

E COM VENTURES INC
Form 10-K
May 04, 2007
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended February 3, 2007

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number: 0-10714

E COM VENTURES, INC.

(Exact name of registrant as specified in its charter)

Florida
(State or other jurisdiction of
incorporation or organization)

251 International Parkway

65-0977964
(I.R.S. Employer

Identification No.)

33325

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Sunrise, Florida
(Address of principal executive offices) (Zip Code)
Registrant's telephone number, including area code: (954) 335-9100

Securities registered pursuant to Section 12(b) of the Act:

None

Securities registered pursuant to Section 12(g) of the Act:

Common Stock \$.01 par value

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

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

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

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

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

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer

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

The aggregate market value of the voting stock held by non-affiliates of the registrant was approximately \$14.0 million as of July 28, 2006, based on a market price of \$11.40 per share. For purposes of the foregoing computation, all executive officers, directors and 5% beneficial owners of the registrant are deemed to be affiliates. Such determination should not be deemed to be an admission that such executive officers, directors or 5% beneficial owners are, in fact, affiliates of the registrant.

The number of shares outstanding of the registrant's common stock as of April 30, 2007: 3,058,665 shares

Documents Incorporated By Reference

Portions of the Registrant's definitive proxy statement for its 2007 annual meeting of shareholders, which proxy statement will be filed no later than 120 days after the close of the Registrant's fiscal year ended February 3, 2007, are hereby incorporated by reference in Part III of this Annual Report on Form 10-K.

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PART I.

**ITEM 1. BUSINESS
GENERAL**

E Com Ventures, Inc., a Florida corporation (ECOMV or the Company), performs all of its operations through two wholly-owned subsidiaries, Perfumania, Inc. (Perfumania), a Florida corporation, which is a specialty retailer and wholesaler of fragrances and related products, and perfumania.com, Inc., (perfumania.com), a Florida corporation, which is an Internet retailer of fragrances and other specialty items.

Perfumania is a specialty retailer and wholesale distributor of a wide range of brand name and designer fragrances. Perfumania operates a chain of retail stores specializing in the sale of fragrances at discounted prices up to 75% below the manufacturers' suggested retail prices. Perfumania's wholesale division distributes fragrances and related products primarily to an affiliate. Perfumania.com offers a selection of the Company's more popular products for sale over the Internet and serves as an alternative shopping experience to Perfumania retail customers.

Perfumania operates its wholesale business directly. The retail business is principally operated through Magnifique Parfumes and Cosmetics, Inc. (Magnifique), a wholly-owned subsidiary of Perfumania, although the stores are generally operated under the name Perfumania as described below under Trade Name and Service Mark. Perfumania's retail stores are generally located in regional malls, manufacturers' outlet malls, life style centers, airports and in suburban strip shopping centers. The number of retail stores in operation at February 3, 2007, January 28, 2006, and January 29, 2005 were 267, 239 and 223, respectively.

Sales of perfumania.com are included within those of our retail business in this Form 10-K. For ease of reference in this Form 10-K, our retail and wholesale business are referred to as segments. See further discussion in Note 12 to our Consolidated Financial Statements.

Our executive offices are located at 251 International Parkway, Sunrise, Florida 33325, our telephone number is (954) 335-9100, our retail internet address is www.perfumania.com and our business internet address is www.ecomv.com. Through our business website, we make available, free of charge, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports as soon as is reasonably practicable after we electronically file them with, or furnish them to, the Securities and Exchange Commission (the SEC). The public may read and copy materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington D.C. 20549. The public may obtain information on the operations of the Public Reference Room by calling the SEC at 1-800-SEC-0330. These reports and amendments are also available at www.sec.gov. In addition, we have made our Code of Business Conduct and Ethics available through our website under about ECOMV corporate compliance. The reference to our website does not constitute incorporation by reference of the information contained on our website, and the information contained on the website is not part of this Form 10-K.

The Company's fiscal year ends on the Saturday closest to January 31. Fiscal year 2006 ended on February 3, 2007, fiscal year 2005 ended on January 28, 2006 and fiscal year 2004 ended on January 29, 2005. With the exception of fiscal year 2006 which contains fifty-three weeks, each of the fiscal years presented contain fifty-two weeks.

