a negative perception of us by the stock market and a resulting decline in the market price of our common stock; and

- most costs relating to the Merger, including investment banking, financing, legal and accounting fees and expenses, must be paid even if the Merger is not completed, and we may be required to pay substantial fees to Parlux if the merger agreement is terminated under specified circumstances.

Risks Relating to Perfumania

We could face liquidity and working capital constraints if we are unable to generate sufficient cash flows from operations

If we are unable to generate sufficient cash flows from operations to service our obligations, we could face liquidity and working capital constraints, which could adversely impact our future operations and growth. 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, any of which could negatively impact our financial position.

We may have problems raising money needed in the future, which could adversely impact operations or existing stockholders

Our growth strategy includes selectively opening and operating new Perfumania retail locations and increasing the average retail sales per store. We may need to obtain funding to achieve our growth strategy. Additional financing may not be available on acceptable terms, if at all, which would adversely affect our operations. In order to obtain additional liquidity, we might issue additional common stock which could dilute our existing shareholders' ownership interest or we may be required to issue securities with greater rights than those currently possessed by holders of our common stock. We may also be required to take other actions, which may lessen the value of our common stock, including borrowing money on terms that are not favorable.

The beauty industry is highly competitive and if we cannot effectively compete our business and results of operations will suffer

The beauty industry is highly competitive and can change rapidly due to consumer preferences and industry trends. Some of our competitors sell fragrances at discount prices and some are part of large national or regional chains that have substantially greater resources and name recognition than Perfumania. Perfumania's stores compete on the basis of selling price, customer service, merchandise variety and store location. Many of our current and potential competitors have greater financial, technical, operational, and marketing resources. We may not be able to compete successfully against these competitors in developing our products and services. These factors, as well as demographic trends, economic conditions and discount pricing strategies by competitors, could result in increased competition and

could have a material adverse effect on our profitability, operating cash flow, and many other aspects of our business, prospects, results of operations and financial condition.

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Our retail business is sensitive to and may be adversely affected by general economic conditions and overall consumer confidence

Our business is sensitive to a number of factors that influence the levels of consumer spending, including political and economic conditions such as recessionary environments, the levels of disposable consumer income, consumer debt, interest rates, fuel and energy prices, the level of unemployment and consumer confidence. During periods of economic uncertainty where consumer confidence is affected, consumer spending levels and customer traffic could decline, which would have an adverse effect on our business and our results of operations.

Adverse U.S. and global economic conditions could affect our wholesale business

A U.S. or global economic downturn could reduce the availability of credit for businesses. Some of our customers could experience a decline in financial performance. These conditions affect their ability to pay amounts owed to us on a timely basis or at all. There can be no assurance that government responses to potential economic disruptions would increase liquidity and the availability of credit, and as a result, our wholesale customers may be unable to borrow funds on acceptable terms. Any economic decline affecting our customers would adversely affect our business and results of operations.

If Perfumania cannot successfully manage its growth, our business will be adversely affected

We may not be able to sustain growth in revenues. Perfumania's growth has been somewhat dependent upon opening and operating new retail stores on a profitable basis, which in turn is subject to, among other things, securing suitable store sites on satisfactory terms, hiring, training and retaining qualified management and other personnel, having adequate capital resources and successfully integrating new stores into existing operations. Circumstances outside our control could negatively affect these anticipated store openings. Perfumania's new stores may take up to three years to reach planned operating levels. It is possible that Perfumania's new stores might not achieve sales and profitability comparable to existing stores, and it is possible that the opening of new locations might adversely affect sales at existing locations. The failure to expand by successfully opening new stores as planned, or the failure of a significant number of these stores to perform as planned, could have a material adverse effect on our business and our results of operations.

The market for real estate is competitive, which could adversely impact our results

Our ability to effectively obtain real estate to open new stores depends upon the availability of real estate that meets our criteria, including traffic, square footage, co-tenancies, lease economics, demographics, and other factors, and our ability to negotiate terms that meet our financial targets. In addition, we must be able to effectively renew our existing store leases. Failure to secure real estate locations adequate to meet annual targets, as well as effectively managing the profitability of our existing stores, could have a material adverse effect on our business and our results of operations.

