

Perfumania Holdings, Inc.  
Form S-4/A  
February 23, 2012  
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As filed with the Securities and Exchange Commission on February 23, 2012

Registration No. 333-179124

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**AMENDMENT NO. 1**  
**TO**  
**FORM S-4**  
**REGISTRATION STATEMENT**

*UNDER*

*THE SECURITIES ACT OF 1933*

**PERFUMANIA HOLDINGS, INC.**

(Exact name of registrant as specified in its charter)

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<b>Florida</b> (State or other jurisdiction of incorporation or organization)	<b>5900</b> (Primary Standard Industrial Classification Code Number)	<b>65-0977964</b> (I.R.S. Employer Identification Number)
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35 Sawgrass Drive, Suite 2  
Bellport, NY 11713  
631-866-4100

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

**Donna Dellomo, Chief Financial Officer**

**Perfumania Holdings, Inc.**  
35 Sawgrass Drive, Suite 2  
Bellport, NY 11713  
631-866-4100

(Name, address, including zip code, and telephone number, including area code, of agent for service)

*With copies to:*

**Matthew C. Dallett**  
Edwards Wildman Palmer LLP  
111 Huntington Avenue  
Boston, Massachusetts 02199-7613  
(617) 239-0100

**Frederick E. Purches**  
Chairman and Chief Executive Officer  
Parlux Fragrances, Inc.  
5900 N. Andrews Avenue, Suite 500,  
Fort Lauderdale, FL 33309  
(954) 316-9008

**Thomas R. McGuigan**  
Squire Sanders (US) LLP  
777 S. Flagler Dr., Suite 1900 West  
West Palm Beach, FL 33401  
(561) 650-7200

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**Approximate date of commencement of proposed sale of the securities to the public:** As soon as practicable after this registration statement becomes effective and the satisfaction or waiver of all other conditions under the merger agreement described in this registration statement.

If the securities being registered on this form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box.

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

Indicate by check mark whether each registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

**Large accelerated filer**  **Accelerated filer**   
**Non-accelerated filer**  **(Do not check if a smaller reporting company)** **Smaller reporting company**

If applicable, place an X in the box to designate the appropriate rule provision relied upon in conducting this transaction:

Exchange Act Rule 13e-4(i) (Cross-Border Issuer Tender Offer)

Exchange Act Rule 14d-1(d) (Cross-Border Third-Party Tender Offer)

### CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered	Proposed Maximum Offering Price per Share	Proposed	Amount of Registration Fee(3)
			Maximum Aggregate Offering Price(2)	
Common Stock, \$0.01 value per share(1)	11,493,795	N/A	\$81,250,626	\$3,801

- (1) Represents the estimated maximum number of shares issuable to holders of common stock, \$.01 par value, of Parlux Fragrances, Inc. ( Parlux ) under the merger agreement dated as of December 23, 2011 by and among the registrant, Parlux, and PFI Merger Corp., a subsidiary of the registrant.
- (2) Estimated solely for the purpose of calculating the registration fee pursuant to Rules 457(c) and 457(f) under the Securities Act. Equals the difference between (a) the product of (i) \$.13, the average of the high and low sales prices per share of Parlux common stock on February 17, 2012, as reported on The Nasdaq Stock Market, and (ii) the sum of the 20,769,362 shares of Parlux common stock outstanding on that date and the 7,134,325 shares that may be issued upon exercise of options and warrants outstanding on that date, all of which would be cancelled in the merger and (b) \$61,895,288, the maximum amount of cash payable by the registrant in exchange for Parlux common stock under the merger agreement.
- (3) In connection with the initial filing of this Registration Statement on January 20, 2012, \$5,510 of the total filing fee of \$9,311 was previously paid. The \$3,801 in the registration fee table above is being paid in connection with this S-4/A filing to reflect additional securities being registered.

**The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act or until the registration statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said**

Section 8(a), may determine.

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**The information in this joint proxy statement/prospectus is not complete and may be changed. These securities may not be sold nor may offers to buy be accepted until the registration statement filed with the Securities and Exchange Commission, of which this joint proxy statement/prospectus is a part, is declared effective. This joint proxy statement/prospectus is not an offer to sell and is not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.**

**PRELIMINARY SUBJECT TO COMPLETION DATED FEBRUARY 23, 2012**

**MERGER PROPOSAL YOUR VOTE IS VERY IMPORTANT**

Perfumania Holdings, Inc. ( Perfumania ) and Parlux Fragrances, Inc. ( Parlux ) have entered into an Agreement and Plan of Merger providing for Perfumania s acquisition of Parlux, which we refer to as the merger agreement. Under the merger agreement, Parlux will become a wholly owned subsidiary of Perfumania in a transaction that we refer to as the merger. We ask for your support in voting to approve the proposals necessary to complete the merger that will be presented at the Perfumania and Parlux stockholder meetings described in the accompanying joint proxy statement/prospectus.

Under the merger agreement, Parlux stockholders may elect to receive consideration consisting of shares of Perfumania common stock or a combination of shares and cash in exchange for their shares of Parlux common stock. Subject to adjustments as described below, Parlux stockholders electing to receive only shares will receive 0.533333 shares of Perfumania common stock in exchange for each Parlux share, and Parlux stockholders electing to receive a mix of cash and stock consideration and stockholders who do not make a timely election will receive \$4.00 in cash and 0.20 shares of Perfumania common stock in exchange for each Parlux share. However, the maximum amount of cash that will be paid is \$61,895,288, and the maximum amount of Perfumania common stock that will be issued is 5,919,052 shares. Both of these amounts are subject to adjustment in certain circumstances. In addition, if Parlux stockholders elect, in the aggregate, to receive more Perfumania shares than the maximum number available, which we believe is probable, holders electing to receive all stock consideration will receive a proportionate amount of the maximum available shares plus cash for the shares elected but not issued. These potential adjustments are more fully described in the accompanying joint proxy statement/prospectus.

Based on the \$[ ] closing sale price of Perfumania common stock on the Nasdaq Stock Market on [ ], 2012, the aggregate value of the merger consideration to be delivered by Perfumania to Parlux stockholders was approximately \$[ ]. Based on that Perfumania stock price and depending on the stockholder elections described above, the merger agreement values a share of Parlux stock at between \$[ ] and \$[ ], assuming no adjustments under the merger agreement other than such elections. Parlux s closing market price on [ ], 2012 was \$[ ] per share, and there were [20,769,362] shares of Parlux common stock outstanding on that date. See The Merger Agreement Consideration to be Received in the Merger in the accompanying joint proxy statement/prospectus for more information.

Current Perfumania stockholders will continue to own their existing Perfumania shares following the merger. We anticipate that, upon completion of the merger, Parlux stockholders will own approximately 40% of the outstanding shares of common stock of the combined company and current Perfumania stockholders will own approximately 60% (assuming issuance of the maximum number of shares, which we believe is probable). Following the merger, the Nussdorf family, members of which are currently the owners of approximately 74% of Perfumania s outstanding shares and 9.9% of Parlux s outstanding shares (and who have agreed to vote all such shares in favor of the proposals to be presented at both the Perfumania and the Parlux stockholder meetings), are expected to continue to own a majority of Perfumania s outstanding shares.

**THE PERFUMANIA BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT PERFUMANIA STOCKHOLDERS VOTE FOR THE PROPOSALS TO INCREASE THE NUMBER OF AUTHORIZED SHARES OF PERFUMANIA S COMMON STOCK AND TO ISSUE SHARES IN CONNECTION WITH THE MERGER, WHICH ARE NECESSARY TO COMPLETE THE MERGER.**

**THE PARLUX BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT PARLUX STOCKHOLDERS VOTE FOR THE PROPOSAL TO APPROVE AND ADOPT THE MERGER AGREEMENT, WHICH IS NECESSARY TO COMPLETE THE MERGER.**

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The accompanying joint proxy statement/prospectus contains detailed information about the stockholder meetings and the merger. We encourage you to read this entire document, as well as the annexes and exhibits, carefully and in their entirety.

**Your vote is very important, regardless of the number of shares you own. Whether or not you expect to attend the stockholder meeting in person, please submit a proxy to vote your shares as promptly as possible so that your shares may be represented and voted at the applicable stockholder meeting. For a discussion of certain risks relating to the merger, see Risk Factors beginning on page 32.**

Michael W. Katz

President and Chief Executive Officer

Perfumania Holdings, Inc.

Frederick E. Purches

Chairman and Chief Executive Officer

Parlux Fragrances, Inc.

The accompanying joint proxy statement/prospectus is dated [ ], 2012 and, together with a proxy card for the applicable company, is first being mailed to Perfumania and Parlux stockholders on or about [ ], 2012.

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**PRELIMINARY SUBJECT TO COMPLETION DATED FEBRUARY 23, 2012**

**Perfumania Holdings, Inc.**

**35 Sawgrass Drive, Suite 2**

**Bellport, New York 11713**

www.perfumaniaholdingsinc.com

Notice of Special Meeting of Stockholders

To be Held on [ ], 2012

Notice is hereby given that a Special Meeting of Stockholders of Perfumania Holdings, Inc. will be held at [ ], on [ ], 2012, at [ ] a.m. Eastern Time for the following purposes, as set forth in the accompanying Joint Proxy Statement/Prospectus:

1. To approve an amendment of Perfumania's Amended and Restated Articles of Incorporation to increase the number of authorized shares of Perfumania common stock to 35,000,000 shares;
2. To approve the issuance of shares of Perfumania common stock in connection with the proposed merger between Perfumania and Parlux Fragrances, Inc.; and
3. To transact such other business as may be in furtherance of or incidental to the foregoing.

The joint proxy statement/prospectus accompanying this Notice contains further information about the business to be transacted at the Special Meeting.

The Board of Directors is not aware of any other business to be presented for action at the Special Meeting. If any other matter properly comes before the Special Meeting, the persons named in the accompanying form of proxy intend to vote on it in accordance with the judgment of management. Any action may be taken on the foregoing proposals at the Special Meeting on the date specified above, or on any date or dates to which the Special Meeting may be adjourned.

Only holders of record of Perfumania common stock as of the close of business on March 1, 2012, the record date, are entitled to receive notice of and to vote at the Perfumania Special Meeting or any adjournments thereof.

By Order of the Board of Directors,

Michael W. Katz

*President and Chief Executive Officer*

Bellport, New York

[ ], 2012

**YOUR VOTE IS IMPORTANT**

**IT IS IMPORTANT THAT PROXIES BE RETURNED PROMPTLY. THEREFORE, WHETHER OR NOT YOU EXPECT TO ATTEND THE MEETING IN PERSON, PLEASE SIGN, DATE AND RETURN THE ENCLOSED PROXY AS SOON AS POSSIBLE IN THE ENCLOSED POSTAGE PRE-PAID ENVELOPE, AS DESCRIBED IN THE INSTRUCTIONS WITH YOUR PROXY CARD.**



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PRELIMINARY SUBJECT TO COMPLETION DATED FEBRUARY 23, 2012

**Parlux Fragrances, Inc.**

**5900 N. Andrews Avenue, Suite 500**

**Fort Lauderdale, Florida 33309**

www.parlux.com

Notice of Special Meeting of Stockholders

To be Held on [ ], 2012

Notice is hereby given that a Special Meeting of Stockholders of Parlux Fragrances, Inc. will be held at [ ], on [ ], 2012, at [ ] a.m. Eastern Time for the following purposes as set forth in the accompanying Joint Proxy Statement/Prospectus:

1. To approve and adopt the Agreement and Plan of Merger, dated December 23, 2011 (as it may be amended from time to time), among Perfumania Holdings, Inc., Parlux, and PFI Merger Corp., a wholly owned subsidiary of Perfumania, under which Parlux will become a wholly owned subsidiary of Perfumania;
2. To approve, on an advisory and non-binding basis, certain compensation payable to certain executive officers of Parlux in connection with the merger;
3. To approve the adjournment of the special meeting for any purpose, including to solicit additional proxies if there are insufficient votes at the time of the special meeting to approve the first proposal described above; and
4. To transact such other business as may be in furtherance of or incidental to the foregoing.

The joint proxy statement/prospectus accompanying this Notice contains further information about the business to be transacted at the Special Meeting.

The Board of Directors is not aware of any other business to be presented for action at the Special Meeting. If any other matter properly comes before the Special Meeting, the persons named in the accompanying form of proxy will vote as recommended by the Parlux board of directors or, if no recommendation is given, in accordance with their best judgment. Any action may be taken on the foregoing proposals at the Special Meeting on the date specified above, or on any date or dates to which the Special Meeting may be adjourned.

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Only holders of record of Parlux common stock as of the close of business on March 1, 2012, the record date, are entitled to receive notice of and to vote at the Parlux Special Meeting or any adjournments thereof.

By order of the Board of Directors,

Frederick E. Purches

*Chairman and Chief Executive Officer*

Fort Lauderdale, Florida

[ ], 2012

**YOUR VOTE IS IMPORTANT**

**IT IS IMPORTANT THAT PROXIES BE RETURNED PROMPTLY. THEREFORE, WHETHER OR NOT YOU EXPECT TO ATTEND THE MEETING IN PERSON, PLEASE SIGN, DATE AND RETURN THE ENCLOSED PROXY AS SOON AS POSSIBLE IN THE ENCLOSED POSTAGE PRE-PAID ENVELOPE, OR VOTE BY TELEPHONE OR THE INTERNET, AS DESCRIBED IN THE INSTRUCTIONS WITH YOUR PROXY CARD.**

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**PRELIMINARY SUBJECT TO COMPLETION DATED FEBRUARY 23, 2012**

**This joint proxy statement/prospectus contains important information about both companies and the proposed merger.**

**ADDITIONAL INFORMATION**

**Important Notice Regarding the Availability of Proxy Materials for the Special Meeting of Perfumania Stockholders to be held on [ ], 2012: The accompanying joint proxy statement/prospectus is available at [www.perfumaniaholdingsinc.com/proxy\\_materials.aspx](http://www.perfumaniaholdingsinc.com/proxy_materials.aspx).**

**Important Notice Regarding the Availability of Proxy Materials for the Special Meeting of Parlux Stockholders to Be Held on [ ], 2012: The accompanying joint proxy statement/prospectus is available at [www.parlux.com/corporate/index.html](http://www.parlux.com/corporate/index.html).**

Parlux and Perfumania each make available additional information that is not required to be included in or distributed with this joint proxy statement/prospectus on their Internet websites at [www.parlux.com](http://www.parlux.com) and [www.perfumaniaholdingsinc.com](http://www.perfumaniaholdingsinc.com), respectively. Information contained on these websites does not constitute part of this joint proxy statement/prospectus. They also provide information in periodic and other filings with the SEC. If you would like more information on Parlux or Perfumania, see *Where You Can Find More Information* beginning on page 241 of this joint proxy statement/prospectus.

Documents filed with the SEC are available to you without charge through the SEC's web site ([www.sec.gov](http://www.sec.gov)) or by requesting them in writing or by telephone from the respective company at the following addresses and telephone numbers:

Perfumania Holdings, Inc.

35 Sawgrass Drive, Suite 2

Bellport, New York 11713

Attention: Andrea Petruzzo

(631) 866-4100

Parlux Fragrances, Inc.

5900 N. Andrews Avenue, Suite 500

Fort Lauderdale, Florida 33309

Attention: Corporate Secretary

(954) 316-9008

You may also obtain documents without charge by requesting them in writing or by telephone from Georgeson Shareholder Communications Corporation, Parlux's proxy solicitor, at the following address and telephone number:

Georgeson Inc.

199 Water Street, 26<sup>th</sup> Floor

New York, New York 10038

(212) 440-9879

Stockholders requesting documents should do so no later than [ ], 2012 in order to receive timely delivery before the respective stockholder meeting.

**VOTING METHODS**

**Parlux** stockholders have four voting options. You may vote using one of the following methods:

**Telephone.** You can vote by touch-tone telephone in the United States, Canada or Puerto Rico by calling the number given on your proxy card or voting instruction form. You will then be prompted to enter the control number printed on the card or form and to follow the subsequent instructions. Telephone voting is available 24 hours a day until 11:59 p.m., Eastern time, on [ ], 2012. If you vote by telephone, you do not need to return your proxy card or voting instruction form.

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**Internet.** You can vote over the Internet by accessing the secure web site indicated on your proxy card or voting instruction form and following the instructions on the site. Internet voting is available 24 hours a day until 11:59 p.m., Eastern time, on [ ], 2012. If you vote over the Internet, you do not need to return your proxy card or voting instruction form.

**Mail.** You can vote by mail by completing, signing, dating and mailing your proxy card or voting instruction form in the postage-paid envelope included with this joint proxy statement/prospectus.

**In Person.** You may come to the Parlux special meeting and cast your vote there. The board of directors of Parlux recommends that you vote by proxy even if you plan to attend the special meeting. If your shares are held in a stock brokerage account or through a bank, broker or other nominee, or, in other words, in street name, and you wish to vote in person at the special meeting, you must bring a letter from your bank, broker or nominee identifying you as the beneficial owner of the shares and authorizing you to vote such shares at the special meeting. For information on how to obtain directions to be able to attend the meeting and vote in person, please contact Parlux's corporate secretary at 5900 N. Andrews Avenue, Suite 500, Fort Lauderdale, Florida 33309 or by phone at (954) 316-9008.

**Perfumania** stockholders of record have two voting options. You may vote using one of the following methods:

**Mail.** You can vote by mail by completing, signing, dating and mailing your proxy card or voting instruction form in the postage-paid envelope included with this joint proxy statement/prospectus.

**In Person.** You may come to the Perfumania special meeting and cast your vote there. The board of directors of Perfumania recommends that you vote by proxy even if you plan to attend the special meeting. If your shares are held in a stock brokerage account or through a bank, broker or other nominee, or, in other words, in street name, and you wish to vote in person at the special meeting, you must bring a letter from your bank, broker or nominee identifying you as the beneficial owner of the shares and authorizing you to vote such shares at the special meeting. For information on how to obtain directions to be able to attend the meeting and vote in person, please contact Andrea Petruzzo of Perfumania Holdings, Inc. at 35 Sawgrass Drive, Suite 2, Bellport, New York 11713 or by phone at (631) 866-4100.

Beneficial owners of Perfumania common stock held in street name may also be able to vote by telephone or Internet if their bank or broker makes those methods available, in which case the bank or broker will enclose voting instructions with this joint proxy statement/prospectus.

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### **QUESTIONS AND ANSWERS ABOUT THE MERGER AND THE MEETINGS**

*The following is intended to address briefly some commonly asked questions about the merger and the stockholder meetings. It may not address all questions that may be important to you as a Perfumania or Parlux stockholder. To better understand these matters, and for a description of the legal terms governing the merger, you should carefully read this entire joint proxy statement/prospectus, including the annexes. For additional information regarding Perfumania and Parlux, see *Where You Can Find More Information* beginning on page 241. All references in this joint proxy statement/prospectus to *Perfumania* refer to Perfumania Holdings, Inc., a Florida corporation; all references in this joint proxy statement/prospectus to *Parlux* refer to Parlux Fragrances, Inc., a Delaware corporation; unless otherwise indicated or as the context requires, all references in this joint proxy statement/prospectus to *we* refer to Perfumania and Parlux; and all references to the *merger agreement* refer to the Agreement and Plan of Merger, dated December 23, 2011, among Perfumania, Parlux and PFI Merger Corp., a wholly owned subsidiary of Perfumania (which we refer to as *Merger Sub*), a copy of which is attached as Annex A to this joint proxy statement/prospectus.*

#### **Q: Why am I receiving this joint proxy statement/prospectus?**

**A:** Perfumania and Parlux have entered into a merger agreement under which Parlux will be acquired by Perfumania through two merger transactions, which we refer to collectively in this joint proxy statement/prospectus as the *merger*. Perfumania and Parlux are seeking stockholder approval of several actions necessary to complete the merger, as described below. We will be unable to complete the merger unless both the Perfumania and Parlux stockholders approve these matters.

We have included in this joint proxy statement/prospectus important information about the merger, the merger agreement, the Perfumania and Parlux stockholder meetings and both companies. You should read this information carefully and in its entirety. The enclosed voting materials allow you to vote your shares without attending your company's stockholder meeting. Your vote is very important, and we encourage you to submit your proxy as soon as possible.

#### ***Questions about the merger:***

#### **Q: What will happen in the merger?**

**A:** The proposed merger will combine the businesses of Perfumania and Parlux. Upon completion of the merger, Parlux will cease to exist and Perfumania will continue as a public company. Following the merger the combined company will be an independent fragrance company, owned by the stockholders of both companies, with an anticipated enterprise value of approximately \$[ ] million, based on the closing price of Perfumania common stock on [ ], 2012.

#### **Q: What will I receive in the merger in exchange for my shares of Parlux common stock?**

**A:** Under the merger agreement, Parlux stockholders may elect to receive consideration consisting of shares of Perfumania common stock or a combination of shares of Perfumania common stock and cash in exchange for their shares of Parlux common stock. Because there is a cap on the number of shares of Perfumania common stock that may be issued in the merger and certain Parlux stockholders have entered into agreements that obligate them to elect all stock as consideration, we believe that it is probable that all Parlux stockholders will receive some cash, as well as shares, in the merger. The determination and allocation of the merger consideration is explained in *Summary Consideration to be Received in the Merger by Parlux Stockholders* beginning on page 7, the *The Merger Agreement Consideration to be Received in the Merger* beginning on page 113 and *The Merger Agreement Allocation of Merger Consideration* beginning on page 114.

#### **Q: If I am a Parlux stockholder, how do I make my election?**

**A:** Parlux stockholders will receive an election form in a separate mailing. If you are a Parlux stockholder and wish to elect the type of merger consideration you prefer to receive in the merger, you should review and follow



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carefully the instructions in or with the election form. A properly completed and signed election form must be received by the exchange agent by the election deadline, which is 5:00 p.m., Eastern time, on [ ], 2012. If either stockholder meeting is postponed or adjourned to a later date, the election deadline will also be delayed, and you will be given notice of the new deadline. If you do not submit a properly completed and signed election form by the election deadline, you will be deemed to have made an election to receive \$4.00 in cash and 0.20 shares of Perfumania common stock, subject to applicable adjustments, in exchange for each Parlux share that you hold.

### **Q: Why have Perfumania and Parlux decided to merge?**

**A:** Perfumania and Parlux believe that the merger will provide strategic and financial benefits to their stockholders, customers and employees, including:

a larger, independent, national vertically integrated manufacturer, wholesale distributor and specialty retailer of perfumes and fragrances;

a better positioned company to compete in the marketplace and drive growth;

increased operating scale;

increased licensing opportunities; and

synergies expected to result from the merger.

### **Q: What happens if I am a Parlux stockholder and I sell my shares of Parlux common stock before the Parlux special meeting or the merger?**

**A:** The record date of the Parlux special meeting, which we refer to in this joint proxy statement/prospectus as the Parlux record date, is earlier than the date of the Parlux special meeting and the date that the merger is expected to be completed. If you transfer your shares after the Parlux record date but before the Parlux special meeting, you will retain your right to vote at the Parlux special meeting, but will have transferred the right to receive the merger consideration in the merger. In order to receive the merger consideration, you must own your shares through completion of the merger.

### **Q: Do I have appraisal rights in the merger?**

**A:** If the merger is completed, Parlux stockholders who did not vote in favor of the merger proposal and who otherwise comply with the requirements and procedures of Section 262 of the Delaware General Corporation Law (which we refer to as the DGCL) will be entitled to exercise appraisal rights. A detailed description of the appraisal rights and procedures under the DGCL is included in The Merger Appraisal Rights beginning on page 105. The full text of Section 262 of the DGCL, as in effect as of the date of this joint proxy statement/prospectus, is attached as [Annex E](#) to this joint proxy statement/prospectus.

Perfumania stockholders do not have appraisal rights in connection with the merger.

### **Q: Are there any risks in the merger that I should consider?**

**A:** Yes. There are risks associated with all business combinations, including the proposed merger. We have described certain of these risks and other risks to Perfumania's and Parlux's businesses in more detail under Risk Factors beginning on page 32.

### **Q: Will Perfumania stockholders receive any shares as a result of the merger?**

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**A:** No. If you are a Perfumania stockholder, you will keep your existing stock certificates, which will continue to represent the number of shares of Perfumania common stock you now hold.

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**Q: When do you expect to complete the merger?**

**A:** Perfumania and Parlux expect to complete the merger during the first half of 2012, although we cannot assure completion by any particular date.

**Q: Is receipt of the merger consideration expected to be taxable to Parlux stockholders?**

**A:** We expect that the merger will be treated as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended, which we refer to as the Code. Therefore, we expect that Parlux stockholders will not recognize any gain or loss for federal income tax purposes with respect to the value of the shares of Perfumania common stock they receive in exchange for shares of Parlux common stock in the merger. However, to the extent Parlux stockholders receive cash in exchange for their Parlux common stock, they will recognize gain or loss for tax purposes.

You should read *Material U.S. Federal Income Tax Consequences of the Merger* beginning on page 110 for a description of the material United States federal income tax consequences of the merger. Tax matters can be complicated, and the tax consequences of the merger to you will depend on your particular situation. You should consult your tax advisor to determine the tax consequences of the merger to you.

**Q: Should I send in my Parlux stock certificates now?**

**A:** No. Please do not send your stock certificates with your proxy card. Instead, before the election deadline, send your completed, signed election form, together with your Parlux common stock certificate(s) (or a properly completed notice of guaranteed delivery) to the exchange agent. The election form for your Parlux shares is being delivered to you with instructions in a separate mailing.

If you do not submit your Parlux stock certificate with the election form, you will receive instructions on how to do so after the merger is completed.

***Questions about voting at the stockholder meetings:***

**Q: What proposals are Parlux stockholders being asked to consider?**

**A:** Parlux stockholders are being asked to:

approve and adopt the merger agreement to permit the merger to occur;

if necessary, approve the adjournment of the special meeting for any purpose, including to solicit additional proxies if there are insufficient votes at the time of the special meeting to approve the merger agreement; and

approve, on an advisory and non-binding basis, certain compensation payable to certain Parlux executive officers in connection with the merger.

**Q: What proposals are Perfumania stockholders being asked to consider?**

**A:** Perfumania stockholders are being asked to:

approve an amendment to Perfumania's articles of incorporation (which we refer to as its charter) to increase the number of shares of common stock that Perfumania is authorized to issue from 20 million to 35 million in order to provide enough shares for issuance in connection with the merger as well as for other corporate purposes; and

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approve the issuance of shares of Perfumania common stock in connection with the merger.

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### **Q: What do the Perfumania and Parlux boards of directors recommend?**

**A:** Each company's board of directors has unanimously approved the merger agreement and the other transactions it contemplates and has determined that the merger agreement and the merger are advisable and in the best interests of the Perfumania stockholders and the Parlux stockholders, as applicable. In addition, Perfumania's board of directors has unanimously approved the Perfumania charter amendment and the issuance of common stock in connection with the merger and has determined that the Perfumania charter amendment and the issuance of common stock in connection with the merger are advisable and in the best interests of Perfumania's stockholders.

**The Parlux Board of Directors unanimously recommends that Parlux stockholders vote FOR the approval and adoption of the merger agreement and FOR the other proposals at the special meeting.** See The Merger Parlux Board of Directors Recommendation beginning on page 66.

**The Perfumania Board of Directors unanimously recommends that Perfumania stockholders vote FOR the amendment to the Perfumania charter increasing the authorized shares of common stock and FOR the issuance of common stock in connection with the merger.** See The Merger Perfumania Special Committee's and Board of Directors Recommendations beginning on page 64.

### **Q: When and where will the stockholder meetings be held?**

**A:** The special meeting of Parlux stockholders will be held at [ ] on [ ], 2012 at [ ] a.m., Eastern time.

The special meeting of Perfumania stockholders will be held at [ ] on [ ], 2012 at [ ] a.m., Eastern time.

### **Q: Who is entitled to vote at the stockholder meetings?**

**A:** Holders of shares of Parlux common stock as of the close of business on March 1, 2012, the Parlux record date, are entitled to vote at the Parlux special meeting or any adjournment or postponement thereof.

Holders of shares of Perfumania common stock as of the close of business on March 1, 2012, the record date for the Perfumania special meeting are entitled to vote at the Perfumania special meeting or any adjournment or postponement thereof.

### **Q: What stockholder vote is required to approve the proposals at the Parlux special meeting?**

**A:** Approval and adoption of the merger agreement requires the affirmative vote of holders of a majority of the outstanding shares of Parlux common stock entitled to vote on the proposal. Approval, on an advisory and non-binding basis, of certain compensation payable to certain Parlux executive officers in connection with the merger and approval of any proposal to adjourn the special meeting each requires the affirmative vote of holders of a majority of the shares entitled to vote on the proposal and present or represented by proxy at the Parlux special meeting.

### **Q: What stockholder vote is required to approve the proposals at the Perfumania special meeting?**

**A:** Approval of the amendment to Perfumania's charter increasing the number of shares of authorized common stock requires that the number of votes cast in favor of approval exceed the number cast in opposition. Approval of the issuance of shares of Perfumania common stock in connection with the merger requires the affirmative vote of a majority of the total votes cast on the proposal. These two standards are the same in operation. As a result of their ownership of approximately 74% of the outstanding shares of Perfumania common stock, members

of the Nussdorf family have the right, and have agreed, to vote a sufficient number of shares at the Perfumania special meeting to approve both proposals. Accordingly, the approval of both proposals at the Perfumania special meeting is assured without the vote of any other stockholder.

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### **Q: How do Parlux stockholders vote?**

**A:** Parlux stockholders have four voting options. You may vote using one of the following methods:

**Telephone.** You can vote by touch-tone telephone in the United States, Canada or Puerto Rico by calling the number given on your proxy card or voting instruction form. You will then be prompted to enter the control number printed on the card or form and to follow the subsequent instructions. Telephone voting is available 24 hours a day until 11:59 p.m., Eastern time, on [ ], 2012. If you vote by telephone, you do not need to return your proxy card or voting instruction form.

**Internet.** You can vote over the Internet by accessing the secure web site indicated on your proxy card or voting instruction form and following the instructions on the site. Internet voting is available 24 hours a day until 11:59 p.m., Eastern time, on [ ], 2012. If you vote over the Internet, you do not need to return your proxy card or voting instruction form.

**Mail.** You can vote by mail by completing, signing, dating and mailing your proxy card or voting instruction form in the postage-paid envelope included with this joint proxy statement/prospectus.

**In Person.** You may come to the Parlux special meeting and cast your vote there. The Parlux board of directors recommends that you vote by proxy even if you plan to attend the special meeting. If your shares are held in a stock brokerage account or through a bank, broker or other nominee, or, in other words, in street name, and you wish to vote in person at the special meeting, you must bring a letter from your bank, broker or nominee identifying you as the beneficial owner of the shares and authorizing you to vote such shares at the special meeting.

### **Q: How do Perfumania stockholders vote?**

**A:** Perfumania stockholders of record have two voting options. You may vote using one of the following methods:

**Mail.** You can vote by mail by completing, signing, dating and mailing your proxy card or voting instruction form in the postage-paid envelope included with this joint proxy statement/prospectus.

**In Person.** You may come to the Perfumania special meeting and cast your vote there. The board of directors of Perfumania recommends that you vote by proxy even if you plan to attend the special meeting. If your shares are held in a stock brokerage account or through a bank, broker or other nominee, or, in other words, in street name, and you wish to vote in person at the special meeting, you must bring a letter from your bank, broker or nominee identifying you as the beneficial owner of the shares and authorizing you to vote such shares at the special meeting. For directions to attend the meeting and vote in person, please contact Andrea Petruzzo of Perfumania Holdings, Inc. at 35 Sawgrass Drive, Suite 2, Bellport, New York 11713 or by phone at (631) 866-4100.

Beneficial owners of Perfumania common stock held in street name may also be able to vote by telephone or Internet if their bank or broker makes those methods available, in which case the bank or broker will enclose voting instructions with this joint proxy statement/prospectus.

### **Q: Why is it important that I vote or give voting instructions to the broker or nominee holding my shares?**

**A:** If you are a Parlux stockholder and you abstain from voting on any proposal, or if you fail to instruct your broker or other nominee how to vote (resulting in a broker non-vote), it will have the same effect as a vote against that proposal.

If you are a Perfumania stockholder and you abstain from voting or if you fail to instruct your broker or other nominee how to vote on either proposal, it will have no effect on the result.

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If you send in your signed proxy or voting instruction form but do not indicate how you want to vote on the proposal, your vote will be cast in accordance with the respective board of directors' recommendations.

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**Q: May I change my vote after I have delivered my proxy or voting instruction form?**

**A:** Yes. You may change your vote at any time before your proxy is voted at your stockholder meeting. If you are a stockholder of record, you may do this in one of three ways:

by sending a notice of revocation to the corporate secretary of Perfumania or Parlux, as applicable, dated as of a later date than the date of the original proxy card and received before the Perfumania or Parlux stockholder meeting, as applicable;

by sending a completed proxy card bearing a later date than your original proxy card and mailing it so that it is received before the Perfumania or Parlux stockholder meeting, as applicable; or

by attending your stockholder meeting, notifying the inspector of election that you are revoking your original proxy, and voting in person.

Your attendance at the stockholder meeting alone will not revoke any proxy.

If your shares are held in an account at a broker or other nominee, you should contact your broker or other nominee to change your vote.

**Q: Who should I call if I have questions about the proxy materials or voting procedures?**

**A:** You may have questions about the merger, or need assistance in submitting your proxy or voting your shares or need additional copies of this joint proxy statement/prospectus or the enclosed proxy card. If you are a Perfumania stockholder, you should contact Perfumania Investor Relations at (631) 866-4100 or [InvestorRelations@perfumaniaholdingsinc.com](mailto:InvestorRelations@perfumaniaholdingsinc.com). If you are a Parlux stockholder, you should contact Georgeson Inc., the proxy solicitation agent for Parlux, at 800-509-1078. If your shares are held in a stock brokerage account or by a bank or other nominee, you should contact your broker, bank, or other nominee for additional information.

**Q: What do I need to do now?**

**A:** After carefully reading and considering the information contained in this joint proxy statement/prospectus, including the annexes, please vote your shares as soon as possible so that your shares will be represented at your company's stockholder meeting. Please follow the instructions set forth on your proxy card or voting instruction form.



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### **SUMMARY**

This summary highlights selected information contained in this joint proxy statement/prospectus and may not contain all the information that is important to you. We urge you to read this joint proxy statement/prospectus carefully and in its entirety, as well as the annexes. For additional important information regarding Perfumania and Parlux, see [Where You Can Find More Information](#) beginning on page 241.

#### **The Companies**

##### **Perfumania Holdings, Inc.**

Perfumania is an independent, national, vertically integrated wholesale distributor and specialty retailer of perfumes and fragrances that does business through five primary operating subsidiaries. Perfumania operates in two industry segments, wholesale distribution and specialty retail sales of designer fragrances and related products. Perfumania's common stock is traded on the Nasdaq Stock Market under the symbol **PERF**. For the fiscal year ended January 29, 2011, Perfumania had net sales of \$484.8 million and a net loss of \$3.7 million.

The principal executive office of Perfumania is located at 35 Sawgrass Drive, Suite 2, Bellport, New York 11713 and its phone number is (631) 866-4100.

As described in [The Merger Agreement](#), the merger will be accomplished by merging PFI Merger Corp., a wholly owned subsidiary of Perfumania ( **Merger Sub** ), into Parlux, then merging that company into another wholly owned subsidiary of Perfumania ( **Merger Sub I** ). Merger Sub was formed and Merger Sub I will be formed by Perfumania to accomplish the merger. Neither company has carried on any activities to date except for those incidental to its formation or undertaken in connection with the merger.

##### **Parlux Fragrances, Inc.**

Parlux is engaged in the business of creating, designing, manufacturing, distributing and selling prestige fragrances and beauty related products marketed primarily through specialty stores, national department stores and perfumeries on a worldwide basis. Parlux's common stock is traded on the Nasdaq Stock Market under the symbol **PARL**. For the fiscal year ended March 31, 2011, Parlux had net sales of \$123 million and net income of \$1.2 million.

The principal executive office of Parlux is 5900 N. Andrews Avenue, Suite 500, Fort Lauderdale, Florida 33309 and its phone number is (954) 316-9008.

#### **The Merger**

##### **Structure of the Merger**

Perfumania and Parlux have entered into a merger agreement under which Merger Sub will merge with Parlux and then Parlux will merge with Merger Sub I, which will survive as a subsidiary of Perfumania. Upon completion of the merger, Parlux common stock will be no longer be publicly traded.

##### **Consideration to be Received in the Merger by Parlux Stockholders**

Under the merger agreement, Parlux stockholders may elect to receive consideration consisting of shares of Perfumania common stock or a combination of shares of Perfumania common stock and cash in exchange for their shares of Parlux common stock. Subject to adjustments as described below, Parlux stockholders electing to receive only shares will receive 0.533333 shares of Perfumania common stock in exchange for each Parlux share, and Parlux stockholders electing to receive a mix of cash and stock consideration and stockholders who don't

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make a timely election will receive \$4.00 in cash and 0.20 shares of Perfumania common stock in exchange for each Parlux share. However, the maximum amount of cash that will be paid is \$61,895,288, and the maximum amount of Perfumania common stock that will be issued is 5,919,052 shares, subject to upward adjustment for any increase in the number of Parlux shares outstanding and to replace, on a pro rata and proportionate basis as necessary, a decrease in cash consideration in certain circumstances (the Aggregate Cap). Both of these amounts are subject to adjustment in certain circumstances, including a downward adjustment of the maximum cash consideration for each share of Parlux stock as to which appraisal rights have been exercised and for any shortfall of Parlux cash or cash equivalents, and an upward adjustment of the Aggregate Cap for any increase in the number of Parlux shares outstanding and to replace, on a pro rata and proportionate basis as necessary, any decrease in maximum cash consideration resulting from a shortfall of Parlux cash or cash equivalents. See The Merger Agreement Consideration to be Received in the Merger on page 113.

If Parlux stockholders elect, in the aggregate, to receive more shares of Perfumania common stock than the Aggregate Cap, which we believe is probable, those holders electing to receive all stock consideration will be prorated downward and will receive in exchange for each share of Parlux stock (1) a number of shares of Perfumania common stock equal to the difference between (a) the Aggregate Cap and (b) the product of (i) the total number of shares as to which holders have elected mixed consideration or made no election and (ii) 0.20 (such difference, the Available Stock Election Amount), divided by the total number of shares as to which the holders have elected all stock consideration, rounded to the nearest ten thousandth of a share, and (2) an amount of cash (without interest) equal to the product of (a) the difference between (i) the number of shares as to which holders have elected all stock consideration multiplied by 0.533333 and (ii) the Available Stock Election Amount and (b) \$12.00, divided by the total number of shares as to which the holders have elected all stock consideration. As a result, Parlux stockholders who make a valid election to receive all stock consideration would not receive merger consideration entirely in that form. See Risk Factors Parlux stockholders electing to receive only Perfumania common stock may receive cash and stock and Parlux stockholders electing to receive a mix of cash and stock may receive more stock and less cash than expected on page 32.

Perfumania will not issue any fractional shares of common stock in the merger. For each fractional share that would otherwise be issued, Perfumania will pay cash (without interest) in an amount equal to the product of (i) the applicable fraction and (ii) \$12.00. See The Merger Agreement Procedures for Exchange of Certificates on page 116.

To facilitate the merger's compliance with the continuity of interest requirement for tax-free reorganizations under the Code, and therefore to provide greater assurance that the respective tax counsel of Perfumania and Parlux will be able to deliver the tax opinion that is a condition to each party's obligation to complete the merger, the merger consideration is subject to adjustment depending on the number of stockholders (if any) who choose to exercise their appraisal rights.

***Illustrative Values of the Merger Consideration***

The following tables illustrate the consideration that would be received by holders of Parlux common stock in the merger under four different hypothetical scenarios. Each scenario assumes (i) that the value of Perfumania common stock at the closing of the merger is \$[ ], the closing price of Perfumania common stock on Nasdaq on [ ], 2012, (ii) that a certain percentage of stockholders elect to receive all stock as consideration, (iii) that no adjustment of a type described in The Merger Agreement Consideration to be Received in the Merger on page 113, other than any based upon the elections of Parlux stockholders, is made to the cash and stock components of the merger consideration, and (iv) that the aggregate number of shares of stock to be issued as merger consideration is equal to the Aggregate Cap.

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Upon execution of the merger agreement, Perfumania entered into voting agreements with certain Parlux stockholders as described in The Merger Agreement Additional Agreements on page 132. Among other things, these voting agreements require those Parlux stockholders to make an election to receive all stock consideration. If only these Parlux stockholders elect to receive all stock consideration and all other Parlux stockholders elect to receive mixed consideration (or any of these Parlux stockholders do not make a valid election and are therefore deemed to have made an election to receive mixed consideration), then (absent adjustments to the Aggregate Cap) no Parlux stockholder will receive merger consideration in an amount or form other than as elected, and the total number of shares to be issued in connection with the merger to stockholders electing all stock and stockholders electing mixed consideration will be equal to the Aggregate Cap. Therefore, if any Parlux stockholder other than those bound by the voting agreements elects to receive all stock consideration, which we believe is probable, the number of shares received by all Parlux stockholders electing all stock consideration (including those subject to the voting agreements) will be prorated downward and the consideration received by every stockholder will include some amount of cash. The amount of cash per share of Parlux common stock received by each Parlux stockholder who elected all stock will equal the product of the number of shares as to which stockholders elect all stock consideration in excess of the Aggregate Cap and \$12.00, divided by the total number of shares as to which stockholders elect all stock consideration. See also The Merger Agreement Consideration to be Received in the Merger.

Because every Parlux stockholder, regardless of which election the stockholder makes or whether the stockholder makes an election at all, will receive some portion of the merger consideration in the form of shares of Perfumania common stock, the value of the consideration received at the effective time of the merger will depend upon the market price of Perfumania common stock at that time. It is important to note, however, that fluctuations in the market price per share of Perfumania common stock will not impact the amount of cash or the number of shares of Perfumania common stock received by any stockholder.

To illustrate this, the tables below provide examples of the value of the merger consideration that may be received by a Parlux stockholder, depending on the outcome of various stockholders' elections, that were prepared based on the assumptions noted above. The tables should be read and used in conjunction with the qualifications noted in the paragraphs below the tables. You may use these tables to calculate the value of merger consideration at different values of Perfumania common stock by multiplying a testing price for a share of Perfumania common stock by the decimal representing the Perfumania common stock component of merger consideration per share of Parlux common stock shown below to give you the Illustrative value of Perfumania common stock component of merger consideration per share of Parlux common stock. To compute the Illustrative value of total merger consideration per share of Parlux common stock, add the value of the stock component of the merger consideration received to the cash component of the merger consideration received.

**Example #1: All Parlux stockholders (except those bound by the voting agreements)**

**elect mixed consideration**

Cash component of merger consideration per share of Parlux common stock	Mixed Consideration		All-Stock Consideration		
	Perfumania common stock component of merger consideration per share of Parlux common stock	Illustrative value of Perfumania common stock component of merger consideration per share of Parlux common stock	Illustrative value of total merger consideration per share of Parlux common stock	Perfumania common stock component of merger consideration per share of Parlux common stock	Illustrative value of Perfumania common stock component of merger consideration per share of Parlux common stock
\$4.00	0.20	[ ]	[ ]	0.533333	[ ]

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**Example #2: 50% of all Parlux stockholders elect mixed consideration and 50% (including those bound by the voting agreements) elect stock consideration**

Cash component of merger consideration per share of Parlux common stock	Mixed Consideration			Illustrative value of total merger consideration per share of Parlux common stock	All-Stock Consideration		
	Perfumania common stock component of merger consideration per share of Parlux common stock	Illustrative value of Perfumania common stock component of merger consideration per share of Parlux common stock	Illustrative value of Perfumania common stock component of merger consideration per share of Parlux common stock		Perfumania common stock component of merger consideration per share of Parlux common stock	Illustrative value of Perfumania common stock component of merger consideration per share of Parlux common stock	Illustrative value of total merger consideration per share of Parlux common stock
\$4.00	0.20	[ ]	[ ]	\$1.96	0.369979	[ ]	[ ]

**Example #3: 25% of all Parlux stockholders elect mixed consideration and 75% (including those bound by the voting agreements) elect stock consideration**

Cash component of merger consideration per share of Parlux common stock	Mixed Consideration			Cash component of merger consideration per share of Parlux common stock	All-Stock Consideration		
	Perfumania common stock component of merger consideration per share of Parlux common stock	Illustrative value of Perfumania common stock component of merger consideration per share of Parlux common stock	Illustrative value of total merger consideration per share of Parlux common stock		Perfumania common stock component of merger consideration per share of Parlux common stock	Illustrative value of Perfumania common stock component of merger consideration per share of Parlux common stock	Illustrative value of total merger consideration per share of Parlux common stock
\$4.00	0.20	[ ]	[ ]	\$2.64	0.313319	[ ]	[ ]

**Example #4: All Parlux stockholders (including those bound by the voting agreements) elect stock consideration**

Cash component of merger consideration per share of Parlux common stock	All-Stock Consideration			
	Perfumania common stock component of merger consideration per share of Parlux common stock	Illustrative value of Perfumania common stock component of merger consideration per share of Parlux common stock	Illustrative value of total merger consideration per share of Parlux common stock	Illustrative value of total merger consideration per share of Parlux common stock
\$2.98	0.284490	[ ]	[ ]	[ ]

It is important to note that, if the market value of Perfumania common stock at the closing of the merger is higher than \$12.00/share, while Parlux stockholders who have made an all stock election will receive consideration with a higher value than those who elected to receive mixed consideration, as the number of shares with respect to which stockholders have elected all stock as merger consideration increases, the portion of

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cash consideration received by holders of such shares will increase due to proration, and the number of shares of Perfumania common stock that they receive will decrease. Thus, if Perfumania common stock is valued at more than \$12.00/share at closing, the aggregate value of the consideration received by stockholders making an all stock consideration election will decrease as the number of stockholders making that election increases.

You are cautioned not to rely unduly on these examples, which are provided for illustrative purposes only and should not be seen as a prediction of the value of the merger consideration that any particular Parlux stockholder will receive. Stockholders' elections in the aggregate will affect the form and amount of merger consideration to be received by any individual stockholder, and the aggregate result of these elections cannot be predicted.

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Additionally, the market price of Perfumania common stock will probably be different on the date Parlux common stockholders receive shares of Perfumania common stock than it was on the date the merger agreement was signed, the date of this joint proxy statement/prospectus, or the date of the stockholder meetings. Changes in the price of Perfumania common stock before completion of the merger will affect the value that Parlux common stockholders will receive in the merger, so the actual value of the consideration delivered in the merger will probably differ from the amounts set forth in the tables above. For a more complete description of risks related to fluctuations in the value of Perfumania common stock, please refer to **Risk Factors** beginning on page 32.

### **Treatment of Parlux Options and Warrants**

#### ***Employee Options and Warrants***

At the effective time of the merger, each outstanding and unexercised option to purchase Parlux common stock under Parlux's equity-based compensation plan will be assumed by Perfumania and converted into an option to purchase a number of shares of Perfumania common stock equal to the product of (i) the number of shares of Parlux common stock subject to the option and (ii) the equity award exchange ratio of 0.533333, rounded down to the nearest whole share. The per share exercise price for the Perfumania common stock issuable upon the exercise of each assumed stock option will be equal to (i) the per share exercise price of Parlux common stock at which the option was exercisable immediately before the effective time of the merger divided by (ii) the equity award exchange ratio of 0.533333, rounded up to the nearest whole cent. Except as set forth above, each assumed stock option will be subject to the same terms and conditions as were applicable to the corresponding option to purchase Parlux common stock immediately before the effective time of the merger; provided, that the vesting schedule of each assumed option will be accelerated by one year, and if the holder's employment is terminated within one year of the effective time of the merger without cause or good reason, the option will vest in full and the exercisability of the option will continue for 90 days following termination. The equity award exchange ratio for options is the same exchange rate applicable to an election to receive all stock consideration, 0.533333.

#### ***Gopman Warrant***

Glenn Gopman, a director of Parlux, currently holds warrants to purchase 10,000 shares of Parlux common stock, which we refer to as the Gopman warrant. Upon completion of the merger, the outstanding Gopman warrant will be automatically converted into a warrant to purchase a number of shares of Perfumania common stock equal to the product of (i) the number of shares of Parlux common stock then subject to the Gopman warrant and (ii) the equity award exchange ratio of 0.533333, rounded down to the nearest whole share. The per share exercise price of the Gopman warrant will be equal to (i) the per share exercise price of Parlux common stock at which the Gopman warrant was exercisable immediately before the effective time of the merger, divided by (ii) the equity award exchange ratio, rounded up to the nearest whole cent. Except as set forth above, the Gopman warrant will be subject to the same terms and conditions as were applicable to the Gopman warrant before the effective time of the merger. Perfumania has agreed to include the shares issued upon exercise of the Gopman warrant in the resale registration statement it files after the completion of the merger, as described under **Licensors Warrants** below.

#### ***Licensors Warrants***

Rene Garcia and certain family trusts and affiliated companies of Rene Garcia, which we refer to as the Garcia Group, collectively are the beneficial owner of 19.2% of the shares of Parlux common stock and the beneficial owner of 8.4% of the shares of Perfumania common stock, and Artistic Brands Development LLC (formerly known as Iconic Fragrances, LLC) (Artistic Brands), whom we refer to collectively as the licensors, currently hold, in conjunction with certain other parties, warrants to purchase an aggregate of 6,000,000 shares of Parlux common stock, which we refer to as the licensor warrants. Concurrently with the signing of the merger agreement, Parlux, the licensors and other holders of the licensor warrants entered into an amendment to the

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licensor warrants to govern the treatment of the licensor warrants upon completion of the merger. The warrant amendment will be effective only if the merger is consummated. Under the warrant amendment, upon completion of the merger, each outstanding licensor warrant will be automatically converted into a warrant to purchase the number of shares of Perfumania common stock equal to the product of (i) the number of shares of Parlux common stock subject to the licensor warrant and (ii) the equity award exchange ratio, rounded down to the nearest whole share. The per share exercise price of each licensor warrant will be equal to \$8.00. The warrant amendment also provides that after the completion of the merger, Perfumania will register the shares issuable upon exercise of the licensor warrants for resale under the Securities Act of 1933, as amended, which we refer to in this joint proxy statement/prospectus as the Securities Act. All of the warrants related to Artistic Brands vest at the effective time of the merger.

See The Merger Agreement Treatment of Parlux Stock Options and Treatment of Warrants on page 115.

## **Additional Agreements**

### ***Voting Agreements***

Simultaneously with the execution of the merger agreement, Perfumania entered into voting agreements with Glenn Nussdorf and the Garcia Group, who hold an aggregate of approximately 24.6% of Parlux's outstanding common shares pursuant to which they agreed that they will vote their shares of Parlux common stock (i) in favor of approval and adoption of the merger agreement, and (ii) against any proposal made in opposition to or competition with the merger agreement or that may impede, interfere with, delay or otherwise adversely affect the consummation of the merger. Those stockholders also agreed to elect to receive all stock consideration for all their shares of Parlux common stock.

In addition, simultaneously with the execution of the merger agreement, the directors and certain of the officers of Parlux holding approximately 5.6% of the outstanding shares of Parlux common stock, including its Chairman and Chief Executive Officer, each entered into a voting agreement with Perfumania pursuant to which each officer and director agreed that he or she will vote his or her shares of Parlux common stock (i) in favor of approval and adoption of the merger agreement and (ii) against any proposal made in opposition to or competition with the merger agreement or that would impede, interfere with, delay or otherwise adversely affect the consummation of the merger.

Also simultaneously with the execution of the Merger Agreement, Parlux entered into a voting agreement with The Nussdorfs, who hold approximately 74% of Perfumania's outstanding common shares pursuant to which they agreed to vote their shares of Perfumania common stock (i) in favor of the increase in authorized shares of Perfumania and the issuance of shares pursuant to the merger agreement and (ii) against any proposal that is in opposition to or competition with the merger agreement or that would impede, interfere with, delay or otherwise adversely affect the consummation of the merger.

Each of the voting agreements described above expires upon the earliest of consummation of the merger, termination of the merger agreement or, in the case of the voting agreements regarding Parlux shares, a change of recommendation by the Parlux board of directors.

### ***Licensor Agreements***

In connection with the merger agreement, Parlux, Artistic Brands and Rene Garcia entered into an amendment to their Letter Agreement dated April 3, 2009 providing that the merger will not be a Fundamental Transaction under the terms of the letter agreement, which would have required the payment by Parlux of certain additional sums to Artistic Brands at the effective time of the merger.

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Perfumania, Parlux, Artistic Brands and Mr. Garcia also entered into a Letter Agreement, dated December 23, 2011 (the Proposal Agreement) providing that Artistic Brands and Mr. Garcia will not solicit or negotiate with parties other than Perfumania in connection with the treatment of the licensor warrants or the Letter Agreement. However, in the event that, consistent with the provisions of the merger agreement, Parlux engages in discussions or negotiations with a third party regarding an alternative acquisition proposal or enters into an agreement relating to a superior proposal, then Mr. Garcia and Artistic Brands may enter into discussions or negotiations with such third party with regard to the treatment of the licensor warrants and/or the Letter Agreement in connection with such acquisition proposal. The parties to the Proposal Agreement also acknowledged that Artistic Brands and S. Carter Enterprises, LLC have agreed to enter into a license agreement and Artistic Brands, Perfumania and S. Carter Enterprises have agreed to enter into a sublicense agreement, both to be effective upon the consummation of the merger, and subject to certain closing conditions contained in the Proposal Agreement. The Proposal Agreement also provides for the issuance to Artistic Brands or its designee of 300,000 shares of Perfumania common stock after the effective time of the merger as consideration for the transactions contemplated in the Proposal Agreement. These shares will be entitled to the same registration rights as the shares underlying the licensor warrants.

On December 23, 2011, Perfumania and the Garcia Group entered into a stockholders agreement. The stockholders agreement provides that, commencing upon the consummation of the merger and until either December 23, 2015, or until Glenn Nussdorf, Stephen Nussdorf and Arlene Nussdorf (principal stockholders of Perfumania, to whom we refer as the Nussdorfs) and trusts related to them cease to own at least one third of the outstanding Perfumania stock (the Term), the Garcia Group will not vote any of their shares of Perfumania stock (and all Perfumania stock that they later acquire) in favor of certain matters if the Perfumania board has recommended a vote against that matter. These matters include, among other things, (i) certain merger, reorganization, business combination, recapitalization, dissolution, liquidation or similar transactions involving Perfumania constituting more than 50% or more of its assets, revenues or earnings, (ii) an acquisition of more than 50% of Perfumania's consolidated assets or 50% of Perfumania's outstanding common stock, (iii) the issuance of Perfumania common stock that after giving effect to that issuance represents more than 50% of Perfumania's outstanding common stock, or (iv) a tender offer or exchange offer that, if consummated, would result in any person or group beneficially owning more than 50% of the Perfumania's outstanding common stock, other than the Nussdorfs. The Garcia Group also agreed in the stockholders agreement that during the Term they will not vote for any director unless the director is recommended by Perfumania's board. The stockholders agreement also restricts the Garcia Group's ability to enter into voting agreements or transfer their shares of Perfumania common stock, subject to certain exceptions. Under the stockholders agreement the Garcia Group also agreed to not seek to acquire ownership of more than 28% of Perfumania's common stock, engage in a solicitation of proxies or a proxy contest, seek to control Perfumania's management, nominate directors not nominated by Perfumania's then-incumbent directors or join a group or announce their intent to do any of the foregoing during the Term, unless approved by Perfumania's board of directors.

See The Merger Agreement Additional Agreements for additional information regarding these agreements.

**Financings**

Perfumania will obtain financing for the cash portion of the merger consideration from two sources.

Perfumania may use borrowings under its senior bank 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. At the closing of the merger Perfumania is required to apply all cash and cash equivalents held by Parlux to repayment of the senior credit facility and to ensure that Parlux's existing bank credit facility is terminated.



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Second, effective December 23, 2011, Perfumania's subsidiary, Model Reorg Acquisition LLC ( Model ), received commitments from six family trusts of the Nussdorfs (which we refer to as the Nussdorf Trusts ) to make a total of \$30 million in new loans (which new loans in such amount we refer to as the Nussdorf Trust loans) to finance the balance of the cash consideration. The new loans will be subordinated to the senior bank credit facility on the same basis as the existing indebtedness to the Nussdorf Trusts.

The foregoing is a summary of the terms of the contemplated debt financings. For a more complete description of the financing for the merger, see the section entitled Perfumania's Financing Arrangements beginning on page 135 of this joint proxy statement/prospectus. For a discussion of risks related to Perfumania's failure to obtain financing, please see Risk Factors Perfumania may be unable to obtain the financing necessary to consummate the merger beginning on page 32.

## **Reasons for the Merger; Recommendations of the Boards of Directors**

### ***Perfumania***

The Perfumania board of directors unanimously recommends that Perfumania stockholders approve the merger by voting to approve the charter amendment to increase the number of authorized shares of Perfumania common stock and to approve the issuance of shares of Perfumania common stock in connection with the merger. The Perfumania board of directors' approval of these matters was based on the recommendation of a committee of the Perfumania board of directors, consisting of all the independent directors of Perfumania (which we refer to in this joint proxy/prospectus as the Perfumania special committee ).

Perfumania's board of directors believes that the merger will provide substantial benefits to Perfumania's stockholders, as well as those of Parlux, including, among other reasons: improvement in the existing strengths of both companies; anticipated profit maximization through increased vertical integration; being able to attract more and better licenses due to the combined company's increased size and distribution capabilities; the accretion in earnings per share expected to result over several years; an increase in liquidity for stockholders due to the expanded public stockholder base; improved bank and private financing capability and greater access to public capital markets; and certain synergies anticipated to result from the merger.

For a more complete description of Perfumania's reasons for the merger and the recommendations of the Perfumania board of directors and special committee, see The Merger Perfumania Special Committee's and Board of Directors' Recommendations beginning on page 64.

### ***Parlux***

The Parlux board of directors unanimously recommends that Parlux stockholders approve the merger by voting to approve and adopt the merger agreement. The Parlux board of directors' approval of the merger agreement was based on the recommendation of a committee of the Parlux board of directors, consisting of all the independent directors of Parlux (which we refer to in this joint proxy/prospectus as the Parlux independent committee ).

Parlux's board of directors believes that the merger will provide substantial benefits to Parlux's stockholders, including, among others: the prospect that the combined company will be better positioned than Parlux is now to overcome the current and future challenges of the fragrance industry; the benefits that the Parlux stockholders are expected to derive from the future performance of the combined company and the synergies expected to result from the merger; the membership of Parlux directors on the combined company's board of directors and their ability to exercise fiduciary oversight responsibilities in the interests of all the combined company's common stockholders; the ability of Parlux stockholders to elect the form of consideration that they will receive; the expectation that receipt of the stock portion of the merger consideration will not be taxable for United States

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federal income tax purposes; and their belief that the proposed merger with Perfumania will be more favorable to Parlux stockholders than other strategic alternatives reasonably available to Parlux and its stockholders.

For a more complete description of Parlux's reasons for the merger and the recommendations of the Parlux board of directors and independent committee, see *The Merger Parlux Board of Directors Recommendation* beginning on page 66.

**Opinions of Financial Advisors**

*Financial Advisor to Perfumania's Special Committee*

On December 23, 2011, Financo Securities, LLC, which we refer to in this joint proxy statement/prospectus as *Financo*, rendered its written fairness opinion, which we refer to as the *Financo Opinion*, to the Perfumania special committee that, as of that date, and based upon and subject to the various assumptions and limitations set forth therein, the aggregate merger consideration to be paid by Perfumania under the merger agreement, including the Perfumania options and warrants issuable upon conversion of outstanding Parlux options and warrants, was fair, from a financial point of view, to Perfumania. The *Financo Opinion* excluded any opinion on the fairness of the merger consideration to the stockholders of Perfumania who own, or whose affiliates own, a controlling interest in Perfumania or who own, or whose affiliates own, shares of Parlux common stock.

Also on December 23, 2011, Financo delivered to the Perfumania special committee its written opinion, which we refer to as the *Financo Loan Opinion*, that, as of that date, and based upon and subject to the various assumptions and limitations set forth therein, the loans to be made by the Nussdorf Trusts (described on page 135) to help finance the acquisition, were fair, from a financial point of view, to Perfumania. The *Financo Loan Opinion* excluded any opinion on the fairness of those loans to any stockholders of Perfumania who own, or whose affiliates own, a controlling interest in Perfumania.

Financo was paid a fee in part upon beginning its engagement and in part upon delivery of its opinions. None of Financo's compensation was contingent upon reaching a particular opinion regarding the financial fairness of the merger consideration or the Nussdorf Trust loans or upon the ultimate consummation of the transaction.

The full text of each of the *Financo Opinion* and the *Financo Loan Opinion* is included in Annex B to this joint proxy statement/prospectus. Financo provided its opinion with respect to the fairness of the merger consideration for the information and use of the Perfumania special committee and its opinion with respect to the fairness of the Nussdorf Trust loans solely for the information and use of the Perfumania special committee. Financo's opinions do not constitute a recommendation as to how any holder of Perfumania common stock should vote on any matter relating to the merger. The summary and the description of the opinions included in this joint proxy statement/prospectus are qualified in their entirety by reference to the full text of the opinions. We encourage you to read Financo's opinions, as well as a description thereof and of Financo's compensation in the section titled *The Merger Opinion of Financial Advisor to the Perfumania Special Committee* beginning on page 86, carefully and in their entirety.

*Financial Advisors to the Independent Committee of Parlux's Board of Directors*

*Peter J. Solomon Company*

On December 19, 2011, Parlux's financial advisor, Peter J. Solomon Company, which we refer to in this joint proxy statement/prospectus as *PJSC*, rendered its oral opinion to the Parlux independent committee, which was subsequently confirmed by delivery of a written opinion on that same date, that, as of December 19, 2011, and based upon and subject to the assumptions, procedures, factors, qualifications and other matters and limitations set forth in *PJSC's* opinion, and other factors it deemed relevant, the merger consideration to be paid to holders of Parlux common stock (other than members of the Nussdorf family and any trusts or entities controlled by the Nussdorf family) in the merger was fair from a financial point of view to such holders.

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PJSC's compensation for its financial advisory services consists in part of fees that were paid upon its engagement and its delivery of its opinion and in part of a transaction fee that is contingent upon the consummation of the merger.

The full text of PJSC's written opinion, dated December 19, 2011, which sets forth, among other things, the assumptions made, procedures followed, matters considered and qualifications and limitations on the opinion and the review undertaken in connection with the opinion, is attached as Annex C to this joint proxy statement/prospectus. PJSC provided its opinion for the information and use of the Parlux independent committee in connection with its evaluation of the merger and did not address any other aspect of the merger. PJSC's opinion does not constitute a recommendation as to how any holder of Parlux common stock should vote or act with respect to the merger or any matter relating thereto. The summary and the description of the opinion included in this joint proxy statement/prospectus are qualified in their entirety by reference to the full text of the opinion. We encourage you to read PJSC's opinion, as well as the description thereof and of PJSC's compensation in the section titled "The Merger Opinions of Financial Advisors to the Parlux Independent Committee" beginning on page 70, carefully and in their entirety.

*American Appraisal Associates, Inc.*

In connection with the execution of the merger agreement, the Parlux independent committee received an oral opinion on December 19, 2011, confirmed by a written opinion dated December 23, 2011, from American Appraisal Associates, Inc., which we refer to in this joint proxy statement/prospectus as "American Appraisal," and based upon and subject to the assumptions, procedures, factors, qualifications and other matters and limitations set forth in American Appraisal's opinion, and other factors it deemed relevant, the merger consideration to be paid to holders of Parlux common stock in the merger was fair, from a financial point of view, to such holders.

American Appraisal was paid a fee upon delivery of its opinion. None of American Appraisal's compensation was contingent upon reaching a particular opinion regarding the financial fairness of the merger or upon the ultimate consummation of the transaction.

The full text of the written opinion of American Appraisal, dated December 23, 2011, which sets forth, among other things, the assumptions made, procedures followed, matters considered, and qualifications and limitations on the opinion and the review undertaken by American Appraisal in connection with rendering its opinion, is attached as Annex D to this joint proxy statement/prospectus. American Appraisal provided its opinion for the information and use of the Parlux independent committee in connection with its evaluation of the merger. American Appraisal's opinion is not a recommendation as to how any holder of Parlux common stock should vote or act with respect to the merger or any matter relating thereto. The summary and the description of the American Appraisal opinion included in this joint proxy statement/prospectus are qualified in their entirety by reference to the full text of the opinion. We encourage you to read American Appraisal's opinion, as well as the description thereof and of American Appraisal's compensation in the section titled "The Merger Opinions of Financial Advisors to the Parlux Independent Committee" beginning on page 70, carefully and in their entirety.

The Parlux independent committee determined to engage American Appraisal to provide advice with respect to the financial fairness of the merger to holders of Parlux common stock because the Parlux independent committee believed it would be useful to have information and advice with respect to the transaction from a different financial perspective and because a substantial portion of PJSC's compensation is contingent upon consummation of the merger.

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### **Matters to be Considered at the Meetings**

#### ***Perfumania***

Perfumania stockholders will be asked to vote to approve (i) an amendment of the Perfumania charter to increase the number of authorized shares of Perfumania common stock and (ii) the issuance of shares of Perfumania common stock in connection with the merger. **Approval of these proposals is required for completion of the merger.** The Perfumania board of directors unanimously recommends that Perfumania stockholders vote to approve both the proposal to amend the Perfumania charter to increase the number of authorized shares of Perfumania common stock and the proposal to approve the issuance of Perfumania common stock in connection with the merger, as more fully described under "The Perfumania Special Meeting" beginning on page 147.

#### ***Parlux***

Parlux stockholders will be asked to vote on the proposal to approve and adopt the merger agreement. **Approval of the merger proposal is required for completion of the merger.** Parlux stockholders will also be asked to vote on the proposal to approve, on an advisory and non-binding basis, certain compensation payable to certain Parlux executive officers in connection with the merger. **Approval of this proposal is not required for completion of the merger.** The Parlux board of directors unanimously recommends that Parlux stockholders vote to approve both these proposals, as more fully described under "The Parlux Special Meeting" beginning on page 137.

### **Voting by Perfumania and Parlux Directors, Executive Officers and Principal Stockholders**

On the Perfumania record date, directors and executive officers of Perfumania and their affiliates, and certain other principal stockholders, owned and were entitled to vote approximately [ ]% of the total voting power of the shares of Perfumania common stock outstanding on that date, and all of such persons have entered into agreements to, or have informed us that they intend to, vote to approve both proposals to be voted on at the Perfumania special meeting. On the Parlux record date, directors and executive officers of Parlux and their affiliates, and certain other principal stockholders, owned and were entitled to vote approximately [ ]% of the shares of Parlux common stock outstanding on that date, and such persons holding approximately [ ]% of the shares have entered into voting agreements obligating them to vote to approve all the proposals to be voted on at the Parlux special meeting.

### **Ownership of Perfumania Following the Merger**

Upon completion of the merger and Perfumania's issuance of 300,000 new shares to Artistic Brands or its designee under the Proposal Agreement, Perfumania and Parlux expect that former Parlux stockholders will own approximately 40% of the outstanding shares of Perfumania common stock and current Perfumania stockholders will own approximately 60% of the outstanding shares of Perfumania common stock, or approximately 49% and 51%, respectively, measured on a fully-diluted basis as of December 31, 2011 (as described under "The Merger - Ownership of Common Stock of the Combined Company After the Merger" beginning on page 103). The foregoing ownership percentages assume issuance of the maximum number of shares in the merger.

Following the merger, the Nussdorfs, who are currently the beneficial owners of approximately 82% of Perfumania's outstanding shares and 9.9% of Parlux's outstanding shares, are expected to continue to own a majority of Perfumania's outstanding shares.

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### **Directors and Executive Officers After the Merger**

Following the merger, the Perfumania board of directors will consist of the members of the Perfumania and Parlux boards of directors in office at the time of closing. The current Perfumania directors are Stephen Nussdorf, Michael W. Katz, Carole Ann Taylor, Joseph Bouhadana and Paul Garfinkle, and the current Parlux directors are Frederick E. Purches, Glenn Gopman, Esther Egozi Choukroun, Anthony D. Agostino and Robert Mitzman. Each member of Perfumania's board of directors following the merger will serve until Perfumania's next annual meeting, which Perfumania expects to take place in the fourth quarter of calendar 2012, and until his or her successor has been elected.

Stephen Nussdorf, Michael W. Katz and Donna Dellomo will continue to serve as Perfumania's Executive Chairman, President and Chief Executive Officer, and Chief Financial Officer, respectively, following the merger.

For more information, see "Directors and Executive Officers of Perfumania After the Merger" beginning on page 214.

### **Interests of Certain Persons in the Merger**

In considering the recommendation of Parlux's board of directors to approve the merger agreement and related matters, Parlux stockholders should be aware that some of Parlux's executive officers and directors have financial interests in the merger that are different from, or in addition to, those of Parlux's stockholders generally. The Parlux board of directors, including the Parlux independent committee, was aware of these interests and considered them, among other matters, in negotiating and approving the merger agreement and making its recommendation that the Parlux stockholders approve and adopt the merger agreement and approve, on an advisory and non-binding basis, compensation payable to certain officers of Parlux in connection with the merger.

As described under "Directors and Executive Officers After the Merger" above, assuming that they are still in office at the effective time of the merger and in accordance with the merger agreement, Frederick E. Purches, Glenn Gopman, Esther Egozi Choukroun, Anthony D. Agostino and Robert Mitzman, who are currently directors of Parlux, will be appointed to the board of directors of Perfumania upon completion of the merger.

Parlux has employment arrangements with each of Frederick E. Purches, Frank A. Buttacavoli and Raymond J. Balsys that provide for certain severance benefits that will remain in place following the effective time of the merger. For further information regarding payments to Parlux officers upon termination, see "The Parlux Special Meeting Parlux Proposal 2: Advisory Vote on Certain Compensation Payable by Parlux to Executive Officers in Connection with the Merger" beginning on page 140.

At the effective time of the merger, each outstanding option to purchase shares of Parlux common stock (including those options held by Parlux's executive officers and directors) will be converted into an option to purchase shares of Perfumania common stock at a predetermined conversion rate. Additionally the vesting schedule of each converted option will be accelerated by one year, and if the holder's employment is terminated within one year of the effective time of the merger without cause or good reason, the option will vest in full and the exercisability of the option will continue for 90 days following termination.

Glenn Gopman, a director of Parlux, currently holds warrants to purchase 10,000 shares of Parlux common stock. Upon completion of the merger, such warrant will be automatically converted into a warrant to purchase a number of shares of Perfumania common stock at a predetermined conversion rate. Perfumania has agreed to include the shares issued upon exercise of this warrant in a future resale registration statement.

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Based on Parlux directors' and executive officers' equity compensation holdings as of December 31, 2011, (i) the number of shares of Parlux common stock relating to options held by each of Messrs. Purches, Balsys, Buttacavoli and the four Parlux non-employee directors as a group that would vest and become exercisable as of the effective time of the merger (assuming an effective date of March 31, 2012 or after) is: 0; 12,500; 0 and 0 (in the aggregate), respectively and (ii) the number of shares of Parlux common stock underlying a warrant held by Mr. Gopman that will be converted into the right to receive a Perfumania warrant at the effective time of the merger is 10,000.

Under the merger agreement, Parlux directors and officers are entitled to continued indemnification and insurance coverage for six years following completion of the merger.

In considering the recommendation of Perfumania's board of directors with respect to the matters related to the merger, Perfumania stockholders should be aware that Glenn Nussdorf, who owns 28.7% of the shares of Perfumania common stock entitled to vote at the special meeting, and who is the brother of Stephen Nussdorf, owns approximately 9.9% of the outstanding shares of Parlux common stock and will be entitled to receive merger consideration on the same basis as other Parlux stockholders. Glenn Nussdorf has agreed to elect to receive all stock consideration in connection with the merger. In addition, Perfumania's subsidiary, Model, has received commitments from the Nussdorf Trusts to make a total of \$30 million in new loans to finance a portion of the cash consideration in the merger.

For a more complete description of the interests of the Parlux directors and executive officers, as well as the Nussdorfs, in the merger, see "The Merger - Interests of Certain Persons in the Merger" beginning on page 100.

## **United States Federal Income Tax Consequences of the Merger**

The merger is intended to be treated as a reorganization within the meaning of Section 368(a) of the Code, and it is a condition to the respective obligations of Perfumania and Parlux to complete the merger that each of Perfumania and Parlux receives a legal opinion to that effect. Accordingly, a Parlux common stockholder generally will recognize gain, but not loss, in an amount equal to the lesser of (1) the sum of the amount of cash and the fair market value of the Perfumania stock received, minus the adjusted tax basis of the Parlux common stock surrendered in exchange therefor, and (2) the amount of cash received (other than cash received in lieu of a fractional share). Further, a Parlux common stockholder generally will recognize gain or loss with respect to cash received instead of fractional shares of Perfumania common stock that the Parlux common stockholder would otherwise be entitled to receive. For further information, please refer to "Material U.S. Federal Income Tax Consequences of the Merger" beginning on page 110.

