

CBRE CLARION GLOBAL REAL ESTATE INCOME FUND  
Form N-Q  
May 25, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

**FORM N-Q**

**QUARTERLY SCHEDULE OF PORTFOLIO HOLDINGS OF REGISTERED  
MANAGEMENT INVESTMENT COMPANY**

Investment Company Act file number 811-21465

CBRE Clarion Global Real Estate Income Fund

(Exact name of registrant as specified in charter)

201 King Of Prussia Road, Suite 600

Radnor, PA 19087

(Address of principal executive offices) (Zip code)

T. Ritson Ferguson, President and Chief Executive Officer

CBRE Clarion Global Real Estate Income Fund

201 King Of Prussia Road, Suite 600

Radnor, PA 19087

(Name and address of agent for service)

Registrant's telephone number, including area code: 1-877-711-4272

Date of fiscal year end: December 31

Date of reporting period: March 31, 2016

Form N-Q is to be used by management investment companies, other than small business investment companies registered on Form N-5 (§§ 239.24 and 274.5 of this chapter), to file reports with the Commission, not later than 60

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days after the close of the first and third fiscal quarters, pursuant to rule 30b1-5 under the Investment Company Act of 1940 (17 CFR 270.30b1-5). The Commission may use the information provided on Form N-Q in its regulatory, disclosure review, inspection, and policymaking roles.

A registrant is required to disclose the information specified by Form N-Q, and the Commission will make this information public. A registrant is not required to respond to the collection of information contained in Form N-Q unless the Form displays a currently valid Office of Management and Budget ( OMB ) control number. Please direct comments concerning the accuracy of the information collection burden estimate and any suggestions for reducing the burden to the Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549. The OMB has reviewed this collection of information under the clearance requirements of 44 U.S.C. § 3507.

**Item 1. Schedule of Investments.**

Attached hereto.

**CBRE Clarion Global Real Estate Income Fund****Portfolio of Investments (unaudited)****March 31, 2016**

Shares		Market Value (\$)
	<b>Real Estate Securities*- 102.0%</b>	
	<b>Common Stock - 88.1%</b>	
	<b>Australia - 11.5%</b>	
26,379,186	Mirvac Group	\$ 39,265,370
11,929,728	Scentre Group	40,745,612
17,877,282	Vicinity Centres	43,869,180
		123,880,162
	<b>Canada - 3.4%</b>	
848,300	H&R Real Estate Investment Trust	13,766,143
878,500	Smart Real Estate Investment Trust	23,044,961
		36,811,104
	<b>France - 7.8%</b>	
67,789	Altarea	14,097,940
42,076	Gecina SA	5,801,675
1,103,975	Klepierre	52,963,284
40,752	Unibail-Rodamco SE	11,228,941
		84,091,840
	<b>Germany - 1.6%</b>	
178,837	LEG Immobilien AG <sup>(a)</sup>	16,884,316
	<b>Hong Kong - 2.5%</b>	
4,616,500	Link REIT	27,378,022
	<b>Japan - 3.6%</b>	
15,935	Japan Retail Fund Investment Corp.	38,308,083
427	Nippon Prologis REIT, Inc.	956,994
		39,265,077
	<b>Mexico - 0.9%</b>	
6,043,300	Prologis Property Mexico SA de CV <sup>(a)</sup>	9,676,192
	<b>Netherlands - 4.3%</b>	
734,873	Eurocommercial Properties NV	34,443,286
277,161	Vastned Retail NV	12,423,525

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		46,866,811
	<b>Singapore - 1.3%</b>	
12,754,600	CapitaLand Commercial Trust	13,923,409
	<b>United Kingdom - 7.6%</b>	
2,252,112	British Land Co. Plc	22,674,908
1,569,481	Hammerson Plc	13,049,890
1,078,204	Land Securities Group Plc	17,062,225
4,925,574	SEGRO Plc	29,047,300
		81,834,323

*See previously submitted notes to financial statements for the annual period ended December 31, 2015.*

**CBRE Clarion Global Real Estate Income Fund****Portfolio of Investments (unaudited) (continued)****March 31, 2016**

Shares		Market Value (\$)
<b>United States - 43.6%</b>		
94,600	Boston Properties, Inc. <sup>(b)</sup>	\$ 12,021,768
760,200	DCT Industrial Trust, Inc.	30,005,094
189,700	Digital Realty Trust, Inc. <sup>(b)</sup>	16,786,553
834,200	Equity Residential <sup>(b)</sup>	62,590,026
47,200	Essex Property Trust, Inc. <sup>(b)</sup>	11,038,192
464,969	General Growth Properties, Inc. <sup>(b)</sup>	13,823,528
804,100	Healthcare Realty Trust, Inc. <sup>(b)</sup>	24,838,649
415,706	Highwoods Properties, Inc.	19,874,904
1,155,600	Kimco Realty Corp.	33,258,168
1,317,500	Liberty Property Trust	44,083,550
138,500	Macerich Co. (The)	10,974,740
275,800	Prologis, Inc. <sup>(b)</sup>	12,184,844
964,500	Senior Housing Properties Trust	17,254,905
102,076	Simon Property Group, Inc. <sup>(b)</sup>	21,200,164
63,800	SL Green Realty Corp. <sup>(b)</sup>	6,180,944
1,913,687	Spirit Realty Capital, Inc.	21,528,979
658,200	UDR, Inc.	25,360,446
4,658,200	VEREIT, Inc.	41,318,234
287,100	Weingarten Realty Investors	10,771,992
516,115	Welltower, Inc. <sup>(b)</sup>	35,787,414
		470,883,094
<b>Total Common Stock</b>		
	(cost \$908,998,797)	951,494,350
<b>Preferred Stock - 13.9%</b>		
<b>United States - 13.9%</b>		
100,000	CBL & Associates Properties, Inc., Series D	2,475,000
369,474	DDR Corp., Series J	9,587,850
320,000	Digital Realty Trust, Inc., Series E	8,156,800
1,050,000	EPR Properties, Series F	27,510,000
741,000	General Growth Properties, Inc., Series A	19,191,900
150,000	iStar, Inc., Series F	3,382,500
765,000	iStar, Inc., Series I	17,449,650
400,000	LaSalle Hotel Properties, Series I	10,200,000
272,000	Pennsylvania Real Estate Investment Trust, Series B	6,998,560
600,000	Public Storage, Series B	15,336,000
150,000	STAG Industrial, Inc., Series C <sup>(a)</sup>	3,966,000
600,000	Sunstone Hotel Investors, Inc., Series E <sup>(a)</sup>	15,750,000
120,000	Taubman Centers, Inc., Series K	3,044,400
280,000	Urstadt Biddle Properties, Inc., Series F	7,392,000