RECENT DEVELOPMENT

As previously reported, in a letter dated November 10, 2006, the Company's Board of Directors received a merger offer from Model Reorg, Inc. (Model), a New York corporation and affiliate of Quality King Distributors, Inc. (Quality King), and an affiliate of the Company. Our President and Chief Executive Officer, Michael W. Katz is an executive of Model and Quality King and our principal shareholders, Stephen Nussdorf, the Chairman of our Board of Directors and Glenn Nussdorf, his brother, are shareholders and executives of Model and Quality King. Model is a diversified wholesale and retail fragrance company. Quality King distributes pharmaceuticals and health and beauty care products. Pursuant to the terms of the proposed offer, Model would be merged into a newly formed wholly-owned subsidiary of the Company in exchange for the issuance of approximately 6.4 million shares of the Company's common stock. In addition, prior to the merger, an unspecified amount of inter-company obligations due from Model to its affiliate, Quality King may be converted into a note payable or preferred stock of Model. Any Model preferred shares would be converted into preferred shares of the Company in connection with the merger. The proposed offer specifies that it is based upon a 20% premium to the Company's common stock closing price as of November 9, 2006 of \$13.94, or an effective price of \$16.73 per share. Following the merger, the Nussdorfs would own in the aggregate approximately 80% of the Company (assuming the

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conversion of the Company's subordinated note held by them). The proposed offer, by its terms, is subject to numerous conditions, including approval by a special committee of the Company's Board, comprised of independent directors, and approval by a majority of the disinterested shareholders of the Company. A special committee of the Company's Board has been formed to review and evaluate the proposed offer.

RETAIL DIVISION

STRATEGY

Each of Perfumania's retail stores generally offers approximately 300 different fragrance brands for women and men at prices up to 75% below the manufacturer's suggested retail prices. Stores stock brand name and designer brands such as Estee Lauder®, Yves Saint Laurent®, Calvin Klein®, Giorgio Armani®, Gucci®, Ralph Lauren/Polo®, Perry Ellis®, Liz Claiborne®, Giorgio®, Hugo Boss®, Halston®, Christian Dior®, Chanel®, Lacoste®, Burberry®, Azzaro®, Guess® and Paris Hilton®. Perfumania also carries private label lines of bath & body treatment products under the name Jerome Privee®, and cosmetics products under the name Mattese®.

The cornerstone of Perfumania's marketing philosophy is to develop customer awareness that its stores offer an extensive assortment of brand name and designer fragrances at discount prices. Perfumania posts highly visible price tags in its stores, listing both the manufacturer's suggested retail prices and Perfumania's discounted prices to enable customers to make price comparisons. In addition, we utilize sales promotions such as gift with purchase and purchase with purchase offers. From time to time, we test market in our stores additional specialty gift items.

Perfumania's stores are full-service stores. Accordingly, store personnel are trained to establish personal rapport with customers, to identify customer preferences with respect to both product and price range, and to successfully conclude a sale. Management believes that knowledgeable sales associates and attentive service are key factors to the success of Perfumania's retail stores. Perfumania's store associates are compensated on a salary plus commission basis. Perfumania has several incentive programs that motivate store associates to sell merchandise which have higher profit margins. In addition, to provide an incentive to increase sales and reduce expenses, regional, district and store managers are eligible to receive a bonus if store profitability and operational goals are met. Management believes that a key component of Perfumania's ability to increase profitability will be its ability to hire, train and retain store associates, district and regional managers. Perfumania conducts comprehensive training programs for store associates, designed to achieve higher levels of customer satisfaction.

Perfumania relies on its distinctive store design and window displays to attract the attention of prospective customers. In addition, Perfumania distributes advertising flyers and brochures by mail in and around its stores and in the malls in which its stores are located. Radio and television advertising is done occasionally in certain geographic regions that have a cluster of stores. The amount of advertising varies due to the seasonality of the business with the greatest portion in the fourth fiscal quarter. See further discussion at Note 13 to our Consolidated Financial Statements.

RETAIL STORES

Perfumania's standard store design includes signs and merchandise displays which are designed to enhance customer recognition of Perfumania's stores. Perfumania's stores average approximately 1,500 square feet; however, stores located in manufacturer's outlet malls tend to be larger than Perfumania's other stores. A store is typically managed by one manager and one assistant manager. The average number of employees in a Perfumania store is five, including part-time help. Regional and district managers visit stores on a regular basis in an effort to ensure knowledgeable and attentive customer service and compliance with operational policies and procedures.

