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E COM VENTURES INC
Form 10-K/A
May 18, 2004

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

FORM 10-K/A

FOR ANNUAL AND TRANSITION REPORTS PURSUANT TO SECTION 13 OR 15(D) OF THE
SECURITIES EXCHANGE ACT

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

FOR THE FISCAL YEAR ENDED JANUARY 31, 2004

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)

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

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 whether the Registrant (1) has filed all reports

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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 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 an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes No

The aggregate market value of the voting stock held by non-affiliates of the Registrant was approximately \$8.9 million as of August 2, 2003. 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 27, 2004: 2,740,830 shares

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive proxy statement for its 2004 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 January 31, 2004, 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

BUSINESS STRATEGY

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 January 31, 2004, Perfumania operated a chain of 232 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 to other wholesale distributors throughout North America and overseas. Perfumania.com offers a selection of our more popular products for sale over the Internet and serves as an alternative shopping experience to the Perfumania shopping experience.

Perfumania operates its wholesale business directly. It operates its retail business 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 located in regional malls, manufacturers' outlet malls, airports and on a stand-alone basis in suburban strip shopping centers. The number of retail stores in operation at January 31, 2004, February 1, 2003, and February 2, 2002 were 232, 238 and 247, 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 divisions. See Item 6 for Selected Financial Data by division.

RECENT DEVELOPMENTS AND CHANGE OF CONTROL

Effective January 30, 2004, Ilia Lekach, our then Chairman of the Board and Chief Executive Officer, IZJD Corp. and Pacific Investment Group, Inc., each of which are wholly-owned by Mr. Lekach and Deborah Lekach, Mr. Lekach's wife (collectively, "Lekach"), entered into the Nussdorf Option Agreement (The "Nussdorf Option Agreement"), with Stephen Nussdorf and Glenn Nussdorf (the "Nussdorfs"), pursuant to which the Nussdorfs were granted options by Lekach to acquire up to an aggregate 720,954 shares of the Company's common

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stock owned or beneficially owned by Lekach, for a purchase price of \$12.70 per share exercisable in the installments indicated on or after the dates set forth in the table below:

| Date | Number of Shares |
|------------------|------------------|
| January 30, 2004 | 433,070 |
| March 15, 2004 | 162,884 |
| April 23, 2004 | 125,000 |

The purchase price for the shares to be acquired by the Nussdorfs under the Nussdorf Option Agreement is payable in cash; provided that the Nussdorfs may elect to pay a portion of the purchase price for the shares that are subject to the option installment that first becomes exercisable in April 2004, by offsetting the principal and accrued interest then owed by Mr. Lekach under a \$1,000,000 demand note, dated December 8, 2003, payable to the order of Stephen Nussdorf.

In addition, pursuant to and in accordance with the terms of the Nussdorf Option Agreement, the Nussdorfs have been granted an irrevocable proxy for the term set forth in the Agreement to vote any shares owned by Lekach that are the subject of the Nussdorf Option Agreement.

The Nussdorfs gave notice of the exercise of the first option installment pursuant to the Nussdorf Option Agreement to acquire 433,070 shares: 298,530 shares by Stephen Nussdorf and 134,540 shares by Glenn Nussdorf (the "Initial Exercise"). The aggregate purchase price for the Initial Exercise was paid in cash.

On March 10, 2004, the Nussdorfs gave notice of the exercise of the second option installment pursuant to the Nussdorf Option Agreement to acquire 162,884 shares: 81,442 shares each by Stephen Nussdorf and Glenn Nussdorf (the "Second Exercise"). The shares included in the Second Exercise were acquired on March 19, 2004. The aggregate purchase price for the Second Exercise was paid in

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cash. In connection with the Second Exercise, Mr. Lekach exercised options for 162,884 shares of the Company's common stock in March 2004, of which 125,000 shares were issued upon the exercise of options granted to Mr. Lekach under the Company's 2000 Stock Option Plan.

Of the 720,954 shares subject to the Nussdorf Option Agreement, an aggregate 443,750 shares were issuable upon exercise of certain stock options owned of record by Ilia Lekach. As of April 26, 2004, Mr. Lekach has exercised options to acquire 318,750 of those shares and the Nussdorfs have acquired 595,954 shares pursuant to the Nussdorf Option Agreement. The remaining 125,000 shares subject to the Nussdorf Option Agreement are those shares issuable upon exercise of 125,000 options required to be issued to Mr. Lekach pursuant to the terms of his employment agreement as a consequence of the change of control. These 125,000 options may only be issued upon approval of an amendment to the Company's 2000 Stock Option Plan. Such an amendment was voted on and approved at a special meeting of the Company's shareholders on April 29, 2004.

Assuming the Nussdorfs exercise their option to acquire the remaining 125,000 shares subject to the Nussdorf Option Agreement, the Nussdorfs would own an aggregate 1,128,144 shares of the Company's Common Stock or approximately 39.7% of the total number of shares of the Company's common stock outstanding as of April 26, 2004.

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On March 11, 2004, following the acquisition of the 433,070 shares pursuant to the Initial Exercise, the Nussdorfs made a \$5,000,000 secured demand loan to Perfumania. The demand loan bears interest at prime plus 1% and is secured by a security interest in Perfumania's assets pursuant to a Security Agreement, by and among Perfumania and the Nussdorfs.

On February 6, 2004, Miles Raper, Donovan Chin and Daniel Bengio resigned as members of the Company's Board of Directors, and Stephen Nussdorf, Paul Garfinkle and Michael W. Katz were elected to the Company's Board of Directors. Effective February 10, 2004, Mr. Lekach's employment with the Company was terminated and Mr. Lekach ceased serving as an employee and officer of the Company. In addition, on February 10, 2004, Stephen L. Nussdorf was appointed the Company's Chairman of the Board and Michael W. Katz was appointed the Company's Chief Executive Officer and President.

RETAIL DIVISION

MARKETING AND MERCHANDISING

Each of Perfumania's retail stores generally offers approximately 175 different brands of fragrances 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(R), Fendi(R), Yves Saint Laurent(R), Fred Hayman(R), Calvin Klein(R), Giorgio Armani(R), Gucci(R), Ralph Lauren/Polo(R), Perry Ellis(R), Liz Claiborne(R), Giorgio(R), Hugo Boss(R), Halston(R), Christian Dior(R), Chanel(R) and Cartier(R). Perfumania also carries a private label line of bath & body treatment products under the name Jerome Privee(R), and a private label line of cosmetics, treatment and aromatherapy under the name Nature's Elements(R).

The cornerstone of Perfumania's marketing philosophy is customer awareness that its stores offer an extensive assortment of brand name and designer fragrances at discount prices. Perfumania posts highly visible price tags for each item in its stores, listing both the manufacturers' 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 attentive personal service and knowledgeable sales personnel are key factors to the success of Perfumania's retail stores. Perfumania's store personnel are compensated on a salary plus bonus basis. Perfumania has several bonus programs that provide incentives for store personnel to sell merchandise which have higher profit margins. In addition, to provide an incentive to reduce expenses and increase sales, district 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 personnel and district managers. Perfumania conducts comprehensive training programs designed to increase customer satisfaction.

Perfumania primarily 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 and in its stores and in the malls in which its stores are located. The amount of advertising varies with the seasonality of the business.

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 1,400 square feet; however, stores located in manufacturers' 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. 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.

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 every significant phase 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. During 2003, a new point of sale system was implemented in all stores. This system enables improved communication, pricing and promotion programs, time and attendance reporting, and enhanced inventory control.

STORE LOCATION AND EXPANSION

Perfumania's stores are located in 36 states, the District of Columbia and Puerto Rico, including 45 locations in Florida, 19 in California, 16 in Texas and Puerto Rico, and 15 in New York. Perfumania's current business strategy focuses on maximizing sales by raising the average dollar sale per transaction, reducing expenses at existing stores, selectively closing under-performing stores and on a limited basis, opening new stores in proven geographic markets. When opening new stores, Perfumania seeks locations primarily in regional and manufacturers' outlet malls and, selectively, on a stand-alone basis in suburban shopping centers in metropolitan areas. To achieve economies of scale with respect to advertising and management costs, Perfumania evaluates opening additional stores in markets where it already has a presence or expanding into additional markets that it believes have a population density to support a cluster of stores.

Perfumania's current average cost for opening a store is approximately \$160,000, including furniture and fixtures, build-out costs and other items. In addition, initial inventory in a new store ranges from approximately \$150,000 during the first fiscal quarter to approximately \$200,000 during the Holiday season.

In fiscal years 2003, 2002 and 2001, Perfumania opened 11 stores, 4 stores and 5 stores, respectively. Perfumania continuously monitors store performance and from time to time has closed under-performing stores, which typically have been older stores in undesirable locations. During fiscal years 2003, 2002 and 2001, Perfumania closed 17 stores, 13 and 15 stores, respectively. For fiscal year 2004, Perfumania will continue to focus on improving the profitability of its existing stores and management expects to open approximately 15 stores and close approximately 10 stores.

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WHOLESALE DIVISION

Perfumania distributes fragrances on a wholesale basis to national and regional retail chains and other wholesale distributors throughout North America and overseas. During fiscal years 2003, 2002 and 2001, the wholesale division sold to approximately 5, 5 and 9 customers, respectively. Quality King Distributors, Inc. ("Quality King"), an affiliate of our current Chief Executive Officer and President, Michael Katz, our principal shareholder, the Nussdorf's, accounted for 81%, 47% and 0% of net wholesale sales during fiscal years 2003, 2002 and 2001, respectively. See further discussion at Note 5 to our Consolidated Financial Statements included in Item 8, hereof. A single customer, unaffiliated with the Company, considerably reduced its purchases in the current year and accounted for 3%, 49% and 92% of wholesale sales during fiscal years 2003, 2002 and 2001, respectively.

PERFUMANIA.COM

Perfumania.com provides a number of advantages for retail fragrance sales. 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, the ability

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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.

SOURCES OF SUPPLY

During fiscal years 2003 and 2002, Perfumania purchased fragrances from approximately 100 different suppliers, including national and international manufacturers, distributors, wholesalers, importers and retailers. Perfumania generally makes its purchases based on the most favorable available 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. As is customary in the fragrance industry, Perfumania has no long-term or exclusive contracts with suppliers.

Approximately 23% and 10% of Perfumania's total merchandise purchased in fiscal years 2003 and 2002, respectively, was from an affiliate, Parlux Fragrances, Inc. ("Parlux"), a manufacturer and distributor of prestige fragrances and related beauty products. Ilia Lekach, our former Chairman of the Board and Chief Executive Officer and one of our former principal shareholders, is the Chairman of the Board and Chief Executive Officer of Parlux and beneficially owns approximately 20% of Parlux's outstanding common stock. No other supplier accounted for more than 10% of our merchandise purchases during 2003 or 2002.

Approximately 5% and 1% of Perfumania's total merchandise purchased in fiscal years 2003 and 2002, respectively, was from Quality King. These purchases do not include products manufactured or distributed by Parlux.

Approximately 7% and 9% of Perfumania's total merchandise purchased

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in fiscal years 2003 and 2002, respectively, was from Grupo Tulin, a company owned by a former Director and brother of Ilia Lekach. Approximately 4% and 5%, respectively, of Perfumania's total merchandise purchased in fiscal years 2003 and 2002 was acquired from S&R Fragrances, Inc., a company owned by another brother of Ilia Lekach. Purchases from these affiliates are at lower prices or on better terms than would otherwise be available from other sources. These purchases do not include products manufactured or distributed by Parlux.

A substantial 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 no such legislation has been adopted.

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. 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 customers, Perfumania sometimes instructs its suppliers to ship merchandise directly to wholesale division customers.

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COMPETITION

Retail and wholesale perfume businesses are highly competitive. Perfumania's retail competitors include department stores, regional and national retail chains, independent drug stores, duty-free shops and other specialty retail stores. 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.

Perfumania's wholesale division competes directly with other perfume wholesalers and perfume manufacturers, some of which have substantially greater resources or merchandise variety than Perfumania. The wholesale division competes principally on the basis of merchandise selection, price and availability.

EMPLOYEES

At January 31, 2004, we had 1,338 employees, of whom 1,195 were employed in Perfumania's retail stores, 44 were employed in Perfumania's warehouse and distribution operations and 99 were employed in executive, administrative and other positions. Temporary and part-time employees are usually added during peak sales periods (principally 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(R); Perfumania also operates 1 store under the trade name "Also Perfumania," 2 stores under the trade name "Class Perfumes" in malls where we also operate a Perfumania(R) store, one store under the trade name "Touch at Perfumania," one store under the trade name "Perfumania Too," and 7 stand-alone stores under the trade name "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(R) with the U.S. Patent and Trademark Office. The registration expires in 2009 and may be renewed for 10-year terms thereafter.

INVESTMENT IN NIMBUS GROUP, INC.

Our former Chairman of the Board and Chief Executive Officer, Ilia Lekach, was also Chairman and interim CEO of Nimbus Group, Inc. ("Nimbus"), formerly known as TakeToAuction.com ("TTA"), a public company previously committed to the development of a private jet air taxi network. TTA initially sold consumer products on Internet auction sites.

From fiscal year 2000 through fiscal year 2002 we acquired approximately 1,003,000 shares of Nimbus common stock. The investment in Nimbus was shown on our balance sheets as investments available for sale. During fiscal year 2003 we disposed of our holding in Nimbus in open market transactions at a loss of approximately \$172,000.

RISK FACTORS THAT MAY AFFECT FUTURE RESULTS

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The following set forth certain risk factors that may affect the Company and results of operations. These may be additional risks not set forth below or in this annual report on form 10-K, which may also affect the Company and its operations.

WE COULD FACE LIQUIDITY AND WORKING CAPITAL CONSTRAINTS IF WE ARE UNABLE TO GENERATE SUFFICIENT CASH FLOWS FROM OPERATIONS

As shown in the accompanying financial statements, we have incurred a net loss of \$12.9 million for the fiscal year ended January 31, 2004. In addition, as of January 31, 2004, we had a working capital deficiency of \$9.1 million and an accumulated deficit of \$54.9 million. As of January 31, 2004, we had cash balances totaling approximately \$2.0 million. Additionally, \$30.5 million was outstanding and \$5.6 million was available under our \$40 million credit facility with GMAC. Management believes that the cash balances, the available borrowing capacity and the projected future operating results will generate sufficient liquidity to support our working capital needs and capital expenditures for the next twelve months; however, there can be no assurance that management's plans and expectations will be successful. If we are unable to generate sufficient cash flows from operations in the future to service our obligations, finance our existing debt and achieve improved operating results, we could face liquidity and working capital constraints, which could adversely impact future operations and growth and, thereby, may raise a question as to our ability to remain a going concern.

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As of January 31, 2004, Perfumania was not in compliance with its tangible net worth ratio, fixed charge ratio, leverage ratio and capital expenditures limitation. On April 29, 2004, Perfumania obtained a waiver from GMAC for all instances of non-compliance as of January 31, 2004.