If we are unable to effectively manage the inventory we sell on consignment, we will not achieve our expected results. Our business includes a significant portion of consigned sales, and our revenue recognition policy defers recognition of revenue for this type of sales. Consignment sales remain in inventory until the products are sold to end users and, if not sold, the inventory may be returned to us upon termination of the consignment relationships. The turnover frequency of our inventory on consignment is critical to generating regular cash flow in amounts necessary to keep financing costs to targeted levels and to purchase additional inventory. If this turnover is not sufficiently frequent, our financing costs may exceed targeted levels and we may be unable to generate regular cash flow in amounts necessary to purchase additional inventory to meet the demand for other products. In addition, slow inventory turnover may force us to reduce prices and accept lower margins to sell consigned products.

Our business is subject to seasonal fluctuations, which could lead to fluctuations in our stock price

We have historically experienced and expect to continue experiencing higher sales in the fourth fiscal quarter than in any of the first three fiscal quarters. Purchases of fragrances as gift items increase during the holiday season, which results in significantly higher fourth fiscal quarter retail sales. Sales levels of new and existing stores are affected by a variety of factors, including the retail sales environment, the level of competition, the effect of marketing and promotional programs, acceptance of new product introductions, adverse weather conditions, general economic conditions and other factors beyond our control. Our quarterly results may also vary as a result of the timing of new store openings and store closings, net sales contributed by new stores and fluctuations in comparable sales of existing stores. If our quarterly operating results are below expectations, our stock price might decline.

We may experience shortages of the merchandise we need because we do not have long-term agreements with suppliers

Our success depends to a large degree on our ability to provide an extensive assortment of brand name and designer

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fragrances. We have no long-term purchase contracts or other contractual assurance of continued supply, pricing or access to new products. If we are unable to obtain merchandise from one or more key suppliers on a timely basis or acceptable terms, or if there is a material change in our ability to obtain necessary merchandise, our results of operations could be adversely affected.

We could be subject to litigation because of the merchandising aspect of our business

Some of the merchandise we purchase from suppliers might be manufactured by entities that are not the owners of the trademarks or copyrights for the merchandise. The owner of a particular trademark or copyright may challenge us to demonstrate that the specific merchandise was produced and sold with the proper authority, and if we are unable to demonstrate this, we could, among other things, be restricted from reselling the particular merchandise or be subjected to other liabilities. This type of restriction could adversely affect our business and results of operations.

Our stock price volatility could result in litigation, substantial cost, and diversion of management's attention

The price of our common stock has been and likely will continue to be subject to wide fluctuations in response to a number of events, such as:

• quarterly variations in operating results;

• acquisitions, capital commitments or strategic alliances by us or our competitors;

• legal and regulatory matters that are applicable to our business;

• the operating and stock price performances of other companies that investors may deem comparable to us;

• news reports relating to trends in our markets; and

• the amount of shares constituting our public float.

In addition, the stock market in general has experienced significant price and volume fluctuations that often have been unrelated to the performance of specific companies. The broad market fluctuations may adversely affect the market price of our common stock, regardless of our operating performance. Our stock price volatility could result in litigation, including class action lawsuits, which would require substantial monetary cost to defend, as well as the diversion of management attention from day-to-day activities which could negatively affect operating performance. Such litigation could also have a negative impact on the price of our common stock due to the uncertainty and negative publicity associated with litigation.

Future growth may place strains on our managerial, operational and financial resources

If we grow as we anticipate, a significant strain on our managerial, operational and financial resources may occur.

Future growth or increase in the number of our strategic relationships could strain our managerial, operational and financial resources, inhibiting our ability to achieve the execution necessary to successfully implement our business plan.

The loss of or disruption in our distribution facility could have a material adverse effect on our business

We currently have one distribution facility located in Bellport, New York. In addition we use third-party fulfillment centers in New York and New Jersey. The loss of, or damage to any of these facilities, as well as the inventory stored therein, could adversely affect our business, prospects, results of operations, financial condition or cash flows.

Expanding our business through acquisitions of and investments in other businesses and technologies presents special risks that may disrupt our business

We may expand through the acquisition of and investment in other businesses. Acquisitions involve a number of special problems, including:

• difficulty integrating acquired technologies, operations, and personnel with our existing business;

• diversion of management's attention in connection with both negotiating the acquisitions and integrating the assets;

• the need for additional financing;

• strain on managerial, operational and financial resources as management tries to oversee larger operations; and

• exposure to unforeseen liabilities of acquired companies.

