Perfumania Holdings, Inc.
Form 10-Q
September 09, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended July 30, 2016 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 Bellport, NY	11713
(Address of principal executive offices)	(Zip Code)

Registrant’s telephone number, including area code: (631) 866-4100

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes R No ¨

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

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

Large Accelerated Filer	o	Accelerated Filer	¨
Non-accelerated Filer	o (Do not check if a smaller reporting company)	Smaller Reporting Company	þ

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

The number of shares outstanding of the registrant's common stock, as of the latest practicable date: At September 8, 2016, there were 15,493,763 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)

	July 30, 2016 (unaudited)	January 30, 2016 (Note 1)
ASSETS:		
Current assets:		
Cash and cash equivalents	$ 2,284	$ 5,640
Accounts receivable, net of allowances of $2,948 and $1,233 as of July 30, 2016 and January 30, 2016, respectively	29,755	29,602
Inventories	220,635	221,336
Prepaid expenses and other current assets	9,646	9,862
Total current assets	262,320	266,440
Property and equipment, net	23,832	25,892
Goodwill	38,769	38,769
Intangible and other assets, net	17,969	19,945
Total assets	$ 342,890	$ 351,046
LIABILITIES AND SHAREHOLDERS' EQUITY:		
Current liabilities:		
Accounts payable	$ 33,823	$ 32,175
Accounts payable-affiliates	953	300
Accrued expenses and other liabilities	27,159	33,205
Current portion of obligations under capital leases	1,332	1,248
Total current liabilities	63,267	66,928
Revolving credit facility	23,927	13,078
Notes payable-affiliates	125,366	125,366
Long-term portion of obligations under capital leases	549	1,223
Other long-term liabilities	63,189	60,474
Total liabilities	276,298	267,069
Commitments and contingencies		
Shareholders' equity:		
Preferred stock, $0.10 par value, 1,000,000 shares authorized; as of July 30, 2016 and January 30, 2016, none issued	—	—
Common stock, $.01 par value, 35,000,000 shares authorized; 16,392,012 shares issued as of July 30, 2016 and January 30, 2016	164	164
Additional paid-in capital	222,001	221,961
Accumulated deficit	(146,996)	(129,571)
Treasury stock, at cost, 898,249 shares as of July 30, 2016 and January 30, 2016	(8,577)	(8,577)
Total shareholders' equity	66,592	83,977
Total liabilities and shareholders' equity	$ 342,890	$ 351,046

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 July 30, 2016	Thirteen Weeks Ended August 1, 2015	Twenty-six Weeks Ended July 30, 2016	Twenty-six Weeks Ended August 1, 2015
Net sales	$ 97,020	$ 109,306	$ 202,159	$ 237,516
Cost of goods sold	51,996	58,250	105,366	123,982
Gross profit	45,024	51,056	96,793	113,534
Operating expenses:				
Selling, general and administrative expenses	52,333	63,475	106,261	121,667
Share-based compensation expense	8	74	40	174
Depreciation and amortization	2,025	2,581	4,536	5,200
Total operating expenses	54,366	66,130	110,837	127,041
Loss from operations	(9,342)	(15,074)	(14,044)	(13,507)
Interest expense	(1,674)	(1,723)	(3,381)	(3,455)
Loss before income tax provision	(11,016)	(16,797)	(17,425)	(16,962)
Income tax provision	—	—	—	—
Net loss	$ (11,016)	$ (16,797)	$ (17,425)	$ (16,962)
Net loss per common share:				
Basic and diluted	$ (0.71)	$ (1.08)	$ (1.12)	$ (1.10)
Weighted average number of common shares outstanding:				
Basic and diluted	15,493,763	15,483,640	15,493,763	15,480,151

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 Paid-In	Accumulated	Treasury Stock		
	Shares	Amount	Capital	Deficit	Shares	Amount	Total
Balance at January 30, 2016	16,392,012	$ 164	$ 221,961	$ (129,571)	898,249	$ (8,577)	$ 83,977
Share-based compensation expense	—	—	40	—	—	—	40
Net loss	—	—	—	(17,425)	—	—	(17,425)
Balance at July 30, 2016	16,392,012	$ 164	$ 222,001	$ (146,996)	898,249	$ (8,577)	$ 66,592

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)