On May 12, 2004, Perfumania entered into a new three-year amended and restated senior secured revolving credit facility with GMAC Commercial Finance LLC and Congress Financial Corporation that provides for borrowings of up to \$60 million.

Advances under the new line of credit are based on a formula of eligible inventories and will bear interest depending on the Company's financial ratios from (1) prime to prime plus 1.25% or (b) LIBOR plus 2.50% to 3.75%. Borrowings are secured by a 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 and minimum EBITDA amounts as defined. Advances will be secured by a first lien on all assets of Perfumania.

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

FAILURE TO COMPLY WITH COVENANTS IN OUR EXISTING 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. As described above, Perfumania was not in compliance with certain financial covenants as of January 31, 2004. If our actual results deviate significantly from our projections, we may not be in compliance with the

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covenants and might not be allowed to borrow under the credit facility. 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 stockholders. We cannot assure that we could obtain replacement credit facilities on favorable terms or at all. Without a source of financing, we could experience cash flow difficulties.

CONSUMERS HAVE REDUCED DISCRETIONARY PURCHASES OF OUR PRODUCTS, WHICH HAS INCREASED OUR NET LOSS

Sales levels at Perfumania's retail stores were adversely affected during fiscal year 2003 by an economic downturn in the United States, the war in Iraq and disruption in our inventory supplies due to the relocation of our distribution facility. Due to higher unemployment and stagnant business growth rates, consumer spending in general and especially on discretionary items, declined. Sales from our retail stores decreased from \$199,369,000 for fiscal year 2002 to \$198,479,000 for fiscal year 2003 and our net loss increased to \$(5.24) per share for fiscal year 2003 from \$(1.12) per share for fiscal year 2002. We may continue to experience declines in sales as a result of the economic downturn, or in the event of terrorism or diseases affecting customers' purchasing patterns. Future economic downturns may adversely impact our business, the results of our operations and our liquidity.

PERFUMANIA MAY HAVE PROBLEMS RAISING MONEY NEEDED IN THE FUTURE

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 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.

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 quarters. Purchases of fragrances as gift items increase during the Christmas 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 and general economic conditions. 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.

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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

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acceptable terms, or if there is a material change in Perfumania's ability to obtain necessary merchandise, our results of operations could be seriously harmed.

PERFUMANIA PURCHASES MERCHANDISE FROM PARTIES RELATED TO OUR FORMER CHIEF EXECUTIVE OFFICER AND ONE OF OUR PRINCIPAL SHAREHOLDERS, WHICH MAY CAUSE A CONFLICT OF INTEREST

Approximately 30% and 19%, respectively, of Perfumania's total merchandise purchased in fiscal years 2003 and 2002 were from affiliates of our former Chief Executive Officer. In addition, in fiscal 2003, we purchased approximately \$5.6 million of merchandise from Quality King and sold approximately \$11.4 million of different merchandise to Quality King. The Nusssdorfs are officers and principals of Quality King. While we believe the terms of these purchases and sales are more favorable to us than the terms of third party arrangements, there may be a conflict of interest between our interest in purchasing or selling merchandise at the best price and those of our principal shareholders and former officer in obtaining the best price for their respective companies.

PERFUMANIA NEEDS TO SUCCESSFULLY MANAGE ITS GROWTH

Perfumania may not be able to sustain the growth in revenues that it has achieved historically. 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. 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.

PERFUMANIA COULD BE SUBJECT TO LITIGATION BECAUSE OF THE MERCHANDISING ASPECT OF ITS BUSINESS

Some of the merchandise Perfumania purchases from suppliers is 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. This type of restriction could adversely affect Perfumania's business and results of operations.

OUR STOCK PRICE VOLATILITY COULD RESULT IN SECURITIES CLASS ACTION 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:

- o quarterly variations in operating results;
- o acquisitions, capital commitments of strategic alliances by us or our competitors;
- o legal regulatory matters that are applicable to our business;
- o the operating and stock prices performance of other companies that investors may deem comparable to us; and

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- o news reports relating to trends in our markets.

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 class action litigation 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. Further, as the number of our users, advertisers and other business partners grow, we will be required to manage multiple relationships with various customers, strategic partners and

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other third parties. 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 rapid execution necessary to successfully implement our business plan. In addition, our future success will also depend on our ability to expand our sales and marketing organization and our support organization commensurate with the growth of our business and the Internet.

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.

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 any 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, 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

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

- o difficulty integrating acquired technologies, operations, and personnel with our existing business;
- o diversion of management's attention in connection with both negotiating the acquisitions and integrating the assets;
- o the need for additional financing;
- o strain on managerial and operational resources as management tries to oversee larger operations; and
- o 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 and integrate acquisitions.

ITEM 2. PROPERTIES

We relocated our executive offices and distribution center to a 179,000 square foot facility in Sunrise, Florida in July 2003. The facility is leased through December 2017 pursuant to a lease which currently provides for monthly rent of approximately \$82,000 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 all utility charges, insurance premiums, real estate taxes 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 included in Item 8 hereof, 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 should not have a materially adverse effect on our financial position or result of operations.

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

On December 12, 2003, we held our annual meeting of shareholders. At the annual meeting, the shareholders elected Ilia Lekach, Donovan Chin, Carole Ann Taylor, Joseph Bouhadana, Miles Raper, and Daniel Bengio to the Board of Directors. In addition, the shareholders ratified the appointment of Deloitte & Touche LLP as our independent auditors. The following table reflects the results of the meeting:

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ELECTION OF DIRECTORS:

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| TOTAL | SHARES VOTED | SHARES VOTED FOR | SHARES VOTED AGAINST |
|-------------------|-----------------|---------------------|-------------------------|
| Ilia Lekach | 2,316,120 | 2,287,582 | -- |
| Donovan Chin | 2,316,120 | 2,278,782 | -- |
| Carole Ann Taylor | 2,316,120 | 2,308,646 | -- |
| Daniel Bengio | 2,316,120 | 2,314,396 | -- |
| Joseph Bouhadana | 2,316,120 | 2,308,596 | -- |
| Miles Raper | 2,316,120 | 2,314,446 | -- |

RATIFICATION OF AUDITORS:

| TOTAL | SHARES VOTED | SHARES VOTED FOR | SHARES VOTED AGAINST |
|---|-----------------|---------------------|-------------------------|
| Ratify Appointment of Deloitte & Touche LLP | 2,316,120 | 2,314,030 | 2,090 |

On February 6, 2004, Miles Raper, Donovan Chin and Daniel Bengio resigned as members of the Company's Board of Directors, and Stephen Nussdorf, Paul Garfinkle and Michael W. Katz were elected to the Company's Board of Directors. Effective February 10, 2004, Mr. Lekach's employment with the Company was terminated and Mr. Lekach ceased serving as an employee and officer of the Company. In addition, on February 10, 2004, Mr. Lekach resigned from the Board of Directors and Stephen L. Nussdorf was appointed the Company's Chairman of the Board and Michael W. Katz was appointed the Company's Chief Executive Officer and President.

PART II.

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

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. All prices have been adjusted to give effect to the one-for-four reverse stock-split effective March 20, 2002.

| FISCAL 2003 | HIGH | LOW |
|----------------|--------|--------|
| First Quarter | \$5.00 | \$2.61 |
| Second Quarter | 12.00 | 2.60 |
| Third Quarter | 15.69 | 9.92 |
| Fourth Quarter | 15.50 | 11.00 |

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| FISCAL 2002 | HIGH | LOW |
|----------------|--------|--------|
| First Quarter | \$3.32 | \$2.00 |
| Second Quarter | 5.45 | 2.40 |
| Third Quarter | 5.50 | 3.80 |
| Fourth Quarter | 4.25 | 3.69 |

As of April 27, 2004, there were 66 holders of record, which excluded common stock held in street name. The closing sales price for the common stock on April 27, 2004 was \$11.50 per share.

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REVERSE STOCK-SPLIT

Our Board of Directors authorized a one-for-four reverse stock-split of our outstanding shares of common stock for shareholders of record on March 20, 2002. Accordingly, all share and per share data shown in this Form 10-K for periods ended prior to March 20, 2003 have been retroactively adjusted to reflect this reverse stock split.

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.

EQUITY COMPENSATION PLAN INFORMATION

The following table sets forth information as of January 31, 2004, with respect to our compensation plans under which our equity securities are authorized for issuance.

| | Number of securities to be issued upon exercise of outstanding options, warrants and rights | Weighted-average exercise price of outstanding options, warrants and rights |
|---|--|---|
| | ----- | ----- |
| Plan Category: | (a) | (b) |
| Equity compensation plans approved by stockholders | 809,238 | \$4.99 |
| Equity compensation plans not approved by stockholders | -- | -- |
| | ----- | ----- |
| Total | 809,238 | \$4.99 |
| | ===== | ===== |

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- (1) The number of shares available under our 2000 Stock Option Plan shall automatically increase each year by 3% of the shares of common stock of the Company outstanding at the end of the immediate preceding year.

ITEM 6. SELECTED FINANCIAL DATA

The selected financial data presented below should be read in conjunction with such financial statements and related notes.

Our fiscal year ends 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 2003 refers to the fiscal year that began on February 2, 2003 and ended on January 31, 2004.

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| | FISCAL YEAR END | | |
|--|----------------------------------|---------------------|------------------|
| | JANUARY 31, 2004 | FEBRUARY 1, 2003 | FEBRUARY 2002 |
| | (IN THOUSANDS, EXCEPT FOR SHARE) | | |
| STATEMENT OF OPERATIONS DATA: | | | |
| Net sales, retail division | \$ 198,479 | \$ 199,369 | \$ 184,1 |
| Net sales, wholesale division | 14,089 | 2,145 | 9,2 |
| Total net sales | 212,568 | 201,514 | 193,3 |
| Gross profit, retail division | 81,923 | 84,159 | 78,4 |
| Gross profit, wholesale division | 1,454 | 435 | 1,7 |
| Total gross profit | 83,377 | 84,594 | 80,2 |
| Selling, general and administrative expenses | 82,297 | 76,178 | 72,9 |
| Provision for doubtful accounts | -- | -- | |
| Change of control expenses | 4,931 | -- | |
| Provision for receivables from affiliate | -- | 1,961 | |
| Provision for impairment of assets and store closings | 593 | 663 | 7 |
| Depreciation and amortization | 6,103 | 6,024 | 6,8 |
| Total operating expenses | 93,924 | 84,826 | 80,5 |
| Loss from operations | (10,547) | (232) | (2 |
| Other income (expense) | | | |
| Interest expense, net | (2,153) | (1,883) | (3,0 |
| Share of loss of partially-owned affiliate | -- | -- | |
| Gain on sale of affiliate's common stock | -- | -- | |
| Realized loss on investments | (172) | (711) | |
| Miscellaneous (expense) income, net | -- | -- | (1 |
| Income (loss) before income taxes | (12,872) | (2,826) | (3,4 |
| Benefit (provision) for income taxes | -- | -- | 2 |

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| | | | | | | |
|--|----|-----------|----|-----------|----|---------|
| Net income (loss) | \$ | (12,872) | \$ | (2,826) | \$ | (3,1 |
| | | ===== | | ===== | | ===== |
| Weighted average shares outstanding: | | | | | | |
| Basic | | 2,454,340 | | 2,528,326 | | 2,420,4 |
| Diluted | | 2,454,340 | | 2,528,326 | | 2,420,4 |
| | | | | | | |
| Basic income (loss) per share | \$ | (5.24) | \$ | (1.12) | \$ | (1. |
| Diluted income (loss) per share | \$ | (5.24) | \$ | (1.12) | \$ | (1. |
| | | | | | | |
| SELECTED OPERATING DATA: | | | | | | |
| Number of stores open at end of period | | 232 | | 238 | | 2 |
| Comparable store sales increase | | 1.1% | | 10.2% | | 2 |
| | | | | | | |
| BALANCE SHEET DATA: | | | | | | |
| Working capital (deficiency) | \$ | (9,090) | \$ | 1,804 | \$ | 2,7 |
| Total assets | | 92,463 | | 103,423 | | 102,5 |
| Long-term debt, less current portion | | 7,746 | | 7,752 | | 5,2 |
| Total shareholders' equity | | 10,222 | | 21,853 | | 22,6 |

(1) Amounts reflect a revision of the presentation of the perfumania.com acquisition. The revised presentation increases the gain on sale of affiliate's common stock by \$23.4 million from \$10.0 million to \$33.4 million and reflects a \$23.4 million provision to reflect an improvement of goodwill at the date of the acquisition, May 10, 2002. For a further discussion see Management's Discussion and Analysis of Financial Condition and Results of Operations--Acquisition of perfumania.com.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

ACQUISITION OF PERFUMANIA.COM

On May 10, 2000, the Company acquired perfumania.com for 400,000 shares of Envision Development Corporation ("EDC") stock that the Company held. The EDC shares were restricted securities and subject to a lock-up agreement. The Company was unable to sell any of its EDC shares without the approval of EDC, which approval was withheld. In addition, management of the Company had concerns about the direction and business prospects of EDC and the future value of the EDC shares. The Company recorded the acquisition of perfumania.com at \$5.4 million, which was based on an independent appraisal of the value of perfumania.com as of May 10, 2000. The Company used this valuation because it believed that the appraisal was more clearly evident of the fair value of the transaction than the quoted market price of the EDC stock at the time of the transaction. In December 2000, the EDC shares were delisted from the American Stock Exchange and the value of its shares became nominal.

The presentation of this transaction has been revised to reflect the accounting treatment that would result from using the quoted market price of the EDC shares at the acquisition date. This presentation results in an increase in the gain on the sale of affiliate's common stock of \$23.4 million. This presentation also results in an increase in acquisition price from \$5.4 million to \$28.8 million, and the recognition of additional goodwill with a corresponding write down, for goodwill impairment, of \$23.4 million at the time of the transaction. The impairment was recognized based on the results of the independent appraisal of the value of perfumania.com using the discounted cash flow method. Gross profit and net income remain unchanged for the fiscal year ended February 3, 2001.

GENERAL

Perfumania's retail division accounts for most of our net sales and

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gross profit. Perfumania's overall profitability depends principally on our ability to attract customers and successfully conclude retail sales. Other factors affecting our profitability include general economic conditions, competition, availability of volume discounts, number of stores in operation, timing of store openings and closings and the effect of special promotions offered by Perfumania.