**Total Preferred Stock**

(cost \$133,979,766) 150,440,660

**Total Investments - 102.0%**

(cost \$1,042,978,563) 1,101,935,010

Liabilities in Excess of Other Assets - (2.0)% (21,949,172)

**Net Assets - 100.0%** \$ 1,079,985,838

**Number of  
Contracts**

**Market  
Value (\$)**

**Written Call Options - (0.2)%**

(475)	Boston Properties, Inc., Expires 4/15/2016, Strike Price \$125.00	(142,500)
(1,400)	Digital Realty Trust, Inc., Expires 4/15/2016, Strike Price \$85.00	(518,000)
(2,750)	Equity Residential, Expires 4/15/2016, Strike Price \$74.50	(385,000)
(250)	Essex Property Trust, Inc., Expires 4/15/2016, Strike Price \$230.00	(163,750)

*See previously submitted notes to financial statements for the annual period ended December 31, 2015.*

**CBRE Clarion Global Real Estate Income Fund****Portfolio of Investments (unaudited) (concluded)****March 31, 2016**

<b>Number of Contracts</b>		<b>Market Value (\$)</b>
(1,750)	General Growth Properties, Inc., Expires 4/15/2016, Strike Price \$30.00	\$ (78,750)
(2,000)	Healthcare Realty Trust, Inc., Expires 4/15/2016, Strike Price \$30.00	(160,000)
(1,400)	Prologis, Inc., Expires 4/15/2016, Strike Price \$43.00	(210,000)
(500)	Simon Property Group, Inc., Expires 4/15/2016, Strike Price \$210.00	(83,500)
(300)	SL Green Realty Corp., Expires 4/15/2016, Strike Price \$100.00	(18,000)
(2,500)	Welltower, Inc., Expires 4/15/2016, Strike Price \$67.50	(660,000)
<b>Total Written Call Options</b>		
(premiums received \$807,645)		\$ (2,419,500)

\* Include U.S. Real Estate Investment Trusts ( REIT ) and Real Estate Operating Companies ( REOC ) as well as entities similarly formed under the laws of non-U.S. Countries.

(a) Non-income producing security.

(b) A portion of the security has been pledged for open derivative contracts. The aggregate market value of the collateral as of March 31, 2016 is \$102,445,688.

The following forward foreign currency contracts were outstanding at March 31, 2016:

<b>Counterparty</b>	<b>Settlement Date</b>	<b>Currency To Deliver</b>	<b>Currency To Receive</b>	<b>Unrealized Appreciation (Depreciation)</b>
The Bank of New York Mellon	4/5/2016	EUR 95,172,000	USD 103,486,226	\$ (4,970,277)
The Bank of New York Mellon	4/5/2016	USD 108,494,177	EUR 95,172,000	(37,673)
The Bank of New York Mellon	5/6/2016	EUR 65,021,000	USD 74,187,010	21,734

\$ (4,986,216)



*See previously submitted notes to financial statements for the annual period ended December 31, 2015.*

**Notes to Portfolio of Investments (unaudited)****(A) Fair Value**

GAAP provides guidance on fair value measurements. In accordance with the standard, fair value is defined as the price that the Trust would receive to sell an investment or pay to transfer a liability in a timely transaction with an independent buyer in the principal market, or in the absence of a principal market the most advantageous market for the investment or liability. It establishes a single definition of fair value, creates a three-tier hierarchy as a framework for measuring fair value based on inputs used to value the Trust's investments, and requires additional disclosure about fair value. The hierarchy of inputs is summarized below:

Level 1 unadjusted quoted prices in active markets for identical investments

Level 2 other significant observable inputs (including quoted prices for similar investments, interest rates, prepayment speeds, credit risk, etc.)

Level 3 significant unobservable inputs (including the Trust's own assumptions in determining the fair value of investments)

For Level 1 inputs, the Trust uses unadjusted quoted prices in active markets for assets or liabilities with sufficient frequency and volume to provide pricing information as the most reliable evidence of fair value.

The Trust's Level 2 valuation techniques include inputs other than quoted prices within Level 1 that are observable for an asset or liability, either directly or indirectly. Level 2 observable inputs may include quoted prices for similar assets and liabilities in active markets or quoted prices for identical or similar assets or liabilities in markets that are not active in which there are few transactions, the prices are not current, or price quotations vary substantially over time or among market participants. Inputs that are observable for the asset or liability in Level 2 include such factors as interest rates, yield curves, prepayment speeds, credit risk, and default rates for similar liabilities.

For Level 3 valuation techniques, the Trust uses unobservable inputs that reflect assumptions market participants would be expected to use in pricing the asset or liability. Unobservable inputs are used to measure fair value to the extent that observable inputs are not available and are developed based on the best information available under the circumstances. In developing unobservable inputs, market participant assumptions are used if they are reasonably available without undue cost and effort.

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. The following is a summary of the inputs used as of March 31, 2016 in valuing the Trust's investments carried at fair value:

Assets	Level 1	Level		Total
		2	Level 3	
<b>Investments in Real Estate Securities Common Stocks</b>				
Australia \$		123,880,162	\$ \$	\$ 123,880,162
Canada		36,811,104		36,811,104
France		84,091,840		84,091,840
Germany		16,884,316		16,884,316
Hong Kong		27,378,022		27,378,022
Japan		39,265,077		39,265,077
Mexico		9,676,192		9,676,192
Netherlands		46,866,811		46,866,811
Singapore		13,923,409		13,923,409
United Kingdom		81,834,323		81,834,323
United States		470,883,094		470,883,094

**Total  
Common  
Stocks** & & G.

## **OTHER MATTERS LIQUIDITY ENHANCEMENT AND COST REDUCTION**

The Company was greatly impacted by the recessionary pressures that began in the latter half of fiscal 2008 and have continued into fiscal 2010, including a significant decline in consumer spending. As consumer spending and confidence could remain depressed, the Company has focused on carefully managing those factors within its control, most importantly spending, including reducing its fiscal 2009 and fiscal 2010 capital budgets, and improved inventory productivity to maximize inventory turns for both wholesale and retail operations. The Company will also 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 throughout fiscal 2010.

The Company currently anticipates that cash flows from operations and the projected borrowing availability under the Senior Credit Facility will be sufficient to fund its liquidity requirements for at least the next twelve months. However, the sufficiency and availability of the Company's projected sources of liquidity may be adversely affected by a variety of factors, including, without limitation, the level of the Company's operating cash flows, which will be impacted by retailer and consumer acceptance of the Company's products, general economic conditions and the level of consumer spending, and the Company's ability to comply with financial covenants (as amended) and other covenants included in its Senior Credit Facility.