STORE LOCATION AND EXPANSION

Perfumania's stores are located in 33 states and Puerto Rico, with the highest concentration consisting of 45 locations in Florida, 32 in Texas, 22 in California, 19 in New York and 16 in Puerto Rico. Perfumania's current business strategy focuses on maximizing sales by raising the average dollar sale per transaction, increasing transactions per hour, reducing expenses at existing stores, opening new stores in proven geographic markets and selectively closing under-performing stores. When opening new stores, Perfumania seeks locations primarily in regional and manufacturer's outlet malls, life style centers and, selectively, on a stand-alone basis in suburban shopping centers in metropolitan areas. To achieve economies of scale with respect to advertising and management costs, Perfumania evaluates whether to open additional stores in markets where it already has a presence or whether to expand into additional markets that it believes have a population density and demographics to support a cluster of stores.

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In fiscal years 2006, 2005 and 2004, Perfumania opened 36 stores, 23 stores and 14 stores, respectively. Perfumania continuously monitors store performance and from time to time closes under-performing stores, which typically have been older stores in less trafficked locations. During fiscal years 2006, 2005 and 2004, Perfumania closed 8 stores, 7 stores and 22 stores, respectively. For fiscal year 2007, Perfumania will continue to focus on improving the profitability of its existing stores and management expects to open approximately 40 stores and close approximately 5 stores.

SEASONALITY

Perfumania's retail business follows a seasonal pattern, with sales peaking over a total of about 5 weeks during the December holiday period. During fiscal 2006, the holiday period accounted for approximately 25% of our net sales.

INFORMATION SYSTEMS

Perfumania has an integrated information system including retail outlet and corporate systems. Perfumania.com has a completely integrated e-commerce system. These systems encompass significant phases of our operations and provide information for planning, purchasing, pricing, distribution, finance and human resource decisions. E-mail and other information are communicated between the corporate office and store locations through an enterprise-wide Intranet. Daily compilation of sales, gross margin, and inventory levels enables management to analyze profitability and sell-through by item and product line as well as monitor the success of sale promotions. Inventory is tracked through its entire life cycle. Perfumania's point of sale system is standard in all its stores. The system enables communication, pricing and promotion programs, time and attendance reporting, and inventory control.

WHOLESALE DIVISION

During fiscal years 2006 and 2005, Perfumania distributed fragrances on a wholesale basis to Quality King Fragrances, Inc. (Quality King Fragrances), a subsidiary of Model, and an affiliate of Quality King. Quality King Fragrances accounted for substantially all of our net wholesale sales in fiscal years 2006, 2005 and 2004. See further discussion at Note 5 to our Consolidated Financial Statements.

PERFUMANIA.COM

Perfumania.com provides a number of advantages for retail fragrance sales. Internet fragrance sales are highly competitive and we compete on the basis of selling price, merchandise variety, ease of selection and cost of delivery. Our Internet site enables us to display a larger number of products than traditional store-based or catalog sellers. In addition, the ability to frequently adjust featured selections and edit content and pricing provides significant merchandising flexibility. Our Internet site benefits from the ability to reach a large group of customers from a central location. Additionally, we can also obtain demographic and behavioral data of customers, increasing opportunities for direct marketing and personalized services. Because brand loyalty is a primary factor influencing a fragrance purchase, we believe the ability to physically sense the fragrance product is not critical to the purchasing decision. Perfumania.com's online store provides its customers with value, selection, pricing and convenience.

CHANGE OF CONTROL

Effective January 30, 2004, Ilia Lekach, the Company's then Chairman of the Board and Chief Executive Officer, and several other parties controlled by Mr. Lekach and his wife Deborah Lekach (collectively, Lekach), entered into an option agreement (the Nussdorf Option Agreement) with Stephen Nussdorf and Glenn Nussdorf (the Nussdorfs), pursuant to which the Nussdorfs were granted options to acquire up to an aggregate 720,954 shares of the Company's common stock beneficially owned by Lekach, for a purchase price of \$12.70 per share, exercisable at various dates. As of May 10, 2004, the Nussdorfs had acquired all 720,954 shares pursuant to the Nussdorf Option Agreement. See further discussion in Note 5 to our Consolidated Financial Statements.