We may not be able to successfully address these problems. Moreover, our future operating results will depend to a significant degree on our ability to successfully manage growth or integrate acquisitions.

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Current economic conditions and the global financial crisis may have an impact on our business and financial condition in ways that we currently cannot predict

The global economy has experienced a significant contraction, with an almost unprecedented lack of availability of business and consumer credit. This decrease and any future decrease in economic activity in the United States or in other regions of the world in which we do business could adversely affect our financial condition and results of operations. Continued and potentially increased volatility, instability and economic weakness and a resulting decrease in discretionary consumer and business spending may result in a reduction in our revenues. We currently cannot predict the extent to which our revenues may be impacted.

In addition, our ability to make acquisitions depends, in part, on the availability of equity and debt financing. The credit markets and the general economy have experienced a period of large scale turmoil and upheaval. As a result, equity and debt financing from the capital markets may not be available to us on acceptable terms and may not be available for some time. This may limit our ability to pursue an acquisition-based strategy.

The Company maintains operating bank accounts at a number of financial institutions in the United States. Some of the Company's cash balances in the United States are in excess of the government's Federal Deposit Insurance Corporation insurance limits. The FDIC insures deposits in most banks and savings associations located in the United States. We could incur substantial losses if the underlying financial institutions fail or are otherwise unable to return our deposits.

Any weakness in internal control over financial reporting or disclosure controls and procedures could result in a loss of investor confidence in our financial reports and lead to a stock price decline

We are required to maintain effective internal control over financial reporting, as well as effective disclosure controls and procedures, complying with SEC rules and covering all our business operations. Any failure to have effective internal control over financial reporting or disclosure controls and procedures covering our business could cause investors to lose confidence in the accuracy and completeness of our financial reports, limit our ability to raise financing or lead to regulatory sanctions, any of which could result in a material adverse effect on our business or a decline in the market price of our common stock.

If we fail to protect the security of personal information about our retail customers, our reputation could suffer and we could suffer financial harm

We receive and store personal information about the customers of our retail businesses. The regulatory environment for information security is increasingly demanding, and our customers have a high expectation that we will protect their personal information. If we experience a data security breach, we could be exposed to costly government enforcement actions and private litigation. In addition, this could damage our reputation and our customers could lose confidence in us, which could cause them to stop using credit cards to purchase our products or stop shopping at our stores altogether. Such events could lead to lost future sales, fines or lawsuits, which would adversely affect our results of operations.

Control of our management and policies is with our principal shareholders, who could take actions that are not in the best interest of the other shareholders

Stephen and Glenn Nussdorf beneficially own an aggregate of approximately 59% of our outstanding common stock, assuming exercise of warrants they hold. Including shares and warrants owned by their sister, Arlene Nussdorf, the Nussdorfs beneficially own approximately 82% of our capital stock in aggregate. As a result, they are able to direct our corporate policies and can act unilaterally to approve most actions requiring shareholder approval under law or our governing documents. The Nussdorfs' collective stock ownership may have the effect of delaying or preventing policies or actions deemed desirable by our Board of Directors, such as a business combination that might be in the interests of our other shareholders, which in turn could materially and adversely affect the market price of our common stock. Conversely, such ownership may cause us to implement policies that are not in the best interests of our other shareholders.

We also have a material amount of indebtedness to the Nussdorfs and their affiliates. As significant creditors, the Nussdorfs may refuse consent to actions our Board may consider necessary.

We are a "controlled corporation" under the NASDAQ rules. Accordingly, we are not required to have a board of directors with a majority of independent directors, to have executive compensation determined by an independent

compensation committee, or to have our directors nominated by a majority of the independent directors. This could increase the extent to which the principal shareholders are able to control our operations to the possible detriment of the other shareholders.

Furthermore, we have agreed that, in certain circumstances, we will register with the SEC the resale of certain shares of our common stock held by the Nussdorfs. They may require that, in the event of any marketing limitation on the number of shares included in an applicable registration statement, their shares be registered on a pro rata basis with shares being registered

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for parties that have obtained registration rights in connection with providing financing to us. This may limit our ability to obtain financing in the future.