If the Company does not have a sufficient borrowing base at any given time, borrowing availability under the Senior Credit Facility may not be sufficient to support liquidity needs. Insufficient borrowing availability under the Senior Credit Facility would have a material adverse effect on the Company's financial condition and results of operations. If the Company were unable to comply with the requirements in the Senior Credit Facility, it would be unable to borrow under such agreement and any amounts outstanding would become immediately due and payable, which would have a material adverse effect on the Company's consolidated financial condition, results of operations and liquidity.

## **NOTE 2 RECENT ACCOUNTING PRONOUNCEMENTS**

In June 2009, the Financial Accounting Standards Board ( FASB ) issued rules which modify how a company determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. The FASB clarified that the determination of whether a company is required to consolidate an entity is based on, among other things, an entity's purpose and design and a company's ability to direct the activities of the entity that most significantly impact the entity's economic performance. An ongoing reassessment is required of whether a company is the primary beneficiary of a variable interest entity. Additional disclosures are also required about a company's involvement in variable interest entities and any significant changes in risk exposure due to that involvement. These rules were effective for fiscal years beginning after November 15, 2009. The adoption of this guidance did not have any impact on the Company's consolidated results of operations, financial position or cash flows.

**NOTE 3 INTANGIBLES**

The following table provides information related to intangible assets, which are included in other assets, net on the accompanying condensed consolidated balance sheets as of July 31, 2010 and January 30, 2010:

	Useful Life (years)	July 31, 2010 (in thousands)			January 30, 2010 (in thousands)		
		Original Cost	Accumulated Amortization	Net Carrying Value	Original Cost	Accumulated Amortization	Net Carrying Value
Tradenames	7-20	\$ 9,408	\$ 5,810	\$ 3,598	\$ 10,559	\$ 6,770	\$ 3,789
Favorable leases	1-7	1,350	453	897	1,350	316	1,034
Tradenames (non-amortizing)	N/A	8,500		8,500	8,500		8,500
		\$ 19,258	\$ 6,263	\$ 12,995	\$ 20,409	\$ 7,086	\$ 13,323

In accordance with accounting standards, intangible assets with indefinite lives are not amortized, but rather tested for impairment at least annually. 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.

Trademarks, including tradenames and owned licenses having finite lives, are amortized over their respective lives to their estimated residual values and are also reviewed for impairment in accordance with accounting standards. 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. Impairment testing is based on a review of forecasted operating cash flows and the profitability of the related brand. There were no triggering events during the thirteen or twenty-six weeks ended July 31, 2010 that would indicate potential impairment and the requirement to review the carrying value of intangible assets.

Amortization expense associated with intangible assets subject to amortization is included in depreciation and amortization on the accompanying condensed consolidated statements of operations. For the twenty-six weeks ended July 31, 2010 and August 1, 2009, amortization expense for intangible assets subject to amortization was \$0.3 million and \$0.5 million, respectively. For the thirteen weeks ended July 31, 2010 and August 1, 2009, amortization expense for intangible assets subject to amortization was \$0.2 million and \$0.3 million, respectively. The weighted average amortization periods for the remaining tradenames with finite lives and for favorable lease agreements are 16.9 years and 5.4 years, respectively. For the remainder of fiscal 2010, we expect amortization expense to be \$0.3 million. As of July 31, 2010, future amortization expense associated with intangible assets subject to amortization for each of the five succeeding fiscal years is as follows (in thousands):

Fiscal Year	Amortization Expense
2011	\$ 623
2012	500
2013	476
2014	476
2015	476

**NOTE 4 ACCOUNTING FOR SHARE-BASED PAYMENTS**

As of July 31, 2010, the Company has two stock option plans which provide for equity-based awards to its employees and directors (collectively, the Plans ). Under the Plans, the Company has reserved 1,165,000 shares of common stock, of which 191,292 options are outstanding. All stock options have an exercise price that is equal to the fair value of the Company's stock on the date the options were granted. The term of the stock option awards is ten years from the date of grant.

The following is a summary of the stock option activity during the twenty-six weeks ended July 31, 2010:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
Outstanding and exercisable as of January 30, 2010	191,814	\$ 9.92	6.83	\$
Granted				
Exercised	(334)	4.79		
Forfeited	(188)	8.24		
Outstanding as of July 31, 2010	191,292	\$ 9.93	6.34	\$ 387,000
Exercisable as of July 31, 2010	167,962	\$ 10.64	5.93	\$ 271,000

The aggregate intrinsic value in the table above is the value before applicable income taxes which would have been received by the optionees based on the Company's closing stock price as of the last business day of the respective period had all options been exercised on that date.

During the twenty-six weeks ended July 31, 2010 and August 1, 2009, the Company recognized share based compensation expense of \$14,000 and \$14,673, respectively, which is included in selling, general and administrative expenses on the accompanying condensed consolidated statements of operations.

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

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

	July 31, 2010	January 30, 2010
	(in thousands)	
Revolving credit facility, interest payable monthly, secured by a pledge of substantially all of the Company's assets	\$ 68,071	\$ 40,012
Subordinated convertible note payable-affiliate	5,000	5,000
Subordinated non-convertible notes payable-affiliates	91,059	91,379
	164,130	136,391
Less current portion	(68,711)	(40,652)
Total long-term	\$ 95,419	\$ 95,739

The Company has a \$250 million revolving credit facility with a syndicate of banks for which General Electric Capital Corporation ( GECC ) serves as Agent, Collateral Agent and Lender, GE Capital Markets, Inc. serves as Joint Lead Arranger and Book Runner and

Wells Fargo Capital Finance serves as Joint Lead Arranger (the Senior Credit Facility ). The Senior Credit Facility is used for the Company s general corporate purposes and those of its subsidiaries, including working capital. The Company and certain of its subsidiaries are co-borrowers under the Senior Credit Facility, and the Company s other subsidiaries have guaranteed all of their obligations thereunder.



The Senior Credit Facility is scheduled to expire on August 11, 2011, when all amounts will be due and payable in full. The Senior Credit Facility does not require amortization of principal and may be paid before maturity in whole or in part at the Company's option without penalty or premium.