*The United States federal income tax consequences described above may not apply to all holders of Parlux common stock. Your tax consequences will depend on your individual situation. Accordingly, we strongly urge you to consult your tax advisor for a full understanding of the particular tax consequences of the merger to you.*

## **Regulatory Matters**

The applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, which we refer to in this joint proxy statement/prospectus as the HSR Act, expiration of which was a condition to the merger, has expired. For a more complete discussion of regulatory matters relating to the merger, see "The Merger - Regulatory Approvals Required for the Merger" beginning on page 104.

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### **Conditions to Completion of the Merger**

Each party's obligation to complete the merger is subject to the satisfaction or waiver of various conditions by one or both of the parties, including the following:

approval of the holders of common stock of Parlux and Perfumania of the proposals required for the completion of the merger;

expiration of the waiting period under the HSR Act, which has occurred, and no action being instituted by the Department of Justice or Federal Trade Commission challenging or seeking to enjoin the merger transactions that has not been withdrawn or terminated;

the authorization for listing on Nasdaq, subject to official notice of issuance, of the shares of Perfumania common stock to be issued to holders of Parlux common stock;

the number of Parlux stockholders for which demands of appraisal have been exercised and not been withdrawn does not exceed 7.5% of the outstanding shares of Parlux common stock;

Perfumania depositing the cash and shares representing the merger consideration with the exchange agent;

Perfumania increasing the number of members of its board and adopting resolutions to add the Parlux board members to the Perfumania board;

no law, injunction, judgment, order, decree, ruling or other action from a governmental entity that enjoins, restrains, prevents or prohibits the consummation of the merger or makes it illegal;

the registration statement, of which this joint proxy statement/prospectus is a part, having been declared effective by the SEC under the Securities Act and not being the subject of any stop order or threatened or pending proceedings seeking a stop order;

the accuracy of the other party's representations and warranties in the merger agreement, subject to various materiality and other qualifiers, on the date of the closing of the merger (or in the case of representations and warranties that are made as of a particular date or as of the date of the merger agreement, as of such date);

subject to certain qualifiers, no material adverse effect on the other party having occurred between the date of the merger agreement and the date of the closing; and

the other party's compliance in all material respects with its obligations and covenants under the merger agreement.

The merger agreement provides that any or all of these conditions may be waived, in whole or in part, by Perfumania or Parlux, to the extent legally allowed. Neither Perfumania nor Parlux currently expects to waive any material condition to the completion of the merger. If either Perfumania or Parlux determines to waive any condition to the merger that would result in a material change in the terms of the merger to Perfumania stockholders or Parlux stockholders (including any material change in the tax consequences of the transaction to Parlux stockholders), proxies would be resolicited from the Perfumania stockholders or Parlux stockholders, as applicable. For a more complete discussion of the conditions to the merger, see "The Merger Agreement - Conditions to Completion of the Merger" beginning on page 122.

**Timing of the Merger**

The merger is expected to be completed in the first half of 2012, subject to the receipt of necessary regulatory approvals, and the satisfaction or waiver of other closing conditions.

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### **Restrictions on Alternative Transactions**

The merger agreement contains restrictions on the ability of Parlux to solicit or engage in discussions or negotiations with a third party with respect to a proposal to acquire a significant interest in Parlux. Notwithstanding these restrictions, the merger agreement permitted Parlux, until January 22, 2012, to do the following:

initiate, solicit and/or encourage the submission of acquisition proposals from third parties;

engage and participate in discussions or negotiations with respect to third party acquisition proposals or proposals that could lead to third party acquisition proposals; and

take any action to facilitate third party acquisition proposals or proposals that could lead to third party acquisition proposals.

Following the announcement of the merger, PJSC contacted 39 potential alternative acquirors of Parlux. None expressed an interest in making an alternative acquisition proposal during that period. See *The Merger Background of the Merger* starting on page 50 for additional information.

The merger agreement also provides that under specified circumstances, if a third party makes an unsolicited request for information, including nonpublic information, for the purpose of making a competing acquisition proposal, Parlux may furnish such information, and if Parlux receives an unsolicited competing acquisition proposal from a third party that constitutes, or is reasonably likely to lead to, a superior proposal, as defined in the merger agreement, it may furnish nonpublic information to that third party and engage in negotiations to enter into a definitive agreement regarding the superior proposal with that third party. Before withdrawing its recommendation in favor of the applicable merger-related proposal in light of a superior proposal or entering into a definitive agreement regarding a superior proposal, Parlux must, if requested by Perfumania, allow Perfumania to propose revisions of the terms and conditions of the merger agreement and the agreements related to the merger agreement so that the third party proposal is no longer a superior offer. See *The Merger Agreement Solicitation; Restrictions on Solicitation* on page 124.

The restrictions on Parlux limiting its ability to engage in alternative transactions with a third party may discourage a third party from pursuing a competing acquisition proposal that could result in greater value to Parlux's stockholders.

### **Termination of the Merger**

The merger agreement may be terminated by Perfumania or Parlux before completion of the merger in certain circumstances, including after Parlux stockholder approval, and after Perfumania's stockholders have approved the amendment to its charter and the issuance of its common stock to Parlux stockholders in connection with the merger. The merger agreement may also be terminated if the merger has not been consummated by June 30, 2012. In addition, the merger agreement provides that Parlux is required to pay a termination fee to Perfumania equal to \$4 million if the circumstances generally described below occur after January 22, 2012 or a termination fee equal to the greater of \$2 million or Perfumania's out-of-pocket expenses if any of the following occur before that date:

if Parlux terminates the merger agreement before receiving stockholder approval of the matters contained in this joint proxy statement/prospectus and the Parlux board has changed its recommendations regarding how Parlux stockholders should vote their shares at the special meeting;

if Parlux terminates the merger agreement because it has entered into an alternative acquisition agreement with a third party that the Parlux board has determined is a superior proposal to the one proposed by Perfumania; or

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if Perfumania terminates the merger agreement because either (i) the Parlux board has failed to include its recommendation regarding the approval and adoption of the merger agreement in this joint proxy statement/prospectus, (ii) the Parlux board adopts, approves, endorses or recommends to the Parlux stockholders an acquisition proposal from a third party, (iii) a tender or exchange offer for outstanding shares of Parlux common stock has commenced and the Parlux board either recommends that Parlux stockholders tender their shares or fails to recommend against accepting the offer, within certain timeframes, (iv) Parlux enters into an alternative acquisition agreement with a third party, or (v) Parlux or its board announces its intention to do any of the foregoing.

In addition, the merger agreement provides that Perfumania is required to pay a termination fee equal to \$4 million plus Parlux's out-of-pocket expenses of up to \$2 million in the circumstances generally described below:

if Parlux terminates the merger agreement because Perfumania failed to get the approval of its stockholders necessary to approve the proposals required by the merger agreement at the Perfumania special meeting;

if Parlux terminates the merger agreement because Perfumania has failed to deposit with the exchange agent the shares of Perfumania common stock and cash consideration in an aggregate amount sufficient to pay all of the merger consideration and all other closing conditions are satisfied; or

if Parlux terminates the merger agreement because Perfumania has materially breached certain of its representations and covenants and the breach either was not cured in 20 business days after Perfumania received notice of the breach or the breach was unable to be cured within those 20 business days.

Parlux's obligation to pay the termination fee may discourage a third party from pursuing a competing acquisition proposal that could result in greater value to Parlux's stockholders. Although payment of the termination fee could have an adverse effect on the financial condition of Parlux, neither Perfumania nor Parlux believes that such effect would be material. The boards of directors of each of Perfumania and Parlux determined, based in part on advice from their legal advisors, that the amount of the termination fee and the circumstances in which it would become payable were generally typical for a transaction of the magnitude of the merger and would not unduly inhibit an alternative acquisition proposal.

See [The Merger Agreement Termination](#), [Effect of Termination](#), and [Termination Fee](#) beginning on pages 127, 129 and 130, respectively, for a discussion of the circumstances under which Parlux or Perfumania will be required to pay the termination fee to the other party.

### **Comparison of Rights of Perfumania Stockholders and Parlux Stockholders**

Parlux is a Delaware corporation. The shares that Parlux stockholders will receive in the merger will be shares of common stock of Perfumania, a Florida corporation. The rights of stockholders of Delaware and Florida corporations are, in some respects, different. In addition, the charter and bylaws of Perfumania contain provisions that are different from the certificate of incorporation and bylaws of Parlux, as currently in effect.

For a summary of certain differences between the rights of Perfumania stockholders and Parlux stockholders, see [Comparison of Rights of Perfumania Stockholders and Parlux Stockholders](#) beginning on page 229.

### **Accounting Treatment**

Perfumania will account for the merger using the acquisition method of accounting, as prescribed in Accounting Standards Codification 805, [Business Combinations](#), under generally accepted accounting principles in the United States, which we refer to as GAAP.

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### **Appraisal Rights**

Section 262 of the DGCL provides holders of Parlux common stock with the ability to dissent from the transaction and seek appraisal of their shares. A holder of Parlux common stock who properly seeks appraisal and complies with the applicable requirements under the DGCL, which we refer to in this joint proxy statement/prospectus as a dissenting stockholder, will forego the merger consideration and instead receive a cash payment equal to the fair value of its shares of Parlux common stock in connection with the merger. Fair value will be determined by a court following an appraisal proceeding. Dissenting stockholders will not know the appraised fair value at the time such holders must elect whether to seek appraisal. The ultimate amount dissenting stockholders receive in an appraisal proceeding may be more or less than, or the same as, the amount such holders would have received under the merger agreement. A detailed description of the appraisal rights available to holders of Parlux common stock and procedures required to exercise statutory appraisal rights is included in the section entitled "The Merger Appraisal Rights" beginning on page 105.

To seek appraisal, you must deliver a written demand for appraisal to Parlux before the vote on the merger agreement at the Parlux special meeting, and you must not vote in favor of the approval and adoption of the merger agreement, however, you may elect the form of merger consideration that you would like to receive, and such election will not impact your appraisal rights under Delaware law. Failure to follow exactly the procedures specified under the DGCL will result in the loss of appraisal rights. For a further description of the appraisal rights available to Parlux stockholders and procedures required to exercise appraisal rights, see the section entitled "The Merger Appraisal Rights" beginning on page 105.

Due to the complexity of the procedures described above, Parlux stockholders who are considering exercising such rights are encouraged to seek the advice of legal counsel. The full text of Section 262 of the DGCL is attached as Annex E to this joint proxy statement/prospectus.

### **Litigation Related to the Merger**

Parlux, the members of the Parlux board of directors, Perfumania and Merger Sub have been named as defendants in three lawsuits brought by purported Parlux stockholders challenging the proposed merger and seeking, among other things, injunctions to prevent the defendants from completing the merger. Additional lawsuits may be filed against Parlux, Perfumania, Merger Sub and/or their directors and officers in connection with the merger. See "The Merger Litigation Related to the Merger" on page 108 for more information about the lawsuits that have been filed.

### **Nasdaq Listing of Perfumania Common Stock Issued in the Merger**

Perfumania common stock received by Parlux stockholders in connection with the merger will be listed on Nasdaq under the symbol PERF. After completion of the merger, it is expected that Perfumania common stock will continue to be traded on Nasdaq, but Parlux common stock will no longer be listed or traded on Nasdaq.

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**SELECTED HISTORICAL FINANCIAL DATA**

The following tables present selected historical financial data of both companies.

**Perfumania**

Perfumania's fiscal year is based on the 52 or 53-week retail calendar ending on the Saturday closest to January 31. All references in the body of this joint proxy statement/prospectus to Perfumania's fiscal years are to the calendar year in which the fiscal year begins. For example, fiscal 2008 refers to the fiscal year that began on February 3, 2008 and ended on January 31, 2009. The earlier fiscal years presented below comprised different periods for the following reason. On August 11, 2008, Perfumania (then known as E Com Ventures, Inc.) completed its acquisition of Model, issuing shares of its common stock and warrants to the Model shareholders. Because the former Model shareholders held a substantial majority of Perfumania's outstanding shares following that merger, Model was considered to be the acquiror for accounting purposes. Accordingly, Perfumania's historical financial statements reflect the results of Model for periods before August 11, 2008, not those of E Com Ventures. Model's fiscal year end before that merger had been October 31; however, Perfumania changed its fiscal year end to the Saturday closest to January 31. Accordingly, the fiscal periods before fiscal 2008 presented below are a 13-week transition period that ended February 2, 2008, and Model's last two full fiscal years, ended October 31, 2007 and 2006, respectively.

The consolidated statement of operations data for the fiscal years provided in the table, and for the thirteen-week period ended February 2, 2008, and the consolidated balance sheet data as of the end of each of those periods have been derived from the audited consolidated financial statements of Perfumania and its subsidiaries for those periods. The financial data as of and for the 39-week periods ended October 29, 2011 and October 30, 2010 have been derived from the unaudited consolidated financial statements of Perfumania and its subsidiaries. Perfumania's management believes that the unaudited financial statements include all adjustments, consisting of normal recurring adjustments, that Perfumania considers necessary for a fair presentation of the financial position and the results of operations for these periods. The selected historical consolidated financial data provide only a summary and are not necessarily indicative of the results of future operations of Perfumania. They should be read in conjunction with Perfumania's audited consolidated financial statements and notes thereto included in this joint proxy statement/prospectus beginning on page F-2 and Information about Perfumania Management's Discussion and Analysis of Financial Condition and Results of Operations beginning on page 158, as well as other information that Perfumania has filed with the SEC. See Where You Can Find More Information beginning on page 241.

**Table of Contents****Perfumania Selected Financial Data**

	39-Week Period Ended		Fiscal Year Ended			13-Week Period Ended	Fiscal Year Ended	
	October 29, 2011	October 30, 2010	January 29, 2011	January 30, 2010	January 31, 2009	February 2, 2008	October 31, 2007	October 31, 2006
	<i>(in thousands, except per share amounts)</i>							
Net sales, retail division	\$ 224,121	\$ 206,641	\$ 327,291	\$ 344,295	\$ 225,867	\$ 30,363	\$ 76,369	\$ 73,990
Net sales, wholesale division	105,380	115,227	157,509	166,627	203,427	85,106	251,343	264,371
<b>Total net sales</b>	<b>329,501</b>	<b>321,868</b>	<b>484,800</b>	<b>510,922</b>	<b>429,294</b>	<b>115,469</b>	<b>327,712</b>	<b>338,361</b>
Gross profit sales, retail division	101,484	89,211	143,034	145,631	92,540	11,758	30,040	29,945
Gross profit, wholesale division	24,265	25,742	37,815	33,159	42,280	21,899	60,469	63,092
<b>Total gross profit</b>	<b>125,749</b>	<b>114,953</b>	<b>180,849</b>	<b>178,790</b>	<b>134,820</b>	<b>33,657</b>	<b>90,509</b>	<b>93,037</b>
<b>Operating expenses:</b>								
Selling, general and administrative expenses	118,056	117,262	162,157	164,141	119,994	19,622	60,113	57,548
Asset impairment			3,001	2,320	68,078			
(Recovery) provision on vendor advances							(2,367)	2,367
Depreciation and amortization	5,839	6,595	8,909	9,766	7,423	340	1,411	1,721
<b>Total operating expenses</b>	<b>123,895</b>	<b>123,857</b>	<b>174,067</b>	<b>176,227</b>	<b>195,495</b>	<b>19,962</b>	<b>59,157</b>	<b>61,636</b>
<b>Income (loss) from operations</b>	<b>1,854</b>	<b>(8,904)</b>	<b>6,782</b>	<b>2,563</b>	<b>(60,675)</b>	<b>13,695</b>	<b>31,352</b>	<b>31,401</b>
Interest expense	5,920	10,094	12,857	18,202	12,023	3,201	12,749	14,506
<b>Income (loss) before income tax provision (benefit)</b>	<b>(4,066)</b>	<b>(18,998)</b>	<b>(6,075)</b>	<b>(15,639)</b>	<b>(72,698)</b>	<b>10,494</b>	<b>18,603</b>	<b>16,895</b>
Income tax (benefit) provision		(2,447)	(2,351)	189	14,262	4,387	7,353	6,854
<b>Net income (loss)</b>	<b>\$ (4,066)</b>	<b>\$ (16,551)</b>	<b>\$ (3,724)</b>	<b>\$ (15,828)</b>	<b>\$ (86,960)</b>	<b>\$ 6,107</b>	<b>\$ 11,250</b>	<b>\$ 10,041</b>
<b>Weighted average number of common shares outstanding:</b>								
Basic	8,967,162	8,966,565	8,966,612	8,966,417	7,364,203	5,900,000	5,368,468	5,315,315
Diluted	8,967,162	8,966,565	8,966,612	8,966,417	7,364,203	5,900,000	5,368,468	5,315,315
<b>Basic net income (loss) per common share</b>	<b>\$ (0.45)</b>	<b>\$ (1.85)</b>	<b>\$ (0.42)</b>	<b>\$ (1.77)</b>	<b>\$ (15.41)</b>	<b>\$ 1.04</b>	<b>\$ 2.10</b>	<b>\$ 1.89</b>
<b>Diluted net income (loss) per common share</b>	<b>\$ (0.45)</b>	<b>\$ (1.85)</b>	<b>\$ (0.42)</b>	<b>\$ (1.77)</b>	<b>\$ (15.41)</b>	<b>\$ 1.04</b>	<b>\$ 2.10</b>	<b>\$ 1.89</b>
<b>Working capital</b>	<b>\$ 201,928</b>	<b>\$ 121,351</b>	<b>\$ 197,040</b>	<b>\$ 125,112</b>	<b>\$ 124,088</b>	<b>\$ 225,502</b>	<b>\$ 267,174</b>	<b>\$ 238,922</b>
<b>Total assets</b>	<b>345,060</b>	<b>370,661</b>	<b>300,472</b>	<b>306,585</b>	<b>400,130</b>	<b>299,373</b>	<b>344,988</b>	<b>306,844</b>
<b>Long-term debt, excluding current portion</b>	<b>153,655</b>	<b>95,366</b>	<b>153,245</b>	<b>95,739</b>	<b>96,379</b>	<b>167,603</b>	<b>215,227</b>	<b>197,521</b>
<b>Total stockholders' equity</b>	<b>\$ 56,472</b>	<b>\$ 47,623</b>	<b>\$ 60,508</b>	<b>\$ 64,091</b>	<b>\$ 79,881</b>	<b>\$ 90,718</b>	<b>\$ 84,611</b>	<b>\$ 61,635</b>

**Parlux**

Parlux's fiscal year ends on March 31. The consolidated statement of operations data for the fiscal years provided in the table and the consolidated balance sheet data as of the end of each of those years have been derived from the audited consolidated financial statements of Parlux and its subsidiaries for those periods. The financial data as of and for the nine-month periods ended December 31, 2011 and 2010 have been derived from the unaudited consolidated financial statements of Parlux and its subsidiaries. Parlux's management believes that the unaudited financial statements include all adjustments, consisting of normal recurring adjustments, that Parlux considers necessary for a fair

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presentation of the financial position and the results of operations for these periods. The selected historical consolidated financial data provide only a summary and are not necessarily indicative of the results of future operations of Parlux. They should be read in conjunction with Parlux's audited consolidated

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financial statements and notes thereto included in this joint proxy statement/prospectus beginning on page F-39 and Information about Parlux Management's Discussion and Analysis of Financial Condition and Results of Operations beginning on page 181, as well as other information that Parlux has filed with the SEC. See Where You Can Find More Information beginning on page 241.

**Parlux Selected Financial Data**

	Nine-Month Period Ended December 31,		Fiscal Year Ended March 31,				
	2011	2010	2011	2010	2009	2008	2007
	<i>(in thousands, except per share amounts)</i>						
Net Sales	\$ 100,897	\$ 94,090	\$ 123,006	\$ 148,102	\$ 151,155	\$ 153,696	\$ 134,365
Net income (loss) from continuing operations	\$ (2,911)	\$ 1,058	\$ 1,242	\$ (14,759)	\$ (4,284)	\$ 5,011	\$ (27,864)
Income from discontinued operations(1)						25	30,746
Net Income (loss)	\$ (2,911)	\$ 1,058	\$ 1,242	\$ (14,759)(2)	\$ (4,284)	\$ 5,036	\$ 2,882
Diluted earnings per share:							
Continuing operations	\$ (0.19)	\$ 0.05	\$ 0.06	\$ (0.73)	\$ (0.21)	\$ 0.24	\$ (1.53)
Discontinued operations							1.69
Total	\$ (0.14)	\$ 0.05	\$ 0.06	\$ (0.73)	\$ (0.21)	\$ 0.24	\$ 0.16
Current assets	\$ 110,164	\$ 101,812	\$ 103,994	\$ 103,373	\$ 128,674	\$ 122,333	\$ 114,065
Current liabilities	18,336	10,458	10,975	14,532	26,220	15,040	34,605
Working capital	91,828	91,354	93,019	88,841	102,454	107,293	79,460
Trademarks and licenses, net	3,747	4,350	4,195	4,654	1,885	2,770	3,913
Long-term borrowings, net	59					543	1,537
Total assets	117,632	111,722	112,706	114,332	136,704	131,148	144,896
Total liabilities	18,395	10,458	10,975	14,532	26,220	15,583	36,142
Stockholders' equity	\$ 99,237	\$ 101,264	\$ 101,731	\$ 99,800	\$ 110,484	\$ 115,565	\$ 108,754

(1) Discontinued operations relates to the sale of the Perry Ellis license in December 2006.

(2) Includes additional charges of \$7.6 million to cost of sales to reduce the recorded value of Parlux's GUESS? brand inventories, due to the expiration of the GUESS? brand license on December 31, 2009. In addition, collateral material of \$1.7 million related to the GUESS? brand products was written off and recorded to Advertising & Promotional expense.

**Table of Contents****SUMMARY UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL DATA**

The following tables set forth certain selected unaudited pro forma condensed combined financial statement data of Perfumania, giving effect to the merger as if it had occurred on October 29, 2011 for balance sheet data and on January 31, 2010, the beginning of the earliest period presented, for statement of operations data.

Perfumania's fiscal year ends on the Saturday closest to January 31, while Parlux's fiscal year ends on March 31. The unaudited pro forma statement of operations data for the fiscal year ended January 29, 2011 combines Perfumania's audited consolidated statement of operations for the fiscal year ended January 29, 2011 with the audited consolidated statement of operations of Parlux for the fiscal year ended March 31, 2011. The unaudited pro forma statement of operations data for the 39 weeks ended October 29, 2011 combines Perfumania's unaudited consolidated statement of income for the 39 weeks ended October 29, 2011 with Parlux's unaudited consolidated statement of income for the nine months ended December 31, 2011. The unaudited pro forma balance sheet data combines Perfumania's October 29, 2011 unaudited condensed consolidated balance sheet with Parlux's December 31, 2011 unaudited condensed consolidated balance sheet.

The data in the tables below should be read in conjunction with the historical financial statements of Perfumania and Parlux that are included in this joint proxy statement/prospectus beginning on page F-2 and the unaudited pro forma condensed combined financial information beginning on page F-100. The unaudited pro forma condensed combined financial data are provided for informational purposes only and are not necessarily indicative of the operating results or financial position that would have occurred if the merger had been completed as of the dates set forth above, nor are they indicative of the future results or financial position of the combined company.

	<b>39 Weeks Ended October 29, 2011</b>	<b>Year Ended January 29, 2011</b>
	<i>(in thousands, except weighted average and per share amounts)</i>	
<b>Pro Forma Condensed Combined Statement of Operations Data:</b>		
Total net sales	\$ 397,330	\$ 560,298
Costs of goods sold	222,173	340,786
Gross profit	175,157	219,512
Selling, general and administrative expenses	172,353	225,211
Depreciation and amortization	7,990	12,195
Asset impairment		3,001
Loss from operations	(5,186)	(20,895)
Interest expense	8,609	16,304
Loss before income taxes	(13,795)	(37,199)
Income tax (benefit)	(1,784)	(1,718)
Net loss	\$ (12,011)	\$ (35,481)
Weighted average shares outstanding (basic and diluted)	15,188,000	15,186,000
Net loss per share (basic and diluted)	\$ (0.79)	\$ (2.34)

	<b>As of October 29, 2011</b>
	<i>(in thousands)</i>
<b>Pro Forma Condensed Combined Balance Sheet Data:</b>	
Working Capital	\$ 278,883
Total Assets	479,710
Long-Term Debt excluding current portion	217,250
Total stockholders' equity	115,480





**Table of Contents****COMPARATIVE HISTORICAL AND UNAUDITED PRO FORMA PER SHARE DATA**

The following table sets forth selected historical and unaudited pro forma combined per share data of Perfumania and Parlux.

**Historical Per Share Information of Perfumania and Parlux.** The historical per share information of each of Perfumania and Parlux presented below is derived from the audited financial statements as of and for the fiscal year ended January 29, 2011 for Perfumania and as of and for the fiscal year ended March 31, 2011 for Parlux, and the unaudited condensed consolidated financial statements as of and for the 39 weeks ended October 29, 2011 for Perfumania and as of and for the nine months ended December 31, 2011 for Parlux.

**Pro Forma Combined Per Share Data.** The unaudited pro forma combined per share data presented below gives effect to the merger under the acquisition method of accounting, as if the merger had become effective on February 1, 2010, in the case of net income per share and cash dividends per share data, and October 29, 2011, in the case of book value per share data, and assuming that 0.533333 of a share of Perfumania common stock had been issued in exchange for each outstanding share of Parlux common stock.

**Equivalent Pro Forma Combined Per Share Information of Parlux.** The unaudited equivalent pro forma combined per share amounts of Parlux presented below are calculated by multiplying the unaudited pro forma combined per share amounts of Perfumania by 0.533333.

As explained in more detail in **Unaudited Pro Forma Condensed Combined Financial Information** on page F-100, the unaudited pro forma data presented below reflect the preliminary allocation of the estimated purchase price to identifiable net assets acquired, and the final allocation will be determined after the merger is completed and is subject to further adjustments. Accordingly, the pro forma purchase price adjustments reflected in these data are preliminary, and there can be no assurance that the final valuations will not result in changes, which could be material. Furthermore, this illustrative, unaudited pro forma data is not necessarily indicative of the results that the combined company will experience following the merger.

You should read the information below in conjunction with the selected historical financial data beginning on page 24 and the historical financial statements of Perfumania and Parlux and related notes beginning on page F-2.

		Perfumania Historical	Parlux Historical	Pro Forma Combined	Per Equivalent Parlux Share(1)
<b>As of and for the year ended January 29, 2011</b>					
Earnings per share from continuing operations:					
Basic	(2)	\$ (0.42)	\$ (0.06)	\$ (2.34)	\$ (1.25)
Diluted	(2)	\$ (0.42)	\$ (0.06)	\$ (2.34)	\$ (1.25)
Dividends per share:					
Basic	(2)	\$	\$	\$	\$
Diluted	(2)	\$	\$	\$	\$
<b>As of and for the thirty-nine weeks ended October 29, 2011</b>					
Earnings per share from continuing operations:					
Basic	(2)	\$ (0.45)	\$ (0.14)	\$ (0.79)	\$ (0.42)
Diluted	(2)	\$ (0.45)	\$ (0.14)	\$ (0.79)	\$ (0.42)
Dividends per share:					
Basic	(2)	\$	\$	\$	\$
Diluted	(2)	\$	\$	\$	\$
Book value per share:					
Basic	(3)	\$ 6.30	\$ 4.78	\$ 7.60	\$ 4.05
Diluted	(3)	\$ 6.30	\$ 4.78	\$ 7.60	\$ 4.05



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- (1) Calculated based on pro forma combined multiplied by the exchange ratio of 0.533333 shares of Perfumania common stock for each share of Parlux common stock.
- (2) Pro forma earnings and dividends per share are based upon pro forma combined net income and pro forma combined weighted average common shares outstanding during the period.
- (3) Pro forma book value per share is based on pro forma combined equity and pro forma combined common stock outstanding at the end of the period.

**Table of Contents****COMPARATIVE MARKET PRICE AND DIVIDEND INFORMATION**

Perfumania's common stock is listed on Nasdaq under the symbol PERF and Parlux's common stock is listed on Nasdaq under the symbol PARL. The following table sets forth, for the calendar quarters indicated, the high and low sale prices per share of Perfumania common stock and the high and low sale prices of Parlux common stock, in each case as reported on Nasdaq. The table also sets forth, for both Perfumania and Parlux, cash dividend information with respect to their common stock for the calendar quarters indicated.

	Perfumania Common Stock(1)		
	High	Low	Cash Dividends Declared(2)
<b>Fiscal Year Ending January 26, 2013</b>			
First Quarter (through February 17)	\$ 10.81	\$ 9.65	\$
<b>Fiscal Year Ended January 28, 2012:</b>			
First Quarter	\$ 13.17	\$ 7.67	\$
Second Quarter	\$ 16.20	\$ 9.72	\$
Third Quarter	\$ 19.50	\$ 11.55	\$
Fourth Quarter	\$ 20.00	\$ 9.75	\$
<b>Fiscal Year Ended January 29, 2011:</b>			
First Quarter	\$ 9.61	\$ 5.08	\$
Second Quarter	\$ 11.99	\$ 7.01	\$
Third Quarter	\$ 10.00	\$ 7.42	\$
Fourth Quarter	\$ 10.50	\$ 7.86	\$
<b>Fiscal Year Ended January 30, 2010:</b>			
First Quarter	\$ 5.69	\$ 1.00	\$
Second Quarter	\$ 4.84	\$ 2.02	\$
Third Quarter	\$ 3.57	\$ 1.60	\$
Fourth Quarter	\$ 7.49	\$ 3.22	\$
	Parlux Common Stock(1)		
	High	Low	Cash Dividends Declared(2)
<b>Fiscal Year Ending March 31, 2012:</b>			
First Quarter	\$ 3.75	\$ 3.06	\$
Second Quarter	\$ 3.86	\$ 2.27	\$
Third Quarter	\$ 6.60	\$ 3.04	\$
Fourth Quarter (through February 17)	\$ 5.49	\$ 4.90	\$
<b>Fiscal Year Ended March 31, 2011:</b>			
First Quarter	\$ 2.41	\$ 1.68	\$
Second Quarter	\$ 2.34	\$ 1.69	\$
Third Quarter	\$ 2.96	\$ 2.09	\$
Fourth Quarter	\$ 3.79	\$ 2.85	\$
<b>Fiscal Year Ended March 31, 2010:</b>			
First Quarter	\$ 2.57	\$ 0.77	\$
Second Quarter	\$ 2.50	\$ 1.52	\$
Third Quarter	\$ 2.61	\$ 1.88	\$
Fourth Quarter	\$ 2.18	\$ 1.52	\$

- (1) Because Perfumania and Parlux have different fiscal years, the quarters presented are not the same time periods for both companies.  
(2) Perfumania has not declared or paid cash dividends on its common stock and does not currently intend to declare or pay cash dividends in the foreseeable future. Payment of dividends, if any, will be at the



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discretion of the board of directors after taking into account various factors, including Perfumania's financial condition, results of operations, current and anticipated cash needs and plans for expansion. Parlux also has not paid a cash dividend on its common stock nor has it contemplated paying any dividend in the near future. In addition, both companies' bank credit facilities prohibit the payment of dividends or making other distributions to stockholders without the respective lenders' prior approval.

The following table sets forth the closing price per share of Perfumania and Parlux common stock as reported on Nasdaq as of December 22, 2011, the last trading day before the public announcement of the merger agreement, and as of [ ], 2012, the most recent practicable trading day before the date of this joint proxy statement/prospectus.

	Perfumania Common Stock	Parlux Common Stock	Mix of Cash and Stock Consideration Equivalent Per Share of Parlux Common Stock(1)	All Stock Consideration Equivalent Per Share of Parlux Common Stock(2)
December 22, 2011	\$ 19.55	\$ 3.40	\$ 7.91	\$ 10.43
[ ], 2012	\$ [ ]	\$ [ ]	\$ [ ]	\$ [ ]

- (1) The equivalent per share data for Parlux common stock for a mix of cash and stock consideration has been determined by multiplying the closing sales price of a share of Perfumania common stock, on the dates presented above, by the exchange ratio for the merger of 0.2, plus \$4.00 in cash, without interest, assuming no adjustments are made as described in The Merger Agreement Consideration to be Received in the Merger on page 113.
- (2) The equivalent per share data for Parlux common stock for all stock consideration has been determined by multiplying the closing sales price of a share of Perfumania common stock, on the dates presented above, by the exchange rate of 0.533333, without interest, assuming no adjustments are made as described in The Merger Agreement Consideration to be Received in the Merger on page 113.

The information in the preceding tables is historical only. The market prices of Perfumania and Parlux common stock will fluctuate between the date of this proxy statement/prospectus and the completion of the merger. No assurance can be given concerning the market prices of Perfumania or Parlux common stock before the completion of the merger or Perfumania common stock after the completion of the merger. The market value of the Perfumania common stock that Parlux's stockholders will receive in connection with the merger may vary significantly from the prices shown in the table above. Perfumania and Parlux urge stockholders to obtain current market quotations for shares of Perfumania common stock and Parlux common stock before making any decision regarding which form of merger consideration to elect to receive, the issuance of shares of Perfumania common stock pursuant to the merger agreement or the approval and adoption of the merger agreement by Parlux stockholders.

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**RISK FACTORS**

*You should consider carefully the following risk factors, together with all of the other information included in this document before deciding how to vote. If the merger is consummated, Perfumania and Parlux will operate as a combined company in a market environment that cannot be predicted with certainty and that involves significant risks, many of which will be beyond the combined company's control. We have described below the risks and uncertainties that we believe to be material to a decision on how to vote your shares. If any of the following risks and uncertainties develops into actual events, the combined company, its results of operation or its financial condition could be adversely affected. In such an event, the trading price of Perfumania common stock could decline, and you may lose all or part of your investment. This document also contains forward-looking statements that involve risks and uncertainties. Please read "Cautionary Statement Regarding Forward-Looking Statements" on page 48.*

**Risks Relating to the Merger**

*We may not realize the benefits of integrating our companies.*

To be successful after the merger, Perfumania 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. Perfumania 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 Perfumania cannot integrate the Perfumania and Parlux businesses successfully, it may fail to realize the expected benefits of the merger.

*Parlux's directors and executive officers have interests in the merger that may be different from, and in addition to, the interests of other Parlux stockholders.*

Parlux's directors and executive officers are parties to agreements or participants in other arrangements that give them interests in the merger that may be different from, or in addition to, your interests as a stockholder of Parlux, which could create conflicts of interest in their determinations to recommend the merger. You should consider these interests in voting on the merger. We have described these different interests under "The Merger - Interests of Certain Persons in the Merger."

*Parlux stockholders electing to receive only Perfumania common stock may receive cash and stock and Parlux stockholders electing to receive a mix of cash and stock may receive more stock and less cash than expected.*

While each Parlux stockholder may elect to receive consideration consisting of shares of Perfumania common stock or a combination of cash and shares of Perfumania common stock in exchange for their shares of Parlux common stock, the aggregate stock consideration to be received by Parlux stockholders pursuant to the merger will be fixed at 5,919,052 shares, subject to upward adjustment for any increase in the number of Parlux shares outstanding and to replace, on a pro rata and proportionate basis as necessary, a decrease in cash consideration in certain circumstances, which we refer to as the "Aggregate Cap," and the maximum amount of cash that will be paid is \$61,895,288. Both of these amounts are subject to adjustment in certain circumstances, including a downward adjustment of the maximum cash consideration for each share of Parlux stock as to which appraisal rights have been exercised and for any shortfall of Parlux cash or cash equivalents, and an upward adjustment of the Aggregate Cap for any increase in the number of Parlux shares outstanding and to replace, on a pro rata and proportionate basis as necessary, any decrease in maximum cash consideration resulting from a shortfall of Parlux cash or cash equivalents, as calculated pursuant to the merger agreement.

Accordingly, if Parlux stockholders elect to receive, and non-electing stockholders would receive, in the aggregate, stock in an amount greater than the Aggregate Cap, which we believe is probable based on the



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obligations of certain parties to elect all stock contained in their voting agreements, the number of shares of Perfumania common stock received by those holders electing to receive all stock consideration will be prorated down and those holders will receive per share of Parlux common stock: (1) a number of shares of Perfumania common stock equal to the difference between (a) the Aggregate Cap and (b) the product of (i) the total number of shares as to which holders have elected mixed consideration or made no election and (ii) 0.20 (such difference, the Available Stock Election Amount ), divided by the total number of shares as to which the holders have elected all stock consideration, rounded to the nearest ten thousandth of a share, and (2) an amount of cash (without interest) equal to the product of (a) the difference of (i) the number of shares as to which holders have elected all stock consideration multiplied by 0.533333 and (ii) the Available Stock Election Amount and (b) \$12.00, divided by the total number of shares held by stockholders electing all stock consideration. As a result, as discussed in

Summary Consideration to be Receive in the Merger by Parlux Stockholders, Parlux stockholders who make a valid election to receive all stock consideration are likely to receive some cash in their merger consideration.

Reductions in the maximum amount of cash payable to Parlux stockholders will also be made if cash and cash equivalents of Parlux when the merger is completed are less than a target amount of \$15 million, after adding amounts owed by Perfumania to Parlux according to a pre-established and agreed to accounts receivable schedule, and subtracting any abnormalities in accounts payable, or if Parlux stockholders exercise appraisal rights. Reductions will be shared pro rata among Parlux stockholders based on their elections. In addition, the Aggregate Cap would be increased to replace the reduction in cash due to a shortfall below the target amount of cash and cash equivalents based upon a value of \$12.00 per share of Perfumania common stock. The maximum cash amount would be reduced by the amount of any shortfall in cash and cash equivalents and by an amount equal to \$6.40 for each share of Parlux common stock as to which appraisal rights are exercised. See The Merger Agreement Allocation of Merger Consideration on page 114.

***As a result of the consideration election and because the market price of Perfumania common stock will fluctuate, Parlux stockholders cannot be sure of the aggregate value of the merger consideration they will receive.***

Subject to proration, as discussed in Summary Consideration to be Receive in the Merger by Parlux Stockholders, Parlux stockholders may elect to receive consideration consisting of shares of Perfumania common stock or a combination of cash and shares of Perfumania common stock in exchange for their shares of Parlux common stock.

The price of Perfumania common stock will likely vary from the market price of Perfumania common stock on the date the merger agreement was announced, on the date that this joint proxy statement/prospectus is mailed to Parlux stockholders, on the date a Parlux stockholder makes an election with respect to the merger consideration, on the date of the special meeting of Parlux stockholders and on the date a Parlux stockholder receives the merger consideration. Therefore, the consideration actually received by Parlux stockholders may have a current value that is higher or lower than the amount per Parlux share on any of these dates, as calculated based on Perfumania common stock trading prices prevailing at that time.

***If you tender shares of Parlux common stock to make an election, you will not be able to sell those shares unless you revoke your election before the election deadline.***

If you are a Parlux stockholder and want to make a mixed cash and stock or stock election, you must deliver your stock certificates (or follow the procedures for guaranteed delivery) and a properly completed and signed election form to the exchange agent. The deadline for doing this is 5:00 p.m., Eastern time, on [ ], 2012. You will not be able to sell any shares of Parlux common stock that you have delivered unless you revoke your election before the deadline by providing written notice to the exchange agent. If you do not revoke your election, you will not be able to liquidate your investment in Parlux common stock for any reason until you receive cash and Perfumania common stock or Perfumania common stock pursuant to the merger. In the time between delivery of your shares and the closing of the merger, the market price of Parlux or Perfumania common stock may increase

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or decrease and you might otherwise want to sell your shares of Parlux to gain access to cash, make other investments or reduce the potential for a decrease in the value of your investment.

***Perfumania may be unable to obtain the financing necessary to consummate the merger.***

Perfumania and its subsidiaries entered into an amendment to its existing senior, secured revolving credit facility with a syndicate of banks for which Wells Fargo Bank, National Association, which we refer to as Wells Fargo Bank, serves as administrative agent, collateral agent and swing line lender. The amendment permits Perfumania to use borrowings under its 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. In addition, Perfumania's subsidiary, Model, received commitments from the Nussdorf 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. Perfumania's receipt of the financing arrangements 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 and expenses to Parlux.

***The date that Parlux stockholders will receive the merger consideration is uncertain.***

The date that Parlux stockholders will receive the merger consideration depends on the completion date of the merger, which is uncertain. While we expect to complete the merger in the first half of 2012, the completion date of the merger might be later than expected because of unforeseen events.

***Business uncertainties and contractual restrictions while the merger is pending may have an adverse effect on Perfumania or Parlux.***

Uncertainty about the effect of the merger on employees, suppliers, partners, regulators and customers may have an adverse effect on Parlux or Perfumania. These uncertainties may impair Parlux's ability to attract, retain and motivate key personnel until the merger is consummated and could cause suppliers, customers and others that deal with Parlux to defer purchases or other decisions concerning Parlux or seek to change existing business relationships with Parlux. In addition, the merger agreement restricts both Perfumania and Parlux from making certain acquisitions and taking other specified actions without the other's approval. These restrictions could prevent either party from pursuing attractive business opportunities that may arise before the completion of the merger.

***Failure to complete the merger or delays in completing the merger could negatively affect Perfumania's and Parlux's stock prices and future businesses and operations.***

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

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

the current market price of Perfumania common stock or Parlux 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 by the stock market of either company or both generally and a resulting decline in the market price of its or their common stock;

certain costs relating to the merger, including certain investment banking, financing, legal and accounting fees and expenses, must be paid even if the merger is not completed, and Parlux or Perfumania may be required to pay substantial fees to the other party if the merger agreement is terminated under specified circumstances; and

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there may be substantial disruption to each of Perfumania's and Parlux's business and distraction of each company's management and employees from day-to-day operations because matters related to the merger (including integration planning) may require substantial commitments of time and resources, which could otherwise have been devoted to other opportunities that could have been beneficial to Perfumania or Parlux, as applicable.

Delays in completing the merger could exacerbate uncertainties concerning the effect of the merger, which may have an adverse effect on the business following the merger and could defer or detract from the realization of the benefits expected to result from the merger.

### ***The merger agreement restricts Parlux's ability to pursue alternatives to the merger.***

The merger agreement contains provisions that, subject to a go-shop period of 30 days following the signing of merger agreement and limited fiduciary exceptions, restrict Parlux's ability to initiate, solicit, encourage or facilitate, discuss, negotiate or accept a competing third party proposal to acquire all or a significant part of Parlux. Further, there are a limited number of exceptions that would allow Parlux's board of directors to withdraw or change its recommendation to holders of Parlux common stock that they vote in favor of the adoption of the merger agreement. Although Parlux's board of directors is permitted to take these actions if it determines in good faith that these actions are likely to be required to comply with its fiduciary duties, doing so in specified situations could entitle Perfumania to terminate the merger agreement and to be paid a termination fee of \$4 million or \$2 million, depending on the timing of the termination.

Perfumania required that Parlux agree to these provisions as a condition to Perfumania's willingness to enter into the merger agreement. However, these provisions could discourage a potential acquiror that might have an interest in acquiring all or a significant part of Parlux from considering or proposing that acquisition, even if it were prepared to pay consideration with a higher per share cash or market value than the consideration Perfumania proposes to pay in the merger or might result in a potential competing acquiror proposing to pay a lower per share price to acquire Parlux than it might otherwise have proposed to pay because of the added expense of the termination fee that may become payable to Perfumania in certain circumstances.

### ***Perfumania is subject to financial risks if it fails to complete the merger under certain circumstances.***

Perfumania is required to pay a termination fee equal to \$4 million plus Parlux's out-of-pocket expenses if Parlux terminates the merger agreement under certain circumstances. Such fees may result in payments of up to \$6 million to Parlux and represent a financial risk to Perfumania if the merger agreement is terminated for a reason that would trigger the payment of the termination fee.

### ***Ownership by Perfumania stockholders will be diluted by the issuance of Perfumania shares in connection with the merger.***

The issuance of Perfumania shares in the merger will dilute the ownership position of the current stockholders of Perfumania. Assuming that the maximum 5,919,052 shares issuable under the merger agreement are issued and the 300,000 new shares of Perfumania common stock are issued to Artistic Brands or its designee pursuant to the Proposal Agreement, the number of Perfumania shares outstanding will increase by approximately 69% compared with December 31, 2011. As a result, Perfumania stockholders would hold approximately 60% of the Perfumania common stock outstanding after the completion of the merger, and Parlux stockholders would hold approximately 40%. In addition, holders of outstanding Parlux options and warrants would have their options and warrants converted into the right to receive Perfumania options or warrants, as applicable, resulting in new options and warrants to purchase approximately 4,000,000 shares of Perfumania common stock. As a result, Perfumania stockholders will hold approximately 51% of Perfumania's common stock and Parlux stockholders will hold approximately 49% of Perfumania's common stock after completion of the merger, calculated on a fully-diluted basis. In addition to these convertible securities, Perfumania will issue to Artistic Brands or its designee warrants to purchase 1,599,999 shares of Perfumania common stock pursuant to the existing license agreement between Parlux and Artistic Brands upon execution of a license agreement and a sublicense agreement among Perfumania, Artistic Brands and S. Carter Enterprises, LLC. These warrants are not included in the fully-diluted calculations above.

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*The rights of former Parlux stockholders will be governed by Florida corporate law and Perfumania's charter and bylaws.*

All Parlux stockholders who receive shares of Perfumania common stock in the merger will become Perfumania stockholders and their rights as stockholders will be governed by Florida corporate law and Perfumania's charter and its bylaws. There are material differences between the current rights of Parlux stockholders, which are governed by Delaware corporate law and Parlux's amended and restated articles of incorporation and bylaws, and the rights of holders of Perfumania common stock. See *Comparison of Rights of Perfumania Stockholders and Parlux Stockholders* beginning on page 229.

### **Risks Relating to the Combined Company After the Merger**

*The combined company will be more leveraged after the merger than it has been historically and may not be able to obtain adequate financing to execute its operating strategy.*

Perfumania will be more leveraged after the merger than it has been historically. Upon the amendment to Perfumania's senior credit facility and the issuance of new subordinated debt contemplated by the merger agreement, Perfumania will add up to \$73 million of new debt. (See *Perfumania's Financing Arrangements* beginning on page 135). Borrowings under the amended credit facility combined with Perfumania's existing debt and the issuance of new subordinated debt are expected to be approximately \$192 million of total pro forma combined long-term debt after the completion of the merger. This level of indebtedness could result in Perfumania having difficulty accessing capital markets or raising capital on favorable terms and Perfumania's financial results could be negatively affected by its inability to raise capital or because of the cost of such capital.

Upon consummation of the merger, Perfumania and all of its subsidiaries must comply with various restrictive covenants contained in its credit facility and any of its future debt arrangements. These covenants will, among other things, limit the ability of Perfumania and all of its subsidiaries to:

pay dividends;

make distributions; and

take other actions, such as making advances to suppliers.

Perfumania's substantial debt following the merger could have important consequences to you. For example, it could:

increase Perfumania's vulnerability to general adverse economic and industry conditions;

limit Perfumania's ability to fund future working capital and capital expenditures, to engage in future acquisitions or development activities, or to otherwise realize the value of its assets and opportunities fully because of the need to dedicate a substantial portion of its cash flow from operations to payments on its debt or to comply with any restrictive terms of its debt;

limit Perfumania's flexibility in planning for, or reacting to, changes in the industry in which it operates; or

place Perfumania at a competitive disadvantage as compared to its competitors that have less debt.

Realization of any of these factors could adversely affect Perfumania's financial condition.

*The combined company may experience an impairment of its goodwill.*

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Perfumania expects to recognize a substantial amount of goodwill in connection with consummation of the merger and the allocation of the purchase price thereto. Perfumania tests goodwill for impairment annually during the fourth quarter, or between annual tests if an event occurs or circumstances change that may indicate the fair value of its reporting unit is less than the carrying amount. The need to test for impairment can be based on several indicators, including but not limited to changes in Perfumania's stock price, book value or market capitalization, and the operating performance and cash flows of Perfumania's retail and wholesale segments.

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Fair value calculated for the purpose of testing for impairment of Perfumania's goodwill is estimated using the expected present value of future cash flows method and comparative market prices when appropriate. A significant amount of judgment is involved in performing these fair value estimates for goodwill since the results are based on estimated future cash flows and assumptions related thereto. Significant assumptions include estimates of future sales and expense trends, liquidity and capitalization, among other factors. Perfumania bases its fair value estimates on projected financial information which Perfumania believes to be reasonable. However, actual results may differ from those projections.

### **Risks Relating to Perfumania and Parlux**

*In addition to the risks described above, the following risks will continue to apply to the businesses of Perfumania and Parlux following the merger.*

#### ***Perfumania***

***Perfumania could face liquidity and working capital constraints if it is unable to generate sufficient cash flows from operations.***

If Perfumania is unable to generate sufficient cash flows from operations to service its obligations, it could face liquidity and working capital constraints, which could adversely impact future operations and growth. If Perfumania needs to raise additional funds to support its operations, it may not be able to do so on favorable terms, or at all. Without such funding, Perfumania may need to modify or abandon its growth strategy or eliminate product offerings, any of which could negatively impact its financial position.

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

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

***The beauty industry is highly competitive and if Perfumania cannot effectively compete its 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 Perfumania's 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 Perfumania's current and potential competitors have greater financial, technical, operational, and marketing resources. Perfumania may not be able to compete successfully against these competitors in developing 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 Perfumania's profitability, operating cash flow, and many other aspects of Perfumania's business, prospects, results of operations and financial condition.

***Perfumania's retail business is sensitive to and may be adversely affected by general economic conditions and overall consumer confidence.***

Perfumania's 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

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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 Perfumania's business and its results of operations.

### ***Adverse U.S. and global economic conditions could affect Perfumania's wholesale business.***

A U.S. or global economic downturn could reduce the availability of credit for businesses. Some of Perfumania's customers could experience a decline in financial performance. These conditions affect their ability to pay amounts owed to Perfumania 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, Perfumania's wholesale customers may be unable to borrow funds on acceptable terms. Any economic decline affecting Perfumania's customers would adversely affect its business and results of operations.

### ***If Perfumania cannot successfully manage its growth, its business will be adversely affected.***

Perfumania 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 Perfumania's 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 Perfumania's business and its results of operations.

### ***The market for real estate is competitive, which could adversely impact Perfumania's results.***

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

### ***If Perfumania is unable to effectively manage the inventory it sells on consignment, it will not achieve its expected results.***

Perfumania's business includes a significant portion of consigned sales, and its 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 upon termination of the consignment relationships. The turnover frequency of 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, financing costs may exceed targeted levels and Perfumania 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 Perfumania to reduce prices and accept lower margins to sell consigned products.

### ***Perfumania's business is subject to seasonal fluctuations, which could lead to fluctuations in its stock price.***

Perfumania has historically experienced and expects 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

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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 Perfumania's control. Perfumania's 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 Perfumania's quarterly operating results are below expectations, its stock price might decline.

***Perfumania may experience shortages of the merchandise its needs because it does not have long-term agreements with suppliers.***

Perfumania's success depends to a large degree on its ability to provide an extensive assortment of brand name and designer fragrances. Perfumania has no long-term purchase contracts or other contractual assurance of continued supply, pricing or access to new products. If Perfumania is 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 its ability to obtain necessary merchandise, its results of operations could be adversely affected.

***Perfumania could be subject to litigation because of the merchandising aspect of its business.***

Some of the merchandise Perfumania purchases 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 Perfumania to demonstrate that the specific merchandise was produced and sold with the proper authority, and if Perfumania is unable to demonstrate this, it could, among other things, be restricted from reselling the particular merchandise or be subjected to other liabilities. This type of restriction could adversely affect its business and results of operations.

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

The price of Perfumania's 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 Perfumania or its competitors;

legal and regulatory matters that are applicable to its business;

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

news reports relating to trends in its markets; and

the amount of shares constituting its 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 Perfumania's common stock, regardless of its operating performance. Perfumania's 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 Perfumania's common stock due to the uncertainty and negative publicity associated with litigation.

***Future growth may place strains on Perfumania's managerial, operational and financial resources.***



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If Perfumania grows as anticipated, a significant strain on managerial, operational and financial resources may occur. Future growth or increase in the number of strategic relationships could strain Perfumania's managerial,

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operational and financial resources, inhibiting Perfumania's ability to achieve the execution necessary to successfully implement its business plan.

***The loss of or disruption in Perfumania's distribution facility could have a material adverse effect on business.***

Perfumania currently has one distribution facility located in Bellport, New York. In addition, it uses 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 Perfumania's business, prospects, results of operations, financial condition or cash flows.

***Current economic conditions and the global financial crisis may have an impact on Perfumania's business and financial condition in ways that Perfumania 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 Perfumania does business could adversely affect its 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 revenues. Perfumania currently cannot predict the extent to which revenues may be impacted.

In addition, Perfumania's 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 Perfumania on acceptable terms and may not be available for some time. This may limit Perfumania's ability to pursue an acquisition-based strategy.

Perfumania maintains operating bank accounts at a number of financial institutions in the United States. Some of Perfumania'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. Perfumania could incur substantial losses if the underlying financial institutions fail or are otherwise unable to return its deposits.

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

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

***If Perfumania fails to protect the security of personal information about retail customers, its reputation could suffer and it could suffer financial harm.***

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

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***Control of Perfumania's management and policies is with its principal stockholders, who could take actions that are not in the best interest of the other stockholders.***

We expect that following the completion of the merger, the Nussdorfs will continue to own a majority of Perfumania's common stock. As a result, they will be able to direct corporate policies and can act unilaterally to approve most actions requiring stockholder approval under law or Perfumania's governing documents. The Nussdorfs' collective stock ownership may have the effect of delaying or preventing policies or actions deemed desirable by Perfumania's board of directors, such as a business combination that might be in the interests of other stockholders, which in turn could materially and adversely affect the market price of Perfumania common stock. Conversely, such ownership may cause Perfumania to implement policies that are not in the best interests of other stockholders.

Perfumania also has a material amount of indebtedness to the Nussdorfs and their affiliates and expects to incur more in connection with the merger. As significant creditors, the Nussdorfs may refuse consent to actions Perfumania's Board may consider necessary.

Perfumania has agreed that, in certain circumstances, it will register with the SEC the resale of certain shares of 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 for parties that have obtained registration rights in connection with providing financing to Perfumania. This may limit Perfumania's ability to obtain financing in the future.

***The absence of contracts with customers or suppliers could result in the loss of key customers or suppliers, which would have a material adverse effect on Perfumania's business.***

Perfumania does not have long-term or exclusive contracts with customers or with the suppliers of distributed brands. Suppliers of distributed brands generally may choose to reduce or eliminate the volume of their products Perfumania distributes, including supplying products to wholesale customers directly or through another distributor. Perfumania's 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 Perfumania's relationship with any of them, could have a material adverse effect on Perfumania's business, prospects, and financial condition.

### ***Parlux***

The following risk factors relate to Parlux on a standalone basis. However, they would also apply, to an extent that cannot be accurately predicted, to the combined company following the merger.

***The Paris Hilton line is Parlux's primary source of revenue following the expiration of its GUESS? license.***

During the year ended March 31, 2010, licensed Paris Hilton and GUESS? brand products generated approximately \$68.4 million and \$46.2 million, respectively, in gross sales for Parlux. The Paris Hilton and GUESS? brands of fragrances and accessories accounted for approximately 42% and 28%, respectively, of Parlux gross sales from continuing operations during the fiscal year ended March 31, 2010. The GUESS? license expired on December 31, 2009, and was not renewed. As a result, licensed Paris Hilton brand products accounted for the majority of Parlux gross sales and constituted Parlux's primary source of revenue for the year ending March 31, 2011. During the fiscal year ended March 31, 2011, licensed Paris Hilton brand products accounted for \$80.1 million in gross sales or approximately 60% of gross sales. If Paris Hilton's appeal as a celebrity were to diminish it could result in a material reduction in sales of licensed Paris Hilton brand products, and have a material adverse effect on Parlux's financial condition, results of operations, and operating cash flows. The Paris Hilton fragrance license is scheduled to expire on June 30, 2014.

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***If Parlux is unable to acquire or license additional brands, secure additional distribution arrangements, or obtain the required financing for these agreements and arrangements, the growth of its business could be impaired.***

Parlux's business strategy contemplates growing its portfolio of licensed brands. Future expansion through acquisitions or new product licensing arrangements, if any, is dependent on the availability of capital resources and working capital. Parlux may be unsuccessful in identifying, negotiating, financing and consummating such acquisitions and licensing arrangements on commercially acceptable terms, or at all, which could hinder its ability to increase revenues and grow its portfolio of licensed brands and its business. Additionally, even if Parlux is able to consummate such acquisitions and licensing arrangements, it may not be able to successfully integrate them with its existing operations and portfolio of licenses or generate the expected levels of increased revenue as a result of such acquisitions and licensing arrangements.

***The development of new products by Parlux involves considerable costs and any new product may not generate sufficient consumer interest and sales to become a profitable brand or to cover the costs of its development and subsequent promotions.***

Generally, a significant number of new prestige fragrance products have been introduced annually on a worldwide basis. The beauty industry in general is highly competitive and consumer preferences change rapidly. The initial appeal of these new fragrances, launched for the most part in U.S. department stores, has fueled the growth of the industry. Department stores tend to lose sales to the mass market as a product matures. To counter the effect of lower department store sales, companies strategically introduce new products quickly, which requires additional spending for development, advertising and promotional expenses. Parlux's success with new fragrance products depends on its products' appeal to a broad range of consumers, whose preferences are subject to change and cannot be predicted with certainty, and on Parlux's ability to anticipate and respond to market trends through product innovation. In addition, a number of the new launches are with celebrities (either entertainers or athletes) which require substantial royalty commitments and whose careers and/or appeal could change dramatically, either positively or negatively, based on a single event. If one or more of Parlux's new product introductions were to be unsuccessful, or if the appeal of the celebrity related to a product were to diminish, it could result in a reduction in profitability and operating cash flows.

***The loss of or interruption in Parlux's arrangements with manufacturers, suppliers and customers could have a material adverse effect on sales, financial condition, and operating cash flow.***

Parlux generally does not have long-term or exclusive contracts with its domestic customers, certain international distributors or suppliers. Virtually all of its finished products are assembled from multiple components and manufactured by third parties. If Parlux experiences delays in the delivery of the finished products or the raw materials or components used to make such products, or if these suppliers were unable to supply such products, or if there were transportation problems between the suppliers and Parlux's distribution center, sales, financial condition, and operating cash flow could be materially and adversely impacted. In addition, the loss of key distributors or customers, such as Macy's or Perfumania, or a change in Parlux's relationship with such distributors or customers, could result in excess inventory and reduced sales, profitability, and operating cash flows.

***The fragrance and cosmetic industry is highly competitive, and if Parlux is unable to compete effectively it could have a material adverse effect on its sales, financial condition, operating cash flow, and many other aspects of its business, prospects, results of operations and financial condition.***

The fragrance and cosmetic industry is highly competitive and, at times, changes rapidly due to consumer preferences and industry trends. Parlux competes primarily with global prestige fragrance companies, most of whom have significantly greater resources than Parlux and may be able to respond to changes in business and economic conditions more quickly or effectively than Parlux. Competition in the fragrance and cosmetic industry

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is based on a number of factors including innovation and new product introductions, pricing of products, promotional activities and advertising, special events and electronic commerce initiatives. Parlux's products compete for consumer recognition and shelf space with products that have achieved significant international, national and regional brand name recognition and consumer loyalty. Parlux's products also compete with new products that often are accompanied by substantial promotional campaigns. In addition, 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 profitability, operating cash flow, and many other aspects of Parlux's business, prospects, results of operations and financial condition.

***Parlux's net sales, operating income and inventory levels fluctuate on a seasonal basis and a decrease in sales or profit margins during peak seasons could have a disproportionate effect on its financial condition and results of operations.***

Parlux's net sales and operating income fluctuate seasonally, with a significant portion of operating income typically realized during peak holiday gift-giving seasons. Any decrease in sales or profit margins during these periods could have a disproportionate effect on Parlux's financial condition and results of operations. Parlux provides allowances for sales returns based on its historical sell-through experience, economic trends and changes in its assessment of customer demand. Parlux's customers generally request approval for the return of unsold items after a specific holiday gift-giving season and fluctuations in the allowance balance are generally higher after holiday gift-giving seasons. An increase in sales returns due to a change in economic conditions, or otherwise, may result in Parlux's estimated allowances being insufficient and may have a material adverse impact on its operations. Seasonal fluctuations also affect its inventory levels. Parlux must carry a significant amount of inventory, especially before the holiday season selling period. If Parlux is not successful in selling its inventory, it may have to write down inventory or sell it at significantly reduced prices or Parlux may not be able to sell such inventory at all, any of which could have a material adverse effect on its financial condition and results of operations.

***The continued consolidation of the U.S. department store segment could have a material adverse effect on Parlux's sales, financial condition, and operating cash flow.***

Over the last few years, the United States department store market has experienced a significant amount of consolidation, the most recent significant example of which is the consolidation of Macy's various regional divisions into one centralized purchasing function. Such consolidations have resulted in Parlux becoming increasingly dependent on key retailers, who have increased their bargaining strength and implemented measures such as store closings, increased inventory control and management changes, as well as changes in administrative and purchasing responsibilities. This consolidation trend has also resulted in an increased risk related to the concentration of Parlux's customers. The continued consolidation of department stores, whether successful or unsuccessful, could have a material adverse effect on sales, financial condition, and operating cash flow.

***Consumers have reduced discretionary purchases of Parlux products as a result of the general economic downturn, and may further reduce discretionary purchases of Parlux products in the event of further economic decline, terrorism threats or other external factors.***

Consumer spending is generally affected by a number of factors beyond Parlux's control, including general economic conditions, inflation, interest rates, energy costs and consumer confidence generally. Consumer purchases of discretionary items, such as fragrance products, tend to decline during recessionary periods, when disposable income is lower, and may impact sales of Parlux products. As a result of the severe economic downturn, Parlux has experienced a decline in sales since the quarter ended December 31, 2008. In addition, this general economic downturn has resulted in reduced traffic in customers' stores which, in turn, resulted in reduced net sales to Parlux's customers. Parlux faced continued economic challenges in fiscal year 2011 because consumers continued to have less money for discretionary purchases as a result of job losses, foreclosures, bankruptcies, reduced access to credit and falling home prices, among other things. If current economic

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conditions continue or worsen, Parlux could experience further declines in sales, profitability and operating cash flows due to reduced orders, payment delays, supply chain disruptions or other factors caused by the economic challenges faced by customers, prospective customers and suppliers. In addition, sudden disruptions in business conditions as a result of a terrorist attack, retaliation and the threat of further attacks or retaliation, war, adverse weather conditions or other natural disasters, or pandemic situations can have a short or, sometimes, long-term impact on consumer spending.

### ***Failure to manage inventory effectively could negatively impact Parlux operations.***

The composition of Parlux's inventory at any given time may vary considerably depending on launches of new products, forecasted sales of significant amounts of Parlux products during the peak holiday gift-giving seasons and as a result of termination or expiration of fragrance licenses and sub-licenses. If Parlux misjudges consumer preferences or demands or future sales do not reach forecasted levels, it could have excess inventory that may need to be held for a long period of time, written down, sold at prices lower than expected, or discarded in order to clear excess inventory at the end of a selling season. Conversely, if Parlux underestimates consumer demand, Parlux may not be able to provide products to Parlux customers to meet their demand. Either event could have a material adverse impact on Parlux's business, financial condition and results of operations. The termination or expiration of fragrance licenses may result in inventory which Parlux may need to write down to the amounts which it estimates could be realized upon their sale or liquidation. During the year ended March 31, 2010, Parlux recorded additional charges of \$7.6 million to cost of sales to reduce the recorded value of inventories related to its GUESS? license as a result of the expiration of this license on December 31, 2009. In addition, inventory shrink (inventory theft or loss) rates can also significantly impact business performance and financial results.

### ***The value of Parlux's long-lived assets, including brand licenses and trademarks, may be adversely affected if Parlux experiences declines in operating results or significant negative industry or economic trends.***

The majority of Parlux's long-lived assets are the result of the acquisition of existing license brands or sublicensing opportunities. For newly launched brands Parlux's long-lived assets are generally the result of investment in trademarking brand names and designs, and are generally not a material portion of its assets. At least on an annual basis, long-lived assets are reviewed for impairment. Impairment losses are recognized if expected undiscounted future cash flows of the long-lived assets are less than their carrying values. Future cash flows can be affected by changes in industry or market conditions. The assumptions used include an analysis by license, and by fragrance produced under each license, which may vary depending on the age of the product. Expected sales along with related costs of sales, direct expenses and certain allocated charges are projected through the end of each given license period. Expected sales estimates incorporate the age of a product and its market distribution. If actual operating results differ from management's estimates, or if Parlux experiences the impact of negative industry or economic trends, write downs of long-lived assets, including brand licenses and trademarks, may be required which could have a material adverse effect on operating results.

### ***If Parlux is unable to protect its intellectual property rights, specifically trademarks and trade names, its ability to compete could be negatively impacted.***

The market for Parlux's products depends to a significant extent upon the value associated with its trademarks and trade names. Parlux owns, or has licenses or other rights to use, the material trademark and trade name rights used in connection with the packaging, marketing and distribution of its major products both in the United States and in other countries where such products are principally sold; therefore, trademark and trade name protection is important to its business. Although most of Parlux's brand names are registered in the United States and in certain foreign countries in which Parlux operates, Parlux may not be successful in asserting trademark or trade name protection. In addition, the laws of certain foreign countries may not protect intellectual property rights to the same extent as the laws of the United States, especially in the product class that includes fragrance products. The costs required to protect trademarks and trade names may be substantial.

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If other parties infringe on Parlux's intellectual property rights or the intellectual property rights that it licenses, the value of Parlux's brands in the marketplace may be diluted. Any infringement of Parlux's intellectual property rights would also likely result in a commitment of its time and resources to protect these rights through litigation or otherwise. Additionally, Parlux may infringe or be accused of infringing on others' intellectual property rights and one or more adverse judgments with respect to these intellectual property rights could negatively impact ability to compete and could materially adversely affect business, prospects, results of operations, financial condition or cash flows.

*If Parlux experiences privacy breaches and liability for online content, it could negatively affect its reputation, credibility and business.*

Parlux relies on third-party computer hardware and software for various social media tools and websites that it utilizes as part of its marketing strategy. There is a growing concern over the security of personal information transmitted over the internet, consumer identity theft and user privacy. Despite the implementation of reasonable security measures by Parlux and its third-party providers, these sites and systems may be susceptible to electronic or physical computer break-ins and security breaches. Any perceived or actual unauthorized disclosure of personally-identifiable information regarding Parlux customers or website visitors could harm Parlux's reputation and credibility, impair its ability to attract website visitors and reduce its ability to attract and retain customers. Additionally, as the number of users of forums and social media features on its websites increases, Parlux could be exposed to liability in connection with material posted on Parlux websites by users and other third parties. Finally, Parlux could incur significant costs in complying with the multitude of state, federal and foreign laws regarding unauthorized disclosure of personal information.

*The loss of, or disruption in Parlux's distribution facility, could have a material adverse effect on its sales and its relationships with its customers.*

Parlux has one distribution facility, located in New Jersey, which is close to where its fragrance products are manufactured and packaged. The loss of, or any damage to, its New Jersey facility, as well as the inventory stored therein, would require Parlux to find replacement facilities. In addition, weather conditions, such as inclement weather or other natural disasters, could disrupt its distribution operations. Certain of its components require purchasing lead times in excess of 180 days. If Parlux cannot replace its distribution capacity and inventory in a timely, cost-efficient manner, it could reduce the inventory Parlux has available for sale, adversely affecting profitability and operating cash flows, as well as damaging relationships with customers who are relying on deliveries of Parlux products.

*Parlux's success depends, in part, on the quality and safety of its fragrance and related products.*

Parlux's success depends, in part, on the quality and safety of its fragrance and related products. If Parlux products are found to be unsafe or defective, or if they otherwise fail to meet customers or consumers' standards and expectations, Parlux's reputation could be adversely affected, relationships with customers or consumers could suffer, the appeal of one or more of Parlux brands could be diminished, sales could be adversely affected and/or Parlux may become subject to liability claims, any of which could result in a material adverse effect on business, results of operations and financial condition.

*Parlux is subject to risks related to its international operations.*

Parlux operates on a global basis, with sales in approximately 80 countries. Parlux's international operations could be adversely affected by:

import and export license requirements;

trade restrictions;

changes in tariffs and taxes;

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product registration, permitting and regulatory compliance;

restrictions on repatriating foreign profits back to the United States;

the imposition of foreign and domestic governmental controls;

changes in, or Parlux's unfamiliarity with, foreign laws and regulations;

difficulties in staffing and managing international operations;

changes in economic, social, legal and other conditions;

the volatility or weakening of the U.S. dollar against other currencies;

greater difficulty enforcing intellectual property rights and weaker laws protecting such rights; and

geo-political conditions, such as terrorist attacks, war or other military action, public health problems and natural disasters.

***Reductions in worldwide travel could hurt sales volumes in Parlux's duty-free related business.***

Parlux depends on consumer travel for sales to duty free customers in airports and other locations throughout the world. Any reductions in travel, including as a result of general economic downturns, natural disasters, or acts of war or terrorism, or disease epidemics, could result in a material decline in sales and profitability for this channel of distribution, which could negatively affect Parlux's operating results, financial condition, and operating cash flow.

***If Parlux loses the services of executive officers and senior management, it could have a negative impact on business.***

Parlux's success is dependent upon the continued service and skills of its executive officers and senior management. If it loses the services of executive officers and senior management, it could have a negative impact on Parlux's business because of their skills, years of industry experience and the difficulty of promptly finding qualified replacement personnel.

***If Parlux loses its key personnel, or fails to attract and retain additional qualified experienced personnel, it will be unable to continue to develop its prestige fragrance products and attract and obtain new licensing partners.***

Parlux believes that its future success depends upon the continued contributions of its highly qualified sales, creative, marketing, and management personnel and on its ability to attract and retain those personnel. These individuals have developed strong reliable relationships with customers and suppliers. There can be no assurance that Parlux's current employees will continue to work for Parlux or that Parlux will be able to hire any additional personnel necessary for its growth. Parlux's future success also depends on its continuing ability to identify, hire, train and retain other highly qualified managerial personnel. Competition for these employees can be intense. Parlux may not be able to attract, assimilate or retain qualified managerial personnel in the future, and failure to do so would limit the growth potential of its business and potential licensing partners may not be as attracted to the organization.

***Parlux may unknowingly infringe on others' intellectual property rights which could result in litigation.***

Parlux may unknowingly produce and sell products in a country where another party has already obtained intellectual property rights. One or more adverse judgments with respect to these intellectual property rights could negatively impact Parlux's ability to compete and continue to sell



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products in the worldwide marketplace and may require the destruction of inventory produced under the infringed name, both of which would adversely affect profitability, and, ultimately operating cash flow.

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*Parlux is involved in litigation from time to time in the ordinary course of business, which, if the outcome of such litigation is adverse, could materially adversely affect its business, results of operations, financial condition, and cash flows.*

Given the nature of Parlux's business, Parlux is involved in litigation from time to time in the ordinary course of business. No assurance can be given as to the final outcome of any legal proceedings or that the ultimate resolution of any legal proceedings will not have a material adverse effect on Parlux's business, results of operations, financial condition, and cash flows.

*Parlux's quarterly results of operations could fluctuate significantly due to retailing peaks related to gift giving seasons and delays in new product launches, which could adversely affect its stock price.*

Parlux may experience variability in net sales and net income on a quarterly basis as a result of a variety of factors, including timing of customer orders and returns, sell-through of products by the retailer to the ultimate consumer or gift giver, delays in new product launches, as well as additions or losses of brands or distribution rights. Any resulting material reduction in sales could have an adverse effect on Parlux's business, its profitability and operating cash flows, and correspondingly, the price of its common stock.

*Parlux's information systems and websites may be susceptible to outages and other risks.*

Parlux has information systems that support its business processes, including product development, marketing, sales, order processing, production, distribution, finance and intracompany communications throughout the world. These systems may be susceptible to outages due to fire, floods, power loss, telecommunications failures, break-ins and similar events. Despite the implementation of network security measures, Parlux's systems may be vulnerable to computer viruses, break-ins and similar disruptions from unauthorized tampering. The occurrence of these or other events could disrupt or damage Parlux's information systems, result in the dissemination of confidential information and adversely affect its financial condition and results of operations.