The following table sets forth items from our Consolidated Statements of Operations expressed as a percentage of total net sales for the periods indicated:

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PERCENTAGE OF NET SALES

| | 2003 | FISCAL YEAR 2002 | 2001 |
|---|--------|---------------------|--------|
| | ----- | ----- | ----- |
| Net sales, retail division..... | 93.4% | 98.9% | 95.2% |
| Net sales, wholesale division..... | 6.6 | 1.1 | 4.8 |
| | ----- | ----- | ----- |
| Total net sales..... | 100.0 | 100.0 | 100.0 |
| | ----- | ----- | ----- |
| Gross profit, retail division..... | 38.5 | 41.8 | 40.6 |
| Gross profit, wholesale division..... | 0.7 | 0.0 | 0.1 |
| | ----- | ----- | ----- |
| Total gross profit..... | 39.2 | 42.0 | 41.5 |
| | ----- | ----- | ----- |
| Selling, general and administrative expenses..... | 38.7 | 37.8 | 37.7 |
| Change of control expense..... | 2.3 | -- | -- |
| Provision for impairment of receivable from affiliate | -- | 1.0 | -- |
| store closings..... | 0.3 | 0.3 | 0.4 |
| Depreciation and amortization..... | 2.9 | 3.0 | 3.5 |
| | ----- | ----- | ----- |
| Total operating expenses..... | 44.2 | 42.1 | 41.6 |
| | ----- | ----- | ----- |
| Loss from operations before other expense..... | (5.0) | (0.1) | (0.2) |
| | ----- | ----- | ----- |
| Other expense: | | | |
| Interest expense, net..... | (1.0) | (0.9) | (1.6) |
| Realized loss on investments..... | (0.1) | (0.4) | -- |
| Loss before income taxes..... | (6.0) | (1.4) | (1.8) |
| Benefit for income taxes..... | | | 0.1 |
| | ----- | ----- | ----- |
| Net loss..... | (6.1)% | (1.4)% | (1.7)% |
| | ----- | ----- | ----- |

FORWARD LOOKING STATEMENTS

Some of the statements in this Annual Report on Form 10-K, 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. Those 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

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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 and refinance our credit facility on acceptable terms, our ability to comply with the covenants in our credit facility, general economic conditions including a continued 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 secure partnership or joint-venture relationships with other entities, 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 this Annual Report on Form 10-K. 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.

CRITICAL ACCOUNTING ESTIMATES

Our consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. Preparation 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 significant accounting policies can be found in Note 2 to the Consolidated Financial Statements.

We consider an accounting policy to be critical if it requires significant judgment and estimates in its application. We have identified certain accounting policies that we consider critical to our business and our results of operations and have provided below additional information on those policies.

INVENTORY ADJUSTMENTS AND RESERVES

Inventories are stated at the lower of cost or market, cost being determined on a weighted average cost basis. We review our inventory on a regular basis for excess and potentially slow moving inventory based on prior sales, forecasted demand, historical experience and through specific identification of obsolete or damaged merchandise and we record inventory writeoffs in accordance with our expectations. If there are material changes to these estimates, additional writeoffs could be necessary.

IMPAIRMENT OF LONG-LIVED ASSETS

When facts and circumstances indicate that the values of long-lived assets, including intangibles, may be impaired, an evaluation of recoverability is performed by comparing the carrying value of the assets to projected future cash flows in addition to other quantitative and qualitative analyses. Inherent

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in this process is significant management judgment as to the projected cash flows. Upon indication that the carrying value of such assets may not be recoverable, the Company recognizes an impairment loss as a charge against current operations. Cash flows for retail assets are identified at the individual store level. Judgments are also made as to whether under-performing

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stores should be closed. Even if a decision has been made not to close an under-performing store, the assets at that store may be impaired. If there are material changes to these judgments or estimates, additional charges could be necessary.

COMPARISON OF FISCAL YEARS 2003 AND 2002

REVENUES:

| | | For the year ended | | |
|-----------------------|------------------|------------------------|------------------|---------------------|
| | | (\$ in thousands) | | |
| | January 31, 2004 | Percentage of Revenues | February 1, 2003 | Percentage Revenues |
| Wholesale | \$14,089 | 6.6% | \$2,145 | |
| Retail | 198,479 | 93.4% | 199,369 | |
| Total Revenues | \$212,568 | 100.0% | \$201,514 | |

Net sales increased due to an increase in wholesale sales, offset by a decrease in retail sales. The increase in wholesale sales was due primarily to \$11.4 million of sales made to Quality King. The Company, through its supplier relationships, is able to obtain certain merchandise at better prices and quantities than Quality King. Wholesale sales in 2004 are expected to approximate fiscal year levels. See Note 5 to our Consolidated Financial Statements included in Item 8, hereof for further discussion. Comparable store sales measure the sales from stores that have been open for one year or more. Perfumania's comparable store sales increased 1.1% in fiscal year 2003. However, the average number of stores operated decreased from 242 during fiscal year 2002 to 235 in fiscal year 2003 primarily due to the closure of older, underperforming stores. We believe that Perfumania's retail sales were negatively impacted for part of fiscal year 2003 by the overall soft United States economy, the war in Iraq and disruption in our inventory supplies due to the relocation of our distribution facility.

COST OF REVENUES:

| | | For the year ended | | |
|-----------|------------------|--------------------|--|---------------------|
| | | (\$ in thousands) | | |
| | January 31, 2004 | February 1, 2003 | | Percentage Increase |
| Wholesale | \$12,635 | \$1,710 | | 638.9% |
| Retail | 116,556 | 115,210 | | 1.2% |

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| | | | |
|------------------------|-----------|-----------|-------|
| Total cost of Revenues | \$129,191 | \$116,920 | 10.5% |
| | | | |

GROSS PROFIT:

| | For the year ended | | |
|--------------------|--------------------|------------------|-----------------------------------|
| | ----- | | |
| | (\$ in thousands) | | |
| | January 31, 2004 | February 1, 2003 | Percentage Increase (Decrease) |
| | ----- | ----- | ----- |
| Wholesale | \$1,454 | \$435 | 234.3% |
| Retail | 81,923 | 84,159 | (2.7)% |
| | ----- | ----- | ----- |
| Total gross profit | \$83,377 | \$84,594 | (1.4)% |
| | ===== | ===== | ===== |

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Gross profit decreased as a result of lower sales and gross profit in the retail division offset by higher sales and gross profit in the wholesale division.

Gross profit for the retail division decreased principally as a result of lower retail sales. Based on a comprehensive review of the Company's merchandise offerings conducted by management, approximately 3,400 stock keeping units ("skus") of our 25,000 skus were identified which we intend to discontinue offering for sale in Perfumania's retail stores. We recorded writeoffs totaling approximately \$2.6 million as of fiscal year end 2003, which represents the difference between the estimated selling value and the historical cost of this inventory. This writeoff is included in cost of goods sold and accounts for 1.4% of the decrease in our retail gross profit as a percentage of net retail sales for fiscal year 2003.

The increase in gross profit in the wholesale division was due to higher wholesale sales as discussed above. Wholesale sales historically yield a lower gross margin compared to retail sales.

GROSS PROFIT MARGIN PERCENTAGES:

| | For the year ended | |
|---------------------|--------------------|------------------|
| | ----- | |
| | January 31, 2004 | February 1, 2003 |
| | ----- | ----- |
| Wholesale | 10.3% | 20.3% |
| Retail | 41.7% | 43.0% |
| Gross profit margin | 39.2% | 42.0% |

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The decrease in wholesale gross profit margins was primarily attributable to larger number of units per wholesale transaction in fiscal 2003 compared to fiscal 2002. Large unit orders yield lower margins than small orders.

OPERATING EXPENSES:

| | For the year ended | | |
|-------------------------------------|--------------------|------------------|-----------------------------------|
| | ----- | | |
| | (\$ in thousands) | | |
| | January 31, 2004 | February 1, 2003 | Percentage Increase (Decrease) |
| | ----- | ----- | ----- |
| Selling, general and administrative | \$82,297 | \$76,178 | 8.0% |
| Change of control expenses | 4,931 | -- | -- |
| Asset impairment charges | 593 | 663 | (10.6)% |
| Receivable impairment charges | -- | 1,961 | -- |
| Depreciation and amortization | 6,103 | 6,024 | 1.3% |
| | ----- | ----- | ----- |
| Total operating expenses | \$93,924 | \$84,826 | 10.7% |
| | ===== | ===== | ===== |

The increase in selling, general and administrative expenses is attributable primarily to higher employee compensation costs and other store operating costs. During fiscal 2003 we also incurred increased expenses for the relocation of our corporate headquarters and distribution center as well as the implementation of new Point of Sale software in our stores. The majority of our selling, general and administrative expenses relate to the retail division.

Change of control expenses of approximately \$4.9 million in fiscal year 2003 represents expenses incurred as a result of the Nussdorf Option Agreement which was entered into effective January 30, 2004 between Ilia Lekach, our then Chairman of the Board and Chief Executive Officer, IZJD Corp. and Pacific Investment Group Inc., each of which are wholly-owned by Mr. Lekach and Deborah Lekach, Mr. Lekach's wife, and Stephen and Glenn Nussdorf. Approximately \$2.6 million of these expenses represent amounts paid to certain of our executive officers and a consultant pursuant to employment and consulting agreements and approximately \$2.3 million represents a non-cash charge for stock

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option expenses, also relating to these same employment and consulting agreements. See further discussion in Item 1 and also Note 5 to our Consolidated Financial Statements in Item 8, hereof.

The asset impairment charges in both fiscal years relate to retail

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store locations with negative cash flows that were either closed or are targeted for closure.

The provision for receivables during fiscal year 2002 relates to an affiliate receivable which management determined was not collectible. See further discussion at Note 5 of the Notes to Consolidated Financial Statements.

LOSS FROM OPERATIONS:

| | For the year ended | | |
|----------------------|--------------------|------------------|---------------------|
| | (\$ in thousands) | | |
| | January 31, 2004 | February 1, 2003 | Percentage Increase |
| Loss from operations | \$10,547 | \$232 | 4446.1% |

OTHER EXPENSE:

| | For the year ended | | |
|---------------------|--------------------|------------------|-----------------------------------|
| | (\$ in thousands) | | |
| | January 31, 2004 | February 1, 2003 | Percentage Increase (Decrease) |
| Interest expense | \$2,179 | \$2,072 | 5.2% |
| Loss on investments | 172 | 711 | (75.8)% |
| Total other expense | \$2,351 | \$2,783 | (15.5)% |

The increase in interest expense was primarily due to interest incurred on the capital lease for our corporate office and distribution center to which we relocated in the second quarter of fiscal year 2003.

The realized loss on investments in fiscal year 2002 was due to a decline in the market prices on securities available for sale that resulted in the Company recording a non-cash charge. During fiscal year 2003 the Company recorded a loss from the sale of these same investments. See further discussion at Note 9 of the Notes to Consolidated Financial Statements.

NET LOSS:

| | For the year ended | | |
|--|--------------------|------------------|---------------------|
| | (\$ in thousands) | | |
| | January 31, 2004 | February 1, 2003 | Percentage Increase |

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Net Loss \$12,872 \$2,826 355.5%

As a result of the foregoing our net loss was increased as indicated above.

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COMPARISON OF FISCAL YEARS 2002 AND 2001

REVENUES:

| | For the year ended | | |
|----------------|--------------------|------------------------|------------------|
| | (\$ in thousands) | | |
| | February 1, 2003 | Percentage of Revenues | February 2, 2002 |
| Wholesale | \$2,145 | 1.1% | \$9,210 |
| Retail | 199,369 | 98.9% | 184,142 |
| Total Revenues | \$201,514 | 100.0% | \$193,352 |

The increase in net sales during fiscal year 2002 was due to an increase in retail sales offset by a decrease in wholesale sales. The increase in sales was principally due to a 10.2% increase in comparable store sales. The average number of stores operated decreased from 250 during fiscal year 2001 to 242 in fiscal year 2002. The increase in Perfumania's comparable store sales was due to an improved merchandise assortment and product promotions at our retail stores. The decrease in wholesale sales was due to management's decision to concentrate on the more profitable retail operations.

COST OF REVENUES:

| | For the year ended | | |
|-----------|--------------------|------------------|--------------------------------|
| | (\$ in thousands) | | |
| | February 1, 2003 | February 2, 2002 | Percentage Increase (Decrease) |
| Wholesale | \$1,710 | \$7,443 | (77.0)% |
| Retail | 115,210 | 105,674 | 8.6% |

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| | | | |
|------------------------|-----------|-----------|------|
| Total cost of Revenues | \$116,920 | \$113,117 | 3.4% |
|------------------------|-----------|-----------|------|

GROSS PROFIT:

| | For the year ended | | |
|--------------------|--------------------|------------------|-----------------------------------|
| | (\$ in thousands) | | |
| | February 1, 2003 | February 2, 2002 | Percentage Increase (Decrease) |
| Wholesale | \$435 | \$1,767 | (75.4)% |
| Retail | 84,159 | 78,468 | 7.3% |
| Total gross profit | \$84,594 | \$80,235 | 5.4% |

Gross profit increased as a result of higher sales and gross profit in the retail division offset by lower sales and gross profit in the wholesale division. Gross profit for the retail division increased principally as a result of higher retail sales volume. Gross profit for the wholesale division decreased due to lower wholesale sales. Wholesale sales historically yield a lower gross margin compared to retail sales.

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GROSS PROFIT MARGIN PERCENTAGES:

| | For the year ended | |
|---------------------|--------------------|------------------|
| | February 1, 2003 | February 2, 2002 |
| Wholesale | 20.3% | 19.2% |
| Retail | 42.2% | 42.6% |
| Gross profit margin | 42.0% | 41.5% |

OPERATING EXPENSES:

| | For the year ended | | |
|--|--------------------|------------------|-----------------------------------|
| | (\$ in thousands) | | |
| | February 1, 2003 | February 2, 2002 | Percentage Increase (Decrease) |

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| | | | |
|-------------------------------------|----------|----------|---------|
| Selling, general and administrative | \$76,178 | \$72,918 | 4.5% |
| Asset impairment charges | 663 | 727 | (8.8)% |
| Provision for doubtful accounts | -- | 55 | -- |
| Receivable impairment charges | 1,961 | -- | -- |
| Depreciation and amortization | 6,024 | 6,825 | (11.7)% |
| | ----- | ----- | ----- |
| Total operating expenses | \$84,826 | \$80,525 | 5.3% |
| | ===== | ===== | ===== |

The increase in selling, general and administrative expenses is attributable primarily to higher employee compensation costs, including incentive compensation paid to store personnel due to higher retail sales. The majority of our selling, general and administrative expenses relate to the retail division.

The asset impairment charges in both fiscal years relate to retail store locations with negative cash flows that were either closed or are targeted for closure.

The provision for receivable during fiscal year 2002 relates to an affiliate receivable from Nimbus which management determined was not collectible. No comparable receivable impairment was recorded during fiscal year 2001. See further discussion at Note 5 of the Notes to Consolidated Financial Statements.

Depreciation and amortization decreased primarily due to the adoption of SFAS 142 on February 3, 2002, which eliminated the amortization of goodwill and other intangible assets with indefinite useful lives.

