

Edgar Filing: E COM VENTURES INC - Form 10-Q/A

E COM VENTURES INC  
Form 10-Q/A  
December 16, 2005

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q/A

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES  
EXCHANGE ACT OF 1934

For the Quarterly Period Ended July 30, 2005

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission file number: 0-19714

E COM VENTURES, INC.  
(Exact name of Registrant as specified in its charter)

Florida  
(State or other jurisdiction of  
incorporation or organization)

65-0977964  
(I.R.S. Employer  
Identification No.)

251 International Parkway  
Sunrise, Florida  
(Address of principal executive offices)

33325  
(Zip Code)

Registrant's telephone number, including area code: (954) 335-9100

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2).

Yes  No

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

The number of shares outstanding of the registrant's common stock, as of the latest practicable date: At September 2, 2005 there were 2,953,092 outstanding shares of its common stock, \$0.01 par value.

Explanatory Paragraph

This Form 10-Q/A for the quarterly period ended July 30, 2005 is being filed for

## Edgar Filing: E COM VENTURES INC - Form 10-Q/A

the purpose of restating our disclosure regarding accounting for stock-based compensation. We have also updated our disclosure with respect to our consideration and conclusions regarding controls and procedures in Part 1; Item 4, Controls and Procedures. The restatement has no impact on our condensed consolidated balance sheets, condensed consolidated statements of operations and related net loss per common share amounts and condensed consolidated statements of cash flows. See Note 9 in the notes to the condensed consolidated financial statements for further information relating to the restatement. This Form 10-Q/A has not been updated for events or information subsequent to the date of filing of the original Form 10-Q, except in connection with the foregoing.

### TABLE OF CONTENTS

#### E COM VENTURES, INC. AND SUBSIDIARIES

##### PART I FINANCIAL INFORMATION

ITEM 1	FINANCIAL STATEMENTS (unaudited).....	3
	Condensed Consolidated Balance Sheets.....	3
	Condensed Consolidated Statements of Operations.....	4
	Condensed Consolidated Statements of Cash Flows.....	5
	Notes to Condensed Consolidated Financial Statements (As Restated)...	6
ITEM 2	MANAGEMENT'S DISCUSSION AND ANALYSIS OF CONSOLIDATED FINANCIAL CONDITION AND RESULTS OF OPERATIONS.....	10
ITEM 3	QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.....	12
ITEM 4	CONTROLS AND PROCEDURES.....	12

##### PART II OTHER INFORMATION

ITEM 1	LEGAL PROCEEDINGS.....	13
ITEM 2	UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.....	13
ITEM 3	DEFAULTS UPON SENIOR SECURITIES.....	13
ITEM 4	SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.....	13
ITEM 5	OTHER INFORMATION.....	13
ITEM 6	EXHIBITS.....	13
	SIGNATURES.....	14
	CERTIFICATIONS.....	15

#### PART I. FINANCIAL INFORMATION

##### ITEM 1. FINANCIAL STATEMENTS

## Edgar Filing: E COM VENTURES INC - Form 10-Q/A

### E COM VENTURES, INC. AND SUBSIDIARIES CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)

ASSETS:	July 30, 2005
	-----
Current assets:	
Cash and cash equivalents	\$ 1,583,619
Trade receivables, net	1,286,826
Inventories	77,445,754
Prepaid expenses and other current assets	663,027
	-----
Total current assets	80,979,226
Property and equipment, net	24,811,581
Goodwill	1,904,448
Other assets, net	587,784
	-----
Total assets	\$ 108,283,039
	=====
LIABILITIES AND SHAREHOLDERS' EQUITY:	
Current liabilities:	
Bank line of credit	\$ 35,952,934
Accounts payable	12,834,293
Accounts payable, affiliates	26,977,720
Accrued expenses and other liabilities	6,217,306
Current portion of obligations under capital leases	216,532
	-----
Total current liabilities	82,198,785
Convertible note payable- affiliate	5,000,000
Long-term portion of obligations under capital leases	7,861,945
	-----
Total liabilities	95,060,730
	-----
Contingencies (see Note 5)	
Shareholders' equity:	
Preferred stock, \$.10 par value, 1,000,000 shares authorized, none issued	--
Common stock, \$.01 par value, 6,250,000 shares authorized; 3,848,851 and 3,834,684 shares issued in fiscal years 2005 and 2004, respectively	38,489
Additional paid-in capital	75,798,084
Treasury stock, at cost, 898,249 shares in fiscal years 2005 and 2004	(8,576,944)
Accumulated deficit	(54,037,320)
	-----
Total shareholders' equity	13,222,309
	-----
Total liabilities and shareholders' equity	\$ 108,283,039
	=====

See accompanying notes to condensed consolidated financial statements.