*Parlux's business is subject to regulation in the United States and internationally.*

The manufacturing, distribution, formulation, packaging and advertising of Parlux's fragrance and related products are subject to numerous federal, state and foreign governmental regulations. Compliance with these regulations is costly and difficult. If Parlux fails to adhere, or is alleged to have failed to adhere, to any applicable federal, state or foreign laws or regulations, its business, prospects, results of operation, financial condition or cash flows may be adversely affected. In addition, future results could be adversely affected by changes in applicable federal, state and foreign laws and regulations, or the interpretation or enforcement thereof, including those relating to product liability, trade rules and customs regulations, intellectual property, consumer laws, privacy laws and product regulation, as well as accounting standards and taxation requirements (including tax-rate changes, new tax laws and revised tax law interpretations).

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**CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS**

This joint proxy statement/prospectus, including information included or incorporated by reference in this joint proxy statement/prospectus, 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, assume, strategies and other words and terms of similar meaning. Forward-looking statements involve estimates, expectations, projections, goals, forecasts, assumptions, risks and uncertainties. Perfumania and Parlux 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.

Such forward-looking statements include, but are not limited to, statements regarding:

the anticipated closing date of the merger;

the successful closing of the merger;

the integration of Parlux as well as opportunities for operational improvement including but not limited to cost reduction and capital investment;

the strategic opportunity and perceived value to Perfumania's stockholders and Parlux's stockholders of the merger; and

the merger's impact on, among other things, Perfumania's business mix, margins, transitional costs and ability to achieve certain synergies and the timing of such costs and synergies.

With respect to these forward-looking statements, Perfumania and Parlux have made assumptions regarding, among other things:

whether and when the proposed merger will be approved;

whether and when the proposed merger will close;

the availability of financing on satisfactory terms;

the results and impacts of the merger;

preliminary purchase price allocations of acquired assets and liabilities which may include material adjustments to the reported amounts of Parlux assets and liabilities in the financial statements included in its Form 10-K for the most recently ended fiscal year;

economic, competitive and market conditions generally;

volumes and price levels of purchases by, and sales to, customers; and

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competitive conditions in Perfumania and Parlux's businesses and possible adverse reactions of Perfumania and Parlux's respective customers, competitors and suppliers to the merger.

Further, Perfumania and Parlux's businesses are subject to a number of general risks that would affect any such forward-looking statements including, among others:

decreases in demand for Perfumania and Parlux products;

changes in discretionary spending by consumers;

failure of general economic conditions to improve;

Perfumania's ability to comply with financial covenants under Perfumania's financing arrangements;

the ability to raise additional capital;

credit and performance risk from customers and vendors;

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intense competition;

the potential loss of certain customers; and

adverse changes in general market and industry conditions.

Such risks and other factors that may impact management's assumptions are more particularly described in the Risk Factors section of this joint proxy statement/prospectus.

The information contained in this joint proxy statement/prospectus speaks as of the date hereof, and neither Perfumania nor Parlux have or undertake any obligation to update or revise its forward-looking statements, whether as a result of new information, future events or otherwise.

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### **THE MERGER**

The following is a discussion of the merger and the material terms of the merger agreement among Perfumania, Merger Sub and Parlux. You are urged to read carefully the merger agreement in its entirety, a copy of which is attached as Annex A to this joint proxy statement/prospectus and incorporated by reference herein. You are also urged to read the opinions of Perfumania's and Parlux's financial advisors, which are attached as Annex B, and Annexes C and D, respectively, to this joint proxy statement/prospectus, and are incorporated by reference herein.

#### **Background of the Merger**

Perfumania and Parlux have had a commercial relationship for about 20 years, as described in detail elsewhere in this joint proxy statement/prospectus. Glenn Nussdorf has owned approximately 10% of the shares of Parlux common stock since 2006, and he and his siblings, Stephen Nussdorf, the Executive Chairman and a director of Perfumania, and Arlene Nussdorf, have acquired, in the aggregate, a majority of the voting stock of Perfumania in a number of transactions since then. The following describes the discussions and events relating to the merger that led up to the signing of the merger agreement.

During 2006, Glenn Nussdorf engaged in discussions with the management and board of directors of Parlux seeking to encourage actions to enhance stockholder value. In November 2006, Mr. Nussdorf commenced a solicitation of stockholder consents seeking to remove all of the then-existing members of the Parlux board of directors and to elect his nominees to the Parlux board of directors. Parlux filed a lawsuit against Mr. Nussdorf and his nominees seeking to prevent the solicitation. The parties entered into a settlement agreement, terminating the consent solicitation and dismissing the lawsuit, on February 6, 2007. The agreement provided, among other things, for certain management changes at Parlux and for the appointment to the Parlux board of directors of three of Mr. Nussdorf's nominees, including Anthony D. Agostino and Robert Mitzman who are current Parlux directors. In addition, Mr. Nussdorf agreed, subject to certain exceptions, that he would not engage in a proxy or consent solicitation with respect to Parlux shares before August 2008 and that he would not make any proposal to acquire Parlux before February 2009.

After the waiting periods under the 2007 settlement agreement had expired, Glenn and Stephen Nussdorf and members of Perfumania management periodically discussed the possibility of a business combination between Parlux and Perfumania. On January 11, 2010, Mr. Katz, Glenn and Stephen Nussdorf and a Perfumania employee met with Frederick Purches, Chairman and Chief Executive Officer of Parlux, Parlux directors D. Agostino and Glenn Gopman, Frank A. Buttacavoli, Parlux's Executive Vice President and Chief Operating Officer, Raymond J. Balsys, Parlux's Chief Financial Officer, and a Parlux consultant at Parlux's offices in Fort Lauderdale, Florida to inquire whether Parlux had any interest in a possible business combination with Perfumania. The Parlux representatives indicated that Parlux was not interested in a business combination at that time.

In the regular course of business, Parlux has discussions with its customers, including Perfumania, about their business relationships, including merchandise, products, distribution channels, inventory management, pricing and terms of payment. In January and February of 2011, Mr. Purches met several times in New York with Glenn Nussdorf, on behalf of Perfumania, to discuss such issues. Mr. Nussdorf suggested to Mr. Purches at that time that Parlux and Perfumania should consider a business combination between the companies.

After Mr. Nussdorf's meetings with Mr. Purches, Mr. Katz discussed with the Perfumania board of directors contacting Parlux informally about Perfumania's interest in a business combination with Parlux.

In early 2011, Michael W. Katz, President and Chief Executive Officer of Perfumania, asked Wells Fargo Securities LLC, with which Perfumania has had a long-standing relationship, to assist Perfumania in evaluating potential strategic opportunities, including a possible business combination with Parlux.

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On March 9, 2011, Mr. Katz and Mr. Purches met in New York and discussed whether there was a basis on which Parlux and Perfumania could pursue a business combination on mutually agreeable terms.

During the early part of 2011, Perfumania analyzed the possible terms of a business combination and projected that consideration payable under a potential merger with Parlux would include \$60 million to \$65 million of cash. Also during this time, Wells Fargo Bank indicated that Perfumania would be permitted to borrow no more than \$30 million to \$35 million under its senior credit facility to fund cash merger consideration. Mr. Katz, co-trustee of the Nussdorf Trusts, suggested to the other co-trustees the possibility of using a \$30 million distribution that Quality King Distributors, Inc. ( Quality King ) to be made to its stockholders, the Nussdorf Trusts, to fund an increase in the aggregate amount of subordinated loans previously made by the Nussdorf Trusts to Model, which could then be used to supplement the potential cash merger consideration.

On April 12, 2011, Mr. Katz, Stephen Nussdorf and Paul Garfinkle, a director of Perfumania, met informally in Fort Lauderdale, Florida with Mr. Purches, Parlux directors D Agostino, Gopman, Mitzman and Esther Egozi Choukroun, and Mr. Buttacavoli to discuss the companies commercial relationship. The attendees discussed the reasons favoring a business combination as well as the form of consideration. Mr. Purches informed the representatives of Perfumania that he expected that the Parlux board of directors would prefer that the consideration for Parlux stockholders in any such transaction be all or predominantly cash.

Informal discussions between representatives of Parlux and Perfumania continued, during the course of which Mr. Katz indicated, on May 2, 2011, that Perfumania was considering a possible offer. Mr. Purches apprised the Parlux directors of the discussions.

On June 3, 2011, Mr. Katz and Mr. Purches met in New York and discussed the timing of a possible business combination, possible closing conditions, disclosure requirements under federal securities laws, and the views of the Parlux board of directors as to the value of Parlux. Mr. Purches invited Mr. Katz to meet with the Parlux board of directors.

On June 17, 2011, the Parlux board of directors held a telephonic board meeting, during which Mr. Purches reviewed the discussions with Mr. Katz and noted that no offer or specific terms had been proposed. The board discussed the possible engagement of an investment bank should the exploratory discussions warrant that, and discussed, in general terms, how Perfumania common stock, if it were a component of an offer for a business combination, might properly be valued following any such business combination. The board also discussed the terms of the licensor warrants (for the purchase of 6,000,000 shares of Parlux common stock), which had been issued to Artistic Brands, with whom Parlux has license and sublicense agreements, in connection with a license agreement and Artistic Brands side letter dated April 3, 2009. The Artistic Brands side letter contains a change in control provision that would require Parlux to pay up to \$10 per share covered by the licensor warrants in the event of an acquisition or similar change in control of Parlux before April 12, 2012. The board also discussed the fact that Rene Garcia, who is a principal of Artistic Brands, together with the rest of the Garcia Group, are collectively the beneficial owners of 19.2% of the shares of Parlux common stock and 8.4% of the shares of Perfumania common stock.

On June 24, 2011, Mr. Purches and Mr. Katz met and discussed alternative approaches for effecting a business combination including, if the Parlux board of directors was not amenable to such a combination, a possible unsolicited acquisition offer or proposal for the election of a new board of directors of Parlux.

On July 1, 2011, Parlux engaged Peter J. Solomon Company as financial advisor in connection with the board's consideration of strategic alternatives.

During July 2011, Mr. Katz and Mr. Garfinkle agreed that, if a proposal for a business combination were made, it should be conditioned on the approval of a special committee of independent, disinterested members of the Perfumania board of directors because of Glenn Nussdorf's stock ownership in Parlux and because of the possible role of the Nussdorf Trusts in providing a portion of the requisite financing. They also discussed the retention of legal and financial advisors by such a special committee.

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Also during July 2011, Mr. Katz and Donna Dellomo, Chief Financial Officer of Perfumania, commenced discussions with Wells Fargo Bank concerning Perfumania's ability to borrow under its credit facility with Wells Fargo Bank and other lenders a portion of any cash consideration to be paid to Parlux stockholders in a business combination as well as expenses related to the transaction. Periodically, through the middle of December 2011, members of Perfumania management or their representatives communicated with Wells Fargo Bank about amendments of the existing credit facility documents and consents or waivers from the lenders to permit borrowings or transactions contemplated by a potential merger.

On July 26, 2011, Mr. Katz and Mr. Purches spoke about the process, the Parlux board of directors meeting scheduled for August 4, 2011 and the possibility of an informal meeting between Mr. Katz and the members of the Parlux board of directors on August 5, 2011.

On August 4, 2011, the Parlux board met with representatives of PJSC, Parlux's outside business and financial consultant, Al Vercillo of Cambridge Development Corp., and a representative of Parlux's legal counsel, Squire Sanders & Dempsey (US) LLP (now Squire Sanders (US) LLP). Mr. Purches reviewed the discussions with Mr. Katz and again noted that no offer or specific terms had been proposed. The Parlux board also discussed, on a general basis, with Mr. Vercillo other potential parties to a business combination with Parlux, the change of control payment provisions in the Artistic Brands side letter as a potential barrier to possible acquisition offers on terms acceptable to Parlux, and the strategic options available to Glenn Nussdorf and the Garcia Group if an agreement for a business combination with Perfumania were not reached. A representative of Squire Sanders discussed with the members of the board their fiduciary duty as directors to act in the best interests of Parlux and its stockholders, and, on a general basis, certain alternatives the board could consider in the event of an attempt to acquire Parlux without the board's approval.

Informal, exploratory discussions between Mr. Purches and Mr. Katz continued in early August, during which they discussed, in general terms, their views on ranges of value for Parlux common stock that might be reflected in a possible offer, as well as a possible mix of cash and stock as consideration.

In one such discussion, Mr. Katz and Mr. Purches met in New York to discuss the value of Parlux, the next steps if Parlux and Perfumania determined that there was a reasonable basis to proceed with discussions of a business combination, and the timing of Parlux's annual stockholders' meeting. Mr. Katz indicated that, should an offer be made, and if Parlux did not agree to the consideration offered, Perfumania might seek to acquire Parlux without the agreement of the Parlux board. Following that meeting, Mr. Purches met with Mr. Vercillo and a representative of Squire Sanders. Mr. Purches discussed the valuation and liquidity of Perfumania common stock. They also discussed other companies that might be interested in a business combination with Parlux, as well as actions Parlux might take in light of Mr. Katz's statements regarding a possible unsolicited acquisition attempt.

On August 10, 2011, the Parlux board of directors held a telephonic meeting in which it authorized management to continue the discussions with Perfumania. Mr. Purches then met with Mr. Katz and Glenn Nussdorf in the Edwards Wildman offices in New York to discuss the general terms of a possible business combination. Also on that day, Mr. Purches, Mr. Katz and representatives of Edwards Wildman and Squire Sanders had conversations regarding due diligence, a mutual confidentiality agreement, drafting of definitive agreements, and the fiduciary duties of the companies' boards of directors. Each company then filed with the SEC a Current Report on Form 8-K, and Glenn Nussdorf filed an amendment to his Schedule 13D on file with the SEC, reporting the parties' preliminary discussions.

On August 12, 2011, Edwards Wildman sent Squire Sanders a draft of a nondisclosure agreement between Parlux and Perfumania. On August 16, 2011, a representative of Edwards Wildman outlined to representatives of Squire Sanders certain provisions for discussion with respect to a possible business combination including indicative per share consideration, at the election of Parlux stockholders, of (1) all cash consideration of \$6.40, (2) mixed consideration of \$4.00 cash and 0.2 shares of Perfumania stock or (3) 0.533333 shares of Perfumania stock, with



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a maximum cash consideration of \$62,858,000, and a maximum stock consideration of 5,833,333 shares, based on a mixed consideration election by holders of approximately 15,700,000 shares of Parlux stock and an all-stock election by holders of approximately 5,000,000 shares. In addition, the discussion points included, among other things, Perfumania's expectation that it would negotiate the terms of the Artistic Brands side letter and licensor warrants if and when a merger agreement was executed, the structure of the merger as a tax-free reorganization, and the payment of Perfumania's commercial payables to Parlux in accordance with an agreed-upon schedule. The Perfumania discussion points contemplated that any business combination would be conditioned on Parlux's having at least \$15 million of cash and no outstanding bank debt at the time of closing. Edwards Wildman also conveyed Perfumania's proposal that Parlux defer its annual stockholders' meeting to allow time to develop a proposal for a business combination that the Parlux stockholders could approve at a deferred annual meeting, or to permit Mr. Nussdorf, should he choose to do so, to propose an alternative slate of directors at a deferred annual meeting.

Also on August 16, 2011, the Perfumania board of directors appointed the Perfumania special committee to consider and approve any proposed business combination. The Perfumania special committee consisted of Mr. Garfinkle, Joseph Bouhadana, and Carole Ann Taylor, three members of the board of directors who are not employees or consultants of Perfumania, are independent directors under SEC rules and Nasdaq listing standards, and are not shareholders of Parlux. None of the members of the Special Committee directly owns any Perfumania securities other than options to purchase shares of common stock granted under Perfumania stock option plans (an aggregate of 33,500 shares among them), and none has any other interest in the proposed transactions.

At this meeting, the Perfumania board of directors authorized the special committee to evaluate and make recommendations to the Perfumania board on whether a merger would be in the best interests of Perfumania and its shareholders and whether a modification of the loans between the Nusssdorfs and Model in order to help finance the proposed merger would be in the best interests of the Perfumania shareholders other than the Nusssdorfs. The Perfumania board of directors authorized the Perfumania special committee to incur appropriate expenses in connection with its work, including retaining, at Perfumania's expense, an independent investment banking firm, legal counsel, and such other advisors as the Perfumania special committee deemed necessary, useful or advisable. The Perfumania board of directors authorized the payment of a fee of \$10,000 to each of the members of the Perfumania special committee for their services in considering these transactions.

On August 18, 2011, Edwards Wildman sent a draft merger agreement for discussion to Squire Sanders, which Squire Sanders provided to the Parlux board of directors the following day.

Between August 19, 2011 and September 7, 2011, representatives of Edwards Wildman and Squire Sanders negotiated by telephone on a number of occasions and exchanged drafts of the nondisclosure agreement, an agreement among Parlux, Perfumania and Glenn Nussdorf and a letter agreement between Parlux and Perfumania. In addition to providing for the confidentiality of information exchanged by Parlux and Perfumania, these agreements provided for the deferral by Parlux of its annual meeting until December 9, 2011 or later and the deferral of the setting of a record date for that meeting until November 4, 2011 or later. They also included, until October 28, 2011 or the earlier termination of negotiations, Parlux's agreement not to take action to amend its bylaws to insert an advance notice provision for nominations of directors to the Parlux board of directors and a prohibition on certain actions by Perfumania or Glenn Nussdorf with respect to acquiring Parlux, seeking to influence or control Parlux, or seeking representation on the Parlux board of directors, which we refer to as the standstill agreement. All of these proposals were conveyed to Parlux's directors and senior management, who continued to analyze the possibility of a merger and related matters.

The Independent Committee of the Parlux board of directors (which we refer to as the Parlux independent committee) is a standing committee of the board originally formed during April 2003 to address a possible tender offer; such offer was subsequently withdrawn in June 2003. The Parlux independent committee reconvened during June 2006 to address a second possible tender offer, which was also subsequently withdrawn in July 2006. To date, the Parlux independent committee's responsibilities have been to evaluate, negotiate, and

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ultimately recommend approval or disapproval to the Board of Directors and the stockholders, of offers made to acquire all of the Parlux common stock or to act on consent actions seeking control of Parlux.

On August 22, 2011, the Parlux independent committee, consisting of all of the directors who are independent directors under SEC rules and Nasdaq listing standards, and chaired by Mr. Gopman, met to discuss the proposed merger. The committee also discussed the compensation to be paid to members of the committee in connection with any merger negotiations, which consisted of a one-time fee per committee member of \$20,000, an additional one-time payment of \$20,000 for the chairman of the committee and compensation of \$1,000 for each meeting of the committee, which was subsequently approved by the Parlux board of directors. The following day, representatives of Squire Sanders delivered to Mr. Gopman a list of business and legal issues presented in the draft merger agreement, including the degree of conditionality associated with the proposal. The committee discussed the need for information regarding Perfumania's capital structure following any proposed merger, to enable Parlux's financial advisor to understand the value of the stock component of the possible merger consideration, as well as the need for information regarding Perfumania's suggested condition to closing that it have bank or related party financing for any merger. Squire Sanders then sent to Edwards Wildman comments on the draft nondisclosure agreement, including standstill provisions. On August 23, Edwards Wildman sent a revised draft of the nondisclosure agreement.

On August 25, 2011 the Parlux board of directors met and resolved that any merger proposal and negotiations would be handled by the Parlux independent committee. Subsequently, the Parlux independent committee met and engaged Squire Sanders as counsel to advise the committee on the transaction and discussed the role of PJSC in the process. The committee also determined to meet telephonically twice weekly to receive updates and discuss any proposed transaction. Accordingly, from the end of August through December 21, 2011, the Parlux independent committee met twice weekly, and more frequently in December, to discuss the transaction and negotiations except when a meeting was deemed not necessary due to lack of significant developments. Mr. Purches, the only member of the board not a member of the Parlux independent committee, was invited to attend a number of meetings of the independent committee to provide management's views on various issues discussed at those meetings. During this period, Mr. Gopman, as chairman of the independent committee, consulted with representatives of Squire Sanders and PJSC and participated directly in the negotiations with representatives of Perfumania.

On August 26, 2011 Mr. Katz contacted Mr. Purches and reiterated Perfumania's desire to reach an agreement with the Parlux board with regard to a friendly business combination.

On August 29, 2011, in a telephonic meeting, the Parlux independent committee, which had been advised by representatives of PJSC that the value of Perfumania stock post-transaction would be a key issue in evaluating the proposal, determined to put financial due diligence of Perfumania, including the capital structure and financing of the transaction, in the forefront of the document production request.

Also on August 29, 2011, Mr. Katz, Ms. Dellomo, Mr. Gopman and representatives of Edwards Wildman and Squire Sanders discussed by telephone a range of topics, including the potential dilutive effect of any Perfumania merger-related financing on the value of Perfumania stock, transaction timing, closing conditions, financing of the cash portion of the consideration, the treatment of outstanding options and warrants to acquire Parlux common stock, an amendment to Perfumania's credit agreement with Wells Fargo Bank, voting agreements to be entered into by principal stockholders of both companies, a draft of a commitment letter from the Nussdorf Trusts to finance \$30 million of the cash merger consideration and transactions costs relating to the merger, a possible agreement among Artistic Brands, Mr. Garcia and Parlux to amend the Artistic Brands side letter with respect to the amounts payable to Artistic Brands in the event of a change of control of Parlux to be executed contemporaneously with the execution of the merger agreement, and the nondisclosure and standstill agreements.

From August 30 through Sept. 7, 2011, the parties continued negotiations on the nondisclosure and standstill agreements and representatives of Parlux and Squire Sanders engaged in regular communications about the transaction proposal overall and about specific issues, including the need for information relating to a post-merger valuation of Perfumania's stock.

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On September 7, 2011, Parlux and Perfumania executed the nondisclosure agreement and Parlux, Perfumania and Glenn Nussdorf executed the standstill agreement. Parlux issued a press release and filed a Current Report on Form 8-K disclosing these agreements, and Glenn Nussdorf amended his Schedule 13D disclosing the standstill agreement.

On September 8, 2011 the Parlux independent committee held a meeting at which it discussed, among other things, the need to reach an agreement with Perfumania regarding a payment schedule for Perfumania's outstanding commercial account balance through the closing of a merger; PJSC's obtaining information necessary to assist Parlux in evaluating the Perfumania stock proposed as merger consideration; the consideration of other parties who might be interested in a business combination with Parlux; the outlook for the amount of cash held by Parlux at the closing of a merger and the impact of the timing of transaction on Parlux's cash position; putting Parlux in a position to negotiate an alternative transaction with other companies that might be more favorable to Parlux stockholders in the event an agreement with Perfumania was signed; and the need to have the Nussdorfs agree to vote their shares of Perfumania and Parlux stock in favor of a merger, should the parties arrive at an agreement, to ensure their commitment to a closing of a merger.

The Parlux independent committee also received a presentation from management on the terms of the Artistic Brands side letter and licensor warrants, including the provisions for payment upon a change in control of Parlux. Since that payment would, in effect, significantly reduce the amount of merger consideration otherwise payable to all of the holders of Parlux common stock, management and the independent committee confirmed, as had previously been conveyed by management and by Mr. Gopman to Perfumania, that Perfumania would have to negotiate with Artistic Brands, Mr. Garcia and any related warrant holders to address this change in control provision before entering into a merger agreement.

On September 8, 2011, Edwards Wildman distributed to Squire Sanders a request list of due diligence items regarding Parlux. Through the date that the merger agreement was executed, Perfumania and its advisors reviewed information and documents relating to Parlux contained in public filings or made available by Parlux in an online data room or on-site at Parlux's facilities. During that time, Parlux and its advisors also conducted due diligence as to Perfumania based on information that was posted in an online data room, available in Perfumania's public securities filings or separately provided by Perfumania. The parties engaged in due diligence discussions with representatives of each other and their respective advisors.

On September 14, 2011, representatives of PJSC participated via teleconference in a meeting of the Parlux independent committee and reported on the status of their initial financial due diligence requests. Given the importance of obtaining definitive information from Perfumania with respect to the financing structure, leverage and capital structure, the committee determined to focus on financial due diligence for the near term.

On September 15, 2011, Edwards Wildman sent to Squire Sanders a second draft of the merger agreement. The treatment of options and licensor warrants in the transaction remained an open point of negotiation, as did the post-merger capital structure of Perfumania. The draft was accompanied by an email message from Edwards Wildman indicating that the merger agreement would require that voting agreements would be executed by the Nussdorfs and their affiliates who own stock of Parlux and Perfumania and by the directors and officers of Parlux who own stock in Parlux, and indicated that the post-merger capitalization and the treatment of options and warrants, other than the licensor warrants, still needed to be addressed. Squire Sanders forwarded the draft merger agreement and accompanying message to the members of the independent committee and certain officers of Parlux.

In a conference call meeting of the Perfumania board of directors held on September 28, 2011, Mr. Garfinkle advised the board that, after a review of various legal advisors, the special committee had selected Carlton Fields, P.A., to provide legal advice regarding both the merger and the proposed Nussdorf Trust loans. He also recommended that the special committee be authorized to retain an investment banking firm to render its opinion to the special committee regarding the proposed transactions.

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On October 3, 2011, at a meeting of the Parlux independent committee, the committee discussed various matters, including the outstanding request for Perfumania to provide pro forma financial information to enable PJSC to proceed with its evaluation of the economic terms a proposed transaction, and the committee to be in a position to proceed with negotiations. The committee also discussed with representatives of Squire Sanders the status of Perfumania's plans with respect to the Artistic Brands side letter and licensor warrants.

On October 4, 2011, Mr. Gopman and Mr. Katz discussed, among other things, the Perfumania financial information requested by PJSC, the amount and nature of the Nussdorfs' proposed new loans to Perfumania to finance the merger, the status of discussions with Wells Fargo Bank regarding Perfumania's borrowing under its credit facility to fund the balance of any cash merger consideration and the status of negotiations with Artistic Brands. Mr. Katz advised that the new Nussdorf loans might be in the form of convertible debt and that Perfumania was considering conversion of the licensor warrants at the same exchange ratio that would apply to other Parlux stockholders, extension of the warrant exercise period and a cancellation of the change of control provision in exchange for the issuance of additional shares of Perfumania stock.

From October 4, 2011, through the execution of the merger agreement on December 23, 2011, discussions and negotiations regarding the terms of the proposed merger continued between Mr. Gopman and Mr. Katz, and between representatives of Squire Sanders and representatives of Edwards Wildman, and the parties continued to exchange due diligence information. Messrs. Gopman and Katz kept their respective board committees advised of the progress.

On October 11, 2011, the Perfumania special committee met with Carlton Fields in Miami. Mr. Garfinkle was appointed Chairman of the Perfumania special committee. Mr. Garfinkle provided background information regarding Perfumania and the proposed merger and Carlton Fields discussed in detail with the committee its duties and responsibilities under Florida law in transactions such as the proposed merger and proposed Nussdorf Trust loans. Carlton Fields also reviewed the latest draft of the merger agreement with the special committee. The special committee then discussed with Carlton Fields the engagement of an investment banking firm to provide opinions as to the fairness, from a financial point of view, of the merger consideration and the Nussdorf Trust loans.

On October 19, 2011, Edwards Wildman circulated a draft voting agreement under which Glenn Nussdorf and his mother would vote their shares of Parlux common stock for approval of the merger and would make elections to receive merger consideration for those shares only in the form of Perfumania common stock. Thereafter, Edwards Wildman and Squire Sanders exchanged drafts of voting agreements relating to the Parlux shares held by the Garcia Group and by directors and officers of Parlux. The firms also exchanged drafts of agreements with the Nussdorfs requiring them to vote their shares of Perfumania common stock in favor of the merger. Drafts of the voting agreements were provided to Carlton Fields.

On October 24, at a meeting of the Parlux independent committee, Parlux management discussed preliminary estimates of cost synergies expected from a merger with Perfumania, the methodology employed to arrive at the expected synergies, and that the expected synergies would not be fully realized until fiscal year 2014. The committee also discussed outstanding stock options and the impact of a transaction on Parlux's employees. Because the Parlux independent committee believed it would be useful to have information and advice with respect to the transaction from a different financial perspective and because a substantial portion of PJSC's compensation is contingent upon consummation of the merger, the committee also discussed the engagement of a second financial advisor to advise the committee on the fairness, from a financial point of view, of the merger consideration to the holders of Parlux common stock.

On October 26, 2011, the Perfumania special committee met via conference call with members of Perfumania management to discuss its duties and responsibilities to Perfumania's minority shareholders, and it requested detailed information from management. There was a general discussion of the proposed merger and Nussdorf Trust loans and the anticipated timeline. In addition, at that meeting, the Perfumania special committee, after

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review and discussion of the advisability of engaging an investment banking firm, authorized Mr. Garfinkle to negotiate the terms of an engagement with Financo to provide opinions as to the fairness, from a financial point of view, of the merger consideration and the Nussdorf Trust loans to Perfumania, in each case excluding fairness, from a financial point of view, to any Perfumania stockholders who owned, or whose affiliates owned, a controlling interest in Perfumania (and in the case of the merger consideration opinion, Perfumania stockholders who owned, or whose affiliates owned, any securities, including common stock, of Parlux).

On October 28, 2011, representatives of Edwards Wildman and Carlton Fields participated in a conference call regarding the proposed terms of the merger. Thereafter, Perfumania management continued to provide the Perfumania special committee with the financial and other information about the companies and the various proposed transactions that the committee requested, and representatives of Edwards Wildman and Carlton Fields spoke periodically by telephone concerning the status of negotiations over the terms of the merger agreement, the voting agreements, the Artistic Brands agreement, proposed amendments to Perfumania's credit agreement with Wells Fargo Bank, documents relating to the merger and other matters, and they discussed the comments and questions of the Perfumania special committee related to the merger.

On October 28, Perfumania, Parlux and Glenn Nussdorf executed an extension of the standstill agreement to January 13, 2011, subject to earlier termination if the merger negotiations terminated or upon execution of a merger agreement. Mr. Nussdorf filed an amendment to his Schedule 13D disclosing the extension.

At the beginning of November 2011, Mr. Katz commenced discussions with Mr. Garcia regarding the treatment of the licensor warrants in connection with the merger. They spoke periodically until December 19, 2011, when they reached agreement that, upon the consummation of the merger, each of the licensor warrants would be converted into a warrant to acquire a number of shares of Perfumania common stock based upon the ratio at which shares of Parlux common stock were to be converted under the merger agreement, and Perfumania would issue an additional 300,000 shares of common stock to Artistic Brands or its designee. Mr. Katz reported periodically to Mr. Gopman and the Perfumania special committee on the progress of these negotiations.

In early November 2011, nondisclosure agreements with Artistic Brands, Mr. Garcia, and Marcy Fragrances, an owner of Artistic Brands and affiliate of Shawn Carter, a party to the licenses and sublicenses related to the licensor warrants, were negotiated and entered into. These agreements permitted Artistic Brands, Mr. Garcia, and Marcy Fragrances access to confidential information as to the merger, Parlux, and Perfumania.

On November 1, 2011, in a discussion between Mr. Gopman and Mr. Katz, Mr. Katz communicated Perfumania's revised proposal that Parlux stockholders be able to make either an all stock election or a mixed cash and stock election for the merger consideration. Mr. Gopman requested a price collar that would provide for the issuance of an increased amount of Perfumania stock if the market value of that stock declined below a certain amount in exchange for a decreased amount of Perfumania stock payable if the market value of that stock increased above a certain amount. Mr. Katz objected to this request. Mr. Gopman and Mr. Katz also discussed the Parlux independent committee's request for information with respect to the debt and capital structure of Perfumania after the merger, including term sheets for the loan from Perfumania's credit facility, the proposed Nussdorf Trust loans and the licensor warrants. Mr. Katz and Mr. Gopman also discussed break-up fees and reimbursement of expenses if the merger agreement were terminated under certain circumstances. Mr. Katz agreed that termination fees should be bi-lateral and in customary amounts. Mr. Gopman and Mr. Katz also discussed matters related to Parlux employees, including the treatment of stock options and integration of stock option, severance and other employee benefits plans, and the retention of Parlux's employees both before and after the merger.

On November 2, 2011, the Parlux independent committee held a meeting at which, among other things, representatives of PJSC, who participated by teleconference, reviewed their updated stand-alone valuation of Parlux. Also on November 2, Edwards Wildman sent Squire Sanders a draft term sheet with respect to the Artistic Brands side agreement and licensor warrants for review and comment.

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On November 4, 2011 Edwards Wildman provided a revised draft merger agreement to Squire Sanders and the Parlux independent committee. Discussions and negotiations continued between representatives of Squire Sanders and Edwards Wildman, with reports to and instructions from the Parlux independent committee and the Perfumania special committee, respectively, and between Messrs. Gopman and Katz. Significant issues discussed during November included:

Perfumania's proposed condition that Parlux have \$15 million in cash at the time of closing and Parlux's proposal that the amount of cash at closing be subject to adjustment and, rather than being a condition to closing, included among adjustments to the merger consideration;

the schedule for payment by Perfumania to Parlux of its commercial account balance as outstanding monthly through the closing date of a merger;

Perfumania's proposed condition that the holders of not more than 5% of the Parlux common stock demand their rights of appraisal under applicable law, and Parlux's position that such a condition was not appropriate or should be a higher percentage;

treatment of the licensor warrants, including a condition proposed by Perfumania that Artistic Brands negotiate exclusively with Perfumania;

the length of the period after signing a merger agreement where Parlux would be free to solicit and negotiate alternative acquisition proposals, which we refer to as the "go-shop" period;

the terms relating to the ability of Parlux's board to negotiate proposals for alternative transactions following the go-shop period;

the circumstances under which the parties would be entitled to break-up fees and expenses, and the amounts of break-up fees payable by Parlux and Perfumania; and

the terms and documentation of the financing to be provided from Perfumania's credit facility and from the Nussdorf Trusts.

On November 14, 2011, the Perfumania special committee met with Carlton Fields to discuss the terms of the potential engagement of Financo. On November 18, 2011, the Perfumania special committee entered into an engagement letter for Financo to provide an opinion as to the fairness, from a financial point of view, of the merger consideration to Perfumania, with such opinion explicitly excluding fairness, from a financial point of view, of the merger consideration to any Perfumania stockholders who owned, or whose affiliates owned, a controlling interest in Perfumania or who owned, or whose affiliates owned, any securities, including common stock, of Parlux, and a separate engagement letter, also dated as of November 18, 2011 for Financo to provide an opinion as to the fairness, from a financial point of view, of the Nussdorf Trust loans to Perfumania, with such opinion explicitly excluding fairness of the loans to any stockholders of Perfumania who owned, or whose affiliates owned, a controlling interest in Perfumania, and including in its review of the Nussdorf Trust loans only the interest rate thereon, the covenants thereto, and the principal and maturity thereof. By this point, the Nussdorf Trust loans had been negotiated by Perfumania management to include terms substantially providing for the Nussdorfs to loan \$30 million to Perfumania in return for subordinated notes paying interest at the then current Senior Debt Rate (as defined herein) plus two percent (2%) per annum.

At the request of Wells Fargo Bank, Perfumania provided Wells Fargo Bank with information about Parlux, the merger, updated projections as to Perfumania's business, and the business of the combined companies. Counsel to Wells Fargo Bank, Otterbourg, Steindler, Houston & Rosen, P.C., circulated a first draft of an amendment to Perfumania's senior credit facility on November 15, 2011. Thereafter, through the date of its execution on December 23, 2011, representatives of Edwards Wildman and Otterbourg negotiated the terms of an amendment to the senior credit facility to permit Perfumania to use borrowings under that facility to fund a portion of the cash merger consideration. Drafts of the proposed amendment were provided to Carlton Fields for review and comment.



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On November 21, 2011, at a meeting of the Parlux independent committee, the committee continued its discussions with representatives of Squire Sanders on the advisability of engaging a second independent financial advisor to provide an opinion to the committee, in addition to the opinion that would be provided by PJSC, with respect to the fairness of the merger consideration, from a financial point of view, to the holders of shares, other than members of the Nussdorf family and any trusts or entities controlled by the Nussdorf family, of the Parlux common stock, assuming the parties reach agreement on the terms of a merger agreement and related agreements. After reviewing and discussing proposals from several financial advisors, the committee decided to engage American Appraisal Associates, Inc. and authorized Mr. D Agostino to negotiate, with the assistance of Squire Sanders, the terms of a formal engagement letter with American Appraisal, and an engagement letter with American Appraisal was executed on December 7, 2011.

At that meeting of the Parlux independent committee, in which management also participated, representatives of Squire Sanders discussed the terms of the agreement being negotiated by Perfumania with Artistic Brands, under which it was proposed to require Artistic Brands to deal exclusively with Perfumania with respect to an acquisition of Parlux, and the advisability of permitting Artistic Brands to negotiate with a third party with respect to the treatment of the Artistic Brands side letter and licensor warrants in the event the Parlux board became involved in acquisition discussions with a third party. Squire Sanders had previously proposed a 60-day go-shop period, and Edwards Wildman responded with a proposal for a 15-day go-shop period. At the meeting, representatives of Squire Sanders advised the committee that Perfumania had agreed to a 30-day go-shop period. The committee discussed the proposed go-shop period, including the fact that discussions between Parlux and Perfumania as to a possible acquisition of Parlux by Perfumania had been publicly disclosed by Parlux and Perfumania beginning August 11, 2011, that no third parties had expressed an interest in discussing a business combination or similar transaction since that date, and PJSC's view that it could effectively solicit alternative acquisition proposals within a 30-day go-shop period, and concluded that the proposed go-shop period was acceptable. The independent committee also discussed the information still to be provided by Perfumania that was necessary for an evaluation of the proposed merger. Other matters being negotiated with Perfumania were discussed, including negotiating the terms of a Parlux severance policy for its employees separate from any provisions for severance in the merger agreement, the proposed voting agreements with the Nussdorfs, the Garcia Group and the directors and executive officers of Parlux, and the appropriate exceptions to such agreements relating to the voting of Parlux shares. Representatives of Squire Sanders advised the committee on the process that would follow execution of a merger agreement, including a meeting of Parlux stockholders to approve the merger.

Also on November 21, 2011, Glenn Nussdorf, Mr. Garcia, Alfred R. Paliani, the General Counsel of Quality King, and representatives of Edwards Wildman met in Edwards Wildman's New York office to discuss negotiations with Mr. Carter relating to the treatment of the licensor warrants, a new license to be negotiated by Artistic Brands with S. Carter Enterprises, LLC as to celebrity fragrances under the name Jay-Z, and a related sublicense between Artistic Brands and Parlux. Each of these agreements, which we refer to as the Carter license documents, would be effective upon the closing of the merger.

On November 22, 2011, Edwards Wildman provided Squire Sanders for review and comment initial drafts of proposed amendments to Perfumania's credit agreement with Wells Fargo Bank, documents to amend the licensor warrants, an agreement of Artistic Brands as to its obligations in connection with alternative proposals received by the Parlux board of directors, and a letter amending the Artistic Brands side letter. Edwards Wildman also provided drafts of these documents to Carlton Fields for review and comment.

On November 23, 2011, Edwards Wildman delivered to Squire Sanders, Otterbourg and Carlton Fields drafts of the proposed commitment letter for the Nussdorf Trust loans.

Also on November 23, 2011, Mr. Katz and Mr. Gopman discussed, among other things and in general terms, the post-merger capital structure of Perfumania and the related agreements with Wells Fargo and the Nussdorf Trusts, as well as Perfumania's negotiations of proposed agreements with Artistic Brands.



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Squire Sanders provided copies of the draft documents it received on November 22 and 23 to the independent committee and management and received and discussed comments from the committee and management as these documents continued to be negotiated by and among the various parties until the signing date.

At a meeting of the Parlux independent committee on November 28, 2011, Mr. Gopman reported on the conversation with Mr. Katz on November 23, and Mr. Purches expressed his views on the proposed condition of \$15 million cash at closing in light of the likely time period for a closing if the parties were to approve a merger agreement.

Negotiations among the parties continued in December 2011. Parlux management, representatives of Squire Sanders, representatives of PJSC and Mr. Gopman advised the Parlux independent committee on significant developments and the status of open points, and the committee discussed those developments and provisions relating to the proposed agreement that might affect the operation of Parlux's business after the signing of a merger agreement and before closing, with the possibility that the merger agreement might be terminated under certain conditions by either party. Representatives of Squire Sanders discussed with the committee the decision-making process, and the fiduciary duties of the members of the committee in the context of a potential business combination transaction.

On December 2, 2011, the Perfumania special committee held a meeting with Perfumania management, Stephen Nussdorf and Carlton Fields in which Perfumania management made a detailed presentation regarding the reasoning behind, and the pricing of, the merger. The committee discussed with management the value Parlux would be providing Perfumania in its present form, the synergies between the two entities, the total price of the transaction including the goodwill calculation, various brands held by Parlux, and the benefits of purchasing Parlux versus internal expansion. They also discussed the need to amend Perfumania's articles of incorporation to increase the number of authorized shares of Perfumania common stock by 15 million shares to allow for the proposed issuances in connection with the merger and other corporate purposes. During the discussion, Carlton Fields responded to various legal questions regarding the merger. Afterwards, Carlton Fields discussed in detail with the Perfumania special committee the provisions of the present version of the draft merger agreement, financing arrangements related to the merger, and various related ancillary agreements.

Through early and mid-December, Edwards Wildman communicated about developments to Carlton Fields, which continued to provide the Perfumania special committee with legal guidance on the various forms and iterations of the merger agreement and all relevant documents related to the merger.

Beginning on December 13, 2011, representatives of Edwards Wildman commenced negotiations with Artistic Brands' counsel, Littman Krooks LLP and Mr. Carter's counsel, Cummings & Lockwood, relating to the Artistic Brands agreements. Mr. Paliani negotiated the terms of the Carter license documents with Littman Krooks and Cummings & Lockwood during the same period. Mr. Katz and Mr. Garcia negotiated additional provisions in the voting agreement relating to shares of Parlux stock held by the Garcia Group restricting their acquisition of shares of Perfumania common stock and certain actions by them relating to the change of control of Perfumania or seeking representation on the Perfumania board of directors. These negotiations were informed by comments from the Perfumania special committee, Edwards Wildman, and Littman Krooks.

On December 15, 2011, at a meeting of the Parlux independent committee, representatives of American Appraisal presented, by telephone, a report on their preliminary fairness analysis and the assumptions made in that analysis, and responded to questions from the committee. Representatives of Squire Sanders discussed with the committee the primary unresolved transaction issues, including whether Perfumania would be able to finance the cash merger consideration, and the committee discussed its position on those issues, including the need for confirmation that Perfumania have commitments for the financing of the cash consideration.

On December 16, 2011, the Parlux independent committee spoke via teleconference with representatives of PJSC who gave a preliminary presentation with respect to the transaction and responded to questions from the

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committee. Squire Sanders discussed with the committee certain unresolved issues, including the requirement for Parlux to have \$15 million of cash at closing, and the committee discussed with counsel possible approaches to resolve that issue including, as previously proposed on behalf of the independent committee, that rather than being a condition to closing, any provision relating to a minimum amount of cash at closing be included among adjustments to the merger consideration, and that the amount of cash at closing be subject to certain adjustments including a credit for any shortfall in the schedule of payments by Perfumania to Parlux of its commercial account balances.

On December 19, 2011, the Perfumania special committee held a meeting with representatives of Financo and Carlton Fields. Financo presented its analysis of the merger consideration and responded to questions from the committee. On December 23, 2011, Financo provided a written opinion that, as of such date, and based upon and subject to the various assumptions and limitations set forth in its written opinion, the merger consideration to be provided by Perfumania in the proposed merger was fair from a financial point of view to Perfumania, with such opinion explicitly excluding fairness, from a financial point of view, of the merger consideration to any shareholders of Perfumania who owned, or whose affiliates owned, a controlling interest in Perfumania, or who owned, or whose affiliates owned, any securities, including common stock, of Parlux.

On December 19, 2011, Financo also presented to the Perfumania special committee its analysis of the Nussdorf Trust loans and responded to questions from the committee. On December 23, 2011, Financo provided a written opinion that, as of such date, and based upon and subject to the various assumptions and limitations set forth in its written opinion, the Nussdorf Trust loans were fair from a financial point of view to Perfumania, with such opinion explicitly excluding fairness, from a financial point of view, of the loans to any shareholders of Perfumania who owned, or whose affiliates owned, a controlling interest in Perfumania and including in its review of the Nussdorf Trust loans only the interest rate thereon, the covenants thereto, and the principal and maturity thereof.

On December 19, 2011, the Parlux independent committee held a meeting at which the proposed business combination with Perfumania was further discussed and the merger agreement was considered. Also attending the meeting were Parlux's consultant, Mr. Vercillo, members of Parlux management, and representatives from Squire Sanders. The Squire Sanders representatives reviewed with the committee legal principles relating to director independence, fiduciary responsibility, and the value of receiving information from financial advisors to further the committee's decision-making process. In addition, the Squire Sanders representatives discussed with the committee the material provisions of the proposed merger agreement and the material terms of the proposed Artistic Brands side letter and of the proposed Carter license documents, which would be effective upon the closing of the merger and were still being negotiated. They also discussed the material terms of the proposed letter agreement among Perfumania, Parlux, Artistic Brands and Mr. Garcia providing that Artistic Brands and Mr. Garcia will not solicit or negotiate with parties other than Perfumania in connection with the treatment of the licensor warrants or the letter agreement, noting that, in the event that, consistent with the provisions of the merger agreement, Parlux engages in discussions or negotiations with a third party regarding an alternative acquisition proposal or enters into an agreement relating to a superior proposal, then Mr. Garcia and Artistic Brands may enter into discussions or negotiations with such third party with regard to the treatment of the licensor warrants and/or the letter agreement in connection with such acquisition proposal. The Squire Sanders representatives also discussed with the committee the material terms of a proposed voting agreement among Parlux and the Nussdorfs, pursuant to which such stockholders agreed that they will vote their shares of Perfumania common stock in favor of the matters to be proposed to the Perfumania stockholders for approval in connection with the proposed merger. They also discussed the material terms of the proposed voting agreements among Perfumania and the Garcia Group, as well as the material terms of the voting agreements between Perfumania and the directors and certain of the officers of Parlux, pursuant to which the Garcia Group and each officer and director, respectively, agreed that he or she will vote their shares of Parlux common stock in favor of adoption of the merger agreement. The Squire Sanders representatives noted that each of the voting agreements expires upon termination of the merger agreement or, in the case of the voting agreements regarding Parlux shares, a change of recommendation by the Parlux board of directors that the Parlux stockholders vote in favor of

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the approval and adoption of the merger agreement. Drafts of all of the foregoing agreements had been distributed to the committee and the board prior to the meeting. The committee discussed the proposed transaction, including, among other things, the terms of the transaction, its strategic rationale and the proposed composition of the Perfumania board of directors following the closing of the merger.

Responding to questions from the committee, representatives from PJSC confirmed PJSC's lack of potential conflicts of interest, and that it has not otherwise received compensation during the last two years for providing investment banking services to Parlux, Perfumania or any of their affiliates. They then made a presentation on the economic terms of the proposed merger and delivered to the Parlux independent committee PJSC's oral opinion, subsequently confirmed in writing as of December 19, 2011, that, as of such date, based upon and subject to the assumptions, procedures, factors, qualifications and other matters and limitations set forth in PJSC's opinion, and other factors it deemed relevant, the merger consideration in the proposed merger was fair from a financial point of view, to the Parlux stockholders, excluding members of the Nussdorf family and any trusts or other entities controlled by the Nussdorf family. The PJSC representatives responded to questions from the committee, and then left the meeting.

Representatives from American Appraisal joined the meeting. Upon questioning, they verified American Appraisal's independence and that it had no conflicts of interest with respect to its engagement. They made a presentation to the committee on American Appraisal's financial analysis of the proposed merger and delivered to the Parlux independent committee American Appraisal's oral opinion, subsequently confirmed in writing as of December 23, 2011, that, as of such date, based upon and subject to the assumptions, procedures, factors, qualifications and other matters and limitations set forth in American Appraisal's opinion, and other factors it deemed relevant, that the merger consideration in the proposed merger was fair from a financial point of view, to the Parlux stockholders. The American Appraisal representatives responded to questions from the committee, and then departed the meeting. A representative of Squire Sanders reviewed with the members of the Parlux independent committee their fiduciary duties in the context of the potential merger transaction. The committee then discussed the fact that there were certain documents relating to the transaction that had not yet been finalized, and determined to meet once the remaining contractual uncertainties were resolved.

Following the meeting of the Parlux independent committee, a meeting of the compensation committee of the Parlux board of directors was held to consider approval of the Parlux Fragrances, Inc. Severance Policy for the Parlux employees. The material terms of the Severance Policy had been negotiated with Perfumania and discussed by the Parlux independent committee in connection with its consideration of the merger agreement and related agreements. After discussion, the compensation committee approved the severance plan and recommended that the board approve the severance plan.

On December 21, 2011, the Parlux independent committee held a meeting at which the proposed business combination with Perfumania was further discussed and the merger agreement and related agreements were considered for final approval. Representatives of Squire Sanders updated the committee on the status of transaction documents and related agreements, including the voting agreements and the licensor-related agreements, including the Carter license documents, and other related matters, including the continuing negotiations of the Carter license documents by Perfumania. After discussion, the committee concluded that there were no material issues outstanding that would impact the merger consideration or impact the fairness opinions, which conclusion was confirmed by the December 23, 2011 written fairness opinion of American Appraisal to the committee.

The Parlux independent committee discussed at length the merits of the proposed merger, including the matters described in "The Merger Parlux Board of Directors Recommendation" and the uncertainties facing Parlux on a stand-alone basis. The committee also discussed risk factors associated with the proposed merger that are outside the control of Parlux, including a possible decrease in the market value of Perfumania's stock and the risk to Parlux stockholders receiving Perfumania stock in the merger of the possibility that the combined company might not perform as well as projected. In addition, the committee discussed the fact that, under the terms of the

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merger agreement, if Parlux stockholders elect, in the aggregate, to receive more Perfumania shares than the maximum number available under the merger agreement, holders electing to receive all stock consideration will receive a proportionate amount of the maximum available shares plus cash for the shares elected but not issued.

Following discussion of the terms of the merger agreement and its provisions, and taking into consideration the opinions of PJSC and American Appraisal, the committee determined that the merger agreement and the transactions contemplated by the merger agreement were advisable for, fair to, and in the best interest of Parlux and its stockholders, and unanimously approved a recommendation that the board of directors authorize, approve and direct the execution of the merger agreement, and recommend that the stockholders approve and adopt the merger agreement, subject to the terms and conditions set forth in the merger agreement. The Parlux independent committee's approval was subject to confirmation by the Chairman of the committee that the final merger agreement and related agreements are not materially different from those previously presented for consideration by the committee, which confirmation was made by the Chairman on December 23, 2011.

Following the meeting of the independent committee, a meeting of the full Parlux board of directors was held. Representatives of Squire Sanders attended the meeting. Mr. Purches was brought up to date on recent developments, the deliberations of the committee and the fairness opinions received by the committee. After discussion, the board unanimously resolved that the merger agreement and the transactions contemplated by the merger agreement were advisable for, fair to, and in the best interest of Parlux and its stockholders, authorized, approved and directed the execution of the merger agreement, and resolved to recommend that the stockholders approve and adopt the merger agreement, subject to the terms and conditions set forth in the merger agreement. Such approval was subject to confirmation by the Chairman of the independent committee that the final merger agreement and related agreements are not materially different from those previously presented for consideration by the committee. Such confirmation was made by the Chairman on December 23, 2011. In addition, upon recommendation of the compensation committee and after discussion, the board unanimously approved the severance plan.

On December 22 and 23, 2011, the Perfumania special committee held meetings by conference call that were attended by representatives of Carlton Fields. The committee discussed the merger and related documentation in depth, considering the Financo presentations and opinions, advice from Carlton Fields regarding the final forms of the merger agreement and all other documentation related to the merger, as well as the factors described under The Merger Perfumania Special Committee's and Board of Directors' Recommendation, among others. Carlton Fields reviewed the fiduciary duties of the Perfumania directors and the legal standards applicable to their consideration of the proposed merger and Nussdorf Trust loans. After discussion, the Perfumania special committee unanimously approved the merger, the Nussdorf Trust loans and the amendment of Perfumania's articles of incorporation increasing the number of authorized shares of Perfumania common stock, and unanimously recommended to the board of directors that it adopt the merger agreement and approve all other documents and actions related to the merger and recommend that the stockholders approve the amendment to the Perfumania charter and the issuances of Perfumania common stock in connection with the merger.

Following the meeting of the Perfumania special committee on December 23, 2011, the full board of directors of Perfumania met by conference call, with Ms. Dellomo and a representative of Edwards Wildman in attendance. Mr. Katz reviewed the terms of the proposed merger and related arrangements. Mr. Garfinkle, as Chairman of the Perfumania special committee, reported on the deliberations and resolutions of the committee. After discussion, the directors unanimously, including the affirmative vote of each of the disinterested, independent directors, approved Perfumania's entering into the merger agreement, issuing the shares of Perfumania common stock required under the merger agreement and ancillary agreements, amending the articles of incorporation and taking all the actions necessary or appropriate to consummate the merger and related transactions, and resolved to recommend that the Perfumania shareholders approve the amendment of the Perfumania charter and the issuances of Perfumania common stock in connection with the merger.

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On December 23, 2011, Perfumania, Parlux and the other respective parties executed the Merger Agreement, the voting agreements, the Nussdorf Trust loan commitment letter, and the Artistic Brands agreements, as applicable, and Perfumania and Parlux made a public announcement. Each company then filed with the SEC a Current Report on Form 8-K, reporting the execution of the merger agreement and the related agreements. Glenn Nussdorf also filed an amendment to his Schedule 13D regarding his voting agreement.

The merger agreement permitted Parlux, until January 22, 2012 (the go-shop period), to seek proposals from third parties to acquire Parlux in a transaction that is an alternative to the merger. The independent committee instructed PJSC to develop and implement a thorough and aggressive process to seek alternative bids for Parlux during the go shop period. Following the announcement of the merger, PJSC contacted 39 potentially interested parties. One of the parties that was contacted expressed an interest in receiving confidential information in order to evaluate Parlux and entered into a non-disclosure agreement. Of the 39 parties that were contacted, 25 expressed no interest in receiving confidential information in order to evaluate Parlux. 14 of the 39 parties did not respond to follow-up inquiries made by PJSC. None of these 39 parties expressed an interest in making an acquisition proposal for Parlux during the go-shop period.

The terms of the merger agreement and related agreements are more fully described in the section entitled The Merger Agreement.

### **Perfumania Special Committee s and Board of Directors Recommendations**

At meetings on December 23, 2011, the Perfumania special committee and the Perfumania board of directors each unanimously (1) determined that the merger and the merger agreement are advisable and in the best interests of Perfumania and its stockholders, (2) approved the merger and the merger agreement and (3) determined to recommend that the holders of Perfumania common stock vote **FOR** the proposal to amend the Perfumania charter to increase the number of authorized shares of Perfumania common stock and **FOR** the proposal to approve the issuance of shares of Perfumania common stock in connection with the merger, which are both necessary to effect the merger.

Perfumania s board of directors believes that the merger will provide substantial benefits to Perfumania s stockholders, as well as those of Parlux. The combination with Parlux will create a larger, independent, national, vertically integrated manufacturer, wholesale distributor and specialty retailer of perfumes and fragrances that the Perfumania board expects will be well-positioned to compete in the marketplace and drive growth, as well as to benefit from increased operating scale and licensing opportunities.

In making its determination to recommend to the board that Perfumania should proceed with the merger, the Perfumania special committee consulted with Perfumania s management regarding the strategic and operational aspects of the combination. In the course of reaching their determinations, the Perfumania special committee and board considered a variety of positive factors, including the following anticipated benefits:

the improvement in the existing strengths of both companies, in particular, for Perfumania, wholesale sales, retail sales, warehousing and logistics and financing, and for Parlux, licensing, design and development of brands and international opportunities;

the benefits of increased vertical integration, including maximizing profits by taking advantage of Parlux s reduced costs on fragrances owned or licensed by Parlux, and diversification of the business, including reducing the risks of limited scope of activities and a limited number of customers;

that the increased size and distribution capabilities of the combined company (including approximately 2,900 Perfumania retail and consignment stores through which Parlux product may be sold) are expected to attract more and better licenses;

the increased ability to maximize product brand potential by diversifying offerings in different markets as well as diversifying retail outlets, and by increased ability to control the positioning of brands in certain markets;

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the improved control over inventory management expected from servicing all customers through a single inventory;

the addition of experienced directors, management and purchasing personnel while reducing the overall costs of public company compliance;

that the increased size of the company is expected to increase the opportunities for acquiring additional companies and assets, and the increased number of authorized shares will make it easier to accomplish such acquisitions;

the accretion in earnings per share for Perfumania's existing stockholders expected to result from the merger over several years (after pass-through of the write-up of inventory and amortization of intangible assets recognized under purchase accounting);

the expected increased liquidity for our stockholders due to the expanded public stockholder base;

the anticipated increase in interest from new investors because of the company's larger size and scope of operations;

the higher consolidated capitalization, revenues and earnings base of the combined company that should result in both improved bank and private financing capability and afford us greater access to public capital markets;

the greater scale and stronger financial position that is expected to result in additional bargaining power and improved terms with suppliers and landlords; and

synergies anticipated to result from the merger, including those discussed below.

The anticipated synergies include reduced aggregate costs in a number of areas, particularly distribution, promotional activities, administration, operations and accounting and other efficiencies. No assurance can be given that any of the foregoing benefits will actually be achieved, including without limitation our achieving synergies of any particular magnitude.

In addition, in their respective meetings, the Perfumania special committee and the board of directors also considered the following factors:

Parlux's prospects based on Perfumania's due diligence, the review and analysis of Parlux's financial condition, results of operations, business, reputation and risks, including the results of the business, financial, accounting and legal due diligence investigations of Parlux;

the presentation by Financo of its financial analyses of the proposed merger to the Perfumania special committee, and its written opinions with respect to the fairness, from a financial point of view, of the merger consideration and the Nussdorf Trust loans to Perfumania, as discussed in more detail below;

the fact that stockholder approval of the transaction would be required from both Perfumania and Parlux stockholders and that, upon completion of the merger, it was expected that Parlux stockholders would own approximately 40% of the outstanding shares of Perfumania common stock and existing Perfumania stockholders would own approximately 60% of the outstanding shares of Perfumania common stock, based on the number of shares issued and outstanding as of December 23, 2011, the date of the execution of the merger agreement, and assuming the issuance of the maximum number of shares under the merger agreement;

the fact that, following the merger, the Perfumania board of directors will consist of the five current members of the Perfumania board as well as the five members of the Parlux Board;

the presentations by and discussions with Perfumania management and representatives of Carlton Fields and Edwards Wildman, respectively, regarding the terms and conditions of the merger agreement and the fiduciary duties of the Perfumania special committee and board of directors, respectively, in considering the merger and the financing arrangements;

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the potential effect of the terms of the merger agreement with respect to possible third party proposals to acquire Parlux after execution of the merger agreement, including the go shop provision that permits Parlux to solicit additional acquisition proposals from third parties for a limited period of time and a provision whereby, if any third party makes an acquisition proposal that is or is reasonably likely to lead to a superior proposal (as described under The Merger Agreement Solicitation; Restrictions on Solicitation beginning on page 124) before the approval of the merger agreement by Parlux stockholders, the Parlux board of directors may provide information to and engage in negotiations with that third party, subject to the terms and conditions of the merger agreement;

the fact that the termination fee provisions are the product of arms length negotiations; and

the ability to complete the merger as a reorganization for U.S. federal income tax purposes.

The Perfumania special committee and board of directors also considered a number of potentially negative factors in their deliberations on the merger, including:

the potential negative impact on Perfumania's future financial results of the purchase accounting treatment of the acquisition, including amortization of the fair value of Parlux's licenses, the write-up of its inventory, and the possible need to recognize impairment of goodwill;

the possibility that the merger might not be completed as a result of the failure to obtain the required approval from Parlux's stockholders or required regulatory approvals and the effect the resulting termination of the merger agreement may have on the trading price of Perfumania common stock and Perfumania's operating results;

the possibility that the necessary financing may be unavailable to Perfumania at the time the merger is otherwise required to close and the potential effects of Perfumania's inability to consummate the merger, including the ability of Parlux to seek specific performance or damages in the event of a breach;

the risk that the synergies and benefits sought in the merger might not be fully achieved or achieved in the anticipated time period;

the risk that additional debt incurred in connection with the merger could have a negative impact on Perfumania's ratings and operational flexibility; and

other risks among those described in the section entitled Risk Factors beginning on page 32 of this joint proxy statement/prospectus. However, in the judgment of the Perfumania special committee and board, these concerns were outweighed by the anticipated benefits for Perfumania and its stockholders.

In view of the wide variety of factors considered in connection with its evaluation of the merger and the merger agreement and the complexity of these matters, the Perfumania board of directors did not find it useful to and did not attempt to quantify, rank or otherwise assign relative weights to these factors.

In addition, the Perfumania special committee and board of directors did not undertake to make any specific determination as to whether any particular factor, or any aspect of any particular factor, was favorable or unfavorable to its ultimate determination, but rather they conducted an overall analysis of the factors described above, including discussions with Perfumania's leadership team and outside legal, financial and accounting advisors. In considering the factors described above, individual members of the Perfumania special committee and board of directors may have given different weight to different factors.

## **Parlux Board of Directors Recommendation**



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At a meeting of the Parlux independent committee held on December 19, 2011 detailed presentations were made by Parlux's management, legal counsel and financial advisors with respect to the proposed merger. At a meeting of the Parlux independent committee held on December 21, 2011, additional presentations by Parlux's management and legal counsel were made, and the Parlux independent committee unanimously approved the

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merger agreement and the transactions contemplated by the merger agreement, including the merger, and determined to recommend the merger agreement and the transactions contemplated thereby to the full Parlux board of directors. At a subsequent meeting of the Parlux board of directors, based upon the presentations by Parlux's management and legal counsel and review of the presentations by and opinions of financial advisors to the Parlux independent committee, and the recommendation from the Parlux independent committee, the Parlux board of directors unanimously determined that the merger agreement, including the merger and the other transactions contemplated by the merger agreement, was advisable and in the best interests of Parlux and its stockholders, unanimously approved the merger agreement and the transactions contemplated by the merger agreement, including the merger, and unanimously resolved to recommend that the stockholders of Parlux vote **FOR** the proposal to approve and adopt the merger agreement. The approval by the Parlux stockholders is necessary for the merger to occur.

### *Considerations Supporting the Transaction*

The Parlux independent committee and the Parlux board of directors considered the following factors as generally supporting their respective decisions to recommend approval of, and to approve and enter into, the merger agreement and the transactions contemplated by the merger agreement:

that the merger consideration represented a premium to the recent trading prices of the Parlux common stock based on the cash being offered and the recent and historical market prices of Perfumania common stock, as well as the value of the merger consideration that would be implied at various other Perfumania share prices;

the current and future landscape of the fragrance industry, the competitive challenges facing industry participants, the respective positions of Parlux and Perfumania in the industry and the likelihood that the combined company would be better positioned to overcome these challenges if the expected strategic and financial benefits of the transaction were fully realized;

the Parlux independent committee and the Parlux board of directors considered that the existing Parlux stockholders would benefit from the future performance of the combined company, the synergies expected to result from the merger, and the other strengths of the combined company as set forth above;

that members of the Parlux board of directors would be elected to the combined company board of directors in connection with consummation of the merger and, during their service on that board, would have the ability to exercise their fiduciary oversight responsibilities in the interests of all holders of the combined company common stock;

their knowledge of Parlux's business, operations, financial condition, earnings and prospects and of Perfumania's business, operations, financial condition, earnings and prospects, taking into account the results of Parlux's due diligence review of Perfumania and the historical relationship of Parlux and Perfumania;

recent and historical market prices of Parlux common stock, as well as the limited trading market in Parlux common stock;

the adequacy of the merger consideration and the other value provided to Parlux stockholders including:

the ability of Parlux stockholders to elect the form of consideration that they would like to receive and the fact that certain Parlux stockholders would agree to choose to receive stock consideration (see "The Merger Agreement - Consideration to be Received in the Merger" beginning on page 113; and

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the historical, present and anticipated financial performance and position of Perfumania and the anticipated future financial performance and position of the combined company;

their belief that the merger agreement and the transactions contemplated by the merger agreement were more favorable to Parlux stockholders than other strategic alternatives reasonably available to Parlux and its stockholders;

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the fact that the principal shareholders support the transaction and have executed voting agreements undertaking to vote in favor of it;

the presentation of PJSC, including the opinion of PJSC, dated December 19, 2011 to the Parlux independent committee to the effect that, as of that date and based upon and subject to the assumptions, procedures, factors, qualifications and other matters and limitations set forth in that opinion, and other factors it deemed relevant, the merger consideration to be paid to holders of Parlux common stock (other than members of the Nussdorf family and any trusts or entities controlled by the Nussdorf family) in the merger was fair from a financial point of view to such holders, as more fully described below under the caption "Opinions of Financial Advisors to the Parlux Independent Committee";

the financial analyses and presentation of American Appraisal, including an oral opinion to the Parlux independent committee on December 19, 2011, confirmed by a written opinion dated December 23, 2011, to the effect that, as of those dates and based upon and subject to the assumptions, procedures, factors, qualifications and other matters and limitations set forth in American Appraisal's opinion, and other factors it deemed relevant, the merger consideration to be paid to holders of Parlux common stock in the merger was fair from a financial point of view to such holders, as more fully described below under the caption "Opinions of Financial Advisors to the Parlux Independent Committee";

the financial and other terms and conditions of the merger agreement, including:

the fact that the "go shop" provision enables Parlux to solicit additional acquisition proposals from third parties for a thirty-day period following execution of the merger agreement;

the fact that Parlux is permitted to terminate the merger agreement in order to approve an alternative transaction proposed by a third party that is a "Superior Proposal" as defined in the merger agreement, upon the payment of a \$2 million or \$4 million termination fee, depending on the timing of such a termination, and its belief that such termination fee is reasonable and should not preclude another party from making a competing proposal if another party desires to do so; and

the extent of the commitments to obtain required antitrust regulatory approvals that Perfumania has made under the merger agreement;

the commitment of Perfumania's lenders to provide financing to Perfumania for the purpose of financing a portion of cash merger consideration and the commitment of the Nussdorf Trusts to provide financing to Perfumania for the remainder of the cash merger consideration, and the conditions relating to such commitments (see "Perfumania's Financing Arrangements" on page 135);

the conditions to the merger agreement, which the Parlux independent committee and the Parlux board of directors viewed as providing a reasonable level of assurance that the merger would be completed;

the expectation that the merger would qualify as a reorganization for U.S. federal income tax purposes and that, as a result, receipt of the stock portion of any merger consideration by Parlux stockholders in exchange for their shares of Parlux common stock would not be taxable to Parlux stockholders that are U.S. persons for U.S. federal income tax purposes; and

the fact that a vote of Parlux stockholders on the merger is required under Delaware law, and that Parlux stockholders who do not vote in favor of the merger will have the right to dissent from the merger and to demand appraisal of the fair value of their shares under Delaware law.

*Countervailing Considerations*

The Parlux independent committee and the Parlux board of directors weighed these positive factors against a number of countervailing factors identified in its deliberations, including:

the challenges inherent in the combination of two businesses of the size and scope of Parlux and Perfumania and the size of the companies relative to each other, including the risk that integration costs may be greater than anticipated and the possible diversion of management attention for an extended period of time;

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the risk that changes in the regulatory or competitive landscape may adversely affect the business benefits anticipated to result from the transaction;

the risk of not capturing all the anticipated cost savings and operational synergies between Parlux and Perfumania and the risk that other anticipated benefits might not be realized;

the risk that the financing required by Perfumania to consummate the transaction would not be available (see Perfumania's Financing Arrangements beginning on page 135);

the risk that the conditions to the merger would not be met, including the conditions requiring stockholder and regulatory approvals, or the risk that the merger agreement could be terminated and the potential adverse impact on Parlux if the merger does not close, including the diversion of management and employee attention, potential employee attrition and the effect on business and customer relationships (see The Merger Agreement Conditions to Completion of the Merger beginning on page 122);

the fact that, as a result of the fixed exchange ratios for the stock component of the merger consideration, the value of that component would decline in the event of a decline in the price of Perfumania common stock before the closing of the merger;

the fact that, following the merger, the Nussdorfs would own a majority of the Perfumania common stock, and the existing Parlux stockholders would own a minority interest in a larger combined company;

the potential impact of the merger announcement and the consummation of the transaction on employees;

the restrictions on the conduct of Parlux's business before the consummation of the merger, requiring Parlux to conduct its business in all material respects only in the ordinary course, subject to specific limitations, which may delay or prevent Parlux from undertaking business opportunities that may arise during the term of the merger agreement, whether or not the merger is consummated;

the fact that the cash portion of any merger consideration will be taxable to Parlux stockholders that are U.S. persons for U.S. federal income tax purposes;

the merger agreement's limitations on Parlux's ability to solicit other offers after the end of the go-shop period; and

the risks of the type and nature described under Risk Factors beginning on page 32 and the matters described under Cautionary Statement Regarding Forward-Looking Statements beginning on page 48.

***Conclusion***

The Parlux independent committee and the Parlux board of directors concluded that the anticipated benefits of the merger would outweigh the countervailing considerations. In addition, the Parlux independent committee and the Parlux board of directors were aware of and considered the interests that Parlux's directors and executive officers may have with respect to the merger that differ from, or are in addition to, their interests as stockholders of Parlux generally, as described in Interests of Certain Persons in the Merger.

The reasons set forth above are not intended to be exhaustive, but include the material facts considered by the Parlux independent committee in recommending, and by the Parlux board of directors in approving, the merger agreement. In view of the wide variety of factors considered in connection with their evaluation of the merger and the complexity of these matters, the Parlux independent committee and the Parlux board of directors did not find it useful and did not attempt to quantify or assign any relative or specific weights to the various factors that they considered

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in reaching their determinations to recommend approval of, and to approve, the merger and the merger agreement and to recommend approval of the merger and the merger agreement to Parlux stockholders.

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In addition, individual members of the Parlux independent committee and the Parlux board of directors may have given differing weights to different factors. The Parlux independent committee and the Parlux board of directors conducted an overall review of the factors described above, including thorough discussions with Parlux's management and outside legal and financial advisors.

### **Opinions of Financial Advisors to the Parlux Independent Committee**

#### ***Opinion of Peter J. Solomon Company***

Pursuant to an engagement letter dated July 1, 2011, Parlux engaged PJSC to act as financial and strategic advisor to Parlux in connection with a possible merger or similar transaction, and, if requested, to render to the Parlux independent committee an opinion as to the fairness, from a financial point of view, to the holders of Parlux common stock of the consideration to be paid in connection with any transaction.

On December 19, 2011, PJSC delivered its oral opinion to the Parlux independent committee, which was subsequently confirmed by delivery of a written opinion dated the same date (which we refer to as the "PJSC Opinion"), that, as of such date and subject to the assumptions, qualifications and limitations set forth in the PJSC Opinion, the merger consideration proposed to be paid to the holders (other than members of the Nussdorf family and any trusts or entities controlled by the Nussdorf family) of Parlux common stock in connection with the merger pursuant to the terms of the merger agreement was fair, from a financial point of view, to such holders.

The summary of the PJSC Opinion set forth in this joint proxy statement/prospectus is qualified in its entirety by reference to the full text of such opinion, which is incorporated herein by reference. The full text of the PJSC Opinion, which sets forth assumptions made, procedures followed, matters considered, and limitations on and scope of the review undertaken by PJSC in rendering the PJSC Opinion, is attached as Annex C to this joint proxy statement/prospectus. Holders of Parlux common stock are encouraged to read the PJSC Opinion carefully and in its entirety. The PJSC Opinion was directed only to the fairness, from a financial point of view, to the holders (other than members of the Nussdorf family and any trusts or entities controlled by the Nussdorf family) of Parlux common stock of the merger consideration proposed to be paid to such holders in connection with the merger pursuant to the merger agreement, was provided to the Parlux independent committee in connection with their evaluation of the proposed merger, did not address any other aspect of the merger, and did not, and does not, constitute a recommendation to any holder of Parlux common stock or any other person as to whether or not any such holder should vote or act on any matter relating to the merger.

In connection with the PJSC Opinion, PJSC:

- (i) reviewed certain publicly available business and financial information relating to Parlux and Perfumania that PJSC deemed to be relevant;
- (ii) reviewed certain non-public internal financial statements and other non-public financial and operating data relating to Parlux and Perfumania that were prepared and provided to PJSC by the managements of Parlux and Perfumania, respectively;
- (iii) reviewed certain financial projections relating to Parlux and Perfumania that were provided to or discussed with PJSC by the managements of Parlux and Perfumania, respectively;
- (iv) discussed the past and current operations, financial condition and prospects of Parlux and Perfumania with the managements of Parlux and Perfumania, respectively, including information relating to certain strategic, financial and operational benefits anticipated from the merger;
- (v) reviewed the reported prices and trading activity of the Parlux common stock and the Perfumania common stock;



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- (vi) compared the financial performance and condition of Parlux and Perfumania and the reported prices and trading activity of the Parlux common stock and the Perfumania common stock with that of certain other publicly traded companies that PJSC deemed relevant;
- (vii) reviewed publicly available information regarding the financial terms of certain transactions that PJSC deemed relevant, in whole or in part, to the merger;
- (viii) participated in certain discussions with representatives of Parlux and Perfumania;
- (ix) reviewed a draft of the merger agreement dated December 14, 2011; and
- (x) performed such other analyses and reviewed such other material and information that PJSC deemed relevant.