The absence of contracts with customers or suppliers could result in loss of key customers or suppliers, which would have a material adverse effect on our business

We do not have long-term or exclusive contracts with our customers or with the suppliers of distributed brands. Suppliers of distributed brands generally may choose to reduce or eliminate the volume of their products we distribute, including supplying products to our wholesale customers directly or through another distributor. Our wholesale customers are generally able to cancel orders or delay the delivery of products on short notice. The loss of any key suppliers or customers, or a change in our relationship with any of them, could have a material adverse effect on our business, prospects, and financial condition.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

The Company's principal executive offices and distribution center are located at 35 Sawgrass Drive, Suite 2, Bellport, New York 11713. The Company subleases 280,000 square feet of this 560,000 square foot facility and began using this space in December 2007. This warehouse houses goods for both the wholesale and retail segments. The space is leased through September 2027. An additional administrative office located in Sunrise, Florida is leased through December 2017 and is currently being marketed for sublease.

All of Perfumania's retail stores are located in leased premises. As of January 28, 2012, the Company had a total of approximately 501,000 leased store square feet with an average store size of 1,457 square feet. Most of the store leases provide for the payment of a fixed amount of base rent plus a percentage of sales, ranging from 3% to 15%, over certain minimum sales levels. Store leases typically require Perfumania to pay its proportionate share of common area expenses, real estate taxes, utility charges, insurance premiums and certain other costs. Some of Perfumania's leases permit the termination of the lease if specified minimum sales levels are not met. See Note 12 to our consolidated financial statements for additional information with respect to our store leases.

ITEM 3. LEGAL PROCEEDINGS

Following the announcement of our merger agreement with Parlux, on January 5, 2012, a putative class action complaint, captioned as Shirley Anderson v. Parlux Fragrances, Inc., et al., was filed in the Circuit Court of the Seventeenth Judicial Circuit in and for Broward County, Florida on behalf of a purported stockholder of Parlux. Thereafter, the case was transferred to the Complex Business Division No. 7 and assigned case number 12-000344-CA-07. The named defendants include Parlux, the individual members of the Parlux board of directors, and the Company. The complaint alleges, among other things, that the members of the Parlux board breached their fiduciary duties in negotiating and approving the merger agreement, that the merger consideration negotiated in the merger agreement is inadequate, that certain of the defendants have improper conflicts of interest by reason of the existing relationships between Parlux and the Company, and that the terms of the merger agreement fail to provide the Parlux stockholders with certain procedural protections and impose improper deal protection devices that will preclude competing offers. The complaint further alleges that Parlux and the Company aided and abetted the members of the Parlux board in their alleged breaches of fiduciary duties. The plaintiff seeks a determination that the lawsuit is a proper class action and that the plaintiff is a proper class representative, orders enjoining the defendants and their agents from consummating the proposed transaction unless and until Parlux adopts and implements a procedure to obtain a merger agreement providing the best possible terms for the Parlux stockholders, including conditioning the approval of the merger agreement on the approving vote of holders of a majority of the Parlux shares other than those held by Parlux directors and officers and stockholders related to the Company, rescinding any terms of the proposed transaction already implemented, and awarding damages, costs and attorneys' fees.

On January 19, 2012, an individual named Arthur Weill filed a Motion to Intervene and For Appointment as Lead Plaintiff and Approval as Co-Lead Counsel in the Anderson action, which motion the Court denied on February 6,

2012. On February 7, 2012, the plaintiff filed an Amended Complaint in the Anderson action. In the Amended Complaint the claims and defendants remained the same, but after having reviewed the registration statement jointly filed by the Company and Parlux on January 23, 2012, plaintiff added allegations concerning the independent committee of the Parlux board of directors that she alleges raise questions as to that committee's impartiality. The Amended Complaint also adds details regarding additional information concerning the various analyses and the underlying methodologies performed or used by the financial advisors identified in the registration statement, who rendered fairness opinions to the Parlux board of directors and its independent

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committee, that plaintiff alleges should have been disclosed to Parlux shareholders in order for them to make a fully informed decision whether to vote in support of the proposed transaction. The Amended Complaint also adds allegations concerning the existence of certain voting agreements by the members of the Parlux board of directors and other Parlux shareholders and allegations concerning a decline in the Company's share price since the announcement of the proposed transaction.

