



October 19, 2017

**VIA UPS**

Lisa M.G. Mulligan  
Director of Economic Development  
Town of Brookhaven  
One Independence Hill  
Farmingville, New York 11738

Re: 35 Sawgrass Drive, Bellport, N.Y. (the "Property")

Dear Ms. Mulligan:

I wanted to provide some more details for you with respect to the request that is the subject of my October 13<sup>th</sup> letter to you so that the Board will have as much information as possible at its meeting next week. Based on what I reported in my October 13<sup>th</sup> letter and what is presented below, I hope you will agree that the Nussdorf family has made and is continuing to make a real long-term investment in its business in Bellport and are we hopeful that the Board in Brookhaven will recognize this. In that connection, what we are asking for is set forth below:

- I. A mortgage recording tax exemption for the excess proceeds from the mortgage (which should be approximately \$15 million in new money);
- II. Sales tax exemption for the \$700,000 buildout; and
- III. Extension of the PILOT benefits until at least 2030.

There is some additional information that I think will be helpful that is set forth below, which is the details of our current refinancing and the successful outcome of our recent Chapter 11 filing.

1. The Refinancing

35 Sawgrass LLC and Valley National Bank ("VNB") have executed a term sheet for a mortgage loan equal to the lesser of (i) \$50,000,000 or (ii) 60% of the appraised value of the Property. VNB intends to lend up to \$30,000,000 of the full principal amount and bring in participants for the balance. We have been advised by a representative of VNB that under their appraisal report, the appraised value of the Property is \$84,750,000.

The term of the mortgage loan will be 10 years with a 25 year amortization schedule. The annual interest rate for the first seven (7) years will be set at the Seven-Year U.S. Treasury Rate +2%. Thereafter, the rate will be reset at the Three-Year U.S. Treasury Rate

+2% for the duration of the loan. There will be no prepayment payment penalty after the first five (5) years of the term.

The existing mortgage on the Property, in the original principal amount of \$40,250,000, matures on December 1, 2017. CW Capital, LLC, the original lender, assigned the mortgage to Well Fargo, N.A. in or about 2009. The remaining principal balance as of the date hereof is \$35,764,018. We are assuming that VNB will be taking an assignment of the existing mortgage.

After payment of all closing-related costs with respect to the satisfaction of the existing mortgage and the VNB mortgage, as well as any IDA-related expenses attributable to the transaction, the plan is to use any "new money" from the VNB mortgage loan for working capital purposes. We expect a closing date some time in mid to late November 2017.

## 2. The Perfumania Bankruptcy

As you are probably aware, the brick and mortar retail marketplace has experienced a significant downturn in the past few years and many retail chains have downsized either through bankruptcy filings or significant internal restructurings to reduce their retail store footprint. Much of this is attributable to fundamental changes in consumer buying patterns, largely evidenced by the major shift from retail store shopping to e-commerce purchasing, most notably through Amazon.com and other such e-commerce retailers. Perfumania's brick and mortar retail business has not been immune from the effects of this trend and, after much analysis and a detailed evaluation of its business, the Board and management of Perfumania determined that the only way to assure a successful future in a thriving business was to significantly reduce its brick and mortar retail store to eliminate the unprofitable stores and re-negotiate the rent obligation on other stores, and to make a significant investment in its online business. After spending many months in an effort to persuade its landlords to re-negotiate many of its store leases without success, the board of Perfumania, with the advice and assistance of its counsel, Skadden Arps, investment bankers and consultants, decided that the only way to make a significant change in its retail footprint was to file a Chapter 11 petition and in so doing to reject certain leases or force a re-negotiation of other leases with its landlords.

Accordingly, on August 26, 2017, with the cooperation of its principal lender, Wells Fargo, which provided debtor-in-possession financing, Perfumania and several of its subsidiaries filed a Chapter 11 petition in United States Bankruptcy Court in the District of Delaware. This was a pre-packaged plan that provided for payment of 100 cents on the dollar to all of Perfumania's creditors and offered consideration of \$2.00 per share to all the public shareholders in exchange for the execution of a release. The consideration to shareholders was financed by an equity infusion from the Nussdorf family of approximately \$14,000,000. The Plan was successful and was confirmed on October 6, 2017, and subsequently went effective on October 11, 2017 at which time Perfumania and its subsidiaries emerged from bankruptcy as a privately held business owned 96% by the Nussdorf family and 4% by an outside investor who had been a large shareholder of Perfumania as a public company. Coincident with the emergence from bankruptcy, Perfumania and its subsidiaries entered into a long-term exit financing with Wells Fargo, which will provide ample working capital for the business in the years to come. To give you some perspective, a few years ago, Perfumania had approximately 300 retail stores. Post-bankruptcy, by the end of January 2018, it will have approximately 135 stores in its chain, all of which will be much healthier than the previous

Ms. Lisa M.G. Mulligan

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average store with rent profiles that are more in line with store revenues. Moreover, as part of its strategic plan, Perfumania is making a significant investment in its online business to leverage its brand and take advantage of the latest trends in consumer purchasing.