PJSC assumed and relied upon the accuracy and completeness of the information provided to PJSC for the purposes of the PJSC Opinion, and PJSC did not assume any responsibility for independent verification of such information. With respect to the financial projections, PJSC assumed that the financial projections were reasonably prepared on bases reflecting the best currently available estimates and judgments of the future financial performance of Perfumania. With Parlux's consent, PJSC has relied upon the estimates made by the managements of Parlux and Perfumania of certain potential strategic, financial and operational benefits anticipated from the merger without independent assessment. PJSC did not conduct a physical inspection of the facilities or property of Parlux. PJSC did not assume any responsibility for any independent valuation or appraisal of the assets or liabilities of Parlux, nor was PJSC furnished with any such valuation or appraisal. Furthermore, PJSC did not consider any tax, accounting or legal effects of the merger or the structure of the merger on any person or entity.

PJSC assumed that the final form of the merger agreement would be substantially the same as the last draft of the merger agreement reviewed by PJSC and would not vary therefrom in any respect material to PJSC's analysis. PJSC further assumed that the merger will be consummated in accordance with the terms of the merger agreement, without waiver, modification or amendment of any material term, condition or agreement (including, without limitation, the consideration proposed to be paid to the holders of Parlux common stock in connection with the merger), and that, in the course of obtaining the necessary regulatory or third party approvals, consents and releases for the merger, no delay, limitation, restriction or condition will be imposed that would have an adverse effect on Parlux and that Perfumania will obtain the necessary financing to effect the merger in accordance in all material respects with the terms of financing commitments in the forms provided by Perfumania. PJSC further assumed that all representations and warranties set forth in the merger agreement and all related agreements are and will be true and correct as of all of the dates made or deemed made and that all parties to the merger agreement and all agreements related thereto will comply with all covenants of such parties thereunder.

The PJSC Opinion was necessarily based on economic, market and other conditions as in effect on, and the information made available to PJSC as of, December 19, 2011. In particular, PJSC did not express any opinion as to the prices at which the Parlux common stock may trade at any future time. Additionally, PJSC did not express any opinion as to what the value of the Perfumania common stock actually will be when issued pursuant to the merger or the price at which the Perfumania common stock may trade at any future time. Furthermore, the PJSC Opinion does not address Parlux's underlying business decision to undertake the merger or the relative merits of the merger as compared to any alternative transactions that might be available to Parlux. The PJSC Opinion does not address any other aspect or implication of the merger or any other agreement, arrangement or understanding entered into in connection with the merger or otherwise except as expressly identified in the PJSC Opinion.

In arriving at its opinion, PJSC was not authorized to solicit, and did not solicit, interest from any party with respect to a merger or other business combination transaction involving Parlux or any of its assets.

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The following summarizes the material financial analyses performed by PJSC and reviewed with the Parlux independent committee on December 19, 2011, in connection with the delivery of the PJSC Opinion. The financial analyses summarized below include information presented in tabular format. In order to fully understand PJSC's financial analyses, the tables must be read together with the text of each summary. The tables alone do not constitute a complete description of the financial analyses. Considering the data in the tables below without considering the full narrative description of the financial analyses, including the methodologies and assumptions underlying the analyses, could create a misleading or incomplete view of PJSC's financial analyses.

*Selected Publicly Traded Companies.*

Using publicly available information, PJSC compared selected financial data of each of Parlux and Perfumania with similar data for selected publicly traded companies having operations that, for purposes of PJSC's analysis and based on PJSC's experience, PJSC deemed similar to Parlux and Perfumania. The selected companies were:

*Parlux*

Revlon, Inc.

Elizabeth Arden, Inc.

Inter Parfums, Inc.

Physicians Formula Holdings, Inc.

*Perfumania*

Sally Beauty Holdings Inc.

Ulta Salon, Cosmetics & Fragrance, Inc.

Elizabeth Arden, Inc.

rue21, Inc.

Charming Shoppes Inc.

Cost Plus Inc.

Body Central Corp.

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Big 5 Sporting Goods Corp.

Hot Topic Inc.

For each of the selected companies, PJSC used publicly available information to calculate:

enterprise value (which represents total equity value plus book value of total debt, including preferred stock and minority interests less cash) as a multiple of each of (i) net sales and (ii) earnings before interest, taxes, depreciation and amortization (which is commonly referred to as EBITDA ) as described below; and

closing stock prices on December 16, 2011, as a multiple of earnings per share (which is commonly referred to as EPS ) as described below.

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Based on this analysis, PJSC then applied the following ranges of multiples for the selected companies to similar financial data for Parlux and Perfumania:

*Parlux*Enterprise Value as a Multiple of:

Last Twelve Months ( LTM )		Estimated Calendar Year ( CY ) 2011 EBITDA (12/31/11)		Estimated Fiscal Year ( FY ) 2012 EBITDA (3/31/12)		Estimated CY 2012 EBITDA (12/31/12)			
Net Sales	LTM EBITDA	7.5x	9.0x	7.5x	9.0x	7.0x	8.5x	6.0x	8.0x
0.70x	1.20x								

Equity Value as a Multiple of:

LTM Net Income		Estimated CY 2011 Net Income (12/31/11)		Estimated FY 2012 Net Income (3/31/12)		Estimated CY 2012 Net Income (12/31/12)	
14.0x	20.0x	13.5x	18.5x	13.0x	18.0x	10.5x	15.0x

*Perfumania*Enterprise Value as a Multiple of:

LTM EBITDA		Estimated FY 2011 EBITDA (1/31/12)		Estimated FY 2012 EBITDA (1/31/13)	
8.5x	11.5x	8.0x	11.0x	7.0x	10.0x

Equity Value as a Multiple of:

LTM Net Income		Estimated FY 2011 Net Income (1/31/12)		Estimated FY 2012 Net Income (1/31/13)	
15.0x	18.0x	14.5x	17.5x	13.0x	15.5x

PJSC then calculated a range of implied equity values per share of Parlux common stock based on the Parlux multiple ranges set forth above, both excluding and including a control premium. In performing this analysis, PJSC utilized data for Parlux provided to PJSC by Parlux's management. PJSC utilized a control premium of 35.8%, which was the median control premium paid (one day prior to announcement) in all completed and announced merger and acquisition transactions involving U.S. targets (excluding transactions involving financial services, real estate and insurance companies) with enterprise values between \$50 million and \$250 million since January 1, 2008, as publicly reported.

PJSC also calculated a range of implied equity values per share of the Perfumania common stock based on the Perfumania multiple ranges set forth above. In performing this analysis, PJSC utilized data for Perfumania provided by Perfumania's management.

Based on this analysis, PJSC derived reference ranges of implied equity values per share of the Parlux common stock of \$2.00 to \$4.50, excluding a control premium, and \$2.72 to \$6.11, including a control premium. PJSC derived reference ranges of implied equity values per share of the Perfumania common stock of \$8.00 to \$17.00.

*Selected Precedent Transactions.*

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Using publicly available information, PJSC reviewed the following precedent transactions that, for purposes of PJSC's analysis, and based on PJSC's experience, PJSC deemed similar to the merger:

Unilever plc / Concern Kalina

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Edmond de Rothschild Investment Partners, SAS / Maesa

Coty, Inc. / OPI Products

Coty, Inc. / Philosophy

Dermoviva Skin Essentials / Namaste Laboratories

Unilever / Alberto-Culver

PZ Cussons / St Tropez Ltd.

Estee Lauder / Smashbox Beauty Cosmetics

L Oreal SA / Essie Cosmetics

Shiseido / Bare Escentuals

Sanofi / Chattem

Alberto-Culver / Simple Health & Beauty Ltd.

LG Household & Health Care / THEFACESHOP Korea Co.

Procter & Gamble Co. / The Art of Shaving

Energizer Holdings / S.C. Johnson (Edge, Skintimate Brands)

Castanea Partners, Inc. / Urban Decay Cosmetics

Alberto-Culver / Noxzema (From Procter & Gamble Co.)

Courtin-Clarins Family / Grupo Clarins

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L Oreal SA / YSL Beauté (from PPR, subsidiary of Gucci Group)

Coty, Inc. / Sally Hansen (Del Laboratories)

Morris Profumi SpA / Atkinsons of London Ltd.

Wipro Ltd. / UNZA Holdings Ltd.

The Carlyle Group / Philosophy Inc.

Perry Ellis International / Perry Ellis Fragrance License (from Parlux)

Hain Celestial Group, Inc. / Avalon Natural Products Inc.

L Oreal SA / The Body Shop International PLC

Kao Corp. / Kanebo Cosmetics, Inc.

Lornamead / Yardley

Kao Prestige, Ltd. / Molton Brown

Coty, Inc. / Unilever Cosmetics International

Using publicly available estimates, PJSC reviewed the enterprise value for each of the selected transactions as a multiple of LTM, net sales and EBITDA that was publicly available preceding the transaction. Based on this analysis, PJSC then applied the following ranges of multiples for the selected transactions to similar financial data for Parlux:

*Enterprise Value as a Multiple of:*

		<b>Estimated CY 2011</b>	<b>Estimated FY 2012</b>
<b>LTM Net Sales</b>	<b>LTM EBITDA</b>	<b>EBITDA (12/31/11)</b>	<b>EBITDA (3/31/12)</b>
1.0x 1.5x	8.0x 12.0x	8.0x 12.0x	8.0x 12.0x

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PJSC then calculated a range of implied equity values per share of Parlux common stock based on these multiple ranges. In performing this analysis, PJSC utilized financial data for the Parlux provided to PJSC by the Parlux's management.

Based on this analysis, PJSC derived a reference range of implied equity value per share of Parlux common stock of \$2.00 to \$5.50.

### *Discounted Cash Flow Analysis.*

PJSC conducted a discounted cash flow analysis to determine the implied equity value per share of the Parlux common stock and the Perfumania common stock based on the future free cash flows for Parlux for the period from January 1, 2012 through March 31, 2014, and for Perfumania for the period from February 1, 2012 through January 31, 2015, as estimated and provided to PJSC by the managements of Parlux and Perfumania, respectively. In arriving at the implied equity values per share of the Parlux common stock, PJSC calculated terminal values by applying EBITDA terminal value multiples ranging from 7.0x to 9.0x, and with respect to the Perfumania common stock, PJSC calculated terminal values by applying EBITDA terminal value multiples ranging from 8.0x to 10.0x. The free cash flows for each of Parlux and Perfumania were then discounted to present values using a range of discount rates from 12.0% to 16.0%, in the case of Parlux, and 10.5% to 13.5% in the case of Perfumania. PJSC used its professional judgment and experience, including taking into account, among other things, the weighted average cost of capital of Parlux and Perfumania and other companies deemed comparable to Parlux and Perfumania, in determining these ranges of discount rates.

Based on this analysis, PJSC derived a reference range of implied equity values per share of Parlux common stock of \$6.75 to \$8.00 and a reference range of implied equity values per share of Perfumania common stock of \$12.50 to \$19.50.

### *Pro Forma Transaction Analysis.*

#### *Selected Publicly Traded Companies*

Using publicly available information, PJSC compared selected financial data of Perfumania on a pro forma basis after giving effect to the consummation of the merger with similar data for selected publicly traded companies having operations that, for the purposes of PJSC's analysis and based on PJSC's experience, PJSC deemed similar to Perfumania and Parlux. The selected companies were:

Revlon, Inc.

Elizabeth Arden, Inc.

Inter Parfums, Inc.

Sally Beauty Holdings Inc.

Ulta Salon, Cosmetics & Fragrance, Inc.

rue21, Inc.

Charming Shoppes Inc.

Cost Plus Inc.



Body Central Corp.

Big 5 Sporting Goods Corp.

Hot Topic Inc.

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For each of these companies, PJSC used publicly available information to calculate: enterprise value (which represents total equity value plus book values of total debt, including preferred stock and minority interests less cash) as a multiple of EBITDA as described below and closing stock prices on December 16, 2011 as a multiple of EPS as described below.

Based on this analysis, PJSC then applied the following ranges of multiples for the selected companies to similar data for the pro forma Perfumania:

*Parlux*

Enterprise Value as a Multiple of:

<b>LTM EBITDA</b>	<b>Estimated FY 2011 EBITDA (1/31/12)</b>	<b>Estimated FY 2012 EBITDA (1/31/13)</b>
8.5x 11.5x	8.0x 11.0x	7.5x 10.0x

Equity Value as a Multiple of:

<b>LTM Net Income</b>	<b>Estimated FY 2011 Net Income (1/31/12)</b>	<b>Estimated FY 2012 Net Income (1/31/13)</b>
14.0x 17.0x	13.0x 16.0x	11.0x 15.0x

PJSC then calculated a range of implied equity values per share of the Perfumania common stock on a pro forma basis based on these multiple ranges. In performing this analysis, PJSC utilized data for Perfumania on a pro forma basis provided to PJSC by the managements of Perfumania and Parlux.

Based on this analysis, PJSC derived reference ranges of implied equity values per share of Perfumania common stock, on a pro forma basis after giving effect to the consummation of the merger, of \$8.00 to \$15.00.

*Discounted Cash Flow Analysis.*

PJSC conducted a discounted cash flow analysis to determine the implied equity value per share of the Perfumania common stock on a pro forma basis after giving effect to the consummation of the merger based on the future free cash flows for Perfumania on a pro forma basis for the period from February 1, 2012 through January 31, 2014, as estimated and provided to PJSC by the managements of Perfumania and Parlux. In arriving at the implied equity value per share of the Perfumania common stock, PJSC calculated terminal values by applying EBITDA terminal value multiples ranging from 7.5x to 9.5x. The free cash flows for Perfumania were then discounted to present values using a range of discount rates from 9.0% to 12.0%. PJSC used its professional judgment and experience, including taking into account, among other things, the weighted average cost of capital of Parlux and Perfumania and other companies deemed comparable to Parlux and Perfumania, in determining these ranges of discount rates.

Based on this analysis, PJSC derived a reference range of implied equity values per share of Perfumania common stock of \$12.50 to \$17.00, without synergies and \$18.00 to \$24.00 with synergies.

*Miscellaneous.*

In arriving at its opinion, PJSC performed a variety of financial analyses, the material portions of which are summarized above. The preparation of a fairness opinion is a complex process involving various determinations as to the most appropriate and relevant methods of financial analyses and the application of those methods to the particular circumstances and, therefore, such an opinion is not necessarily susceptible to a partial analysis or summary description. In arriving at its opinion, PJSC did not attribute any particular weight to any analysis or

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factor considered by it, but rather made qualitative judgments as to significance and relevance of each analysis and factor. Accordingly, PJSC believes that its analyses must be considered as a whole and that selecting portions of its analyses or of the summary set forth above, without considering all such analyses, could create an incomplete view of the process underlying the PJSC Opinion.

In performing its analyses, PJSC relied on numerous assumptions made by the managements of Parlux and Perfumania, respectively, and made numerous judgments of its own with regard to current and future industry performance, general business, economic, market and financial conditions and other matters, many of which are beyond the control of Parlux. Actual values will depend upon several factors, including changes in interest rates, dividend rates, market conditions, general economic conditions and other factors that generally influence the price of securities. The results of the analyses performed by PJSC are not necessarily indicative of actual values or future results, which may be significantly more or less favorable than suggested by such analyses. Such analyses were prepared solely as a part of PJSC's analysis of the fairness, from a financial point of view, to the holders (other than members of the Nussdorf family and any trusts or entities controlled by the Nussdorf family) of Parlux common stock of the merger consideration proposed to be paid to such holders in connection with the merger and were provided to the Parlux independent committee in connection with the delivery of the PJSC Opinion. The analyses do not purport to be appraisals or necessarily reflect the prices at which businesses or securities might actually be sold, which may be higher or lower than the merger consideration proposed to be paid to the holders of Parlux common stock in the merger and which are inherently subject to uncertainty. Because such analyses are inherently subject to uncertainty, none of Parlux, PJSC or any other person assumes responsibility for their accuracy.

With regard to the selected public company analysis and the precedent transactions analysis summarized above, PJSC selected such public companies on the basis of various factors for reference purposes only; however, no public company or transaction utilized as a comparison is identical to Parlux or the merger. Accordingly, an analysis of the foregoing was not mathematical; rather, it involved complex considerations and judgments concerning differences in financial and operating characteristics of the selected companies and other factors that could affect the acquisition or public trading values of the selected companies and transactions to which Parlux and the merger were being compared. The consideration proposed to be paid to the holders of Parlux common stock in the merger was determined through negotiations between Perfumania, the Parlux independent committee and the Parlux board of directors and was approved by the Parlux board of directors upon recommendation by the Parlux independent committee. PJSC did not recommend any specific consideration to the Parlux independent committee or the Parlux board of directors or that any given consideration constituted the only appropriate consideration for the merger. In addition, as described elsewhere in this joint proxy statement/prospectus the PJSC Opinion was one of many factors taken into consideration by the Parlux independent committee and the Parlux board of directors in evaluating the merger. Consequently, the PJSC analyses described above should not be viewed as determinative of the respective opinions of the Parlux independent committee or the Parlux board of directors with respect to the merger.

As part of its investment banking activities, PJSC is regularly engaged in the evaluation of businesses and their securities in connection with mergers and acquisitions, restructurings and valuations for corporate or other purposes. The Parlux independent committee selected PJSC to deliver an opinion with respect to the fairness, from a financial point of view, to the holders (other than members of the Nussdorf family and any trusts or entities controlled by the Nussdorf family) of Parlux common stock of the merger consideration proposed to be paid to such holders in connection with the merger on the basis of such experience.

Pursuant to the engagement letter dated July 1, 2011, Parlux is obligated to pay PJSC a fee for its financial advisory services, a substantial portion of which will become payable only if the merger is consummated. A retainer fee of \$125,000 was paid upon Parlux's execution of the engagement letter, \$125,000 was paid upon the delivery of PJSC's valuation analysis, and \$50,000 was payable upon the rendering of the PJSC Opinion. In addition, PJSC will be due a transaction fee contingent upon the consummation of the merger (less any amounts paid and not previously credited pursuant to the retainer and opinion fees), payable at closing. The transaction fee is based on a percentage of the Aggregate Consideration, as defined in PJSC's engagement letter, received

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by Parlux, its stockholders or other parties in connection with the merger. The market value of Perfumania's stock that will be used, in part, to calculate Aggregate Consideration will be determined on the basis of the last market closing price prior to the consummation of the merger. Based on the closing prices of Perfumania common stock on December 22, 2011 and January 19, 2012, respectively, the transaction fee would range from approximately \$2.5 million to \$3.5 million. Parlux has also agreed to reimburse PJSC for its out-of-pocket expenses, including fees and disbursements of its counsel, incurred in connection with its engagement and to indemnify PJSC and certain related persons against liabilities and expenses, including liabilities under the federal securities laws, relating to or arising out of its engagement.

PJSC has not otherwise received compensation during the last two years for providing investment banking services to Parlux, Perfumania or any of their affiliates. In addition, PJSC and its affiliates may provide in the future financial services to Perfumania and its affiliates, for which PJSC or its affiliates would expect to receive compensation. The issuance of the PJSC Opinion was authorized by its fairness opinion committee.

### ***Opinion of American Appraisal Associates, Inc.***

By letter dated November 30, 2011, the Parlux independent committee retained American Appraisal to evaluate the fairness of the consideration, from a financial point of view, to be paid to the holders of Parlux common stock in connection with the merger. American Appraisal has received a fee of \$185,000 in connection with its opinion, and Parlux has agreed to reimburse American Appraisal for its out-of-pocket expenses, including fees and disbursements of its counsel, incurred in connection with its engagement. American Appraisal has not otherwise received compensation during the last two years for providing services to Parlux, Perfumania or any of their affiliates.

American Appraisal is an independent global valuation consulting firm providing financial and property valuation services, including fairness and solvency opinion services, to private and public entities in connection with transactions and other business needs. American Appraisal was retained by the Parlux independent committee solely as an independent valuation consultant for the purpose of providing a fairness opinion in connection with the Transaction, and did not otherwise advise Parlux or its board of directors. American Appraisal is not a broker-dealer and does not provide broker-dealer services. No portion of American Appraisal's fee was contingent on the merger closing or on any other particular outcome or event.

As described in Background of the Merger, at a meeting of the Parlux independent committee held on November 21, 2011, the committee determined to seek proposals from a second independent financial advisor to provide an opinion to the committee with respect to the fairness of the merger consideration, from a financial point of view, to the holders of Parlux common stock, other than members of the Nussdorf family and any trusts or entities controlled by the Nussdorf family. After reviewing and discussing proposals from several financial advisors, the Parlux independent committee decided to engage American Appraisal and authorized Mr. D. Agostino to negotiate, with the assistance of Squire Sanders, the terms of a formal engagement letter with American Appraisal.

On December 19, 2011, the Parlux independent committee met to review the terms of the proposed merger agreement. During that meeting, American Appraisal reviewed with the Parlux independent committee certain financial analyses, as described below, and rendered its oral opinion to the Parlux independent committee that, as of that date, and based upon and subject to certain assumptions and qualifications disclosed by American Appraisal, the merger consideration to be paid to the holders of Parlux common stock in connection with the merger agreement was fair, from a financial point of view, to such holders. American Appraisal later confirmed its oral opinion by delivery of a written opinion dated December 23, 2011, to the effect that, as of December 23, 2011, and based on and subject to various assumptions and limitations described in the opinion (which were same as those disclosed in connection with rendering its oral opinion on December 19, 2011), the merger consideration to be received by the holders of shares of Parlux common stock in connection with the merger agreement is fair, from a financial point of view, to such holders of shares of Parlux common stock.

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The consideration proposed to be paid to the holders of Parlux common stock in the merger was determined through negotiations between Perfumania, the Parlux independent committee and the Parlux board of directors and was approved by the Parlux board of directors upon recommendation by the Parlux independent committee. American Appraisal did not recommend any specific consideration to the Parlux independent committee or the Parlux board of directors or indicate that any given consideration constituted the only appropriate consideration for the merger. In addition, as described elsewhere in this joint proxy statement/prospectus, the American Appraisal Opinion was one of many factors taken into consideration by the Parlux independent committee and the Parlux board of directors in evaluating the merger.

The full text of American Appraisal's opinion describes the assumptions made, procedures followed, matters considered and limitations on the review undertaken by American Appraisal. The opinion is attached as Annex D to this joint proxy statement/prospectus and is incorporated herein in its entirety by reference. Holders of Parlux common stock are encouraged to read the full opinion carefully. American Appraisal's opinion was provided for the benefit of the Parlux independent committee in connection with, and for the purpose of, its evaluation of the merger consideration, from a financial point of view, and does not address any other aspect of the merger. The opinion does not address the relative merits of the merger as compared to other business strategies or transactions that might be available with respect to Parlux or the Parlux's underlying business decision to effect the merger. The opinion does not constitute advice or a recommendation to any stockholder as to how to vote or act with respect to the merger. The following summary of American Appraisal's opinion is qualified in its entirety by reference to the full text of American Appraisal's opinion.

In connection with its engagement, American Appraisal performed the analyses and reviews that it deemed necessary and appropriate under the circumstances, including but not limited to the following:

reviewed certain publicly available business and financial information relating to Parlux and Perfumania;

held discussions with certain members of the management of Parlux regarding the operations, financial condition, future prospects and projected operations and performance of Parlux and certain matters regarding the proposed transaction;

held discussions with the Chief Financial Officer of Perfumania regarding the operations, financial condition, future prospects and projected operations and performance of Perfumania, and Perfumania, including Parlux, following the merger;

reviewed copies of agreements, presentations and/or documents including but not limited to:

Agreement and Plan of Merger, dated December 23, 2011

License Agreement by and between S. Carter Enterprises, LLC and Artistic Brands Development LLC, dated December 23, 2011

Sublicense Agreement, dated December 23, 2011

Amendment to Warrant Certificates, dated December 23, 2011

Amendment to Letter Agreement, dated December 23, 2011

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reviewed financial profit and loss forecasts and projections with respect to Parlux prepared by the management of Parlux for the fiscal years ending March 31, 2012 through March 31, 2014;

reviewed financial forecasts and projections with respect to Perfumania prepared by the management of Perfumania for the fiscal years ending January 28, 2012 through January 31, 2015;

reviewed pro forma combined projections including synergies for Perfumania and Parlux, following the merger, prepared by the management of Perfumania for the fiscal years ending January 2013 through January 2014;

compared the proposed financial terms of the proposed transaction with publicly available financial terms of certain transactions involving companies it deemed relevant and the consideration received for such companies;

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reviewed selected economic, financial, and market information relating to the businesses of other companies whose operations it considered relevant in evaluating Parlux;

reviewed the historical market prices and trading volumes for each of Parlux's and Perfumania's publicly traded securities and those of certain publicly traded companies it deemed relevant; and

conducted such other financial studies, analyses and inquiries as it deemed appropriate.

In connection with the analysis underlying this opinion, American Appraisal relied upon and assumed, without independent verification or investigation, the accuracy and completeness of all of the financial forecasts and other information and selected data with respect to Parlux and Perfumania made available or furnished to or otherwise reviewed by or discussed with American Appraisal by management of Parlux and of Perfumania for purposes of this opinion. American Appraisal did not independently verify or investigate any of the assumptions, estimates, or judgments referred to in such financial forecasts, information, data and material and it is not responsible for any errors or inaccuracies in such forecasts, information, data and material. Further, it assumed that there had been no material change in the assets, financial condition, business or prospects of Parlux, since the date of the most recent financial statements and forecasts made available to it.

With respect to financial analyses and forecasts regarding Parlux provided to or otherwise reviewed by or discussed with American Appraisal, it was advised by the management of Parlux and it assumed for the purposes of its opinion that such analyses and forecasts had been prepared based on reasonable assumptions reflecting the best currently available estimates and judgments of the management of Parlux as to the expected future results of operations and financial conditions of Parlux to which such analyses or forecasts relate. American Appraisal can give no assurances, however, that such financial analyses and forecasts can be realized or that actual results will not vary materially from those projected.

In connection with all forecasts, information, data and material provided to American Appraisal by the management of Parlux, American Appraisal was advised by the management of Parlux, and it assumed for the purposes of its opinion that Parlux management did not omit or fail to provide, or cause to be omitted or undisclosed to American Appraisal any analyses, data, material or other information necessary in order to make any financial data, material or other information provided to American Appraisal by the management of Parlux not misleading in light of the circumstances under which such forecasts, information, data or material were provided.

With respect to financial analyses and forecasts regarding Perfumania and Perfumania including Parlux following the merger, American Appraisal assumed for the purposes of its opinion that such analyses and forecasts had been prepared based on reasonable assumptions reflecting the best currently available estimates and judgments of Perfumania to which such analyses or forecasts relate. American Appraisal can give no assurances, however, that such financial analyses and forecasts can be realized or that actual results will not vary materially from those projected.

American Appraisal has not conducted or been provided with an independent valuation or appraisal of the assets or liabilities of Parlux nor Perfumania, nor has it made any physical inspection of the properties or assets of Parlux or Perfumania. In connection with its engagement, American Appraisal was not requested to, and did not, solicit third party indications of interest in the possible acquisition of all or a part of Parlux, nor did it negotiate the terms of the proposed transaction, and therefore, it assumed that such terms are the most beneficial, from Parlux's perspective, that could, under the circumstances, be negotiated among the parties to the merger.

The analysis American Appraisal undertook in connection with rendering this opinion involved the exercise of judgment on the part of American Appraisal, as to which differences of opinion may exist. American Appraisal's opinion is necessarily based on market, economic and other conditions and circumstances existing and made known to it on, and the forecasts, information and data made available to it as of, the date of the opinion. Except as set forth in the engagement letter between American Appraisal and Parlux dated November 30, 2011, American Appraisal does not have any obligation to, and has not undertaken to, update, revise or reaffirm its opinion.

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In connection with rendering its opinion to the Parlux independent committee, American Appraisal performed a variety of financial and comparative analyses which are summarized below. The following summary is not a complete description of all analyses performed and factors considered by American Appraisal in connection with its opinion. The preparation of a financial opinion is a complex process involving subjective judgments and is not necessarily susceptible to partial analysis or summary description. With respect to the guideline publicly-traded company method and the guideline transaction method summarized below, no company or transaction used as a comparison was identical to Parlux, Perfumania or the post-merger Perfumania including Parlux. These analyses necessarily involve complex considerations and judgments concerning financial and operating characteristics and other factors that could affect the trading or acquisition values of the companies concerned.

American Appraisal believes that its analyses and the summary below must be considered as a whole and that selecting portions of its analyses and factors or focusing on information presented in tabular format, without considering all analyses and factors or the narrative description of the analyses, could create a misleading or incomplete view of the processes underlying American Appraisal's analyses and opinion. American Appraisal did not draw, in isolation, conclusions from or with regard to any one factor or method of analysis for purposes of its opinion, but rather arrived at its ultimate opinion based on the results of all analyses undertaken by it and assessed as a whole.

The following is a brief summary of the material financial analyses performed by American Appraisal and reviewed with the Parlux independent committee on December 19, 2011 in connection with American Appraisal's opinion relating to the proposed merger. Considering the data below without considering the full narrative description of the financial analyses, including the methodologies and assumptions underlying the analyses, could create a misleading or incomplete view of American Appraisal's financial analyses.

### *Parlux Standalone Valuation*

#### *Discounted Cash Flow Method*

American Appraisal performed a discounted cash flow analysis of Parlux using financial forecasts and estimates prepared by Parlux's management. American Appraisal calculated a range of implied present values of the standalone unlevered, after-tax free cash flows that Parlux was forecasted to generate for fiscal years ending March 31, 2012 through March 31, 2014. American Appraisal calculated a range of values for Parlux by sensitizing the base discount rate concluded of 15.5% within a range of 14.5% to 16.5% and the base perpetuity rate concluded of 4.0% within a range of 2.0% to 6.0%. The terminal value was calculated by applying capitalization rates to the free cash flows in the normalized period under the Gordon Growth Model methodology. This discounted cash flow method resulted in a range of implied present values of approximately \$4.62 to \$5.39 per share of Parlux common stock.

#### *Guideline Publicly-Traded Company Method*

American Appraisal calculated multiples of invested capital value based on certain financial data for Parlux and six selected companies operating in the perfume and cosmetics industry. The guideline companies are as follows:

Coach, Inc.

Elizabeth Arden, Inc.

International Parfums, Inc.

L'Oréal

Revlon, Inc.



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The Estee Lauder Companies Inc

American Appraisal calculated each selected company's invested capital value as a multiple of its operating EBITDA for the latest 12 months and estimates of operating EBITDA for fiscal years 2012 and 2013. Forecasted operating EBITDA for the selected guideline companies was based on consensus analyst estimates provided by

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Bloomberg. Based on consideration of the comparative size, riskiness, growth expectations, and profitability of Parlux relative to the selected guideline companies, the low selected operating EBITDA multiples were concluded to be 5.6x for the latest 12 months period and 5.7x for forecast fiscal years 2012 and 2013. The high selected operating EBITDA multiples were concluded to be 7.5x for the latest 12 months period and 7.6x for fiscal years 2012 and 2013. A premium for control of 15.0% was included in the analysis, based on consideration of premiums paid for recent acquisitions in the perfume and cosmetics industry. The guideline publicly traded company method resulted in a range of implied per share equity values of \$5.10 to \$6.67 per share of Parlux common stock.

*Guideline Transaction Method*

American Appraisal calculated multiples of invested capital value based on the estimated purchase prices paid in eight selected guideline transactions in the perfume and cosmetics industries. The calculations expressed the invested capital value of each target as a multiple of such target's latest 12 month EBITDA. The guideline transaction method resulted in a range of implied per share equity values of \$3.67 to \$5.38 per share of Parlux common stock.

<b>Target Company</b>	<b>Target Business Description</b>	<b>Acquiring Company</b>
Avon Products Japanese Subsidiary	Manufactures and sells cosmetics	TPG Capital LP
Alberto-Culver Co.	Manufactures and markets personal care and household products	Unilever PLC
Spectrum Brands, Inc.	Makes and sells personal care products, general batteries, and other consumer products	Harbinger Capital Partners
The Body Shop International PLC	Produces and sells naturally-based skin & hair care products	L Oreal SA
Natural Beauty Bio-Technology Ltd.	Manufactures and sells skin care, beauty and aromatherapy products	Global Radiance Holdings Ltd.
CCA Industries, Inc.	Develops, manufactures and markets high quality health and beauty care products	Dubilier & co.
Mirato SpA	Manufacturer of personal hygiene and hair care products	Benefit SpA
FEM Care Pharma Ltd.	Produces and deals in cosmetics and pharmaceuticals	Dabur India Ltd.

*Market Capitalization Method*

American Appraisal reviewed the historical trading price per share of Parlux common stock for the period starting on December 10, 2010 through December 9, 2011. The analysis incorporated the closing price as of December 9, 2011, as well as the 30-day average, 3-month average, and 1-year average prior to December 9, 2011. Additionally, the 52-week high and low stock prices over the aforementioned period were considered. As these stock prices represent a minority position, a 15.0% premium for control was included in the analysis, based on consideration of premiums paid for recent acquisitions in the perfume and cosmetics industry. The market capitalization method resulted in a range of implied per share equity values of \$2.78 to \$4.30 per share of Parlux common stock.

*Conclusion*

Based on the aforementioned analyses, a range of \$4.00 to \$5.50 per share of Parlux common stock was concluded. The concluded range was based on the discounted cash flow method of the income approach, which is

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supported by the lower end of the guideline publicly traded company method of the market approach. The guideline transaction and market capitalization methods of the market approach were used as benchmarks and not directly considered in the overall valuation conclusion. For the conclusion and the above analyses, the per share values are calculated using diluted shares outstanding. The diluted shares outstanding are calculated using the Treasury Share Method, whereby the share base is calculated based on the indicated per share value in an iterative process.

### *Perfumania Standalone Valuation*

#### *Discounted Cash Flow Method*

American Appraisal performed a discounted cash flow analysis of Perfumania using financial forecasts and estimates prepared by Perfumania's management. American Appraisal calculated a range of implied present values of the standalone unlevered, after-tax free cash flows that Perfumania was forecasted to generate for fiscal years ending January 31, 2012 through January 31, 2015. American Appraisal calculated a range of values for Perfumania by sensitizing the base discount rate concluded of 13.3% within a range of 12.3% to 14.3% and the base perpetuity rate concluded of 4.0% within a range of 2.0% to 6.0%. The terminal value was calculated by applying capitalization rates to the free cash flows in the normalized period under the Gordon Growth Model methodology. This discounted cash flow method resulted in a range of implied present values of approximately \$2.77 to \$7.51 per share of Perfumania common stock.

#### *Guideline Publicly-Traded Company Method*

American Appraisal calculated multiples of invested capital value based on certain financial data for Perfumania and four selected companies operating as retailers within the perfume and cosmetics industry. The guideline companies are as follows:

Coach, Inc.

Elizabeth Arden, Inc.

Sally Beauty Holdings, Inc.

Ulta Salon, Cosmetics & Fragrances, Inc.

American Appraisal calculated each selected company's invested capital value as a multiple of its operating EBITDA for the latest 12 months and estimates of operating EBITDA for the fiscal years 2012 and 2013. Forecasted operating EBITDA for the selected guideline companies was based on consensus analyst estimates provided by Bloomberg. Based on consideration of the comparative size, riskiness, growth expectations, and profitability of Perfumania relative to the selected guideline companies, the low selected operating EBITDA multiples were concluded to be 7.9x for the latest 12 months, 7.3x for the forecast fiscal year 2012, and 6.9x for the forecast fiscal year 2013. The high selected operating EBITDA multiples were concluded to be 9.5x in the latest 12 months, 8.8x for the forecast fiscal year 2012, and 8.2x for the forecast fiscal year 2013. As the Parlux shareholders will receive minority marketable shares of Perfumania under the proposed transaction, no premium for control was included in the analysis. The guideline publicly traded company method resulted in a range of implied per share equity values of \$7.34 to \$12.25 per share of Perfumania common stock.

#### *Guideline Transaction Method*

American Appraisal calculated multiples of invested capital value based on the estimated purchase prices paid in four selected guideline transactions for retailers in the perfume and cosmetics industries. The calculations expressed the invested capital value of each target as a multiple of such target's latest 12 month EBITDA. The guideline transaction method resulted in a range of implied per share equity values of \$6.35 to \$14.14 per share of Perfumania common stock.

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<b>Target Company</b>	<b>Target Business Description</b>	<b>Acquiring Company</b>
Bare Essentials, Inc.	Sells beauty care products and owns boutique shops under the Bare Essentials name	Shiseido Co.
Dufry South America, Ltd.	Operates duty free stores in major South American airports	Dufry AG
The Body Shop International PLC	Produces and sells naturally-based skin & hair care products	L Oreal SA
NetOnNet AB	Operates online retail stores	Waldir AB

*Market Capitalization Method*

American Appraisal reviewed the historical trading price per share of Perfumania common stock for the period starting on December 10, 2010 through December 9, 2011. The analysis incorporated the closing price as of December 9, 2011, as well as the 30-day average, 3-month average, and 1-year average prior to December 9, 2011. Additionally, the 52-week high and low stock prices over the aforementioned period were considered. As these stock prices represent a minority position, and Parlux shareholders will receive minority marketable shares of Perfumania under the proposed transaction, no premium for control was included in the analysis. The market capitalization method resulted in a range of implied per share equity values of \$7.67 to \$19.60 per share of Perfumania common stock.

*Conclusion*

Based on the aforementioned analyses, a range of \$3.00 to \$7.50 per share of Perfumania common stock was concluded. The concluded range was based on the discounted cash flow method of the income approach, which is supported by the lower end of the guideline publicly traded company method of the market approach. The guideline transaction and market capitalization methods of the market approach were used as benchmarks and not directly considered in the overall valuation conclusion. For the conclusion and the above analyses, the per share values are calculated using diluted shares outstanding. The diluted shares outstanding are calculated using the Treasury Share Method, whereby the share base is calculated based on the indicated per share value in an iterative process.

*Combined Company Valuation**Discounted Cash Flow Method*

American Appraisal performed a discounted cash flow analysis of Perfumania following the merger using financial forecasts and estimates prepared by Perfumania's management. American Appraisal calculated a range of implied present values as of January 31, 2012 of the unlevered, after-tax free cash flows that Perfumania was forecasted to generate following the merger for fiscal years ending January 26, 2013 and January 25, 2014. American Appraisal calculated a range of values for Perfumania following the merger by sensitizing the base discount rate concluded of 14.5% within a range of 13.3% to 15.3% and the base perpetuity rate concluded of 4.0% within a range of 2.0% to 6.0%. The terminal value was calculated by applying capitalization rates to the free cash flows in the normalized period under the Gordon Growth Model methodology. This discounted cash flow method resulted in a range of implied present values of approximately \$5.95 to \$8.81 per share of Perfumania common stock.

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*Guideline Publicly-Traded Company Method*

American Appraisal calculated multiples of invested capital value based on certain financial data for Perfumania following the merger and eight selected companies operating as manufacturers and/or retailers within the perfume and cosmetics industry. The guideline companies are as follows:

Coach, Inc.

Elizabeth Arden, Inc.

Inter Parfums, Inc.

L Oreal

Revlon, Inc.

Sally Beauty Holdings, Inc.

The Estee Lauder Companies Inc

Ulta Salon, Cosmetics & Fragrances, Inc.

American Appraisal calculated each selected company's invested capital value as a multiple of estimates of operating EBITDA for the fiscal year ending 2013. Forecasted operating EBITDA for the selected guideline companies was based on consensus analyst estimates provided by Bloomberg. Based on consideration of the comparative size, riskiness, growth expectations, and profitability of Perfumania relative to the selected guideline companies, the low selected operating EBITDA multiple was concluded to be 7.3x, and the high selected operating EBITDA multiple was concluded to be 8.8x. As the Parlux shareholders will receive minority marketable shares of Perfumania under the proposed transaction, no premium for control was included in the analysis. The guideline publicly traded company method resulted in a range of implied per share equity values of \$9.43 to \$13.01 per share of Perfumania common stock following the merger.

*Guideline Transaction Method*

American Appraisal calculated multiples of invested capital value based on the estimated purchase prices paid in ten selected guideline transactions for manufacturers and/or retailers in the perfume and cosmetics industries. The calculations expressed the invested capital value of each target as a multiple of such target's latest 12-month EBITDA. The guideline transaction method resulted in a range of implied per share equity values of \$6.35 to \$13.66 per share of Perfumania common stock following the merger.

<b>Target Company</b>	<b>Target Business Description</b>	<b>Acquiring Company</b>
Avon Products Japanese Subsidiary	Manufactures and sells cosmetics	TPG Capital LP
Alberto-Culver Co.	Manufactures and markets personal care and household products	Unilever PLC
Spectrum Brands, Inc.		Harbinger Capital Partners

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	Makes and sells personal care products, general batteries, and other consumer products	
Bare Essentials, Inc.	Sells beauty care products and owns boutique shops under the Bare Essentials name	Shiseido Co.
Dufry South America, Ltd.	Operates duty free stores in major South American airports	Dufry AG
The Body Shop International PLC	Produces and sells naturally-based skin & hair care products	L Oreal SA

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<b>Target Company</b>	<b>Target Business Description</b>	<b>Acquiring Company</b>
Natural Beauty Bio-Technology Ltd.	Manufactures and sells skin care, beauty and aromatherapy products	Global Radiance Holdings Ltd.
CCA Industries, Inc.	Develops, manufactures and markets high quality health and beauty care products	Dubilier & co.
Mirato SpA	Manufacturer of personal hygiene and hair care products	Benefit SpA
FEM Care Pharma Ltd.	Produces and deals in cosmetics and pharmaceuticals	Dabur India Ltd.

*Conclusion*

Based on the aforementioned analyses, a range of \$6.00 to \$9.50 per share of Perfumania common stock was concluded. The concluded range was based on the discounted cash flow method of the income approach, which is supported by the lower end of the guideline publicly traded company method of the market approach. The guideline transaction method of the market approach was used as a benchmark and not directly considered in the overall valuation conclusion. For the conclusion and the above analyses, the per share values are calculated using diluted shares outstanding. The diluted shares outstanding are calculated using the Treasury Share Method, whereby the share base is calculated based on the indicated per share value in an iterative process. American Appraisal's conclusions are summarized in the table below:

<b>Shareholder Election</b>	<b>Low End (\$6.00/share)</b>	<b>High End (\$9.50/share)</b>
Stock and Cash Mixed Election (\$4.00 cash and 0.20 shares)	\$ 5.20	\$ 5.90
Stock Election (0.533333 shares)	\$ 3.20	\$ 5.07

*Summary Analysis*

Based upon and subject to the foregoing, American Appraisal expressed the opinion that as of December 19, 2011 and as of December 23, 2011, the merger consideration to be received by the holders of shares of Parlux common stock, in connection with the merger, was fair to such holders, from a financial point of view.

***Parlux Financial Advisors***

The Parlux independent committee determined to engage American Appraisal to provide advice with respect to the financial fairness of the merger to holders of Parlux common stock because the Parlux independent committee believed it would be useful to have information and advice with respect to the transaction from a different financial perspective and because a substantial portion of PJSC's compensation was contingent upon consummation of the merger. None of American Appraisal's compensation was contingent upon reaching a particular opinion regarding the financial fairness of the merger or upon the ultimate consummation of the transaction.

**Opinion of Financial Advisor to the Perfumania Special Committee*****Opinion with respect to the Aggregate Merger Consideration***

Pursuant to a letter agreement dated as of November 18, 2011, Financo was engaged to provide the Financo Opinion to the Perfumania special committee. The Perfumania special committee selected Financo based on Financo's reputation and experience in the retail and consumer industries. Financo is an investment banking firm

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that, as part of its investment banking business, regularly is engaged in the evaluation of businesses and their securities in connection with mergers, acquisitions, corporate restructurings, private placements of capital, and for other purposes. In this capacity, Financo is continually engaged in valuing these businesses. At the meeting of the Perfumania special committee on December 19, 2011, Financo delivered to Perfumania special committee a presentation, followed by the delivery of the Financo Opinion dated December 23, 2011, stating that, as of such date, and based upon and subject to the various assumptions and limitations set forth in its written opinion, the Aggregate Merger Consideration (as defined below) was fair, from a financial point of view, to Perfumania. Financo's analysis explicitly excluded an opinion on fairness, from a financial point of view, of the Aggregate Merger Consideration to any stockholders of Perfumania who own, or whose affiliates own, a controlling interest in Perfumania or who own, or whose affiliates own, any securities, including Parlux common stock, of Parlux.

For purposes of the Financo Opinion, Aggregate Merger Consideration means, collectively, (i) the aggregate Per Share Merger Consideration and (ii) the options and warrants to purchase Perfumania common stock resulting from conversion of Parlux stock options and the Gopman warrants and licensor warrants (further described below under The Merger Agreement Treatment of Parlux Stock Options and Treatment of Warrants) at the effective time as set forth in the merger agreement; and Per Share Merger Consideration means, with respect to each share of Parlux common stock (other than excluded shares), either (A) a combination of (x) \$4.00 in cash and (y) 0.2 shares of Perfumania common stock, \$0.01 par value, or (B) 0.533333 shares of Perfumania common stock. In addition, the Financo Opinion did not take into consideration, and Financo expressed no opinion on, the validity or effectiveness of any election to receive stock, or cash and stock, pursuant to the terms of the merger agreement, or the occurrence or the amount of any adjustment to the Per Share Merger Consideration provided for in the merger agreement.

The full text of the Financo Opinion, which sets forth assumptions made, matters considered and limitations on the review undertaken in connection with the Financo Opinion, is included in Annex B to this joint proxy statement/prospectus and is incorporated herein by reference. The Financo Opinion is addressed to the Perfumania special committee and relates only to the fairness of the Aggregate Merger Consideration to Perfumania from a financial point of view. The Financo Opinion does not address any other aspect of the proposed merger and does not constitute a recommendation to any stockholder as to any matters relating to the merger. The summary of the Financo Opinion described herein is qualified in its entirety by reference to the full text of the Financo Opinion. Holders of Perfumania common stock are urged to, and should, read the Financo Opinion carefully and in its entirety.

The Financo Opinion does not address the underlying business decision to enter into the merger agreement or the merger, nor does it evaluate alternative transaction structures or other financial or strategic alternatives. Financo was not authorized to solicit, and did not solicit, third party indications of interest for the acquisition of all or any part of Perfumania or the Perfumania common stock and did not (other than services in connection with fairness opinions) participate in the transaction process.

In arriving at the Financo Opinion, Financo reviewed and analyzed such financial and other matters as Financo deemed relevant, including, among other things:

certain publicly available information concerning Perfumania and Parlux that Financo believed to be relevant to its inquiry, including without limitation Perfumania's Proxy Statement on Schedule 14A dated September 23, 2010 and Parlux's Proxy Statement on Schedule 14A dated September 7, 2010;

certain financial and operating information with respect to the past and current business operations, financial condition and prospects of Perfumania and Parlux furnished to Financo by Perfumania, including without limitation, for Perfumania, the audited financial statements for the fiscal year ended January 29, 2011 and unaudited financial information for the 9-month period ended October 29, 2011, and for Parlux, the audited financial statements for the fiscal year ended March 31, 2011 and unaudited financial information for the 6-month period ended September 30, 2011;

a trading history of Perfumania common stock from December 16, 2008 to December 16, 2011;



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a trading history of Parlux common stock from December 16, 2008 to December 16, 2011;

a comparison of the current quoted market prices of Perfumania and Parlux common stock to that of other operators that are similar to, respectively, Perfumania and Parlux that Financo deemed relevant and appropriate;

a comparison of the financial terms of the merger with the terms of certain other recent transactions that Financo deemed relevant;

a draft of the merger agreement dated December 17, 2011, not including the exhibits or schedules thereto except as expressly stated in the written opinion;

projected pro forma financial information and projected synergies for, respectively, Perfumania and Parlux, after giving effect to the merger, provided to Financo by Perfumania management; and

such other financial, strategic and market information that Financo deemed relevant.

In addition, Financo had discussions with Perfumania management, staff, and advisors concerning the material terms of the merger and Perfumania's and Parlux's business and operations, assets, present condition and future prospects, and undertook such other studies, analyses and investigations as Financo deemed relevant and appropriate.

In preparing the Financo Opinion, Financo assumed and relied upon the accuracy and completeness of, and did not independently verify, information (including without limitation the representations and warranties contained in the merger agreement) supplied or otherwise made available to Financo, discussed or reviewed by or for Financo or publicly available, and did not assume any responsibility for, nor make any independent verification of, any of the information. Financo further relied on the assurances of Perfumania management, staff, and advisors that they were unaware of any facts that would make portions of the information supplied to Financo by them incomplete or misleading.

Financo did not subject such information to either (i) any independent review of any kind by Financo or a third party, or (ii) an audit in accordance with generally accepted accounting attestation standards or the Statement on Standards for Prospective Financial Information issued by the American Institute of Certified Public Accountants. Further, the preparation of the Financo Opinion did not include a detailed review of any Perfumania or Parlux transactions, and cannot be expected to identify errors, irregularities or illegal acts, including fraud or defalcations, that may exist. In addition, Financo assumed and relied upon the reasonableness and accuracy of all financial projections, forecasts and analyses provided to Financo, and assumed that such projections, forecasts and analyses were reasonably prepared in good faith and on bases reflecting the best currently available judgments and estimates of Perfumania's management. Accordingly, Financo did not express an opinion or any other form of assurance on, and assumed no responsibility for, the accuracy, completeness, correctness, assumptions or achievability of such projections, forecasts and analyses.

For purposes of rendering the Financo Opinion, Financo assumed that all representations and warranties set forth in the merger agreement were and will be true and correct as of all the dates made or deemed made and that each party would comply with all of the covenants required to be performed by it under the merger agreement. Financo assumed that the merger would be consummated without waiver or modification, by any party thereto, of any of the material terms or conditions contained in the merger agreement prior to Financo's delivery of the Financo Opinion and that the final form of the draft merger agreement would be substantially the same as the merger agreement reviewed by Financo. Financo also assumed that any and all regulatory and third party approvals, consents and releases in respect of the merger, including with respect to any arrangement, contract or license of Perfumania or Parlux or their respective subsidiaries, have been or will be obtained without any delay, limitation, restriction or condition that would have an adverse effect on Perfumania or Parlux or the contemplated benefits of the merger.

The Financo Opinion was necessarily based upon economic, market and other conditions and circumstances as they existed and could be evaluated as of the date thereof. Although such conditions and circumstances may have

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changed and may change in the future, Financo assumed no obligation to update, revise or reaffirm its opinion. Further, Financo expressed no opinion as to the prices at which either Perfumania common stock or Parlux common stock may trade at any time. The Financo Opinion was limited to the fairness of the Aggregate Merger Consideration, from a financial point of view, to Perfumania, and Financo assumed that there would be no material changes to the financial terms of the merger agreement after the date thereof. Financo expressed no opinion as to the fairness of the amount or nature of the compensation to any of the officers, directors or employees of Perfumania or Parlux following the merger. Financo expressed no view or opinion as to any terms or other aspects of the merger (other than the Aggregate Merger Consideration solely to the extent expressly specified in the Financo Opinion), including, without limitation, the form or structure of the merger.

In arriving at its opinion, Financo did not conduct a physical inspection of the properties or facilities of Perfumania or Parlux, and did not review any of the books and records of Perfumania or Parlux, except as expressly described in the Financo Opinion. Financo neither made nor obtained any evaluations or appraisals from a third party of the assets of Perfumania, Parlux or market competitors of either. Financo did not consider any tax, accounting or legal effects of the merger or the transaction structure on any person or entity. In arriving at the Financo Opinion, Financo considered the weighted average exercise price, the weighted average remaining contractual life and the number of shares of Parlux common stock issuable in respect of Parlux stock options or the Gopman warrants and licensor warrants, as provided by Parlux, and Financo did not consider nor express an opinion on, any other terms, conditions, rights or obligations (including vesting) in respect of such securities or the Perfumania stock options and warrants into which such securities will be converted at the closing of the merger. Financo did not evaluate the solvency or fair value of Perfumania or Parlux under any state, federal or other laws relating to bankruptcy, insolvency or similar matters.

The following is a summary explanation of the various sources of information and valuation methodologies employed by Financo in its presentation to the Perfumania special committee. These analyses were presented to the Perfumania special committee at its meeting on December 19, 2011. This summary describes the financial analyses used by Financo and deemed to be material, but does not purport to be a complete description of analyses performed by Financo in arriving at the Financo Opinion. Financo did not explicitly assign any relative weights to the various factors or analyses considered. This summary of financial analyses includes information presented in tabular format. In order to fully understand the financial analyses used by Financo, the tables must be read together with the text of each summary. The tables alone do not constitute a complete description of the financial analyses.

For purposes of its analysis, Financo evaluated on a standalone basis each of Perfumania, Parlux, and the pro forma combined company (which is referred to in this section as the Combined Company ).

*Perfumania Valuation*

*Perfumania Comparable Companies Analysis*

Financo compared Perfumania to a group of comparable public domestic specialty retail companies referred to as the Perfumania Comparable Companies. The Perfumania Comparable Companies are public companies that Financo deemed comparable to Perfumania's limited universe. Financo identified the eleven public companies listed below as being comparable to Perfumania with respect to their industry sector, operating model, size and profitability. The companies selected had enterprise values between approximately \$88.8 million and \$15.1 billion as of December 16, 2011.

bebe stores, inc.	Kirkland's, Inc.
Build-A-Bear Workshop, Inc.	Limited Brands, Inc.
Casual Male Retail Group, Inc.	Sally Beauty Holdings, Inc.
Citi Trends, Inc.	Ulta Salon, Cosmetics & Fragrances, Inc.
Destination Maternity Corporation	Wet Seal, Inc.

Golfsmith International Holdings, Inc.

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The financial information reviewed by Financo for these companies in the course of this analysis was based on historical financial information available as of December 16, 2011 and market data as of December 16, 2011. For each of the selected comparable companies, Financo compared, among other things:

the ratio of the company's total enterprise value based on the company's closing price per common share on December 16, 2011, referred to as EV, to estimated sales for its fiscal year 2011;

the ratio of the company's EV on December 16, 2011, to estimated EBITDA for its fiscal year 2011 (for purposes of Financo's analyses, EBITDA means earnings before interest, taxes, depreciation and amortization, as adjusted for one-time unusual charges and non-recurring items);

the ratio of the company's EV on December 16, 2011, to projected sales for its fiscal year 2012; and

the ratio of the company's EV on December 16, 2011, to projected EBITDA for its fiscal year 2012.

The following table presents the range of multiples reviewed by Financo in its comparable company analysis with respect to Perfumania:

	<b>Comparable Companies Absolute Low/Absolute High Range</b>
Fiscal 2011 Estimated Sales Revenue	0.14x - 2.43x
Fiscal 2012 Projected Sales Revenue	0.13x - 2.04x
Fiscal 2011 Estimated EBITDA	3.1x - 16.0x
Fiscal 2012 Projected EBITDA	2.5x - 12.8x

Based on the information for the comparable companies, Financo applied a selected range of multiples to corresponding metrics of Perfumania in order to derive a series of ranges for the implied per share value of Perfumania ranging from \$0.00 to \$6.08.

None of the comparable companies have characteristics identical to Perfumania. In evaluating the comparables, Financo made numerous assumptions with respect to the domestic specialty retail industry's performance and general economic conditions, many of which are beyond the control of Perfumania. Mathematical analysis, such as determining the median, average or range, is not in itself a meaningful method of using comparable company data.

*Perfumania Precedent Transactions Analysis*

Financo considered ratios of EV to sales and EBITDA, in each case, with regards to the last twelve months, or LTM, then applicable, to derive multiples that strategic and financial acquirers have been willing to pay for companies in this particular market segment. In order to perform this analysis, Financo reviewed a number of transactions, including those involving companies deemed by Financo to be comparable to Perfumania based on financial performance, market focus and business model. Financo reviewed seven precedent merger and acquisition transactions announced from September 4, 2008 through June 22, 2011 involving companies in the domestic specialty retail industry.

Financo considered the following precedent transactions for its analysis:

<b>Announcement Date</b>	<b>Acquiror</b>	<b>Target</b>
June 22, 2011	The William Carter Company	Bonnie Togs Children's Wear Ltd.
October 10, 2010	Dollar Tree, Inc.	Dollar Giant Store (B.C.) Ltd.
June 30, 2010	Billabong International Ltd.	West 49 Inc.

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August 24, 2009  
August 10, 2009  
June 25, 2009  
September 4, 2008

Advent International  
Barnes & Noble, Inc.  
The Dress Barn, Inc.  
Dufry AG

Charlotte Russe Holding, Inc.  
Barnes & Noble College Booksellers, Inc.  
Tween Brands, Inc.  
Hudson Group

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For each precedent transaction above, Financo derived and compared to the extent publicly available, among other things:

the ratio of the EV of the acquired company to the acquired company's LTM sales revenue based on the latest publicly available financial statements of the acquired company relating to the period prior to the announcement of the acquisition; and

the ratio of the EV of the acquired company to the acquired company's LTM EBITDA.

The following table presents the range of multiples reviewed by Financo in its precedent transactions analysis with respect to Perfumania:

	<b>Precedent Transactions</b> <b>Absolute Low/Absolute High Range</b>
EV to LTM sales revenue	0.25x - 1.26x
EV to LTM EBITDA	4.1x - 13.0x

Based on the information derived for each of the precedent transactions above, Financo applied a selected range of multiples to corresponding metrics of Perfumania in order to derive a series of ranges for the implied per share value of Perfumania ranging from \$0.00 to \$8.01.

No transaction utilized in the precedent transactions analysis is identical to the merger. In evaluating the precedent transactions, Financo made numerous assumptions with respect to the domestic specialty retailing industry's performance and general economic conditions, many of which are beyond the control of Perfumania. Mathematical analysis, such as determining the average, median or range, is not in itself a meaningful method of using comparable transaction data.

*Perfumania Discounted Cash Flow Analysis*

Financo examined the value of Perfumania on a standalone basis, based on projected free cash flow estimates that were derived from financial projections provided by Perfumania management. The free cash flow estimates were generated by applying financial projections for the fiscal year ending January 2013 through the fiscal year ending January 2016.

Financo performed a discounted cash flow analysis to calculate a range of present value for Perfumania using a range of discount rates from 10.3% to 11.7%, determined by Financo in its judgment and experience based on its estimated weighted average cost of capital of Perfumania, a range of perpetuity growth rates from 2.0% to 3.0% and implied Perfumania share prices ranging from \$7.60 to \$15.44.

*Parlux Valuation*

*Parlux Comparable Companies Analysis*

Financo compared Parlux to a group of comparable public fragrance and beauty wholesale companies referred to as the Parlux Comparable Companies. The Parlux Comparable Companies are public companies that Financo deemed comparable to Parlux's limited universe. Financo identified the eight public companies listed below as being comparable to Parlux with respect to their industry sector, operating model, size and profitability. The companies selected had enterprise values between approximately \$24.1 million and \$22.1 billion as of December 16, 2011.

CCA Industries, Inc.

Inter Parfums, Inc.

Elizabeth Arden, Inc.

Physicians Formula Holdings, Inc.

The Estee Lauder Companies Inc.

Revlon, Inc.  
Sensient Technologies Corporation

International Flavors & Fragrances Inc.

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The financial information reviewed by Financo for these companies in the course of this analysis was based on historical financial information available as of December 16, 2011 and market data as of December 16, 2011. For each of the selected comparable companies, Financo performed similar analyses as it did for the Perfumania Comparable Companies in connection with its standalone analyses of Perfumania.

The following table presents the range of multiples reviewed by Financo in its comparable companies analyses with respect to Parlux:

	<b>Comparable Companies</b>
	<b>Absolute Low/Absolute High Range</b>
FTME* January 2012 Estimated Sales Revenue	0.63x - 2.28x
FTME January 2013 Projected Sales Revenue	0.58x - 2.13x
FTME January 2012 Estimated EBITDA	8.1x - 12.9x
FTME January 2013 Projected EBITDA	4.4x - 11.5x

\* FTME is fiscal twelve months ending

Based on the information for the comparable companies, Financo applied a selected range of multiples to corresponding metrics of Parlux in order to derive a range for the implied enterprise value of Parlux of \$64.7 million to \$218.2 million and, when applying a control premium, an implied enterprise value up to \$303.1 million.

None of the comparable companies have characteristics identical to Parlux. In evaluating the comparables, Financo made numerous assumptions with respect to the fragrance and beauty wholesale industry's performance and general economic conditions, many of which are beyond the control of Parlux. Mathematical analysis, such as determining the median, average or range, is not in itself a meaningful method of using comparable company data.

*Parlux Precedent Transactions Analysis*

Financo performed a similar analysis for purpose of its valuation of Parlux as it did in connection with its valuation of Perfumania on a standalone basis. Financo reviewed publicly available information on ten precedent merger and acquisition transactions announced from September 25, 2009 through October 27, 2011 involving companies in the fragrance and beauty wholesale companies industry. Financo considered the following precedent transactions for its analysis:

<b>Announcement Date</b>	<b>Acquiror</b>	<b>Target</b>
October 27, 2011	LG Household & Health Care, Ltd.	VOV Corp.
August 3, 2011	AmorePacific Co.	Annick Goutal SAS
September 27, 2010	Unilever PLC	Alberto-Culver Company
September 27, 2010	PZ Cussons plc	St. Tropez Ltd.
April 28, 2010	Valeant Pharmaceuticals International	VitalScience Corp.
January 14, 2010	Shiseido Company, Limited	Bare Escentuals, Inc.
December 21, 2009	sanofi-aventis	Chattem, Inc.
December 13, 2009	Alberto-Culver Company, (U.K.), Limited	Simple Health & Beauty Group Limited
December 8, 2009	Valeant Canada Ltd.	Laboratoire Dr. Renaud
September 25, 2009	Unilever PLC	Sara Lee Personal Care and European Laundry business



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The following table presents the ranges of multiples reviewed by Financo in its precedent transactions analysis with respect to Parlux:

	<b>Precedent Transactions Absolute Low/Absolute High Range</b>
EV to LTM sales revenue	0.95x - 5.00x
EV to LTM EBITDA	8.4x - 15.2x

Based on the information derived for each of the precedent transactions above, Financo applied a selected range of multiples to corresponding metrics of Parlux in order to derive a range for the implied enterprise value of Parlux of \$73.7 million to \$284.4 million.

No transaction utilized as a precedent in the transaction precedent analysis is identical to the merger. In evaluating the precedent transactions, Financo made numerous assumptions with respect to the fragrance and beauty wholesale industry's performance and general economic conditions, many of which are beyond the control of Parlux. Mathematical analysis, such as determining the average, median or range, is not in itself a meaningful method of using comparable transaction data.

*Parlux Discounted Cash Flow Analysis*

Financo examined the value of Parlux on a standalone basis, based on projected free cash flow estimates with and without synergies that were derived from financial projections provided by Perfumania and Parlux management. The free cash flow estimates were generated by applying financial projections for FTME January 2013 through FTME January 2016.

Financo performed a discounted cash flow analysis to calculate a range of present values for Parlux, both with and without synergies, using a range of discount rates from 16.7% to 19.6%, determined by Financo in its judgment and experience based on its estimated weighted average cost of capital of Parlux, and perpetuity growth rates from 2.0% to 3.0%. Based on these assumptions, for the discounted cash flow analysis without synergies, Financo calculated for Parlux total EVs ranging from \$85.4 million to \$107.9 million. For the discounted cash flow analysis including synergies, Financo calculated for Parlux total EVs ranging from \$140.3 million to \$177.6 million.

*Combined Company Valuation*

*Combined Company Comparable Companies Analysis*

Based on certain information for the comparable companies of each of Perfumania and Parlux, Financo applied a selected range of multiples to corresponding metrics of the Combined Company, including synergies, in order to derive a series of ranges for the implied per share value of the Combined Company ranging from \$9.59 to \$19.99.

None of the comparable companies have characteristics identical to the Combined Company. In evaluating the comparables, Financo made numerous assumptions with respect to the domestic specialty retail industry's performance and general economic conditions, many of which are beyond the control of each of Perfumania and Parlux. Mathematical analysis, such as determining the median, average or range, is not in itself a meaningful method of using comparable company data.

*Combined Company Precedent Transactions Analysis*

Based on certain information derived for the precedent transactions reviewed with regards to each of Perfumania and Parlux, Financo applied a selected range of multiples to corresponding metrics of the Combined Company in order to derive a series of ranges for the implied per share value of the Combined Company ranging from \$5.72 to \$29.62.

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No transaction utilized in the precedent transactions analysis is identical to the merger. In evaluating the precedent transactions, Financo made numerous assumptions with respect to the domestic specialty retailing industry's performance and general economic conditions, many of which are beyond the control of each of Perfumania and Parlux. Mathematical analysis, such as determining the average, median or range, is not in itself a meaningful method of using comparable transaction data.

*Combined Company Discounted Cash Flow Analysis*

Financo examined the value of the Combined Company on a standalone basis, based on projected free cash flow estimates that were derived from financial projections provided by Perfumania management. The free cash flow estimates were generated by applying financial projections from the fiscal year ending January 2013 through the fiscal year ending January 2016.

As with the Parlux Discounted Cash Flow Analysis, Financo performed two discounted cash flow analyses for the Combined Company, one without synergies and one with synergies. Based on a range of implied perpetuity growth rates from 2.0% to 3.0% and a range of discount rates from 9.2% to 10.5%, determined by Financo in its judgment and experience based on its estimated weighted average cost of capital of the Combined Company, Financo calculated for the Combined Company, without synergies, implied pro forma Perfumania share prices ranging from \$14.64 to \$23.01. Based on a range of implied perpetuity growth rates from 2.0% to 3.0% and a range of discount rates from 9.2% to 10.5%, Financo calculated for the Combined Company, with synergies, implied pro forma Perfumania share prices ranging from \$20.24 to \$30.50.

The preparation of a fairness opinion is a complex process involving determinations as to the most appropriate and relevant methods of financial analysis and the application of these methods to the particular circumstances and, therefore, is not necessarily susceptible to partial analysis or summary description. Selecting portions of the analysis or the summary set forth above, without considering the analysis as a whole, could create an incomplete view of the processes underlying the Financo Opinion. In arriving at its fairness determination, Financo considered the results of all these constituent analyses and did not attribute any particular weight to any particular factor or analysis considered by it; rather, Financo made its determination as to fairness on the basis of its experience and professional judgment after considering the results of all such analyses. Certain Financo analyses are based upon forecasts of future results and are not necessarily indicative of actual future results, which may be significantly more or less favorable than suggested by such analyses. The foregoing summary does not purport to be a complete description of the analyses performed by Financo. Additionally, analyses relating to the value of businesses or securities are not appraisals. Accordingly, such analyses and estimates are inherently subject to substantial uncertainty.

In performing its analyses, Financo both made and relied upon assumptions with respect to Perfumania, Parlux, industry performance, general business, economic, market and financial conditions and other matters, many of which are beyond the control of Perfumania and Parlux. The analyses performed by Financo are not necessarily indicative of actual values or actual future results, which may be significantly more or less favorable than suggested by such analyses. Financo's analyses were prepared solely as part of Financo's analysis of whether, as of the date of the Financo Opinion, from a financial point of view, the Aggregate Merger Consideration offered under the merger was fair to Perfumania. Financo's analysis explicitly excluded any opinion on fairness, from a financial point of view, of the Aggregate Merger Consideration to any stockholders of Perfumania who own, or whose affiliates own, a controlling interest in Perfumania or who own, or whose affiliates own, any securities, including Parlux common stock, of Parlux.

Financo was retained by the Perfumania special committee to give a presentation of its analysis to the Perfumania special committee and, separately, provide the Financo Opinion as to the fairness, from a financial point of view, to Perfumania of the Aggregate Merger Consideration to be paid by Perfumania in connection with the merger of Parlux. In the past, Financo has provided investment banking or other financial advisory services to Perfumania and received compensation for rendering such services. No such engagement has occurred in the past two years. Financo received an initial fee of \$125,000 upon engagement, a fee of \$150,000 upon notice by

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Financo that it was prepared to deliver its analysis, and a fee of \$375,000 upon notice by Financo that the Financo Opinion was available for delivery (less the analysis fee of \$150,000 if paid to Financo prior to the delivery of the Financo Opinion). If, after delivery of the analysis or the Financo Opinion, the Perfumania special committee informs Financo that the terms of the proposed transaction materially change and, therefore, it desires an updated analysis and/or opinion, then Perfumania will pay an additional fee of \$75,000 per occurrence. No portion of Financo's fee is contingent upon the consummation of the merger.

***Opinion with respect to the Loans***

Pursuant to a letter agreement dated as of November 18, 2011, Financo was also engaged to provide the Financo Loan Opinion to the Perfumania special committee in connection with the Loans (as defined below). At the meeting of the Perfumania special committee on December 19, 2011, Financo delivered to the Perfumania special committee a presentation, followed by the delivery of the Financo Loan Opinion dated December 23, 2011, stating that, as of such date, and based upon and subject to the various assumptions and limitations set forth in its written opinion, the Loans were fair, from a financial point of view, to Perfumania. For the purposes of the opinion, in determining such fairness, from a financial point of view, Financo's review of the Loans was restricted to the interest rate thereon, the covenants thereto, and the principal and maturity thereof. Financo's analysis explicitly excluded an opinion on fairness, from a financial point of view, of the Loans to any stockholders of Perfumania who own, or whose affiliates own, a controlling interest in Perfumania.

In connection with the merger, Model (A) received a letter (the Note Commitment Letter), pursuant to which the Nussdorf Trusts severally committed to provide or cause to be provided debt financing to Perfumania through Model on the terms and subject to the conditions contained therein, (B) will issue Second Amended and Restated Subordinated Promissory Notes, dated as of the date the merger closes (the Closing), in the aggregate principal amount of the sum of the aggregate unpaid principal balance of the amended and restated notes on the date of Closing plus \$30,000,000 (the Nussdorf Trust Notes) reflecting additional loans to be funded by the Nussdorf Trusts on the date of Closing in an aggregate amount of \$30,000,000 in cash (the Loans), and (C) will contribute, either by way of intercompany loan or dividend, the proceeds of the Loans to Perfumania in order to permit Perfumania to perform its obligations at closing of the merger. Pursuant to the Note Commitment Letter, each Nussdorf Trust Note will provide, among other things, (A) that the principal amount thereof shall be payable in full on April 30, 2015 and (B) that Model shall pay or cause to be paid to the holder of each Nussdorf Trust Note interest on the unpaid principal amount thereof from time to time at a rate per annum equal to the then current Senior Debt Rate (as defined in the Nussdorf Trust Notes) plus two percent (2%) per annum in arrears on the last day of each January, April, July and October and on the Maturity Date (as defined in the Nussdorf Trust Notes) until such Nussdorf Trust Note is paid in full. Payment of interest and principal of each Nussdorf Trust Note shall be subject to the terms of an amended and restated subordination agreement, to be dated the date of Closing, by and among Model, Wells Fargo Bank, as administrative agent for the lenders under Perfumania's senior credit facility, and the Nussdorf Trusts.

The full text of the Financo Loan Opinion, which sets forth assumptions made, matters considered and limitations on the review undertaken in connection with the Financo Loan Opinion, is included in [Annex B](#) to this joint proxy statement prospectus and is incorporated herein by reference. The Financo Loan Opinion is addressed to the Perfumania special committee of the board of directors of Perfumania and relates only to the fairness of the Loans to Perfumania from a financial point of view. This summary of the Financo Loan Opinion is qualified in its entirety by reference to the full text of the Financo Loan Opinion.

In arriving at its opinion, Financo reviewed and analyzed certain selected information (including, but not limited to, the Credit Agreement, dated January 7, 2011, by and among Perfumania, other borrowers and guarantors named therein, Wells Fargo Bank, the lenders party thereto, Bank of America, N.A., Regions Bank, RBS Business Capital, Wells Fargo Capital Finance, LLC and Merrill Lynch, Pierce, Fenner & Smith Incorporated), had discussions with Perfumania management, staff and advisors and made certain assumptions and qualifications, as set forth in the Financo Loan Opinion. For purposes of its analysis, Financo considered, among other things, the financial profile of Perfumania, both current and pro forma, and selected recent financing transactions.

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No transaction utilized in the recent financing transactions analysis is identical to the Loans. In evaluating the recent financing transactions, Financo made numerous assumptions with respect to the domestic specialty retailing industry's performance and general economic conditions, many of which are beyond the control of Perfumania. Mathematical analysis, such as determining the average, median or range, is not in itself a meaningful method of using comparable transaction data.