On January 31, 2012 a second putative class complaint, captioned as Jose Dias v. Fredrick E. Purches, et al., (Case Number 7199 VCG) was filed in the Court of Chancery for the State of Delaware on behalf of a purported stockholder of Parlux. The Dias action alleges the same claims and operative facts as the Anderson action, and requests similar relief. The Dias plaintiff, joined by the plaintiff in the Anderson action, filed a motion for a preliminary injunction seeking to enjoin the merger based on alleged breaches of fiduciary duty by the Parlux board in negotiating and approving the merger agreement, the alleged inadequacy of the merger consideration, and Parlux's alleged failure to make material disclosures relating to the merger. A hearing on the motion was held on March 23, 2012. On April 5, 2012, the Court of Chancery granted the motion in part and denied it in part. The Court ordered Parlux and the Company to file with the SEC certain additional information about the process followed by the financial advisors to Parlux's board of directors, which both companies did on April 6, 2012. The Court did not enjoin the stockholder meeting scheduled for April 17, 2012, on the condition the additional information be filed, did not enjoin the consummation of the merger, and did not grant any relief other than that noted above. Discovery in the Dias litigation continues.

On February 9, 2012, a third putative class action complaint, captioned as Arthur Weill v. Esther Egozi Choukroun, et al., (Case Number 2012-CV-3508-07) was filed in the Circuit Court of the Seventeenth Judicial Circuit in and for Broward County, Florida on behalf of a purported stockholder of Parlux. The Weill action alleges the same claims and operative facts as the Anderson action and the Dias action and requests similar relief. Concurrent with the filing of the Weill action, the plaintiff filed a Motion to Consolidate Related Cases and for Appointment as Co-Lead Plaintiff and Approval of Co-Lead Counsel with respect to the Anderson and Weill actions. On February 24, 2012, the Court consolidated the Anderson and Weill actions. On February 29, 2012 the Court also granted the defendants' motion to stay the consolidated actions in light of the Dias action in Delaware.

On March 5, 2012 the plaintiff in the Anderson action in Florida, which has been stayed by order of the Florida Court, filed a new action in the Court of Chancery for the State of Delaware captioned as Shirley Anderson v. Parlux Fragrances, Inc., et al. (Case Number 7305-VCP), alleging the same facts and claims as were in her Florida action. Plaintiff has not served this action on the Company. As noted above, however, the plaintiff in this action joined in the motion for a preliminary injunction filed in the Dias action described above.

We are also involved in legal proceedings in the ordinary course of business. Management cannot presently predict the outcome of these or any of the above three matters, although management believes that the ultimate resolution of these matters will not have a materially adverse effect on our financial position, operations or cash flows.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable

PART II.

ITEM MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND
5. ISSUER PURCHASES OF EQUITY SECURITIES
MARKET INFORMATION

Our common stock is traded on the NASDAQ Stock Market under the symbol PERF. The following table sets forth the high and low sales prices for our common stock for the periods indicated, as reported by the NASDAQ Stock Market.

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FISCAL 2011	HIGH	LOW
First Quarter	\$13.17	\$7.67
Second Quarter	\$16.20	\$9.72
Third Quarter	\$19.50	\$11.55
Fourth Quarter	\$20.00	\$9.75
FISCAL 2010	HIGH	LOW
First Quarter	\$9.61	\$5.08
Second Quarter	\$11.99	\$7.01
Third Quarter	\$10.00	\$7.42
Fourth Quarter	\$10.50	\$7.86

As of April 11, 2012, there were 44 holders of record, which excluded common stock held in street name.

DIVIDEND POLICY

We have not declared or paid any dividends on our common stock and do not currently intend to declare or pay cash dividends in the foreseeable future. Payment of dividends, if any, will be at the discretion of the Board of Directors after taking into account various factors, including our financial condition, results of operations, current and anticipated cash needs and plans for expansion.

Our bank credit facility prohibits us from paying dividends or making other distributions to shareholders.

ITEM 6. SELECTED FINANCIAL DATA

Not applicable

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**GENERAL****Management Overview**

During fiscal 2011, the Company continued its efforts to improve its retail operations and in-store experience to maximize retail revenues, reduce its cost base and minimize discretionary spending, optimize inventory levels and improve inventory turns, working capital and operating cash flows.