SOURCES OF SUPPLY

During fiscal years 2006, 2005 and 2004, Perfumania purchased fragrances from approximately 144, 120 and 120 suppliers, respectively, including national and international manufacturers, distributors, wholesalers, importers and retailers. Perfumania generally makes its purchases based on a consideration of a combination of prices, credit terms, quantities and merchandise selection and, accordingly, the extent and nature of Perfumania's purchases from its various suppliers change constantly. Perfumania's purchases generally peak in the third quarter in anticipation of the December holiday season, which results in higher retail sales in the fourth quarter than in the first three quarters. As is customary in the fragrance industry, Perfumania has no long-term or exclusive contracts with suppliers.

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Approximately 23%, 22% and 27% of Perfumania's total merchandise purchased in fiscal years 2006, 2005 and 2004, respectively, was from subsidiaries of our affiliate, Model. Approximately 12%, 18% and 26% of Perfumania's total merchandise purchased in fiscal years 2006, 2005 and 2004, respectively, was from another affiliate, Parlux Fragrances, Inc. (Parlux), a manufacturer and distributor of prestige fragrances and related beauty products. Until February 2007, Ilia Lekach served as the Chairman of the Board and Chief Executive Officer of Parlux. Glenn Nussdorf has filed beneficial ownership forms with the SEC indicating that he has acquired approximately 12% of Parlux's outstanding common stock. In February 2007, Mr. Nussdorf reached an agreement with Parlux which called for equal representation in Parlux's Board of Directors by the then current independent directors and Mr. Nussdorf's nominees. Accordingly, Mr. Nussdorf's three nominees were appointed to the Parlux Board, and one of these Board members currently serves as Parlux's Interim Chief Executive Officer. Besides Model and Parlux, no other supplier accounted for more than 10% of our merchandise purchases during 2006, 2005 or 2004.

A portion of Perfumania's merchandise is purchased from secondary sources such as distributors, wholesalers, importers and retailers. Merchandise purchased from secondary sources includes trademarked and copyrighted products that were manufactured in the United States, sold to foreign distributors and then re-imported into the United States, as well as trademarked and copyrighted products manufactured and intended for sale in foreign countries. From time to time, U.S. trademark and copyright owners and their licensees and trade associations have initiated litigation or administrative agency proceedings, based on U.S. Customs Service regulations or trademark or copyright laws, seeking to halt the importation into the United States of such "gray market" merchandise or to restrict its resale in the United States, and some of these actions have been successful. However, the U.S. courts remain divided on the extent to which trademark, copyright or other existing laws or regulations can be used to restrict the importation or sale of "gray market" merchandise. In addition, from time to time federal legislation to restrict the importation or sale of "gray market" merchandise has been proposed, but to our knowledge no such legislation has been adopted. No litigation or administrative proceedings related to "gray market" merchandise were brought against us in fiscal years 2006, 2005 or 2004 and no such matters, to our knowledge, are pending.

As is often the case in the fragrance and cosmetics business, some of the merchandise purchased by Perfumania may have been manufactured by entities, particularly foreign licensees and others, who are not the owners of the trademarks or copyrights for the merchandise. Perfumania's secondary market sources generally will not disclose the identity of their suppliers, which they consider to be proprietary trade information. As a result, Perfumania may not always be able to demonstrate that the manufacturer of specific merchandise had proper authority from the trademark or copyright owner to produce the merchandise or permit it to be resold in the United States. Accordingly, there is a risk that if Perfumania were called upon or challenged by the owner of a particular trademark or copyright to demonstrate that specific merchandise was produced and sold with the proper authority and it was unable to do so, Perfumania could, among other things, be restricted from reselling the particular merchandise or be subjected to other liabilities.

Perfumania's business activities could become the subject of legal or administrative actions brought by manufacturers, distributors or others, any of which actions could have a material adverse effect on our business or financial condition. In addition, future judicial, legislative or administrative agency action, including possible import, export, tariff or other trade restrictions, could limit or eliminate some of Perfumania's secondary sources of supply or any of its business activities.