Revolving loans under the Senior Credit Facility may be drawn, repaid and reborrowed up to the amount available under a borrowing base calculated with reference to a specified percentage of the borrowers' eligible accounts and a specified percentage of the borrowers' eligible inventory from time to time. GECC has the right to impose reserves in its reasonable credit judgment, whether or not there is an Event of Default, which would effectively reduce the borrowing base and thereby the amount that the borrowers may borrow under the Senior Credit Facility. Under an amendment to the Senior Credit Facility executed as of May 26, 2009 (Waiver and Amendment No. 1), a \$15 million reserve against borrowing availability applies, in addition to any reserves that may be imposed from time to time in GECC's reasonable credit judgment. The Senior Credit Facility also includes a sub-limit of \$25 million for letters of credit and a sub-limit of \$12.5 million for swing line loans (that is, same-day loans from the lead or agent bank).

As a result of the covenant defaults described below, which were waived by Waiver and Amendment No. 1, effective January 23, 2009, GECC elected to impose the Default Rate of interest on outstanding borrowings, which is 2% higher than the interest rate otherwise applicable. The Company was also required to pay fees equal to 0.375% of the unused amount of the Senior Credit Facility and the outstanding amount of letters of credit under that facility. Under Waiver and Amendment No. 1, the imposition of the Default Rate of interest was suspended and interest under the Senior Credit Facility for periods after May 26, 2009 will be, at the Company's election unless an event of default exists, either (i) the highest of (A) The Wall Street Journal prime rate, (B) the federal funds rate plus .50% or (C) the sum of 3-month LIBOR plus 1.00%, (the Index Rate), in each case plus 3.50% or (ii) the applicable LIBOR rate (but not less than 2.00%) plus 4.50%. The Company is also now required to pay fees equal to 1.00% of the unused amount of the Senior Credit Facility and 4.50% of the outstanding amount of any letters of credit under that facility.

Amendment No. 2 eliminated the 2% floor on the LIBOR rate effective July 30, 2010. As a result of Amendment No. 2, the Company's effective borrowing rate was lowered for all LIBOR based borrowings.

All obligations of the Company under the Senior Credit Facility and under any interest rate protection or other hedging arrangements entered into in connection with the Senior Credit Facility are secured by a first priority perfected security interest in all existing and after-acquired personal property and owned real property owned by the Company and its subsidiaries, which are co-borrowers or guarantors, including, without limitation, 100% (or, in the case of excluded foreign subsidiaries, 66%) of the outstanding equity interests in their subsidiaries.

The Senior Credit Facility limits the Company's and its subsidiaries' ability to, among other things: incur additional indebtedness; incur liens or guarantee obligations; pay dividends and make other distributions; make investments and enter into joint ventures; dispose of assets; and engage in transactions with affiliates, except for certain existing arrangements under which the Company leases space and obtains certain business services from affiliated companies and other arrangements in the ordinary course of business. The Senior Credit Facility also provides that advances to suppliers by the Company and its subsidiaries may not exceed \$8 million with respect to all suppliers or \$3 million with respect to any one supplier (together with its affiliates).

Under the Senior Credit Facility, the Company and its subsidiaries have been required to maintain certain financial ratios, as specified in the agreement. The Company was not in compliance with certain of these ratios as of November 1, 2008 and January 31, 2009. In order to better align the provisions of the Senior Credit Facility with the Company's current

business situation, Waiver and Amendment No. 1 waived the covenant defaults and certain other defaults under the facility, provided for no testing of the

minimum fixed charge coverage ratio, the inventory turnover ratio or the maximum leverage ratio covenants for the fiscal quarter ended May 2, 2009, deleted the inventory turnover ratio covenant and the maximum leverage ratio covenant thereafter, and suspended the minimum fixed charge coverage ratio covenant until the fiscal quarter ending January 30, 2010. The Company was in compliance with the minimum fixed charge coverage ratio covenant under the Senior Credit Facility as of July 31, 2010.

The Senior Credit Facility also includes other customary events of default that, if not waived, would permit the lenders to accelerate the indebtedness and terminate the credit facility. Any future defaults that are not waived could result in our having to refinance the Senior Credit Facility and obtain an alternative source of financing. If the Company was unable to obtain such financing, its operations and financial condition would be materially adversely affected and it would be forced to seek an alternative source of liquidity, such as by selling additional securities, to continue operations, or to limit its operations.

On August 11, 2008, six estate planning trusts established by Glenn, Stephen and Arlene Nussdorf (the Nussdorf Trusts ) loaned an aggregate of approximately \$55 million to the Company on an unsecured basis. At the same time, we issued an unsecured subordinated promissory note in the principal amount of \$35 million to Quality King Distributors, Inc. ( Quality King ). All of the subordinated promissory notes issued to the Nussdorf Trusts and Quality King are subordinated to the Senior Credit Facility and, pursuant to amendments as of May 26, 2009, no payments of principal or interest may be made before the maturity of the Senior Credit Facility on August 11, 2011. The maturity date of the subordinated promissory notes payable to the Nussdorf Trusts is February 8, 2012 and that of the note payable to Quality King is June 30, 2012. The Nussdorf Trusts notes bear interest at a rate equal to 2% over the rate in effect from time to time on the revolving loans under the Senior Credit Facility, and the Quality King note bears interest at a rate equal to 1% over the rate in effect from time to time on the revolving loans under the Senior Credit Facility. Quality King and the Nussdorf Trusts have acknowledged that the Company's nonpayment, because of the subordination provisions, of amounts otherwise due under these notes will not constitute a default under the notes.

On December 9, 2004, we issued a Subordinated Convertible Note (the Convertible Note ) to Glenn and Stephen Nussdorf in exchange for a \$5 million subordinated secured demand loan made in March 2004. The Convertible Note was originally secured by our assets, but, in connection with the August 11, 2008 financing transactions, Glenn and Stephen Nussdorf released and terminated their security interest. The Convertible Note was originally payable in January 2007; however it was modified in January 2006 to extend the due date to January 2009. The Convertible Note is subordinate to all bank related indebtedness and, pursuant to a May 26, 2009 amendment, no payments of principal or interest may be made before the maturity of the Senior Credit Facility on August 11, 2011. As a result, the Convertible Note is currently in default, resulting in an increase of 2% in the nominal interest rate, which is the prime rate plus 1%. The Convertible Note allows Glenn and Stephen Nussdorf to convert any or all of the principal and accrued interest due on the Convertible Note into shares of the Company's common stock. The conversion price was originally \$11.25, which equaled the closing market price of our common stock on December 9, 2004, and was reduced to \$7.00 by the May 26, 2009 amendment.