Net sales increased 1.8% from \$484.8 million in fiscal 2010 to \$493.5 million in fiscal 2011, due to an increase in retail sales offset by a decrease in wholesale sales. Retail sales increased 8.3% compared to the prior year as a result of increases in sales for both Perfumania and SOW, driven by increases in prices per unit as well as in customer traffic. Wholesale revenues decreased by 11.7% from the prior year as a result of less product availability and less customer demand.

Total gross profit increased 5.7% from \$180.8 million in fiscal 2010 to \$191.1 million in fiscal 2011.

Our operating expenses increased 2.5% from \$174.1 million in fiscal 2010 to \$178.5 million in fiscal 2011. Included in operating expenses for fiscal 2011 are \$2.3 million of expenses related to the pending merger with Parlux. See further discussion at Item 1 of this Form 10-K.

Including \$7.8 million of interest expense, we realized a net income of approximately \$4.1 million in fiscal 2011, compared with a net loss of \$3.7 million in fiscal 2010.

The following table sets forth selected items from our consolidated statements of operations expressed as a percentage of total net sales for the periods indicated:

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PERCENTAGE OF NET SALES

	Fiscal Year Ended		Fiscal Year Ended	
	January 28, 2012		January 29, 2011	
Total net sales	100.0	%	100.0	%
Total gross profit	38.7		37.3	
Selling, general and administrative expenses	33.9		33.4	
Asset impairment	0.2		0.6	
Merger related expenses	0.5		—	
Depreciation and amortization	1.6		1.9	
Total operating expenses	36.2		35.9	
Income from operations	2.5		1.4	
Interest expense	1.6		2.7	
Income (loss) before income taxes	0.9		(1.3)
Income tax provision (benefit)	0.1		(0.5)
Net income (loss)	0.8	%	(0.8)%

CRITICAL ACCOUNTING ESTIMATES

Our consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“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 our financial statements.

Accounts Receivable, Net of Allowances

In the normal course of business, we extend credit to wholesale customers that satisfy pre-determined credit criteria. Accounts receivable, net of allowances, as shown on the consolidated balance sheets, is net of allowances for doubtful accounts. An allowance for doubtful accounts is determined through the analysis of the aging of accounts receivable at the date of the financial statements, assessments of collectability based on an evaluation of historical and anticipated trends, the financial condition of our customers and an evaluation of the impact of economic conditions. Should circumstances change or economic conditions deteriorate significantly, we may need to increase our provisions.

Inventory Adjustments and Writeoffs

Inventories are stated at the lower of cost or market, with cost being determined on a weighted average cost basis. We review our inventory on a regular basis for excess and potentially slow moving inventory based on prior sales, forecasted demand and historical experience and through specific identification of obsolete or damaged merchandise and we record adjustments to reduce the carrying value of inventory to the lower of cost or market in accordance with our assessment. If actual sales are less than our forecasts, additional writeoffs could be necessary. Inventory shrinkage is estimated and accrued between physical inventory counts. Significant differences between future experience and that which was projected (for either the shrinkage or inventory reserves) could affect the recorded amounts of inventory and cost of sales.

Impairment of Long-Lived Assets

When events or changes in circumstances indicate that the carrying values of long-lived assets may be impaired, an evaluation of recoverability is performed by comparing the carrying value of the assets to projected future undiscounted cash flows in addition to other quantitative and qualitative analyses. Inherent in this process is

significant management judgment as to the projected cash flows. Upon indication that the carrying value of such assets may not be recoverable, the Company recognizes an impairment loss as a charge against current operations. Property and equipment assets are grouped at the lowest

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level for which there are identifiable cash flows when assessing impairment. Cash flows for retail assets are identified at the individual store level. Factors that could trigger an impairment review include a significant underperformance relative to expected historical or projected future operating results, or a significant negative industry or economic trend. Judgments are also made as to whether under-performing stores should be closed. Even if a decision has been made not to close an under-performing store, the assets at that store may be impaired.

The Company conducted an internal review of its long-lived assets (primarily leasehold improvements) at the store level in fiscal 2010 and determined that the carrying value of certain assets exceeded their projected future undiscounted cash flows. The Company then determined the fair value of the identified long-lived assets by discounting their projected future cash flows using a rate approximating the Company's weighted average cost of capital, which resulted in an impairment charge of approximately \$2.2 million. The Company conducted a similar review of its long-lived assets at the store level in fiscal 2011 and recorded an impairment charge of approximately \$0.3 million. In fiscal 2011 and 2010, we also recorded impairment charges of approximately \$0.8 million in each year, on a building under a capital lease.