DISTRIBUTION

Perfumania utilizes independent national trucking companies to deliver merchandise to its stores. 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. To expedite delivery of merchandise to its wholesale customers, Perfumania sometimes instructs its suppliers to ship merchandise directly to its wholesale customers. Sales of perfumania.com are shipped through national carriers and are typically delivered within a few days of being ordered.

COMPETITION

Retail and wholesale perfume businesses are highly competitive. Perfumania's retail competitors include department stores, regional and national retail chains, drug stores, supermarkets, duty-free shops and other specialty retail stores. We believe Perfumania is the largest specialty retailer of discounted fragrances in the United States in terms of number of stores. 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, promotions, customer service, merchandise variety, store location and ambiance. Perfumania believes that its perfumery concept, full-service sales staff, discount prices, large and varied selection of brand name and designer fragrances and attractive shopping environment are important to its competitive position.

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EMPLOYEES

At February 3, 2007, we had 1,599 employees, of whom 1,398 were employed in Perfumania's retail stores, 65 were employed in Perfumania's warehouse and distribution operations and 136 were employed in executive, administrative and other positions. Temporary and part-time employees are added between Thanksgiving and Christmas. None of our employees are covered by a collective bargaining agreement and we consider our relationship with our employees to be good.

TRADE NAME AND SERVICE MARK

Perfumania's stores use the trade name and service mark Perfumania®; Perfumania also operates under the trade names, Also Perfumania, Class Perfumes, Perfumania Too and Perfumania Plus. Perfumania has common law rights to its trade names and service mark in those general areas in which its existing stores are located and has registered the service mark Perfumania® with the U.S. Patent and Trademark Office. The registration expires in 2009 and may be renewed for 10-year terms thereafter.

ITEM 1A. RISK FACTORS

The following set forth risk factors known to us that may materially affect the Company and results of operations.

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

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

Failure to comply with covenants in our credit facility could result in our inability to borrow additional funds

Our credit facility requires us to maintain compliance with various financial covenants. Our ability to meet those covenants can be affected by events beyond our control, and therefore we may be unable to meet those covenants. If our actual results deviate significantly from our projections, we may not be in compliance with the covenants and might not be allowed to borrow under the credit facility or may be required to accelerate repayment. If we were not able to borrow under our credit facility, we would be required to develop an alternative source of liquidity, or to sell additional securities which would result in dilution to existing shareholders. Without a source of financing, we could experience cash flow difficulties and be forced to curtail our then current operations. In May 2007, the fixed charge covenant and the covenant concerning the limitation on capital expenditures were amended with an effective date of February 1, 2007. As a result of these modifications, Perfumania was in compliance with all covenant requirements as of February 3, 2007.

Perfumania may have problems raising money needed in the future, which could adversely impact operations

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

We are subject to competition

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 our current and potential competitors have greater financial, technical, operational, and marketing resources. We may not be able to compete successfully against these competitors in developing our products or services. These factors, as well as demographic trends, economic conditions and discount pricing strategies by competitors, could result in increased competition and could have a material adverse effect on our profitability, operating cash flow, and many other aspects of our business, prospects, results of operations and financial condition.

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Our business is dependent on consumer spending patterns

Our business is sensitive to a number of factors that influence the levels of consumer spending, including political and economic conditions such as recessionary environments, the levels of disposable consumer income, consumer debt, interest rates and consumer confidence. Declines in consumer spending on fragrances and beauty products could have an adverse effect on our business and our results of operations.

Perfumania needs to successfully manage its growth

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

The market for real estate is competitive

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

Perfumania's business is subject to seasonal fluctuations, which could lead to fluctuations in our stock price

Perfumania has historically experienced and expects to continue experiencing higher sales in the fourth fiscal quarter than in 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. If our quarterly operating results are below expectations of stock market analysts, our stock price might decline. Sales levels of new and existing stores are affected by a variety of factors, including the retail sales environment, the level of competition, the effect of marketing and promotional programs, acceptance of new product introductions, adverse weather conditions, general economic conditions and other factors beyond our control. Our quarterly results may also vary as a result of the timing of new store openings and store closings, net sales contributed by new stores and fluctuations in comparable sales of existing stores.