Interest expense on the Nussdorf Trust Notes, the Quality King Note and the Convertible Note was approximately \$1.5 million and \$2.6 million for the thirteen weeks ended July 31, 2010 and August 1, 2009, respectively, and \$3.3 million and \$4.2 million for the twenty-six weeks ended July 31, 2010 and August 1, 2009, respectively, and is included in interest expense on the accompanying condensed consolidated statements of operations. No payments have been made on the Nussdorf Trust Notes, the Quality King Note or the Convertible Note. Accrued interest payable due at July 31, 2010 and January 30, 2010, respectively, on the Nussdorf Trust Notes, the Quality King Note and the Convertible Note was approximately \$14.2 million and \$10.9 million and is included in other long-term liabilities on the accompanying condensed consolidated balance sheets as of July 31, 2010 and January 30, 2010, respectively.



**NOTE 6 ACCOUNTING FOR INCOME TAXES**

The Company conducts business throughout the United States and Puerto Rico and, as a result, files income tax returns in the U.S. federal jurisdiction and various state jurisdictions and Puerto Rico. In the normal course of business the Company is subject to examinations in these jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal, state, local or Puerto Rico income tax examinations for fiscal years prior to 2004. State and foreign income tax returns are generally subject to examination for a period of three to five years after filing of the respective return. The state impact of any federal changes remains subject to examination by various states for a period of up to one year after formal notification to the states. The Company is not currently under examination in any state or foreign jurisdictions.

The Company continues to provide a full valuation allowance against all deferred tax assets due to the uncertainty as to when business conditions will improve sufficiently to enable it to utilize its deferred tax assets. As a result, the Company did not record a federal or state tax benefit on its operating loss for the thirteen or twenty-six weeks ended July 31, 2010.

During the thirteen and twenty-six weeks ended July 31, 2010, there were no changes to the liability for income tax associated with uncertain tax positions. The Company accrues interest related to unrecognized tax benefits as well as any related penalties in operating expenses in its condensed consolidated statements of operations, which is consistent with the recognition of these items in prior reporting periods. The accrual for interest and penalties related to uncertain tax positions as of July 31, 2010 and January 30, 2010 was not significant.

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

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

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

Diluted net income (loss) per common share includes, in periods in which they are dilutive, the effect of those common stock equivalents where the average market price of the common stock exceeds the exercise prices for the respective periods. All common stock equivalents, which include outstanding stock options, the subordinated convertible note payable to affiliate and warrants outstanding were not included in the diluted net loss for any period presented because the results would be anti-dilutive.

**NOTE 8 FAIR VALUE MEASUREMENTS**

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

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



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

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

As of July 31, 2010, the Company had no material financial assets or liabilities measured on a recurring basis that required adjustments or write-downs and the carrying values of current assets and liabilities approximate their fair value. The Company measures certain assets at fair value on a non-recurring basis, specifically long-lived assets evaluated for impairment. No such impairments were recorded during the thirteen or twenty-six weeks ended July 31, 2010.

#### **NOTE 9 CONTINGENCIES**

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

#### **NOTE 10 RELATED PARTY TRANSACTIONS**

Glenn and Stephen Nussdorf and their sister, Arlene Nussdorf, owned an aggregate 6,649,476 shares or approximately 74% of the total number of shares of the Company's common stock as of July 31, 2010, excluding shares issuable upon conversion of certain Warrants or the Convertible Note discussed in Note 5, and not assuming the exercise of any outstanding options held by the Company's officers and directors. Stephen Nussdorf has served as the Chairman of the Company's Board of Directors since February 2004.

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

Effective August 1, 2008, the 2003 Stockholder Agreement between our predecessor company, Model Reorg, Inc., and Mr. Katz was amended and restated (the Agreement ) and the Company's subsidiary, Model Reorg Acquisition LLC, issued a \$1.9 million promissory note payable to Mr. Katz. The note, which bears interest at 4% and is payable in equal monthly installments of \$53,333 commencing September 1, 2008 and terminating August 1, 2011, liquidated Model Reorg's preexisting obligation to Mr. Katz under the Agreement, which had provided for stock ownership and an earnings participation in Model Reorg. Under the Agreement, Mr. Katz is bound by certain non-compete, non-solicitation and confidentiality covenants. The note payable is included in current and long-term notes payable - affiliates as of July 31, 2010 and January 30, 2010 in the amount of \$0.7 million and \$1.0 million, respectively.

#### **Transactions With Affiliated Companies**

Glenn Nussdorf beneficially owns approximately 10.1% of the outstanding common stock of Parlux Fragrances, Inc. ( Parlux ), a manufacturer and distributor of prestige fragrances and beauty products. The Company has historically purchased merchandise from Parlux. Starting in fiscal 2009, the Company has purchased merchandise from Quality King. Purchases of merchandise from these related companies aggregated approximately \$12.0 million and \$22.4 million for the thirteen and twenty-six weeks ended July 31, 2010, and \$3.5 million and \$6.7 million for the thirteen and twenty-six weeks ended August 1, 2009. The amounts due to these related companies at July 31, 2010 and January 30, 2010 were approximately \$19.6 million and \$35.3 million, respectively. These amounts are non-interest bearing and are included in accounts payable-affiliates in the accompanying

condensed consolidated balance sheets. Purchases from related parties are generally payable in 90 days, however, due to the seasonality of the Company's business, these terms are generally extended. Related party accounts have historically been brought closer to terms at the end of the holiday season. During the remainder of the year, the Company has relied upon these extended terms to provide a portion of its liquidity.



Quality King occupies a leased 560,000 square foot facility in Bellport, NY. Model Reorg began occupying approximately half of this facility in December 2007 under a sublease that terminates on September 30, 2027, and this location serves as the Company's principal offices. The monthly current sublease payments of approximately \$203,000 increase by 3% annually.

The Company and Quality King are parties to a Services Agreement providing for the Company's participation in certain third party arrangements, at the Company's respective share of Quality King's cost, including allocated overhead, plus a 2% administrative fee, and the provision of legal services. The Company also shares with Quality King the economic benefit of the bulk rate contract that the Company has with UPS to ship Quality King's merchandise and related items. The Services Agreement will terminate on thirty days' written notice from either party. During both the thirteen week periods ended July 31, 2010 and August 1, 2009, the expenses charged under these arrangements to the Company and Model Reorg were \$0.8 million. During both the twenty-six weeks ended July 31, 2010 and August 1, 2009, the expenses charged were \$1.5 million. In all periods presented, the majority of the expenses charged to the Company consist of sublease rent discussed above.

Also see Note 5 regarding loans to the Company from Quality King, Glenn and Stephen Nussdorf, and certain trusts related to the Nussdorfs.