Edgar Filing: E COM VENTURES INC - Form 10-Q/A

3

E COM VENTURES, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
(Unaudited)

	Thirteen Weeks Ended July 30, 2005	Thirteen Weeks Ended July 31, 2004	Twenty-Six Weeks Ended July 30, 2005
Net sales	\$ 54,198,660	\$ 48,470,731	\$ 97,476,500
Cost of goods sold	32,677,293	27,602,927	58,091,700
Gross profit	21,521,367	20,867,804	39,384,800
Operating expenses:			
Selling, general and administrative	19,416,479	19,092,761	37,078,800
Depreciation and amortization	1,361,059	1,480,585	2,769,500
Total operating expenses	20,777,538	20,573,346	39,848,300
Income (loss) from operations	743,829	294,458	(463,600)
Interest expense, net	(966,254)	(824,123)	(1,824,700)
Net loss	\$ (222,425)	\$ (529,665)	\$ (2,288,300)
Net loss per common share:			
Basic	\$ (0.08)	\$ (0.18)	\$ (0.08)
Diluted	\$ (0.08)	\$ (0.18)	\$ (0.08)
Weighted average number of common shares outstanding:			
Basic	2,949,378	2,866,544	2,943,900
Diluted	2,949,378	2,866,544	2,943,900

See accompanying notes to condensed consolidated financial statements.

4

E COM VENTURES, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)

Twenty-Six Weeks Ended July 30, 2005  
Twenty-Six Weeks Ended July 31, 2004

Edgar Filing: E COM VENTURES INC - Form 10-Q/A

Cash flows from operating activities:		
Net loss	\$ (2,288,338)	\$ (3,165,000)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Provision for impairment of assets and store closing	47,104	50,000
Depreciation and amortization	2,769,566	3,030,000
Change in operating assets and liabilities:		
Trade receivables	(591,014)	(1,300,000)
Inventories	1,483,885	(19,890,000)
Prepaid expenses and other assets	599,958	(77,000)
Accounts payable, non-affiliates	(5,276,903)	(40,000)
Accounts payable, affiliates	3,749,395	11,460,000
Accrued expenses and other liabilities	(109,292)	(3,960,000)
Net cash provided by (used in) operating activities	384,361	(14,960,000)
Cash flows from investing activities:		
Additions to property and equipment	(4,394,314)	(1,630,000)
Net cash used in investing activities	(4,394,314)	(1,630,000)
Cash flows from financing activities:		
Net borrowings under bank line of credit	4,424,722	9,560,000
Principal payments under capital lease obligations	(125,331)	(13,000)
Proceeds from note and interest receivable, shareholder and officer	--	32,000
Proceeds from subordinated secured demand loan, affiliate	--	5,000
Proceeds from exercise of stock options	44,638	1,500,000
Net cash provided by financing activities	4,344,029	16,260,000
Increase (decrease) in cash and cash equivalents	334,076	(34,000)
Cash and cash equivalents at beginning of period	1,249,543	1,960,000
Cash and cash equivalents at end of period	\$ 1,583,619	\$ 1,626,000

See accompanying notes to condensed consolidated financial statements.

E COM VENTURES, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

NOTE 1 - OPERATIONS AND BASIS OF PRESENTATION

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 leading specialty retailer and wholesale distributor of a wide range of brand name and designer fragrances. As of July 30, 2005,

## Edgar Filing: E COM VENTURES INC - Form 10-Q/A

Perfumania operated a chain of 235 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 the Perfumania retail stores.

The condensed consolidated financial statements include the accounts of ECOMV and subsidiaries. All material intercompany balances and transactions have been eliminated in consolidation.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission (the "SEC"). Certain information and note disclosures normally included in annual financial statements, prepared in accordance with accounting principles generally accepted in the United States of America, have been condensed or omitted pursuant to those rules and regulations. The financial information presented herein, which is not necessarily indicative of results to be expected for the current fiscal year, reflect all adjustments, normal and recurring in nature, which, in the opinion of management, are necessary for a fair presentation of the interim unaudited condensed consolidated financial statements. It is suggested that these condensed consolidated financial statements be read in conjunction with the financial statements and the notes thereto included in our Annual Report on Form 10-K for the fiscal year ended January 29, 2005, filed with the SEC on April 29, 2005.