LOSS FROM OPERATIONS:

| | For the year ended | | |
|----------------------|--------------------|------------------|--------------------------|
| | ----- | | |
| | (\$ in thousands) | | |
| | February 1, 2003 | February 2, 2002 | Percentage (Decrease) |
| | ----- | ----- | ----- |
| Loss from operations | \$232 | \$290 | (20.0)% |

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OTHER EXPENSE:

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| | For the year ended | | |
|---------------------|--------------------|------------------|--------------------------|
| | ----- | | |
| | (\$ in thousands) | | |
| | February 1, 2003 | February 2, 2002 | Percentage (Decrease) |
| | ----- | | |
| Interest expense | \$2,072 | \$3,396 | (39.0)% |
| Loss on investments | 711 | -- | -- |
| Other | -- | 18 | -- |
| | ----- | | |
| | \$2,783 | \$3,414 | (18.5)% |
| | ===== | | |

The decrease in interest expense (net) was primarily due to lower interest rates and a reduction in the outstanding balance of convertible notes payable.

The realized loss on investments in fiscal year 2002 is due to a decline in the market prices on securities available for sale which resulted in the Company recording a non-cash charge. See further discussion at Note 9 of the Notes to Consolidated Financial Statements.

NET LOSS:

| | For the year ended | | |
|----------|--------------------|------------------|---------------------|
| | ----- | | |
| | (\$ in thousands) | | |
| | February 1, 2003 | February 2, 2002 | Percentage Increase |
| | ----- | | |
| Net Loss | \$2,826 | \$3,192 | (11.5)% |

As a result of the foregoing our net loss was reduced as indicated above.

LIQUIDITY AND CAPITAL RESOURCES

Our principal capital requirements for operating purposes are to fund Perfumania's inventory purchases, renovate existing stores and selectively open new stores. During fiscal years 2003 and 2002, we financed these requirements primarily through cash flows from operations, borrowings under our line of credit, capital equipment leases and other short-term borrowings.

A summary of our cash flows is as follows:

| | For the year ended |
|-----------------------------------|--------------------|
| | January 31, 2004 |
| | ----- |
| | (\$ in thousands) |
| Summary Cash Flow Information: | |
| Cash provided by operations | \$10,223 |
| Cash used in investing activities | (5,728) |
| Cash used in financing activities | (5,498) |

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| | |
|---|---------|
| | ----- |
| Decrease in cash and cash equivalents | (1,003) |
| Cash and cash equivalents, February 1, 2003 | 2,965 |
| Cash and cash equivalents, January 31, 2004 | \$1,961 |
| | ===== |

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Perfumania's senior secured credit facility with GMAC Commercial Finance LLC ("GMAC") provides for borrowings of up to \$40.0 million, of which \$30.5 million was outstanding and \$5.6 million was available as of January 31, 2004, 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 bears interest at a floating rate ranging from (a) prime less 0.75% to prime plus 1% or (b) LIBOR plus 1.75% to 3.50% depending on a financial ratio test. As of January 31, 2004, the credit facility bore interest at 4.6%. Borrowings 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 maintenance of minimum net worth, and certain key ratios, as defined by the lender. As of January 31, 2004, Perfumania was not in compliance with its tangible networth ratio, fixed charge ratio, leverage ratio and capital expenditures limitation. On April 29, 2004, Perfumania obtained a waiver from GMAC for all instances of non-compliance as of January 31, 2004.

On May 12, 2004, Perfumania entered into a new three-year amended and restated senior secured revolving credit facility with GMAC Commercial Finance LLC and Congress Financial Corporation that provides for borrowings of up to \$60 million.

Advances under the new line of credit are based on a formula of eligible inventories and will bear interest depending on the Company's financial ratios from (1) prime to prime plus 1.25% or (b) LIBOR plus 2.50% to 3.75%. Borrowings are secured by a 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 and minimum EBITDA amounts as defined. Advances will be secured by a first lien on all assets of Perfumania.

In March 2004, the Nussdorfs made a \$5,000,000 subordinated secured demand loan to Perfumania. The demand loan bears interest at the prime rate plus 1%, requires quarterly interest payments and is secured by a security interest in Perfumania's assets pursuant to a Security Agreement, by and among Perfumania and the Nussdorfs. There are no prepayment penalties and the loan is subordinate to all bank related indebtedness.

In January 2004 we incurred approximately \$4.9 million in change of control expenses incurred as a result of the Nussdorf Option Agreement. Approximately \$2.6 million of these expenses represent amounts paid to certain of our executive officers and a consultant pursuant to employment and consulting agreements and approximately \$2.3 million represents a non-cash charge for stock option expenses, also relating to these same employment and consulting agreements.

In February 2002, we entered into a Convertible Note Option Repurchase Agreement (the "Agreement") with the holders of our outstanding Series C and D Convertible Notes. The Agreement provided that we had the monthly option to repurchase the then approximate \$4.9 million outstanding notes over an

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eleven month period beginning February 2002, at a price equal to the unpaid principal balance plus a 20% premium. The portion of the notes redeemable in each of the eleven months varied as per a specified redemption schedule. In the event that we exercised our monthly option, the note holders were restricted from converting any part of the remaining outstanding and unpaid principal balance of such holder's notes into our common stock. During fiscal year 2002, we repaid approximately \$4.2 million to the note-holders.

In December 2002, we entered into an Amendment to the February 2002 Convertible Note Option Repurchase Agreement. The Amendment provided an extension of the maturity date of the Series C and D Convertible Notes to September 15, 2003 with a monthly option to repurchase the approximately \$1.2 million in Notes over the extended maturity date. During fiscal year 2003 we repaid the remaining outstanding balance to the note-holders.

On June 30, 2003 and September 30, 2002, Perfumania signed a \$5.0 million and a \$3.0 million subordinated note agreement, respectively, with Parlux. The notes were in consideration for the reduction of \$5.0 million and \$3.0 million in trade payables due to Parlux in the respective years. The notes were due on February 29, 2004 and March 31, 2003, with various periodic principal payments, bore interest at prime plus 1% and was subordinated to all bank related indebtedness. As of January 31, 2004 and February 1, 2003, the outstanding principal balance due on the notes was \$250,000 and \$100,000, respectively. The notes were repaid in full in February 2004 and April 2003, respectively, and in accordance with their terms.

In fiscal year 2003, net cash provided by operating activities was approximately \$10.2 million compared with \$5.7 million in fiscal year 2002. The increase in net cash provided by operating activities was principally a result of the net change in our inventories, accounts payable to affiliates, accrued expenses and other liabilities. Due to management's comprehensive review of certain skus; which the Company does not plan to reorder and intends to discontinue offering for sale, inventory purchases were delayed at fiscal year-end 2003.

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Net cash used in investing activities in fiscal year 2003 was approximately \$5.7 million, compared with \$1.9 million for fiscal year 2002. Investing activities generally represent spending for the renovation of existing stores and new store openings. Approximately \$1.1 million of the \$5.7 million used in investing activities is attributable to the relocation of the Company's corporate office and distribution center to Sunrise, Florida in the second quarter of fiscal year 2003. The balance is due to the opening of 11 new stores and the remodel/relocation of 12 stores. We intend to focus on continuing to improve the profitability of our existing stores and anticipate that we will open no more than 15 stores in fiscal 2004. Currently, our average capital expenditure for opening a store is approximately \$160,000, including furniture and fixtures, equipment, build-out costs and other items. In addition, initial inventory (not including inventory replenishment) in a new store ranges from approximately \$150,000 during the first fiscal quarter to approximately \$200,000 during the fourth quarter.

In fiscal year 2003, net cash used in financing activities was approximately \$5.5 million compared with \$2.4 million for fiscal year 2002. The change was principally due to the use of \$1.5 million to redeem convertible notes payable, \$1.1 million for capital lease obligations, net repayments of bank borrowings of \$1.6 million and \$1.5 million for the repurchase of our common stock (see further discussion below).

In December 1999, our Board of Directors approved the repurchase by

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the Company of up to 375,000 shares of our common stock, reflecting its belief that our common stock represented a significant value at its then current trading price. In January 2001, the Board approved an increase in the stock repurchase program by an additional 250,000 shares, in February 2002, the Board approved an increase in the stock repurchase program by an additional 250,000 shares and in April 2002, the Board approved an increase in the stock repurchase program by an additional 100,000 shares. Pursuant to these authorizations, we have repurchased approximately 898,000 shares of common stock for approximately \$8.6 million since December 1999, including approximately 118,000 shares for \$1.5 million in fiscal year 2003.

Management believes that Perfumania's new borrowing capacity under the credit facility, projected cash flows from operations and other short term borrowings will be sufficient to support our working capital needs, capital expenditures and debt service for at least the next twelve months. There can be no assurance that management's plans and expectations will be successful.

| Payments due by period | | | | |
|---|----------|----------------------|-----------|-----------|
| ----- | | | | |
| (\$ in thousands) | | | | |
| | Total | less than 1 years | 1-3 years | 3-5 years |
| ----- | ----- | ----- | ----- | ----- |
| Contractual Obligations | | | | |
| Long-Term Debt Obligations | -- | -- | -- | -- |
| Capital Lease Obligations | \$17,567 | \$259 | \$3,087 | \$2,15 |
| Operating Lease Obligations | 60,729 | 12,021 | 19,046 | 10,82 |
| Purchase Obligations | -- | -- | -- | -- |
| Other Long-Term Liabilities Reflected on the Registrant's Balance Sheet under GAAP | -- | -- | -- | -- |
| | ----- | ----- | ----- | ----- |
| Total | \$78,296 | \$12,280 | \$22,133 | \$12,98 |
| | ===== | ===== | ===== | ===== |

SEASONALITY AND QUARTERLY RESULTS

Our operations historically have been seasonal, with higher sales in the fourth fiscal 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 the 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.

RECENT ACCOUNTING STANDARDS

In May 2003, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 150, "Accounting for Certain Financial Instruments and Characteristics of both Liabilities and Equity." This statement established standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or asset in some circumstance). Many of those instruments were previously classified as equity. The statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after

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December 15, 2003. The adoption of SFAS No. 150 did not have a material impact on our consolidated financial position, results of operations or disclosures.

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In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative and Hedging Activities." In general, this statement amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS No. 133. This statement is effective for contracts entered into or modified after June 30, 2003, and for hedging relationships designated after June 30, 2003. The adoption of SFAS No. 149 did not have a material impact on our consolidated financial position, results of operations or disclosures.

CHANGES IN FOREIGN EXCHANGE RATES CREATE RISK

Although large fluctuations in foreign exchange rates could have a material effect on the prices we pay for products purchased from outside the United States, such fluctuations have not been material to our results of operations to date. Transactions with foreign suppliers are in United States dollars. We believe inflation has not had a material impact on our results of operations and we are generally able to pass through cost increases by increasing sales prices.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We conduct business in the United States where the functional currency of the country is the United States dollar. As a result, we are not at risk to any foreign exchange translation exposure on a prospective basis.

Our exposure to market risk for changes in interest rates relates primarily to our bank line of credit. The bank line of credit bears interest at a variable rate, as discussed above under "Liquidity and Capital Resources". We mitigate interest rate risk by continuously monitoring the interest rates. As a result of borrowings associated with our operating and investing activities, we are exposed to interest rate risk. As of January 31, 2004 and February 1, 2003, our primary source of funds for working capital and other needs is a line of credit that provides for borrowings up to \$40 million.

Of the \$38.7 million and \$42.1 million of short-term and long-term borrowings on our balance sheet as of January 31, 2004 and February 1, 2003, respectively, approximately 20.7% and 23.7%, respectively, represented fixed rate instruments. The line of credit bears interest at a floating rate ranging from (a) prime less .075% to prime plus 1.0%, or (b) LIBOR plus 1.75% to 3.5% depending on a financial ratio test. For fiscal year 2003, the credit facility bore interest at an average rate of 3.9%. A hypothetical 10% adverse move in interest rates would increase fiscal years 2003 and 2002 interest expense by approximately \$0.1 million in both years.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial information and the supplementary data required in response to this Item are as follows:

E Com Ventures, Inc. and Subsidiaries

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| | |
|--|----|
| Independent Auditors' Report..... | 24 |
| Consolidated Balance Sheets as of January 31, 2004 and February 1, 2003..... | 25 |
| Consolidated Statements of Operations for the Fiscal Years Ended January 31, 2004, February 1, 2003 and February 2, 2002..... | 26 |
| Consolidated Statements of Changes in Shareholders' Equity for the Fiscal Years Ended January 31, 2004, February 1, 2003, and February 2, 2002..... | 27 |
| Consolidated Statements of Cash Flows for the Fiscal Years Ended January 31, 2004, February 1, 2003, and February 2, 2002..... | 28 |
| Notes to Consolidated Financial Statements..... | 29 |
| Schedule II - Schedule has been omitted as all required information is disclosed or not applicable. | |

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
E Com Ventures, Inc.:

We have audited the accompanying consolidated balance sheets of E Com Ventures, Inc. and subsidiaries (the "Company") as of January 31, 2004 and February 1, 2003, and the related consolidated statements of operations, changes in shareholders' equity and cash flows for each of the three years in the period ended January 31, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of E Com Ventures, Inc. and subsidiaries as of January 31, 2004 and February 1, 2003, and the results of their operations and their cash flows for each of the three years in the period ended January 31, 2004, in conformity with accounting principles generally accepted in the United States of America.

/s/ DELOITTE & TOUCHE LLP
Certified Public Accountants

Miami, Florida
April 30, 2004, except for the fourth paragraph of Note 6,
as to which the date is May 12, 2004.