#### **NOTE 11 SEGMENT INFORMATION**

The Company operates in two industry segments, wholesale distribution and specialty retail sales of designer fragrance and related products. Management reviews segment information by segment and on a consolidated basis each month. Retail sales include sales through Perfumania retail stores, the SOW consignment business and the Company's internet site, Perfumania.com. Transactions between Five Star and unrelated customers are included in our wholesale segment information. The accounting policies of the segments are the same as those described in the summary of significant accounting policies in the Annual Report on Form 10-K for the fiscal year ended January 30, 2010. The Company's chief operating decision maker who is its Chief Executive Officer, assesses segment performance by reference to gross profit. Each of the segments has its own assets, liabilities, revenues and cost of goods sold. While each segment has certain unallocated operating expenses, these expenses are not reviewed by the chief operating decision maker on a segment basis but rather on a consolidated basis. Financial information for these segments is summarized in the following table.

	Thirteen Weeks Ended July 31, 2010	Thirteen Weeks Ended August 1, 2009	Twenty-six Weeks Ended July 31, 2010	Twenty-six Weeks Ended August 1, 2009
(in thousands)				
<b>Net sales:</b>				
Retail	\$ 71,659	\$ 72,768	\$ 137,574	\$ 135,888
Wholesale	26,435	34,520	63,329	68,060
	\$ 98,094	\$ 107,288	\$ 200,903	\$ 203,948
<b>Gross profit:</b>				
Retail	\$ 29,969	\$ 31,240	\$ 58,157	\$ 59,993
Wholesale	6,391	5,829	15,787	12,910
	\$ 36,360	\$ 37,069	\$ 73,944	\$ 72,903

	July 31, 2010	January 30, 2010
<b>Total assets:</b>		
Wholesale	\$ 335,211	\$ 304,935
Retail	246,573	230,935
	581,784	535,870
Eliminations (a)	(270,632)	(229,285)
Consolidated assets	\$ 311,152	\$ 306,585

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

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**  
**Comparison of the Thirteen Weeks Ended July 31, 2010 with the Thirteen Weeks Ended August 1, 2009.**

**Net Sales**

	Thirteen Weeks Ended July 31, 2010	Percentage of Net Sales	Thirteen Weeks Ended August 1, 2009	Percentage of Net Sales
(\$ in thousands)				
Retail	\$ 71,659	73.1%	\$ 72,768	67.8%
Wholesale	26,435	26.9%	34,520	32.2%
Total net sales	\$ 98,094	100.0%	\$ 107,288	100.0%

Net sales decreased 8.6% from \$107.3 million in the thirteen weeks ended August 1, 2009 to \$98.1 million in the thirteen weeks ended July 31, 2010. The decrease in sales was primarily due to a decrease in wholesale sales of \$8.1 million.

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Retail sales decreased by 1.5% from \$72.8 million in the thirteen weeks ended August 1, 2009 to \$71.7 million in the thirteen weeks ended July 31, 2010. The decrease was due to a decrease in Perfumania's retail sales of \$1.0 million and a decrease in SOW's consignment sales of \$0.1 million.

Perfumania's retail sales decreased from \$57.6 million in the thirteen weeks ended August 1, 2009 to \$56.6 million in the thirteen weeks ended July 31, 2010. The average number of stores operated was 367 in

both periods. Perfumania's comparable store sales decreased by 0.3% during the thirteen weeks ended July 31, 2010 from the same period in 2009. Comparable store sales measure sales from stores that have been open for one year or more. We exclude stores that are closed for renovation from comparable store sales from the month during which renovation commences until the first full month after reopening. The average retail price per unit sold during the thirteen weeks ended July 31, 2010 decreased 2.5% from the prior year's comparable period while the total number of units sold increased by 1.0%. We attribute the decrease in the average retail price per unit sold and the increase in the number of units sold to various store level pricing promotions.

SOW's consignment sales decreased from \$15.2 million in the thirteen weeks ended August 1, 2009 to \$15.1 million in the thirteen weeks ended July 31, 2010.

The decrease in wholesale sales of \$8.1 million is because of less discounting during the thirteen weeks ended July 31, 2010 versus the comparative period last year, as last year management focused on reducing inventory levels and offered more promotional pricing resulting in higher sales.

### Gross Profit

	<b>Thirteen Weeks Ended July 31, 2010</b>	<b>Thirteen Weeks Ended August 1, 2009 (in thousands)</b>
Retail	\$ 29,969	\$ 31,240
Wholesale	6,391	5,829
<b>Total gross profit</b>	<b>\$ 36,360</b>	<b>\$ 37,069</b>

### Gross Profit Percentages

	<b>Thirteen Weeks Ended July 31, 2010</b>	<b>Thirteen Weeks Ended August 1, 2009</b>
Retail	41.8%	42.9%
Wholesale	24.2%	16.9%
<b>Total gross profit percentage</b>	<b>37.1%</b>	<b>34.6%</b>

Gross profit decreased 1.9% from \$37.1 million in the thirteen weeks ended August 1, 2009 (34.6% of total net sales) to \$36.4 million in the thirteen weeks ended July 31, 2010 (37.1% of total net sales). The decrease in gross profit was due to the decrease in retail sales volume as discussed above as well as a slightly lower retail gross profit percentage, offset by an increase in wholesale gross profit due to less discounting during the thirteen weeks ended July 31, 2010 as discussed above.

Perfumania's retail gross profit dollars for the thirteen weeks ended July 31, 2010 increased by 0.1% to \$24.9 million compared with the comparative same period in 2009. For these same periods, Perfumania's retail gross margins were 44.1% and 43.2%, respectively. The increase in Perfumania's retail gross profit percentage was due to decreased promotional activity during the thirteen weeks ended July 31, 2010.



Selling, general and administrative expenses include payroll and related benefits for our distribution center, sales, store operations, field management, purchasing and other corporate office and administrative personnel; rent, common area maintenance, real estate taxes and utilities for our stores, distribution center and corporate office; advertising, consignment fees, sales promotion, insurance, supplies, freight out, and other administrative expenses. Selling, general and administrative expenses decreased by \$0.2 million from \$38.7 million in the thirteen weeks ended August 1, 2009 to \$38.5 million in the thirteen weeks ended July 31, 2010. Included in selling, general and administrative expenses are expenses charged by Quality King, which were \$0.8 million for both the thirteen weeks ended July 31, 2010 and August 1, 2009.

Depreciation and amortization was approximately \$2.2 million in the thirteen weeks ended July 31, 2010, compared to \$2.9 million for the thirteen weeks ended August 1, 2009.