	Twenty-six Weeks Ended July 30, 2016	Twenty-six Weeks Ended August 1, 2015
Cash flows from operating activities:		
Net loss	$(17,425)	$(16,962)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Amortization of deferred financing costs	174	172
Depreciation and amortization	4,536	5,200
Provision (recovery) for losses on accounts receivable	1,721	(319)
Share-based compensation	40	174
Changes in operating assets and liabilities:		
Accounts receivable	(1,874)	3,030
Inventories	701	8,379
Prepaid expenses and other assets	813	2,248
Accounts payable	1,648	4,785
Accounts payable-affiliates	653	844
Accrued expenses and other liabilities and other long-term liabilities	(3,331)	737
Net cash (used in) provided by operating activities	(12,344)	8,288
Cash flows from investing activities:		
Additions to property and equipment	(1,271)	(3,614)
Net cash used in investing activities	(1,271)	(3,614)
Cash flows from financing activities:		
Net borrowings (repayments) under bank line of credit	10,849	(3,545)
Principal payments under capital lease obligations	(590)	(515)
Proceeds from exercise of stock options	—	54
Net cash provided by (used in) financing activities	10,259	(4,006)
Net (decrease) increase in cash and cash equivalents	(3,356)	668
Cash and cash equivalents at beginning of period	5,640	1,533
Cash and cash equivalents at end of period	$2,284	$2,201
Supplemental Information:		
Cash paid during the period for:		
Interest	$447	$725
Income taxes	$193	$576

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 30, 2016, which has been derived from our audited financial statements as of and for the year ended January 30, 2016, 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 30, 2016.

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 twenty-six weeks ended July 30, 2016 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 Burlington Coat Factory, CVS, Kohl's, Marshalls, Nordstrom Rack, Ross Stores, Sears, Target, 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, Lord & Taylor, Macy's 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 July 30, 2016, Perfumania operated a chain of 297 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 a national designer fragrance consignment program, with contractual relationships to sell products on a consignment basis in approximately 1,300 stores, including approximately 800 Kmart locations nationwide. Its other retail customers include Bealls, K & G and Steinmart.

NOTE 2 - RECENT ACCOUNTING PRONOUNCEMENTS

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-02, Leases, which replaces the existing guidance in Accounting Standard Codification 840, Leases. ASU 2016-02 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2018. ASU 2016-02 requires a dual approach for lessee accounting under which a lessee would account for leases as finance leases or operating leases. Both finance leases and operating leases will result in the lessee recognizing a right-of-use asset and corresponding lease liability. For finance leases the lessee would recognize interest expense and amortization of the right-of-use asset and for operating leases the lessee would recognize straight-line total lease expense. The Company is currently assessing the new standard and its impact on its consolidated financial statements.

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In November 2015, the FASB issued ASU No. 2015-17, Balance Sheet Classification of Deferred Taxes, which modifies the presentation of noncurrent and current deferred taxes. ASU 2015-17 requires that all deferred tax assets and liabilities be classified as noncurrent on the balance sheet instead of separating deferred taxes into current and noncurrent amounts. The standard is effective for interim and annual reporting periods beginning after December 15, 2016. Early adoption is permitted. The Company adopted ASU No. 2015-17 prospectively effective January 30, 2016. No prior periods were retrospectively adjusted.

In April 2015, the FASB issued 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. In August 2015, the FASB issued ASU No. 2015-15, Interest-Imputation of Interest (Subtopic 835-30): Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements - Amendments to SEC Paragraphs Pursuant to Staff Announcements at the June 2015 EITF Meeting. ASU 2015-15 amends Subtopic 835-30 to include that the SEC would not object to the deferral and presentation of debt issuance costs as an asset and subsequent amortization of debt issuance costs over the term of the line-of-credit arrangement, whether or not there are any outstanding borrowings on the line-of-credit arrangement. This guidance is effective for 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 did not have a material impact on the Company's consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers. The update outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. ASU 2014-09 requires entities to recognize revenue in a way that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration the entity expects to be entitled to in exchange for those goods or services. In August 2015, the FASB approved a one year deferral of the effective date, to make it effective for annual and interim reporting periods beginning after December 15, 2017. The standard allows for either a full retrospective or a modified retrospective transition method. The guidance is not expected to have a material impact on the Company's consolidated financial statements.

NOTE 3 - ALLOWANCE FOR DOUBTFUL ACCOUNTS

The Company's accounts receivable consist primarily of trade receivables due from wholesale customers. In May 2016, a Panama based customer of Parlux that distributes in certain Latin American countries was placed on the Specially Designated Nationals list by the Office of Foreign Assets Control of the U.S. Treasury Department. As a result, the customer's assets have been frozen and any dealings between U.S. companies, including Parlux, and the customer have been prohibited. Accordingly, during the thirteen weeks ended April 30, 2016, management reserved the outstanding accounts receivable balance from the customer of approximately $1.7 million due to the uncertainty of future collection of these receivables.

NOTE 4 - GOODWILL AND INTANGIBLE ASSETS

Goodwill in the amount of $38.8 million at July 30, 2016 and January 30, 2016 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 July 30, 2016 and January 30, 2016:

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	July 30, 2016			January 30, 2016
Useful Life (years)	Original Cost	Accumulated Amortization	Net Book Value	Original