### SEASONALITY AND QUARTERLY RESULTS

Our operations historically have been seasonal, with higher sales in the fourth quarter than the other three fiscal quarters. Significantly higher fourth quarter retail sales result from increased purchases of fragrances as gift items during the holiday season. Our quarterly results may vary due to timing of new store openings, net sales contributed by new stores and fluctuations in comparable sales of existing stores. Results of any interim period are not necessarily indicative of the results that may be expected during a full fiscal year.

### RECLASSIFICATIONS

Certain fiscal year 2004 amounts have been reclassified to conform with the fiscal year 2005 presentation.

### NOTE 2 - ACCOUNTING FOR STOCK-BASED COMPENSATION (AS RESTATED - SEE NOTE 9)

In December 2004, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment, ("FAS 123(R)"). This Statement requires companies to expense the estimated fair value of stock options and similar equity instruments issued to employees. Currently, companies are required to calculate the estimated fair value of these share-based payments and can elect to either include the estimated cost in earnings or disclose the pro forma effect in the footnotes to their financial statements. We have chosen to disclose the proforma effect in accordance with Accounting Principles Board Opinion No. 25. The fair value concepts were not changed significantly in FAS 123(R); however, in adopting this Standard, companies must choose among alternative valuation models and amortization assumptions. The valuation model and amortization assumption we have used continues to be available, but we have not yet completed our assessment of the alternatives.

## Edgar Filing: E COM VENTURES INC - Form 10-Q/A

In April 2005, the SEC announced a deferral of the effective date of FAS 123(R) for calendar year companies until the beginning of 2006. When the Company adopts FAS 123(R) at the beginning of fiscal year 2006, compensation expense will be recorded for new and modified awards. Had compensation cost for options granted been determined in accordance with the fair value provisions of SFAS No. 123, the Company's net loss and net loss per share would have been increased to the proforma amounts presented below.

	Thirteen Weeks Ended July 30, 2005 -----	Thirteen Weeks Ended July 31, 2004 -----	Twent Weeks July 3 -----
Net loss as reported	\$ (222,425)	\$ (529,665)	\$ (2,2
Add: Total fair value of stock based employee compensation expense not included in reported net loss, net	(1,261,174) -----	(6,357) -----	(1,2 -----
Proforma net loss	\$ (1,483,599) =====	\$ (536,022) =====	\$ (3,5 =====
Proforma net loss per share:			
Basic	\$ (0.50) =====	\$ (0.18) =====	\$ =====
Diluted	\$ (0.50) =====	\$ (0.18) =====	\$ =====

### NOTE 3 - BANK LINE OF CREDIT AND CONVERTIBLE NOTE PAYABLE, AFFILIATE

The bank line of credit and convertible note payable, affiliate consist of the following:

	July 30, 2005 -----
Bank line of credit, which is classified as a current liability, interest payable monthly, secured by a pledge of substantially all of Perfumania's assets (see below)	\$35,952,934 =====
Convertible note payable affiliate - long term	\$ 5,000,000 =====

Perfumania's senior secured credit facility provides for borrowings of up to \$60 million, of which \$10.4 million was available as of July 30, 2005, to support normal working capital requirements and other general corporate purposes. Advances under the line of credit are based on a formula of eligible inventories and bear interest at a floating rate ranging from (a) prime to prime plus 1.25% or (b) LIBOR plus 2.5% to 3.75% depending on a financial ratio test. Advances are secured by a first lien on all assets of Perfumania. The credit facility contains limitations on additional borrowings, capital expenditures and other items, and contains various covenants including a fixed charge coverage

## Edgar Filing: E COM VENTURES INC - Form 10-Q/A

ratio, a leverage ratio and capital expenditure limits as defined. The credit facility expires in May 2007. As of July 30, 2005, Perfumania was in compliance with its covenant requirements.