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

Perfumania's success depends to a large degree on our 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 Perfumania's ability to obtain necessary merchandise, our results of operations could be adversely affected.

Perfumania purchases merchandise from related parties, which may cause a conflict of interest

Approximately 35%, 40% and 53%, respectively, of Perfumania's total merchandise purchased in fiscal years 2006, 2005 and 2004 were from our affiliates, Model and its subsidiaries, and Parlux. There may be a conflict of interest between our interest in purchasing merchandise at the best price and upon favorable terms and those of our principal shareholders and affiliates in obtaining the best price and favorable terms for their respective companies.

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 who 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 Perfumania's business and results of operations.

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

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

quarterly variations in operating results;

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

the proposed merger offer from Model;

legal and regulatory matters that are applicable to our business;

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

news reports relating to trends in our markets; and

the amount of shares constituting our public float.

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

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

If we grow as expected, a significant strain on our managerial, operational and financial resources may occur. Future growth or increase in the number of our strategic relationships could strain our managerial, operational and financial resources, inhibiting our ability to achieve the execution necessary to successfully implement our business plan.

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

We currently have one distribution facility, which is located in Sunrise, Florida. The loss of, or damage to this facility, as well as the inventory stored therein, would require us to find replacement facilities and assets. In addition, weather conditions, such as natural disasters, including hurricanes, could disrupt our distribution operations. If we cannot replace our distribution capacity and inventory in a timely, cost-efficient manner, it could reduce the inventory we have available for sale, adversely affecting our profitability and operating cash flows.

Expanding our business through acquisitions and investments in other businesses and technologies presents special risks

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

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

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

the need for additional financing;

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

exposure to unforeseen liabilities of acquired companies.

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

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None.

ITEM 2. PROPERTIES

Our executive offices and distribution center are located in a 179,000 square foot facility in Sunrise, Florida. The facility is leased through December 2017 pursuant to a lease which currently provides for monthly rent of approximately \$89,000 with specified increases.

All of Perfumania's retail stores are located in leased premises. Most of the store leases provide for the payment of a fixed amount of base rent plus a percentage of sales, ranging from 3% to 15%, over certain minimum sales levels. Store leases typically require Perfumania to pay its proportionate share of common area expenses, real estate taxes, utility charges, insurance premiums and certain other costs. Some of Perfumania's leases permit the termination of the lease if specified minimum sales levels are not met. See Note 11 to our Consolidated Financial Statements, for additional information with respect to our store leases.

ITEM 3. LEGAL PROCEEDINGS

We are 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 our financial position, operations or cash flows.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

On December 5, 2006, we held our annual meeting of shareholders. At the annual meeting, the shareholders elected Michael W. Katz, Stephen Nussdorf, Carole Ann Taylor, Joseph Bouhadana, and Paul Garfinkle to our Board of Directors. In addition, the shareholders ratified the appointment of Deloitte & Touche LLP as our independent registered public accounting firm for fiscal year 2006. The following table reflects the results of the meeting:

ELECTION OF DIRECTORS:

	SHARES	SHARES VOTED	SHARES	
	VOTED	FOR	WITHHELD	NON-VOTES
Michael W. Katz	2,802,077	2,771,390	30,687	216,674
Stephen Nussdorf	2,802,077	2,764,620	37,457	216,674
Carole Ann Taylor	2,802,077	2,776,379	25,698	216,674
Joseph Bouhadana	2,802,077	2,776,379	25,698	216,674
Paul Garfinkle	2,802,077	2,776,379	25,698	216,674

RATIFICATION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM:

	SHARES	SHARES VOTED	SHARES		
	VOTED	FOR	AGAINST	ABSTAINED	NON-VOTES
	2,802,077	2,801,767	310	0	216,674

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MARKET INFORMATION**

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

FISCAL 2006	HIGH	LOW
First Quarter	\$ 21.92	\$ 16.00
Second Quarter	23.20	10.60
Third Quarter	16.65	8.83
Fourth Quarter	24.17	13.94
FISCAL 2005	HIGH	LOW
First Quarter	\$ 14.51	\$ 9.52
Second Quarter	15.99	11.00
Third Quarter	15.50	10.04
Fourth Quarter	17.94	11.39

As of April 18, 2007, there were 49 holders of record which excluded common stock held in street name. The closing sales price for the common stock on April 18, 2007 was \$30.99 per share.