### **Certain Unaudited Prospective Financial Information**

Neither Perfumania nor Parlux, as a matter of course, make public forecasts or public projections as to future performance, revenues, earnings or other results, and each of them is especially wary of making forecasts for extended periods into the future due to, among other reasons, the unpredictability of the underlying assumptions and estimates. However, in the course of the parties' discussions, Perfumania and Parlux's management prepared prospective financial information to present certain internal projections of financial performance for the respective companies, and they provided these projections to the special independent committees of both companies' boards of directors, the boards, and their respective financial advisors in connection with the financial advisors' financial analyses of, and the directors' consideration of, the proposed merger. These internal projections were updated during the year, each superseding the respective earlier projections.

Perfumania and Parlux are including the prospective financial information discussed below only to provide their respective stockholders with access to certain prospective financial information concerning each company that was provided to the special independent committees, both boards, and their respective financial advisors. The prospective financial information is not included in this joint proxy statement/prospectus in order to influence any Parlux stockholder to vote or to take any other action with respect to the merger, including without limitation any decision by a Parlux stockholder regarding whether or not to seek appraisal rights for shares of Parlux common stock, or to influence any Perfumania shareholder to make any decision regarding either of the proposals to be voted on at the Perfumania special meeting, or for any other purpose, and readers of this joint proxy statement/prospectus are cautioned not to place undue, if any, reliance on the prospective financial information included herein.

The prospective financial information disclosed below was not prepared with a view toward public disclosure, nor with a view toward compliance with the published guidelines of the SEC, the guidelines of the American Institute of Certified Public Accountants for preparation and presentation of financial forecasts, or GAAP. Neither Perfumania's nor Parlux's independent registered public accounting firms, nor any other independent accountants, have compiled, examined, or performed any procedures with respect to the prospective financial information, nor have they expressed any opinion or any other form of assurance on such information or its achievability, and they assume no responsibility for, and disclaim any association with, this prospective financial information.

These internal projections, including the possible post-merger synergies described below, were (i) based on numerous variables and assumptions that are inherently uncertain reflecting in many respects the subjective judgment of the respective managements of Perfumania and Parlux, (ii) and subject to change and (iii) may be subject to factors beyond the companies' control. Actual circumstances may differ materially from those assumed for purposes of these internal projections. These internal projections, including the possible post-merger synergies, are forward-looking statements inherently subject to the general risks that Perfumania and Parlux face in their businesses, including those discussed in Risk Factors beginning on page 32. We cannot predict the actual integration costs or savings and other potential synergies, if any, that will be achieved when the companies are combined. The inclusion of this prospective financial information in this joint proxy statement/prospectus should not be regarded as an indication that any of Perfumania, Parlux or any of their respective affiliates, advisors, officers, directors, or representatives considered the possible post-merger synergies and other internal projections as anything but too speculative to be material or predictive of future events, and this information should not be relied upon as such. Important factors that may affect actual results and cause the internally projected results and potential synergies not to be achieved include, but are not limited to, the factors described in

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Risk Factors and in Cautionary Statement Regarding Forward-Looking Statements on page 48. The prospective financial information should be read together with the financial statements included in this joint proxy statement/prospectus beginning at page F-1 and the filings made by Perfumania and Parlux with the SEC.

The prospective financial information in this joint proxy statement/prospectus does not take into account any conditions, circumstances or events occurring since the dates it was prepared, including the transactions contemplated by the merger agreement. Neither Perfumania nor Parlux intends to update or revise the prospective financial information to reflect any such intervening conditions, circumstances or events or to reflect the occurrence of future events (including any failure of the merger to occur), even in the event that any or all of the assumptions underlying the prospective financial information are no longer appropriate.

Set forth below is prospective financial information for the individual companies on a standalone basis and for the combined company that Perfumania and Parlux prepared and provided to the boards of directors of both companies, their independent committees and their respective financial advisors.

**Perfumania Standalone Projections**

	<b>Twelve Months Ending January,</b>		
	<b>2013</b>	<b>2014</b>	<b>2015</b>
	<i>(in thousands, except per share data)</i>		
Net sales	\$ 528,846	\$ 549,267	\$ 569,828
Gross profit	204,613	214,250	224,224
Operating income	24,113	29,249	34,590
Net income	10,203	13,404	16,828
EBITDA	32,113	37,583	43,218
Earnings per share(1)	\$ 1.14	\$ 1.49	\$ 1.88

**Parlux Standalone Projections**

	<b>Twelve Months Ending January,</b>		
	<b>2013</b>	<b>2014</b>	<b>2015</b>
	<i>(in thousands, except per share data)</i>		
Net sales	\$ 177,080	\$ 195,219	\$ 208,638
Gross profit	103,478	112,084	118,722
Operating income	17,128	18,407	19,734
Net income	10,116	11,072	12,184
EBITDA	19,533	21,257	22,531
Earnings per share(1)	\$ 0.49	\$ 0.53	\$ 0.59

**Combined Company Projections**

	<b>Twelve Months Ending January,</b>		
	<b>2013</b>	<b>2014</b>	<b>2015</b>
	<i>(in thousands, except per share data)</i>		
Net sales	\$ 663,805	\$ 705,486	\$ 730,466
Gross profit	304,213	331,021	347,765
Operating income	40,363	64,343	71,143
Net income	19,440	34,540	39,030
EBITDA	50,769	75,527	82,568
Earnings per share(1)	\$ 1.28	\$ 2.27	\$ 2.57

(1)

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Assumes 8,967,000 outstanding Perfumania shares, 20,769,000 outstanding Parlux shares, and 15,186,000 outstanding combined company shares for each period.

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While presented with numeric specificity, the foregoing financial projections reflect numerous assumptions, many of which are highly subjective, made by Perfumania and Parlux managements in light of business, industry and market conditions at the respective times of their preparation. These include, but are not limited to, the following principal assumptions:

With respect to Perfumania:

Compared with the fiscal year ending January 2012, Internet sales in each year were assumed to be approximately 15-20% higher and other retail sales in each year approximately 2%-3% higher, with sales margins assumed to be approximately 2% higher. These estimates assume a level number of retail stores, a modest increase in comparable store sales, a higher volume of internet sales driven by the new perfumania.com website, favorable changes in product mix, and anticipated promotional activity.

Compared with the fiscal year ending January 2012, wholesale sales were assumed to be approximately 2%-3% higher, with margins assumed to be unchanged.

Capital expenditures are assumed to be 20-30% higher in the fiscal years ending January 2013 and 2014 compared with the fiscal year ending January 2012 due to projected investments in upgrading Perfumania's point of sale and back office support systems such as warehousing, allocations and accounting.

Selling, general and administrative expenses for all three years were assumed to be approximately level with the fiscal year ending January 2012 with those expenses relative to sales increasing due to the projected increases in sales volume.

Commencing interest payments on the related party debt, partially offset by a moderate decline in interest expense on the senior credit facility due to an anticipated decrease in average monthly borrowings under the revolving line of credit.

With respect to Parlux:

Sales forecasts reflect internal expectations for each brand and forecasts from Perfumania and Jacavi and do not assume signing any new license through the Parlux fiscal year ending March 31, 2014. Gross sales projections were forecasted to increase 22% and 14% during the Parlux fiscal years ending March 31, 2013 and 2014, respectively. The 5% increase in gross sales forecast for the Parlux fiscal year ending March 31, 2015 assumes one new license being signed.

Sales to domestic customers (primarily department stores) anticipate a normalized 12.5% return based upon a normal mix of basic and promotional gift set sales. International sales and sales to Perfumania and Jacavi are not subject to returns.

Cost of goods was projected based upon forecasted sales and relate to established pricing structures that take into consideration expenses borne by the customer, volume of business, payment terms, returns and other applicable information consistent with pricing regulations.

General and administrative expenses were forecast assuming the existing office and basic staff could absorb the anticipated increased volume of sales with a relatively minor increase in variable expenses and inflation.

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Depreciation and amortization expenses were increased based upon additional capital expenditure spending primarily for molds for components replacement and required for planned new products.

Interest expense assumes no borrowing on the existing line of credit and that payments will be made as required on any unused line of credit.

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Income taxes were calculated as 38% of income before income taxes.

Accounts receivable assume collections from customers based upon stated terms, which range from cash in advance to 90 days (an overall average approximating 60 days). The provisions for non collectibles were forecast based upon estimated returns and expected deductions from remittances by customers.

Inventories projections are based upon anticipated sales levels and sales mix (basic product sales versus promotional products). The projections take into account the lead time required to acquire certain raw materials and components (in certain cases up to 180 days) which translates into requiring a three to six months supply of certain items to ensure timely production.

Accounts payable terms were projected assuming 30 days for non inventory purchases and 45 days for inventory items, including gifts with purchase and other promotional items.

With respect to the combined company:

Assumes that synergies from the vertical integration of Perfumania and Parlux will result in gross margin of the combined company, compared with the projected gross margin of Perfumania on a standalone basis, that is 1.5% higher in the twelve months ending January 2013 and 3.0% higher in each of the years ending January 2014 and 2015.

Assumes annual operating expense savings due to synergies of (a) approximately \$3 million in the twelve months ending January 2013, including approximately \$2 million of selling expense and \$1 million of professional fees, distribution costs and other costs, and (b) approximately \$12 million in each of the twelve-month periods ending January 2014 and 2015, including approximately \$5.6 million of personnel-related expense, \$4.3 million of selling expense, \$1 million of professional fees, and \$1.1 million of distribution and other costs.

There can be no assurance that the assumptions made in preparing these internal financial projections will prove accurate. All such assumptions and potential synergies are subject to the important factors that may affect actual results described in Risk Factors and in Cautionary Statement Regarding Forward-Looking Statements and other factors, and the other considerations described above. In addition, the prospective financial information set forth above does not take into account any of the costs of the transactions contemplated by the merger agreement, including the costs of the merger, nor the costs of and increased interest expense resulting from the borrowings to finance the merger or any integration costs following the merger.

EBITDA consists of net income excluding income tax provision, interest expense and depreciation and amortization. Projected EBITDA for standalone Perfumania and Parlux, and for the combined company, for the respective twelve-month periods is reconciled to projected net income as follows:

**Perfumania**

	<b>Twelve Months Ending January,</b>		
	<b>2013</b>	<b>2014</b>	<b>2015</b>
	<i>(in thousands)</i>		
EBITDA	\$ 32,113	\$ 37,583	\$ 43,218
Interest expense	7,655	7,630	7,536
Income taxes	6,254	8,215	10,226
Depreciation and amortization expense	8,001	8,334	8,628
Net Income	\$ 10,203	\$ 13,404	\$ 16,828



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	Twelve Months Ending January,		
	2013	2014	2015
	<i>(in thousands)</i>		
EBITDA	\$ 19,533	\$ 21,257	\$ 22,531
Interest expense	815	553	
Income taxes	6,197	6,782	7,467
Depreciation and amortization expense	2,405	2,850	2,880
Net Income	\$ 10,116	\$ 11,072	\$ 12,184

**Combined Company**

	Twelve Months Ending January,		
	2013	2014	2015
	<i>(in thousands)</i>		
EBITDA	\$ 50,769	\$ 75,527	\$ 82,568
Interest expense	9,010	8,637	8,197
Income taxes	11,912	21,166	23,833
Depreciation and amortization expense	10,407	11,184	11,508
Net Income	\$ 19,440	\$ 34,540	\$ 39,030

EBITDA has limitations, including that it:

is not necessarily comparable to other similarly titled financial measures of other companies due to the potential inconsistencies in the method of calculation;

does not reflect actual cash expenditures, future requirements for capital expenditures or contractual commitments;

does not reflect the significant interest expense or cash requirements necessary to service interest or principal payments on Perfumania's, Parlux's or the combined company's debt;

does not reflect any cash income taxes that Perfumania, Parlux or the combined company may be required to pay; and

although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future and these measures do not reflect any cash requirements for such replacements.

Therefore, EBITDA should not be considered either in isolation or as a substitute for analysis of actual results of operations as reported in accordance with GAAP. Furthermore, EBITDA should not be considered as an alternative to operating income (loss) or net income (loss) as a measure of operating performance nor to net cash provided by (or used in) operating, investing or financing activities, or as a measure of the ability of any of Perfumania, Parlux or the combined company to meet cash needs.

**Interests of Certain Persons in the Merger**

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In considering the recommendation of Parlux's board of directors with respect to the merger agreement, Parlux stockholders should be aware that some of Parlux's executive officers and directors and affiliates have financial interests in the merger that are different from, or in addition to, those of Parlux's stockholders generally including the fact that all of the members of the Parlux board of directors will become members of Perfumania's board in connection with the consummation of the merger. The Parlux board of directors was aware of these interests and considered them, among other matters, in negotiating and approving the merger agreement and

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making its recommendation that the Parlux stockholders approve and adopt the merger agreement. For purposes of all of the Parlux arrangements and plans described below, the completion of the transactions contemplated by the merger agreement will constitute a change in control.

### ***Perfumania Board of Directors***

In accordance with the merger agreement, all of the directors of Parlux serving as directors of Parlux immediately before the effective time of the merger will be appointed to the board of directors of Perfumania at the effective time of the merger. The current members of the Parlux board of directors, who are also expected to join the Perfumania board, are as follows: Frederick E. Purches, Anthony D. Agostino, Esther Egozi Choukroun, Glenn Gopman and Robert Mitzman. For additional information on these individuals see [The Parlux Special Meeting About the Parlux Directors](#) on page 144.

### ***Parlux Employment Arrangements***

#### ***Frederick E. Purches***

On January 25, 2010, the Parlux Board of Directors unanimously elected Mr. Purches to the Board of Directors, and appointed him as the Chairman of the Board of Directors. Also, on January 25, 2010, the Board of Directors appointed Mr. Purches as Chief Executive Officer of Parlux on an interim basis.

On November 8, 2010, Parlux entered into an executive employment agreement with Mr. Purches. This employment agreement provided for a term beginning on November 8, 2010 and ending eleven months thereafter. Pursuant to the employment agreement, Mr. Purches will receive an annual base salary of \$500,000. Mr. Purches will be entitled to participate in Parlux's executive bonus plan. Mr. Purches will be eligible for and may participate in any benefits and perquisites available to other executive officers, including any group health, dental, disability, life insurance benefit plans, car allowance or other form of executive benefit plan or program of Parlux existing from time to time. Parlux recognized that Mr. Purches resides in New York and will not be relocating his residence. Accordingly, the employment agreement provides that Parlux will reimburse Mr. Purches for all reasonable and documented travel expenses and may consider renting an apartment or extended stay accommodations in Fort Lauderdale at its expense for Mr. Purches under certain circumstances.

On May 18, 2011, Parlux entered into an amendment to Mr. Purches' executive employment agreement, which amends the term of his employment to continue through March 31, 2012, unless terminated at an earlier date in accordance with the agreement. In connection with this amendment to his executive employment agreement, Mr. Purches was granted an option, which vested immediately, to purchase 50,000 shares of Parlux common stock under the Parlux 2007 Stock Incentive Plan.

#### ***Frank A. Buttacavoli***

On June 5, 2009, Parlux entered into an employment agreement with Mr. Buttacavoli. The new employment agreement replaced an agreement dated June 1, 2005, which would have expired under its terms on March 31, 2012. The new employment agreement provides for an initial term of three years ending on March 31, 2012 and may be extended for two consecutive one year periods. Pursuant to the new employment agreement, Mr. Buttacavoli will continue to receive his then current annual base salary of \$400,000. Mr. Buttacavoli will be eligible to receive an annual bonus of up to 50% of his annual base salary based on Parlux's achievement of certain financial measures and management objectives as determined by the Parlux compensation committee. Also, Mr. Buttacavoli will be eligible for and may participate in any benefits and perquisites available to other executive officers, including any group health, dental, disability, life insurance benefit plans, car allowance or other form of executive benefit plan or program of Parlux existing from time to time. Under the terms of the new employment agreement, Mr. Buttacavoli is subject to certain restrictive covenants, including confidentiality, non-solicitation and non-competition covenants. In connection with the new employment agreement, Mr. Buttacavoli was granted an option to purchase 100,000 shares of Parlux common stock under the 2007 Stock Incentive Plan.

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On March 31, 2010, Parlux entered into an amendment to Mr. Buttacavoli's employment agreement, which provides for an annual base salary of \$360,000 from April 1, 2010, through March 31, 2011, and an annual base salary of \$400,000 from April 1, 2011, through March 31, 2012. Mr. Buttacavoli volunteered to reduce his annual base salary by 10% for the period ended March 31, 2011, to assist Parlux in its cost reduction initiatives. All other terms under Mr. Buttacavoli's employment agreement remained unchanged.

On March 31, 2011, Parlux entered into a second amendment to Mr. Buttacavoli's employment agreement, which amends the termination payment adjustment, termination benefits and condition to severance. The second amendment provides termination payments in an aggregate amount equal to one-half Mr. Buttacavoli's annual base salary in effect at the time of such termination. Parlux shall continue to provide Mr. Buttacavoli with executive benefits for a period of twelve months following the date of such termination, except the executive benefits shall cease should Mr. Buttacavoli commence employment with another employer during this twelve month period. On September 12, 2011, Mr. Buttacavoli and the Parlux compensation committee agreed to exercise the first one-year extension option under this employment agreement.

*Raymond J. Balsys*

On August 1, 2011, Parlux entered into an employment agreement with Raymond J. Balsys, its Chief Financial Officer. This employment agreement provides for a term beginning on August 1, 2011 and ending on July 31, 2012. Pursuant to the employment agreement, Mr. Balsys will receive an annual base salary of \$262,500. Mr. Balsys will be eligible to receive an annual bonus of up to 50% of his annual base salary based on Parlux's achievement of certain financial measures and management objectives as determined by Parlux's compensation committee. Mr. Balsys will be eligible for and may participate in any benefits and perquisites available to other executive officers, including any group health, dental, disability, life insurance benefit plans, car allowance or other form of executive benefit plan or program of Parlux existing from time to time. On August 1, 2011, Mr. Balsys was granted an option to purchase 25,000 shares of Parlux common stock at an exercise price of \$2.99 (the closing price on the grant date), pursuant to the Parlux 2007 Stock Incentive Plan. The option will vest with respect to 12,500 shares immediately and with respect to 12,500 shares on July 31, 2012.

For further information regarding payments to Parlux officers upon termination, see "The Parlux Special Meeting" Parlux Proposal 2: Advisory Vote on Certain Compensation Payable by Parlux to Executive Officers in Connection with the Merger beginning on page 140.

***Equity Compensation Awards***

At the effective time of the merger, each outstanding option to purchase shares of Parlux common stock will be converted into an option to purchase shares of Perfumania common stock as follows:

the number of shares of Perfumania common stock subject to the converted option will equal the number of shares of Parlux common stock subject to the original option multiplied by the equity award exchange ratio, rounded down to the nearest whole share;

the per share exercise price for Perfumania common stock will equal the per share exercise price of the Parlux option immediately before the effective time of the merger divided by the equity award exchange ratio, rounded up to the nearest whole cent;

the vesting schedule of each option will be accelerated by one year; and

if the holder's employment is terminated within one year of the effective time of the merger without cause or good reason, the option will vest in full and the exercisability of the option will continue for 90 days following termination;

Except as set forth above, each converted Perfumania option generally will be subject to the same terms and conditions as were applicable to the corresponding Parlux option immediately before the effective time of the merger. Under the terms of the merger agreement, "equity award exchange ratio" means: the equity award applicable to all stock consideration (0.533333).

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Glenn Gopman, a director of Parlux, currently holds warrants to purchase 10,000 shares of Parlux common stock, which we refer to as the Gopman warrant. Upon completion of the merger, the outstanding Gopman warrant will be automatically converted into a warrant to purchase a number of shares of Perfumania common stock equal to the product of (i) the number of shares of Parlux common stock subject to the Gopman warrant and (ii) the equity award exchange ratio, rounded down to the nearest whole share. The per share exercise price of the Gopman warrant will be equal to (i) the per share exercise price of Parlux common stock at which the Gopman warrant was exercisable immediately before the effective time of the merger, divided by (ii) the equity award exchange ratio, rounded up to the nearest whole cent. Perfumania has agreed to include the shares issued upon exercise of the Gopman warrant in the resale registration statement it files to register the shares underlying the licensor warrants and the 300,000 shares that will be issued to Artistic Brands. Except as set forth above, the Gopman warrant will be subject to the same terms and conditions as were applicable to the Gopman warrant before the effective time of the merger.

Based on Parlux directors and executive officers equity compensation holdings as of December 31, 2011, (i) the number of shares of Parlux common stock relating to options held by each of Messrs. Purches, Balsys, Buttacavoli and the four Parlux non-employee directors as a group that would vest and become exercisable as of the effective time of the merger (assuming an effective date of March 31, 2012 or later) is: 0; 12,500; 0 and 0 (in the aggregate), respectively and (ii) the number of shares of Parlux common stock underlying a warrant held by Mr. Gopman that will be converted into the right to receive a Perfumania warrant at the effective time of the merger is 10,000.

### ***Director and Officer Indemnification and Insurance***

Parlux directors and officers are entitled to continued indemnification and insurance coverage under the merger agreement for a period of six years after the merger is completed.

For a more complete description, please see *The Merger Agreement Indemnification and Insurance* on page 131.

### ***Nussdorf Trust Loans***

Glenn Nussdorf, who owns approximately 9.9% of the outstanding shares of Parlux common stock, is also a principal stockholder of Perfumania, as described in *Security Ownership of Certain Beneficial Owners and Management Ownership of Perfumania before the Merger* on page 223. Family trusts related to Mr. Nussdorf and his siblings have committed to provide debt financing to enable Perfumania to complete the merger, as described in detail in *Perfumania's Financing Arrangements* on page 135.

### ***Ownership of Common Stock of the Combined Company After the Merger***

Upon completion of the merger and Perfumania's issuance of 300,000 new shares to Artistic Brands under the Proposal Agreement, Perfumania and Parlux expect that former Parlux stockholders will own approximately 40% of the outstanding shares of Perfumania common stock and current Perfumania stockholders will own approximately 60% of the outstanding shares of Perfumania common stock, or approximately 49% and 51%, respectively, measured on a fully-diluted basis as of December 31, 2011. As used in the calculation of Perfumania stockholder and Parlux stockholder ownership, fully-diluted means the number of shares of common stock outstanding, plus the number of shares of common stock issuable upon conversion or exercise, as applicable, of outstanding stock options, warrants and other securities exercisable or convertible into shares of Perfumania common stock but excludes the warrants to purchase 1,599,999 shares of Perfumania common stock that will be issued to Artistic Brands or its designee upon execution of a license and sublicense agreement among Perfumania, Artistic Brands and S. Carter Enterprises, LLC.

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### **Regulatory Approvals Required for the Merger**

#### ***United States Antitrust Laws***

Under the HSR Act, the merger may not be completed until notifications have been given to the U.S. Federal Trade Commission, which we refer to in this joint proxy statement/prospectus as the *FTC*, and the U.S. Department of Justice and the specified waiting period has ended. The merger agreement requires that the parties each use their reasonable best efforts to cooperate in the filing of the HSR notifications and in connection with any request for additional information and documents and to promptly take reasonable actions to respond to inquiries from the Department of Justice or the *FTC* regarding the legality of the merger under the antitrust laws. Perfumania and Parlux each filed notifications with the *FTC* and the Department of Justice on January 9, 2012, and the waiting period expired on February 8, 2012. There can be no assurance, notwithstanding the efforts of Perfumania and Parlux, that no injunction or other order, regulation or ruling will be issued prohibiting the completion of the merger substantially on the terms contemplated by the merger agreement.

At any time before the effective time of the merger, the Department of Justice or the *FTC* can challenge the merger and take any action under the antitrust laws as either deems necessary or desirable in the public interest. The Department of Justice and the *FTC* may also take such action after the effective time of the merger. Private parties and state attorneys general may also bring legal action under federal or state antitrust laws under certain circumstances.

In fulfilling the obligation to use their reasonable best efforts to resolve any regulatory objections to or issues related to the merger, Perfumania and Parlux may agree to terms and conditions not contemplated on the date hereof. Any decision to accept additional terms and conditions would be made by the applicable board or boards of directors depending on the facts and circumstances existing at the time. Those facts and circumstances may be different from the facts and circumstances existing at the time the parties entered into the merger agreement or at the time of the special meeting and could be more or less favorable to Parlux, or its stockholders or Perfumania. No Perfumania stockholder approval or Parlux stockholder approval is expected to be required or sought for any such decision unless such decision would result in a material change in the terms of the merger to Perfumania stockholders or Parlux stockholders, in which case, proxies would be resolicited from the Perfumania stockholders and Parlux stockholders, as applicable.

### **Restrictions on Sales of Shares of Perfumania Securities Received in the Merger**

Shares of Perfumania common stock issued in the merger to Parlux stockholders in exchange for their shares of Parlux common stock will not be subject to any restrictions on transfer arising under the Securities Act or the Securities Exchange Act of 1934, as amended, which we refer to in this joint proxy statement/prospectus as the *Exchange Act*, except for shares of Perfumania common stock issued to any Parlux stockholder who may be deemed to be an *affiliate* of Perfumania for purposes of Rule 144 under the Securities Act after the completion of the merger. Persons who may be deemed to be *affiliates* include individuals or entities that control, are controlled by, or are under common control with, Perfumania and may include the executive officers, directors and significant stockholders of Perfumania, such as the Parlux directors who will join the Perfumania board of directors upon the completion of the merger. The 300,000 shares of Perfumania common stock issued to Artistic Brands as a private placement pursuant to the Proposal Agreement will be subject to restrictions on transfer under the Securities Act. This joint proxy statement/prospectus does not cover resales of Perfumania common stock received by any person upon the completion of the merger, and no person is authorized to make any use of this joint proxy statement/prospectus in connection with any resale.

### **Listing of Perfumania Common Stock Issued in the Merger**

Before the completion of the merger, Perfumania has agreed to use its best efforts to cause the shares of Perfumania common stock to be issued in the merger to be authorized for listing on Nasdaq, subject to official notice of issuance.



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### **Delisting of Parlux Common Stock**

Upon completion of the merger, the Parlux common stock currently listed on Nasdaq will cease to be listed and traded on Nasdaq and will be deregistered under the Exchange Act.

### **Accounting Treatment**

Perfumania will account for the merger under the acquisition method of accounting, as prescribed in Accounting Standards Codification 805, Business Combinations, for business combinations under GAAP with Perfumania being deemed to have acquired Parlux. This means that the assets and liabilities of Parlux will be recorded, as of the completion of the merger, at their fair values and added to those of Perfumania, including an amount for goodwill representing the difference between the purchase price and fair value of the identifiable net assets. Financial statements of Perfumania issued after the merger will reflect only the operations of Parlux's business after the merger and will not be restated retroactively to reflect the historical financial position or results of operations of Parlux.

All unaudited pro forma combined financial information contained in this joint proxy statement/prospectus was prepared using the acquisition method of accounting for business combinations. The final allocation of the purchase price will be determined after the merger is completed and after completion of an analysis to determine the fair value of the assets and liabilities of Parlux's business. Accordingly, the final acquisition accounting adjustments may be materially different from the unaudited pro forma adjustments. Any decrease in the fair value of the assets or increase in the fair value of the liabilities of Parlux's business as compared to the unaudited pro forma combined financial information included in this joint proxy statement/prospectus will have the effect of increasing the amount of the purchase price allocable to goodwill.

### **Appraisal Rights**

Under the merger agreement, holders of shares of Parlux common stock may seek appraisal of their shares in accordance with Section 262 of the DGCL. Parlux stockholders who seek appraisal and comply with the applicable requirements of the DGCL will receive, in lieu of the merger consideration, a cash payment for the fair value of their shares of Parlux common stock as determined by the Delaware Court of Chancery, which we refer to as the Court of Chancery in this joint proxy statement/prospectus, following an appraisal proceeding. Such stockholders will not know the appraised fair value at the time they must elect whether to seek appraisal. The appraised value of the shares will not include any value arising from the merger.

The following summary of the provisions of Section 262 of the DGCL is not a complete statement of the provisions of that section and is qualified in its entirety by reference to the full text of Section 262 of the DGCL, a copy of which is attached as [Annex E](#) to this joint proxy statement/prospectus and is incorporated into this summary by reference.

If a holder of shares of Parlux common stock wishes to seek appraisal in connection with the merger, (1) the holder must not vote in favor of the approval and adoption of the merger agreement, (2) must continually be the holder of record of such shares of Parlux common stock through the effective time of the merger and (3) must meet the conditions described below. Notwithstanding the foregoing, a holder of shares of Parlux common stock may complete an election form regarding which form of consideration will be received in connection with the merger, and such election will have no impact on the holder's appraisal rights under Delaware law.

Under Section 262 of the DGCL, Parlux is required to notify each of its stockholders entitled to appraisal rights that appraisal rights are available at least 20 days before the special meeting of stockholders. This joint proxy statement/prospectus constitutes Parlux's notice to holders of Parlux common stock of their right to exercise appraisal rights. Failure to comply with the procedures set forth in Section 262 of the DGCL in a timely and proper manner will result in the loss of appraisal rights.

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ALL REFERENCES IN THIS SUMMARY AND IN SECTION 262 OF THE DGCL TO A STOCKHOLDER OR TO A HOLDER OF SHARES OF PARLUX COMMON STOCK ARE REFERENCES TO THE RECORD HOLDERS OF PARLUX COMMON STOCK. A PERSON HAVING A BENEFICIAL INTEREST IN PARLUX COMMON STOCK HELD OF RECORD IN THE NAME OF ANOTHER PERSON, SUCH AS A BROKER OR NOMINEE, MUST ACT PROMPTLY TO CAUSE THE RECORD HOLDER TO FOLLOW THE STEPS SUMMARIZED BELOW PROPERLY AND IN A TIMELY MANNER TO PERFECT THE HOLDER'S APPRAISAL RIGHTS.

Because a duly executed proxy that does not contain voting instructions will, unless revoked, be voted for the approval and adoption of the merger agreement, a holder of shares of Parlux common stock who votes by proxy and who wishes to exercise appraisal rights must vote against the approval and adoption of the merger agreement or abstain from voting on the approval and adoption of the merger agreement. A vote against the approval and adoption of the merger agreement or an abstention will not constitute a demand for appraisal. Holders of Parlux common stock wishing to exercise the right to dissent from the transaction and seek an appraisal of their shares must take the following actions:

not vote in favor of the approval and adoption of the merger agreement, or vote against the approval and adoption of the merger agreement or abstain from voting;

file a written notice with Parlux of their intention to demand rights of appraisal of their shares before the Parlux special meeting;

follow the procedures set forth in Section 262 of the DGCL; and

not accept the general merger consideration.

Voting for the approval and adoption of the merger agreement will constitute a waiver of your appraisal rights. A PARLUX STOCKHOLDER WHO ELECTS TO EXERCISE APPRAISAL RIGHTS UNDER SECTION 262 OF THE DGCL MUST MAIL OR DELIVER, BEFORE THE MERGER AGREEMENT IS VOTED UPON AT THE PARLUX SPECIAL MEETING, A WRITTEN DEMAND TO: PARLUX FRAGRANCES, INC., ATTENTION: CORPORATE SECRETARY, 5900 NORTH ANDREWS AVENUE, SUITE 500, FORT LAUDERDALE, FLORIDA 33309. A demand for appraisal must be executed by or on behalf of the holder of record and must reasonably inform Parlux of the identity of the stockholder of record. The demand must also state that the Parlux stockholder intends to demand appraisal of the holder's Parlux common stock in connection with the merger. If the shares of Parlux common stock are owned of record by more than one person, as in a joint tenancy and tenancy in common, the demand must be executed by or for all joint owners. An authorized agent, including an agent for two or more joint owners, may execute the demand for appraisal for a stockholder of record; however, the agent must identify the record owner or owners and expressly disclose the fact that, in executing the demand, the agent is agent for the owner or owners.

The shares of Parlux common stock with respect to which holders have perfected their appraisal rights in accordance with Section 262 of the DGCL and have not effectively withdrawn or lost their appraisal rights are referred to in this joint proxy statement/prospectus as the dissenting shares.

Within ten days after the effective date of the merger, the surviving corporation must mail a notice to all former Parlux stockholders who filed a written notice of their intention to exercise appraisal rights in compliance with Section 262 of the DGCL notifying those former Parlux stockholders of the effective date of the merger.

Within 120 days after the date the merger becomes effective, but not thereafter, the surviving corporation or any former holder of shares of Parlux common stock who has complied with Section 262 of the DGCL and is entitled to appraisal rights under Section 262 of the DGCL may file a petition in the Court of Chancery with a copy served on the surviving corporation in the case of a petition filed by a former Parlux stockholder, demanding a determination of the fair value of the Parlux common stock of all such Parlux stockholders. The surviving corporation will have no obligation to file a petition, and the surviving corporation has no present intention to cause such a petition to be filed. Accordingly, it is the obligation of Parlux stockholders seeking appraisal rights to initiate all necessary action to perfect appraisal rights within the time prescribed in Section 262 of the DGCL.

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Within 120 days after the merger becomes effective, any holder of shares of Parlux common stock who has complied with the requirements for exercise of appraisal rights under Section 262 of the DGCL will be entitled, upon written request, to receive from the surviving corporation, a statement setting forth the aggregate number of shares of Parlux common stock not voted in favor of the approval and adoption of the merger agreement and with respect to which demands for appraisal have been received and the total number of holders of such shares of Parlux common stock. If a holder of shares of Parlux common stock timely files a petition for an appraisal, the Court of Chancery is empowered to conduct a hearing on this petition to determine those holders who have complied with Section 262 of the DGCL and who have become entitled to appraisal rights thereunder. The Court of Chancery may require the holders of shares of Parlux common stock who demanded appraisal of their shares to submit their stock certificates to the Register in Chancery of the Court of Chancery for notation of the pending appraisal proceeding. If any Parlux stockholder fails to comply with its direction, the Court of Chancery may dismiss the proceedings as to such stockholder.

After determining the holders entitled to appraisal, the Court of Chancery will appraise the fair value of the shares of Parlux common stock held by such holders, exclusive of any element of value arising from the accomplishment or expectation of the transaction, together with a fair rate of interest, if any, to be paid upon the amount determined to be the fair value. Parlux stockholders considering seeking appraisal should be aware that the fair value of shares of Parlux common stock, as determined in an appraisal proceeding under Section 262 of the DGCL, could be more than, the same as or less than the value of the merger consideration they would receive under the merger agreement if they did not seek appraisal of their shares of Parlux common stock, and that investment banking opinions as to the fairness from a financial point of view of the consideration payable in a sale transaction are not opinions as to fair value under Section 262 of the DGCL. Additionally, Parlux stockholders considering seeking appraisal should be aware there can be no certainty as to the time required for such proceedings.

The Court of Chancery may determine the cost of the appraisal action and may allocate the costs among the parties as the court deems equitable. However, costs do not include attorneys' and expert witness fees. Each party must bear its own expenses of the proceeding, although the court may order that all or a portion of the expenses incurred by any stockholder in connection with an appraisal, including, without limitation, reasonable attorneys' fees and the fees and expenses of experts utilized in the appraisal proceeding, be charged pro rata against the value of all of the shares of Parlux common stock entitled to an appraisal.

Any holder of shares of Parlux common stock who duly demands appraisal in compliance with Section 262 of the DGCL will not, after the date the merger becomes effective, be entitled to vote its shares of Parlux common stock for any purpose or be entitled to the payment of dividends or other distributions on those shares other than dividends or other distributions payable to holders of record as of a record date before the effective date of the merger.

If any Parlux stockholder who demands appraisal of shares of Parlux common stock under Section 262 of the DGCL fails to perfect, or effectively withdraws or loses, its right to appraisal, the shares of such stockholder will be converted into the right to receive the merger consideration under the merger agreement, without interest.

A Parlux stockholder will lose the right to appraisal if such stockholder does not file a petition for appraisal within 120 days after the date the merger becomes effective, or if such holder delivers to Parlux a written withdrawal of a demand for appraisal and an acceptance of the merger consideration. However, any attempt to withdraw a demand for appraisal made more than 60 days after the date the merger becomes effective will require the written approval of Parlux and, once a petition for appraisal is filed, an appraisal proceeding may not be dismissed as to any Parlux stockholder absent court approval. Furthermore, dissenting shares lose their status as dissenting shares if:

the transaction is abandoned; or

the holder of such shares fails to make a timely written demand for appraisal.

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Failure to follow the procedures required by Section 262 of the DGCL for perfecting appraisal rights is likely to result in the loss of appraisal rights. If a holder of dissenting shares withdraws its demand for appraisal or has its appraisal rights terminated as described above, such holder will only be entitled to receive the merger consideration for those shares pursuant to the terms of the merger agreement.

Appraisal rights are available only to the record holders of shares. If you wish to exercise appraisal rights but have a beneficial interest in shares held of record by or in the name of another person, such as a broker, bank or nominee, you should act promptly to cause the record holder to follow the procedures set forth in Section 262 of DGCL to perfect your appraisal rights.

**In view of the complexity of Section 262 of the DGCL, Parlux stockholders who may wish to dissent from the merger and pursue appraisal rights should contact their legal advisors.**

## **Litigation Related to the Merger**

Following the announcement of the merger agreement, 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 complaint names Parlux, the individual members of the Parlux board of directors, Perfumania and Merger Sub as defendants. 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 Perfumania, 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, Perfumania and Merger Sub 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 Perfumania, 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 Perfumania 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 Independent 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 Perfumania'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

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stockholder of Parlux. The *Dias* action alleges the same claims and operative facts as the *Anderson* action, and requests similar relief. On February 15, 2012, the Court of Chancery granted the Plaintiff's Motion for Expedited Proceeding in the *Dias* action and set March 23, 2012 as the hearing date for any Motion for a Preliminary Injunction that the plaintiff may file. On February 15, 2012, the defendants filed a Motion to Stay the *Dias* action. That motion remains pending before the Chancery Court. In the meantime, discovery has commenced.

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. All parties have filed responses to the motion to consolidate, which will be heard by the court on February 24, 2012.

The defendants deny all allegations of wrongdoing and intend to defend the lawsuits vigorously.

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**MATERIAL U.S. FEDERAL INCOME TAX CONSEQUENCES OF THE MERGER**

The following general discussion sets forth the anticipated material United States federal income tax consequences of the merger to U.S. holders (as defined below) of Parlux common stock that exchange their shares of Parlux common stock for cash, shares of Perfumania common stock, or a mixture of shares of Perfumania common stock and cash in the merger. This discussion does not address any tax consequences arising under the laws of any state, local or foreign jurisdiction, or under any United States federal laws other than those pertaining to income tax. This discussion is based upon the Internal Revenue Code, the regulations promulgated under the Code and court and administrative rulings and decisions, all as in effect on the date of this joint proxy statement/prospectus. These laws may change, possibly retroactively, and any change could affect the accuracy of the statements and conclusions set forth in this discussion.

This discussion addresses only those Parlux common stockholders that hold their shares of Parlux common stock as a capital asset within the meaning of Section 1221 of the Code (generally, property held for investment). Further, this discussion does not address all aspects of United States federal income taxation that may be relevant to you in light of your particular circumstances or that may be applicable to you if you are subject to special treatment under the United States federal income tax laws, including if you are:

a financial institution;

a tax-exempt organization;

an S corporation or other pass-through entity (or an investor in an S corporation or other pass-through entity);

an insurance company;

a mutual fund;

a dealer or broker in stocks and securities, or currencies;

a trader in securities that elects mark-to-market treatment;

a holder of Parlux common stock subject to the alternative minimum tax provisions of the Code;

a holder of Parlux common stock that received Parlux common stock through the exercise of an employee stock option, through a tax qualified retirement plan or otherwise as compensation;

a person that is not a U.S. holder (as defined below);

a person that has a functional currency other than the U.S. dollar;

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a holder of Parlux common stock that holds Parlux common stock as part of a hedge, straddle, constructive sale, conversion or other integrated transaction; or

a United States expatriate.

Determining the actual tax consequences of the merger to you may be complex. They will depend on your specific situation and on factors that are not within the control of Parlux or Perfumania. You should consult with your own tax advisor as to the tax consequences of the merger in your particular circumstances, including the applicability and effect of the alternative minimum tax and any state, local, foreign or other tax laws and of changes in those laws.

For purposes of this discussion in this joint proxy statement/prospectus, the term "U.S. holder" means a beneficial owner of Parlux common stock that is for United States federal income tax purposes (i) an individual citizen or resident of the United States, (ii) a corporation, or entity treated as a corporation, organized in or under the laws of the United States or any state thereof or the District of Columbia, (iii) a trust if (a) a court within the United States is able to exercise primary supervision over the administration of the trust and one or more

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U.S. persons have the authority to control all substantial decisions of the trust or (b) such trust has made a valid election to be treated as a U.S. person for U.S. federal income tax purposes or (iv) an estate, the income of which is includible in gross income for U.S. federal income tax purposes regardless of its source.

The United States federal income tax consequences to a partner in an entity or arrangement that is treated as a partnership for United States federal income tax purposes and that holds Parlux common stock generally will depend on the status of the partner and the activities of the partnership. Partners in a partnership holding Parlux common stock should consult their own tax advisors.

**Tax Consequences of the Merger Generally**

The parties intend for the merger to be treated as a reorganization for United States federal income tax purposes. It is a condition to Perfumania's obligation to complete the merger that Perfumania receive an opinion from Edwards Wildman Palmer LLP, dated the closing date of the merger, substantially to the effect that the merger will be treated for federal income tax purposes as a reorganization within the meaning of Section 368(a) of the Code. It is a condition to Parlux's obligation to complete the merger that Parlux receive an opinion from Squire Sanders (US) LLP, dated the closing date of the merger, substantially to the effect that the merger will be treated for federal income tax purposes as a reorganization within the meaning of Section 368(a) of the Code. In addition, in connection with the filing of the registration statement of which this document is a part, each of Edwards Wildman Palmer LLP and Squire Sanders (US) LLP has delivered an opinion to Perfumania and Parlux, respectively, to the same effect as the opinions described above. These opinions will be based on representation letters provided by Perfumania and Parlux and on customary factual assumptions. None of the opinions described above will be binding on the Internal Revenue Service. Perfumania and Parlux have not sought and will not seek any ruling from the Internal Revenue Service regarding any matters relating to the merger, and as a result, there can be no assurance that the Internal Revenue Service will not assert, or that a court would not sustain, a position contrary to any of the conclusions set forth below. In addition, if any of the representations or assumptions upon which those opinions are based are inconsistent with the actual facts, the United States federal income tax consequences of the merger could be adversely affected. The remainder of this discussion assumes that the merger will qualify as a reorganization within the meaning of Section 368(a) of the Code.

Accordingly, and on the basis of the foregoing opinions, as a result of the merger being treated for federal income tax purposes as a reorganization within the meaning of Section 368(a) of the Code, upon exchanging your Parlux common stock for cash, Perfumania common stock or a mixture of Perfumania common stock and cash (other than cash received in lieu of a fractional share), you generally will recognize gain (but not loss) in an amount equal to the lesser of (1) the sum of the amount of cash and the fair market value of the Perfumania stock received, minus the adjusted tax basis of the Parlux common stock surrendered in exchange therefor, and (2) the amount of cash you receive (other than cash received in lieu of a fractional share). If you acquired different blocks of Parlux common stock at different times or different prices, you should consult your tax advisor regarding the manner in which gain or loss should be determined. Any recognized gain generally will be long-term capital gain if, as of the effective date of the merger, your holding period with respect to the Parlux common stock surrendered exceeds one year. In some cases, if you actually or constructively own Perfumania common stock other than Perfumania common stock received in the merger, the recognized gain could be treated as having the effect of the distribution of a dividend under the tests set forth in Section 302 of the Code, in which case such gain would be treated as dividend income. In such cases, U.S. holders that are corporations should consult their tax advisors regarding the potential applicability of the extraordinary dividend provisions of the Code. The aggregate tax basis in the shares of Perfumania common stock that you receive in the merger, including any fractional share interests deemed received and sold as described below, will equal your aggregate adjusted tax basis in the Parlux common stock you surrender, reduced by the amount of cash received (excluding any cash received in lieu of a fractional share) and increased by the amount of gain, if any recognized by you (excluding any gain recognized with respect to cash received in lieu of a fractional share) on the exchange. Your holding period for the shares of Perfumania common stock that you receive in the merger (including a fractional share interest deemed received and sold as described below) will include your holding period for the shares of Parlux common stock that you surrender in the exchange.



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**Cash Instead of a Fractional Share**

If you receive cash instead of a fractional share of Perfumania common stock, you will be treated as having received the fractional share of Perfumania common stock pursuant to the merger and then as having sold that fractional share of Perfumania common stock for cash. As a result, you generally will recognize gain or loss equal to the difference between the amount of cash received and the basis allocable to your fractional share of Perfumania common stock. This gain or loss generally will be capital gain or loss, and will be long-term capital gain or loss if, as of the effective date of the merger, the holding period for the shares (including the holding period of Parlux common stock surrendered therefor) is greater than one year. The deductibility of capital losses is subject to limitations.

**Backup Withholding**

If you are a non-corporate holder of Parlux common stock you may be subject to information reporting and backup withholding (currently at a rate of 28%) on any cash payments you receive. You generally will not be subject to backup withholding, however, if you:

furnish a correct taxpayer identification number, certify that you are not subject to backup withholding on the substitute Form W-9 or successor form included in the election form/letter of transmittal you will receive and otherwise comply with all the applicable requirements of the backup withholding rules; or

provide proof that you are otherwise exempt from backup withholding.

Any amounts withheld under the backup withholding rules will generally be allowed as a refund or credit against your United States federal income tax liability, provided you timely furnish the required information to the Internal Revenue Service.

**This summary of certain material United States federal income tax consequences is for general information only and is not tax advice. You are urged to consult your tax advisor with respect to the application of United States federal income tax laws to your particular situation as well as any tax consequences arising under the United States federal estate or gift tax rules, or under the laws of any state, local, foreign or other taxing jurisdiction.**

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**THE MERGER AGREEMENT**

**Form and Effective Time of the Merger**

Subject to the terms and conditions of the merger agreement and in accordance with Delaware law, at the effective time of the merger, Parlux will merge with Merger Sub, a Delaware corporation and wholly owned subsidiary of Perfumania. Parlux will survive this merger, and as soon as practicable following the first merger, Perfumania will cause the surviving corporation to be merged with another wholly owned subsidiary of Perfumania. The merger agreement, which outlines these transactions, is intended for federal income tax purposes to constitute a plan of reorganization under the internal revenue code.

Each of the mergers will become effective upon the filing of a certificate of merger with the Secretary of State of the State of Delaware or at such later time as may be agreed upon by Perfumania and Parlux and as specified in the applicable certificate of merger. The filing of the certificates of merger will occur as soon as practicable after the conditions to completion of the merger have been satisfied or waived.

Upon the effective time of the first merger, each share of Parlux common stock issued and outstanding before the effective time (except for shares held by Parlux as treasury shares, shares held by Perfumania, Merger Sub or their subsidiaries and shares held by a record holder who properly demands appraisal under Section 262 of the DGCL) shall, by virtue of the merger, and without any action on the part of the holder, be converted into the right to receive merger consideration.

**Consideration to be Received in the Merger**

Under the merger agreement, Parlux stockholders may elect to receive consideration consisting of shares of Perfumania common stock, or a combination of cash and shares of Perfumania common stock in exchange for their shares of Parlux common stock, subject to the proration feature described in Allocation of Merger Consideration. Parlux stockholders electing to receive a mix of cash and stock consideration and non-electing stockholders will receive \$4.00 in cash and 0.20 shares of Perfumania common stock in exchange for each Parlux share. Subject to proration, Parlux stockholders electing to receive only Perfumania common stock will receive 0.533333 shares of Perfumania common stock in exchange for each Parlux share. The maximum number of shares of Perfumania common stock to be issued in connection with the merger will not exceed 5,919,052 shares and the maximum cash that will be paid is \$61,895,288. Both of these amounts are subject to adjustment in certain circumstances, including a downward adjustment of the maximum cash consideration for each share of Parlux stock as to which appraisal rights have been exercised and for any shortfall of Parlux cash or cash equivalents, and an upward adjustment of the Aggregate Cap for any increase in the number of Parlux shares outstanding and to replace, on a pro rata and proportionate basis as necessary, any decrease in maximum cash consideration resulting from a shortfall of Parlux cash or cash equivalents. In our discussion, we refer to the number of shares of Perfumania common stock to be received for each share of Parlux common stock as the stock consideration, the amount of cash to be received for each share of Parlux common stock as the cash consideration and the stock consideration together with the cash consideration as the merger consideration.

A Parlux stockholder is entitled to merger consideration and has the choice between the following two options as to the form of merger consideration to receive:

1. *Mixture of cash and Perfumania common stock* A Parlux stockholder may elect to receive a mix of cash and stock equal to \$4.00 in cash and 0.20 shares of Perfumania common stock for each share of Parlux common stock. However, if the \$61,895,288 limit on cash consideration is less than the amount of cash issuable to Parlux stockholders electing to receive cash and stock, then a Parlux stockholder electing to receive cash and Perfumania stock will receive less cash and more shares of Perfumania common stock.
2. *Perfumania common stock* A Parlux stockholder may elect to receive Perfumania common stock in an amount equal to 0.533333 shares of Perfumania common stock for each share of Parlux common

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stock. However, if the 5,919,052 limit on stock consideration is less than the number of shares of Perfumania common stock issuable to Parlux stockholders electing to receive cash and stock and only stock consideration, which we believe is probable, then a Parlux stockholder electing to receive only Perfumania common stock will receive fewer shares of Perfumania common stock and receive a portion of the consideration in cash in accordance with the proration feature described in Allocation of Merger Consideration below.

**Allocation of Merger Consideration**

The aggregate stock consideration to be received by Parlux stockholders pursuant to the merger is 5,919,052 shares of Perfumania common stock subject to upward adjustment for any increase in the number of Parlux shares outstanding and to replace, on a pro rata and proportionate basis as necessary, a decrease in cash consideration in certain circumstances (the Aggregate Cap). Accordingly, if Parlux stockholders elect, in the aggregate, to receive more shares of Perfumania common stock than the Aggregate Cap, which we believe is probable, the number of shares of Perfumania common stock received by those holders electing to receive all stock consideration will be prorated downward and those holders will receive in exchange for each share of Parlux common stock (1) a number of shares of Perfumania common stock equal to the difference between (a) the Aggregate Cap and (b) the product of (i) the total number of shares as to which holders have elected mixed consideration or made no election and (ii) 0.20 (such difference, the Available Stock Election Amount), divided by the total number of shares as to which the holders have elected all stock consideration, rounded to the nearest ten thousandth of a share, and (2) an amount of cash (without interest) equal to the product of (a) the difference between (i) the number of shares as to which holders have elected all stock consideration multiplied by 0.533333 and (ii) the Available Stock Election Amount and (b) \$12.00, divided by the total number of shares as to which the holders have elected all stock consideration. As a result, Parlux stockholders who make a valid election to receive all stock consideration would not receive merger consideration entirely in that form. This result is probable because certain Parlux stockholders have entered into voting agreements that obligate them to make an all stock election, and if only these Parlux stockholders elect to receive all stock consideration and all other Parlux stockholders elect to receive mixed consideration, then the total number of shares to be issued in connection with the merger to stockholders electing mixed consideration and stockholders electing all stock consideration will be equal to the Aggregate Cap, meaning that if any other Parlux stockholder makes an all stock election, then the number of shares of Perfumania common stock received by all stockholders electing all stock consideration will be subject to proration.

Additionally, the merger agreement provides that upon the occurrence of certain events, the maximum cash available for merger consideration (the Maximum Cash Consideration) will be decreased, with a corresponding increase in the amount of Perfumania stock received by Parlux stockholders who have elected to receive mixed consideration. If at closing Parlux has less than \$15 million of adjusted cash and cash equivalents, then the Maximum Cash Consideration is decreased dollar-for-dollar by the amount of the shortage (the Difference). Pursuant to the merger agreement, adjusted cash and cash equivalents is calculated by adding cash and cash equivalents, closing costs paid in the ordinary course of business, and amounts owed by Perfumania to Parlux according to a pre-established and agreed to accounts receivable schedule, and subtracting from that sum any abnormalities in accounts payable. In this situation, the amount of cash received by each Parlux stockholder electing to receive mixed consideration will decrease by an amount equal to (1) the Difference divided by (2) the number of stockholders electing mixed consideration or not electing either form of consideration, and the number of shares of Perfumania stock received will increase by an amount equal to the (1) the Difference divided by \$12.00, divided by (2) the number of stockholders electing mixed consideration or not electing either form of consideration.

Additionally, the Maximum Cash Consideration shall be decreased by \$6.40 for each share for which appraisal rights have been perfected at the time of closing (the Appraisal Cash Adjustment). In such situation, the amount of cash received by each Parlux stockholder electing to receive mixed consideration will decrease by an amount equal to (1) the Appraisal Cash Adjustment divided by (2) the number of stockholders electing mixed

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consideration or not electing either form of consideration, and the number of shares of Perfumania stock received will increase by an amount equal to the (1) the Appraisal Cash Adjustment divided by \$12.00, divided by (2) the number of stockholders electing mixed consideration or not electing either form of consideration.

### **Treatment of Parlux Stock Options**

At the effective time of the merger, each outstanding and unexercised option to purchase shares of Parlux common stock will be converted automatically into an option to purchase shares of Perfumania common stock as follows:

the number of shares of Perfumania common stock subject to the converted option will equal the number of shares of Parlux common stock subject to the original option multiplied by the equity award exchange ratio, rounded down to the nearest whole share;

the per share exercise price for Perfumania common stock will equal the per share exercise price of the Parlux option immediately before the effective time of the merger divided by the equity award exchange ratio, rounded up to the nearest whole cent;

the vesting schedule of each option shall be accelerated by one year; and

the new option to purchase Perfumania common stock will vest immediately upon the holder's termination by the surviving company if that holder is terminated within one year of the effective time of the merger other than for cause or without good reason, and the exercisability of the option will continue for 90 days following termination.

Except as set forth above, each converted Perfumania option generally will be subject to the same terms and conditions as were applicable to the corresponding Parlux option immediately before the effective time of the merger. Under the terms of the merger agreement, "equity award exchange ratio" means the same exchange ratios applicable to an election to receive all stock consideration (0.533333).

### **Treatment of Warrants**

#### ***Gopman Warrant***

Glenn Gopman, a member of Parlux's board of directors, currently holds warrants to purchase 10,000 shares of Parlux common stock, which we refer to as the Gopman warrant. Upon completion of the merger, the outstanding Gopman warrant will be automatically converted into a warrant to purchase a number of shares of Perfumania common stock equal to the product of (i) the number of shares of Parlux common stock subject to the Gopman warrant and (ii) the equity award exchange ratio of 0.533333, rounded down to the nearest whole share. The per share exercise price of the Gopman warrant will be equal to (i) the per share exercise price of Parlux common stock at which the Gopman warrant was exercisable immediately before the effective time of the merger, divided by (ii) the equity award exchange ratio, rounded up to the nearest whole cent. Except as set forth above, the Gopman warrant will be subject to the same terms and conditions as were applicable to the Gopman warrant before the effective time of the merger. Perfumania has agreed to include the shares issued upon exercise of the Gopman warrant in the resale registration statement it files as described under "Licensor Warrants" below.

#### ***Licensor Warrants***

The Garcia Group, who collectively is a 19.2% beneficial owner of Parlux and a 8.4% beneficial owner of Perfumania, and Artistic Brands whom we refer to collectively as the licensors, currently hold, in conjunction with certain other parties, warrants to purchase an aggregate of 6,000,000 shares of Parlux common stock, which we refer to as the licensor warrants. Concurrently with the signing of the merger agreement, Parlux, the licensors and other holders of the licensor warrants entered into an amendment to the licensor warrants to govern the treatment of the licensor warrants upon completion of the merger. The warrant amendment will be effective only if the merger is consummated. Under the warrant agreement, each outstanding licensor warrant will be automatically converted upon completion of the merger into a warrant to purchase the number of shares of



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Perfumania common stock equal to the product of (i) the number of shares of Parlux common stock subject to the licensor warrant and (ii) the equity award exchange ratio, rounded down to the nearest whole share. The per share exercise price of each licensor warrant will be \$8.00. The warrant amendment also provides for certain registration rights with respect to the underlying warrant shares. All of the licensor warrants vest at the effective time of the merger.

### **Procedures for Exchange of Certificates**

Before completion of the merger, Perfumania and Parlux will engage an exchange agent to handle the exchange of Parlux common stock certificates and book-entry shares for Perfumania common stock certificates and the payment of cash in the merger. Before the merger, the exchange agent will distribute an election form, which Parlux stockholders will use to select the form of merger consideration that they would like to receive. The election form and other appropriate and customary transmittal materials will be mailed to Parlux stockholders on or about [ ], 2012.

The election form will permit each Parlux stockholder to specify the number of Parlux shares with respect to which that holder elects to receive the (i) mixed cash/stock consideration, or (ii) all stock consideration. The election must be made before the election deadline. Unless extended or otherwise agreed upon by Perfumania and Parlux, the election deadline will be 5:00 p.m., Eastern time, on the 30<sup>th</sup> day following the date the election form is mailed to Parlux stockholders.

To make a valid election, each Parlux stockholder must submit a properly completed election form so that it is actually received by the exchange agent at or before the election deadline. An election form will be completed properly only if accompanied by certificates that represent the stockholder's shares of Parlux common stock covered by the election form (or customary affidavits and, if required, indemnification regarding the loss or destruction of such certificates or the guaranteed delivery of such certificates) and/or, in case of book-entry shares, upon the receipt of an agent's message by the exchange agent or such other evidence of transfer as the exchange agent may reasonably request together with any additional documents specified by the procedures set forth in the election form.

If the election form is not received by the exchange agent by the election deadline, or the election form is improperly completed and/or is not signed, the stockholder will be considered not to have made an election. We sometimes refer to such shares as non-election shares. Stockholders not making an election will receive the same consideration as those that elected mixed cash/stock consideration.

The actual allocation of cash and stock will be subject in each case to the allocation procedures set forth in the merger agreement and further described below. Under the procedures, a Parlux stockholder who makes an all stock election will not receive all stock, as we believe probable, if the number of shares of Perfumania common stock issuable to Parlux stockholders electing to receive cash and stock and all stock consideration exceeds the Aggregate Cap. Additionally, if the Maximum Cash Consideration (as adjusted) is less than the amount of cash payable to Parlux stockholders electing to receive cash and stock, then a Parlux stockholder electing to receive cash and Perfumania stock will receive less cash and more shares of Perfumania common stock. For more information regarding these allocation procedures, see Allocation of Merger Consideration above.

Any election form may be revoked or changed by a stockholder submitting the election form before the election deadline. If the election is so revoked, the shares of Parlux common stock covered by that election form will become non-election shares and Perfumania will return the certificate of Parlux common stock without charge to the revoking stockholder upon written request, unless the stockholder properly makes a subsequent election. The exchange agent will have reasonable discretion to determine, in good faith, whether any election, revocation or change has been made properly or timely and to disregard immaterial defects in the election forms. None of Perfumania, Parlux or the exchange agent will be under any obligation to notify stockholders of any defect in an election form.

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**The submission of an election form will not have any impact on a stockholder's appraisal rights under Delaware law.**

### ***Surrender of Certificates***

Before the effective time of the merger, Perfumania will deposit with the exchange agent for the merger the number of shares of Perfumania common stock to be issued pursuant to the merger agreement and cash to be paid to Parlux stockholders equal to the cash portion of the merger consideration. That cash will be invested by the exchange agent as directed by Perfumania, but in the event of any loss in that investment, Perfumania will be required to provide additional funds to the exchange agent promptly in the amount of such loss.

As promptly as practical after the effective time of the merger, Perfumania will cause the exchange agent to send to each holder of record of Parlux common stock at the effective time of the merger a letter of transmittal and instructions for effecting the exchange of Parlux common stock for the merger consideration the holder is entitled to receive under the merger agreement. Upon surrender of the certificates or book-entry shares for cancellation (if not previously submitted with an election form), along with the executed letter of transmittal and other documents, a Parlux stockholder will receive the merger consideration, which may include: (i) a certificate representing the stock consideration; (ii) the cash consideration; (iii) cash in lieu of fractional shares of Perfumania common stock; and (iv) any unpaid dividends and distributions declared and paid in respect of Perfumania common stock after completion of the merger.

No fractional shares of Perfumania common stock will be issued to any holder of Parlux common stock upon completion of the merger. For each fractional share that would otherwise be issued, Perfumania will pay cash (without interest) in an amount equal to the respective fractional share multiplied by \$12.00.

At any time following 180 days after the effective time of the merger, Perfumania will have the right to require the exchange agent to return any shares of Perfumania common stock and cash that remain unclaimed. Any holder of Parlux common stock that has not exchanged certificates representing that stock before that time may thereafter look only to Perfumania to exchange stock certificates or to pay amounts to which that stockholder is entitled pursuant to the merger agreement. None of Perfumania, Parlux or the exchange agent will be liable to any holder of Parlux common stock certificates for any merger consideration delivered to a public official pursuant to applicable abandoned property, escheat or similar laws.

Parlux stockholders have the right to dissent from the merger and seek appraisal of their shares. In order to assert dissenters' rights, Parlux stockholders must comply with the requirements of Delaware law as described under "The Merger Appraisal Rights" beginning on page 105.

### **Representations and Warranties**

The merger agreement contains customary representations and warranties made by Perfumania and Parlux to each other. The representations and warranties of each of Perfumania and Parlux are qualified by the information filed by such party with the SEC before December 20, 2011, excluding any risk factor disclosure in such filings and risks disclosed in forward-looking statements (which filings are available without charge at the SEC's website, [www.sec.gov](http://www.sec.gov)), information provided by such party in its disclosure schedule and certain other specified exceptions and qualifications. These representations and warranties relate to, among other things:

corporate organization and similar corporate matters;

capitalization;

authorization, execution, delivery, performance and enforceability of the merger agreement and related matters;

the required consents, approvals, orders, and authorizations of governmental entities necessary to consummate the transactions contemplated in the merger agreement;

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the execution and delivery of the merger agreement and the consummation of the transactions contemplated by the merger agreement conflicting with or violating organizational documents, applicable law or the judgment of governmental entities or constituting a default under any agreement;

documents filed with the Securities and Exchange Commission, the accuracy of information contained in those documents, the absence of unresolved inquiries or review by the Securities and Exchange Commission;

financial statements;

the absence of stockholder rights plans or similar anti-takeover plans or devices;

legal proceedings;

compliance with applicable laws, and applicable permits necessary for the conduct of business;

certain material contracts;

maintenance and adequacy of certain required internal accounting controls and procedures;

compliance with Nasdaq listing and governance rules;

payment of fees of brokers, investment bankers, finders, and financial advisors;

related party transactions;

receipt of fairness opinions from financial advisors; and

the accuracy of information supplied in connection with this joint proxy statement/prospectus and the registration statement of which it is a part.

In addition, Parlux made representations and warranties to Perfumania relating to, among other things:

absence of certain changes and events since September 30, 2011;

filing of tax returns, payment of taxes, and other tax matters;



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matters relating to the Employee Retirement Income Security Act of 1974 and benefit plans;

matters relating to employees, labor unions, work stoppages or slowdowns, employment disputes, and the Worker Adjustment Retraining and Notification Act or any comparable state or local law;

the ownership and lease of property;

environmental matters;

certain intellectual property matters;

certain insurance matters; and

the independence of Parlux's external auditors.

In addition, Perfumania made representations and warranties to Parlux relating to, among other things:

absence of certain changes and events since October 29, 2011;

the Merger Sub; and

the written commitments of Wells Fargo Bank and the other lenders party to the amendment to Perfumania's credit facility and the related parties' commitment to provide subordinated debt financing and the financing required to finance the merger and related transactions.

The foregoing description of the representations and warranties in the merger agreement and the full text of the representations and warranties included in the merger agreement in Annex A are included to provide information

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regarding the merger agreement's terms. The representations and warranties contained in the merger agreement were made only for purposes of such agreements and as of specific dates, were solely for the benefit of the parties to such agreements, and may be subject to limitations agreed to by the contracting parties, including being qualified by disclosures between the parties. These representations and warranties may have been made for the purposes of allocating contractual risk between the parties to the agreements instead of establishing these matters as facts, and may be subject to standards of materiality applicable to the contracting parties that differ from those applicable to investors. Perfumania and the Parlux will provide additional disclosure in their public reports to the extent they become aware of the existence of any material facts that are required to be disclosed under federal securities laws and that might otherwise contradict the representations and warranties contained in the merger agreement and will update such disclosure as required by federal securities laws.

### **Conduct of Business Pending the Merger**

Under the merger agreement, each of Perfumania and Parlux has agreed that, from the date of the merger agreement until either the completion of the merger or the termination of the merger agreement, except as expressly contemplated or permitted by the merger agreement, it will, and will cause each of its subsidiaries to, conduct its business in all material respects in the ordinary course, consistent with past practice, use commercially reasonable efforts to preserve the current relationships of it and its subsidiaries with material customers, vendors, suppliers and other persons with which it or any of its subsidiaries has business relationships, and pay trade payables in the ordinary course of business.

In addition, Parlux has agreed not to do any of the following without the prior written consent of Perfumania (except as permitted or contemplated by the merger agreement or required by applicable law):

take any action that, had it occurred prior to the date of the merger agreement, would have caused a Parlux representation and warranty relating to the absence of certain changes and events to be untrue, which includes, among other things, and with certain exceptions, changes that would reasonably be expected to have a material adverse effect (as defined below) on Parlux, selling, transferring or encumbering property or other assets material to Parlux and its subsidiaries, taken as a whole, declaring dividends or distributions with respect to capital stock, changing financial or material tax accounting methods, granting director or employees equity awards, severance or termination benefits, and making capital expenditures over \$50,000 individually or \$500,000 in the aggregate, and incurring indebtedness in excess of \$1,000,000;

acquire or agree to be acquired by merging or consolidating with, or by purchasing a substantial portion of the assets or equity interests in any individual, corporation, limited liability company, partnership, association, trust or other entity (including a governmental entity), or otherwise acquire or agree to acquire any assets of any of the foregoing outside the ordinary course of business in accordance with past practice, except as permitted by the merger agreement;

issue, deliver, sell, grant, pledge or otherwise encumber or subject to any lien (A) any shares of Parlux's capital stock, (B) any notes, debt or other indebtedness having the right to vote with Parlux's common stock or other voting securities, (C) any securities convertible into or exchangeable for, or any options, warrants or rights to acquire, any such shares, any notes, debt or other indebtedness having the right to vote with Parlux's common stock, voting securities or convertible or exchangeable securities or (D) any stock appreciation, phantom stock, profit participation or dividend equivalent rights or similar rights with respect to Parlux or any of its subsidiaries. However, Parlux is able to engage in the following: (I) the issuance of Parlux common stock upon the exercise of Parlux stock options or Parlux warrants, provided that such securities were outstanding as of the date of the merger agreement and in accordance with their terms as of the date of the merger agreement, (II) the sale of shares of Parlux common stock pursuant to the exercise of Parlux stock options if necessary to effectuate an optionee direction upon exercise for withholding of taxes or (III) the acquisition of Parlux common stock from a holder of a Parlux stock option in satisfaction of the payment of the exercise price of the Parlux stock option or withholding obligations with respect to the exercise thereof;

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amend Parlux's certificate of incorporation or bylaws or other comparable charter or organizational documents of any of Parlux's subsidiaries except as may be required by law or the rules and regulations of the SEC or Nasdaq;

(A) grant to any current or former director, officer, employee or consultant of Parlux or any of its subsidiaries any increase in compensation, bonus or fringe or other benefits or grant any type of compensation or benefit to any such person not previously receiving or entitled to receive such compensation except for normal increases in cash compensation in the ordinary course of business consistent with past practice or to the extent required under Parlux's benefit plans in effect as of the date of the merger agreement, (B) grant to any such person listed in section (A) any increase in severance, change in control or termination compensation or benefits, except to the extent required under any Parlux benefit plans in effect as of the date of the merger agreement, or (C) adopt, enter into, terminate, amend, accelerate or waive rights to or under any Parlux benefit plan;

enter into new lines of business outside of Parlux and its subsidiaries' existing business and reasonable extensions of Parlux's existing business;

except for transactions among Parlux and its subsidiaries or among Parlux's subsidiaries, (A) incur any indebtedness (as defined in the merger agreement), except for short-term borrowings outside of Parlux's existing credit facility in an amount not in excess of \$1,000,000 incurred in the ordinary course of business consistent with past practice or (B) make any loans, advances or capital contributions to, or investments in, any other any individual, corporation, limited liability company, partnership, association, trust or other entity (including a governmental entity), whether by purchase of stock or securities, contributions to capital or property transfers;

enter into any material contract to the extent consummation of the transactions contemplated by the merger agreement or compliance by Parlux with the provisions of the merger agreement would conflict with, or result in a material violation or material breach of or material default (with or without notice or lapse of time, or both) under, or give rise to a right of, or result in, termination, cancellation or acceleration of any obligation, under any provision of such material contract;

except in the ordinary course of business consistent with past practice and to the extent not prohibited by other provisions of the merger agreement related to Parlux's obligations with respect to the conduct of its business pending the merger, enter into, terminate, renew, extend, amend or modify in any material respect, any material contract;

fail to use its commercially reasonable efforts to maintain in full force and effect the existing insurance policies or to replace such insurance policies with comparable insurance policies covering Parlux, its subsidiaries and their respective properties, assets and businesses;

increase the size of Parlux's board of directors; or

authorize any of, or commit or agree to take any of, the foregoing actions.

Likewise, Perfumania has agreed not to do any of the following without the prior written consent of Parlux (except as permitted or contemplated by the merger agreement or required by applicable law):

take any action that, had it occurred prior to the date of the merger agreement, would have made a representation or warranty in the absence of certain changes and events representation and warranty section of the merger agreement untrue, which includes, among other things and with certain exceptions changes that would reasonably be expected to have a material adverse effect (as defined below), selling, transferring or encumbering property or other assets material to Perfumania and its subsidiaries taken as a whole,

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declaring dividends or distributions with respect to capital stock, changing financial or accounting methods, revoking or changing material tax elections, delaying in paying vendors, making loans other than in the ordinary course of business in accordance with past practice, and incurring indebtedness in excess of \$1,000,000 in the aggregate (excluding indebtedness under Perfumania's existing credit agreement);

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acquire or agree to be acquired by merging or consolidating with, or by purchasing a substantial portion of the assets or equity interests in any individual, corporation, limited liability company, partnership, association, trust or other entity (including a governmental entity), or acquire or otherwise agree to acquire any assets of any of the foregoing outside the ordinary course of business in accordance with past practice;

issue, deliver, sell, grant, pledge or otherwise encumber or subject to any lien (A) any shares of Perfumania's capital stock, (B) any notes, debt or other indebtedness having the right to vote with Perfumania's common stock or other voting securities, (C) any securities convertible into or exchangeable for, or any options, warrants or rights to acquire, any such shares, any notes, debt or other indebtedness having the right to vote with Perfumania's common stock, voting securities or convertible or exchangeable securities or (D) any stock appreciation, phantom stock, profit participation or dividend equivalent rights or similar rights with respect to Perfumania or any of its subsidiaries. However, Perfumania is able to engage in the following: (I) the issuance of Perfumania common stock upon the exercise of Perfumania stock options, or Perfumania warrants, and certain other warrants and notes convertible into shares of Perfumania common stock, provided that such securities were outstanding as of the date of the merger agreement and in accordance with their terms as of the date of the merger agreement, (II) the sale of shares of Perfumania common stock pursuant to the exercise of Perfumania stock options if necessary to effectuate an optionee direction upon exercise for withholding of taxes or (III) the acquisition of Perfumania common stock from a holder of a Perfumania stock option in satisfaction of the payment of the exercise price of the Perfumania stock option or withholding obligations with respect to the exercise thereof;

amend Perfumania's certificate of incorporation or bylaws or other comparable charter or organizational documents of any of Perfumania's subsidiaries except as may be required by law or the rules and regulations of the SEC or Nasdaq;

enter into new lines of business outside of Perfumania's and its subsidiaries' existing business and reasonable extensions of Perfumania's existing business;

except for transactions among Perfumania and its subsidiaries or among Perfumania's subsidiaries, (A) incur any indebtedness (as defined in the merger agreement), except for borrowings in an amount not in excess of \$1,000,000 in the aggregate or advances under Perfumania's existing credit agreement, neither of which can negatively impact the financing arrangements to fund the transactions, or (B) make any loans, advances or capital contributions to, or investments in, any other any individual, corporation, limited liability company, partnership, association, trust or other entity (including a governmental entity), whether by purchase of stock or securities, contributions to capital or property transfers;

enter into any material contract to the extent consummation of the transactions contemplated by the merger agreement or compliance by Perfumania with the provisions of the merger agreement would conflict with, or result in a material violation or material breach of or material default (with or without notice or lapse of time, or both) under, or give rise to a right of, or result in, termination, cancellation or acceleration of any obligation, under any provision of such material contract;

fail to use commercially reasonable efforts to maintain in full force and effect the existing insurance policies or to replace such insurance policies with comparable insurance policies covering Perfumania, its subsidiaries and their properties, assets and businesses;

authorize any of, or commit or agree to take any of, the foregoing actions.