Interest expense was approximately \$3.2 million for the thirteen weeks ended July 31, 2010 compared with approximately \$5.0 million for the thirteen weeks ended August 1, 2009. The interest rates on total variable interest debt decreased by approximately 1.6% during the thirteen weeks ended July 31, 2010 as compared to the thirteen weeks ended August 1, 2009. During the thirteen weeks ended July 31, 2010, the average outstanding balance on the Senior Credit Facility decreased by 49% versus the comparable period last year.

Since the Company continues to record a full valuation allowance against all deferred tax assets, no income tax benefit was recorded during the thirteen week periods ended July 31, 2010 and August 1, 2009.

As a result of the foregoing, we realized a net loss of approximately \$7.5 million in the thirteen weeks ended July 31, 2010 compared to a net loss of \$9.5 million in the thirteen weeks ended August 1, 2009.

#### **Comparison of the Twenty-six Weeks Ended July 31, 2010 with the Twenty-six Weeks Ended August 1, 2009.**

##### **Net Sales**

	Twenty-six Weeks Ended July 31, 2010	Percentage of Net Sales	Twenty-six Weeks Ended August 1, 2009	Percentage of Net Sales
	(\$ in thousands)			
Retail	\$ 137,574	68.5%	\$ 135,888	66.6%
Wholesale	63,329	31.5%	68,060	33.4%
<b>Total net sales</b>	<b>\$ 200,903</b>	<b>100.0%</b>	<b>\$ 203,948</b>	<b>100.0%</b>

Net sales decreased 1.5% from \$203.9 million in the twenty-six weeks ended August 1, 2009 to \$200.9 million in the twenty-six weeks ended July 31, 2010. The decrease in sales was primarily due to a decrease in wholesale sales of \$4.7 million offset by an increase in retail sales of \$1.7 million.

Retail sales increased by 1.2% from \$135.9 million in the twenty-six weeks ended August 1, 2009 to \$137.6 million in the twenty-six weeks ended July 31, 2010. The increase was due to an increase in Perfumania's retail sales of \$4.3 million offset by a decrease in SOW's consignment sales of \$2.6 million.

Perfumania's retail sales increased from \$104.3 million in the twenty-six weeks ended August 1, 2009 to \$108.6 million in the twenty-six weeks ended July 31, 2010.

Perfumania's comparable store sales increased by 3.2% during the twenty-six weeks ended July 31, 2010. The average retail price per unit sold during the twenty-six weeks ended July 31, 2010 decreased 4.4% from the prior year's comparable period while the total number of units sold increased by 8.9%. We attribute the decrease in the average retail price per unit sold and the increase in the number of units sold to various store level pricing promotions. The average number of stores operated was 367 in the twenty-six week period ended July 31, 2010, versus 363 in the prior year's comparable period.

SOW's consignment sales decreased from \$31.6 million in the twenty-six weeks ended August 1, 2009 to \$29.0 million in the twenty-six weeks ended July 31, 2010.

The decrease in wholesale sales of \$4.7 million is the result of less discounting during the twenty-six weeks ended July 31, 2010 versus the comparative period last year, as last year management focused on reducing inventory levels and offered more promotional pricing resulting in higher sales.

### Gross Profit

	Twenty-six Weeks Ended July 31, 2010	Twenty-six Weeks Ended August 1, 2009 (in thousands)
Retail	\$ 58,157	\$ 59,993
Wholesale	15,787	12,910
<b>Total gross profit</b>	<b>\$ 73,944</b>	<b>\$ 72,903</b>

### Gross Profit Percentages

	Twenty-six Weeks Ended July 31, 2010	Twenty-six Weeks Ended August 1, 2009
Retail	42.3%	44.1%
Wholesale	24.9%	19.0%
<b>Total gross profit percentage</b>	<b>36.8%</b>	<b>35.7%</b>

Gross profit increased 1.4% from \$72.9 million in the twenty-six weeks ended August 1, 2009 (35.7% of total net sales) to \$73.9 million in the twenty-six weeks ended July 31, 2010 (36.8% of total net sales). The increase in gross profit resulted from an increase in wholesale gross profit due to less discounting during the twenty-six weeks ended July 31, 2010 as discussed above, offset by a decrease in retail gross profit due to lower sales volume and gross margins realized by SOW.

Perfumania's retail gross profit dollars for the twenty-six weeks ended July 31, 2010 increased by 2.7% to \$48.2 million compared with the comparative period in 2009. For these same periods, Perfumania's retail gross margins were 44.4% and 45.0%, respectively.

Selling, general and administrative expenses increased by 0.6% from \$77.4 million in the twenty-six weeks ended August 1, 2009 to \$77.8 million in the twenty-six weeks ended July 31, 2010. Included in selling, general and administrative expenses are expenses charged by Quality King, which were \$1.5 million for both the twenty-six weeks ended July 31, 2010 and August 1, 2009.

Depreciation and amortization was approximately \$4.4 million in the twenty-six weeks ended July 31, 2010, compared to \$5.1 million for the twenty-six weeks ended August 1, 2009.

Interest expense was approximately \$6.6 million for the twenty-six weeks ended July 31, 2010 compared with approximately \$9.8 million for the twenty-six weeks ended August 1, 2009. The interest





rates on total variable interest debt decreased by approximately 0.9% during the twenty-six weeks ended July 31, 2010 as compared to the twenty-six weeks ended August 1, 2009. During the twenty-six weeks ended July 31, 2010, the average outstanding balance on the Senior Credit Facility decreased by 59% versus the comparable period last year.

Since the Company continues to record a full valuation allowance against all deferred tax assets, no income tax benefit was recorded during both the twenty-six weeks ended July 31, 2010 and August 1, 2009.

As a result of the foregoing, we realized a net loss of approximately \$14.9 million in the twenty-six weeks ended July 31, 2010, compared to a net loss of \$19.4 million in the twenty-six weeks ended August 1, 2009.

## LIQUIDITY AND CAPITAL RESOURCES

Net cash used in operating activities during the twenty-six weeks ended July 31, 2010 was approximately \$26.3 million compared with approximately \$49.0 million provided by operating activities during the twenty-six weeks ended August 1, 2009. The \$75.3 million decrease in cash flows from operating activities in the current year-to-date period from the prior year's comparable period resulted primarily from increases in inventory to build for this year's holiday season. Accounts payable-affiliates decreased due to the timing of payments to our affiliates. The seasonality of our operations may lead to significant fluctuations in certain asset and liability accounts between fiscal year-end and subsequent interim periods.