DIVIDEND POLICY

We have not declared or paid any dividends on our common stock and do not currently intend to declare or pay cash dividends in the foreseeable future. Payment of dividends, if any, will be at the discretion of the Board of Directors after taking into account various factors, including our financial condition, results of operations, current and anticipated cash needs and plans for expansion. Perfumania is prohibited from paying cash dividends under its line of credit agreement with GMAC Commercial Finance LLC and Wachovia Capital Finance.

EQUITY COMPENSATION PLAN INFORMATION

The following table sets forth information as of February 3, 2007, with respect to our compensation plans under which our equity securities are authorized for issuance.

Plan Category:	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
	(a)	(b)	(c)
Equity compensation plans approved by stockholders	149,026	\$ 12.39	596,051
Equity compensation plans not approved by stockholders			
Total	149,026	\$ 12.39	596,051

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We currently have two plans which provide for equity-based awards to our employees and directors. Pursuant to the 2000 Stock Option Plan (the "Stock Option Plan") and 2000 Directors Stock Option Plan (the "Directors Plan") (collectively, the "Plans"), 375,000 shares and 30,000 shares of common stock, respectively, were initially reserved for issuance upon exercise of options under the Plans. Additionally, the number of shares available under the Stock Option Plan automatically increases each year by an amount equal to 3% of the shares of common stock of the Company outstanding at the end of the immediate preceding year. Our Board of Directors, or a committee thereof, administers and interprets the Stock Option Plan. The Stock Option Plan provides for the granting of both incentive stock options (as defined in Section 422A of the Internal Revenue Code) and non-statutory stock options. Options can be granted under the Stock Option Plan on such terms and at such prices as determined by the Board, except that the per share exercise price of options will not be less than the fair market value of the common stock on the date of grant. Only non-employee directors are eligible to receive options under the Directors Plan. The Directors Plan provides for an automatic grant of an option to purchase 500 shares of common stock upon election as a director of the Company and an automatic grant of 1,000 shares of common stock upon such person's re-election as a director of the Company, in both instances, at an exercise price equal to the fair value of the common stock on the date of grant.

STOCK PERFORMANCE GRAPH

The following graph compares the percentage changes in our cumulative total stockholder return on our common stock for the five-year period ended February 3, 2007, with the cumulative total return of (i) the NASDAQ (US Companies) Stock Index and (ii) the NASDAQ Retail Trade Stock Index. The measurement points are the trading day closest to the last day of our respective fiscal year. The information in this graph is based on historical data and is not necessarily indicative of future performance.

	2001	2002	2003	2004	2005	2006
E Com Ventures, Inc.	100.00	92.25	350.00	362.25	419.00	586.25
NASDAQ US Stock Market Index	100.00	69.76	108.57	107.39	122.32	131.25
NASDAQ Retail Trade Stocks	100.00	81.35	119.27	142.83	154.85	168.41

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The selected financial data presented below are derived from the consolidated financial statements of the Company. The data below should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations, Risk Factors and the Company's Consolidated Financial Statements and related Notes.

Our fiscal year results are based on a fifty-two or fifty-three week retail calendar ending on the Saturday closest to January 31. All references herein to fiscal years are to the calendar year in which the fiscal year begins; for example, fiscal year 2006 refers to the fiscal year that began on January 29, 2006 and ended on February 3, 2007. With the exception of fiscal year 2006, all fiscal years presented below contain fifty-two weeks. Fiscal year 2006 contains fifty-three weeks. Our comparable store sales relate to retail stores that have been open for one year or more. For fiscal year 2006, this comparison has been adjusted to a fifty-two week basis.

	FISCAL YEAR ENDED				
	2007	2006	2005	2004	2003
	FEBRUARY 3,	JANUARY 28,	JANUARY 29,	JANUARY 31,	FEBRUARY 1,
	<i>(DOLLAR AMOUNTS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)</i>				
STATEMENT OF OPERATIONS DATA:					
Net sales, retail division	\$ 229,783	\$ 215,841	\$ 201,425	\$ 198,479	\$ 199,369
Net sales, wholesale division	13,826	17,853	23,578	14,089	2,145
Total net sales	243,609	233,694	225,003	212,568	201,514