Parlux and Perfumania have also agreed to cooperate with each other and use their reasonable best efforts to take all actions necessary to cause the closing conditions to be satisfied and to consummate the transactions contemplated in the merger agreement, obtain all approvals and consents and authorization necessary to consummate the transactions and ensure that no state takeover statute or similar law becomes applicable to the transactions contemplated by the merger agreement.



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Parlux and Perfumania have agreed on a schedule that specifies the maximum monthly balances of payables that Perfumania is permitted to owe Parlux for products that Parlux sells to Perfumania in the months leading up to closing. If Perfumania owes more than the specified amount for the previous calendar month (that ended at least two weeks before the closing of the merger), then the \$15 million of cash or cash equivalents that Parlux is required to have in order to not require an adjustment to the Maximum Cash Consideration (see - Allocation of Merger Consideration above) will be reduced by the excess amount that Perfumania owes to Parlux.

### **Conditions to Completion of the Merger**

Each party's obligation to effect the merger is subject to the satisfaction or waiver of various conditions at or before the time of completion of the merger, which include the following:

receipt of the approval of the holders of common stock of Parlux required for the completion of the merger;

the authorization for listing on Nasdaq, subject to official notice of issuance, of the shares of Perfumania common stock to be issued to holders of Parlux common stock;

the registration statement, of which this joint proxy statement/prospectus is a part, having been declared effective by the SEC under the Securities Act and not being the subject of any stop order or threatened or pending proceedings seeking a stop order;

expiration or termination of the waiting period applicable to the merger under the HSR Act (which has expired) and no action by the Department of Justice or Federal Trade Commission challenging or seeking to enjoin the transactions shall have been instituted; and

no law, injunction, judgment, order, decree or ruling or other action from a governmental entity is in effect that enjoins, restrains or prohibits the consummation of the merger or makes it illegal.

In addition, Parlux's obligation to effect the merger is subject to the satisfaction or waiver of the following conditions:

The representations and warranties of Perfumania and Merger Sub set forth in the merger agreement (except for certain representations and warranties) being true and correct as of the date of the merger agreement and as of the closing date as though made on and as of the closing date, except to the extent any inaccuracies in such representations and warranties, individually or in the aggregate, would not have a material adverse effect on Perfumania (provided that any representation or warranty of Perfumania that is qualified by materiality (or words of similar import) or material adverse effect on Perfumania shall be read as if such language were not present), and certain other representations and warranties being true and correct in all material respects as of the date of the merger agreement and as of the closing date, provided that all representations and warranties that speak as of a particular date or period shall be true only as of that date or period;

Perfumania and Merger Sub having performed or complied in all material respects with all of their obligations and covenants required to be performed under the merger agreement at or before the closing date;

Parlux receiving a certificate executed on behalf of Perfumania by its Chief Executive Officer or Chief Financial Officer to the effect that the conditions in the first two bullet points have been satisfied in all respects;

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Perfumania shall have deposited with the exchange agent shares of Perfumania common stock and cash in U.S. dollars in an aggregate amount sufficient to pay the merger consideration;

Since the date of the merger agreement there has not occurred an event that, individually or in the aggregate, is having or would reasonably be expected to have a material adverse effect on Perfumania;

Perfumania shall have obtained the approval of its stockholders required to effect the transactions contemplated by the merger agreement; and

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Perfumania's Board of Directors shall have increased the number of members of the Board of Directors to a sufficient number to add the Parlux directors serving before the merger and shall have adopted resolutions appointing such directors effective as of the effective time of the merger.

Perfumania's and Merger Subsidiaries' obligations to effect the merger are subject to the satisfaction or waiver of the following conditions:

The representations and warranties of Parlux set forth in the merger agreement (except for certain representations and warranties) being true and correct as of the date of the merger agreement and as of the closing date as though made on and as of the closing date, except to the extent any inaccuracies in such representations and warranties, individually or in the aggregate, would not have a material adverse effect on Parlux (provided that, any representation or warranty of Parlux that is qualified by materiality (or words of similar import) or material adverse effect on Parlux shall be read as if such language were not present), and certain other representations and warranties being true and correct in all material respects as of the date of the merger agreement and as of the closing date, provided that all representations and warranties that speak as of a particular date or period shall be true only as of that date or period;

Parlux having performed or complied in all material respects with all of its obligations and covenants required to be performed by Parlux under the merger agreement at or before the closing date;

Perfumania having received a certificate executed on behalf of Parlux by its Chief Executive Officer or Chief Financial Officer that the conditions in the first two bullet points have been satisfied in all respects;

Holders of shares of Parlux common stock representing in excess of 7.5% of the outstanding shares of Parlux common stock shall not have exercised (or, if exercised, shall not have withdrawn such exercise by the day after the Parlux special meeting) rights of dissent in connection with the merger;

Parlux delivering a certificate from its Chief Executive Officer or Chief Financial Officer setting forth Parlux's cash and cash equivalents on the closing date; and

since the date of the signing of the merger agreement there has not been an event that, individually or in the aggregate has had or would reasonably be expected to have a material adverse effect on Parlux.

The merger agreement provides that a material adverse effect means, when used with respect to Perfumania or Parlux, any effect, circumstance, event, or change which has a material adverse effect on the business, operations, assets, annual results of operations, or condition (financial or otherwise) of that company and its subsidiaries, taken as a whole, except that none of the following shall be taken into account in determining whether there has been a material adverse effect:

changes in conditions in the United States or global capital or financial markets generally, including changes in interest or exchange rates;

any event generally affecting the industry in which Parlux and Perfumania primarily operate;

changes in applicable law or generally accepting accounting principles in the U.S.;

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any decline in the market price, or change in trading volume, of the capital stock of such person or any failure to meet publicly announced revenue or earnings projections;

the execution of the merger agreement or the announcement, pendency or consummation of the transactions contemplated by the merger agreement;

the identity of Perfumania as the acquiror of Parlux;

compliance with the terms of, or the taking of any action required or contemplated by, the merger agreement or action or inaction consented to or requested by Perfumania; and

acts of war, sabotage, terror, earthquakes, tornados and other natural disasters.

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The merger agreement provides that any or all of the conditions described above may be waived, in whole or in part, by Perfumania or Parlux, to the extent legally allowed.

### **Solicitation; Restrictions on Solicitation**

#### ***Permitted Solicitation Period***

The merger agreement provides that during the period commencing with the execution of the merger agreement until 11:59 p.m. on January 22, 2012, the 30<sup>th</sup> day after the signing of the merger agreement, Parlux and its subsidiaries and their affiliates, officers, directors, agents and representatives could, directly or indirectly, and pursuant to an acceptable confidentiality agreement (as described under *Change in Parlux Board Recommendation* ) engage in the following actions:

initiate, solicit and/or encourage the submission of one or more acquisition proposals (as described under *Change in Parlux Board Recommendation* ), including by furnishing non-public information relating to Parlux or its subsidiaries or by affording access to the business, properties, assets, books, records or personnel of Parlux or its subsidiaries (provided that any information made available will also be provided to Perfumania);

continue, enter into, participate in and/or engage in any discussions or negotiations with respect to one or more acquisition proposals or any other proposals that could lead to an acquisition proposal; and

to the extent not otherwise prohibited by the merger agreement, cooperate with, assist or take any action to facilitate any acquisition proposals or any other proposals that could lead to any acquisition proposals.

Following the announcement of the merger, PJSC contacted 39 potential alternative acquirors of Parlux. None of those 39 parties expressed an interest in making an alternative acquisition proposal during the permitted solicitation period provided for under the merger agreement. See *The Merger Background of the Merger* starting on page 50 for additional information.

#### ***Prohibition on Solicitation***

Following the end of the permitted solicitation period, Parlux has agreed to (and agreed to cause each of its subsidiaries to and agreed to use commercially reasonable efforts to cause each of its affiliates, officers, directors, agents and representatives to) not take the following actions until the effective time of the merger or the termination of the merger agreement:

solicit or take other action to facilitate any inquiries or the making of any proposal that constitutes or may reasonably be expected to lead to an acquisition proposal;

participate in any way in any discussions or negotiations relating thereto or in furtherance thereof or accept any acquisition proposal, except to notify such person as to the existence of the provisions of the merger agreement regarding solicitation of acquisition proposals; or

enter into any letter of intent, agreement or agreement in principle with respect to an acquisition proposal.

Parlux has also agreed to (and agreed to cause each of its subsidiaries to and agreed to use commercially reasonable efforts to cause each of its affiliates, officers, directors, agents and representatives to) cease and cause to be terminated any discussions or negotiations with any individual, corporation, limited liability company, partnership, association, trust or other entity (including a governmental entity) (other than excluded parties, as described below) that would otherwise be prohibited by the above prohibitions following the end of the 30-day permitted solicitation period.



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***Exceptions to Prohibitions on Solicitation***

The merger agreement provides certain exceptions to the prohibitions on solicitation detailed above following the end of permitted solicitation period. Parlux (and its subsidiaries, affiliates, officers, directors, agents and representatives) may take any of the actions described under Permitted Solicitation Period above from and after the end of the permitted solicitation period with respect to anyone that was solicited during the permitted solicitation period that, before the expiration of the permitted solicitation period, has made a *bona fide* acquisition proposal that Parlux's board and the independent committee of the Parlux board determine in good faith (after consultation with Parlux's outside financial and legal advisors) constitutes or would reasonably be expected to result in a superior proposal (as described under Change in Parlux Board Recommendation below). We refer to each of these parties as an excluded party. However, an excluded party shall cease to be an excluded party under the merger agreement immediately if that person's acquisition proposal is withdrawn, is terminated or expires, or the Parlux board and the independent committee of the Parlux board determine in good faith (after consultation with Parlux's outside financial and legal advisors) that such acquisition proposal ceases to constitute, or ceases to be reasonably likely to lead to, a superior proposal.

There is also an exception to the prohibitions on solicitation, which permits the Parlux board and the independent committee of the Parlux board, in the exercise of their fiduciary duties, as determined in good faith by the Parlux board and the independent committee of the Parlux board, to:

furnish information (including, without limitation, confidential information) concerning Parlux to a third party who makes an unsolicited request for such information for the purpose of making an acquisition proposal, and

engage in discussions or negotiations with a third party who submits in writing an interest in making an acquisition proposal. However, for the acquisition proposals described in each case above, the Parlux board and independent committee of the Parlux board must determine in good faith (after consultation with Parlux's outside financial and legal advisors) that such acquisition proposal constitutes or would reasonably be expected to result in a superior proposal.

***Change in Parlux Board Recommendation; Entry by Parlux into Alternative Acquisition Agreement***

Under the merger agreement, after the execution of the merger agreement the Parlux board may not:

resolve to withdraw, modify or qualify and/or withdraw, modify or qualify Parlux's recommendation that its stockholders approve the merger agreement and the transactions contemplated by the merger agreement in a manner adverse to Perfumania or Merger Sub, which is referred to as a change in recommendation ; or

cause or permit Parlux or any of its subsidiaries to enter into any letter of intent memorandum of understanding, agreement in principle, acquisition agreement, merger agreement, option agreement, joint venture agreement, partnership agreement or other similar agreement (any of which are referred to as an alternative acquisition agreement ) relating to any acquisition proposal (other than any acceptable confidentiality agreement).

Notwithstanding these provisions, at any time before the approval of Parlux's stockholders of the merger agreement:

the Parlux board may make a change of recommendation or enter into an alternative acquisition agreement, if the Parlux board with respect to an acquisition proposal has determined in good faith, after consultation with its financial advisors and outside legal counsel, that (A) there is a reasonable probability that the failure to do so would cause the Parlux board to violate its fiduciary duties to the Parlux's stockholders under applicable law and (B) such acquisition proposal constitutes a superior proposal; or

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if an event, fact, circumstance, development or occurrence that affects, or would reasonably be expected to affect, the business, assets, operations or results of operations of Parlux or its subsidiaries and that has not occurred or is unknown to the Parlux Board as of the date of the merger agreement, which we refer to as an intervening event, occurs or becomes known to Parlux's board, then the Parlux board may effect a change of recommendation; provided that the Parlux board has determined in good faith, after consultation with its financial advisors and outside legal counsel, that there is a reasonable probability that the failure to do so would cause the Parlux board to violate its fiduciary duties to Parlux's stockholders under applicable law.

However, in order to make a change of recommendation Parlux must satisfy the following conditions:

Parlux shall have provided prior written notice to Perfumania at least three days in advance of its intention to take such action and provided the reasons for the change of recommendation, and if the change in recommendation is related to a superior proposal, then the notice must include the material terms and conditions of the superior proposal (including the identity of the person making the superior proposal and that person's ultimate beneficial owner or owners and controlling persons, to the extent such information is reasonably available to Parlux);

in the case of a superior proposal, before effecting a change of recommendation, or, approving or recommending a superior proposal or terminating the merger agreement to enter into an alternative acquisition agreement, Parlux shall, and shall cause its subsidiaries, affiliates, officers, directors, agents, and representatives to, during the three-day notice period, negotiate with Perfumania and its affiliates and representatives in good faith (to the extent that Perfumania desires to negotiate) to enable Perfumania to propose in writing a binding offer to effect revisions to the terms and conditions of the merger agreement, the financing letter from Perfumania's lender, the related person investment commitment, the letter agreement with certain Parlux warrant holders and the amendment to those warrants, as would alleviate the need for a change of recommendation or such approval, recommendation or termination,

in the case of a superior proposal, the Parlux board shall have considered in good faith any changes to the agreements set forth in the preceding bullet point that are offered in writing by Perfumania, and the Parlux board shall have determined that the superior proposal would continue to constitute a superior proposal if such changes were to be given effect; and

in the case of a superior proposal, before effecting such change of recommendation or entering into an alternative acquisition agreement, Parlux shall have terminated the agreement and paid Perfumania any termination fee payable with respect to such termination under the terms of the merger agreement.

In addition, any material amendment to the material terms of a superior proposal shall require a new notice and three-day notice period, and Parlux shall be required to comply again with the requirements set forth in the preceding bullet points.

The merger agreement provides that:

the term acquisition proposal means any proposal or offer, including any proposal or offer from or to the Parlux stockholders, made by any person or group (as such term is defined in Section 13(d) of the Exchange Act and the rules and regulations thereunder) other than Perfumania, whether in a single transaction or series of related transactions, and whether directly or indirectly for a (i) a merger, reorganization, share exchange, consolidation, business combination, joint venture, partnership, recapitalization, dissolution, liquidation, or similar transaction, involving Parlux and/or any subsidiary or subsidiaries of Parlux whose business or businesses constitute 25% or more of the assets, revenues or earnings of Parlux and its subsidiaries, taken as a whole; (ii) an acquisition of assets of Parlux and/or its subsidiaries equal to 25% or more of the consolidated assets of Parlux and its subsidiaries or to which 25% or more of Parlux's revenues or earnings on a consolidated basis are attributable, (iii) an

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acquisition of 25% or more of Parlux's outstanding common stock, or (iv) a tender offer or exchange offer that, if consummated, would result in any person or group (as defined under Rule 13(d) of the Exchange Act) beneficially owning 25% or more of Parlux's outstanding common stock;

the term "acceptable confidentiality agreement" means a confidentiality agreement that contains confidentiality provisions that are not materially less favorable in the aggregate to Parlux than those contained in the confidentiality agreement dated as of September 7, 2011 between Parlux and Perfumania (provided that such confidentiality agreement shall not be required to restrict a person from communicating an acquisition proposal to the Parlux board or any duly constituted and authorized committee thereof); and

the term "superior proposal" means any *bona fide* acquisition proposal (except that all references to 25% in the definition of acquisition proposal shall be replaced with 50%) made by any individual, corporation, limited liability company, partnership, association, trust or other entity (including a governmental entity) that the Parlux board and the independent committee of the Parlux board determines in good faith (after consultation with their financial advisor and outside legal counsel and after taking into account all legal, financial (including the financing terms thereof), regulatory, timing and other aspects of the proposal, as well as any modification to the merger agreement and/or the related person investment, that (A) is on terms that are more favorable to Parlux's stockholders from a financial point of view than the transactions contemplated by the merger agreement and (B) is capable of being consummated within a reasonable period of time.

The merger agreement also provides that Parlux will promptly (and in any event, within 48 hours) notify Perfumania if any proposals or offers with respect to an acquisition proposal are received by Parlux or any of its officers, directors, agents, affiliates or representatives. The notice to Perfumania must indicate the identity of the person or group of persons making such offer or proposal, the material terms and conditions of any proposals or offers (including, if applicable, copies of any written requests, proposals or offers, including proposed agreements). Parlux must thereafter keep Perfumania reasonably informed, on a prompt basis, of the status and terms of any such proposals or offers (including any amendments thereto) and the status of any such discussions or negotiations, including any change in Parlux's intentions, as previously notified. Following the end of the permitted solicitation period, Parlux has agreed that it will promptly (and, in any event, within 48 hours) notify Perfumania if any non-public information is requested from, or any discussions or negotiations are sought to be initiated or continued with, Parlux or any of its officers, directors, agents, affiliates or representatives. In connection with such notice, Parlux must provide the identity of the person or group of persons and the status of any such discussions or negotiations, including any change in Parlux's intentions as previously notified, in each case pursuant to an acceptable confidentiality agreement.

### **Termination**

The merger agreement may be terminated at any time before the effective time of the merger, even after the approval by Perfumania and Parlux stockholders, by:

mutual written consent of Perfumania and Parlux, authorized by the Parlux and Perfumania boards;

either Perfumania or Parlux if any governmental authority of competent jurisdiction shall have enacted, issued or enforced either a law prohibiting the merger or making the merger illegal, or an injunction, judgment, order, decree, ruling or other action preventing or prohibiting the merger and such injunction, judgment, order, decree or ruling is final and non-appealable; provided that the party seeking to terminate the merger agreement may not do so unless that party has used its reasonable best efforts to remove such restraint;

either Perfumania or Parlux if the merger shall not have been consummated on or before June 30, 2012, which we refer to in this joint proxy statement/prospectus as the "outside date"; provided, however, that this right to terminate the merger agreement for this reason is not available to any party if the

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failure of such party to fulfill any obligation, covenant or condition or whose willful breach of a provision under the merger agreement has been the cause of or resulted in the failure of the merger to be consummated on or before such date; or

either Perfumania or Parlux if the Parlux stockholders shall have failed to approve the matters presented to them in this joint proxy statement / prospectus at the special meeting or at any adjournment or postponement thereof;

Perfumania, if (i) the Parlux board of directors or any authorized board committee were to fail to include its recommendation regarding the approval and adoption of the merger agreement in this joint proxy statement/prospectus, (ii) the Parlux Board or any authorized board committee adopts, approves or endorses or recommends to the Parlux stockholders an acquisition proposal, (iii) a tender offer or exchange offer for outstanding shares of Parlux common stock, that if consummated would constitute an acquisition proposal has commenced and either the Parlux board or any authorized board committee recommends that Parlux stockholders tender their shares within ten business days of commencement or, if earlier, the Parlux board or any authorized board committee fails to recommend against accepting the offer before the Parlux stockholders meeting to approve the merger agreement, (iv) Parlux enters into an alternative acquisition agreement, or (v) Parlux, the Parlux board or any authorized board committee publicly announces its intention to do any of the foregoing;

Perfumania, if Parlux shall have breached or failed to perform in any material respect any of its representations, warranties or covenants contained in the merger agreement, provided that if a breach or failure of a covenant causes the condition that Parlux having performed or complied in all material respects with all of its obligations and covenants required to be performed under the merger agreement at or before the closing date to not be satisfied; provided that such inaccuracy, breach or failure is reasonably susceptible to cure and has not been cured within 20 business days after Parlux receives a written notice from Perfumania of such inaccuracy, breach or failure;

Parlux, before receiving stockholder approval of the merger agreement, if the Parlux board has effected a change of recommendation provided that Parlux has concurrently paid to Perfumania the applicable termination fee;

Parlux to enter into an alternative acquisition agreement with respect to a superior proposal provided that Parlux has concurrently paid to Perfumania the applicable termination fee;

Parlux, if the Perfumania stockholders fail to approve the matters presented to them in this joint proxy statement / prospectus at the special meeting, including any adjournment thereof;

Parlux, if Perfumania or Merger Sub shall have breached or failed to perform in any material respect any of their representations, warranties (other than the representations and warranties related to acquisition advances and the related person investment) or covenants (other than the covenant related to acquisition advances and the related person investment arrangements) contained in the merger agreement, provided that if a breach or failure of a covenant (other than the covenant related to acquisition advances and the related person investment arrangements) causes the conditions that Perfumania and Merger Sub having performed or complied in all material respects with all of their obligations and covenants required to be performed under the merger agreement at or before the closing date to not be satisfied, such failure or breach is reasonably susceptible to cure and has not been cured within twenty business days after Perfumania receives a written notice from Parlux of such breach or failure;

Parlux, if all of the conditions to closing set forth in the first and third paragraphs of the section - Conditions to Completion of the Merger are satisfied (or, upon an immediate closing, would be satisfied as of such closing) and Perfumania does not (i) satisfy the conditions to deposit the merger consideration with the exchange agent within five business days after receiving notice from Parlux that the other conditions are satisfied (or, upon an immediate closing, would be satisfied as of such closing) and (ii) proceed immediately thereafter to give effect to a closing; or





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Parlux, if Perfumania breaches or fails to perform in any material respect any of its representations or warranties related to acquisition advances and the related person investment or any of its covenants related to acquisition advances and the related person investment, provided that if a breach or failure of a covenant causes the condition that Perfumania and Merger Sub having performed or complied in all material respects with all of their obligations and covenants required to be performed under the merger agreement at or before the closing date to not be satisfied and is reasonably susceptible to cure and cannot be or has not been cured within twenty business days after Perfumania receives written notice from Parlux of such breach or failure.

**Effect of Termination**

If the merger agreement is terminated, it will become void, and there will be no liability on the part of Perfumania, Merger Sub or Parlux, or their respective directors, officers and affiliates, except pursuant to the confidentiality agreement between Parlux and Perfumania and except that (1) each party will remain liable for fraud or willful breach of the merger agreement, and (2) designated provisions of the merger agreement will survive the termination, including those relating to the confidential treatment of information and payment of fees and expenses.

**Termination Fee**

Parlux will pay Perfumania a termination fee if the merger agreement is terminated for any of the following reasons:

By Parlux, before receiving stockholder approval of the merger agreement, if the Parlux board has effected a change of recommendation;

By Parlux to enter into an alternative acquisition agreement with respect to a superior proposal; or

By Perfumania if (i) the Parlux board of directors or any authorized board committee were to fail to include its recommendation regarding the approval and adoption of the merger agreement in this joint proxy statement/prospectus, (ii) the Parlux Board or any authorized board committee adopts, approves or endorses or recommends to the Parlux stockholders an acquisition proposal, (iii) a tender offer or exchange offer for outstanding shares of Parlux common stock, that if consummated would constitute an acquisition proposal, has commenced and either the Parlux board or any authorized board committee recommends that Parlux stockholders tender their shares within ten business days of public announcement of such tender or exchange offer or the Parlux board or any authorized board committee fails to recommend against accepting the offer before the Parlux stockholders meeting to approve the matters in this joint proxy statement / prospectus, (iv) Parlux enters into an alternative acquisition agreement, or (v) Parlux, the Parlux board or any authorized board committee publicly announces its intention to do any of the foregoing.

The amount of the termination fee that Parlux will pay to Perfumania depends on when the termination occurs. If the termination had occurred on or before January 22, 2012 Parlux would have paid a fee of either \$2 million or Perfumania's out-of-pocket expenses, whichever was greater. If the termination occurs after that date, then Parlux will pay Perfumania a termination fee of \$4 million.

In addition, Perfumania will pay Parlux a termination fee of \$4 million and Parlux's out-of-pocket expenses if the merger agreement is terminated by Parlux for any of the following reasons:

if Perfumania's stockholders fail to approve the matters presented in this joint proxy statement/prospectus at the Perfumania special meeting, including any adjournment thereof;

if all of the conditions to closing set forth in the first and third paragraphs of the section "Conditions to Completion of the Merger" are satisfied (or, upon an immediate closing, would be satisfied as of such closing) and Perfumania does not (i) satisfy the conditions to deposit the merger consideration

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with the exchange agent within five business days after receiving notice from Parlux that the other conditions are satisfied (or, upon an immediate closing, would be satisfied as of such closing) and (ii) proceed immediately thereafter to give effect to a closing; or

if Perfumania breaches or fails to perform in any material respect any of its representations or warranties related to acquisition advances and the related person investment or any of its covenants related to acquisition advances and the related person investment, which breach or failure to perform (i) would give rise to the failure of a condition set forth in the first or second bullet point in the second paragraph of the section Conditions to Completion of the Merger and (ii) cannot be or has not been cured within twenty business days after Perfumania receives written notice from Parlux of such breach or failure.

For purposes of the merger agreement out-of-pocket expenses means, all out-of-pocket expenses and fees (including all fees and expenses payable to all legal, accounting, financial, public relations and other professional advisors) of such party arising out of, in connection with or related to the merger or the other transactions contemplated by the merger agreement, up to a maximum of \$2 million in the aggregate.

**Expenses**

Whether or not the merger is completed, all fees and expenses incurred in connection with the merger agreement and the transactions contemplated by the merger agreement will be paid by the party incurring those fees or expenses, except that Perfumania and Parlux will share equally the expenses incurred in connection with the printing and mailing of this joint proxy statement/prospectus, Perfumania will bear all of the cost of the filing or other fees paid to the Securities and Exchange Commission in connection with the filing of the joint prospectus / proxy statement and the cost of the proxy solicitor retained by Parlux in connection with the solicitation of proxies from Parlux's stockholders and Perfumania's stockholders, and Perfumania will pay any filing fees for anti-trust filings made pursuant to the HSR Act.

If applicable, Parlux or Perfumania may be required to pay a termination fee and certain expenses in accordance with a termination described in The Merger Agreement Termination Fee beginning on page 130.

**Employee Matters**

After the effective time of the Merger, the surviving corporation will provide to the employees of Parlux and its subsidiaries (who were employed immediately before the effective time of the merger) and former employees of Parlux and its subsidiaries (who were terminated before the effective time of the merger), the compensation and benefits required by applicable law or benefits that were vested under any Parlux benefit plan. However, Perfumania or the surviving corporation is not prohibited from terminating the employment of any Parlux employee.

For at least twelve months following the effective time of the merger, Perfumania has also agreed to honor Parlux's benefit plans, including employment agreements and severance plans (unless the Parlux employees have been enrolled in or entitled to benefits under a comparable Perfumania benefit plan and entitled to the benefits provided to similarly situated employees of Perfumania and its subsidiaries). After the twelve month period, Perfumania will enroll the Parlux employees in and receive benefits under Perfumania benefit plans to the same extent as similarly situated employees of Perfumania and its subsidiaries.

In addition, each Parlux employee's service with Parlux or its subsidiaries (as well as service with any predecessor employer if service with that predecessor employer is recognized by Parlux or its subsidiaries) shall be treated as service with Perfumania or any of its subsidiaries for all purposes under Perfumania's benefit plans (other than benefit accruals under defined benefit plans or vesting under equity-based compensations plans). However, this will not apply to the extent its application would result in a duplication of benefits with respect to the same period of service. In the event Perfumania, the surviving corporation, or any Perfumania's subsidiaries

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terminates any or all of the Parlux benefit plans during the twelve month period after the effective time of the merger, each Parlux employee will be able to participate in a Perfumania benefit plan that is substantially comparable to the terminated Parlux benefit plan.

Perfumania has also agreed that it will use commercially reasonable efforts to waive, or cause to be waived, any pre-existing condition limitation, exclusions, actively-at-work requirements and waiting periods under any welfare benefit plan maintained by Perfumania or any of its subsidiaries in which Parlux employees (and their eligible dependents) will be eligible to participate in from and after the effective time of the merger. Perfumania has also agreed that it will use commercially reasonable efforts to recognize, or cause to be recognized, the dollar amount of all expenses incurred by each Parlux employee (and his or her eligible dependents) during the calendar year in which the effective time of the merger occurs for purposes of satisfying that year's deductible and co-payment limitations under the relevant welfare benefit plans in which Parlux employees will be eligible to participate in from and after the effective time of the merger.

During the twelve month period following the effective time of the merger, Parlux employees will be eligible to receive severance benefits under the Parlux Severance Policy (the Plan). Pursuant to the Plan, all non-exempt, exempt and management employees are eligible to participate in the Plan, except for those employees who are eligible to receive separation or severance payments pursuant to any other agreement contract, plan or other arrangement. An eligible employee will receive severance benefits if his or her employment is terminated involuntarily by Parlux other than for cause, as such term is defined in the Plan, on or before the one year anniversary of a change in control, as defined in the Plan. An employee who leaves his or her employment for any reason other than good reason, as defined in the Plan, shall not receive severance benefits.

An eligible employee will receive a cash severance benefit, payable as salary continuation, equal to one week of base pay for each full year of continuous service, with partial years of service prorated. The number of weeks upon which an eligible employee's severance benefit is determined is the Severance Period. The cash severance benefit continues even if the eligible employee obtains alternate employment. In addition, the eligible employee will receive payment of all accrued paid time off. If the employee participates in a Parlux-sponsored health benefits plan at the time of termination, the employee may continue to participate for the Severance Period and Parlux will pay 75% of the premiums. Following the Severance Period, the employee may elect to continue participate through the COBRA continuation period as long as the employee pays the full premium cost plus a 2% administration fee.

For a description of existing employment agreements between Parlux and certain of its executive officers, see The Merger Parlux Employment Arrangements beginning on page 101.

## **Indemnification and Insurance**

The merger agreement provides that, for a period of six years after the completion of the merger, Perfumania and the surviving corporation will indemnify and hold harmless, and provide advancement of claims-related expenses to, all past and present directors, officers and employees of Parlux and its subsidiaries for claims based on or arising out of the fact that such person held such position with Parlux or for acts or omissions in such capacity taken before the effective time of the merger and will assume the obligations of Parlux and its subsidiaries for indemnification of liability under their respective organizational documents, as in effect as of the date of the merger agreement.

The merger agreement also provides that Perfumania will cause to be maintained, for a period of six years after the completion of the merger, the current policies of directors' and officers' liability insurance maintained by Parlux, or policies of at least the same coverage and amounts containing terms and conditions that are no less favorable, with respect to claims arising from facts or events that occurred before the date of the completion of the merger. Perfumania will not be required to expend in any one year an amount more than 200% of the annual premiums paid by Parlux as of the date of the merger agreement for directors' and officers' liability insurance,

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and, if that insurance cannot be obtained at all or if the annual premiums of that insurance coverage exceed this amount, then Perfumania will be obligated to obtain a policy with the most advantageous policies available for a cost not exceeding that amount.

### **Amendment; Extension and Waiver**

The merger agreement may be amended by agreement of the parties in writing and by action of the Perfumania Board and the Parlux Board at any time before the effective time of the merger; provided, however, that after any approval of the transactions by the stockholders of Perfumania or the stockholders of Parlux, the merger agreement cannot be amended without obtaining further approval of the stockholders of Perfumania and stockholders of Parlux, as the case may be, if such approval is required by applicable law.

Subject to applicable law, at any time before the completion of the merger, a party may extend the time for performance of any of the obligations or other acts of the other party to the merger agreement, waive any inaccuracies in the representations and warranties of the other party contained in the merger agreement, or waive compliance by the other party with any agreement or condition in the merger agreement. Any agreement to an extension or waiver is only valid if it is in writing. Additionally, no failure or delay by a party in exercising any right under the merger agreement shall operate as a waiver and no single or partial exercise of any rights preclude any other or further exercise of any right under the merger agreement.

### **Governing Law**

The merger agreement is governed by and will be construed in accordance with the laws of the State of New York.

### **Additional Agreements**

#### ***Voting Agreements***

Upon execution of the merger agreement, Perfumania entered into voting agreements with Glenn Nussdorf and the Garcia Group, who hold an aggregate of approximately 23.5% of Parlux's outstanding common shares, pursuant to which they agreed that they will vote their shares of Parlux common stock (i) in favor of approval and adoption of the merger agreement, and (ii) against any proposal made in opposition to or competition with the merger agreement or that may impede, interfere with, delay or otherwise adversely affect the consummation of the merger. Those stockholders also agreed to elect to receive all stock consideration for all their shares of Parlux common stock. In addition, Perfumania agreed to reimburse the expenses incurred by Glenn Nussdorf in connection with the voting agreement and the transactions contemplated thereby.

In addition, simultaneously with the execution of the merger agreement, the directors and certain of the officers of Parlux holding approximately 5.6% of the outstanding shares of Parlux common stock, including its Chairman and Chief Executive Officer, each entered into a voting agreement with Perfumania pursuant to which each officer and director agreed that he or she will vote his or her shares of Parlux common stock (i) in favor of approval and adoption of the merger agreement and (ii) against any proposal made in opposition to or competition with the merger agreement or that would impede, interfere with, delay or otherwise adversely affect the consummation of the merger.

Also simultaneously with the execution of the Merger Agreement, Parlux entered into a voting agreement with the Nussdorfs, who hold approximately 74% of Perfumania's outstanding common shares, pursuant to which they agreed to vote their shares of Perfumania common stock (i) in favor of the increase in authorized shares of Perfumania and the issuance of shares pursuant to the merger agreement and (ii) against any proposal that is in opposition to or competition with the merger agreement or that would impede, interfere with, delay or otherwise adversely affect the consummation of the merger.

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Each of the voting agreements described above expires upon the earliest of consummation of the merger, termination of the merger agreement or, in the case of the voting agreements regarding Parlux shares, a change of recommendation by the Parlux board of directors.

***Licensor Agreements***

In connection with the merger agreement, Parlux, Artistic Brands and Rene Garcia entered into an amendment to their Letter Agreement dated April 3, 2009 providing that the merger will not be a Fundamental Transaction under the terms of the letter agreement, which would have required the payment by Parlux of certain additional sums to Artistic Brands at the effective time of the merger.

Perfumania, Parlux, Artistic Brands and Mr. Garcia also entered into the Proposal Agreement providing that Artistic Brands and Mr. Garcia will not solicit or negotiate with parties other than Perfumania in connection with the treatment of the licensor warrants or the Letter Agreement. However, in the event that, consistent with the provisions of the merger agreement, Parlux engages in discussions or negotiations with a third party regarding an alternative acquisition proposal or enters into an agreement relating to a superior proposal, then Mr. Garcia and Artistic Brands may enter into discussions or negotiations with such third party with regard to the treatment of the licensor warrants and/or the Letter Agreement in connection with such acquisition proposal. The parties to the Proposal Agreement also acknowledged that Artistic Brands and S. Carter Enterprises, LLC have agreed to enter into a license agreement and Artistic Brands, Perfumania and S. Carter Enterprises have agreed to enter into a sublicense agreement, both to be effective upon the consummation of the merger, and subject to certain closing conditions contained in the Proposal Agreement. The Proposal Agreement also provides for the issuance to Artistic Brands or its designee of 300,000 shares of Perfumania common stock after the effective time of the merger as consideration for the transactions contemplated in the Proposal Agreement. These shares will be entitled to the same registration rights as the shares underlying the licensor warrants.

Perfumania, Artistic Brands, and S. Carter Enterprises, LLC also entered into a letter agreement on December 23, 2011 (the Carter Letter Agreement), in which the parties acknowledged that Artistic Brands and S. Carter Enterprises, LLC agreed to enter into a license agreement and Artistic Brands, Perfumania, and S. Carter Enterprises, LLC agreed to enter into a sublicense agreement, both to be effective upon the consummation of the merger, and subject to certain closing conditions contained in the Carter Letter Agreement. Forms of the license and sublicense agreements were attached as exhibits to the Carter Letter Agreement.

Pursuant to the license agreement, Artistic Brands would have the exclusive right and license to manufacture, promote, distribute, and sell prestige fragrances and related products under the Jay-Z trademark. Such rights would be sublicensed to Perfumania pursuant to the sublicense agreement. The initial term of the license agreement shall expire 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. At the time of execution of the license and sublicense agreements, Perfumania will issue to S. Carter Enterprises, LLC warrants for the purchase of 266,667 shares of Perfumania common stock at an exercise price of \$8.00 per share.

Pursuant to the sublicense agreement, Artistic Brands will sublicense all rights granted under the license agreement to Perfumania, and in return Perfumania will assume all of the Artistic Brands obligations under the license agreement, including making all royalty payments and certain guaranteed minimum royalties, owed to S. Carter Enterprises, LLC. Additionally, pursuant to the existing license agreement between Parlux and Artistic Brands, upon execution of the license and sublicense agreement, Perfumania will issue to Artistic Brands or its designee warrants for the purchase of 1,599,999 shares of Perfumania common stock at an exercise price of \$8.00 per share, which include the warrants to purchase 266,667 shares to be issued to S. Carter Enterprises, LLC.

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On December 23, 2011, Perfumania and the Garcia Group entered into a stockholders agreement. The stockholders agreement provides that, commencing upon the consummation of the merger and until either December 23, 2015, or until the Nussdorfs and trusts related to them cease to own at least one third of the outstanding Perfumania stock (the Term), the Garcia Group will not vote any of their shares of Perfumania stock (and all Perfumania stock that they later acquire) in favor of certain matters if the Perfumania board has recommended a vote against that matter. These matters include, among other things, (i) certain merger, reorganization, business combination, recapitalization, dissolution, liquidation or similar transaction involving Perfumania constituting more than 50% or more of its assets, revenues or earnings, (ii) an acquisition of more than 50% of Perfumania's consolidated assets or 50% of Perfumania's outstanding common stock, (iii) the issuance of Perfumania common stock that after giving effect to that issuance represents more than 50% of Perfumania's outstanding common stock, or (iv) a tender offer or exchange offer that, if consummated, would result in any person or group beneficially owning more than 50% of Perfumania's outstanding common stock, other than the Nussdorfs. The Garcia Group also agreed in the stockholders agreement that during the Term they will not vote for any director unless the director is recommended by Perfumania's board. The stockholders agreement also restricts the Garcia Group's ability to enter into voting agreements or transfer their shares of Perfumania common stock, subject to certain exceptions. Under the stockholders agreement the Garcia Group also agree to not seek to acquire ownership of more than 28% of Perfumania common stock, engage in a solicitation of proxies or a proxy contest, seek to control Perfumania's management, nominate directors not nominated by Perfumania's then-incumbent directors or join a group or announce their intent to do any of the foregoing during the Term, unless approved by Perfumania's board of directors.

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**PERFUMANIA S FINANCING ARRANGEMENTS**

**Overview**

Perfumania will obtain financing for the cash portion of the merger consideration from two sources, by an amendment to its credit facility with Wells Fargo Bank, National Association to provide for additional borrowings, and from new subordinated loans from the Nussdorf Trusts.

**Bank Credit Facility**

On December 23, 2011, Perfumania entered into an Amendment No. 1 to Credit Agreement and Consent (the Amendment No. 1) with a syndicate of banks for which Wells Fargo Bank, serves as Administrative Agent for the lenders, with respect to Perfumania s \$225,000,000 revolving credit facility, which we refer to as the senior credit facility. Perfumania originally entered into the senior credit facility on January 7, 2011.

Pursuant to the Amendment No. 1, subject to the conditions set forth below, the lenders under the senior credit facility provided their consent to, among other things, the merger and borrowings under its senior bank 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. The lenders also consented to the incurrence of additional indebtedness by Perfumania s subsidiary, Model Reorg Acquisition, LLC ( Model ), from certain trusts related to principal stockholders of Perfumania (see below) to fund a portion of the cash consideration payable in the merger; and upon consummation of the merger, to inclusion of new domestic subsidiaries of Perfumania acquired or formed in connection with the merger as co-borrowers with Perfumania and certain of its other subsidiaries under the senior credit facility.

The consent provided by the lenders under the senior credit facility is subject to certain conditions, including, among other conditions: (i) there be no default outstanding under the senior credit facility on the date the merger is to be consummated; (ii) certain representations made by Parlux to Perfumania in connection with the merger are true and correct in all material respects on the date that the merger is to be consummated; and (iii) the consolidated fixed charge coverage ratio of Perfumania, calculated on a pro forma basis as set forth in the senior credit facility, shall be equal to or greater than 1.10:1.00 after giving effect to the merger.

Perfumania has also agreed with the Lenders that contemporaneously with the consummation of the merger, Perfumania will repay revolving loans under the senior credit facility in an amount equal to any cash and cash equivalents acquired in the merger.

Under the Amendment No. 1, the maximum amount to be borrowed under the senior credit facility has not been increased. Until such time as Wells Fargo Bank has conducted a field examination and other diligence with respect to the acquired business, no credit card receivables, trade receivables or inventory of the acquired business will be included in the borrowing base under the senior credit facility.

**Nussdorf Trust Loans**

As a condition to the lenders consent with respect to the merger under the Amendment No. 1 to the senior credit facility, Model and certain trusts related to the principal stockholders of Perfumania executed a commitment letter to amend and increase existing subordinated debt obligations as follows:

(i) Amended and Restated Subordinated Promissory Note made by Model, dated as of January 7, 2011, as amended to date, in the aggregate principal amount of \$7,388,212.15, held by Trust Under Article 2 of the Trust Agreement dated November 1, 1998 with Glenn Nussdorf as Grantor (formerly Glenn Nussdorf 10-Year Grantor Retained Annuity Trust dated 11/1/98) will be increased by \$4,002,000;

(ii) Amended and Restated Subordinated Promissory Note made by Model, dated as of January 7, 2011, as amended to date, in the aggregate principal amount of \$11,067,018.85, held by Glenn Nussdorf 15 Year Grantor Retained Annuity Trust dated 11/2/98 will be increased by \$5,998,000;



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(iii) Amended and Restated Subordinated Promissory Note made by Model, dated as of January 7, 2011, as amended to date, in the aggregate principal amount of \$7,388,212.15, held by Trust Under Article 2 of the Trust Agreement dated November 1, 1998 with Stephen Nussdorf as Grantor (formerly Stephen Nussdorf 10 Year Grantor Retained Annuity Trust dated 11/1/98) will be increased by \$4,002,000;

(iv) Amended and Restated Subordinated Promissory Note made by Model, dated as of January 7, 2011, as amended to date, in the aggregate principal amount of \$11,067,018.85, held by Stephen Nussdorf 15 Year Grantor Retained Annuity Trust dated 11/2/98 will be increased by \$5,998,000;

(v) Amended and Restated Subordinated Promissory Note made by Model, dated as of January 7, 2011, as amended to date, in the aggregate principal amount of \$7,388,212.15, held by Trust Under Article 2 of the Trust Agreement dated November 1, 1998 with Arlene Nussdorf as Grantor (formerly Arlene Nussdorf 10 Year Grantor Retained Annuity Trust dated 11/1/98) will be increased by \$4,002,000; and

(vi) Amended and Restated Subordinated Promissory Note made by Model, dated as of January 7, 2011, as amended to date, in the aggregate principal amount of \$11,067,018.85, held by Arlene Nussdorf 15 year Grantor Retained Annuity Trust dated 11/2/98) will be increased by \$5,998,000.

On the date that the merger is consummated, Model will execute and deliver to each Nussdorf Trust, a Second Amended and Restated Subordinated Promissory Note in the amount equal to the then-outstanding principal balance of the respective note plus the amount of the new commitment of the trust set forth above. Each of these Nussdorf Trust Notes will provide for payment of the principal in full on April 30, 2015 and for payment of interest on the unpaid principal balance in quarterly installments on the last day of each January, April, July and October at the then current Senior Debt Rate plus two percent (2% ) per annum. For this purpose, Senior Debt Rate means the base rate applicable to the senior credit facility as long as the senior credit facility is outstanding, after which it will be The Wall Street Journal s prime rate plus one percent (1%). The Nussdorf Trust Notes will continue to be subordinated to the senior credit facility and payment of principal and interest thereunder are subject to the terms of the Subordination Agreements described below.

**Subordination Agreements**

As a further condition to the lenders consent with respect to the merger under the Amendment No. 1 to the senior credit facility, effective on the date of the consummation of the merger, Perfumania will enter into Amended and Restated Subordination Agreements with Wells Fargo Bank as agent for the lenders under the senior credit facility and the respective holders of the Nussdorf Trust Notes. Under the Subordination Agreements, (a) no principal made be paid on any of the Nussdorf Trust Notes until three months after the senior credit facility terminates and is paid in full, and (b) payment of interest is subject to satisfaction of certain conditions, including Perfumania s maintaining excess availability as defined under the senior credit facility.

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### THE PARLUX SPECIAL MEETING

#### Meeting Matters

##### *Date, Time and Place*

The special meeting of Parlux stockholders will be held on [ ], 2012 at [ ] a.m., Eastern time, at [ ].

##### *Purpose*

At the special meeting, Parlux stockholders will be asked to vote on the following proposals to:

approve and adopt the merger agreement;

approve, on an advisory and non-binding basis, certain compensation payable to certain Parlux executive officers in connection with the merger;

approve the adjournment of the special meeting for any purpose, including to solicit additional proxies if there are insufficient votes at the time of the special meeting to approve the first proposal described above;

transact such other business as may be in furtherance of or incidental to the foregoing.

The Parlux Board of Directors is not aware of any other business to be acted upon at the special meeting. In the event that any other matter should properly come before the meeting, the proxy holders will vote as recommended by the Parlux Board of Directors or, if no recommendation is given, in accordance with their best judgment.

##### *Record Date; Stock Entitled to Vote*

Only holders of record of Parlux common stock at the close of business on March 1, 2012, the record date, will be entitled to vote at the special meeting, provided that the shares remain outstanding on the date of the special meeting.

As of the close of business on the record date, there were [ ] shares of Parlux common stock outstanding and entitled to vote at the special meeting. Each holder of Parlux common stock is entitled to one vote on each matter to be voted upon at the special meeting.

##### *Quorum*

The presence at the special meeting, in person or by proxy, of the holders of shares of Parlux common stock representing a majority of the votes which could be cast by holders of all outstanding shares of Parlux common stock entitled to vote at the special meeting constitutes a quorum.

##### *Votes Required for Approval*

Approval of the proposal to approve and adopt the merger agreement requires the affirmative vote of holders of a majority of all outstanding shares of Parlux common stock entitled to vote on the proposal. **Because approval and adoption of the merger agreement requires the affirmative vote of a majority of all outstanding shares of Parlux common stock entitled to vote on the proposal, a stockholder's failure to vote or an abstention will have the same effect as a vote against approval and adoption of the merger agreement.**

The approval, on an advisory and non-binding basis, of certain compensation payable to certain Parlux executive officers in connection with the merger requires a majority of the total votes cast by the holders of Parlux common stock present in person or represented by proxy at the special meeting. Stockholder approval, on an advisory and non-binding basis, of this golden parachute compensation is not required to complete the merger.



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The special meeting may be adjourned for any purpose, including to solicit additional proxies, by the vote of Parlux common stock having a majority of the votes of the shares represented at such meeting in person or represented by proxy.

As described more fully under *The Merger Agreement Additional Agreements* on page 132, certain stockholders of Parlux who own, in the aggregate [ ] shares of Parlux common stock, or approximately [ ]% of Parlux's outstanding common shares on the record date and entitled to vote at the special meeting have agreed to vote their shares **FOR** the proposal to approve and adopt the merger agreement at the special meeting.

### ***Voting by Parlux Directors and Executive Officers***

On the Parlux record date, directors and executive officers of Parlux and their affiliates held 1,105,100 shares of Parlux common stock, or approximately 5.6% of the voting power of the outstanding shares of Parlux entitled to vote at the special meeting. As described more fully under *The Merger Agreement Additional Agreements* on page 132, Parlux's directors and executive officers and certain other Parlux stockholders entered into voting agreements with Perfumania and have agreed to vote their shares **FOR** the proposal to approve and adopt the merger agreement at the special meeting.

**Under the voting agreements described above (and described more fully under *The Merger Agreement Additional Agreements* ) unless the merger agreement is terminated, approximately [ ]% of the outstanding Parlux common stock on the record date will be voted in favor of the proposal to approve and adopt the merger agreement, and the approval of that proposal will require the affirmative vote of holders of an additional [ ]% of all outstanding shares of Parlux common stock entitled to vote on the proposal.**

### ***Voting by Holders of Record***

If you own shares of Parlux common stock in your own name, you are an owner of record. This means that you may use the enclosed proxy card to tell the persons named as proxies how to vote your shares of Parlux common stock. If you fail to vote, the proxies cannot vote your shares of Parlux common stock at the Parlux special meeting. If you are an owner of record then you have four voting options:

*Telephone.* You can vote by telephone by calling the toll-free number [ ] in the United States, Canada or Puerto Rico on a touch-tone telephone. You will then be prompted to enter the control number printed on your proxy card and to follow the subsequent instructions. Telephone voting is available 24 hours a day until 11:59 p.m., Eastern time, on [ ], 2012. If you vote by telephone, you do not need to return your proxy card or voting instruction card.

*Internet.* You can vote over the Internet by accessing the web site at [http://www.\[ \]](http://www.[ ]) and following the instructions on the secure web site. Internet voting is available 24 hours a day until 11:59 p.m., Eastern time, on [ ], 2012. If you vote over the Internet, you do not need to return your proxy card or voting instruction card.

*Mail.* You can vote by mail by simply completing, signing, dating and mailing your proxy card in the postage-paid envelope included with this joint proxy statement/prospectus.

*In Person.* You may come to the Parlux special meeting and cast your vote there. The Parlux board of directors recommends that you vote by proxy even if you plan to attend the Parlux special meeting. Attendance at the special meeting is limited to Parlux stockholders, their proxies and invited guests of Parlux.

Your vote is important. Accordingly, please submit your proxy by mail, whether or not you plan to attend the special meeting in person. Proxies must be received by [ ]p.m., Eastern time, on [ ], 2012.

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### ***Voting of Shares Held in Street Name***

If you hold shares through a broker or other nominee, you may instruct your broker or other nominee to vote your shares by following the instructions that the broker or nominee provides to you with these materials. Most brokers offer the ability for stockholders to submit voting instructions by mail by completing a voting instruction card, by telephone and via the Internet. If you do not provide voting instructions to your broker, your shares will not be voted on any proposal on which your broker does not have discretionary authority to vote. This is called a broker non-vote. In these cases, the broker can register your shares as being present at the special meeting for purposes of determining the presence of a quorum, but will not be able to vote on those matters for which specific authorization is required. Under the current rules of Nasdaq, brokers do not have discretionary authority to vote on the proposal to approve and adopt the merger agreement or the vote on the proposal to approve, on an advisory and non-binding basis, certain compensation payable to certain Parlux executive officers in connection with the merger. A broker non-vote will have the same effect as a vote against approval and adoption of the merger agreement and against the proposal to approve, on an advisory and non-binding basis, certain compensation payable to certain Parlux executive officers in connection with the merger. If you hold shares through a broker or other nominee and wish to vote your shares in person at the special meeting, you must obtain a legal proxy from your broker or nominee and present it to the inspector of election with your ballot when you vote at the special meeting.

### ***Effect of Abstentions and Broker Nonvotes***

Only shares affirmatively voted for the approval and adoption of the merger agreement or properly executed proxies that do not contain voting instructions will be counted as favorable votes for the proposals. Accordingly, an abstention or failure to vote will have the same effect as a vote against approval and adoption of the merger agreement. Also, brokers and banks who hold Parlux common stock in street name for customers who are the beneficial owners of those shares may not give a proxy to vote those shares without specific instructions from those customers.

### ***Revocability of Proxies***

You may change your vote at any time before your proxy is voted at the Parlux special meeting of stockholders. You may do this in one of three ways:

by sending a notice of revocation to the corporate secretary, dated as of a later date than the date of the proxy and received before the special meeting;

by sending a completed proxy card bearing a later date than your original proxy card and mailing it so that it is received before the special meeting;

by attending the special meeting of stockholders and voting in person.

Your attendance alone will not revoke any proxy.

Written notices of revocation and other communications about revoking Parlux proxies should be addressed to:

Parlux Fragrances, Inc.

5900 N. Andrews Avenue, Suite 500

Fort Lauderdale, Florida 33309

Attn: Corporate Secretary

If your shares are held in street name, you should follow the instructions of your broker regarding the revocation of proxies.

Once voting on a particular matter is completed at the Parlux special meeting, a Parlux stockholder will not be able to revoke its proxy or change its vote as to that matter.



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### ***Solicitation of Proxies***

Parlux will bear the entire cost of soliciting proxies from its stockholders, except that Perfumania and Parlux have agreed to each pay one half of the costs and expenses of printing and mailing this joint proxy statement/prospectus and Perfumania will pay all filing and other similar fees payable to the SEC in connection with the transaction and Perfumania has agreed to pay the costs of the proxy solicitor described below. In addition to the solicitation of proxies by mail, Parlux will request that banks, brokers and other record holders send proxies and proxy material to the beneficial owners of Perfumania common stock and secure their voting instructions, if necessary. Parlux will reimburse the record holders for their reasonable expenses in taking those actions. Parlux has also engaged Georgeson Inc. to assist in the solicitation of proxies for the special meeting, for which the estimated fee will be approximately \$8,500 plus tabulation charges and will reimburse reasonable out-of-pocket expenses incurred in connection with the proxy solicitation. In addition, officers and employees of Parlux may request the return of proxies by telephone or in person, but no additional compensation will be paid to them.

### **Parlux Proposal 1: Approval and Adoption of the Merger Agreement**

#### ***The Merger Agreement***

Parlux stockholders must vote to approve and adopt the merger agreement in order for Parlux and Perfumania to complete the merger. Please see *The Merger* beginning on page 50 and *The Merger Agreement* beginning on page 113 in this joint proxy statement/prospectus for information regarding and reasons for the merger.

#### ***Recommendation of the Board of Directors***

The Parlux board of directors unanimously recommends that stockholders vote **FOR** the proposal to approve and adopt the merger agreement, which is necessary to complete the merger.

### **Parlux Proposal 2: Advisory Vote on Certain Compensation Payable by Parlux to Executive Officers in Connection with the Merger**

In Proposal 2, Parlux asks shareholders to vote to approve, on an advisory and non-binding basis, certain compensation payable to certain executive officers of Parlux in connection with the merger. This advisory vote is required by Section 14A of the Exchange Act and the related rules of the SEC. Since this vote is advisory in nature, it is not binding on Parlux or its Board of Directors.

The vote on this Proposal 2 is a vote separate and apart from the vote on Proposal 1 to approve the merger. Accordingly, you may vote to approve this Proposal 2 on executive compensation and vote not to approve Proposal 1 on the merger and vice versa. Because the vote is advisory in nature only, it will not be binding on either Parlux or Perfumania regardless of whether the merger is approved. Accordingly, as the compensation to be paid in connection with the merger is contractual with the executives, regardless of the outcome of this advisory vote, such compensation will be payable, subject only to the conditions applicable thereto, if the merger is approved.

#### ***Golden Parachute Compensation***

Based on compensation and benefit levels as of December 31, 2011, and assuming that the merger occurs on March 31, 2012 and that each named executive officer of Parlux experiences a qualifying termination of employment under their existing employment agreements with Parlux (more fully described below) at that time, the named executive officers would be entitled to receive the following cash severance payments and benefits. In addition, under the merger agreement, upon the closing of the merger options for Parlux common stock, including those held by the named executive officers, will be converted into options to acquire Perfumania common stock, and the vesting of those options, to the extent not already vested pursuant to the terms of an employment agreement, will be accelerated by one year. The value of the accelerated vesting of the stock options for the named executive officers is shown in the table below in the Equity column.

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<b>Executive Officer</b>	<b>Cash Severance (\$)</b>	<b>Equity (\$)</b>	<b>Pension/ NQDC (\$)</b>	<b>Perquisites/ Benefits (6)(\$)</b>	<b>Tax Reimbursement (\$)</b>	<b>Other (\$)</b>	<b>Total (\$)</b>
Frederick E. Purches	105,000(1)	0(4)	0	24,256	0	0	129,256
Frank A. Buttacavoli	200,000(2)	0(4)	0	16,076	0	0	216,076
Raymond J. Balsys	131,250(3)	242,683(5)	0	7,890	0	0	381,823

- (1) Assuming that Mr. Purches is re-elected to the Parlux Board at the annual meeting of stockholders for the fiscal year ended March 31, 2011, if his employment is terminated prior to such date, then Parlux will continue to pay him, or his affiliate Cosmix, Inc., a consulting fee of \$15,000 per month from April 1, 2012 through October 2012.
- (2) Represents continued payment of Mr. Buttacavoli's fiscal 2012 base salary paid for a period of six months following the closing of the merger. This payment would be due to Mr. Buttacavoli in the event that his responsibilities following the merger are materially diminished (following notice and a 30 day cure period) or the employment agreement between Mr. Buttacavoli and the Company is not expressly assumed by the surviving corporation within 10 days following the merger. The terms of Mr. Buttacavoli's employment agreement also provide for the payment of any earned incentive bonus, however no such bonuses have been paid in the last three years and it is not anticipated that such a bonus would have been paid for fiscal 2012.
- (3) Represents continued payment of Mr. Balsys' fiscal 2012 base salary, paid for a period of six months following the closing of the merger. This payment would be due to Mr. Balsys in the event that his responsibilities following the merger are materially diminished (following notice and a 30 day cure period) or the employment agreement between Mr. Balsys and the Company is not expressly assumed by the surviving corporation within 10 days following the merger. The terms of Mr. Balsys' employment agreement also provide for the payment of any earned incentive bonus, however no such bonuses have been paid in the last three years and it is not anticipated that such a bonus would have been paid for fiscal 2012.
- (4) Does not include options for Parlux common stock that will already be fully vested in accordance with their terms, without regard to the merger, as of the assumed closing date of March 31, 2012. Those options will convert to options to purchase Perfumania stock in accordance with the terms of the merger agreement (See *The Merger Agreement Treatment of Parlux Stock Options and Other Stock-Based Awards*).
- (5) This amount represents the value of options to purchase Perfumania common stock for which options to purchase Parlux common stock held by Mr. Balsys will be exchanged upon the closing of the merger pursuant to the terms of the merger agreement. Such calculation includes the \$38,473 value of the accelerated vesting of 12,500 Parlux options pursuant to the terms of his employment agreement which will be converted into fully vested Perfumania options. For purposes of this calculation, the stock price of Parlux is assumed to be \$5.34 and the stock price of Perfumania is assumed to be \$11.40, in each case equal to the average closing market price of such stock over the first five days following the public announcement of the merger. This conversion is a single trigger event, meaning that it will occur whether or not Mr. Balsys' employment is terminated following the merger.
- (6) Amounts in this column represent the value of continued health, life and disability insurance for a period of 12 months following the merger for Mr. Buttacavoli and Mr. Balsys and for 18 months following the merger for Mr. Purches in accordance with their existing employment agreements.

*Frederick E. Purches*

Pursuant to the employment agreement between Mr. Purches and Parlux, dated November 8, 2010 and as amended as of May 18, 2011 and June 27, 2011, Parlux may terminate Mr. Purches' employment agreement for any reason at any time, without any prior written notice to Mr. Purches. Mr. Purches shall not be entitled to any severance payment, salary continuation or other post-employment benefits of any kind, provided that upon termination Mr. Purches may retain any stock options granted during the term of his employment agreement for the remaining term of such options. If Parlux terminates Mr. Purches' employment agreement prior to March 31, 2012, then Parlux will engage Mr. Purches or his affiliate, Cosmix, Inc., to be engaged as a consultant at \$15,000 per month until the 2012 annual shareholders' meeting. Upon expiration of his employment agreement or upon termination, other than for Cause, Parlux shall permit Mr. Purches to participate in Parlux's benefit plans and



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will continue to pay the premiums covering Mr. Purches' participation in such benefit plans for up to 18 months from the termination date as consideration for Mr. Purches' availability for consulting services as Parlux may reasonably request as long as such participation by Mr. Purches in the benefit plans and the payment by Parlux of the continuation premiums shall be permitted under the terms of the benefit plans and any applicable law in effect during such period. For purposes of Mr. Purches' employment agreement, a termination will be deemed to have occurred for Cause under the employment agreement if Mr. Purches is terminated for: (i) willful misconduct; (ii) commission of a felony; (iii) repeated disregard of his duties under the employment agreement; or (iv) material breach of the terms of his employment agreement. Under the terms of the employment agreement, Mr. Purches is subject to certain restrictive covenants, including confidentiality, non-solicitation and non-competition covenants.

*Frank A. Buttacavoli*

Pursuant to the employment agreement between Mr. Buttacavoli and Parlux, dated June 9, 2010 and amended on March 31, 2010, March 31, 2011 and September 12, 2011, upon termination of Mr. Buttacavoli's employment agreement for any reason other than resignation of Mr. Buttacavoli without Good Reason, as defined below, or termination by Parlux for Cause, as defined below, the following will apply, with some exceptions:

- (i) *Termination Payment.* Mr. Buttacavoli, or his estate and heirs following his death, shall be entitled (A) to continue to receive one-half of his annual base salary in effect at the time of such termination for a period of 6 months following the date of such termination, (B) to be paid when otherwise payable as if employment was not terminated, any bonus earned by Mr. Buttacavoli through the date of termination pursuant to the terms of the bonus plan prorated to the date of termination, and (C) to have any unvested portion of his option fully vest as of the date of such termination.
- (ii) *Termination Benefits.* Parlux will continue to provide Mr. Buttacavoli with the executive benefits and perquisites available to executive officers of Parlux, including any group health, dental, disability, or other form of executive benefit plan or program of Parlux existing from time to time on the same terms and conditions as is available to all other executives for a period of 12 months following the date of termination, except the executive benefits shall cease should Mr. Buttacavoli commence employment with another employer during this twelve month period.
- (iii) *Condition to Severance.* In the event Mr. Buttacavoli breaches any of the covenants contained in his employment agreement, then (A) we will have no further obligation to make termination payments to Mr. Buttacavoli or to continue to provide the termination benefits described above, and (B) any unexercised option shall be forfeited and be cancelled.

Upon termination of Mr. Buttacavoli's employment agreement by his resignation without Good Reason, as defined below, or by Parlux for Cause, as defined below, Mr. Buttacavoli would not be eligible to receive any further compensation under his employment agreement other than what would be due through the effective date of Mr. Buttacavoli's resignation or termination.

For purposes of Mr. Buttacavoli's employment agreement Good Reason has the following meaning: a termination by Mr. Buttacavoli following a Good Reason Event provided (i) Mr. Buttacavoli provides notice to Parlux of such Good Reason Event within 90 days of the initial existence of such Good Reason Event; (ii) the notice provides Parlux with 30 days during which it may remedy the Good Reason Event; and (iii) Parlux fails to remedy the Good Reason Event within such 30 day period. A Good Reason Event shall be deemed to occur upon (i) a material diminution in Mr. Buttacavoli's authority, duties, or responsibilities or (ii) any action or inaction of Parlux which constitutes a material breach of his employment agreement. Also, for purposes of Mr. Buttacavoli's employment agreement, Cause for the termination of the executive's employment shall be deemed to exist if, in the good faith judgment of the Parlux's Board of Directors: (i) Mr. Buttacavoli commits fraud, theft or embezzlement; (ii) Mr. Buttacavoli commits an act of dishonesty affecting Parlux or a felony or a crime involving moral turpitude; (iii) Mr. Buttacavoli breaches any non-competition, confidentiality or

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non-solicitation agreement with Parlux; (iv) Mr. Buttacavoli breaches any of the material terms of his employment agreement and fails to cure such breach within 30 days after the receipt of written notice of such breach from Parlux; (v) Mr. Buttacavoli engages in gross negligence or willful misconduct that causes unreasonable harm to the business and operations of Parlux; or (vi) the executive's unreasonable failure or refusal to diligently perform the duties and responsibilities required to be performed by Mr. Buttacavoli under the terms of his employment agreement.

*Raymond J. Balsys*

Pursuant to the employment agreement between Mr. Balsys and Parlux dated August 1, 2011, upon termination of Mr. Balsys' employment for any reason other than resignation of Mr. Balsys without Good Reason, as defined below, or termination by Parlux for Cause, as defined below, the following will apply, with some exceptions:

- (i) *Termination Payment.* Mr. Balsys, or his estate and heirs following his death, is entitled (A) to continue to receive his annual base salary in effect at the time of such termination for a period of six months following the date of such termination, (B) to be paid when otherwise payable as if employment was not terminated, any bonus earned by Mr. Balsys through the date of termination pursuant to the terms of the bonus plan prorated to the date of termination, and (C) to have any unvested portion of his option fully vest as of the date of such termination.
- (ii) *Termination Benefits.* Parlux will continue to provide Mr. Balsys with the executive benefits and perquisites available to its executive officers, including any group health, dental, disability, or other form of executive benefit plan or program of Parlux existing from time to time on the same terms and conditions as is available to all other executives for a period of 12 months following the date of termination.
- (iii) *Condition to Severance.* In the event Mr. Balsys breaches any of the covenants contained in his employment agreement, then (A) Parlux will have no further obligation to make termination payments to Mr. Balsys or to continue to provide the termination benefits described above, and (B) any unexercised option shall be forfeited and be cancelled.

Upon termination of Mr. Balsys' employment agreement by his resignation without Good Reason, as defined below, or by Parlux for Cause, as defined below, Mr. Balsys would not be eligible to receive any further compensation under his employment agreement other than what would be due through the effective date of Mr. Balsys' resignation or termination.

For purposes of Mr. Balsys' employment agreement Good Reason has the following meaning: a termination by Mr. Balsys following a Good Reason Event provided (i) Mr. Balsys provides notice to Parlux of such Good Reason Event within 90 days of the initial existence of such Good Reason Event; (ii) the notice provides Parlux with 30 days during which it may remedy the Good Reason Event; and (iii) Parlux fails to remedy the Good Reason Event within such 30 day period. A Good Reason Event shall be deemed to occur upon (i) a material diminution in Mr. Balsys' authority, duties, or responsibilities or (ii) any action or inaction of Parlux which constitutes a material breach of his employment agreement. Also, for purposes of Mr. Balsys' employment agreement, Cause for the termination of Mr. Balsys' employment shall be deemed to exist if, in the good faith judgment of Parlux's Board of Directors: (i) Mr. Balsys commits fraud, theft or embezzlement; (ii) Mr. Balsys commits an act of dishonesty affecting Parlux or a felony or a crime involving moral turpitude; (iii) Mr. Balsys breaches any non-competition, confidentiality or non-solicitation agreement with Parlux; (iv) Mr. Balsys breaches any of the material terms of his employment agreement and fails to cure such breach within 30 days after the receipt of written notice of such breach from Parlux; (v) Mr. Balsys engages in gross negligence or willful misconduct that causes unreasonable harm to the business and operations of Parlux; or (vi) Mr. Balsys' unreasonable failure or refusal to diligently perform the duties and responsibilities required to be performed by the executive under the terms of his employment agreement.

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***Vote Required for Approval***

The advisory vote on the compensation to be received by the Parlux named executive officers in connection with the merger will be approved if the holders of a majority of the outstanding Parlux common stock vote For such proposal.

***Recommendation of the Board of Directors***

The Parlux board of directors unanimously recommends that stockholders vote **FOR** for the proposal to approve, on an advisory basis, certain compensation payable to certain executive officers of Parlux in connection with the merger, as more fully described above.

**Parlux Proposal 3: Adjournment of the Parlux Special Meeting**

Although it is not currently expected, the special meeting may be adjourned for any purpose, including to solicit additional proxies if there are insufficient votes at the meeting to approve and adopt the merger agreement.

With this proposal, we are asking you to authorize the holder of any proxy solicited by the Parlux board of directors to vote in favor of granting discretionary authority to the proxies or attorneys-in-fact to adjourn the special meeting for any purpose, including to solicit additional proxies. If Parlux stockholders approve the adjournment proposal, we could adjourn the special meeting and any adjourned session of the special meeting and use the additional time to solicit additional proxies, including the solicitation of proxies from stockholders who have previously returned properly executed proxies or authorized a proxy by telephone or via the Internet website. Additionally, we may seek to adjourn the special meeting if a quorum is not present initially.

***Recommendation of the Board of Directors***

The Parlux board of directors recommends that you vote **FOR** the proposal to adjourn the special meeting for any purpose, including to solicit additional proxies if there are insufficient votes at the time of the special meeting to approve and adopt the merger agreement.

**About the Parlux Directors**

Certain information concerning the Parlux executive officers and directors as of March 31, 2011, is set forth below. There are no family relationships between any of the Parlux executive officers or directors.

Name	Age	Position
Frederick E. Purches	73	Chairman of the Board of Directors and Chief Executive Officer
Anthony D. Agostino	53	Independent Director
Esther Egozi Choukroun	49	Independent Director
Glenn Gopman	56	Independent Director
Robert Mitzman	56	Independent Director

**Frederick E. Purches** was appointed Chairman of the Board of Directors and Chief Executive Officer in January 2010. Mr. Purches founded Parlux in 1984, and served from 1984 until 2005 in a variety of capacities for Parlux, including as the Chairman of the Board of Directors and Vice Chairman of the Board of Directors. Mr. Purches has been engaged in the cosmetic and fragrance business for over 40 years, including in various executive capacities with Helena Rubinstein/Armani, Inc. and Revlon, Inc. During the past fifteen years, Mr. Purches has served as a consultant to Parlux through Cosmix, Inc., a private company controlled by Mr. Purches.

**Anthony D. Agostino**, a Certified Public Accountant, has served as an independent director of Parlux since February 2007 and, as of April 2007, was appointed Chairman of the Audit Committee and a member of the Compensation, Independent, and Nominating Committees. Currently, Mr. D. Agostino is an audit manager with Sauvigne & Company, LLP, a Manhattan based CPA firm that he joined in December of 2007. He has been a

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consultant, assisting the chief financial officers and boards of directors of private and public companies, including Quality King, with compliance issues under the Sarbanes-Oxley Act of 2002 ( Sarbanes-Oxley ) and various transactions since 2004. From 2003 to 2004, Mr. D Agostino served as the Vice President of Finance and Chief Financial Officer of CPI Aerostructures, Inc., a defense contractor. From 2002 to 2003, Mr. D Agostino served as the Vice President of Finance and Chief Financial Officer of American Patriot Apparel Corporation, a start-up not-for-profit organization. From 2000 to 2002, he served as Senior Vice President of Finance and Chief Financial Officer of Softheon, Inc., a software start-up company.

Mr. D Agostino possesses extensive accounting and finance experience as an audit manager, Chief Financial Officer and Sarbanes-Oxley consultant, which provides the Board of Directors and Parlux with his expertise as an audit committee financial expert, accounting and financial guidance generally, and corporate governance and compliance insights relating to Sarbanes-Oxley.

**Esther Egozi Choukroun** has served as an independent director of Parlux since October 2000, and has served as Chairman and/or as a member of various committees during that time. As of April 2007, she became Chairman of the Nominating Committee, and a member of the Audit and Independent Committees. Since January 2007, Ms. Egozi Choukroun has been the Chief Financial Officer of Flagler Investment, LLC, a real estate investment firm specializing in the acquisition and management of underperforming office buildings in the Southeast United States and Texas. In addition, she is the Managing Member of PIX Holdings, LLC, a real estate advisory and consulting firm created in January 2007 and operating in South Florida and the Caribbean. From 2002 through 2006, Ms. Egozi Choukroun was the Executive Vice President and Chief Financial Officer of PIX Latin America Investments Corporation, a full service real estate company operating in Florida and Latin America. Ms. Egozi Choukroun was employed by Banque Nationale de Paris, Miami, from 1984 through 1996, and was Senior Vice President and Deputy General Manager from 1988 through 1996. From 1997 through 1999, she was Director of International Philanthropy at the Mount Sinai Medical Center Foundation, and through 2002 was Executive Director of the Women s International Zionist Organization for Florida. Ms. Egozi Choukroun currently serves as a member of the Advisory Board of the Scott Rakow Youth Center which is run by the Parks and Recreation Department of the City of Miami Beach.

Ms. Egozi Choukroun possesses extensive executive and financial experience as a Chief Financial Officer, a Managing Member and Senior Vice President, which provides the Board of Directors and Parlux with her valuable experience in the areas of senior management and financial experience, including managing companies with underperforming assets and international operations, as well as experience in the banking sector.

**Glenn H. Gopman** is a Certified Public Accountant, has served as an independent director of Parlux since October 1995, and has served as Chairman and/or as a member of various committees during that time. As of April 2007, he became Chairman of the Compensation and Independent Committees, and a member of the Audit Committee. Since 2003, Mr. Gopman has owned and operated an independent certified public accounting practice. He is presently a principal stockholder in the public accounting firm of Levi & Gopman, P.A. Until 2002, he was a partner in the public accounting firm of Rachlin Cohen & Holtz LLP. Before that, Mr. Gopman was a principal stockholder in the public accounting firm of Thaw, Gopman and Associates, P.A. He is a member of the American and Florida Institutes of Certified Public Accountants. Mr. Gopman has been appointed a member of the F.I.C.P.A. Management of Accounting Practice 2010/2011 Section Steering Committee. Mr. Gopman presently serves as Chairman of the Citizen s Oversight Committee under the Inter-Local Agreement on School Facilities Planning in Miami-Dade County. He is also an officer and director of The Hebrew Free Loan Association of South Florida, Inc. and the Miami Beach Senior High School Alumni Association, both of which are a non-profit organizations.