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

Net cash used in investing activities was approximately \$1.3 million in the twenty-six weeks ended July 31, 2010 compared to \$4.9 million in the twenty-six weeks ended August 1, 2009. The current period's investing activities primarily represented spending for renovation of existing stores and new stores that either opened or were under construction during the twenty-six weeks ended July 31, 2010 as well as information technology enhancements. During the twenty-six weeks ended July 31, 2010, Perfumania opened two new stores and closed five stores compared with 13 new store openings and three store closings during the comparable period last year. In addition, during the twenty-six week period ended August 1, 2009, we purchased three retail stores from an unrelated party for \$1.5 million. We plan to open approximately two stores and six seasonal locations for the remainder of fiscal 2010 and plan to close approximately three stores.

Net cash provided by financing activities during the twenty-six weeks ended July 31, 2010 was approximately \$27.2 million, primarily from net borrowings under our credit facility, compared with approximately \$45.7 million used in financing activities for the twenty-six weeks ended August 1, 2009. The \$72.9 million in cash flows from financing activities in the current year-to-date period from the prior year's comparable period resulted from increases in net borrowings to fund the increase in inventory for this year's holiday season.

The Company has a \$250 million revolving credit facility with a syndicate of banks for which General Electric Capital Corporation ( GECC ) serves as Agent, Collateral Agent and Lender, GE Capital Markets, Inc. serves as Joint Lead Arranger and Book Runner and Wachovia Capital Markets serves as Joint Lead Arranger (the Senior Credit Facility ). The Senior Credit Facility, which is scheduled to expire on August 11, 2011, is used for the Company's general corporate purposes and those of its subsidiaries, including working capital. The Company and certain of its subsidiaries are co-borrowers under the Senior Credit Facility, and the Company's other subsidiaries have guaranteed all of their obligations thereunder. See further discussion of our Senior Credit Facility in Note 5 of

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our condensed consolidated financial statements included in this Form 10-Q.

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

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

### **CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

Our consolidated financial statements have been prepared in accordance with US GAAP. Preparation of these statements requires management to make judgments and estimates that affect the reported amounts of assets, liabilities, revenues and expenses. On an on-going basis, management evaluates its estimates, including those related to bad debts, inventories, asset impairments, sales returns and allowances, and other contingent assets and liabilities. As such, some accounting policies have a significant impact on amounts reported in these financial statements. The judgments and estimates made can significantly affect results. Materially different amounts might be reported under different conditions or by using different assumptions. We consider an accounting policy to be critical if it is both important to the portrayal of our financial condition and results of operations, and requires significant judgment and estimates by management in its application. We have identified certain critical accounting policies that affect the significant estimates and judgments used in the preparation of its financial statements. There have been no significant changes to our critical accounting policies and estimates as discussed in our Annual Report on Form 10-K for the year ended January 30, 2010.

### **FORWARD LOOKING STATEMENTS**

Some of the statements in this quarterly report, including those that contain the words anticipate, believe, plan, estimate, expect, should, intend, and other similar expressions, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements of those of our industry to be materially different from any future results, performance or achievements expressed or implied by those forward-looking statements. Among the factors that could cause actual results, performance or achievement to differ materially from those described or implied in the forward-looking statements are our ability to integrate and achieve synergies between acquired businesses, our ability to service our obligations, our ability to comply with the covenants in our Senior Credit Facility, general economic conditions including a decrease in discretionary spending by consumers, competition, the ability to raise additional capital to finance our expansion and other factors included in our filings with the SEC, including the Risk Factors included in our 2009 Annual Report on Form 10-K. Those Risk Factors contained in our 2009 Annual Report on Form 10-K are incorporated herein by this reference to them. Copies of our SEC filings are available from the SEC or may be obtained upon request from us.

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Not applicable.

**ITEM 4. CONTROLS AND PROCEDURES**

**Management's Evaluation of Disclosure Controls and Procedures**

We maintain disclosure controls and procedures, as defined in SEC Rule 13a-15(e), which our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated as of the end of the fiscal quarter covered by this report. Those controls and procedures are designed to ensure, among other things, that information we are required to disclose in the reports that we file with the SEC is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

Based on our management's evaluation of our disclosure controls and procedures as of July 31, 2010, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures are effective.

**Changes in Internal Control over Financial Reporting**

There were no changes in our internal control over financial reporting during the quarter ended July 31, 2010 that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

**PART II. OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

None.

**ITEM 1A. RISK FACTORS**

Not applicable.

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

None.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**ITEM 4. REMOVED AND RESERVED**

**ITEM 5. OTHER INFORMATION**

The 2010 Annual Meeting of Shareholders of Perfumania Holdings, Inc. will be held at 10:00 a.m. on Friday, October 8, 2010, at the Company's principal executive offices located at 35 Sawgrass Drive, Suite 2, Bellport, New York, for the purpose of considering and acting upon the following:

1. Election of five directors to hold office until our 2011 Annual Meeting of Shareholders or until their successors are duly elected and qualified;
2. Ratification of the appointment of J.H. Cohn, LLP as our independent registered public accounting firm; and
3. Approval of the adoption of our 2010 Equity Incentive Plan.

**ITEM 6. EXHIBITS**

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

- 3.1 Amended and Restated Articles of Incorporation, as amended through August 8, 2008 (Incorporated by reference to Exhibit 3.1 to the Company's Form 10-K filed July 2, 2009).
- 3.2 Bylaws (Incorporated by reference to Exhibit 3.2 to the Company's Registration Statement on Form S-1 (No 33-46833)).
- 10.1 Amendment No. 2, dated as of July 30, 2010, to Credit Agreement dated as of August 11, 2008, among the Company and the other Borrowers named therein, the Credit Parties named therein, the Lenders named therein, General Electric Capital Corporation, as Agent, Collateral Agent and Lender, GE Capital Markets, Inc., as Joint Lead Arranger and Book Runner, Wachovia Capital Markets LLC, as Joint Lead Arranger, and Wachovia Bank, National Association, as Syndication Agent.
- 31.1 Certification by Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification by Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification by Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification by Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**PERFUMANIA HOLDINGS, INC.**  
(Registrant)

Date: September 13, 2010

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

By: /S/ Donna Dellomo  
Donna Dellomo  
Chief Financial Officer  
(Principal Financial and  
Accounting Officer)

**Exhibit Index**

Exhibit No.	Description
10.1	Amendment No. 2, dated as of July 30, 2010, to Credit Agreement dated as of August 11, 2008, among the Company and the other Borrowers named therein, the Credit Parties named therein, the Lenders named therein, General Electric Capital Corporation, as Agent, Collateral Agent and Lender, GE Capital Markets, Inc., as Joint Lead Arranger and Book Runner, Wachovia Capital Markets LLC, as Joint Lead Arranger, and Wachovia Bank, National Association, as Syndication Agent.
31.1	Certification by Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
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32.2	Certification by Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.