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E COM VENTURES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

| ASSETS: | JANUARY 31, 2004 | FEBRUARY 28, 2003 |
|---|------------------|-------------------|
| | ----- | ----- |
| Current assets: | | |
| Cash and cash equivalents | \$ 1,961,310 | \$ 1,961,310 |
| Trade receivables, net | 777,186 | 777,186 |
| Advances to suppliers | 114,041 | 114,041 |
| Inventories | 60,877,451 | 60,877,451 |
| Prepaid expenses and other current assets | 1,347,452 | 1,347,452 |
| Notes and interest receivable from shareholder and officer | 327,311 | 327,311 |
| Investments available for sale | -- | -- |
| | ----- | ----- |
| Total current assets | 65,404,751 | 65,404,751 |
| Property and equipment, net | 24,414,624 | 24,414,624 |
| Goodwill | 1,904,448 | 1,904,448 |
| Other assets, net | 739,575 | 739,575 |
| | ----- | ----- |
| Total assets | \$ 92,463,398 | \$ 92,463,398 |
| | ===== | ===== |
| LIABILITIES AND SHAREHOLDERS' EQUITY: | | |
| Current liabilities: | | |
| Bank line of credit | \$ 30,472,027 | \$ 30,472,027 |
| Current portion of long-term debt | -- | -- |
| Accounts payable, non-affiliates | 16,459,786 | 16,459,786 |
| Accounts payable, affiliates | 17,440,492 | 17,440,492 |
| Accrued expenses and other liabilities | 9,614,287 | 9,614,287 |
| Subordinated note payable, affiliate | 250,000 | 250,000 |
| Current portion of obligations under capital leases | 258,700 | 258,700 |
| Convertible notes payable | -- | -- |
| | ----- | ----- |
| Total current liabilities | 74,495,292 | 74,495,292 |
| Long-term portion of obligations under capital leases | 7,746,262 | 7,746,262 |
| | ----- | ----- |
| Total liabilities | 82,241,554 | 82,241,554 |
| | ----- | ----- |
| Commitments and contingencies (See Note 11) | | |
| Shareholders' equity: | | |
| Preferred stock, \$0.10 par value, 1,000,000 shares authorized, none issued | -- | -- |
| Common stock, \$.01 par value, 6,250,000 shares authorized; 3,285,758 and 3,215,761 shares issued in fiscal years 2003 and 2002, respectively | 32,858 | 32,858 |
| Additional paid-in capital | 73,666,193 | 73,666,193 |
| Treasury stock, at cost, 898,249 and 779,952 shares in fiscal years 2003 and 2002, respectively | (8,576,944) | (8,576,944) |
| Accumulated deficit | (54,900,263) | (54,900,263) |

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| | | | |
|--|----|------------|-------|
| Notes and interest receivable from shareholder and officer | | -- | |
| Accumulated other comprehensive loss | | -- | |
| | | ----- | ----- |
| Total shareholders' equity | | 10,221,844 | |
| | | ----- | ----- |
| Total liabilities and shareholders' equity | \$ | 92,463,398 | \$ |
| | | ===== | ===== |

See accompanying notes to consolidated financial statements.

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E COM VENTURES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

| | FOR THE FISCAL YEARS ENDED | | |
|---|----------------------------|---------------------|------------------|
| | JANUARY 31, 2004 | FEBRUARY 1, 2003 | FEBRUARY 2002 |
| | ----- | ----- | ----- |
| Net sales | \$ 212,567,569 | \$ 201,513,897 | \$ 193,351, |
| Cost of goods sold | 129,190,549 | 116,919,385 | 113,116, |
| | ----- | ----- | ----- |
| Gross profit | 83,377,020 | 84,594,512 | 80,234, |
| | ----- | ----- | ----- |
| Operating expenses: | | | |
| Selling, general and administrative expenses | 82,297,031 | 76,177,549 | 72,972, |
| Change of control expenses | 4,931,221 | -- | |
| Provision for receivables from an affiliate | -- | 1,961,355 | |
| Provision for impairment of assets and store closings | 593,109 | 663,391 | 727, |
| Depreciation and amortization | 6,102,823 | 6,024,400 | 6,824, |
| | ----- | ----- | ----- |
| Total operating expenses | 93,924,184 | 84,826,695 | 80,524, |
| | ----- | ----- | ----- |
| Loss from operations | (10,547,164) | (232,183) | (290, |
| | ----- | ----- | ----- |
| Other income (expense): | | | |
| Interest expense: | | | |
| Affiliates | (109,217) | (43,049) | (102, |
| Other | (2,070,034) | (2,029,290) | (3,293, |
| | ----- | ----- | ----- |
| | (2,179,251) | (2,072,339) | (3,396, |
| | ----- | ----- | ----- |
| Interest income: | | | |
| Affiliates | 15,707 | 173,526 | 272, |

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| | | | |
|--|-----------------|----------------|------------|
| Other | 10,687 | 16,176 | 28, |
| | ----- | ----- | ----- |
| | 26,394 | 189,702 | 301, |
| | ----- | ----- | ----- |
| Realized loss on investments | (171,679) | (710,880) | (17, |
| Miscellaneous expense, net | -- | -- | (17, |
| | ----- | ----- | ----- |
| Total other expense | (171,679) | (710,880) | (17, |
| | ----- | ----- | ----- |
| Loss before income taxes | (12,871,700) | (2,825,700) | (3,402, |
| Benefit for income taxes | -- | -- | 211, |
| | ----- | ----- | ----- |
| Net loss | \$ (12,871,700) | \$ (2,825,700) | \$ (3,191, |
| | ===== | ===== | ===== |
| Basic loss per common share | \$ (5.24) | \$ (1.12) | \$ (1, |
| | ===== | ===== | ===== |
| Diluted loss per common share | \$ (5.24) | \$ (1.12) | \$ (1, |
| | ===== | ===== | ===== |
| Weighted average number of shares outstanding: | | | |
| Basic | 2,454,340 | 2,528,326 | 2,420, |
| | ===== | ===== | ===== |
| Diluted | 2,454,340 | 2,528,326 | 2,420, |
| | ===== | ===== | ===== |

See accompanying notes to consolidated financial statements.

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E COM VENTURES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE FISCAL YEARS ENDED JANUARY 31, 2004, FEBRUARY 1, 2003 AND
FEBRUARY 2, 2002

| | COMMON STOCK | | ADDITIONAL PAID-IN CAPITAL | TREASURY STOCK | |
|--------------------------------------|--------------|----------|----------------------------------|----------------|----------------|
| | SHARES | AMOUNT | | SHARES | AMOUNT |
| | ----- | ----- | ----- | ----- | ----- |
| Balance at February 3, 2001 | 2,930,570 | \$29,306 | \$72,014,273 | 408,632 | \$ (5,643,377) |
| Components of comprehensive loss: | | | | | |
| Net loss | -- | -- | -- | -- | -- |
| Unrealized gain on investments | -- | -- | -- | -- | -- |
| Total comprehensive loss | -- | -- | -- | -- | -- |
| Exercise of stock options | 4,750 | 48 | 9,452 | -- | -- |
| Purchase of treasury | | | | | |

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| | | | | | |
|--|-----------|--------|------------|---------|-------------|
| stock | -- | -- | -- | 358,170 | (1,395,261) |
| Conversion of debt and accrued interest to common stock | 44,985 | 449 | 115,009 | -- | -- |
| Net change in notes and interest receivable from shareholder and officer | -- | -- | -- | -- | -- |
| Premium repayment of convertible notes payable | -- | -- | (683,333) | -- | -- |
| | ----- | ----- | ----- | ----- | ----- |
| Balance at February 2, 2002 | 2,980,305 | 29,803 | 71,455,401 | 766,802 | (7,038,638) |
| Components of comprehensive loss: | | | | | |
| Net loss | -- | -- | -- | -- | -- |
| Unrealized loss on investments | -- | -- | -- | -- | -- |
| Total comprehensive loss | -- | -- | -- | -- | -- |
| Exercise of stock options | 59,808 | 598 | 112,949 | -- | -- |
| Purchase of treasury stock | -- | -- | -- | 13,150 | (47,302) |
| Conversion of debt and accrued interest to common stock | 175,648 | 1,757 | 515,277 | -- | -- |
| Net change in notes and interest receivable from shareholder and officer | -- | -- | -- | -- | -- |
| Premium repayment of convertible notes payable | -- | -- | (695,833) | -- | -- |
| | ----- | ----- | ----- | ----- | ----- |
| Balance at February 1, 2003 | 3,215,761 | 32,158 | 71,387,794 | 779,952 | (7,085,940) |
| Components of comprehensive loss: | | | | | |
| Net loss | -- | -- | -- | -- | -- |
| Unrealized gain on investments | -- | -- | -- | -- | -- |
| Total comprehensive loss | -- | -- | -- | -- | -- |
| Exercise of stock options | 69,997 | 700 | 235,805 | -- | -- |
| Purchase of treasury stock | -- | -- | -- | 118,297 | (1,491,004) |
| Stock compensation | -- | -- | 2,285,640 | -- | -- |
| Net change in notes and interest receivable | | | | | |

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| | | | | | |
|--|-----------|----------|---------------|---------|---------------|
| from shareholder and officer | -- | -- | -- | -- | -- |
| Premium repayment of convertible notes payable | -- | -- | (243,046) | -- | -- |
| | ----- | ----- | ----- | ----- | ----- |
| Balance at January 31, 2004 | 3,285,758 | \$32,858 | \$ 73,666,193 | 898,249 | \$(8,576,944) |
| | ===== | ===== | ===== | ===== | ===== |

| | NOTES AND INTEREST RECEIVABLE FROM SHAREHOLDERS AND OFFICERS | TOTAL |
|--|--|---------------|
| | ----- | ----- |
| Balance at February 3, 2001 | \$ (3,844,278) | \$ 26,394,623 |
| | | ----- |
| Components of comprehensive loss: | | |
| Net loss | -- | (3,191,657) |
| Unrealized gain on investments | -- | 391,429 |
| | | ----- |
| Total comprehensive loss | -- | (2,800,228) |
| | | ----- |
| Exercise of stock options | -- | 9,500 |
| Purchase of treasury stock | -- | (1,395,261) |
| Conversion of debt and accrued interest to common stock | -- | 115,458 |
| Net change in notes and interest receivable from shareholder and officer | 962,654 | 962,654 |
| Premium repayment of convertible notes payable | -- | (683,333) |
| | ----- | ----- |
| Balance at February 2, 2002 | (2,881,624) | 22,603,413 |
| | | ----- |
| Components of comprehensive loss: | | |
| Net loss | -- | (2,825,700) |
| Unrealized loss on investments | -- | (381,738) |
| | | ----- |
| Total comprehensive loss | -- | (3,207,438) |
| | | ----- |

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| | | |
|--|-----------|---------------|
| Exercise of stock options | -- | 113,547 |
| Purchase of treasury stock | -- | (47,302) |
| Conversion of debt and accrued interest to common stock | -- | 517,034 |
| Net change in notes and interest receivable from shareholder and officer | 2,570,020 | 2,570,020 |
| Premium repayment of convertible notes payable | -- | (695,833) |
| | ----- | ----- |
| Balance at February 1, 2003 | (311,604) | 21,853,441 |
| Components of comprehensive loss: | | |
| Net loss | -- | (12,871,700) |
| Unrealized gain on investments | -- | 140,404 |
| | | ----- |
| Total comprehensive loss | -- | (12,731,296) |
| | | ----- |
| Exercise of stock options | -- | 236,505 |
| Purchase of treasury stock | -- | (1,491,004) |
| Stock compensation | -- | 2,285,640 |
| Net change in notes and interest receivable from shareholder and officer | 311,604 | 311,604 |
| Premium repayment of convertible notes payable | -- | (243,046) |
| | ----- | ----- |
| Balance at January 31, 2004 | \$ -- | \$ 10,221,844 |
| | ===== | ===== |

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E COM VENTURES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

| | FOR THE FISCAL YEAR | |
|---|---------------------|-------------|
| | January 31, 2004 | February 1, |
| | ----- | ----- |
| Cash flows from operating activities: | | |
| Net loss | \$ (12,871,700) | \$ (2,82 |
| Adjustments to reconcile net loss to net cash | | |

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| | | |
|--|--------------|---------|
| provided by operating activities: | | |
| Provision for doubtful accounts | -- | |
| Provision for receivables from affiliate | -- | 1,96 |
| Provision for impairment of assets and store closings | 593,109 | 66 |
| Write off of inventories | 897,874 | 1,18 |
| Depreciation and amortization | 6,102,823 | 6,02 |
| Writeoff of discontinued inventory | 2,558,805 | |
| Realized loss on investments | 171,679 | 71 |
| Stock compensation | 2,285,640 | |
| Change in operating assets and liabilities: | | |
| Trade receivables | (32,730) | (10 |
| Advances to suppliers | 1,700,894 | 1,61 |
| Inventories | 4,383,033 | (1,51 |
| Prepaid expenses and other current assets | (193,635) | 16 |
| Due from affiliate | -- | (1,15 |
| Other assets | 368,363 | 21 |
| Accounts payable, non-affiliate | (4,446,040) | (4,59 |
| Accounts payable, affiliate | 4,258,774 | 4,13 |
| Accrued expenses and other liabilities | 4,445,653 | (78 |
| Income taxes payable | -- | |
| | ----- | ----- |
| Net cash provided by operating activities | 10,222,542 | 5,69 |
| | ----- | ----- |
| Cash flows from investing activities: | | |
| Additions to property and equipment | (5,907,018) | (1,89 |
| Proceeds from investments available for sale | 179,332 | 1 |
| | ----- | ----- |
| Net cash used in investing activities | (5,727,686) | (1,88 |
| | ----- | ----- |
| Cash flows from financing activities: | | |
| Net borrowings and (repayments) under bank line of credit and notes payable | (1,641,664) | 89 |
| Principal payments under capital lease obligations | (1,143,767) | (1,77 |
| Net advances to shareholders and officers | -- | (40 |
| Proceeds from note and interest receivable, shareholder and officer | -- | 2,97 |
| Repayments of convertible notes payable | (1,458,261) | (4,20 |
| Proceeds from exercise of stock options | 236,505 | 11 |
| Purchases of treasury stock | (1,491,004) | (4 |
| | ----- | ----- |
| Net cash used in financing activities | (5,498,191) | (2,44 |
| | ----- | ----- |
| (Decrease) increase in cash and cash equivalents | (1,003,335) | 1,36 |
| Cash and cash equivalents at beginning of period | 2,964,645 | 1,60 |
| | ----- | ----- |
| Cash and cash equivalents at end of period | \$ 1,961,310 | \$ 2,96 |
| | ===== | ===== |

See accompanying notes to consolidated financial statements.

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E COM VENTURES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JANUARY 31, 2004, FEBRUARY 1, 2003
AND FEBRUARY 2, 2002

NOTE 1 - NATURE OF BUSINESS

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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., a Florida corporation which is an Internet retailer of fragrances and other specialty items.

Perfumania operates under the name Perfumania. Perfumania's retail stores are located in regional malls, manufacturers' outlet malls, airports and on a stand-alone basis in suburban strip shopping centers. The number of retail stores in operation at January 31, 2004, February 1, 2003, and February 2, 2002 were 232, 238 and 247, respectively.

Effective January 30, 2004, Ilia Lekach, the Company's then Chairman of the Board and Chief Executive Officer, IZJD Corp. and Pacific Investment Group Inc., each of which are wholly-owned by Mr. Lekach and Deborah Lekach, Mr. Lekach's wife (collectively, "Lekach"), entered into 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 in specified installments.

As of April 30, 2004, Mr. Lekach has exercised stock options to acquire 318,750 common shares resulting in proceeds to the Company of approximately \$851,000 and the Nussdorfs have acquired 595,954 shares from Mr. Lekach pursuant to the Nussdorf Option Agreement. Mr. Lekach has stock options for another 125,000 shares required to be issued to Mr. Lekach by the Company pursuant to the terms of his employment agreement as a consequence of the change of control. These 125,000 options may only be issued by the Company to Mr. Lekach upon approval of an amendment to the Company's 2000 Stock Option Plan. Such an amendment was approved at a special meeting of the Company's shareholders on April 29, 2004. Proceeds to the Company will be \$500,000 if Mr. Lekach exercises all of the 125,000 options. Assuming the Nussdorfs exercise their option to acquire the remaining 125,000 shares subject to the Nussdorf Option Agreement, the Nussdorfs would own an aggregate 1,128,144 shares of the Company's common stock or approximately 39.7% of the total number of shares of the Company's common stock as of April 30, 2004.