Mr. Gopman possesses extensive accounting experience as a Certified Public Accountant practicing in the area of public accounting, which provides the Board of Directors and Parlux with his valuable experience counseling companies with respect to the implementation and impact of accounting policies, and the use of management judgment and estimates regarding such accounting policies.

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**Robert Mitzman** has served as an independent director of Parlux since February 2007, and, as of April 2007, became a member of the Audit, Compensation, Independent and Nominating Committees. Since 1981, he has served as President and Chief Executive Officer of Quick International Courier, a privately held courier company, with over 600 employees and over 4,000 agents and worldwide offices. Mr. Mitzman currently serves on the board of directors of Esquire Bank Corp. He was previously a member of Young Presidents Organization and served on the board of directors of Orbit International Corp. until December 2008.

Mr. Mitzman possesses extensive executive experience as a Chief Executive Officer, which provides the Board of Directors and Parlux with important business and leadership experience, including leading an organization with global operations, experience in the human resources area managing a numerous and diverse pool of employees, and growing a business while managing the proper allocation of resources and cost structure.

**Compensation of Parlux's Directors**

Each of the Parlux non-employee directors receives an annual fee of \$42,000 in cash and an annual grant of stock options to purchase 15,000 shares of Common Stock as compensation for their service to the Board of Directors. Non-employee directors serving on the Audit Committee receive an additional \$8,000 in cash annually, with the Chairman receiving an additional \$10,000 in cash. Non-employee directors serving on the Compensation, Nominating, and Independent Committee receive an additional \$3,000 annually in cash for each Committee served on, with the Chairman of each of these committees receiving an additional \$3,000 in cash annually. Director compensation remained the same for fiscal 2010 and 2011.

The following table sets forth certain information regarding the compensation of the Parlux non-employee directors for the fiscal year ended March 31, 2011.

Name	Fees Earned or Paid in Cash (\$)	Option Awards \$(1)(2)(3)	Total (\$)
Anthony D Agostino	\$ 69,000	\$ 19,759	\$ 88,759
Esther Egozi Choukroun	\$ 59,000	\$ 19,759	\$ 78,759
Glenn Gopman	\$ 62,000	\$ 19,759	\$ 81,759
Robert Mitzman	\$ 59,000	\$ 19,759	\$ 78,759

- (1) All option awards were granted on October 12, 2010, at an exercise price of \$2.23, the closing price of Parlux's common stock on that date.
- (2) As of March 31, 2011, each of the current non-employee directors owned the following number of options: Anthony D Agostino 60,000; Esther Egozi Choukroun 45,000; Glenn Gopman 80,000; and Robert Mitzman 60,000.
- (3) The amounts reflect the aggregate grant date fair value of awards computed in accordance with FASB ASC Topic 718. Assumptions made for the purpose of computing this amount are discussed in Parlux's 2011 Form 10-K in Note 10 to the Consolidated Financial Statements. Each director was awarded options to purchase 15,000 shares during fiscal 2011.

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### **THE PERFUMANIA SPECIAL MEETING**

#### **Meeting Matters**

##### ***Date, Time and Place***

The special meeting of Perfumania stockholders will be held on [ ], 2012 at [ ] a.m., Eastern time, at Perfumania's principal executive offices located at 35 Sawgrass Drive, Suite 2, Bellport, New York 11713.

##### ***Purpose***

At the Perfumania special meeting, Perfumania stockholders will be asked to:

approve an amendment to the Perfumania charter to increase the total number of authorized shares of common stock from 20,000,000 to 35,000,000;

approve the issuance of shares of Perfumania common stock to Parlux stockholders in connection with the merger; and

transact such other business as may be in furtherance of or incidental to the foregoing.

The Perfumania board of directors has unanimously determined that the merger agreement and the other transactions contemplated thereby are advisable and in the best interests of Perfumania and its stockholders and has unanimously approved the issuance of Perfumania common stock to holders of Parlux common stock in the merger. **The Perfumania board of directors unanimously recommends that Perfumania stockholders vote FOR the proposal to amend the Perfumania charter and FOR the proposal to approve the issuance of Perfumania common stock pursuant to the merger agreement.**

For a more complete description of Perfumania's reasons for the merger and the recommendation of the Perfumania board of directors, see "The Merger" Perfumania Special Committee's and Board of Directors' Recommendations beginning on page 64.

##### ***Record Date; Stock Entitled to Vote***

Only stockholders of record of Perfumania common stock as of the close of business on March 1, 2012, the record date, are entitled to receive notice of the special meeting and to vote at the Perfumania special meeting or any adjournments or postponements thereof. As of the record date there were [ ] shares of Perfumania common stock outstanding. Each share of Perfumania common stock is entitled to one vote on each matter properly brought before the special meeting.

As of the record date, a complete list of stockholders entitled to notice and to vote at the Perfumania special meeting is available for examination by any Perfumania stockholder, his or her agent, or his or her attorney, at Perfumania's headquarters, 35 Sawgrass Drive, Suite 2, Bellport, New York 11713, for purposes pertaining to the Perfumania special meeting, during normal business hours, and at the time and place of the Perfumania special meeting.

##### ***Quorum***

The presence at the special meeting, in person or by proxy, of the holders of a majority of the shares of Perfumania common stock outstanding on the record date constitutes a quorum. Proxy cards received but marked as abstentions and broker non-votes will be included in the calculation of the number of shares considered to be present at the special meeting for purposes of a quorum.

##### ***Votes Required for Approval***

Under the Florida Business Corporation Act, which we refer to as the FBCA, approval of the amendment to Perfumania's charter requires that the number of votes cast in favor of approval exceeds the number cast in



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opposition. Under the Nasdaq Stock Market listing criteria, approval of the issuance of Perfumania shares in the merger requires the affirmative vote of a majority of the total votes cast on the proposal. These two standards are the same in operation. As a result of their ownership of approximately 74% of the outstanding shares of Perfumania common stock, members of the Nussdorf family have the right, and have agreed, to vote a sufficient number of shares at the special meeting to approve both proposals. Accordingly, the approval of both proposals at the special meeting is assured without the vote of any other stockholder.

### ***Voting by Perfumania Directors and Executive Officers***

On the Perfumania record date, directors and executive officers of Perfumania and their affiliates held [ ] shares of Perfumania common stock, or approximately [ ]% of the total voting power of the outstanding shares of Perfumania common stock entitled to vote at the special meeting. These stockholders have agreed to vote their shares **FOR** the proposal to amend the Perfumania charter and **FOR** the proposal to approve the issuance of Perfumania common stock pursuant to the merger. See the The Merger Agreement Additional Agreements on page 132 for additional information regarding the voting agreements.

### ***Voting by Holders of Record***

If you own shares of Perfumania common stock in your own name, you are an owner of record. This means that you may use the enclosed proxy card to instruct the persons named as proxies how to vote your shares of Perfumania common stock. If you fail to vote, the proxies cannot vote your shares of Perfumania common stock at the Perfumania special meeting. If you are an owner of record, you have two voting options:

*Mail.* You can vote by mail by simply completing, signing, dating and mailing your proxy card in the postage-paid envelope included with this joint proxy statement/prospectus.

*In Person.* You may come to the Perfumania special meeting and cast your vote there. The Perfumania board of directors recommends that you vote by proxy even if you plan to attend the Perfumania special meeting.

Perfumania requests that Perfumania stockholders complete and sign the accompanying proxy and return it to Perfumania as soon as possible in the enclosed postage paid envelope, even if you plan to attend the meeting. When the accompanying proxy is returned properly executed, the shares of Perfumania stock represented by it will be voted at the Perfumania special meeting in accordance with the instructions contained on the proxy card.

### ***Voting of Shares Held in Street Name***

If you hold shares through a broker or other nominee you hold them in street name, and you may instruct your broker or other nominee to vote your shares by following the instructions that the broker or nominee provides to you with these materials. Most brokers offer the ability for stockholders to submit voting instructions by mail by completing a voting instruction card, by telephone or via the Internet. If you hold shares through a broker or other nominee and wish to vote your shares in person at the special meeting, you must obtain a legal proxy from your broker or nominee and present it to the inspector of election with your ballot when you vote at the special meeting.

**Your vote is very important. Whether or not you plan to attend the special meeting, please promptly complete and return your proxy card in the enclosed envelope, or authorize the individuals named on your proxy card to vote your shares by calling the toll free telephone number or by using the Internet as described in the instructions included with your proxy card.**

### ***Effects of Abstentions and Failures to Vote***

Abstentions and broker non-votes (which occurs when you do not provide voting instructions on either proposal) are counted for purposes of determining the presence or absence of a quorum at the special meeting, but they will have no effect on the results of voting on either proposal.



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### ***Revocability of Proxies***

You may change your vote at any time before your proxy is voted at the Perfumania special meeting of stockholders. You may do this in one of three ways:

by sending a notice of revocation to the corporate secretary, dated as of a later date than the date of the proxy and received before the special meeting;

by sending a completed proxy card bearing a later date than your original proxy card and mailing it so that it is received before the special meeting;

by logging on to the Internet website specified on your proxy card in the same manner you would to submit your proxy electronically or by calling the telephone number specified on your proxy card, in each case if you are eligible to do so and following the instructions on the proxy card; or

by attending the special meeting of stockholders and voting in person.

Your attendance alone will not revoke any proxy.

Written notices of revocation and other communications about revoking Perfumania proxies should be addressed to:

Perfumania Holdings, Inc.

35 Sawgrass Drive, Suite 2

Bellport, New York 11713

Attn: Corporate Secretary

If your shares are held in street name, you should follow the instructions of your broker regarding the revocation of proxies.

All shares represented by valid proxies that Perfumania receives through this solicitation and that are not revoked will be voted in accordance with the instructions on the proxy card. If a Perfumania stockholder returns a signed proxy card with no specifications as to how the shares should be voted, such proxy will be voted for the proposal to amend the Perfumania charter and for the proposal to approve the issuance of Perfumania common stock in the merger.

### ***Solicitation of Proxies***

Perfumania will bear the entire cost of soliciting proxies from its stockholders, except that Perfumania and Parlux have agreed to each pay one half of the costs and expenses of printing and mailing this joint proxy statement/prospectus and Perfumania has agreed to pay all filing and other similar fees payable to the SEC in connection with the transaction. In addition to the solicitation of proxies by mail, Perfumania will request that banks, brokers and other record holders send proxies and proxy material to the beneficial owners of Perfumania common stock and secure their voting instructions, if necessary. Perfumania will reimburse the record holders for their reasonable expenses in taking those actions. If necessary, Perfumania may also use several of its regular employees, who will not be specially compensated, to solicit proxies from Perfumania stockholders, either personally or by telephone, the Internet, facsimile or letter.

### **Perfumania Proposal 1: Amendment of the Perfumania Charter**

#### ***Description of the Amendment***

## Edgar Filing: Perfumania Holdings, Inc. - Form S-4/A

Perfumania's board of directors has approved, subject to stockholder approval, an amendment to the Perfumania charter to increase the number of authorized shares of Perfumania common stock from 20,000,000 to 35,000,000.

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### ***Reasons for and Effect of the Amendment***

The Perfumania charter currently authorizes the issuance of up to 20,000,000 shares of common stock, par value \$0.01 per share, and 1,000,000 shares of preferred stock, par value \$0.01 per share. There are currently no shares of Perfumania preferred stock outstanding. On the record date, [ ] shares of Perfumania common stock were outstanding, [ ] shares were reserved for issuance upon exercise of outstanding stock options, [ ] shares were reserved for issuance upon conversion of convertible notes, and [ ] shares were reserved for future awards under Perfumania's stock option plan. Perfumania will issue up to an aggregate of 5,919,052 shares to Parlux stockholders in the merger (subject to adjustment in certain circumstances, as described in this joint proxy statement/prospectus in the section titled "The Merger Agreement - Consideration to be Received in the Merger" beginning on page 113) and outstanding Parlux options and warrants will be converted into options and warrants for an aggregate maximum of [ ] shares of Perfumania common stock. Perfumania is required by the merger agreement to have sufficient authorized but unissued shares available to complete the merger. The proposed amendment to the Perfumania charter will authorize a sufficient number of shares for the merger as well as a reasonable additional number of shares for future issuances by the combined company pursuant to benefit plans, for financings or acquisitions, or otherwise. If the amendment is not approved, Perfumania will not be able to complete the merger and the other transactions contemplated by the merger agreement. Therefore, the merger depends on Perfumania's stockholders approving the proposal to amend the Perfumania charter. However, this proposed amendment does not depend on approval of any other proposal, as Perfumania is seeking approval of the increase whether or not the merger issuance is approved.

The increased number of authorized and unissued shares could, in certain circumstances, have an anti-takeover effect. For example, it would permit issuances that could substantially dilute the stock ownership of a person seeking to effect a change in the composition of Perfumania's board of directors or contemplating a tender offer or other business combination transaction with us. However, the share increase is not being proposed in response to any effort by a third party of which we are aware to accumulate shares of Perfumania common stock or obtain control of Perfumania, nor is it part of a plan to recommend to the stockholders a series of provisions to address takeover concerns. Other than the share increase proposal, Perfumania's board of directors does not currently contemplate recommending the adoption of any other amendments to the Perfumania charter that could be construed to affect the ability of third parties to take over or change the control of Perfumania. Other than for issuances pursuant to Perfumania's existing equity compensation arrangements for directors, employees and independent contractors, Perfumania has no current plans to issue any shares of its common stock.

### ***Recommendation of the Board of Directors***

Perfumania's board of directors recommends a vote **FOR** the proposal to amend the Perfumania charter.

### **Perfumania Proposal 2: Issuance of Perfumania Common Stock in Connection with the Merger**

If the merger is completed, each share of Parlux common stock outstanding immediately before the effective time of the merger will be converted into the right to receive merger consideration. Under the merger agreement, Parlux stockholders may elect to receive consideration consisting of shares of Perfumania common stock or a combination of shares and cash in exchange for their shares of Parlux common stock, as described in "The Merger Agreement - Consideration to be Received in the Merger" on page 113. As described above, the merger agreement provides for the issuance of up to 5,919,052 shares of Perfumania common stock in exchange for shares of Parlux common stock (subject to adjustment in certain circumstances, as described in this joint proxy statement/prospectus in the section titled "The Merger Agreement - Consideration to be Received in the Merger" beginning on page 113). In addition, as described in "The Merger Agreement - Treatment of Parlux Stock Options and Treatment of Warrants," on page 115, Perfumania will assume the existing options and warrants to purchase shares of Parlux common stock, upon exercise of which it will issue up to an aggregate of approximately 4,000,000 shares of Perfumania common stock, and Perfumania will issue an additional 300,000 shares of Perfumania common stock and warrants to purchase 1,599,999 shares of Perfumania common stock to Artistic Brands or its designee at the effective time of the merger pursuant to a private placement as described in "The Merger Agreement - Additional Agreements - Licensor Agreements" on page 132.

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Under the Nasdaq Marketplace Rules, a company listed on Nasdaq is required to obtain stockholder approval before the issuance of shares of common stock, or of securities convertible into or exercisable for common stock, in connection with the acquisition of another company if the number of shares of common stock to be issued is, or will be upon issuance, equal to or in excess of 20% of the number of shares of common stock outstanding before the proposed acquisition or if any director, officer or substantial stockholder of the company has a 5% or greater interest in the company to be acquired. Both these factors apply to Perfumania's proposed acquisition of Parlux, so Perfumania is seeking the approval of its stockholders for the issuance of shares of Perfumania common stock in connection with the merger.

***Recommendation of the Board of Directors***

Perfumania's board of directors recommends a vote **FOR** the proposal to approve the issuance of Perfumania common stock in connection with the merger.

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**INFORMATION ABOUT PERFUMANIA**

**Description of Business**

***General Overview***

Perfumania 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., Quality King Fragrance, Inc. ( QFG ), Scents of Worth, Inc. ( SOW ), Perfumania.com, Inc. ( Perfumania.com ) and Five Star Fragrance Company, Inc. ( Five Star ). Perfumania operates in two industry segments, wholesale distribution and specialty retail sales of designer fragrance and related products.

Perfumania's 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 Perfumania'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 Perfumania's results on a consolidated basis.

Perfumania's retail business is conducted through three subsidiaries:

Perfumania, Inc., a specialty retailer of fragrances and related products,

SOW, which sells fragrances in retail stores on a consignment basis, and

Perfumania.com, Inc., an Internet retailer of fragrances and other specialty items.

During fiscal 2010 and 2009, approximately 67.5% and 67.4% of Perfumania's net sales and 79.1% and 81.5% of Perfumania's gross profit were provided by its retail division, and approximately 32.5% and 32.6% and 20.9% and 18.5%, respectively, by its wholesale division. Further information for each of the industry segments in which Perfumania operates is provided in Note 12 to Perfumania's consolidated financial statements included on page F-38.

Perfumania's executive offices are located at 35 Sawgrass Drive, Suite 2, Bellport, NY 11713, Perfumania's telephone number is (631) 866-4100, Perfumania's retail internet address is [www.perfumania.com](http://www.perfumania.com) and Perfumania's business internet address is [www.perfumaniaholdingsinc.com](http://www.perfumaniaholdingsinc.com). Through its business website, Perfumania makes available, free of charge, its 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 electronically filing them with, or furnish them to, the Securities and Exchange Commission (the SEC). The public may read and copy materials Perfumania files 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](http://www.sec.gov). In addition, Perfumania has made its Code of Business Conduct and Ethics available through its business website under "About us" Corporate Compliance. The reference to Perfumania's website does not constitute incorporation by reference of the information contained on Perfumania's website and the information contained on the website is not part of this joint proxy statement/prospectus.

In this joint proxy statement/prospectus, Perfumania refers to the fiscal year beginning January 31, 2010 and ending on January 29, 2011 as fiscal 2010 and the fiscal year beginning February 1, 2009 and ending January 30, 2010 as fiscal 2009.

***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



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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, Kohls, Nordstrom Rack, Marshalls, Target, Ross Stores and CVS. QFG also operates a direct sales department that services over 10,000 pharmacies and specialty stores, such as AmerisourceBergen and Cardinal Health, throughout the United States.

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

There were no customers who accounted for more than 10% of revenues in fiscal 2010 or 2009.

***Retail Business***

Perfumania, Inc. is a leading specialty retailer and distributor of a wide range of brand name and designer fragrances. At January 29, 2011, Perfumania, Inc. operated a chain of 360 full service retail stores, including three seasonal locations, specializing in the sale of fragrances and related products at discounted prices up to 75% below the manufacturers' suggested retail prices. Each of Perfumania, Inc.'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®. Perfumania, Inc. also carries private label lines of bath & body treatment products under the name Jerome Privée® and cosmetics products under the name Mattese®. The retail business is principally operated through Magnifique Parfumes and Cosmetics, Inc., a subsidiary of Perfumania, Inc., although the stores are generally operated under the name Perfumania®. Perfumania, Inc.'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 Perfumania's more popular products for sale over the Internet and serves as an alternative shopping experience to the Perfumania, Inc. retail stores. Perfumania benefits from its ability to reach a large group of customers from a central site. This also enables Perfumania 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, Perfumania launched a newly designed e-commerce website. The new 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 2,400 stores, including more than 1,300 Kmart locations nationwide, as well as through customers such as Burlington Coat Factory, SYMS, Loehmann's, Daffy's 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 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 Perfumania's ability to purchase a wide assortment of merchandise at favorable prices, attract customers and successfully conclude retail sales. Other factors affecting Perfumania's 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 67.5% and 67.4% of Perfumania's total sales in fiscal 2010 and 2009, respectively.

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### ***Seasonality and Quarterly Results***

Perfumania'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 12.1% and 11.2% of total revenues being generated during these three months in fiscal 2010 and 2009, respectively. Retail revenues are the greatest in December, with approximately 22.8% and 24.2% of retail revenues being generated this month in fiscal 2010 and 2009, respectively, as is typical for a retail operation. In fiscal 2010 and 2009, Perfumania realized losses from operations during the first three quarters 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***

Perfumania'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, Perfumania 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.

Trademarks used in this joint proxy statement/prospectus are the property of Perfumania or of its licensors. The ® and ™ symbols are deemed to apply to each instance of the respective mark in this report.

Perfumania 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, Inc.'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, Inc. 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, Inc. 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.



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As of January 29, 2011, Perfumania operated 360 Perfumania, Inc. stores in the United States and Puerto Rico, including 3 seasonal locations. The following chart shows the number of Perfumania, Inc. stores operated in each state in which those stores are located.

**Perfumania, Inc. Stores as of January 29, 2011**

Alaska	2	Louisiana	5	North Carolina	12
Alabama	2	Maine	1	Ohio	10
Arizona	8	Maryland	8	Oregon	5
Arkansas	1	Massachusetts	7	Pennsylvania	12
California	27	Michigan	12	Puerto Rico	19
Colorado	3	Minnesota	3	South Carolina	9
Connecticut	4	Mississippi	3	Tennessee	6
Delaware	2	Missouri	8	Texas	43
Florida	58	Nevada	9	Utah	1
Georgia	13	New Hampshire	4	Virginia	4
Hawaii	1	New Jersey	9	Washington	7
Illinois	13	New York	20	Wisconsin	3
Indiana	6				

In fiscal 2010 and 2009, Perfumania, Inc. opened 3 and 19 stores, respectively, excluding 6 seasonal locations which opened in October and November 2010. Perfumania, Inc. 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 2010 and 2009, Perfumania, Inc. closed 16 and 4 stores, respectively, excluding 3 seasonal locations which closed in fiscal 2010. For fiscal 2011, Perfumania, Inc. intends to continue to focus on improving the profitability of its existing stores and management currently expects to open 2 new stores and expects to close approximately 11 stores.

**Suppliers**

In recent years, Perfumania has purchased approximately 80% of its fragrances directly from brand owners/manufacturers and 20% from distributors. Its suppliers include most of the dozen largest fragrance manufacturers in the United States. The distributors represent, for the most part, long-standing relationships, some of which are also customers of Perfumania. Perfumania maintains a regular dialogue with all designer fragrance brand manufacturers directed toward broadening its product offerings to its customers. Perfumania 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 Perfumania with some of the largest fragrance manufacturers. As is customary in the fragrance industry, Perfumania has no long-term or exclusive contracts with suppliers.

**Marketing and Sales**

Perfumania 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 Perfumania's marketing philosophy for its 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

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ensuring that ordered products are in stock for prompt shipment. Perfumania'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 Perfumania'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 Perfumania compared to other sources. Perfumania believes that this gives its salespeople a competitive advantage in customer interactions.

### ***Intellectual Property Rights***

Perfumania's portfolio of fragrance brands is of great importance to its business. Five Star owns the Lutec<sup>®</sup>, Norell<sup>®</sup>, Pavlova<sup>®</sup>, Realm<sup>®</sup>, Raffinee<sup>®</sup> and Royal Secret<sup>®</sup> brands, among others. It licenses designer and other fragrance brands, such as Bijan<sup>®</sup>, Gale Hayman<sup>®</sup>, Michael Jordan<sup>®</sup>, Pierre Cardin<sup>®</sup>, Royal Copenhagen<sup>®</sup>, Vicky Tiel<sup>®</sup>, Donald Trump<sup>®</sup> and XOXO<sup>®</sup>, 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, 2016. In addition to the trade name and service mark Perfumania, Perfumania, Inc.'s stores operate under the trade names Class Perfumes, Fragrance Depot and Perfumania Plus.

Perfumania primarily relies on trademark law to protect its intellectual property rights. In addition to using registered trademarks covering licensed brands, Perfumania has a proprietary portfolio of more than 55 U.S. registered trademarks and applications and more than 157 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. Perfumania occasionally registers the copyright to packaging materials, and Perfumania also relies on trade secret and other contractual restrictions. From time to time, Perfumania brings litigation against those who, in its opinion, infringe Perfumania's 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 Perfumania has violated their intellectual property rights, which may lead to litigation and material legal expense.

### ***Competition***

Competition varies among the markets in which Perfumania competes. As a retailer, Perfumania competes with a wide range of chains and large and small stores, as well as manufacturers, including some of its suppliers. In the wholesale business, Perfumania competes with many distributors, of which Elizabeth Arden is the largest. Generally, the basis of competition is brand recognition, quality and price. Perfumania 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, Inc.'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, Inc.'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

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delivery. Some of Parlux'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 29, 2011, Perfumania had 1,996 employees, of whom 198 were involved in warehousing, 1,641 were employed in Perfumania, Inc.'s retail stores, 107 in marketing, sales and operations, and 50 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. Parlux has never experienced a work stoppage, strike or other interruption in business as a result of a labor dispute.

### ***Distribution***

Perfumania, Inc. 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.

### **Description of Property**

Perfumania's principal executive offices and distribution center are located at 35 Sawgrass Drive, Suite 2, Bellport, New York 11713. Perfumania 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, Inc.'s retail stores are located in leased premises. As of January 29, 2011, Perfumania had a total of approximately 518,000 leased store square feet with an average store size of 1,438 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, Inc. to pay its proportionate share of common area expenses, real estate taxes, utility charges, insurance premiums and certain other costs. Some of Perfumania, Inc.'s leases permit the termination of the lease if specified minimum sales levels are not met. See Note 11 to Perfumania's consolidated financial statements on page F-35 for additional information about its store leases.

### **Legal Proceedings**

See "The Merger Litigation Related to the Merger" on page 108 for information about a lawsuit filed challenging the merger.

From time to time, Perfumania is involved in legal proceedings in the ordinary course of business. Management cannot presently predict the outcome of these matters, although management believes that the ultimate resolution of these matters will not have a materially adverse effect on Perfumania's financial position, operations or cash flows.

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**Management's Discussion and Analysis of Financial Condition and Results of Operations**

***Management Overview***

The recessionary pressures that began in the latter half of fiscal 2008 and have continued into the present, including a significant decline in consumer spending, have had a strong effect on Perfumania. Perfumania has seen a recent increase in net sales, but as consumer spending and confidence could remain depressed going forward, Perfumania remains focused on carefully managing those factors within its control. Perfumania has managed spending by reducing its capital expenditures and improving inventory productivity to maximize inventory turns for both wholesale and retail operations. Perfumania will continue 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 working capital and operating cash flows.

Perfumania's net sales decreased 5.1% from \$510.9 million in fiscal 2009 to \$484.8 million in fiscal 2010, due to decreases in both retail and wholesale sales. Retail sales decreased 4.9% compared to the prior year as a result of decreases in sales for both Perfumania and SOW which were due to the impact of store level promotions and the termination of certain consignment arrangements. Wholesale revenues decreased by 5.5% from the prior year due primarily to less discounting during fiscal 2010 compared with the prior year.

Net sales have increased recently, increasing 2.4% from \$321.9 million in the thirty-nine weeks ended October 30, 2010 to \$329.5 million in the thirty-nine weeks ended October 29, 2011. The increase in sales was driven by an increase in retail sales of \$17.4 million but offset by a decrease in wholesale sales of \$9.8 million.

Perfumania's operating expenses decreased 1.2% from \$176.2 million in fiscal 2009 to \$174.1 million in fiscal 2010. Selling, general and administrative expenses were \$118.1 million in the thirty-nine weeks ended October 29, 2011, compared to \$117.3 million in the thirty-nine weeks ended October 30, 2010. Included are expenses in connection with the Services Agreement with Quality King, which were \$0.4 million for both the thirty-nine week periods ended October 29, 2011 and October 30, 2010, and expenses related to the potential business combination with Parlux, which were \$0.3 million for the thirteen weeks ended October 29, 2011.

In fiscal 2010, Perfumania recorded a \$2.5 million claim for refund of federal income taxes as it was able to carry-back a portion of the net operating loss to the previously filed 2007 federal tax return of Model Reorg, a predecessor company. Perfumania recorded a full valuation allowance against all deferred tax assets, thus no income tax benefit was recorded on operating losses during either of the thirty-nine week periods ended October 29, 2011 and October 30, 2010.

Including \$12.9 million of interest expense, Perfumania realized a net loss of approximately \$3.7 million in fiscal 2010, compared with a net loss of \$15.8 million in fiscal 2009. Perfumania realized a net loss of approximately \$4.1 million in the thirty-nine weeks ended October 29, 2011, compared to a net loss of \$16.6 million in the thirty-nine weeks ended October 30, 2010.

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

**Percentage of Net Sales**

	<b>Thirty-nine Weeks Ended October 29, 2011</b>	<b>Thirty-nine Weeks Ended October 30, 2010</b>	<b>Fiscal Year Ended January 29, 2011</b>	<b>Fiscal Year Ended January 30, 2010</b>
Total net sales	100.0%	100.0%	100.0%	100.0%
Total gross profit	38.2%	35.7%	37.3%	35.0%
Selling, general and administrative expenses	35.8%	36.4%	33.4%	32.1%
Asset impairment			0.6%	0.5%
Depreciation and amortization	1.8%	2.1%	1.9%	1.9%
Total operating expenses	37.6%	38.5%	35.9%	34.5%
Income from operations	0.6%	(2.8)%	1.4%	0.5%
Interest expense	1.8%	3.1%	2.7%	3.6%
Loss before income taxes	(1.2)%	(5.9)%	(1.3)%	(3.1)%
Income tax benefit	%	(0.8)%	(0.5)%	%
Net loss	(1.2)%	(5.1)%	(0.8)%	(3.1)%

***Critical Accounting Estimates***

Perfumania's 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. Perfumania considers an accounting policy to be critical if it is both important to the portrayal of Perfumania's financial condition and results of operations, and requires significant judgment and estimates by management in its application. Perfumania has identified certain critical accounting policies that affect the significant estimates and judgments used in the preparation of Perfumania's financial statements.

***Accounts Receivable, Net of Allowances***

In the normal course of business, Perfumania extends 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 Perfumania's customers and an evaluation of the impact of economic conditions. Should circumstances change or economic conditions deteriorate significantly, Perfumania may need to increase its 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. Perfumania reviews inventory on a regular basis for excess and potentially slow moving inventory based on prior sales, forecasted demand, historical experience and through specific identification of obsolete or



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damaged merchandise and Perfumania records adjustments to reduce the carrying value of inventory to the lower of cost or market in accordance with Perfumania's assessment. If actual sales are less than Perfumania's 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, Perfumania recognizes an impairment loss as a charge against current operations. Property and equipment assets are grouped at the lowest 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.

Due in part to the deteriorating United States economy and resulting decline in retail sales, Perfumania conducted an internal review of its long-lived assets (primarily leasehold improvements) at the store level in fiscal 2009 and determined that the carrying value of certain assets exceeded their projected future undiscounted cash flows. Perfumania then determined the fair value of the identified long-lived assets by discounting their projected future cash flows using a rate approximating Perfumania's weighted average cost of capital, which resulted in an impairment charge of approximately \$2.3 million. Perfumania conducted a similar review of its long-lived assets at the store level in fiscal 2010 and recorded an impairment charge of approximately \$2.2 million. In fiscal 2010, Perfumania also recorded an impairment charge of approximately \$0.8 million 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 Perfumania's stores compared to projections could result in significant additional asset impairments.

### ***Impairment of Intangible Assets***

Perfumania'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. Perfumania bases fair value estimates on assumptions it believes to be reasonable, but which are unpredictable and inherently uncertain. Actual future results may differ from those estimates. Perfumania recognizes 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 29, 2011 and January 30, 2010. Based on management's impairment review at January 29, 2011 and January 30, 2010, there was no impairment of trademarks or tradenames in fiscal 2010 or 2009. Perfumania will continue to monitor the expected future cash flows of

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Perfumania'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. Perfumania records an estimate of returns, discounts and allowances, and review and refine these estimates on a regular basis based on current experience and trends. Perfumania's historical estimates of these costs have not differed materially from actual results; however, if the actual rate of sales returns increases significantly, Perfumania's 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 Perfumania believes 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. Perfumania considers many factors when assessing the likelihood of future realization of its deferred tax assets including Perfumania's 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 Perfumania's deferred tax assets is very wide. Significant judgment is required in making these assessments and it is very difficult to predict when, if ever, Perfumania's assessment may conclude that the remaining portion of Perfumania's 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 Perfumania's deferred tax assets and income tax expense.

**Fiscal Year 2010 Compared to Fiscal Year 2009****Net Sales**

Perfumania recognized net sales of \$484.8 million in fiscal 2010, a decrease of 5.1% from the \$510.9 million recorded in fiscal 2009. The breakdown of sales between retail and wholesale was as follows:

	For the year ended				Percentage Increase (Decrease)
	January 29, 2011	Percentage of Sales	January 30, 2010	Percentage of Sales	
Retail	\$ 327,291	67.5%	\$ 344,295	67.4%	(4.9)%
Wholesale	\$ 157,509	32.5%	\$ 166,627	32.6%	(5.5)%
Total net sales	\$ 484,800	100.0%	\$ 510,922	100.0%	(5.1)%

Retail sales decreased by 4.9% from \$344.3 million in fiscal 2009 to \$327.3 million in fiscal 2010. The decrease was due to a decrease in Perfumania's retail sales of \$4.5 million and a decrease in SOW's consignment sales of \$12.5 million.

Perfumania's retail sales for fiscal 2010 decreased by 1.7% from \$265.9 million in 2009 to \$261.4 million in fiscal 2010. The average number of stores operated was 367 in both fiscal 2010 and fiscal 2009. Perfumania's comparable store sales decreased by 1.2% during fiscal 2010. Comparable store sales measure sales from stores



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that have been open for one year or more. These comparisons 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 fiscal 2010 increased 4.9% from fiscal 2009 while the total number of units sold decreased by 6.2%. The increase in the average retail price per unit sold and the decrease in the number of units sold were due to various store level promotions.

SOW's consignment sales decreased from \$78.4 million in fiscal 2009 to \$65.9 million in fiscal 2010. The decrease in SOW's net sales is due to a decrease in sales to existing customers as well as the termination of several consignment arrangements during fiscal 2010.

The decrease in wholesale sales of \$9.1 million is the result of less discounting during fiscal 2010 compared with the prior year, as in fiscal 2009 management focused on reducing inventory levels and offered more promotional pricing resulting in higher sales.

*Cost of Goods Sold*

Cost of goods sold, which includes the cost of merchandise sold, inventory valuation adjustments, inventory shortages, damages and freight charges, decreased 8.5% from \$332.1 million in fiscal 2009 to \$304.0 million in fiscal 2010. The breakdown between wholesale and retail was as follows:

	January 29, 2011	For the year ended January 30, 2010 <i>(\$ in thousands)</i>	Percentage Increase (Decrease)
Retail	\$ 184,257	\$ 198,664	(7.3)%
Wholesale	\$ 119,694	\$ 133,468	(10.3)%
<b>Total cost of goods sold</b>	<b>\$ 303,951</b>	<b>\$ 332,132</b>	<b>(8.5)%</b>

Cost of goods sold decreased by \$28.2 million or 8.5%. This decrease was due to decreases in retail and wholesale sales.

*Gross Profit*

Gross profit increased 1.2% from \$178.8 million in fiscal 2009 to \$180.8 million in fiscal 2010. The breakdown between wholesale and retail was as follows:

	January 29, 2011	For the year ended January 30, 2010 <i>(\$ in thousands)</i>	Percentage Increase (Decrease)
Retail	\$ 143,034	\$ 145,631	(1.8)%
Wholesale	\$ 37,815	\$ 33,159	14.0%
<b>Total gross profit</b>	<b>\$ 180,849</b>	<b>\$ 178,790</b>	<b>1.2%</b>

Gross profit percentages for the same periods were:

	January 29, 2011	For the year ended January 30, 2010
Retail	43.7%	42.3%
Wholesale	24.0%	19.9%

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Gross profit margin	37.3%	35.0%
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The increase in gross profit resulted from an increase in wholesale gross profit due to less discounting during fiscal 2010 as discussed above, offset by a decrease in retail gross profit due to lower sales volume and gross margins realized by SOW.

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Perfumania's retail gross profit for fiscal 2010 increased by 8.7% to \$122.5 million compared with \$112.7 million in 2009. For these same periods, Perfumania's retail gross margins were 46.9% and 42.4%, respectively. The increase in Perfumania's retail gross margins was due to less promotional activity during fiscal 2010 compared to fiscal 2009.

*Operating Expenses*

In fiscal 2010, operating expenses decreased 1.2% from \$176.2 million in fiscal 2009 to \$174.1 million in fiscal 2010.

Selling, general and administrative expenses include payroll and related benefits for Perfumania's 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 Perfumania's stores, distribution center and corporate office; advertising, consignment fees, sales promotion, insurance, supplies, freight out, and other administrative expenses. The breakdown of operating expenses was as follows:

	January 29, 2011	For the year ended January 30, 2010 <i>(\$ in thousands)</i>	Percentage Increase (Decrease)
Selling, general and administrative	\$ 162,157	\$ 164,141	(1.2)%
Asset impairment	3,001	2,320	29.4%
Depreciation and amortization	8,909	9,766	(8.8)%
Total operating expenses	\$ 174,067	\$ 176,227	(1.2)%
Income from operations	\$ 6,782	\$ 2,563	164.6%

Selling, general and administrative expenses decreased 1.2% from \$164.1 million in fiscal 2009 to \$162.2 million in fiscal 2010. Included in selling, general and administrative expenses are expenses in connection with service agreements with Quality King Distributors, Inc. ( "Quality King" ), which were \$0.6 million for both fiscal 2010 and fiscal 2009. These service agreements are described in Note 5 to the consolidated financial statements on page F-26.

At the end of both fiscal 2010 and fiscal 2009, Perfumania conducted an internal review of its long-lived assets and determined that the carrying value of certain assets exceeded their future undiscounted cash flows. Perfumania then determined the fair value of the identified long-lived assets by discounting its future cash flows using a rate approximating Perfumania's weighted average cost of capital, which resulted in impairment charges of approximately \$2.2 million and \$2.3 million in fiscal years 2010 and 2009, respectively. Perfumania also recorded an impairment charge of approximately \$0.8 million relating to a capital lease on a building during fiscal year 2010.

Depreciation and amortization was approximately \$8.9 million in fiscal 2010, compared to \$9.8 million in fiscal 2009.

As a result of the foregoing, Perfumania recognized income from operations in fiscal 2010 of approximately \$6.8 million compared to income from operations in fiscal 2009 of \$2.6 million.

*Other Expenses*

	January 29, 2011	For the year ended January 30, 2010 <i>(\$ in thousands)</i>	Percentage Decrease
Interest expense	\$ 12,857	\$ 18,202	(29.4)%

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Interest expense was approximately \$12.9 million for fiscal 2010 compared with approximately \$18.2 million in fiscal 2009. The decrease in interest expense is due primarily to a lower average outstanding balance and a lower overall average interest rate on Perfumania's revolving credit facility during fiscal 2010 compared with fiscal 2009, offset by an increase in the amortization of deferred finance costs in fiscal 2010 compared with fiscal 2009. Overall, the interest rates on total variable interest debt decreased by approximately 1.7% during fiscal 2010 as compared to fiscal 2009.

*Income Tax Provision*

	January 29, 2011	For the year ended January 30, 2010 <i>(\$ in thousands)</i>	Percentage Decrease
Income tax (benefit) provision	\$ (2,351)	\$ 189	(1,343.9)%

Perfumania's effective tax rate for fiscal 2010 was a benefit of (38.7%) while the rate for fiscal 2009 was 1.2%. In fiscal 2010, the effective tax rate differed from Perfumania's federal statutory rate primarily because Perfumania was able to carryback a portion of its net operating loss to Model previously filed 2007 federal tax return, resulting in a claim for refund of federal income taxes of approximately \$2.5 million. In fiscal 2009, the effective tax rates differed from Perfumania's federal statutory rates primarily due to the impact of recording the valuation allowances described below and non-deductible expenses.

Perfumania recognizes deferred tax assets and liabilities for the expected future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and operating loss and tax credit carry forwards. Perfumania recognizes valuation allowances to reduce deferred tax assets to the amounts that are more likely than not to be realized. In assessing the likelihood of realization, Perfumania considers past taxable income, estimates of future taxable income and tax planning strategies. Perfumania performed a comprehensive review of the likely realization of these assets at January 30, 2010, considering the then current broad economic environment and the challenges facing retailers for the foreseeable future. At January 30, 2010 Perfumania concluded that it was necessary to record a valuation allowance of \$7.0 million, which was reflected as a non-cash charge in the tax provision for fiscal 2009. Perfumania continues to provide a full valuation allowance on all deferred tax assets.

*Net Loss*

As a result of the foregoing, Perfumania realized a net loss of approximately \$3.7 million in fiscal 2010, compared to a net loss of \$15.8 million in fiscal 2009.

*Thirty-nine weeks Ended October 29, 2011 Compared to Thirty-nine weeks Ended October 30, 2010**Net Sales*

	For the thirty-nine weeks ended				
	October 29, 2011	Percentage of Sales	October 30, 2010 <i>(\$ in thousands)</i>	Percentage of Sales	Percentage Increase (Decrease)
Retail	\$ 224,121	68.0%	\$ 206,641	64.2%	8.5%
Wholesale	\$ 105,380	32.0%	\$ 115,227	35.8%	(8.5)%
Total net sales	\$ 329,501	100.0%	\$ 321,868	100.0%	2.4%

Net sales increased 2.4% from \$321.9 million in the thirty-nine weeks ended October 30, 2010 to \$329.5 million in the thirty-nine weeks ended October 29, 2011. The increase in sales was primarily due to an increase in retail sales of \$17.4 million offset by a decrease in wholesale sales of \$9.8 million.



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Retail sales increased by 8.5% from \$206.6 million in the thirty-nine weeks ended October 30, 2010 to \$224.1 million in the thirty-nine weeks ended October 29, 2011. The increase was due to an increase in Perfumania's retail sales of \$15.3 million and an increase in SOW's consignment sales of \$2.2 million.

Perfumania's retail sales increased from \$164.9 million in the thirty-nine weeks ended October 30, 2010 to \$180.2 million in the thirty-nine weeks ended October 29, 2011. Perfumania's comparable store sales increased by 12.4% during the thirty-nine weeks ended October 29, 2011. The average retail price per unit sold during the thirty-nine weeks ended October 29, 2011 increased 9.2% from the prior year's comparable period while the total number of units sold increased by 5.7%. Perfumania attributes the increase in the average retail price per unit sold and the increase in the number of units sold to an increase in mall traffic and various store level pricing promotions. The average number of stores operated was 347 in the thirty-nine week period ended October 29, 2011, versus 367 in the prior year's comparable period.

SOW's consignment sales increased from \$41.7 million in the thirty-nine weeks ended October 30, 2010 to \$43.9 million in the thirty-nine weeks ended October 29, 2011. The increase in SOW's net sales is due to an increase in sales to existing accounts and addition of one new account during the third quarter of the prior fiscal year, offset by the termination of several consignment relationships.

The decrease in wholesale sales of \$9.8 million is the result of less product availability for the wholesale division and less customer demand during the thirty-nine weeks ended October 29, 2011 compared to the thirty-nine weeks ended October 30, 2010.

*Cost of Goods Sold*

Cost of goods sold, which includes the cost of merchandise sold, inventory valuation adjustments, inventory shortages, damages and freight charges, decreased 1.5% from \$207.0 million in the thirty-nine weeks ended October 30, 2010 to \$203.8 million in the thirty-nine weeks ended October 29, 2011.

	October 29, 2011	For the thirty-nine weeks ended October 30, 2010 <i>(\$ in thousands)</i>	Percentage Increase (Decrease)
Total cost of goods sold	\$ 203,752	\$ 206,915	(1.5)%

*Gross Profit*

Gross profit increased 9.3% from \$115.0 million in the thirty-nine weeks ended October 30, 2010 to \$125.7 million in the thirty-nine weeks ended October 29, 2011. The breakdown between wholesale and retail was as follows:

	October 29, 2011	For the thirty-nine weeks ended October 30, 2010 <i>(\$ in thousands)</i>	Percentage Increase (Decrease)
Retail	\$ 101,484	\$ 89,211	13.8%
Wholesale	\$ 24,265	\$ 25,742	(5.7)%
Total gross profit	\$ 125,749	\$ 114,953	9.3%

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Gross profit percentages for the same periods were:

	For the thirty-nine weeks ended	
	October 29, 2011	October 30, 2010
Retail	45.3%	43.2%
Wholesale	23.0%	22.3%
Gross profit margin	38.2%	35.7%

The increase in gross profit for the thirty-nine weeks ended October 29, 2011 compared to the thirty-nine weeks ended October 30, 2010 was due to the increase in retail sales volume as discussed above as well as a higher retail gross profit percentage offset by a decrease in wholesale gross profit due to lower sales.

Perfumania's retail gross profit for the thirty-nine weeks ended October 29, 2011 increased by 12.6% to \$84.8 million compared with the comparable period in 2010. For these same periods, Perfumania's retail gross margins were 47.0% and 45.7%, respectively.

*Expenses*

	October 29, 2011	For the thirty-nine weeks ended	
		October 30, 2010	Percentage Increase (Decrease)
		(\$ in thousands)	
Selling, general and administrative	\$ 118,056	\$ 117,262	0.7%
Depreciation and amortization	5,839	6,595	(11.5)%
<b>Total operating expenses</b>	<b>\$ 123,895</b>	<b>\$ 123,857</b>	<b>0.0%</b>
Income (loss) from operations	\$ 1,854	\$ (8,904)	120.8%

Selling, general and administrative expenses were \$118.1 million in the thirty-nine weeks ended October 29, 2011, compared to \$117.3 million in the thirty-nine weeks ended October 30, 2010. Included in selling, general and administrative expenses are expenses in connection with the Services Agreement with Quality King, which were \$0.4 million for both the thirty-nine week periods ended October 29, 2011 and October 30, 2010, and expenses related to the potential business combination with Parlux discussed above which were \$0.3 million for the thirteen weeks ended October 29, 2011.

Depreciation and amortization was approximately \$5.8 million in the thirty-nine weeks ended October 29, 2011, compared to \$6.6 million for the thirty-nine weeks ended October 30, 2010.

Interest expense was approximately \$5.9 million for the thirty-nine weeks ended October 29, 2011 compared with approximately \$10.1 million for the thirty-nine weeks ended October 30, 2010. The decrease in interest expense is due primarily to a lower average outstanding balance and a lower overall average interest rate on Perfumania's revolving credit facility, as well as a lower overall average interest rate on Perfumania's outstanding notes payable to affiliates during the thirty-nine weeks ended October 29, 2011 compared with the thirty-nine weeks ended October 30, 2010.

Perfumania continues to record a full valuation allowance against all deferred tax assets, thus no income tax benefit was recorded on operating losses during either of the thirty-nine week periods ended October 29, 2011 and October 30, 2010. The income tax benefit of approximately \$2.5 million in the thirty-nine weeks ended October 30, 2010 relates to a claim for refund of federal income taxes due to the utilization of net operating losses on previously filed federal tax returns.

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As a result of the foregoing, Perfumania realized a net loss of approximately \$4.1 million in the thirty-nine weeks ended October 29, 2011, compared to a net loss of \$16.6 million in the thirty-nine weeks ended October 30, 2010.

### ***Liquidity and Capital Resources***

Perfumania's principal funding requirements are for inventory purchases, financing extended terms on accounts receivable, paying down accounts payable and debt, information systems enhancements, opening new stores and renovation of existing stores. These capital requirements generally have been satisfied through borrowings under the respective revolving credit facilities and notes payable to affiliates.

Net cash provided by operating activities during the thirty-nine weeks ended October 29, 2011 was approximately \$3.3 million, compared with approximately \$59.3 million used in operating activities during the thirty-nine weeks ended October 30, 2010. The \$62.6 million increase in cash flows from operating activities during the thirty-nine weeks ended October 29, 2011 compared with the prior year's comparable period resulted primarily from an increase in accounts payable due to the timing of repayments to Perfumania's vendors, a decrease in inventory levels during the thirty-nine weeks ended October 29, 2011 due to a reduction in inventory purchases and a reduction in Perfumania's net loss. The seasonality of Perfumania's operations may lead to significant fluctuations in certain asset and liability accounts between fiscal year-end and subsequent interim periods.

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

Net cash used in investing activities was approximately \$2.7 million in the thirty-nine weeks ended October 29, 2011 compared to \$2.1 million in the thirty-nine weeks ended October 30, 2010. The current period's investing activities primarily represented spending for renovation of existing stores and new store openings and information technology enhancements. During the thirty-nine weeks ended October 29, 2011, Perfumania opened four new stores and closed 20 stores. Perfumania plans to open approximately four stores and close two stores for the remainder of fiscal 2011. Perfumania continuously evaluates the appropriate new store growth rate in light of economic conditions and may adjust the growth rate as conditions change. Furthermore, Perfumania continues to evaluate the need to close, remodel or relocate existing stores.

### ***Net Cash***

Net cash used in financing activities during the thirty-nine weeks ended October 29, 2011 was approximately \$0.6 million, primarily from net repayments under Perfumania's credit facility, compared with approximately \$60.9 million provided by financing activities from net borrowings under Perfumania's credit facility for the thirty-nine weeks ended October 30, 2010.

Perfumania's senior credit facility is a \$225 million revolving credit facility with a syndicate of banks, which is used for Perfumania's general corporate purposes and those of its subsidiaries, including working capital. Perfumania and certain of its subsidiaries are co-borrowers under the senior credit facility, and Perfumania's other subsidiaries have guaranteed all of their obligations thereunder. Perfumania was in compliance with all financial and operating covenants under the senior credit facility as of October 29, 2011. As of October 29, 2011, Perfumania had \$86.5 million available to borrow under the senior credit facility based on the borrowing base at that date. Further information about the senior credit facility is included in Note 5 of Perfumania's condensed consolidated financial statements included on Page F-8. Additionally, in connection with the merger, Perfumania entered into an Amendment to the senior credit facility to enable Perfumania to, among other things, use the proceeds of revolving loans under the senior credit facility to fund a portion of the cash consideration payable in connection with the merger. See Perfumania's Financing Arrangements Bank Credit Facility on page 135 for additional information.



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Perfumania has various unsecured notes payable outstanding to affiliates which in aggregate total \$95.4 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 Perfumania's notes payable to affiliates and the senior credit facility in Note 5 of Perfumania's condensed consolidated financial statements included on Page F-8. Additionally, in connection with the merger, Perfumania entered into a commitment letter to amend and increase these existing subordinated debt obligations in order to provide additional financing for the merger. See Perfumania's Financing Arrangements Nussdorf Trust Loans on page 135 for additional information.

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

**Significant Contractual Obligations**

The following table summarizes Perfumania's significant contractual obligations at January 29, 2011. Certain of these contractual obligations are reflected in Perfumania's consolidated balance sheet at January 29, 2011, while others are disclosed as future obligations.

	Total	Payments due by periods			
		Less than 1 year	1-3 years	3-5 years	More than 5 years
Revolving credit facility(1)	\$ 57,879	\$	\$	\$ 57,879	\$
Notes payable-affiliate	95,739	373		95,366	
Capital lease obligations(2)	9,274	1,424	2,653	2,653	2,544
Operating lease obligations(3)	184,869	28,583	47,803	38,159	70,324
Minimum royalty obligations	5,105	1,785	2,170	1,050	100
Other	213	159	54		
	\$ 353,079	\$ 32,324	\$ 52,680	\$ 195,107	\$ 72,968

(1) This balance represents principal only as the interest rate is variable and accrues on outstanding balances which vary throughout the year.

(2) Excludes projected sublease revenue Perfumania anticipates receiving on excess facility space.

(3) Excludes any amounts related to maintenance, taxes, insurance and other charges payable under operating lease agreements due to the future variability of these amounts.

**Off-Balance Sheet Arrangements**

Perfumania has no off-balance sheet arrangements as defined by Item 303(a)(4) of SEC Regulation S-K.

**Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

Perfumania's Audit Committee has engaged J.H. Cohn LLP as the independent registered public accounting firm for fiscal year 2011. J.H. Cohn LLP audited Perfumania's financial statements for fiscal 2010 following the dismissal of Deloitte & Touche LLP, which had served as Perfumania's independent registered public accounting firm for fiscal 2009.

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Deloitte & Touche LLP's audit report on Perfumania's consolidated financial statements for fiscal 2009 did not contain any adverse opinion or disclaimer of opinion, and was not qualified or modified as to uncertainty, audit scope or accounting principles. During that fiscal year and through the date hereof, there was no disagreement between Perfumania and Deloitte & Touche LLP on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreement, if not resolved to the satisfaction of Deloitte & Touche LLP, would have caused Deloitte & Touche LLP to make reference to the subject matter of the disagreement in its audit report; and there were no reportable events, as defined in Item 304(a)(1)(v) of SEC Regulation S-K.

**Material Contracts with Parlux**

Perfumania and Parlux have had a commercial relationship for about 20 years, as described in detail in Directors and Executive Officers of Perfumania after the Merger Certain Relationships and Related Party Transactions beginning on page 214, as well as in Information about Parlux Description of Business and Management's Discussion and Analysis of Financial Condition and Results of Operations beginning on pages 170 and 181, and Note 10 of the Notes to Perfumania's Condensed Consolidated Financial Statements on page F-10.

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**INFORMATION ABOUT PARLUX**

**Description of Business**

***Introduction***

Parlux is engaged in the business of creating, designing, manufacturing, distributing and selling prestige fragrances and beauty related products marketed primarily through specialty stores, national department stores and perfumeries on a worldwide basis. The fragrance market is generally divided into a prestige group (distributed primarily through department and specialty stores) and a mass market group (distributed primarily through chain drug stores, mass merchandisers, smaller perfumeries and pharmacies). Parlux's fragrance products are positioned primarily in the prestige group.

Parlux engages in the manufacture (through sub-contractors), distribution and sale of Paris Hilton, Jessica Simpson, Rihanna, Queen Latifah, Marc Ecko, Josie Natori, Nicole Miller, Kanye West, Vince Camuto and Fred Hayman Beverly Hills fragrances and grooming items on an exclusive basis as a licensee or sublicensee.

During the fiscal year ended March 31, 2011, Parlux engaged in the manufacture (through sub-contractors), distribution and sale of Paris Hilton, Jessica Simpson, Rihanna, Queen Latifah, Marc Ecko, Josie Natori, Nicole Miller, XOXO, Ocean Pacific (OP), and babyGUND fragrances and grooming items on an exclusive basis as a licensee or sublicensee. During fiscal year ended March 31, 2011, Parlux entered into an exclusive fragrance licensing agreement with Vince Camuto, Chief Designer and Chief Executive Officer of the Camuto Group. During the fiscal year ended March 31, 2010, Parlux entered into sublicensing agreements for the fragrance licenses of entertainers Rihanna and Kanye West.

Parlux was incorporated as a Delaware corporation in 1984. Parlux common stock, par value \$0.01, is listed on the National Association of Securities Dealers Automatic Quotation System (Nasdaq) Global Select Market under the symbol PARL. For information concerning Parlux's financial condition, results of operations and related financial data, you should refer to Management's Discussion and Analysis of Financial Condition and Results of Operations and the Financial Statements and Supplementary Data sections relating to Parlux of this joint proxy statement/prospectus. For information concerning gross sales by international region, you should refer to Note 13 of the Financial Statements and Supplementary Data section on page F-95 of this joint proxy statement/prospectus. You should also review and consider the risks relating to Parlux's business, operations, financial performance and cash flows that Parlux describes under Risk Factors relating to

Parlux.

***Availability of Reports and Other Information***

Parlux's corporate website is [www.parlux.com](http://www.parlux.com). Parlux makes available on this website, free of charge, access to its Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, Proxy Statements on Schedule 14A and amendments to those materials filed or furnished pursuant to Section 13(a) or 15(d) of the Securities and Exchange Act of 1934, as amended (the Exchange Act), as soon as reasonably practicable after Parlux electronically submits such material to the Securities and Exchange Commission (the SEC). Parlux also makes available on its website copies of materials regarding its corporate governance policies and practices. You also may obtain a printed copy of the foregoing materials by sending a written request to: Corporate Secretary, Parlux Fragrances, Inc. 5900 N. Andrews Avenue, Suite 500, Fort Lauderdale, Florida 33309. In addition, the SEC's website is <http://www.sec.gov>. The SEC makes available on this website, free of charge, reports, proxy and information statements and other information regarding issuers, such as Parlux, that file electronically with the SEC. Information on Parlux's website or the SEC's website is not part of this joint proxy statement/prospectus.

***The Products***

At present, Parlux's principal products are fragrances, which are distributed in a variety of sizes and packaging. In addition, beauty-related products such as body lotions, creams, shower gels, deodorants, soaps, and dusting powders complement the fragrance line. Parlux's basic fragrance products generally retail at prices ranging from \$25 to \$110 per item.

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Parlux designs and creates fragrances using its own staff and independent contractors. Parlux supervises the design of its packaging by independent contractors to create products appealing to the intended customer base. The creation and marketing of each product line is closely linked with the applicable brand name, its positioning and market trends for the prestige fragrance industry. This development process usually takes twelve to eighteen months to complete. During fiscal years 2011 and 2012, Parlux completed the design process, and launched production and distribution of PARIS HILTON Tease, and its new PARIS HILTON Passport fragrances Paris Hilton in Paris, Paris Hilton in South Beach, Paris Hilton in Tokyo and Paris Hilton St. Moritz, JESSICA SIMPSON Fancy Nights and I Fancy You, RIHANNA Reb I Fleur and Rebe, QUEEN LATIFAH Queen of Hearts and NICOLE MILLER Nicole Miller women s fragrances, as well as MARC ECKO UNLTD and MARC ECKO Blue men s fragrances.

During the last three fiscal years, the following brands have accounted for 10% or more of Parlux s sales:

	Fiscal 2011	Fiscal 2010	Fiscal 2009
PARIS HILTON (including accessories)	60%	42%	55%
GUESS? (license expired in December 2009)	N/A%	28%	30%
JESSICA SIMPSON	19%	15%	13%

Under a separate license agreement with Paris Hilton Entertainment, Inc. ( PHEI ), Parlux developed a line of fashion watches, which retailed at prices ranging from \$85 to \$200 per item. Parlux sold these watches to a limited number of U.S. retailers and international markets utilizing third party distributors. This license expired on June 30, 2010, and was not renewed.

In addition, Parlux entered into various distribution agreements with PHEI for handbags, purses, wallets, and other small leather goods ( handbags ), which have been shipped in the U.S. and certain international markets, as well as cosmetics and sunglasses. During the year ended March 31, 2008, Parlux sublicensed the international rights for Paris Hilton handbags. Although Parlux remained contingently liable for the minimum guaranteed royalty from its assignment of the license, Parlux generated \$0.2 million in fiscal year 2011, \$0.4 million in each fiscal year 2010 and 2009, in sublicense revenue. The handbag license expired on January 15, 2011, and was not renewed. In addition, during January 2009, Parlux sublicensed the worldwide exclusive licensing rights for Paris Hilton sunglasses through January 15, 2012, the expiration date of this license. Although Parlux remains contingently liable for the minimum guaranteed royalty from its assignment of the license, Parlux generated \$0 million in fiscal year 2011 and \$0.3 million in fiscal year 2010 in sublicense revenue. The sunglasses license expired on January 15, 2012, and was not renewed. The license for Paris Hilton cosmetics expired on January 15, 2011, all remaining royalty obligations under this license were expensed in fiscal year 2010 and the license was not renewed.

**Marketing and Sales**

In the United States, Parlux has its own fragrance sales and marketing staff, and utilize independent commissioned sales representatives for sales to domestic U.S. military bases and mail order distribution. Parlux sells directly to retailers, primarily national and regional department stores, whom Parlux believes will maintain the image of its products as prestige fragrances. Parlux products are sold in over 2,500 retail outlets in the United States. Additionally, Parlux sells a number of its products to Perfumania, Inc. ( Perfumania ), which is a specialty retailer of fragrances with approximately 360 retail outlets principally located in manufacturers outlet malls and regional malls in the U.S. and in Puerto Rico, and to Quality King Distributors, Inc. ( Quality King ). Perfumania is a wholly owned subsidiary of Perfumania Holdings, Inc. The majority stockholders of Perfumania Holdings, Inc. are also the owners of Quality King, a privately-held, wholesale distributor of pharmaceuticals and beauty care products. Perfumania is one of Parlux s largest customers, and transactions with Perfumania are closely monitored by management. Any unusual trends or issues with Perfumania are brought to the attention of Parlux s Audit Committee and Board of Directors. During fiscal year 2007, Perfumania Holdings, Inc. s majority stockholders acquired an approximate 12.2% ownership interest in Parlux at that time (equivalent to 9.9% at

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March 31, 2011), and accordingly, transactions with Perfumania and Quality King are included as related party sales in the accompanying Consolidated Statements of Operations of Parlux for the three and six months ended September 30, 2011 and 2010 and for the years ended March 31, 2011 and 2010.

During the years ended March 31, 2011 and 2010, Parlux sold a number of its products to Jacavi Beauty Supply, LLC ( Jacavi ), a fragrance distributor. Jacavi s managing member is Rene Garcia. Rene Garcia owns approximately 8.4% of the outstanding stock of Perfumania Holdings, Inc. as of March 31, 2011, and is one of the principals of Artistic Brands. On April 7, 2009, Parlux entered into a sublicensing agreement with Artistic Brands for the exclusive rights to worldwide fragrance licenses for multiple Grammy® award winning and multi-platinum selling international entertainers Rihanna and Kanye West. Also, on June 14, 2010, certain persons related to Mr. Garcia, the Garcia Group, acquired 2,718,728 shares of its common stock and filed a Schedule 13G with the SEC on June 23, 2010. In that filing, the Garcia Group reported having beneficial ownership of a total of 2,995,527 shares, or approximately 14.7% of its outstanding shares as of June 14, 2010 (equivalent to 14.4% at December 30, 2011), excluding warrants owned by the Garcia Group. On March 4, 2011, the Garcia Group replaced their original joint filing by jointly filing a Schedule 13D with the SEC which was amended on December 29, 2011. Other than the addition of certain warrants to purchase shares, which vested between the initial and subsequent filing dates, there were no significant changes in beneficial share ownership included in the updated joint filing. Sales to Jacavi are also included as related party sales in the accompanying Consolidated Statements of Operations of Parlux for the three and six months ended September 30, 2011 and 2010 and for the years ended March 31, 2011 and 2010.

Outside the United States, marketing and sales activities for all of its products are conducted through distribution agreements with independent distributors, whose activities are monitored by its international sales staff. Parlux presently markets its fragrances through distributors in Canada, Europe, the Middle East, Asia, Australia, Latin America, the Caribbean and Russia, covering over 80 countries. Net sales to unrelated international customers amounted to approximately 24%, 31%, and 37% of Parlux s total net sales during the fiscal years ended March 31, 2011, 2010 and 2009, respectively.

Parlux advertises directly, and through cooperative advertising programs in association with major retailers, in fashion media on a national basis and through retailers statement enclosures and catalogues. Parlux is required to spend certain minimum amounts for advertising under certain licensing agreements. See Note 8B on page F-81 to Parlux s Consolidated Financial Statements of Parlux for the years ended March 31, 2011 and 2010 and Note K to the accompanying Consolidated Financial Statements of Parlux for the three and six months ended September 30, 2011 and 2010.

### ***Raw Materials***

Raw materials and components ( raw materials ) for Parlux s fragrance products are available from sources in the United States, Europe, and the Far East. Parlux sources the raw materials, which are delivered from independent suppliers directly to third party contract manufacturers who produce and package the finished products, based on Parlux s estimates of anticipated needs for finished goods. As is customary in its industry, Parlux does not have long-term agreements with its contract manufacturers. Parlux believes it has good relationships with its manufacturers and there are alternative sources available should one or more of these manufacturers be unable to produce at competitive prices.

To date, Parlux has had little difficulty obtaining raw materials at competitive prices. There is no reason to believe that this situation will change in the near future, but there can be no assurance this will continue.

The lead time for certain of Parlux s raw materials inventory (up to 180 days) requires Parlux to maintain at least a three to six-month supply of some items in order to ensure production schedules. These lead times are most affected for glass and plastic component orders, as many of Parlux s unique designs require the production of molds in addition to the normal production process. This may take 180 to 240 days, or longer, to receive in stock.

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In addition, when Parlux launches a new brand or Stock Keeping Unit ( SKU ), Parlux frequently produces a six to nine-month supply to ensure adequate inventories if the new products exceed Parlux's forecasted expectations. Generally gross margins on Parlux's products outweigh the potential loss due to out-of-stock situations, and the additional carrying costs to maintain higher inventory levels. Also, the composition of Parlux's inventory at any given point can vary considerably depending on whether there is a launch of a new product, or a planned sale of a significant amount of product to one or more of Parlux's major distributors. However, if future sales do not reach forecasted levels, it could result in excess inventories and may cause Parlux to decrease prices to reduce inventory levels.

### ***Seasonality***

Typical of the fragrance industry, Parlux has its highest sales as its customers purchase its products in advance of the Mother's and Father's Day periods and the calendar year-end holiday season, which fall during Parlux's first fiscal quarter, and third fiscal quarter. Lower than projected sales during these periods could have a material adverse effect on Parlux's operating results.

### ***Industry Practices***

It is an industry practice in the United States for businesses that market fragrances to department stores to provide the department stores with rights to return merchandise, primarily for multi-SKU gift sets produced and sold during the gift-giving seasons, discussed above. Parlux's fragrance products are subject to such return rights. It is Parlux's practice to establish reserves and provide allowances for product returns at the time of sale based on historical return patterns. Parlux believes that such reserves and allowances are adequate based on experience; however, Parlux cannot provide assurance that reserves and allowances will continue to be adequate or that returns will not increase. Consequently, if product returns are in excess of the reserves and allowances provided, net sales will be reduced during the quarterly period when such fact becomes known.

### ***Customers***

Parlux concentrates its fragrance sales efforts in the United States in a number of national and regional department store retailers which include, among others, Belk, Bloomingdales, Bon Ton, Boscovs, Dillard's, J.C. Penney, Macy's, Neiman Marcus, Saks, and Sears. Parlux also sells directly to perfumery and cosmetic retailers, including Perfumania, Sephora and Ulta. Retail distribution has been targeted by brands to maximize potential revenue and minimize overlap between each of these distribution channels. During the three years ended March 31, 2011, Parlux's sales to Macy's accounted for more than 10% of Parlux's sales. Sales to Macy's for the years ended March 31, 2011, 2010 and 2009, were \$27.6 million, \$34.1 million, and \$34.7 million, or 21%, 21%, and 22% of Parlux's total sales, respectively. The loss of either Macy's or Perfumania as Parlux's customer would have a material adverse effect on Parlux's total sales and results of operations.

Parlux's international sales efforts are carried out through distributors in over 80 countries, the main focus of which has been in Latin America, Canada, Europe, Asia, Australia, the Middle East, the Caribbean and Russia. These distributors sell Parlux's products to the local department stores, as well as to numerous perfumeries in the local markets.

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Perfumania offers Parlux the opportunity to sell Parlux's products in approximately 360 retail outlets and Parlux's terms with Perfumania take into consideration the relationship existing between the companies for approximately twenty years. Pricing and terms with Perfumania reflect (a) the volume of Perfumania's purchases, (b) a policy of no returns from Perfumania, (c) minimal spending for advertising and promotion, (d) exposure of Parlux's products provided in Perfumania's store windows, and (e) minimal distribution costs to fulfill Perfumania orders shipped directly to their distribution center. During the three years ended March 31, 2011, Parlux's net sales to Perfumania, which also accounted for more than 10% of Parlux's sales, were as follows:

<i>(in millions)</i>	For the Years Ended March 31,		
	2011	2010	2009
Sales to Perfumania	\$ 47.5	\$ 37.6	\$ 41.5
<i>As a % of total net sales</i>	<i>39%</i>	<i>25%</i>	<i>27%</i>

While Parlux's invoice terms to Perfumania are stated as net ninety (90) days, for more than fifteen years, management has granted longer payment terms taking into consideration the factors discussed above. Parlux evaluates the credit risk involved, which is determined based on Perfumania's reported results and comparable store sales performance. Management monitors the account activity to ensure compliance with their limits.

Net trade accounts receivable owed by Perfumania to Parlux amounted to \$12.7 million and \$10.5 million at March 31, 2011 and 2010, respectively. Between April 1, 2011, and May 25, 2011, Parlux received \$1.5 million from Perfumania in payment of its outstanding balance. Trade accounts receivable from Perfumania are non-interest bearing, and are paid in accordance with the terms established by management. See Liquidity and Capital Resources for further discussion of this receivable.

Parlux continues to evaluate its credit risk and assess the collectability of the Perfumania receivables. Perfumania's reported financial information, as well as Parlux's payment history with Perfumania, indicates that, historically, their first quarter ending approximately April 30, is Perfumania's most difficult operating quarter as is the case with most U.S. based retailers. Based on Parlux's evaluation, no allowances have been recorded as of March 31, 2011, and 2010. Parlux will continue to evaluate Perfumania's financial condition on an ongoing basis and consider the possible alternatives and effects, if any, on Parlux's business. In the merger agreement, Parlux and Perfumania agreed on a schedule that specifies the maximum monthly balances of payables that Perfumania is permitted to owe Parlux for products that Parlux sells to Perfumania in the months leading up to closing of the merger. If Perfumania owes more than the specified amount for the previous calendar month (that ended at least two weeks before the closing of the merger), the \$15 million of cash or cash equivalents that Parlux is required to have in order to not require an adjustment to the Maximum Cash Consideration (see The Merger Agreement Allocation of Merger Consideration) will be reduced by the excess amount that Perfumania owes to Parlux.

**Foreign and Export Sales**

Parlux records sales, cost of sales, and other direct expenses in three main categories: Domestic, International and Related Parties. Domestic includes sales generated by Parlux's Domestic Sales Division and generally includes sales to department and specialty stores in the United States that are not deemed to be related parties. International covers all sales other than domestic and related party sales that are processed by way of Parlux's International Sales Division to international distributors that are not deemed to be related parties for the sale of products in markets outside of the United States. Related parties are those parties that are known to Parlux as having a related party relationship. See Management's Discussion and Analysis of Financial Condition and Results of Operations on page 181, and Note 2 to Parlux's Consolidated Financial Statements of Parlux for the years ended March 31, 2011 and 2010 on page F-20 and Note G to the Accompanying Consolidated Financial Statements of Parlux for the three and six months ended September 30, 2011 and 2010 on page F-52 for additional information regarding related party transactions. Because of the substantial margins generated by

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fragrance sales, some products intended for sale in certain international territories are re-exported to the United States, a common practice in the fragrance industry. Also, prior season gift sets, refurbished returns and other slow moving products, are sold at substantially discounted prices, and as such, can find their way into mass market channels. Additionally, where the licensor does not restrict distribution, sales are made in all markets deemed appropriate for the brand. Parlux's net sales to international customers were as follows:

(in millions)	For the Years Ended March 31,		
	2011	2010	2009
Sales to international customers	\$ 29.7	\$ 46.3	\$ 55.8
As a % of total net sales	24%	31%	37%

No individual international customer accounted for more than 10% of Parlux's sales during the three fiscal years ended March 31, 2011.

**Licensing Agreements**

See *The Products* above for further discussion of the relative importance of Parlux's licensing agreements.

**VINCE CAMUTO:** Effective June 4, 2010, Parlux entered into an exclusive fragrance license agreement with Vince Camuto, Chief Designer and Chief Executive Officer of Camuto Group, to develop, manufacture and distribute prestige fragrances and related products under the Vince Camuto trademark. The initial term of the agreement expires on March 31, 2016, and is renewable for an additional five-year term if certain sales levels are met. Parlux must pay a minimum royalty, whether or not any product sales are made, and spend minimum amounts for advertising based upon sales volume. Parlux launched the first fragrance under this license in August 2011.

**RIHANNA:** Effective April 7, 2009, Parlux entered into a sublicense agreement with Artistic Brands for the exclusive worldwide rights to develop, manufacture and distribute prestige fragrances and related products under the Rihanna name. The initial term of the agreement expires on the fifth anniversary of the first date products are shipped and is renewable for an additional three-year term if certain sales levels are met. Under the terms of the sublicense agreement, Parlux assumes the obligation to pay a minimum royalty, whether or not any product sales are made, and spend minimum amounts for advertising based upon minimum sales volume. Parlux launched the first fragrance under this license in late January 2011 and the second in December 2011.

**KANYE WEST:** Effective April 7, 2009, Parlux entered into a sublicense agreement with Artistic Brands for the exclusive worldwide rights to develop, manufacture and distribute prestige fragrances and related products under the Kanye West name.

On March 2, 2011, Parlux entered into an amended and restated sublicense agreement with Artistic Brands. The initial term of the sublicense expires on March 31, 2017, and is renewable for an additional three-year term if certain sales levels are met. Under the terms of the amended and restated sublicense agreement, Parlux assumes the obligation to pay a minimum royalty, whether or not any product sales are made, and spend minimum amounts for advertising based upon sales volume. Parlux anticipates launching a new fragrance under this license in late fiscal year 2012.