Glenn and Stephen Nussdorf (the "Nussdorfs") own approximately 39% of the Company's outstanding common stock and they are officers and principals of Quality King Distributors, Inc. ("Quality King"). Stephen Nussdorf is the Chairman of the Company's Board of Directors. In first quarter of fiscal 2004 the Nussdorfs made a \$5,000,000 subordinated secured demand loan to Perfumania. The demand loan bore interest at the prime rate plus 1%, had no prepayment penalties, required quarterly interest payments and was secured by a security interest in Perfumania's assets pursuant to a Security Agreement, by and among Perfumania and the Nussdorfs. The loan was subordinate to all bank related indebtedness.

7

In the fourth quarter of fiscal year 2004, the Company issued a Subordinated Convertible Note (the "Convertible Note") in exchange for the \$5,000,000 subordinated secured demand loan. The Convertible Note has the same interest and security terms as the subordinated secured demand loan but is payable in January 2007 and allows the Nussdorfs to convert the Convertible Note into shares of the Company's common stock at a conversion price of \$11.25.

### NOTE 4 - BASIC AND DILUTED LOSS PER COMMON SHARE

Basic loss per common share has been computed by dividing net loss by the weighted average number of common shares outstanding during the period. For all periods presented in the accompanying condensed consolidated statements of operations, incremental shares attributed to outstanding stock options and convertible notes were not included because the results would be anti-dilutive.

### NOTE 5 - 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 that the ultimate resolution of these matters should not have a materially adverse effect on the Company's financial position.

### NOTE 6 - RELATED PARTY TRANSACTIONS

Parlux Fragrances, Inc. ("Parlux") owns 378,102 shares, or approximately 13%, of the Company's outstanding common stock. Purchases of product from Parlux and Quality King were approximately \$22.2 million and \$38.1 million for the first twenty-six weeks of fiscal 2005 and 2004 respectively, representing approximately 40% and 52% of the Company's total inventory purchases, respectively. The amount due to related parties at July 30, 2005 is approximately \$27.2 million resulting from inventory purchases, is non-interest bearing and is 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 sometimes extended.

The Company sold approximately \$8.6 million and \$6.7 million of wholesale merchandise to Quality King for the first twenty-six weeks of fiscal 2005 and 2004, respectively.

### NOTE 7 - SEGMENT INFORMATION



## Edgar Filing: E COM VENTURES INC - Form 10-Q/A

The Company operates in two industry segments, specialty retail sales and wholesale distribution of fragrances and related products. Retail sales include sales through our Internet site, [perfumania.com](http://perfumania.com). Substantially all wholesale sales during fiscal 2005 were to Quality King. The Company, through its supplier relationships, is able to obtain certain merchandise at better prices and quantities than Quality King. Financial information for these segments is summarized in the following table.

8

	Thirteen Weeks Ended July 30, 2005 -----	Thirteen Weeks Ended July 31, 2004 -----	Twenty-Six Weeks Ended July 30, 2005 -----	Twenty-Six Weeks Ended July 31, 2004 -----
Net sales:				
Retail	\$48,964,595	\$44,884,432	\$88,901,020	\$83,083,089
Wholesale	5,234,065	3,586,299	8,575,525	8,959,108
	-----	-----	-----	-----
	\$54,198,660	\$48,470,731	\$97,476,545	\$92,042,197
	=====	=====	=====	=====
Gross profit:				
Retail	\$21,190,818	\$20,673,744	\$38,843,419	\$37,824,145
Wholesale	330,549	194,060	541,423	548,545
	-----	-----	-----	-----
	\$21,521,367	\$20,867,804	\$39,384,842	\$38,372,690
	=====	=====	=====	=====

### NOTE 8 - NON CASH TRANSACTIONS

Supplemental disclosures of non-cash investing and financing activities are as follows:

	For the Twenty-Six Weeks Ended -----	
	July 30, 2005	July 31, 2004
	-----	
Building under capital lease	\$ --	\$ 463,525
Accrued compensation for President and Chief Executive Officer contributed to capital	\$ 406,000	\$ --
Cash paid during the period for:		
Interest	\$1,705,123	\$1,351,084

### NOTE 9 - RESTATEMENT OF CERTAIN INFORMATION RELATED TO ACCOUNTING FOR STOCK BASED COMPENSATION

Subsequent to the issuance of the Company's financial statements for the twenty-six weeks ended July 30, 2005, the Company determined that total fair value of stock based employee compensation expense presented in Note 2 did not include the fair value of an issuance of stock options that occurred during the second quarter of fiscal 2005. As a result, the proforma net loss and proforma net loss per share have been restated from the amounts previously reported to

## Edgar Filing: E COM VENTURES INC - Form 10-Q/A

correct the presentation of these items. The effect of the restatement in the thirteen weeks ended July 30, 2005 and the twenty-six weeks ended July 30, 2005 is summarized below.