Effective February 10, 2004, Mr. Lekach's employment with the Company was terminated and Mr. Lekach ceased serving as an employee and officer of the Company. In addition, on February 10, 2004, Mr. Lekach resigned from the Board of Directors and Stephen L. Nussdorf was appointed the Company's Chairman of the Board and Michael W. Katz was appointed the Company's Chief Executive Officer and President.

See further discussion at Note 5.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

Significant accounting principles and practices used by the Company in the preparation of the accompanying consolidated financial statements are as follows:

FISCAL YEAR END

The Company's fiscal year ends the Saturday closest to January 31 to enable the Company's operations to be reported in a manner which more closely coincides with general retail reporting practices and the financial reporting needs of the Company. In the accompanying notes, fiscal year 2003, 2002 and 2001 refer to the years ended January 31, 2004, February 1, 2003 and February 2, 2002, respectively.

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MANAGEMENT ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The most significant estimates made by management in the accompanying consolidated financial statements relate to the allowance for doubtful accounts, inventory reserves, self-insured health care reserves, long-lived asset impairments and estimated useful lives of property and equipment. Actual results could differ from those estimates.

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PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include accounts of E Com Ventures, Inc. and its wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

REVENUE RECOGNITION

Revenue from wholesale transactions is recorded upon shipment of inventory when risk of ownership and title transfers to the buyer. Revenue from store sales is recorded net of discounts when the customer pays at the register. Revenue from Internet sales is recognized at the time products are shipped to customers. Customers typically receive Internet product sales within a few days of being shipped. Returns of store and Internet sales are allowed within 30 days of purchase and are limited to exchanges. Because returns are primarily exchanged, there is no significant effect on revenue.

CASH AND CASH EQUIVALENTS

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

ADVANCES TO SUPPLIERS

Advances to suppliers represent prepayments to vendors on pending inventory purchase orders.

INVENTORIES

Inventories, consisting of finished goods, are stated at the lower of cost or market, cost being determined on a weighted average cost basis. The cost of inventory includes product cost and freight charges. Writeoffs of potentially slow moving or damaged inventory are recorded based on management's analysis of inventory levels, future sales forecasts and through specific identification of obsolete or damaged merchandise. The Company's writeoffs were approximately \$3.5 million and \$1.2 million for the years ended January 31, 2004 and February 1, 2003, respectively.

Of the Company's approximately 25,000 stock keeping units ("skus"), management has identified 3,400 skus which the Company intends to discontinue offering for sale in Perfumania's retail stores. The Company does not plan to reorder any of these skus and intends to sell through its existing on hand inventory of these skus during fiscal year 2004. The total cost of this inventory as of January 31, 2004 was approximately \$9.4 million. The Company has

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recorded an income statement charge of approximately \$2.6 million, which represents the difference between the estimated selling value and the weighted average cost of this inventory. This charge is included in cost of goods sold on the accompanying consolidated statement of operations for the year ending January 31, 2004.

PROPERTY AND EQUIPMENT

Property and equipment is carried at cost, less accumulated depreciation and amortization. Depreciation is calculated using the straight-line method over the estimated useful lives of the related assets. Leasehold improvements are amortized over the shorter of the term of the lease including probable renewal periods, or the estimated useful lives of the improvements, generally ten years. Costs of major additions and improvements are capitalized and expenditures for maintenance and repairs which do not extend the useful life of the asset are expensed when incurred. Gains or losses arising from sales or retirements are included in income currently.

GOODWILL

Goodwill represents the excess purchase price paid over net assets of businesses acquired resulting from the application of the purchase method of accounting. In accordance with accounting rules that became effective at the beginning of fiscal year 2002, goodwill is no longer amortized, but is tested annually for impairment at the end of the Company's fiscal year. For each year through fiscal year 2001, goodwill was amortized on a straight-line basis over five years.

OTHER INTANGIBLE ASSETS

Intangible assets include store design, real estate leases and non-compete agreements based upon their relative fair values at the date of acquisition as determined by management with the assistance of an independent valuation consultant. Intangible assets do not include goodwill. The

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amortization of intangible assets amounted to approximately \$0.2 million in fiscal years 2003, 2002 and 2001. Amortization of intangible assets in the amount of \$0.2 million per year is anticipated for each of the next two years, which is the remaining life of these assets.

INCOME TAXES

Income tax expense is based principally on pre-tax financial income. Deferred tax assets and liabilities are recognized for the differences between the financial reporting carrying values and the tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. A valuation allowance is recognized to reduce net deferred tax assets to amounts that management believes are expected to be realized.

BASIC AND DILUTED INCOME (LOSS) PER SHARE

Basic income (loss) per common share is computed by dividing income (loss) attributable to common shareholders by the weighted average number of common shares outstanding during the period. Diluted income (loss) per common share includes, in periods in which they have a dilutive effect, the dilutive effect of those common stock equivalents where the average market price of the common shares exceeds the exercise prices for the respective years. For all periods presented in the accompanying consolidated statements of operations,

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incremental shares attributed to common stock equivalents and convertible notes were not included because the results would be anti-dilutive.

Basic and diluted loss per share are computed as follows:

| | FISCAL YEAR | |
|--|------------------|------------------|
| | 2003 | 2002 |
| Numerator: | | |
| Net loss: | \$ (12,871,700) | \$ (2,825,700) |
| Denominator: | | |
| Denominator for basic loss per share | 2,454,340 | 2,528,326 |
| Effect of dilutive securities: | | |
| Options to purchase common stock and convertible notes | -- | -- |
| Denominator for dilutive loss per share | 2,454,340 | 2,528,326 |
| Antidilutive securities not included in the diluted loss per share computation: | | |
| Options to purchase common stock | 696,436 | 666,501 |
| Exercise price | \$1.64 - \$21.52 | \$1.64 - \$21.52 |

FAIR VALUE OF FINANCIAL INSTRUMENTS

Statement of Financial Accounting Standards No. 107 "Disclosures about Fair Value of Financial Instruments" ("SFAS 107"), requires disclosure of the fair value of financial instruments held by the Company. SFAS 107 defines the fair value of a financial instrument as the amount at which the instrument could be exchanged in a current transaction between willing parties. The following methods and assumptions were used to estimate fair value:

- The carrying amounts of cash and cash equivalents, accounts receivable and accounts payable approximate fair value due to their short-term nature;
- The fair value of investments are based on quoted market prices, if available, and;
- The fair value of the Company's bank line of credit, convertible notes payable, obligations under capital leases and loans payable are based on current interest rates and repayment terms of the individual notes.

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ASSET IMPAIRMENT

The Company reviews long-lived assets and makes a provision for impairment whenever events or changes in circumstances indicate that the projected cash flows of related activities may not provide for cost recovery. An impairment loss is generally recorded when the net book value of assets exceeds projected undiscounted future cash flows. The impairment loss is determined

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based on the difference between the net book value and the fair value of the assets. The estimated fair value is based on anticipated discounted future cash flows. Any impairment is charged to operations in the period in which it is identified.

STOCK BASED COMPENSATION

The Company accounts for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"), and provides proforma disclosure of net income and earnings per share as if the fair value based method prescribed by Statement of Financial Accounting Standards No. 123 "Accounting for Stock-Based Compensation," ("SFAS 123") as amended, had been applied in measuring compensation expense for options granted to employees and directors in fiscal years 2003, 2002 and 2001. In accordance with APB 25, compensation cost for stock options is measured as the excess, if any, of the quoted market price of the Company's stock at the date of the grant over the amount an employee or director must pay to acquire the stock. 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 for fiscal years 2003, 2002 and 2001:

| | FISCAL YEAR | |
|---|-----------------|----------------|
| | 2003 | 2002 |
| Net loss as reported | \$ (12,871,700) | \$ (2,825,700) |
| Add: Total fair value of stock based employee compensation expense not included in reported net loss, net | (1,425,284) | (478,449) |
| Proforma net loss | \$ (14,296,984) | \$ (3,304,149) |
| Proforma net loss per share: | | |
| Basic | \$ (5.83) | \$ (1.31) |
| Diluted | \$ (5.83) | \$ (1.31) |

UNREALIZED GAIN (LOSS) ON INVESTMENTS

Equity securities classified as available for sale are adjusted to fair market value as of the balance sheet date based on quoted market prices. The related unrealized gain (loss) on investments is reflected in other comprehensive income (loss) and accumulated other comprehensive income (loss) on the consolidated statements of changes in shareholders' equity and consolidated balance sheets, respectively. Realized losses on investments resulting from the sale or other-than-temporary declines in fair market values of securities classified as available for sale are included in the results of operations.

PRE-OPENING EXPENSES

Pre-opening expenses related to opening new stores are expensed as incurred.

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SHIPPING AND HANDLING FEES AND COSTS

Income generated from shipping and handling fees is classified as revenues. The Company classifies the costs related to shipping and handling as cost of goods sold.

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ADVERTISING COSTS

Advertising expense for the fiscal years 2003, 2002 and 2001 was approximately \$1,876,000, \$1,286,000 and \$1,105,000, respectively, and charged to expense when incurred. Cooperative advertising amounts received from vendors for fiscal years 2003, 2002 and 2001 were \$200,000, \$200,000 and \$60,000, respectively, and recorded as an offset to advertising expense.

RECLASSIFICATION

Certain fiscal year 2002 and 2001 amounts have been reclassified to conform with the fiscal 2003 presentation.

RECENT ACCOUNTING PRONOUNCEMENTS

In May 2003, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." This statement established standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or asset in some circumstance). Many of those instruments were previously classified as equity. The statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after December 15, 2003. The adoption of SFAS No. 150 did not have a material impact on our consolidated financial position, results of operations or disclosures.

In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement No. 133 on Derivative and Hedging Activities." In general, this statement amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS No. 133. This statement is effective for contracts entered into or modified after June 30, 2003, and for hedging relationships designated after June 30, 2003. The adoption of SFAS No. 149 did not have a material impact on our consolidated financial position, results of operations or disclosures.

NOTE 3 - STATEMENTS OF CASH FLOWS

Supplemental disclosures of non-cash investing and financing activities:

| NON-CASH TRANSACTIONS | FISCAL YEAR ENDED | | |
|---|-------------------|------------------|------|
| | January 31, 2004 | February 1, 2003 | Febr |
| Equipment and building under capital leases | \$ 414,630 | \$ 7,764,203 | \$ |
| Unrealized gain (loss) on investments | 140,404 | (381,738) | |
| Subordinated debt issued to affiliate | 5,000,000 | 3,000,000 | |
| Change in investment as a result of | | | |

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| | | | | |
|--|----|-----------|----|-----------|
| transfer of shares in an affiliate | | -- | | -- |
| Conversion of debt and accrued interest payable in exchange for common stock | | -- | | 517,034 |
| Cash paid during the period for: | | | | |
| Interest | \$ | 2,034,666 | \$ | 2,196,062 |
| Income taxes | | -- | | -- |

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NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment consisted of:

| | FISCAL YEAR ENDED | | Estimated (I |
|---|-------------------|------------------|-----------------|
| | January 31, 2004 | February 1, 2003 | |
| Furniture, fixtures and equipment | \$ 21,221,687 | \$ 21,017,998 | |
| Leasehold improvements | 25,369,583 | 21,758,680 | |
| Equipment under capital leases | 6,774,897 | 6,774,897 | shorter le |
| Building under capital lease | 7,725,420 | 7,310,790 | |
| | ----- | ----- | |
| | 61,091,587 | 56,862,365 | |
| Less: | | | |
| Accumulated depreciation and amortization | (36,676,963) | (32,305,674) | |
| | ----- | ----- | |
| | \$ 24,414,624 | \$ 24,556,691 | |
| | ===== | ===== | |

See Note 11 for further discussion of capital leases.

Depreciation and amortization expense for fiscal years 2003, 2002, and 2001 was \$6,102,823, \$6,024,400 and \$6,019,720, respectively. Accumulated depreciation for building and equipment under capital leases was \$5,428,802 and \$4,208,728 as of January 31, 2004 and February 1, 2003, respectively.

NOTE 5 - RELATED PARTY TRANSACTIONS

Notes receivable from Ilia Lekach, the Company's former Chairman of the Board of Directors and Chief Executive Officer, were \$327,311 and \$311,604 as of January 31, 2004 and February 1, 2003, respectively. The notes were unsecured, mature in five years and bear interest at prime plus 1% per annum. Principal and interest were payable in full at maturity. Total interest income recognized during fiscal years 2003, 2002, and 2001 was approximately \$16,000, \$174,000 and \$264,000, respectively. Accrued interest receivable was approximately \$27,000 and \$12,000 as of January 31, 2004 and February 1, 2003. The loan and all accrued interest was fully repaid in March 2004.

Ilia Lekach was also Chairman and interim CEO of Nimbus Group, Inc.

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("Nimbus"), formerly known as TakeToAuction.com ("TTA"), a public company previously committed to the development of a private jet air taxi network. TTA initially sold consumer products on Internet auction sites.

From fiscal year 2000 through fiscal year 2002, the Company acquired approximately 1,003,000 shares of Nimbus common stock. The investment in Nimbus was shown on our balance sheets as investments available for sale. During fiscal year 2003 we disposed of our holding in Nimbus in open market transactions at a loss of approximately \$172,000.

Purchases of products from Parlux Fragrances, Inc. ("Parlux"), whose Chairman of the Board of Directors and Chief Executive Officer is Ilia Lekach, amounted to approximately \$27,701,000, \$11,613,000 and \$19,598,000 in fiscal years 2003, 2002 and 2001, representing approximately 23%, 10% and 17%, respectively, of the Company's total purchases. The amount due to Parlux on January 31, 2004 and February 1, 2003 was approximately \$14,506,000 and \$10,739,000, respectively, of which both amounts include a \$250,000 and a \$100,000 subordinated interest bearing secured note payable as of January 31, 2004 and February 1, 2003, respectively. Accounts payable due to Parlux are non-interest bearing. The amount due to Parlux, exclusive of the secured note payable, are included in the accounts payable affiliates in the accompanying consolidated balance sheets.

On June 30, 2003 and September 30, 2002, Perfumania signed a \$5,000,000 and a \$3,000,000 subordinated note agreements with Parlux. The notes were in consideration for the reduction of \$5,000,000 and \$3,000,000 in trade payables due to Parlux in the respective years. The notes were due on February 29, 2004 and March 31, 2003, respectively, with various periodic principal payments, bore interest at prime plus 1% and were subordinated to all bank related indebtedness. As of January 31, 2004 and February 1, 2003 the outstanding principal balance due on the notes was \$250,000 and \$100,000, respectively. The notes were repaid in full in February 2004 and April 2003, respectively, and in accordance with their terms.