**MARC ECKO:** Effective November 5, 2008, Parlux entered into an exclusive license agreement with Ecko Complex LLC, to develop, manufacture and distribute fragrances under the Marc Ecko trademarks. The initial term of the agreement expires on December 31, 2014, and is renewable for an additional three-year term if certain sales levels are met. Parlux must pay a minimum royalty, whether or not any product sales are made, and spend minimum amounts for advertising based upon sales volume. Parlux launched the first fragrance under this license in late September 2009. The license agreement was amended on November 2, 2010, which, among other items, reduced minimum royalty and advertising commitments.



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**QUEEN LATIFAH:** Effective May 22, 2008, Parlux entered into an exclusive license agreement with Queen Latifah Inc., to develop, manufacture and distribute prestige fragrances and related products under the Queen Latifah name. The initial term of the agreement expires on March 31, 2014, and is renewable for an additional five-year term if certain sales levels are met. Parlux must pay a minimum royalty, whether or not any product sales are made, and spend minimum amounts for advertising based upon sales volume. Parlux launched the first fragrance under this license in June 2009.

**JOSIE NATORI:** Effective May 1, 2008, Parlux entered into an exclusive license agreement with J.N. Concepts, Inc., to develop, manufacture and distribute prestige fragrances and related products under the Josie Natori name. The initial term of the agreement expires on September 30, 2012, and is renewable for an additional three-year term if certain sales levels are met. Parlux must pay a minimum royalty, whether or not any product sales are made, and spend minimum amounts for advertising based upon sales volume. Parlux launched the first fragrance under this license in July 2009. The license agreement was amended on December 10, 2010, which, among other items, reduced minimum royalty commitments.

**NICOLE MILLER:** Effective August 1, 2007, Parlux entered into an exclusive license agreement with Kobra International, Ltd., to develop, manufacture and distribute prestige fragrances and related products under the Nicole Miller name. The initial term of the agreement expires on September 30, 2013, and is renewable for two additional terms of three years each, if certain sales levels are met. Parlux must pay a minimum royalty, whether or not any product sales are made, and spend minimum amounts for advertising based upon sales volume. Parlux launched a new fragrance under this license in April 2010. The license agreement was amended on January 17, 2011, which, among other items, reduced minimum royalty and advertising commitments.

**JESSICA SIMPSON:** Effective June 21, 2007, Parlux entered into an exclusive license agreement with VCJS, LLC, to develop, manufacture and distribute prestige fragrances and related products under the Jessica Simpson name. The initial term of the agreement expires five years from the date of the first product sales and is renewable for an additional five years if certain sales levels are met. Parlux must pay a minimum royalty, whether or not any product sales are made, and spend minimum amounts for advertising based upon sales volume. Parlux launched the first fragrance under this agreement during August 2008.

**PARIS HILTON:** Effective June 1, 2004, Parlux entered into an exclusive license agreement with Paris Hilton Entertainment, Inc. ( PHEI ), to develop, manufacture and distribute prestige fragrances and related products, on an exclusive basis, under the Paris Hilton name, which was renewed during fiscal year 2009. The term of the agreement expires on June 30, 2014. The first Paris Hilton women s fragrance was launched during November 2004, and was followed by a launch of a men s fragrance in April 2005.

On January 26, 2005, Parlux entered into an exclusive worldwide license agreement with PHEI, to develop, manufacture and distribute watches and other time pieces under the Paris Hilton name. The initial term of the agreement expired on June 30, 2010, and was renewable for an additional five-year period. The first limited edition watches under this agreement were launched during December 2005 and a line of fashion watches were launched during spring 2006. Parlux did not exercise its option to renew this license. As of March 31, 2011, Parlux had sold all remaining inventory of the Paris Hilton brand watches in accordance with the provisions of the agreement.

On May 11, 2005, Parlux entered into an exclusive worldwide license agreement with PHEI, to develop, manufacture and distribute cosmetics under the Paris Hilton name. The initial term of the agreement expired on January 15, 2011, and was renewable for an additional five-year period. No products were launched under this license. As the cosmetic license was due to expire in fiscal year 2011, all remaining royalty obligations were expensed in fiscal year 2010. Parlux did not exercise its option to renew this license.

On May 13, 2005, Parlux entered into an exclusive worldwide license agreement with PHEI, to develop, manufacture and distribute handbags, purses, wallets and other small leather goods, under the Paris Hilton name.

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The initial term of the agreement expired on January 15, 2011, and was renewable for an additional five-year period. The first products under this agreement were launched during summer 2006. During fiscal 2008, Parlux sublicensed the international rights under this license. Parlux remained contingently liable for the minimum guaranteed royalties due through the remainder of this agreement. Parlux did not exercise its option to renew this license. As of March 31, 2011, Parlux had sold all remaining inventory of the Paris Hilton brand handbags in accordance with the provisions of the agreement.

On April 5, 2006, Parlux entered into an exclusive worldwide license agreement with PHEI, to develop, manufacture and distribute sunglasses under the Paris Hilton name. The initial term of the agreement expired on January 15, 2012, and was renewable for an additional five-year period. In January 2009, Parlux entered into an agreement with Gripping Eyewear, Inc. ( GEI ), assigning the worldwide rights with PHEI, for the production and distribution of Paris Hilton sunglasses. Parlux remained contingently liable for the minimum guaranteed royalties due through the remainder of this agreement. Parlux did not renew this license.

Under all of the PHEI agreements, Parlux must pay a minimum royalty, whether or not any product sales are made, and spend minimum amounts for advertising based on sales volume.

**GUESS?:** Effective November 1, 2003, Parlux entered into an exclusive license agreement with GUESS? and GUESS? IP HOLDER L.P., to develop, manufacture and distribute prestige fragrances and related products on a worldwide basis. This license expired on December 31, 2009, and was not renewed. The termination of this agreement resulted in the recording of significant costs. See Note 3 to the accompanying Consolidated Financial Statements of Parlux for the year ended March 31, 2011 and 2010 for further discussion.

**FRED HAYMAN:** In June 1994, Parlux entered into an Asset Purchase Agreement with Fred Hayman Beverly Hills, Inc. ( FHBH ), purchasing substantially all of the assets and liabilities of the FHBH fragrance division. In addition, FHBH granted Parlux an exclusive royalty free 55-year license to use FHBH's United States Class 3 trademarks *Fred Hayman*<sup>®</sup>, *273*<sup>®</sup>, *Touch*<sup>®</sup>, *With Love*<sup>®</sup> and *Fred Hayman Personal Selections*<sup>®</sup> and the corresponding international registrations. There are no minimum sales or advertising requirements.

On March 28, 2003, Parlux entered into an exclusive agreement to sublicense the FHBH rights to Victory for a royalty of 2% of net sales, with a guaranteed minimum annual royalty of \$50 thousand (the FHBH Sublicense ). The initial term of the FHBH Sublicense was for five years, and is automatically renewable every five years at the sublicensee's option. The FHBH Sublicense excluded the right to 273 Indigo for men and women, the latest fragrance introduction for the FHBH brand, as well as all new FHBH product development rights.

On October 17, 2003, the parties amended the FHBH Sublicense, granting all new FHBH product development rights to the sublicensee. In addition, the guaranteed minimum annual royalty increased to \$75 thousand and the royalty percentage on sales of new FHBH products was increased to 3% of net sales. Parlux received licensing fees under this sublicense of \$87 thousand in fiscal year ended March 31, 2011, and \$75 thousand during each fiscal year ended March 31, 2010 and 2009.

Parlux believes it is currently in compliance with all material obligations under the above agreements. There can be no assurance that Parlux will be able to continue to comply with the terms of these agreements in the future.

### ***Trademarks***

Parlux has exclusive licenses, as discussed above, to use trademark and tradename rights in connection with the packaging, marketing and distribution of its products, both in the United States and internationally where such products are sold. See *The Products* above for further discussion of the relative importance of these licenses.

In addition, Parlux owns the worldwide distribution rights to LIMOUSINE fragrances. There are no licensing agreements requiring the payment of royalties to Parlux for this trademark. Parlux does not anticipate distributing fragrance products under the LIMOUSINE brand in the near future.

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### ***Product Liability***

Parlux has insurance coverage for product liability in the amount of \$2 million per policy period. Parlux maintains an additional \$10 million of coverage under an umbrella policy. Parlux believes that the manufacturers of the products sold by Parlux also carry product liability coverage and that Parlux effectively is protected thereunder.

There are no pending and, to the best of Parlux's knowledge, no threatened product liability claims of a material nature. Over the past ten years, Parlux has not been presented with any significant product liability claims. Based on this historical experience, management believes that its insurance coverage is adequate, but there can be no assurance that will be the case.

In connection with its previous Paris Hilton fashion watch business, Parlux provided a one-year warranty on the watch mechanism and anticipate that repair service under the warranty would be handled by an outside third party, as necessary.

### ***Government Regulations***

A fragrance is defined as a cosmetic under the Federal Food, Drug and Cosmetics Act (the FDC Act). A fragrance must comply with the labeling requirements of the FDC Act, as well as the Fair Packaging and Labeling Act and related regulations. Under U.S. law, a product may be classified as both a cosmetic and a drug. If Parlux produces such products, there would be additional regulatory requirements for products which are drugs including additional labeling requirements, registration of the manufacturer and the semi-annual update of a drug list.

Effective March 11, 2005, Parlux was required to comply with the labeling, durability and non-animal testing guidelines from the European Cosmetic Toiletry and Perfumery Association (COLIPA) Amendment No. 7, to distribute Parlux products in the European Union (EU). Parlux created safety assessor approved dossiers for all Parlux products to be distributed in the EU, and have filed such documentation both domestically and with Parlux's agent in France. In addition to the EU specific requirements, Parlux complies with all other significant international requirements.

Parlux adheres to the Canadian Food and Drug Act (the CFD Act) and the Canadian Cosmetic Regulations (the CCRs). All cosmetics sold to consumers in Canada must meet the requirements of the CFD Act and the current CCRs, and all other applicable legislation to ensure that the products are safe to use and do not pose any health risk. The CCRs of the CFD Act requires that cosmetics sold in Canada must be manufactured, prepared, preserved, packed and stored under sanitary conditions. The manufacturer must notify Health Canada that it is selling the product in Canada and provide a list of the product's ingredients.

Parlux is not aware of any violations or issues with the regulations above, or any other significant regulations to which Parlux may be subject.

### ***Competition***

The markets for fragrance and beauty related products and other accessories are highly competitive and sensitive to changing consumer preferences and demands. Parlux believes that the quality of its products, as well as its ability to develop, distribute and market new products, will enable Parlux to continue to compete effectively in the future and to continue to achieve positive product reception, position and inventory levels in retail outlets. Parlux believes it competes primarily on the basis of product recognition and emphasis on providing in-store customer service. However, there are products, which are better known than the products distributed by Parlux, and Parlux does not presently have the extent of experience in the accessories market to compete effectively. There are also companies, which are substantially larger and more diversified. The top 30 beauty manufacturing

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companies, as listed in the August 2010 issue of *WWD Beauty Biz*, each have sales levels exceeding \$1 billion and have substantially greater financial and marketing resources than Parlux has, as well as greater name recognition, with the ability to develop and market products similar to, and competitive with, those distributed by Parlux.

### ***Employees***

As of March 31, 2011, Parlux had a total of 135 employees, consisting solely of full-time employees, all of which were located in the United States. Of these, 47 were engaged in worldwide sales activities, 56 in operations, marketing, administrative and finance functions and 32 in warehousing and distribution activities. None of Parlux's employees are covered by a collective bargaining agreement and Parlux believes that its relationship with its employees is satisfactory. Parlux also uses the services of independent contractors in various capacities, including sales representatives both domestically and internationally, as well as temporary agency personnel to assist with seasonal distribution requirements.

### **Description of Property**

Parlux's corporate headquarters are located at 5900 N. Andrews Avenue, Suite 500, Fort Lauderdale, FL 33309 and Parlux's distribution center is located in Keasbey, New Jersey.

On November 30, 2007, Parlux entered into a sublease agreement, commencing during February 2008, for 19,072 square feet of office space in Fort Lauderdale, Florida, to serve as Parlux's new corporate headquarters. Parlux moved into this space in February 2008. The sublease was for eight years, commencing on February 1, 2008, at an annual cost of approximately \$0.6 million, increasing 3% per annum. On January 31, 2009, the sublease was terminated and Parlux assumed the lessor's obligations under their lease directly with the landlord. The terms of the lease are substantially the same as Parlux's previous sublease.

On April 17, 2006, Parlux leased 198,500 square feet of warehouse space in Keasbey, New Jersey. The lease was for a five-year term and had an initial annual cost of approximately \$1.4 million, with minimal increases after the second and fourth year of the lease. Parlux relocated substantially all of its fragrance warehousing and distribution activities to this facility, and established a backup information technology site in case of an unplanned disruption to Parlux's South Florida headquarters. On November 24, 2010, Parlux amended the lease agreement and extended the lease term an additional four years through August 31, 2015.

Parlux currently maintains a lease for its former corporate headquarters and distribution center in Ft. Lauderdale, Florida. During May 2006, Parlux entered into a five-year lease on the 99,000 square foot property, commencing October 1, 2006, at an initial annual cost of approximately \$0.9 million, increasing approximately 3% per annum. On January 29, 2009, Parlux entered into a sublease agreement to sublease 40,000 square feet of space in the facility at the approximate per square foot cost as Parlux has under its lease. The sublease commenced on April 1, 2009, and will terminate on September 30, 2011, which is Parlux's lease expiration date.

### **Legal Proceedings**

#### ***Litigation***

On June 21, 2006, Parlux was served with a stockholder derivative action (the *Derivative Action*) filed in the Circuit Court of the Seventeenth Judicial Circuit in and for Broward County, Florida by NECA-IBEW Pension Fund, purporting to act derivatively on behalf of Parlux.

The *Derivative Action* named Parlux Fragrances, Inc. as a defendant, along with Ilia Lekach, Frank A. Buttacavoli, Glenn Gopman, Esther Egozi Choukroun, David Stone, Jaya Kader Zebede and Isaac Lekach, each of whom at that date was one of Parlux's directors. The *Derivative Action* related to the June 2006 proposal from

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PF Acquisition of Florida LLC ( PFA ), which was owned by Ilia Lekach, to acquire all of Parlux s outstanding shares of common stock for \$29.00 (\$14.50 after Parlux s June 16, 2006 stock split) per share in cash (the Proposal ).

The original Derivative Action sought to remedy the alleged breaches of fiduciary duties, waste of corporate assets, and other violations of law and sought injunctive relief from the Court appointing a receiver or other truly neutral third party to conduct and/or oversee any negotiations regarding the terms of the Proposal, or any alternative transaction, on behalf of Parlux and its public stockholders, and to report to the Court and plaintiff s counsel regarding the same. The Derivative Action alleged that the unlawful plan to attempt to buy out the public stockholders of Parlux without having proper financing in place, and for inadequate consideration, violated applicable law by directly breaching and/or aiding the other defendants breaches of their fiduciary duties of loyalty, candor, due care, independence, good faith and fair dealing, causing the complete waste of corporate assets, and constituting an abuse of control by the defendants. Before any response to the original complaint was due, counsel for plaintiffs indicated that an amended complaint would be filed. That First Amended Complaint (the Amended Complaint ) was served to Parlux s counsel on August 17, 2006.

The Amended Complaint continued to name the then Board of Directors as defendants along with Parlux, as a nominal defendant. The Amended Complaint was largely a collection of claims previously asserted in a 2003 derivative action, which the plaintiffs in that action, when provided with additional information, simply elected not to pursue. It added to those claims, assertions regarding a 2003 buy-out effort and an abandoned buy-out effort of PFA. It also contained allegations regarding the prospect that Parlux s stock might be delisted because of a delay in meeting SEC filing requirements.

Parlux and the other defendants engaged Florida securities counsel, including the counsel who successfully represented Parlux in the previous failed derivative action, and on September 18, 2006, moved to dismiss the Amended Complaint. A Second Amended Complaint was filed on October 26, 2006, which added alleged violations of securities laws, which Parlux moved to dismiss on December 1, 2006. A hearing on the dismissal was held on March 8, 2007. On March 22, 2007, the motion to dismiss was denied and the defendants were provided twenty (20) days to respond, and a response was filed on March 29, 2007. During fiscal year 2008, there followed extremely limited discovery. A number of the factual allegations upon which the various complaints were based have fallen away, simply by operation of time. Parlux was then advised that one of the two plaintiffs was withdrawing from the case. No explanation was given. The remaining plaintiff then spent several months obtaining documents. Parlux believes the documents provide no support for any of the claims.

Parlux then sought to take the deposition of the remaining plaintiff, who lives in Seattle. He declined to travel due to a long-standing fear of flying and filed a motion on August 4, 2008, for a protective order from the Court. The Court denied the motion and required him to appear in Florida for his deposition. As a consequence of this ruling, his counsel then informed Parlux that this plaintiff, too, was withdrawing from the case due to this travel requirement, leaving no plaintiff. Parlux was then served with a motion on September 15, 2008, to further amend the complaint by inserting a new plaintiff. Parlux s counsel opposed that motion on the grounds that a person not a party to the case has no standing to move to amend the complaint. A hearing on that motion was held on December 19, 2008, and the motion to amend was denied by the Court.

The plaintiff s counsel was given leave to amend the complaint and intervene on behalf of a new plaintiff. Counsel also moved to amend the complaint yet again. After a lengthy hearing, the Court permitted the new plaintiff to intervene and to file a Third Amended Complaint on July 29, 2009.

The Third Amended Complaint claims damages to Parlux based on allegations of (1) insider trading; (2) failing to have proper internal controls resulting in delays in the filing of an Annual Report on Form 10-K for 2006 and a Quarterly Report on Form 10-Q for June 2006 and (3) intentionally stifling Parlux s independent outside auditors in the commencement of Parlux s Sarbanes-Oxley review.

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Based on that preliminary review and discussions with the directors and detailed discussions with Parlux's counsel, Parlux believes that there are meaningful defenses to the claims although discovery will be required to reach a final conclusion as to these matters. An answer was filed to the Third Amended Complaint on September 14, 2009, essentially denying the substantive allegations.

Discovery has commenced. A number of depositions were taken of the brokerage firms through which the stock trades were conducted by the then Board of Directors. Two representatives of Parlux's former independent outside auditors, as well as one of Parlux's consultants have been deposed. A deposition of the new plaintiff was completed in February 2010. The new plaintiff had no personal knowledge of any of the basic factual allegations and was simply unhappy that Parlux's stock declined in value. Depositions of Parlux's Board of Directors, both former and current, named in the suit were commenced. No completion date has been scheduled and there has been no effort by the plaintiff to complete their depositions.

On January 19, 2010, the plaintiff filed a motion for leave to file under seal a motion for partial summary judgment. That motion was granted. The motion for partial summary judgment was filed and was initially scheduled for a hearing on June 25, 2010. That hearing was postponed until September 17, 2010, and then postponed again until January 7, 2011. The hearing scheduled for January 7, 2011, was postponed as well. A hearing was conducted on June 9, 2011. The motion sought a ruling that one of Parlux's directors engaged in insider trading. A comprehensive opposing memorandum was filed on behalf of the director prior to the hearing. It directly rebutted the facts upon which the motion was based. Proposed findings of fact and conclusions of law were submitted to the Court following the hearing on July 8, 2011. The Court has denied the motion.

A summary judgment motion was then filed on behalf of Esther Egozi, one of the Director Defendants. After review of that motion, Plaintiff agreed to dismiss his claim against Ms. Egozi, with prejudice. Following further discussions, Plaintiff further agreed to dismiss his claim against Director David Stone and Director Isaac Lekach. Additional summary judgment motions are in preparation for the remaining Directors, but will have to await completion of additional discovery.

Based on the manner in which this case has been conducted to date, and based on the investigations into the earlier complaint Parlux feels the Third Amended Complaint is without merit and subject to challenge and to an effective defense.

The plaintiffs have once again informally initiated settlement inquiries. Discussions with Parlux and the insurer are in process. No formal settlement offer has been submitted.

While management is unable to predict with certainty the outcome of the legal proceedings described above, based on current knowledge management believes that the ultimate outcome of these matters will not have a material effect on Parlux's financial position or results of operations.

### ***Other***

To the best of Parlux's knowledge, except as described in "The Merger Litigation Related to the Merger" on page 108, which describes lawsuits filed challenging the merger, there are no other proceedings threatened or pending against Parlux, which, if determined adversely to Parlux, would have a material effect on Parlux's financial position or results of operations and cash flows.

## **Management's Discussion and Analysis Of Financial Condition and Results of Operations**

### ***Overview***

Parlux is engaged in the business of creating, designing, manufacturing, distributing and selling prestige fragrances and beauty related products marketed primarily through specialty stores, national department stores and perfumeries on a worldwide basis. The fragrance market is generally divided into a prestige group

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(distributed primarily through department and specialty stores) and a mass market group (primarily chain drug stores, mass merchandisers, smaller perfumeries and pharmacies). Parlux's fragrance products are positioned primarily in the prestige group. Parlux holds licenses or sublicenses to manufacture and distribute the designer fragrance brands of Paris Hilton, Jessica Simpson, Nicole Miller, Josie Natori, Queen Latifah, Marc Ecko, Rihanna, Kanye West, Vince Camuto, and Fred Hayman Beverly Hills.

As a result of the economic downturn over the past several years and the impact of the expiration of the GUESS? license on December 31, 2009, Parlux incurred significant net losses of \$14.8 million and \$4.3 million for the years ended March 31, 2010 and 2009, respectively. During the fiscal year ended March 31, 2011, the economy began to improve and, coupled with the cost-cutting initiatives Parlux implemented in prior years resulted in Parlux's reporting net income of \$1.2 million. Net cash used in operations during the year ended March 31, 2009, was \$13.1 million, while net cash provided by operations during the years ended March 31, 2011 and 2010, was \$3.6 million and \$13.9 million, respectively. As reflected in the accompanying Consolidated Balance Sheets as of March 31, 2011 and 2010, Parlux had unrestricted cash and cash equivalents of approximately \$20.5 million and \$17.6 million, respectively, and positive working capital of \$93.0 million at March 31, 2011, and \$88.8 million at March 31, 2010.

During fiscal years 2009 and 2010, Parlux implemented a number of cost reduction initiatives including a targeted reduction in staff, along with a reduction in committed advertising and promotional spending, and reduced Parlux's production levels. The reductions during fiscal year 2010 were partially offset by approximately \$1.7 million in advertising and promotional expense relating to the write-off of Parlux's remaining GUESS? collateral material. During fiscal year 2011, management continued to implement various operational efficiencies and monitor all facets of Parlux's operations.

On February 16, 2010, Parlux repaid the remaining outstanding principal balance plus interest and fees under Parlux's Loan and Security Agreement (the "Old Loan Agreement") with Regions, and the Old Loan Agreement, as amended, was terminated. On June 25, 2010, Parlux entered into a Loan Agreement, as amended April 15, 2011, (the "Loan Agreement") with General Electric Capital Corporation ("GE Capital"). The New Loan Agreement is a revolving credit facility that provides a credit line of up to \$20.0 million, depending upon the availability of a borrowing base and certain reserves established by GE Capital from time to time, at an interest rate equal to the highest of (a) the prime rate, (b) the federal funds rate plus 3.0%, or (c) the LIBOR rate over one minus any Euro dollar reserve requirement (the "Eurodollar Rate"), in each case plus 3.50%; or the Eurodollar Rate plus 4.50%, at Parlux's option except in certain circumstances including defaults in the payment of any amounts under the revolving credit facility or the unavailability of the LIBOR rate. The term of the revolving credit facility under the Loan Agreement is two years. See *Liquidity and Capital Resources* and Note 7 to Parlux's accompanying Consolidated Financial Statements on page F-30 for further discussion. As of March 31, 2011, Parlux had not borrowed any amounts under Parlux's Loan Agreement.

Management believes that the actions taken, along with the credit facility under the Loan Agreement will continue to provide Parlux an opportunity to improve liquidity and profitability, and Parlux's new financing will be sufficient to meet Parlux's current operating and seasonal needs. However, if Parlux were to expand operations through acquisitions, new licensing arrangements or both, Parlux may need to obtain additional financing. There can be no assurances that Parlux could obtain additional financing or what the terms of such financing, if available, would be. In addition, the current business environment may increase the difficulty of obtaining additional financing, if necessary.

Parlux distributes certain brands through Perfumania, a specialty retailer of fragrances in the United States and Puerto Rico, and Quality King. Perfumania is a wholly owned subsidiary of Perfumania Holdings, Inc. The majority stockholders of Perfumania Holdings, Inc. are also the owners of Quality King, a privately-held, wholesale distributor of pharmaceuticals and beauty care products. Perfumania is one of Parlux's largest customers, and transactions with Perfumania are closely monitored by management, and any unusual trends or issues are brought to the attention of Parlux's Audit Committee and Board of Directors. During fiscal year 2007,

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Perfumania Holdings, Inc.'s majority stockholders acquired an approximate 12.2% ownership interest in Parlux at that time (equivalent to 9.9% at March 31, 2011), and accordingly, transactions with Perfumania and Quality King are included as related party sales in the accompanying Consolidated Statements of Operations.

During the years ended March 31, 2011 and 2010, Parlux sold a number of Parlux's products to Jacavi, a fragrance distributor. Jacavi's managing member is Rene Garcia. Rene Garcia owns approximately 8.4% of the outstanding stock of Perfumania Holdings, Inc. as of March 31, 2011, and is one of the principals of Artistic Brands. Also, on June 14, 2010, certain persons related to Mr. Garcia, the Garcia Group, acquired 2,718,728 shares of Parlux's common stock and filed a Schedule 13G with the SEC on June 23, 2010. In that filing, the Garcia Group reported having beneficial ownership of a total of 2,995,527 shares, or approximately 14.7% of Parlux's outstanding shares as of June 14, 2010 (equivalent to 14.4% as of December 30, 2011), excluding warrants owned by the Garcia Group. On March 4, 2011, the Garcia Group replaced their original joint filing by jointly filing a Schedule 13D with the SEC, which was amended on December 29, 2011. Other than the addition of certain warrants to purchase shares, which vested between the initial and subsequent filing dates, there were no significant changes in beneficial share ownership included in the updated joint filing. Sales to Jacavi are also included as related party sales in the accompanying Consolidated Statement of Operations for the years ended March 31, 2011 and 2010.

During the fiscal year ended March 31, 2011, Parlux engaged in the manufacture (through sub-contractors), distribution and sale of Paris Hilton, Jessica Simpson, Rihanna, Queen Latifah, Marc Ecko, Josie Natori, Nicole Miller, XOXO, Ocean Pacific (OP), and babyGUND fragrances and grooming items on an exclusive basis as a licensee. Parlux also holds a sublicensing agreement for the fragrance license of entertainer Kanye West, whose first product is expected to launch late in fiscal 2012 and a fragrance license agreement with Vince Camuto, Chief Designer and Chief Executive Officer of Camuto Group, whose first product is expected to launch in the fall of 2011.

The Paris Hilton and Jessica Simpson brands of fragrances and accessories accounted for approximately 60% and 19%, respectively, of Parlux's gross sales during the fiscal year ended March 31, 2011, and 42% and 15%, respectively, of Parlux's gross sales during the year ended March 31, 2010. The GUESS? license expired on December 31, 2009, and was not renewed. As a result, licensed Paris Hilton brand products accounted for the majority of Parlux's gross sales and constituted Parlux's primary source of revenue for the year ended March 31, 2011. If Paris Hilton's appeal as a celebrity were to diminish, it could result in a material reduction in Parlux's sales of licensed Paris Hilton brand products, adversely affecting Parlux's results of operations and operating cash flows. The Paris Hilton fragrance license is scheduled to expire on June 30, 2014.

As a result of the expiration of Parlux's GUESS? fragrance license on December 31, 2009, during the year ended March 31, 2010, Parlux recorded additional charges of \$7.6 million to cost of sales to reduce the recorded value of such inventories to the amounts which Parlux estimated could be realized upon their sale or liquidation. In addition, during the year ended March 31, 2010, Parlux wrote-off approximately \$1.7 million of collateral material related to the GUESS? brand products, which was recorded as advertising and promotional expense.

The reduction in sales of GUESS? products was partially offset by increased sales of fragrances launched during fiscal year 2011, including Parlux's Paris Hilton fragrances, Tease and the Passport Series, Jessica Simpson fragrance, Fancy Nights, and Marc Ecko fragrances, Ecko Blue and UNLTD by Marc Ecko. In addition, Parlux launched a new fragrance under its recently signed Rihanna sublicense in January 2011.

Parlux expanded its product licenses under the Paris Hilton brand into the accessory market in 2005, specifically, watches, handbags, purses, small leather goods, cosmetics and sunglasses. Parlux's management believed such products, which have similar distribution channels to Parlux's fragrance products, could strengthen Parlux's position with Parlux's current customers and distributors while providing incremental sales volume. Parlux's sales under such accessory licenses have not offset the minimum annual royalties paid to the licensor. During the year ended March 31, 2008, Parlux sublicensed the international rights for handbags, purses, wallets, and other



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small leather goods. Parlux generated \$0.2 million in fiscal year 2011, \$0.4 million in fiscal year 2010, and \$0.4 million in fiscal year 2009 in sublicense revenue. In addition, during January 2009, Parlux sublicensed the worldwide exclusive licensing rights for Paris Hilton sunglasses through January 15, 2012, and remain contingently liable for the minimum guaranteed royalty from Parlux's assignment of the license. Parlux generated \$0 million and \$0.3 million in fiscal years 2011 and 2010, respectively, in sublicense revenue. As of March 31, 2010, Parlux's management determined that the license for Paris Hilton cosmetics, which was due to expire on January 15, 2011, was no longer a viable business line and all remaining royalty obligations were accrued and expensed in fiscal year 2010.

***Critical Accounting Policies and Estimates***

SEC Financial Reporting Release No. 60, *Cautionary Advice Regarding Disclosure About Critical Accounting Policies* ( FRR 60 ), suggests companies provide additional disclosure and commentary on those accounting policies considered most critical. FRR 60 considers an accounting policy to be critical if it is important to the Parlux's financial condition and results, and requires significant judgment and estimates on the part of management in its application. Parlux's management believes the accounting policies described below represent Parlux's critical accounting policies as contemplated by FRR 60. See Note 1 to Parlux's accompanying Consolidated Financial Statements on page F-19 for a detailed discussion on the application of these and other accounting policies.

***Accounting for Long-Lived Assets***

The majority of Parlux's long-lived assets are the result of the acquisition of existing license brands. For newly launched brands or sublicensing opportunities Parlux's long-lived assets are generally the result of Parlux's investment in trademarking brand names and designs, and are generally not a material portion of Parlux's assets. The value of Parlux's long-lived assets, including brand licenses and trademarks, is exposed to future adverse changes if Parlux experiences declines in operating results or experience significant negative industry or economic trends. On an annual basis, long-lived assets are reviewed for impairment, or sooner, if events or circumstances have occurred that indicate a potential impairment. Impairment losses are recognized if expected undiscounted future cash flows of the long-lived assets are less than their carrying values. Future cash flows can be affected by changes in industry or market conditions. The assumptions used include an analysis by license, and by fragrance produced under each license, which may vary depending on the age of the product. Expected sales along with related costs of sales, direct expenses and certain allocated charges are projected through the end of each given license period. Expected sales estimates incorporate the age of a product and its market distribution. Although certain products may not be widely distributed, Parlux may have certain distribution channels, such as specialty discount stores, where the product is in demand. Direct expenses, including cost of goods and royalties, vary by product, but generally range from 35% to 50%. Allocated charges include selling and distribution costs, marketing expenses and depreciation of molds. Although these costs vary by brand, management anticipates that these costs would range between 15% and 25%. The net unamortized balance of Parlux's trademarks, licenses and sublicenses at March 31, 2011, is approximately \$4.2 million. Management does not anticipate any further material write down will be required going forward, however, if actual results differ from management's estimates, or if the economic environment should deteriorate, additional write downs may be required which could have a material adverse effect on Parlux's operating results.

***Allowance for Sales Returns***

As is customary in the prestige fragrance industry, Parlux grants certain of its unrelated U.S. department store customers the right to return a product or receive a markdown allowance for product that does not sell-through to consumers. At the time of sale, Parlux record a provision for estimated product returns or markdowns based on Parlux's level of sales, historical sell-through experience, current economic trends and changes in Parlux's assessment of customer demand. Parlux makes detailed estimates at the product and customer level, which are then aggregated to arrive at a consolidated provision for product returns and markdowns and are reviewed

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periodically as facts and circumstances warrant. Such provisions and markdown allowances are recorded as a reduction of net sales. Because there is considerable judgment used in evaluating the allowance for returns and markdowns, it is reasonably likely that actual experience will differ from Parlux's estimates. If, for example, customer demand for Parlux's products is lower than estimated or a proportionately greater amount of sales is made to prestige department stores and/or specialty beauty stores, additional provisions for returns or markdowns may be required resulting in a charge to income in the period in which the determination was made. Similarly, if customer demand for Parlux's products is higher than estimated, a reduction of Parlux's provision for returns or markdowns may be required resulting in an increase to income in the period in which the determination was made. Sales returns generally follow seasonal gift-giving periods such as Mother's Day, Christmas, etc. In addition, the global economic downturn of the past few years has also led retailers to reduce inventory levels thereby increasing returns after the major gift-giving seasons. All other customers have no right to return products unless they are damaged or otherwise unsellable.

The allowance for sales returns was \$1.7 million and \$2.3 million at March 31, 2011 and 2010, respectively. It generally takes between two to three-months for Parlux to receive such returns. Historically, Parlux's estimated allowances have been sufficient to cover the amount of returns subsequently received. However, an increase in sales returns due to a change in economic conditions, or otherwise, could have a material impact on Parlux's operating results.

### *Allowances for Doubtful Accounts Receivable*

Parlux maintains allowances for doubtful accounts to cover anticipated uncollectible accounts receivable, and Parlux's management evaluates Parlux's accounts receivable to determine if they will ultimately be collected. This evaluation includes significant judgments and estimates, including a customer-by-customer review for large accounts. If the financial condition of Parlux's customers, or any one customer, deteriorates resulting in an impairment of their ability to pay, additional allowances may be required.

The allowance for doubtful accounts receivable was \$0.9 million and \$0.7 million at March 31, 2011 and 2010, respectively. Parlux's management continuously monitors the collectability of Parlux's receivables by analyzing the aging of Parlux's accounts receivable, assessing Parlux's customers credit worthiness, and evaluating the impact of the changes in economic conditions. Historically, Parlux's estimated allowances have been sufficient to cover Parlux's uncollectible receivables. However, significant changes in the circumstances that affect the collectability of Parlux's receivables could have a material impact on Parlux's cash flows and operating results.

Parlux has had an ongoing relationship with Perfumania for approximately twenty years. All activities with Perfumania are reported as related party activities, due to certain common stockholders. Management evaluates the credit risk involved, which is determined based on Perfumania's reported results and comparable store sales performance. Parlux's management holds discussions with Perfumania's management on a regular on-going basis in order to monitor their activity. On an annual basis, as well as quarterly, sales projections to Perfumania are reviewed along with a planned payment program, in order to ensure that Perfumania's receivable balance is maintained at acceptable levels. Based upon these facts, management believes that no reserves are required for the receivable due from Perfumania.

### *Inventory Write-downs*

Inventories are stated at the lower of cost (using the first-in, first-out method) or market. The cost of inventories includes product costs, inbound freight and handling charges, including an allocation of Parlux's applicable overhead in an amount of \$3.8 million and \$3.2 million at March 31, 2011 and 2010, respectively.

The lead time for certain of Parlux's raw materials and components inventory (up to 180 days) requires Parlux to maintain at least a three to six-month supply of some items in order to ensure production schedules. These lead times are most affected for glass and plastic component orders, as many of Parlux's unique designs require the production of molds in addition to the normal production process. This may take 180 to 240 days, or longer, to

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receive in stock. In addition, when Parlux launches a new brand or SKU, it frequently produces a six to nine-month supply to ensure adequate inventories if the new products exceed Parlux's forecasted expectations. Generally gross margins on Parlux's products outweigh the potential loss due to out-of-stock situations, and the additional carrying costs to maintain higher inventory levels. Also, the composition of Parlux's inventory at any given point can vary considerably depending on whether there is a launch of a new product, or a planned sale of a significant amount of product to one or more of Parlux's major distributors. However, if future sales do not reach forecasted levels, it could result in excess inventories and may cause Parlux to decrease prices to reduce inventory levels.

Parlux classifies its inventory into three major categories: finished goods, raw materials, and components and packaging materials. Finished goods include items that are ready for sale to Parlux's customers, or essentially complete and ready for use in value sets or other special offers. Raw materials consist of fragrance oils or bulk. Components and packaging materials (such as bottles, caps, boxes, etc.) are the individual elements used to manufacture Parlux's finished goods. The levels of Parlux's inventory maintained vary depending on the age of a brand, its commercial success and market distribution. Parlux normally carries higher levels of new products and older products for which demand remains high. Older, slower moving products are periodically reviewed, and inventory levels adjusted, based upon expected future sales. If inventory levels exceed projected demand, Parlux's management determines whether a product requires a markdown in order to sell the inventory at discounted prices. Parlux's management also reviews whether there are any excess components which should be marked down or scrapped due to decreased product demand.

Parlux's inventories and write-downs, by major categories, as of March 31, 2011 and 2010, are as follows:

	<b>March 31, 2011</b>			
	<b>Finished Goods</b>	<b>Components and Packaging Material</b>	<b>Raw Material</b>	<b>Total</b>
	<i>(in millions)</i>			
Inventories	\$ 21.4	\$ 14.5	\$ 2.3	\$ 38.2
Less write-downs	0.3	0.4	0.1	0.8
<b>Net inventories</b>	<b>\$ 21.1</b>	<b>\$ 14.1</b>	<b>\$ 2.2</b>	<b>\$ 37.4</b>

	<b>March 31, 2010</b>			
	<b>Finished Goods</b>	<b>Components and Packaging Material</b>	<b>Raw Material</b>	<b>Total</b>
	<i>(in millions)</i>			
Inventories	\$ 28.2	\$ 22.2	\$ 2.6	\$ 53.0
Less write-downs	4.9	6.0	0.3	11.2
<b>Net inventories</b>	<b>\$ 23.3</b>	<b>\$ 16.2</b>	<b>\$ 2.3</b>	<b>\$ 41.8</b>

Parlux's management performs a review of Parlux's inventory on a quarterly basis, unless events or circumstances indicate a need for review more frequently. The write-down of inventory results from the application of an analytical approach that incorporates a comparison of Parlux's sales expectations to the amount of inventory on hand. Other qualitative reasons for writing down selected inventory may include, but are not limited to, product expiration, licensor restrictions, damages, and general economic conditions. As of March 31, 2011 and 2010, of Parlux's total inventories of \$38.2 million and \$53.0 million, respectively, management determined that approximately \$5.9 million and \$9.5 million, respectively, of the finished goods inventory was either selling slower than anticipated or showed signs of deterioration. This inventory was written-down by \$0.3 million and \$4.9 million in fiscal year 2011 and 2010, respectively. Components and packaging materials are reviewed in light of estimated future sales for finished goods or damages sustained during the production of finished goods. As of March 31, 2011 and 2010, approximately \$1.7 million and \$7.7 million, respectively, were

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identified as problematic and the inventory was written-down by \$0.4 million and \$6.0 million, respectively. Raw materials are usually scrapped due to spoilage or stability issues. As of March 31, 2011 and 2010, approximately \$0.1 million and \$0.3 million were identified as problematic and the inventory was written-down by \$0.1 million and \$0.3 million, respectively.

Parlux's license with GUESS? expired on December 31, 2009, and was not renewed. As of March 31, 2010, Parlux recorded charges of \$7.6 million, which was included in the \$11.2 million write-down noted above, to cost of sales expired license, in the accompanying Consolidated Statements of Operations for the year ended March 31, 2010, to reduce the recorded value of such inventories to the amounts, which Parlux estimated could be realized upon their sale or liquidation.

During the years ended March 31, 2011, 2010 and 2009, the carrying value of certain inventory was reduced by \$0.8 million, \$11.2 million (including \$7.6 million relating to GUESS? products), and \$0.2 million, respectively, which was recorded in cost of goods sold in the accompanying Consolidated Statements of Operations. Based upon this review, management has determined that its inventory is stated at the lower of cost or market value, however, if Parlux is not successful in selling its inventory, it may need to write down the inventory further or sell it at significantly reduced prices or it may not be able to sell such inventory at all, which could have a material adverse affect on Parlux's financial condition and results of operations.

### *Demonstration and Cooperative Advertising Allowances*

Parlux records allowances for demonstration chargebacks and cooperative advertising costs. The demonstration chargebacks are recorded based on demonstration programs with specific U.S. department stores. The allowance for demonstration chargebacks was \$0.9 million and \$0.6 million at March 31, 2011 and 2010, respectively. Fluctuations in the allowance balance are generally higher after gift-giving seasons and are estimated based on a three-month period. Cooperative advertising, which is under the direct control of Parlux's customer and includes a percentage rebate or deduction based on net sales to the customer, is accrued and recorded as a reduction of net sales at the time of sale. Cooperative advertising with Parlux's customers, which is under Parlux's direct control, and at Parlux's option, including catalogue and other forms of print advertising, are included in advertising and promotional expenses in the accompanying Consolidated Statements of Operations. The costs associated with the specific advertisements are recorded as incurred, and when applicable, are applied against trade accounts receivable. The allowance for cooperative advertising was \$0.4 million and \$0.5 million at March 31, 2011 and 2010, respectively. Historically, Parlux's estimated allowances have been sufficient to cover the amount of Parlux's chargebacks and cooperative advertising costs.

### *Income Taxes and Valuation Allowance*

If warranted, Parlux records a valuation allowance to reduce deferred tax assets to the amount that is more-likely-than-not to be realized. Parlux's management considers projected future taxable income and ongoing tax planning strategies in assessing the valuation allowance. In the event Parlux's management determines that Parlux may not be able to realize all or part of Parlux's deferred tax asset in the future, an adjustment to the deferred tax asset would be charged to earnings in the period of such determination, which such adjustment could be material.

The accounting for uncertainty in income taxes recognized in the financial statements prescribes a recognition threshold of more-likely-than-not and a measurement attribute on all tax positions taken or expected to be taken in a tax return in order to be recognized in the financial statements. In making this assessment, a company must determine whether it is more-likely-than-not that a tax position will be sustained upon examination, including resolution of any related appeals or litigation processes, based solely on the technical merits of the position and must assume that the tax position will be examined by appropriate taxing authority that would have full knowledge of all relevant information. Once the recognition threshold is met, the tax position is then measured to determine the actual amount of benefit to recognize in the financial statements. In addition, the recognition

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threshold of more-likely-than-not must continue to be met in each reporting period to support continued recognition of the tax benefit. Tax positions that previously failed to meet the more-likely-than-not recognition threshold should be recognized in the first financial reporting period in which that threshold is met. Previously recognized tax positions that no longer meet the more-likely-than-not recognition threshold should be derecognized in the financial reporting period in which that threshold is no longer met. Parlux did not recognize a liability for unrecognized tax benefits or adjust any recorded liabilities for uncertain tax positions. As of the years ended March 31, 2011 and 2010, there was no material liability for income tax associated with unrecognized tax benefits. Parlux does not anticipate any material adjustments relating to unrecognized tax benefits within the next twelve months, however, the outcome of tax matters is uncertain and unforeseen results can occur.

### *Stock-Based Compensation*

Parlux recognizes the cost of share-based compensation expense in Parlux's accompanying Consolidated Financial Statements for stock options and warrants granted, based on the fair values of the awards at the date of grant over the vesting period. Parlux uses the Black-Scholes valuation model to determine the compensation expense. When estimating forfeitures, Parlux's management an analysis of actual option forfeitures, as well as management judgment. The forfeiture rate used when calculating the value of stock options granted in 2011 and 2010 was approximately 7% and 5%, respectively.

During the fiscal years ended 2011, 2010 and 2009, Parlux has not made any changes of these critical accounting policies, nor has it made any material changes in any of the critical accounting estimates underlying these accounting policies.

### *Recent Accounting Updates*

In January 2010, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update No. 2010-06 ( ASU No. 2010-06 ), Improving Disclosure about Fair Value Measurements, under Topic 820, Fair Value Measurements and Disclosures, to improve and provide new disclosures for recurring and nonrecurring fair value measurements under the three-level hierarchy of inputs for transfers in and out of Levels 1 (quoted prices in active markets for identical assets or liabilities) and 2 (significant other observable inputs), and activity in Level 3 (significant unobservable inputs). This update also clarifies existing disclosures of the level of disaggregation for the classes of assets and liabilities and the disclosure about inputs and valuation techniques. ASU No. 2010-06 new disclosures and clarification of existing disclosures is effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for financial statements issued for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The adoption of ASU No. 2010-06, as it relates to new disclosures and clarifications of existing disclosures, well as certain disclosures of activity in Level 3 fair value measurements, did not have a material impact on Parlux's consolidated financial statements.

### *Significant Trends*

A significant number of new prestige fragrance products continue to be introduced on a worldwide basis. The beauty industry, in general, is highly competitive and consumer preferences often change rapidly. The initial appeal of these new fragrances, launched for the most part in U.S. department stores, fuels the growth of Parlux's industry. Department stores generally lose sales to the mass market as a product matures. To counter the effect of lower department store sales, companies introduce new products, which requires additional spending for development and advertising and promotional activities. Historically, the prestige fragrance business has been built on apparel designers, mostly European and American, and the business ebbs and flows with their success. In addition, a number of the new launches are with celebrities (mainly entertainers and athletes), which require substantial royalty commitments, and whose careers and/or appeal could change drastically, both positively and negatively, based on a single event. If one or more of Parlux's new product introductions is unsuccessful, or the appeal of a celebrity that is tied to any of Parlux's fragrances brands diminishes, it could result in a substantial reduction in profitability and operating cash flows.

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Certain U.S. department store retailers have consolidated operations resulting in the closing of retail stores, as well as implementing various inventory control initiatives. The result of these consolidation efforts include lower inventories maintained by the retailers and higher levels of returns after each gift-giving holiday season. Store closings, inventory control initiatives, and the current global economic conditions may continue to adversely affect Parlux's sales in the short-term. In response to the above conditions, Parlux implemented a number of cost reduction initiatives, beginning in fiscal year 2009 and continuing in fiscal years 2010 and 2011, including a targeted reduction in staff, along with controlled advertising and promotional spending, and reduced Parlux's production levels. Parlux continues to take steps to control its expenses by maintaining or reducing operating expenses, where feasible.

Since late 2008, U.S. department store retailers have experienced a major reduction in consumer traffic, resulting in decreased sales. In response, the retailers offered consumers deep discounts on most of their products, which continues. As is customary in the fragrance industry, these discounts, for the most part, were not offered on fragrances and cosmetics. This resulted in an overall reduction in sales of these products.

Historically, as is the case for most fragrance companies, Parlux's sales have been influenced by seasonal trends generally related to holiday or gift-giving periods. Substantial sales often occur during the final month of each quarter. There can be no assurance that these sales trends will support planned objectives in future periods and may negatively affect Parlux's results in future periods.

In light of the continuing difficulties in the global economy, Parlux's management has performed a quarterly review of Parlux's intangible long-lived assets. This review was based upon the estimated future undiscounted net cash flows for the remaining period of each license. Based upon Parlux's review, no impairment charges were deemed necessary as of September 30, 2011.

During the last three fiscal years Parlux launched the following fragrances:

Nine months ended December 31, 2011

Jessica Simpson I Fancy You

Vince Camuto for Women (new license)

Paris Hilton - St. Moritz in the Passport Series

Rihanna Rebelle

Marc Ecko Orange

Fiscal year ended March 31, 2011:

Paris Hilton Tease

Paris Hilton The Passport Series

Jessica Simpson Fancy Nights

Queen Latifah Queen of Hearts

Marc Ecko Blue for Men

UNLTD by Marc Ecko

Nicole Miller for Women (new license)

Rihanna Reb 1 Fleur (new license)

Fiscal year ended March 31, 2010:

Paris Hilton Siren

Jessica Simpson Fancy Love

Queen Latifah Queen (new license)

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Marc Ecko for Men (new license)

Josie Natori for Women (new license)

Fiscal year ended March 31, 2009:

GUESS? by Marciano for Men

Paris Hilton Fairy Dust

Jessica Simpson Fancy (new license)

As noted in Parlux's discussion of sales, below, excluding GUESS? brand net sales, Parlux's net sales for the year ended March 31, 2011, increased 16%, as compared to the prior year.

In June 2011, Parlux launched a new fragrance under its license with Jessica Simpson, I Fancy You. In August 2011, Parlux launched its first women's fragrance under its license with the Camuto Group, Vince Camuto, and in late September 2011, Parlux launched a new fragrance under its license with Paris Hilton, St. Moritz, the fourth fragrance in the Paris Hilton Passport Series. Looking forward, Parlux plans to continue to launch new brand name fragrances under its existing licenses and sublicenses during fiscal year 2012. As noted in Parlux's discussion on sales, below, excluding GUESS? brand net sales in fiscal 2010, Parlux's net sales for the six-months ended September 30, 2011, increased 12%, as compared to the same prior year period.

It is always difficult to predict sales levels, and is even more difficult in a challenging economic environment. Parlux continues to take steps to control its expenses by maintaining or reducing operating expenses, where feasible. Parlux has returned to the basics of controlled, in-store promotional activity, and has significantly reduced major new license introductions. In late January 2011, Parlux launched its first Rihanna brand fragrance, Reb 1 Fleur, initially focusing Parlux's spending on social media initiatives and an interactive viral video. To further support the sales promotion of Reb 1 Fleur, during the six months ended September 30, 2011, Parlux spent approximately \$6.1 million (\$2.3 million for the three-months ended September 30, 2011) on Rihanna in additional advertising and promotional expense, increasing Parlux's total advertising and promotional expense to \$19.2 million, as compared to \$13.8 million in the same prior year period (\$10.1 million for the three-months ended September 30, 2011, as compared to \$8.5 million in the same prior year period). During the three and six-months ended September 30, 2011, Parlux has generated \$7.3 million and \$12.3 million, respectively, in Reb 1 Fleur gross sales in its domestic market, related parties, and have expanded its sales of Reb 1 Fleur in its international markets during the three-months ended September 30, 2011.

***Results of Operations for the three and nine-month periods ended December 31, 2011 and 2010***

During the nine months ended December 31, 2011, Parlux experienced a 7% increase in overall net sales, as compared to the nine months ended December 31, 2010. The increase was primarily due to gross sales from Parlux's Rihanna brand fragrances, Reb 1 Fleur and Rebelle (which were launched in late January and late December 2011, respectively), of approximately \$25.3 million, as compared to \$2.4 million during the same prior year period, partially offset by the continued negative impact of the global economic climate, which resulted in a higher returns rate than had been expected from U.S. department stores. Additionally, due to the increased returns and the increase in advertising and promotional expenses, noted above, and a \$1.5 million increase in general and administrative expenses primarily due to an increase in legal and other professional fees relating to the proposed Merger, Parlux incurred a net loss of \$(2.9) million for the nine months ended December 31, 2011, as compared to net income of \$1.1 million for the same prior year period, as further discussed below. For a discussion of the results for the three months ended December 31, 2011, as compared to the same prior year period, see below.

Parlux's license with GUESS? expired on December 31, 2009, and was not renewed. During the nine months ended December 31, 2010, Parlux transferred \$1.4 million (\$0.2 million during the three months ended December 31, 2010) of GUESS? brand inventory to GUESS? and/or its new fragrance licensee at its March 31,



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2010, net carrying value. This transfer of inventory, along with the cost of sales for the brand, has been classified as Sales-expired license and Cost of sales-expired license in the accompanying unaudited Condensed Consolidated Statements of Operation for the three and nine-month periods ended December 31, 2010. There were no such inventory transfers during the three and nine-month periods ended December 31, 2011. Excluding GUESS? brand net sales in the nine months ended December 31, 2010, Parlux's net sales for the nine months ended December 31, 2011, increased 9%, as compared to the same prior year period.

Parlux's gross margins may not be comparable to other entities that include all of the costs related to their distribution network in costs of goods sold, since Parlux allocates a portion of these distribution costs to costs of goods sold and includes the remaining unallocated amounts as selling and distribution expenses. Selling and distribution expenses for the nine-month periods ended December 31, 2011 and 2010, include \$2.9 million and \$2.7 million, respectively, (\$1.0 million and \$0.6 million for the three-month periods ended December 31, 2011 and 2010, respectively) relating to the cost of warehouse operations not allocated to inventories and other related distribution expenses (excluding shipping expenses which are recorded as cost of goods sold). A portion of these costs is allocated to inventory in accordance with US GAAP.

*Comparison of the three and nine-month periods ended December 31, 2011, with the three and nine-month periods ended December 31, 2010*

*Net Sales*

	For the Three Months Ended December 31,			For the Nine Months Ended December 31,		
	2011	2010	% Change*	2011	2010	% Change*
<i>(in millions)</i>						
Domestic sales	\$ 10.3	\$ 12.4	(17)%	\$ 32.9	\$ 29.0	14%
International sales	8.4	6.9	22%	28.2	22.2	27%
Unrelated customer sales	18.7	19.3	(3)%	61.1	51.2	19%
Related parties sales	13.2	11.9	11%	39.8	41.5	(4)%
Sales - expired license		0.2	(100)%		1.4	(100)%
Total net sales	\$ 31.9	\$ 31.4	2%	\$ 100.9	\$ 94.1	7%

\* % change is based on unrounded numbers

During the three months ended December 31, 2011, net sales increased 2% to \$31.9 million, as compared to \$31.4 million for the same prior year period.

During the nine months ended December 31, 2011, net sales increased 7% to \$100.9 million, as compared to \$94.1 million for the same prior year period. The increase was primarily due to gross sales from Parlux's Rihanna brand fragrances, Rebel Fleur and Rebelle, of approximately \$25.3 million, offset by static sales in Parlux's other major brands and the planned phase-out of certain other brands licenses.

For the three months ended December 31, 2011, net sales to unrelated customers, which represented 59% of Parlux's total net sales decreased 3% to \$18.7 million, as compared to \$19.3 million for the same prior year period. The decrease in net sales was primarily due to a decrease in sales in Parlux's domestic market. Net sales to the U.S. department store sector decreased 17% to \$10.3 million for the three months ended December 31, 2011, as compared to \$12.4 million for the same prior year period, while net sales to international distributors increased 22% to \$8.4 million from \$6.9 million for the same prior year period. The decrease in net sales in Parlux's domestic market was primarily due to increased returns of holiday promotional gift sets and a decrease in gross sales of Parlux's Paris Hilton brand fragrances, partially offset by an increase in gross sales of Parlux's Rihanna brand fragrances and of Parlux's new Vince Camuto Women brand fragrance. The increase in net sales

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to international distributors was primarily due to gross sales from Parlux's Rihanna brand fragrances, of approximately \$3.7 million for the three months ended December 31, 2011. International distributors have no rights to return merchandise.

For the nine months ended December 31, 2011, net sales to unrelated customers, which represented 61% of Parlux's total net sales, increased 19% to \$61.1 million, as compared to \$51.2 million for the same prior year period. The increase was primarily due to an increase in sales in both Parlux's international and domestic markets. Net sales to the U.S. department store sector increased 14% to \$32.9 million for the nine months ended December 31, 2011, as compared to \$29.0 million for the same prior year period, while net sales to international distributors increased 27% to \$28.2 million from \$22.2 million for the same prior year period. The increase in domestic and international net sales was primarily due to the increase in gross sales from Parlux's Rihanna and Marc Ecko brand fragrances, and from the launch in August 2011 of a new fragrance, Vince Camuto Women under Parlux's license with Vince Camuto.

For the three months ended December 31, 2011, sales to related parties increased 11% to \$13.2 million, as compared to \$11.9 million for the same prior year period. The increase for the three months ended December 31, 2011, is primarily due to an increase in gross sales to Jacavi Beauty Supply, LLC ( Jacavi ) a fragrance distributor, also classified as a related party. For the nine months ended December 31, 2011, net sales to related parties decreased 4% to \$39.8 million, as compared to \$41.5 million for the same prior year period. The decrease for the nine months ended December 31, 2011, was primarily due to a decrease in gross sales of Parlux's Paris Hilton brand fragrances to Perfumania, Inc., a wholly-owned subsidiary of Perfumania, which resulted in gross sales of \$6.7 million and \$25.1 million for the three and nine-month periods ended December 31, 2011, as compared to \$8.5 million and \$30.1 million in the same prior year periods. In addition to sales to Perfumania, Parlux had net sales of \$3.7 million and \$6.7 million for the three and nine-month periods ended December 31, 2011, to Jacavi, as compared to \$0.7 million and \$3.7 million for the three and nine-month same prior year periods. Management confers with Parlux's related parties on a periodic basis to establish current and future sales ordering schedules. See *Liquidity and Capital Resources* and Note G to the accompanying unaudited Condensed Consolidated Financial Statements on page F-52 for further discussion of related parties.

*Cost of Goods Sold and Gross Margin*

	For the Three Months Ended			For the Nine Months Ended		
	2011	December 31, 2010	% Change*	2011	December 31, 2010	% Change*
<i>(in millions)</i>						
Unrelated customers	\$ 9.5	\$ 7.8	22%	\$ 27.6	\$ 21.8	27%
<i>As a % of unrelated customers net sales</i>	<i>51%</i>	<i>40%</i>		<i>45%</i>	<i>43%</i>	
Related parties	6.2	5.2	21%	19.3	19.5	(1)%
<i>As a % of related parties net sales</i>	<i>47%</i>	<i>44%</i>		<i>49%</i>	<i>47%</i>	
Cost of sales - expired license		0.2	(100)%		1.4	(100)%
<i>As a % of expired license net sales</i>	<i>%</i>	<i>100%</i>		<i>%</i>	<i>100%</i>	
Total cost of goods sold	\$ 15.7	\$ 13.2	20%	\$ 46.9	\$ 42.7	10%
<i>As a % of net sales</i>	<i>49%</i>	<i>42%</i>		<i>46%</i>	<i>45%</i>	
Gross Margin	\$ 16.2	\$ 18.2	(11)%	\$ 54.0	\$ 51.4	5%
<i>As a % of net sales</i>	<i>51%</i>	<i>58%</i>		<i>54%</i>	<i>55%</i>	

\* % change is based on unrounded numbers

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Parlux sales to U.S. department store customers generally have a higher margin than sales to international distributors. As is common in the industry, Parlux offers international customers more generous discounts, which are generally offset by reduced advertising expenditures for those sales, as the international distributors are responsible for advertising and all selling and operating functions in their own territories. International distributors have no rights to return merchandise.

In addition, in accordance with US GAAP, certain promotional activities, such as gifts-with-purchase, are included in Parlux's cost of goods sold. As the timing and level of promotional activities vary based on product launches and the seasonality of major gift-giving holidays, Parlux experiences fluctuations in its cost of sales percentage and gross margins.

For the three months ended December 31, 2011, Parlux's overall cost of goods sold increased as a percentage of net sales to 49%, as compared to 42% for the same prior year period. Cost of goods sold as a percentage of net sales to unrelated customers and related parties was 51% and 47%, respectively, for the three months ended December 31, 2011, as compared to 40% and 44%, respectively, in the same prior year period. During the three months ended December 31, 2011, the cost of sales to unrelated customers increased as a result of an increase in the percentage of promotional gift set sales (which generate lower margins) to U.S. department stores during the holiday season, and increased sales to international distributors, which generally have lower margins. During the three months ended December 31, 2011, cost of goods sold to related parties increased as compared to the same prior year period, primarily due to an increase in sales of promotional sets and of certain slower-moving inventory at discounted rates, which provide a lower margin.

For the nine months ended December 31, 2011, Parlux's overall cost of goods sold increased as a percentage of net sales to 46%, as compared to 45% for the same prior year period. Cost of goods sold as a percentage of net sales to unrelated customers and related parties was 45% and 49%, respectively, for the nine months ended December 31, 2011, as compared to 43% and 47%, respectively, in the same prior year period. During the nine months ended December 31, 2011, the cost of goods sold to unrelated customers increased due to an increase of gifts-with-purchase of approximately \$1.3 million, as compared to the same prior year period, coupled with a greater increase in international sales, which sales provide a lower margin. The gifts-with-purchase are used as enticements to promote the sales of Parlux's fragrance brands. The current period increase in shipments of gifts-with-purchases was in anticipation of the continued roll-out of Parlux's Rihanna brand fragrances, Reb 1 Fleur and Rebelle, as well as support for other products in preparation for the holiday season. During the nine months ended December 31, 2011, cost of goods sold to related parties increased slightly primarily due to Parlux's overall product mix.

For the three months ended December 31, 2011, Parlux's gross margin decreased 11% to \$16.2 million from \$18.2 million for the same prior year period, decreasing as a percentage of net sales to 51% from 58%. For the nine months ended December 31, 2011, Parlux's gross margin increased 5% to \$54.0 million from \$51.4 million for the same prior year period, decreasing as a percentage of net sales to 54% from 55%. The decrease during the three and nine-month periods ended December 31, 2011, as compared to the same prior year periods, was primarily the result of the increase in cost of goods sold discussed above, and higher returns than anticipated from U.S. department stores.

**Table of Contents***Total Operating Expenses*

	For the Three Months Ended December 31,			For the Nine Months Ended December 31,		
	2011	2010	% Change*	2011	2010	% Change*
<i>(in millions)</i>						
Advertising and promotional	\$ 12.0	\$ 10.7	13%	\$ 31.2	\$ 24.4	28%
<i>As a % of net sales</i>	38%	34%		31%	26%	
Selling and distribution	3.1	2.8	11%	9.5	9.1	4%
<i>As a % of net sales</i>	10%	9%		9%	10%	
Royalties	2.9	2.6	12%	8.3	8.1	3%
<i>As a % of net sales</i>	9%	8%		8%	9%	
General and administrative	3.0	1.9	59%	7.6	6.0	27%
<i>As a % of net sales</i>	9%	6%		8%	6%	
Depreciation and amortization	0.4	0.5	(23)%	1.5	1.7	(10)%
<i>As a % of net sales</i>	1%	2%		2%	2%	
<b>Total operating expenses</b>	<b>\$ 21.4</b>	<b>\$ 18.5</b>	<b>16%</b>	<b>\$ 58.1</b>	<b>\$ 49.3</b>	<b>18%</b>
<i>As a % of net sales</i>	67%	59%		58%	52%	

\* % change is based on unrounded numbers

During the three months ended December 31, 2011, total operating expenses increased 16% to \$21.4 million from \$18.5 million in the same prior year period, increasing as a percentage of net sales to 67% from 59%. During the nine months ended December 31, 2011, total operating expenses increased 18% to \$58.1 million from \$49.3 million in the same prior year period, increasing as a percentage of net sales to 58% from 52%. However, during the three and nine-month periods ended December 31, 2011 Parlux incurred \$1.0 million and \$1.5 million, respectively, in onetime expenses relating to the proposed merger. Therefore, certain individual components of Parlux's operating expenses discussed below experienced more significant changes than others.

*Advertising and Promotional Expenses*

For the three months ended December 31, 2011, advertising and promotional expenses increased 13% to \$12.0 million, as compared to \$10.7 million for the same prior year period, increasing as a percentage of net sales to 38% from 34%. For the nine months ended December 31, 2011, advertising and promotional expenses increased 28% to \$31.2 million, as compared to \$24.4 million for the same prior year period, increasing as a percentage of net sales to 31% from 26%. The increase in advertising and promotional expense for the three and nine-month periods ended December 31, 2011, was primarily due to a targeted increase of approximately \$5.4 million and \$11.5 million, respectively, in advertising and promotional activities to further support the sales promotion of Parlux's Rihanna brand fragrances, Rebel Fleur and Rebellé. During the same prior year periods, Parlux had targeted reductions in advertising and promotional costs and in-store representatives.

*Selling and Distribution Costs*

For the three months ended December 31, 2011, selling and distribution costs increased 11% to \$3.1 million, as compared to \$2.8 million for the same prior year period, increasing as a percentage of sales to 10% from 9%. For the nine months ended December 31, 2011, selling and distribution costs increased 4% to \$9.5 million, as compared to \$9.1 million for the same prior year period, decreasing as a percentage of net sales to 9% from 10%. For the three and nine-month periods ended December 31, 2011, the increase in selling and distribution costs was primarily due to an increase in sales travel-related expenses in both Parlux's domestic and international markets in connection with new product launches. During the same prior year periods, Parlux had a decrease in sales personnel and the related benefits and insurance expenses in its domestic market.

*Royalties*

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For the three months ended December 31, 2011, royalties increased 12% to \$2.9 million, as compared to \$2.6 million for the same prior year period, increasing as a percentage of net sales to 9% from 8%. For the nine months ended December 31, 2011, royalties increased 3% to \$8.3 million, as compared to \$8.1 million for the same prior year period, decreasing as a percentage of net sales to 8% from 9%. For the three and nine-month

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periods ended December 31, 2011, the increase in royalties was primarily due to higher sales for certain brands, which resulted in contractual minimum royalty requirements being achieved, coupled with certain minimum payment requirements under contractual obligations. During the same prior year periods, the assignment of the worldwide exclusive licensing rights for the production and distribution of Paris Hilton sunglasses and the sublicensed international rights for the handbags continued to absorb a portion of the minimum royalty. Parlux generated no sublicensing revenue in the three and nine-month periods ended December 31, 2011, as compared to \$0.1 million and \$0.3 million, respectively, for the same prior year periods, which has been recorded as a reduction in royalty expense.

*General and Administrative Expenses*

For the three months ended December 31, 2011, general and administrative expenses increased 59% to \$3.0 million, as compared to \$1.9 million for the same prior year period, increasing as a percentage of net sales to 9% from 6%. For the nine months ended December 31, 2011, general and administrative expenses increased 27% to \$7.6 million, as compared to \$6.0 million for the same prior year period, increasing as a percentage of net sales to 8% from 6%. The increase in general and administrative expenses for the three and nine-month periods ended December 31, 2011, was primarily due to onetime expenses of \$1.0 million and \$1.5 million, respectively, resulting from an increase in legal and other professional fees relating to the proposed Merger. In the same prior year periods, there was a decrease in personnel and the related benefits and insurance expenses.

*Depreciation and Amortization*

For the three months ended December 31, 2011, depreciation and amortization decreased 23% to \$0.4 million, as compared to \$0.5 million for the same prior year period, decreasing as a percentage of net sales to 1% from 2%. For the nine months ended December 31, 2011, depreciation and amortization decreased 10% to \$1.5 million, as compared to \$1.7 million for the same prior year period, remaining constant as a percentage of net sales at 2%. The decrease for the three and nine-month periods ended December 31, 2011, relates to lower amortization expense of molds and tooling, partially offset by an increase in intangible assets amortization resulting from the amortization of Parlux's Rihanna intangible asset (see Note E to the accompanying unaudited Condensed Consolidated Financial Statements on page F-49 for further discussion), as compared to the same prior year period. On June 30, 2010, Parlux's XOXO license expired and was not renewed, and the fully amortized intangible asset was written-off.

*Operating (Loss) Income*

	For the Three Months Ended			For the Nine Months Ended		
	2011	December 31, 2010	% Change*	2011	December 31, 2010	% Change*
<i>(in millions)</i>						
Operating (loss) income	\$ (5.2)	\$ (0.3)	(2,033)%	\$ (4.1)	\$ 2.1	(296)%
As a % of net sales	(16)%	1%		(4)%	2%	
Net interest (expense and bank charges)/income	(0.2)	(0.2)	7%	(0.6)	(0.4)	(44)%
As a % of net sales	(1)%	(1)%		(1)%	%	
Foreign exchange gain		0.1	N/A			N/A
As a % of net sales	%	%		%	%	
(Loss) income before income taxes	\$ (5.4)	\$ (0.4)	(1,128)%	\$ (4.7)	\$ 1.7	(375)%
As a % of net sales	(17)%	(1)%		(5)%	2%	

\* % change is based on unrounded numbers

As a result of the factors discussed above, Parlux incurred an operating loss of \$(5.2) million and \$(4.1) million for the three and nine-month periods ended December 31, 2011, as compared to an operating loss of \$(0.3) million and operating income of \$2.1 million, respectively, in the same prior year periods.

**Table of Contents***Net Interest Expense/Income*

Net interest expense and bank charges were \$0.2 million and \$0.6 million for the three and nine-month periods ended December 31, 2011, as compared to \$0.2 million and \$0.4 million, respectively, for the same prior year periods. During the three and nine-month periods ended December 31, 2011 and 2010, Parlux incurred loan monitoring and unused commitment fees relating to its credit facility with General Electric Capital Corporation ( GE Capital ), which are being amortized to expense over the life of the credit facility. The credit facility with GE Capital was executed on June 25, 2010 (see Note F to the accompanying unaudited Condensed Consolidated Financial Statements on page F-51 for further discussion).

*(Loss) Income Before Income Taxes, Taxes, and Net Income*

	Three Months Ended December 31,			For the Nine Months Ended December 31,		
	2011	2010	% Change*	2011	2010	% Change*
<i>(in millions)</i>						
(Loss) income before income taxes	\$ (5.4)	\$ (0.4)	(1,128)%	\$ (4.7)	\$ 1.7	(375)%
<i>As a % of net sales</i>	<i>(17)%</i>	<i>(1)%</i>		<i>(5)%</i>	<i>2%</i>	
Income tax (benefit) provision	(2.0)	(0.1)	1,128%	(1.8)	0.6	375%
<i>As a % of net sales</i>	<i>6%</i>	<i>1%</i>		<i>2%</i>	<i>(1)%</i>	
Net (loss) income	\$ (3.4)	\$ (0.3)	(1,128)%	\$ (2.9)	\$ 1.1	(375)%
<i>As a % of net sales</i>	<i>(11)%</i>	<i>(1)%</i>		<i>(3)%</i>	<i>1%</i>	

\* % change is based on unrounded numbers

For the three and nine-month periods ended December 31, 2011, Parlux's loss before income taxes was \$(5.4) million and \$(4.7) million, respectively, as compared to a loss before income taxes of \$(0.4) million and an income before income taxes of \$1.7 million, respectively, for the same prior year periods. Parlux's tax benefit/provision reflects an estimated effective tax rate of 38%. Actual tax benefit realized or provision incurred may be greater or less than amounts recorded, and such differences may be material (see Note J to the accompanying unaudited Condensed Consolidated Financial Statements for further discussion).

As a result, Parlux incurred a net loss of \$(3.4) million and \$(2.9) million, respectively, for the three and nine-month periods ended December 31, 2011, as compared to incurring a net loss of \$(0.3) million and earning net income of \$1.1 million, respectively, in the same prior year periods.

**Results of Operations for the years ended March 31, 2011, 2010 and 2009**

During the year ended March 31, 2011, Parlux experienced a 17% decrease in overall sales, as compared to the prior year ended March 31, 2010. The decrease was primarily due to the expiration of Parlux's GUESS? brand license and the continued negative impact of the global economic climate. GUESS? brand net sales for the year ended March 31, 2010, were approximately \$43.0 million. If Parlux excludes these GUESS? brand net sales from the same prior year period net sales, Parlux's overall net sales increased over the prior year period by 16%. Although overall sales increased early during this past holiday season, during December 2010 Parlux's domestic department stores business, once again, encountered a difficult retail market. Domestic retailers continue to carefully monitor inventory stock levels, which, in turn, affects both order levels as well as post-holiday returns. Nevertheless, the expense controls and reduced spending discussed above, resulted in net income of \$1.2 million for the year ended March 31, 2011, as compared to a net loss of \$(14.8) million for the prior year.

Parlux's license with GUESS? expired on December 31, 2009, and was not renewed. During the years ended March 31, 2011 and 2010, Parlux transferred \$1.4 million and \$4.6 million, respectively, of GUESS? brand inventory

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to GUESS? and/or its new fragrance licensee at its net carrying value. This transfer of inventory, along with the cost of sales for the brand, have been classified as Sales-expired license and Cost of sales-expired license in the accompanying Consolidated Statements of Operations for the years ended March 31, 2011 and 2010. During the year ended March 31, 2010, Parlux recorded charges of \$7.6 million to cost of sales to reduce the recorded value of such inventories to the amounts which Parlux estimated could be realized upon their sale or liquidation. In addition, during the year ended March 31, 2010, Parlux wrote-off approximately \$1.7 million of collateral material related to the GUESS? brand products, which was recorded as advertising and promotional expense.

Parlux's gross margins may not be comparable to other entities that include all of the costs related to their distribution network in costs of goods sold, since Parlux allocates a portion of these distribution costs to costs of goods sold and include the remaining unallocated amounts as selling and distribution expenses. Selling and distribution expenses for the years ended March 31, 2011, 2010 and 2009, included \$3.9 million, \$4.4 million, and \$4.9 million, respectively, relating to the cost of warehouse operations not allocated to inventories and other related distribution expenses (excluding shipping expenses which are recorded as cost of goods sold). A portion of these costs is allocated to inventory in accordance with accounting principles generally accepted in the United States of America ( US GAAP ).

*Comparisons of the year ended March 31, 2011 to March 31, 2010, and of the year ended March 31, 2010 to March 31, 2009.*

*Net Sales*