	Thirteen Weeks Ended July 30, 2005 As Previously Reported -----	Thirteen Weeks Ended July 30, 2005 As Restated -----	Twenty Weeks July 30 As Prev Repo -----
Net loss as reported	\$ (222,425)	\$ (222,425)	\$ (2,2
Add: Total fair value of stock based employee compensation expense not included in reported net loss, net	(5,904) -----	(1,261,174) -----	(
Proforma net loss	\$ (228,329) =====	\$ (1,483,599) =====	\$ (2,2 =====
Proforma net loss per share:			
Basic	\$ (0.08) =====	\$ (0.50) =====	\$ =====
Diluted	\$ (0.08) =====	\$ (0.50) =====	\$ =====

9

### ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF CONSOLIDATED FINANCIAL CONDITION AND RESULTS OF OPERATIONS

#### RESULTS OF OPERATIONS

Comparison of the Thirteen Weeks Ended July 30, 2005 with the Thirteen Weeks Ended July 31, 2004.

Net sales increased 11.8% from \$48.5 million in the thirteen weeks ended July 31, 2004 to \$54.2 million in the thirteen weeks ended July 30, 2005. The increase in sales was due to an increase of \$1.6 million in wholesale sales combined with a \$4.1 million increase in retail store sales.

Wholesale sales were \$5.2 million for the thirteen weeks ended July 31, 2005 compared to \$3.6 million for the thirteen weeks ended July 31, 2004 as product sales requests were received earlier than in the prior year. Substantially all wholesale sales during the second quarter of fiscal 2005 were made to Quality King.

Retail sales were \$49.0 million for the thirteen weeks ended July 30, 2005 compared to \$44.9 million for the thirteen weeks ended July 31, 2004. The overall increase in retail sales and a 6.9% in comparable store sales over the same period of the prior year resulted from additional price reduction promotional events, improvement in our inventory product mix and depth, and general improvements in the retail industry. Comparable store sales measure sales from stores that have been open for one year or more. The average number

## Edgar Filing: E COM VENTURES INC - Form 10-Q/A

of stores operated was 234 in the second quarter of fiscal 2005, versus 231 in the prior year's comparable period.

Gross profit increased 3.1% from \$20.9 million in the thirteen weeks ended July 31, 2004 (43.1% of total net sales) to \$21.5 million in the thirteen weeks ended July 30, 2005 (39.7% of total net sales). The increase in gross profit was due to the increase in sales volume. As a percentage of net sales, total gross profit in the thirteen weeks ended July 30, 2005 decreased versus the thirteen weeks ended July 31, 2004 due to more promotional events with price reductions.

Selling, general and administrative expenses increased 1.7% from \$19.1 million in the thirteen weeks ended July 31, 2004 to \$19.4 million in the thirteen weeks ended July 30, 2005. The increase was largely attributable to the increase in new stores and the resulting increased spending for marketing, advertising, occupancy and staffing needs to open these stores. Depreciation and amortization was approximately \$1.4 million in the thirteen weeks ended July 31, 2005 compared to \$1.5 million for the thirteen weeks ended July 31, 2004.

Interest expense, net was approximately \$966,000 for the thirteen weeks ended July 30, 2005 compared with \$824,000 in the same period for 2004. The increase in interest expense was due to a higher average balance outstanding on the Company's line of credit and higher interest rates.

As a result of the foregoing, our net loss decreased to approximately (\$222,000) in the thirteen weeks ended July 30, 2005 compared to a net loss of (\$530,000) in the thirteen weeks ended July 31, 2004. Net loss per share for the second fiscal quarter of 2005 and 2004 was (\$0.08) and (\$0.18), respectively.

Comparison of the Twenty-six weeks Ended July 30, 2005 with the Twenty-six weeks Ended July 31, 2004.