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The Company purchased approximately \$6,368,000 and \$10,562,000 of merchandise in fiscal years 2003 and 2002, respectively, from a company owned by Zalman Lekach, a former director of the Company, and a brother of Ilia Lekach. The amount due to Zalman Lekach's company at January 31, 2004 and February 1, 2003 was approximately \$1,617,000 and \$1,383,000, respectively, and are included in accounts payable affiliates in the accompanying consolidated balance sheets.

The Company purchased approximately \$4,305,000 and \$6,021,000 of merchandise in fiscal years 2003 and 2002, respectively, from a company owned by another brother of Ilia Lekach. The amount due to this company was approximately \$771,000 and \$1,310,000, respectively, at January 31, 2004 and February 1, 2003, and are included in accounts payable affiliates in the accompanying consolidated balance sheets.

As discussed in Note 1, effective January 30, 2004, Ilia Lekach, the Company's then Chairman of the Board and Chief Executive Officer and several other parties controlled by Lekach (collectively, "Lekach"), entered into 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 in specified installments.

In addition, pursuant to and in accordance with the terms of the Nussdorf Option Agreement, the Nussdorfs have been granted an irrevocable proxy for the term set forth in the Agreement to vote any shares owned by Lekach that

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are the subject of the Nussdorf Option Agreement.

As of April 30, 2004, Mr. Lekach has exercised options to acquire 318,750 of those shares and the Nussdorfs have acquired 595,954 shares pursuant to the Nussdorf Option Agreement. Assuming the Nussdorfs exercise their option to acquire the remaining 125,000 shares subject to the Nussdorf Option Agreement, the Nussdorfs would own an aggregate of 1,128,144 shares of the Company's common stock or approximately 39.7% of the total number of shares of the Company's common stock outstanding.

As a consequence of the change in control provisions set forth in the employment agreements of Mr. Lekach, various executive officers and a consultant, the Company issued a total of 244,252 options for the Company's common stock in January 2004. Since the various exercise prices of the options were less than the market price of the Company's common stock on the grant date, the Company incurred a non-cash charge of approximately \$2,286,000. In addition, pursuant to the same employment and consulting agreements, the Company accrued approximately \$2,645,000 in January 2004, representing amounts subsequently paid to said persons as a result of the change of control. These charges totaling approximately \$4,931,000 are included in "Change of control expenses" on the accompanying consolidated statement of operations for the year ended January 31, 2004.

The Nussdorfs are officers and principals of Quality King Distributors, Inc. ("Quality King"). During fiscal year 2003, the Company purchased approximately \$5,960,000 of merchandise from Quality King and sold approximately \$11,366,000 of different merchandise to Quality King. In fiscal year 2002, there were approximately \$944,000 of purchases from Quality King and approximately \$1,000,000 of merchandise sold to Quality King. The amounts due to Quality King at January 31, 2004 and February 1, 2003 were approximately \$797,000 and \$15,000 respectively.

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NOTE 6 - BANK LINE OF CREDIT AND NOTES PAYABLE

The bank line of credit and notes payable consist of the following:

| | January 31, 2004 |
|--|------------------|
| | ----- |
| 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) | \$ 30,472,027 |
| | ===== |
| Note payable bearing interest at 9.7% payable in a monthly installment of \$11,050 including interest, through March 2003, secured by fixtures | \$ -- |
| Less: current portion | -- |
| | ----- |
| Long-term portion | \$ -- |
| | ===== |

Perfumania's senior secured credit facility with GMAC Commercial Finance LLC ("GMAC") provides for borrowings of up to \$40 million, of which \$30.5 million was outstanding and \$5.6 million was available as of January 31, 2004, to support normal working capital requirements and other general corporate purposes. Advances under the line of credit are based on a formula of eligible

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inventories and bears interest at a floating rate ranging from (a) prime less 0.75% to prime plus 1% or (b) LIBOR plus 1.75% to 3.50% depending on a financial ratio test. As of January 31, 2004, the credit facility bore interest at 4.6%. Borrowings 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 maintenance of minimum net worth, and certain key ratios, as defined by the lender. As of January 31, 2004, Perfumania was not in compliance with its tangible net worth ratio, fixed charge ratio, leverage ratio and capital expenditures limitation. On April 29, 2004, Perfumania obtained a waiver from GMAC for all instances of non-compliance as of January 31, 2004.

As shown in these financial statements, we have incurred a net loss of \$12.9 million for the period ended January 31, 2004. In addition, as of January 31, 2004, we had a working capital deficiency of \$9.1 million and an accumulated deficit of \$54.9 million. As of January 31, 2004, we had cash balances totaling approximately \$2.0 million and an additional borrowing capacity of \$5.6 million under our bank line of credit which is scheduled to expire in May 2005. Management believes that the cash balances, the available borrowing capacity and the projected future operating results will generate sufficient liquidity to support our working capital needs and capital expenditures for the next twelve months; however, there can be no assurance that management's plans and expectations will be successful. If we are unable to generate sufficient cash flows from operations in the future to service our obligations, finance our existing debt and achieve improved operating results, we could face liquidity and working capital constraints, which could adversely impact future operations and growth and, thereby, may raise a question as to our ability to remain a going concern.

On May 12, 2004, Perfumania entered into a new three-year amended and restated senior secured revolving credit facility with GMAC Commercial Finance LLC and Congress Financial Corporation that provides for borrowings of up to \$60 million. Advances under the new line of credit are based on a formula of eligible inventories and will bear interest depending on the Company's financial ratios from (1) prime to prime plus 1.25% or (b) LIBOR plus 2.50% to 3.75%. Borrowings are secured by a 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 and minimum EBITDA amounts as defined. Advances will be secured by a first lien on all assets of Perfumania.

During fiscal year 2003, the Company paid approximately \$1,458,000 to the holders of its Series C and D Convertible Notes, in accordance with an amended Convertible Note Option Repurchase Agreement. This represented the remaining balance of approximately \$1,215,000 of principal and \$243,000 of premiums.

In March 2004, the Nusssdorfs made a \$5,000,000 subordinated secured demand loan to Perfumania. The demand loan bears interest at the prime rate plus 1%, requires quarterly interest payments and is secured by a security interest in Perfumania's assets pursuant to a Security Agreement, by and among Perfumania and the Nusssdorfs. There are no prepayment penalties and the loan is subordinate to all bank related indebtedness.

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NOTE 7 - IMPAIRMENT OF ASSETS

Based on a review of the Company's retail store locations with negative cash flows, the Company recognized non-cash impairment charges relating to its retail operation of approximately \$0.6 million, \$0.7 million and \$0.7

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million during fiscal years 2003, 2002 and 2001, respectively. These charges were determined based on the difference between the carrying amounts of the assets, representing primarily fixtures and leasehold improvements, at particular store locations and the fair values of the assets on a store-by-store basis. The estimated fair values are based on anticipated future cash flows discounted at a rate commensurate with the risk involved. These impairment losses are included in provision for impairment of assets and store closings in the accompanying consolidated statements of operations.

NOTE 8 - INCOME TAXES

The benefit for income taxes is comprised of the following amounts:

| | FISCAL YEAR ENDED | | |
|-------------------|-------------------|------------------|------------------|
| | January 31, 2004 | February 1, 2003 | February 2, 2002 |
| Current: | | | |
| Federal | \$ -- | \$ -- | \$ 211,298 |
| State | -- | -- | -- |
| | -- | -- | 211,298 |
| Deferred: | | | |
| Federal | -- | -- | -- |
| State | -- | -- | -- |
| | -- | -- | -- |
| Total tax benefit | \$ -- | \$ -- | \$ 211,298 |

The fiscal year 2001 tax benefit is primarily due to a change in the Federal tax law, which provided a longer carryback period for the use of net operating losses.

The income tax benefit differs from the amount obtained by applying the statutory Federal income tax rate to pretax income as follows:

| | FISCAL YEAR ENDED | | |
|------------------------------------|-------------------|------------------|------------------|
| | January 31, 2004 | February 1, 2003 | February 2, 2002 |
| Benefit at federal statutory rates | \$ 4,376,378 | \$ 960,738 | \$ 1,000,000 |
| Non-deductible expenses | (1,504,335) | (283,319) | (1,000,000) |
| Change in the valuation allowance | (3,224,513) | (584,247) | (1,000,000) |
| Other | 352,470 | (93,172) | (1,000,000) |
| Benefit for income taxes | \$ -- | \$ -- | \$ 211,298 |

Net deferred tax assets reflect the tax effect of the following differences between financial statement carrying amounts and tax basis of assets

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and liabilities:

| | FISCAL YEAR ENDED | |
|---|---------------------|---------------------|
| | January 31, 2004 | February 1, 2003 |
| Assets: | | |
| Net operating loss & tax credit carryforwards | \$ 5,962,433 | \$ 5,518,987 |
| Capital loss carryforward | 1,455,119 | -- |
| Inventories | 1,708,735 | 820,368 |
| Property and equipment | 3,291,432 | 2,343,692 |
| Allowance for doubtful accounts & other | -- | 110,295 |
| Reserves | 167,436 | 83,566 |
| Goodwill | 306,002 | 322,933 |
| Unrealized loss on securities | -- | 1,508,416 |
| Deferred compensation | 715,983 | -- |
| Other | 372,532 | 46,902 |
| | 13,979,672 | 10,755,159 |
| Total deferred tax assets | | |
| Valuation allowance | (13,979,672) | (10,755,159) |
| | \$ -- | \$ -- |
| Net deferred tax assets | \$ -- | \$ -- |

A valuation allowance is provided for deferred tax assets in accordance with SFAS No. 109, Accounting for Income Taxes as management believes it is more likely than not that the benefit of the deferred tax asset will not be realized. Realization of future tax benefits related to the deferred tax assets is dependent on many factors, including the Company's ability to generate taxable income within the net operating loss carryforward period. Management has considered these factors in reaching its conclusion as to the valuation allowance for financial reporting purposes. As of January 31, 2004, the Company has net operating loss carryforwards of approximately \$15.6 million, which begin to expire in the year 2019.

NOTE 9 - SHAREHOLDERS' EQUITY

REVERSE STOCK SPLIT

The Company's Board of Directors authorized a one-for-four reverse stock split of the Company's outstanding shares of common stock for shareholders of record as of March 20, 2002. Accordingly, all data shown in the accompanying consolidated financial statements and notes for periods ended prior to that date have been retroactively adjusted to reflect this change.

INVESTMENTS AVAILABLE FOR SALE

The Company's former Chairman of the Board and Chief Executive Officer, Ilia Lekach, was also Chairman and interim CEO of Nimbus Group, Inc. ("Nimbus"), a public company previously committed to the development of a

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private jet air taxi network.

From fiscal year 2000 through fiscal year 2003 the Company acquired approximately 1,003,000 shares of Nimbus common stock. The investment in Nimbus was shown on the Company's balance sheet as investments available for sale of approximately \$211,000 representing the market value of \$0.21 per share as of February 1, 2003. The Company subsequently disposed of its holding in Nimbus in open market transactions at a loss of approximately \$172,000.

As of February 1, 2003, the market price for Nimbus' common stock was below the Company's average cost per share of \$4.13. In consideration of accounting guidance that considers a six to nine month decline in stock price to be other than temporary, the Company recorded a non-cash charge of approximately \$700,000 in realized loss on investments on the consolidated statements of operations for fiscal year 2002.

All investments are accounted for as available-for-sale securities and are carried at fair value based on quoted market prices pursuant to Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities". Unrealized gains and losses are included in comprehensive income (loss) and are included in shareholders' equity as accumulated other comprehensive loss in the amount of \$140,404 on the accompanying consolidated balance sheet as of February 1, 2003.

PREFERRED STOCK

The Company's Articles of Incorporation authorize the issuance of up to 1,000,000 shares of preferred stock. The preferred stock may be issued from time to time at the discretion of the Board of Directors without stockholders' approval. The Board of Directors is authorized to issue these shares in

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different series and, with respect to each series, to determine the dividend rate, and provisions regarding redemption, conversion, liquidation preference and other rights and privileges. As of January 31, 2004, no preferred stock had been issued.

TREASURY STOCK

As of February 2, 2001, the Company's board of Directors had approved the repurchase by the Company of up to 625,000 shares of the Company's common stock, reflecting management's belief that the Company's common stock represented a significant value at its then current trading price. In February 2002, the Board approved an increase in the stock repurchase program by an additional 250,000 shares and in April 2002, the Board approved an additional increase in the stock repurchase program of 100,000 shares. Pursuant to these authorizations, the Company has repurchased approximately 898,000 shares of common stock for approximately \$8.6 million as of January 31, 2004, including approximately 118,000 shares for \$1.5 million in fiscal year 2003.

STOCK OPTION PLANS

Under the Company's 2000 Stock Option Plan (the "Stock Option Plan") and 2000 Directors Stock Option Plan (the "Directors Plan") (collectively, the "Plans"), both of which superseded the previously existing plans effective October 2000, 375,000 shares of common stock and 30,000 shares of common stock, respectively, were initially reserved for issuance upon exercise of options. Additionally, the number of shares available under the Stock Option Plan shall automatically increase each year by 3% of the shares of common stock of the Company outstanding at the end of the immediate preceding year. The Company's

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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.

Due to the transaction described in Note 1, a change in control occurred which resulted in the issuance of 244,252 options which are immediately exercisable. The Company incurred a charge of approximately \$2,286,000 in non-cash compensation expense as a result of the issuance of these options which represent the difference between the market price and exercise price on the issuance date of these options.

In calculating the proforma net loss per share for 2003, 2002 and 2001, as shown in Note 2, the fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions used for grants in fiscal years 2003, 2002 and 2001:

| | 2003 | 2002 | 2001 |
|-----------------------|---------|---------|---------|
| | ----- | ----- | ----- |
| Expected life (years) | 7 years | 7 years | 7 years |
| Interest rate | 3.68% | 4.88% | 4.80% |
| Volatility | 165% | 148% | 158% |
| Dividend yield | 0% | 0% | 0% |

Options granted under the Stock Option Plan are exercisable after the period or periods specified in the option agreement, and options granted under the Directors Plan are exercisable immediately. Options granted under the Plans are not exercisable after the expiration of 10 years from the date of grant.