As the projection of future cash flows requires the use of judgments and estimates, if actual results are materially different than these judgments or estimates, additional charges could be necessary. Significant deterioration in the performance of the Company's stores compared to projections could result in significant additional asset impairments.

Impairment of Intangible Assets

The Company's owned tradenames that have been determined to have indefinite lives are not subject to amortization but are reviewed at least annually for potential impairment. The fair values are estimated and compared to their carrying values. Fair value is principally estimated using a discounted cash flow model which depends on, among other factors, estimates of future sales and expense trends, liquidity and capitalization. We base our fair value estimates on assumptions we believe to be reasonable, but which are unpredictable and inherently uncertain. Actual future results may differ from those estimates. We recognize an impairment loss when the estimated fair value is less than the carrying value.

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. The recoverability of the carrying values of all long-lived assets with finite lives is re-evaluated when changes in circumstances indicate the assets' value may be impaired.

There was no recorded goodwill as of January 28, 2012 and January 29, 2011. Based on management's impairment review at January 28, 2012 and January 29, 2011, there was no impairment of trademarks or tradenames in fiscal 2011 or 2010. We will continue to monitor the expected future cash flows of the Company's reporting units and the long-term market capitalization trends to assess the carrying values of the intangible assets.

Sales and Allowances

Revenue from wholesale transactions is recorded when title passes. Wholesale revenue is recorded net of returns, discounts and allowances. Revenue from retail sales is recorded, net of discounts, at the point of sale for Perfumania stores, and for consignment sales, when sale to the ultimate customer occurs. Revenue from Internet sales is recognized at the time products are delivered to customers. We record an estimate of returns, discounts and allowances, and review and refine these estimates on a regular basis based on current experience and trends. Our historical estimates of these costs have not differed materially from actual results; however, if the actual rate of sales returns increases significantly, our operating results could be adversely affected.

Valuation of Deferred Tax Assets

Accounting guidance requires that deferred tax assets be evaluated for future realization and reduced by a valuation allowance to the extent we believe it is more likely than not that a portion of these assets will not be realized. The guidance also prescribes a comprehensive model for the financial statement recognition, presentation and disclosure of uncertain tax positions taken or expected to be taken in an income tax return and also provides guidance on various related matters such as derecognition, interest and penalties, and disclosure. We consider many factors when assessing the likelihood of future realization of our deferred tax assets including our recent cumulative earnings experience by taxing jurisdiction, expectations of future taxable income, the carry-forward periods available to us for tax reporting purposes and other relevant factors. The range of possible judgments relating to the valuation of our deferred tax

assets is very wide. Significant judgment is required in making these assessments and it is very difficult to predict when, if ever, our assessment may conclude that the remaining portion of our deferred tax assets is realizable. Significant differences between future experience and that which was projected in calculating deferred tax assets could result in significant additional adjustments to our deferred tax assets and income tax expense.

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FISCAL YEAR 2011 COMPARED TO FISCAL YEAR 2010

Net Sales:

We recognized net sales of \$493.5 million in fiscal 2011, an increase of 1.8% from the \$484.8 million recorded in fiscal 2010. The breakdown of sales between retail and wholesale was as follows:

	For the year ended				
	(\$ in thousands)				
	January 28, 2012	Percentage of Sales	January 29, 2011	Percentage of Sales	Percentage Increase (Decrease)
Retail	\$354,488	71.8	% \$327,291	67.5	% 8.3%
Wholesale	139,019	28.2	% 157,509	32.5	% (11.7)%
Total net sales	\$493,507	100.0	% \$484,800	100.0	% 1.8%

Retail sales increased by 8.3% from \$327.3 million in fiscal 2010 to \$354.5 million in fiscal 2011. The increase was due to an increase in Perfumania's retail sales of \$21.4 million and an increase in SOW's consignment sales of \$5.8 million.

Perfumania's retail sales for fiscal 2011 increased by 8.2% from \$261.4 million in 2010 to \$282.8 million in fiscal 2011. The average number of stores operated was 347 in fiscal 2011 compared with 367 in fiscal 2010. Perfumania's comparable store sales increased by 10.4% during fiscal 2011. 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 af