Net sales increased 5.9% from \$92.0 million in the twenty-six weeks ended July 31, 2004 to \$97.5 million in the twenty-six weeks ended July 30, 2005. The increase in sales was primarily due to a 7.0% increase in Perfumania's retail sales. Retail sales increased as a result of additional price reduction promotional events, higher average inventories, improvement in the product mix and depth of inventories, and general improvements in the retail industry. In addition, comparable store sales increased by 6.2% in the first twenty-six weeks of fiscal 2005. During the twenty-six weeks ended July 30, 2005, the average number of stores operated was 229 versus 231 in the prior year's comparable period.

Wholesale sales were \$8.6 million for the twenty-six weeks ended July 31, 2005 compared to \$9.0 million for the twenty-six weeks ended July 31, 2004. Substantially all wholesale sales during the twenty-six weeks ended July 31, 2005 were to Quality King.

10

Gross profit increased 2.6% from \$38.4 million in the twenty-six weeks ended July 31, 2004 (41.7% of total net sales) to \$39.4 million in the twenty-six weeks ended July 30, 2005 (40.4% of total net sales). The increase in gross profit was due to the increase in sales volume. As a percentage of net sales, gross profit in the twenty-six weeks ended July 30, 2005 decreased versus the twenty-six weeks ended July 31, 2004, due to price reduction promotional events.

Selling, general and administrative expenses were not significantly changed from \$37.0 million in the twenty-six weeks ended July 31, 2004 to \$37.1

## Edgar Filing: E COM VENTURES INC - Form 10-Q/A

million in the twenty-six weeks ended July 30, 2005. Depreciation and amortization was approximately \$2.8 million in the twenty-six weeks ended July 30, 2005 and \$3.0 million in the twenty-six weeks ended July 31, 2004. Reduction in amortization expenses were largely due to fully amortized software costs associated with year 2000 upgrades.

Interest expense, net was approximately \$1.8 million for the twenty-six weeks ended July 30, 2005 compared with \$1.5 million in the comparable period of 2004. The increase in interest expense was due to higher interest rates and higher average borrowings outstanding for the twenty-six weeks ended July 30, 2005 versus the comparable period of 2004.

As a result of the foregoing, our net loss decreased from (\$3.2) million in the twenty-six weeks ended July 31, 2004, to a net loss of (\$2.3) million in the twenty-six weeks ended July 30, 2005. Net loss per share for the twenty-six weeks ended July 30, 2005 and July 31, 2004 was (\$0.78) and (\$1.15), respectively.

### LIQUIDITY AND CAPITAL RESOURCES

Our principal funding requirements are for inventory purchases, renovation of existing stores, and selectively open new stores. For the first twenty-six weeks of fiscal 2005, these capital requirements generally were satisfied through borrowings under our credit facility.

At July 30, 2005, we had a seasonal negative working capital of approximately \$1.2 million compared to working capital of approximately \$2.2 million at January 29, 2005. The change was primarily due to the net loss during the current period, increased spending on store construction and increased borrowings due to the seasonality of our business.

Net cash provided by operating activities during the twenty-six weeks ended July 30, 2005 was approximately \$0.4 million compared with approximately \$15.0 million used in operating activities during the same period of the prior year. The increase in cash provided by operating activities was primarily due to a reduction in our need for an inventory build up during the current period compared with our inventory needs for the same period during the prior year. During the prior year our average inventory balances were lower and our operating cash was used to increase inventories. Our purchases from related parties are generally payable in 90 days, however due to the seasonality of our business these terms are sometimes extended, enhancing our liquidity.

Net cash used in investing activities was approximately \$4.4 million in the first twenty-six weeks ended July 30, 2005 compared to \$1.6 million in the twenty-six weeks ended July 31, 2004. The current period's investing activities primarily represented spending for new stores and construction in progress on other new stores scheduled for completion during the second half of fiscal year 2005.

During the twenty-six weeks ended July 30, 2005, Perfumania opened 13 new stores and relocated 2 existing stores. At July 30, 2005, Perfumania operated 235 stores compared to 231 stores as of July 31, 2004. Our focus is on improving the profitability of existing stores and selectively opening new stores. We plan to open approximately 8 new stores and close approximately 3 stores during the remainder of fiscal year 2005.

Net cash provided by financing activities during the first twenty-six weeks of fiscal 2005 was approximately \$4.3 million, primarily from borrowings under our line of credit, compared with approximately \$16.3 million for the same period in the prior year. In the prior year \$5 million in proceeds were received from a subordinated secured note payable to an affiliate, along with approximately \$9.6 million in additional borrowings from our line of credit.