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A summary of the Company's option activity, and related information for each of the three fiscal years ended January 31, 2004 is as follows:

| | 2003 | | 2002 | |
|----------------------------------|----------|---|----------|---|
| | Shares | Weighted Average Exercisable Price | Shares | Weighted Average Exercisable Price |
| | ----- | ----- | ----- | ----- |
| Outstanding at beginning of year | 666,501 | \$ 5.32 | 606,594 | \$ 5.60 |
| Granted | 254,252 | 4.79 | 160,000 | 3.67 |
| Exercised | (69,996) | 3.38 | (59,807) | 1.90 |

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| | | | | |
|--|----------|---------|----------|---------|
| Cancelled | (41,519) | 11.93 | (40,286) | 8.19 |
| | ----- | | ----- | |
| Outstanding at end of year | 809,238 | \$ 4.99 | 666,501 | \$ 5.32 |
| | ===== | | ===== | |
| Options exercisable at end of year | 696,436 | \$ 5.10 | 449,714 | \$ 5.80 |
| Weighted-average fair value of options granted during the year | 254,252 | \$ 4.79 | 160,000 | \$ 3.31 |

The following table summarizes information about stock options outstanding at January 31, 2004:

| RANGE OF EXERCISE PRICES | NUMBER OUTSTANDING | OPTIONS OUTSTANDING | | OPTIONS EXERCISABLE | |
|--------------------------|--------------------|---------------------------------|---|---------------------|--|
| | | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life | NUMBER EXERCISABLE | |
| \$1.64 - \$2.27 | 258,570 | \$ 1.92 | 5.80 | 258,570 | |
| \$2.48 - \$3.88 | 121,096 | 3.50 | 8.43 | 96,627 | |
| \$4.00 - \$4.00 | 250,000 | 4.00 | 9.00 | 166,667 | |
| \$4.14 - \$21.52 | 179,572 | 11.78 | 7.00 | 174,572 | |
| | ----- | | | ----- | |
| | 809,238 | \$ 4.99 | 7.40 | 696,436 | |
| | ===== | | | ===== | |

NOTE 10- EMPLOYEE BENEFIT PLANS

The Company has a 401(k) Savings and Investment Plan ("the Plan"). Pursuant to such Plan, participants may make contributions to the Plan up to a maximum of 20% of total compensation or \$12,000, whichever is less, and the Company, at its discretion, may match such contributions to the extent of 25% of the first 6% of a participant's contribution. The Company's matching contributions vest over a 4-year period. In addition to matching contributions, the Company may make additional contributions on a discretionary basis in order to comply with certain Internal Revenue Code regulations prohibiting discrimination in favor of highly compensated employees. The Company's matching contributions during fiscal years 2003, 2002 and 2001 were not significant.

NOTE 11 - COMMITMENTS AND CONTINGENCIES

The Company is self-insured for employee medical benefits under the Company's group health plan. The Company maintains stop loss coverage for individual medical claims in excess of \$80,000 and for annual Company medical claims which exceed approximately \$2.2 million in the aggregate. While the ultimate amount of claims incurred are dependent on future developments, in management's opinion, recorded reserves are adequate to cover the future payment of claims. However, it is possible that recorded reserves may not be adequate to cover the future payment of claims. Adjustments, if any, to estimates recorded resulting from ultimate claim payments will be reflected in operations in the periods in which such adjustments are known. The self-insurance reserve at January 31, 2004 and February 1, 2003 was approximately \$441,000 and \$220,000,

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respectively, which is included in accrued expenses and other liabilities in the accompanying consolidated balance sheets.

The Company leases space for its retail stores. The lease terms vary from month to month leases to ten year leases, in some cases with options to renew for longer periods. Various leases contain clauses which adjust the base rental rate by the prevailing Consumer Price Index, as well as additional rent based on a percentage of gross sales in excess of a specified amount.

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Rent expense for fiscal years 2003, 2002, and 2001 was approximately \$15,559,000, \$15,879,000, and \$15,482,000, respectively. Future minimum lease commitments under non-cancelable operating leases at January 31, 2004 are as follows:

| FISCAL YEAR | | |
|-------------------------------------|----|------------|
| 2004 | \$ | 12,021,020 |
| 2005 | | 10,429,042 |
| 2006 | | 8,616,614 |
| 2007 | | 6,691,418 |
| 2008 | | 4,136,147 |
| Thereafter | | 18,834,881 |
| | | ----- |
| Total future minimum lease payments | \$ | 60,729,122 |
| | | ===== |

The Company's capitalized leases consist of a corporate office and distribution facility in Sunrise, Florida, as well as computer hardware and software. The lease for the corporate office and distribution facility is for approximately 15 years with monthly rent ranging from approximately \$73,000 to \$104,000. The lease terms for the computer hardware and software vary from one to three years. The following is a schedule of future minimum lease payments under capital leases together with the present value of the net minimum lease payments, at January 31, 2004:

| FISCAL YEAR | | |
|-------------------------------------|----|-------------|
| 2004 | \$ | 1,156,069 |
| 2005 | | 1,105,637 |
| 2006 | | 1,083,906 |
| 2007 | | 1,072,752 |
| 2008 | | 1,080,201 |
| Thereafter | | 12,068,416 |
| | | ----- |
| Total future minimum lease payments | | 17,566,981 |
| Less: Amount representing interest | | (9,562,019) |
| | | ----- |
| Present value of minimum lease | | |

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| | |
|-----------------------|--------------|
| payments | 8,004,962 |
| Less: Current portion | (258,700) |
| | ----- |
| | \$ 7,746,262 |
| | ===== |

The depreciation expense relating to capital leases is included in depreciation and amortization expense in the accompanying consolidated statements of operations.

The Company is party to an irrevocable standby letter of credit totaling approximately \$0.1 million as of January 31, 2004 which serves as security for performance of an equipment lease. The letter of credit requirement expires October 2004. Management believes that the carrying values approximate fair value and does not expect any material losses from their resolution since performance is not likely to be required.

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 or result of operations.

NOTE 12 - SEGMENT INFORMATION

The Company operates in two industry segments, specialty retail sales and wholesale distribution of fragrances and related products. Financial information for these segments is summarized in the following table.

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| | FISCAL YEARS | | |
|----------------------------------|----------------|----------------|-------|
| | 2003 | 2002 | |
| Net sales to external customers: | | | |
| Retail | \$ 198,478,506 | \$ 199,369,331 | \$ |
| Wholesale | 14,089,063 | 2,144,566 | |
| | ----- | ----- | |
| | \$ 212,567,569 | \$ 201,513,897 | \$ |
| | ===== | ===== | ===== |
| Gross profit: | | | |
| Retail | \$ 81,923,375 | \$ 84,159,461 | \$ |
| Wholesale | 1,453,645 | 435,051 | |
| | ----- | ----- | |
| | \$ 83,377,020 | \$ 84,594,512 | \$ |
| | ===== | ===== | ===== |

NOTE 13- QUARTERLY FINANCIAL DATA (UNAUDITED)

Unaudited summarized financial results for fiscal years 2003 and 2002 follows (in thousands, except for per share data):

| | | | | |
|--------------|-------|--------|-------|--------|
| 2003 QUARTER | FIRST | SECOND | THIRD | FOURTH |
|--------------|-------|--------|-------|--------|

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| | ----- | ----- | ----- | ----- |
|----------------------------|-----------|-----------|-----------|-----------|
| Net sales | \$ 36,888 | \$ 50,748 | \$ 48,058 | \$ 76,874 |
| Gross profit | 16,815 | 20,573 | 17,980 | 30,442 |
| Net loss | (2,930) | (924) | (3,725) | (5,293) |
| Net loss per basic share | (1.19) | (0.37) | (1.51) | (2.16) |
| Net loss per diluted share | (1.19) | (0.37) | (1.51) | (2.16) |

| 2002 QUARTER | FIRST | SECOND | THIRD | FOURTH |
|------------------------------------|---------|-----------|-----------|-----------|
| | ----- | ----- | ----- | ----- |
| Net sales | 40,169 | \$ 48,089 | \$ 43,112 | \$ 70,144 |
| Gross profit | 17,329 | 19,999 | 17,902 | 29,364 |
| Net income (loss) | (1,940) | (686) | (4,960) | 4,760 |
| Net income (loss) per basic share | (0.80) | (0.28) | (1.92) | 1.81 |
| Net income (loss) per dilutedshare | (0.80) | (0.28) | (1.92) | 1.81 |

The Company realizes higher sales, gross profit and net income in the fourth fiscal quarter than the other three fiscal quarters due to increased purchases of fragrances as gift items during the holiday season. Included in the fourth quarter results for the year ended January 31, 2004 is approximately \$4.9 million attributable to change of control expenses and \$2.6 million attributable to a writedown of inventory which the Company intends to discontinue offering for sale in its stores.

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ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Our Chief Executive Officer and Chief Financial Officer have concluded, based on their evaluation as of January 31, 2004, that our disclosure controls and procedures are effective for gathering, analyzing and disclosing the information we are required to disclose in our reports filed under the Securities Exchange Act of 1934. There have been no changes in our internal control over financial reporting during the quarter ended January 31, 2004 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II.

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Except as disclosed below, the information called for by this item is incorporated by reference from E Com Ventures, Inc. Annual Meeting of Shareholders - Notice and Proxy Statement - 2004 (to be filed pursuant to Regulation 14A not later than 120 days after the close of the fiscal year) in accordance with General Instruction 6 to the Annual Report on Form 10-K.

The Company has adopted a Code of Business Conduct and Ethics that applies to all of the Company's officers, directors and employees. The Code of Business Conduct and Ethics is filed as an exhibit to this Annual Report on Form

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10-K.

ITEM 11. EXECUTIVE COMPENSATION

The information called for by this item is incorporated by reference from E Com Ventures, Inc. Annual Meeting of Shareholders - Notice and Proxy Statement - 2004 (to be filed pursuant to Regulation 14A not later than 120 days after the close of the fiscal year) in accordance with General Instruction 6 to the Annual Report on Form 10-K.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information is required by Item 403 of Regulation S-K relating to the ownership of our common stock by certain beneficial owners and management and is incorporated by reference from E Com Ventures, Inc. Annual Meeting of Shareholders - Notice and Proxy Statement - 2004 (to be filed pursuant to Regulation 14A not later than 120 days after the close of the fiscal year) in accordance with General Instruction 6 to the Annual Report on Form 10-K.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information is incorporated by reference from E Com Ventures, Inc. Annual Meeting of Shareholders - Notice and Proxy Statement - 2004 (to be filed pursuant to Regulation 14A not later than 120 days after the close of the fiscal year) in accordance with General Instruction 6 to the Annual Report on Form 10-K.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information is incorporated by reference from E Com Ventures, Inc. Annual Meeting of Shareholders - Notice and Proxy Statement - 2004 (to be filed pursuant to Regulation 14A not later than 120 days after the close of the fiscal year) in accordance with General Instruction 6 to the Annual Report on Form 10-K.

PART IV.

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND EPORTS ON FORM 8-K.

(a) The following documents are filed as part of this report:

- (1) Financial Statements

An index to financial statements for the fiscal years ended January 31, 2004, February 1, 2003 and February 2, 2002 appears on page 23.

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All other financial statement schedules are omitted because they are not applicable, or the required information is otherwise shown in the financial statements or notes thereto.

- (2) Exhibits

EXHIBIT

DESCRIPTION

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- 3.1 Amended and Restated Articles of Incorporation
- 3.2 Bylaws
- 10.5 1991 Stock Option Plan, as amended
- 10.6 1992 Directors Stock Option Plan, as amended
- 10.7 Series A Securities Purchase Agreement
- 10.8 Series B Securities Purchase Agreement
- 10.9 Series C Securities Purchase Agreement
- 10.10 Series D Securities Purchase Agreement
- 10.11 2000 Stock Option Plan
- 10.12 2000 Directors Stock Option Plan
- 10.13 Amended and Restated Revolving Credit and Security Agreement with GMAC Commercial Credit LLC, and Congress Financial Corporation (Florida), date May 12, 2004
- 10.14 Nussdorf Subordinated Secured Demand Note
- 10.15 Lease agreement with Victory Investment Group, LLC, dated October 21, 2002
- 10.16 Waiver and Amendment to the Revolving Credit and Security Agreement with GMAC Commercial Credit LLC, dated April 29, 2004
- 10.17 Amendment to the 2000 Stock Option Plan
- 14.1 Code of Business Conduct and Ethics
- 21.1 Subsidiaries of the Registrant
- 23.1 Consent of Deloitte & Touche LLP
- 31.1 Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 32.2 Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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- (1) Incorporated by reference to the exhibit of the same description filed with the Company's 1993 Form 10-k (filed April 28, 1994).
- (2) Incorporated by reference to the exhibit of the same description filed with the Company's Registration Statement on Form S-1 (No 33-46833).
- (3) Incorporated by reference to the exhibit of the same description filed with the Company's 1995 Form 10-K (filed April 26, 1996).
- (4) Incorporated by reference to the exhibit of the same description filed with the Company's Registration Statement on Form S-1 filed June 11, 1999 (No. 333-80525).
- (5) Incorporated by reference to the exhibit of the same description filed with the Company's Registration Statement on Form S-1/A, filed August 31, 1999 (No. 333-80525).
- (6) Incorporated by reference to the exhibit of the same description filed with the Company's Registration Statement on Form S-3 filed April 25, 2000 (No. 333-35580).
- (7) Incorporated by reference to the exhibit of the same description filed with the Company's Proxy Statement (filed October 6, 2000).
- (8) Incorporated by reference to the exhibit of the same description filed with the Company's 2002 Form 10-K (filed April 30, 2003).
- (9) Filed Herewith.
- (10) Incorporated by reference to Appendix A to the Company's Proxy Stated (filed April 16, 2004).

(b) Reports on Form 8-K

No reports on Form 8-K were filed during the fiscal year ended January 31, 2004 except those disclosed in our 2003 Quarterly Reports in Form 10-Q,

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, May 12, 2004.

E Com Ventures, Inc.

By: /s/ MICHAEL W. KATZ

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

By: /s/ A. MARK YOUNG

A. Mark Young,
Chief Financial Officer
(Principal Accounting Officer)

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Pursuant to the requirements of the Securities Exchange act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| SIGNATURE ----- | TITLE ----- | DATE ---- |
|---|---|--------------|
| /s/ MICHAEL W. KATZ ----- Michael W. Katz | Chief Executive Officer and President (Principal Executive Officer) | May 12, |
| /s/ STEPHEN NUSSDORF ----- Stephen Nussdorf | Chairman of the Board of Directors | May 12, |
| /s/ JEFFREY GELLER ----- Jeffrey Geller | President and Chief Operating Officer of Perfumania, Inc. | May 12, |
| /s/ A. MARK YOUNG ----- A. Mark Young | Chief Financial Officer, (Principal Accounting Officer) | May 12, |
| /s/ DONOVAN CHIN ----- Donovan Chin | Chief Financial Officer Perfumania, Inc., | May 12, |
| /s/ CAROLE ANN TAYLOR ----- Carole Ann Taylor | Director | May 12, |
| /s/ JOSEPH BOUHADANA ----- Joseph Bouhadana | Director | May 12, |
| /s/ PAUL GARFINKLE ----- Paul Garfinkle | Director | May 12, |