I would be grateful if you would also share this letter with the Board and your colleagues at the Town of Brookhaven. If you have questions or wish to discuss this in more detail, please do not hesitate to contact me at (631) 439-2316 or by email at fpaliani@qkd.com.

Very truly yours,

A handwritten signature in black ink that reads "Alfred R. Paliani". The signature is written in a cursive style with a prominent initial "A" and a flourish at the end.

Alfred R. Paliani  
General Counsel

cc: Michael Katz  
Neal Montany  
Marc Garrett  
Michael Anderson



**LEGAL DEPARTMENT**

Direct Dial: 631-439-2316  
Direct Email: Fpallani@qkd.com

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Lisa M.G. Mulligan  
Director of Economic Development  
Town of Brookhaven  
One Independence Hill  
Farmingville, New York 11738

RECEIVED

OCT 16 2017

TOWN OF BROOKHAVEN  
ECONOMIC DEVELOPMENT

Re: 35 Sawgrass Drive, Bellport, N.Y.

Dear Ms. Mulligan:

In our telephone conversation earlier this week, we discussed some of the recent developments at Quality King's headquarters at 35 Sawgrass Drive in Bellport. As you know, the businesses located here are owned by the Nussdorf family. Bernie and Ruth Nussdorf started their business in a storefront in Queens 56 years ago and not long thereafter moved it to Long Island where the business has been ever since.

In 2005, when the Nussdorf family was first contemplating building a larger facility for its growing businesses, they received offers from jurisdictions both inside and outside of New York for various tax incentives if they would move their businesses to these other locations. Because of their deep roots in Long Island and commitment to the many long-term employees who work for their businesses here, the family declined all of those offers and elected to stay in Long Island, constructing their headquarters facility at 35 Sawgrass Drive. The incentives and support provided by the Brookhaven IDA were crucial to that decision, enabling a state of the art facility to be constructed at 35 Sawgrass Drive and helping the companies overcome the many practical, operational and financial issues to their businesses posed by the location of the facility, which was not geographically optimal given that the company's trucks are delivering their products to the 48 contiguous states from this location on the extreme east coast.

As you know, the family's commitment to staying in Long Island remains strong in spite of the fact that they continue to receive overtures from other states and municipalities offering incentives. Indeed, indicative of their commitment to this area is their recent application to refinance the mortgage on the Bellport facility, which may coincide with a restructuring of the ownership of the property that will enable the IDA to extricate itself from the chain of title and convert the arrangement to a leasehold on the property, a structure that we understand the IDA would prefer.

Not only is the Nussdorf family committed to trying to keep its businesses in Bellport, but it has recently begun a complete build-out of the unimproved third floor on the south side of the building at 35 Sawgrass so to can accommodate approximately forty new employees on that floor alone. The buildout includes the addition of interior offices, cubicles, a computer server room, a photo/graphics studio, a new bathroom, IT equipment, office equipment, furniture and a proto-type "company store" that replicates one of our Perfumania retail locations. The cost of this build-out is approximately \$700,000 and it is being constructed by an outside contractor. Please be assured that all of the proper permitting has been obtained to complete this improvement. We expect the work to be completed by the end of November.

The reason for undertaking this improvement is that we are closing one of our fragrance company offices in Florida and moving that operation to Bellport, where it will operate from the built-out portion of the third floor. Through a combination of people relocating from Florida to New York and new hires here in Bellport, we are creating approximately 40 new jobs, which, when offset against the elimination of some office workers during the course of 2017 in a restructuring, will still result in a net increase in the fragrance office workforce of approximately 24 full-time workers compared to that workforce that was in place in December 2016.

We continue to want to keep all our affiliated businesses here in Bellport, which is why we contacted you to get a better understanding of our eligibility for an extension of our existing three-part PILOT agreement. As you know, the three parts of our pilot, expire in 2023 (the Original Facility), 2026 (the 2011 Facility) and 2023 (the 2013 Facility), respectively. Moreover, any relief we can obtain in connection with the upgrade of our third floor and the corresponding increase in workforce associated with it (i.e., sales tax exemptions, corresponding real estate tax incentives, etc.) will not only help the companies today, but will also provide a strong business argument for continuing to grow the Bellport operations. One of our concerns is that our efforts to build our workforce here in Bellport now and in the future could result in an increase in the assessed value of the property for tax purposes. Needless to say, that is a result we would like to avoid.

I would be grateful if you would share this letter with the Board and your colleagues at the Town of Brookhaven. If you have questions or wish to discuss this in more detail, please do not hesitate to contact me at (631) 439-2316 or by email at fpaliani@qkd.com.

Very truly yours,



Alfred R. Paliani  
General Counsel

cc: Michael Katz  
Neal Montany  
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