Perfumania's senior secured credit facility provides for borrowings of up to \$60 million, of which \$10.4 million was available as of July 30, 2005, to support normal working capital requirements and other general corporate purposes. Advances under the line of credit are based on a formula of eligible inventories and bear interest at a floating rate ranging from (a) prime to prime plus 1.25% or (b) LIBOR plus 2.5% to 3.75% depending on a financial ratio test. Advances are secured by a first lien on all assets of Perfumania. The credit facility contains limitations on additional borrowings, capital expenditures and other items, and contains various covenants including a fixed charge coverage ratio, a leverage ratio and capital expenditure limits as defined. The credit facility expires in May 2007. As of July 30, 2005, Perfumania was in compliance with its covenant requirements.

We believe that our cash balances, the available borrowing capacity under our credit facility and the projected future operating results will generate sufficient liquidity to support the Company's needs for the next twelve months, however there can be no assurance that our plans will be successful.

#### CRITICAL ACCOUNTING POLICIES

Our condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim information. Presentation of these statements requires management to make judgments and estimates. 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 would be reported under different conditions or by using different assumptions. A summary of those critical accounting policies can be found in our 2004 Annual Report on Form 10-K.

#### 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 service our obligations, our ability to comply with the covenants in our credit facility, general economic conditions including a decrease in discretionary spending by consumers, competition, potential technology changes, changes in or the lack of anticipated changes in the regulatory environment in various countries, the ability to raise additional capital to finance expansion, the risks inherent in new product and service introductions and the entry into new geographic markets and other factors included in our filings with the Securities and Exchange Commission (the "SEC"), including the Risk Factors included in our 2004 Annual Report on Form 10-K filed with the SEC. Those Risk Factors contained in our 2004 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. We do not undertake any obligation to update the information contained herein, which speaks only as of this date.

## Edgar Filing: E COM VENTURES INC - Form 10-Q/A

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

During the quarter ended July 30, 2005, there have been no material changes in the information about our market risks as of January 29, 2005 as set forth in Item 7A of the 2004 Form 10-K.

### ITEM 4. CONTROLS AND PROCEDURES

In the Original Form 10-Q, our Chief Executive Officer and Chief Financial Officer concluded that, as of July 30, 2005, our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) or 15d-15(e) of the Exchange Act) were effective. This conclusion was reached after our Chief Executive Officer and Chief Financial Officer evaluated our disclosure controls and procedures as of the end of the period covered by the Quarterly Report, as required by paragraph (b) of Rules 13a-15 or 15d-15 of the Exchange Act.

12

However, in connection with preparing the restated disclosure regarding the accounting for stock-based compensation included in Note 2 to the Financial Statements contained in this Form 10-Q/A, our Chief Executive Officer and Chief Financial Officer reevaluated our disclosure controls and procedures as of July 30, 2005 and concluded that such disclosure controls and procedures were not effective as of such date. The Company has concluded that the inadvertent omission of a stock option issuance from the proforma disclosure under SFAS No. 148 as described in Note 9 to the Condensed Consolidated Financial Statements, was primarily the result of a failure in the design of the existing controls surrounding stock based compensation. The Company has subsequently enhanced and reinforced internal processes to ensure the effectiveness of our disclosure controls and procedures and our internal control over financial reporting related to stock option issuances. Specifically, the Company has made changes, which include option grants being promptly communicated to the finance department and a more formal financial statement review process. There have been no changes in our internal control over financial reporting during the quarter ended July 30, 2005 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

Not applicable.

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

Not applicable.

### ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

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

Not applicable.

### ITEM 5. OTHER INFORMATION

Not applicable.

### ITEM 6. EXHIBITS

Edgar Filing: E COM VENTURES INC - Form 10-Q/A

Exhibits  
Index to Exhibits

Exhibit No.  
-----

- 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.

13

E COM VENTURES, INC.

SIGNATURES

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

E COM VENTURES, INC.

-----  
(Registrant)

Date: December 13, 2005

By: By: /S/ Michael W. Katz

-----  
Michael W. Katz  
President and Chief Executive Officer  
(Principal Executive Officer)

By: By: /S/ A. Mark Young

-----  
A. Mark Young  
Chief Financial  
Officer (Principal  
Financial and  
Accounting  
Officer)

14