E COM VENTURES INC
Form 10-K
April 29, 2005

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

FORM 10-K

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

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

For the fiscal year ended January 29, 2005

OR

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

For the transition period from _________ to _________

Commission file number: 0-10714

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

Florida	65-0977964
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

251 International Parkway Sunrise, Florida	33325
(Address of principal executive offices)	(Zip Code)

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

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

None

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

Common stock $.01 par value

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

The aggregate market value of the voting stock held by non-affiliates of the Registrant was approximately $10.6 million as of July 30, 2004, based on a market price of $9.06 per share. For purposes of the foregoing computation, all executive officers, directors and 5% beneficial owners of the registrant are deemed to be affiliates. Such determination should not be deemed to be an admission that such executive officers, directors or 5% beneficial owners are, in fact, affiliates of the registrant.

The number of shares outstanding of the Registrant's common stock as of April 22, 2005: 2,941,935 shares

Documents Incorporated By Reference

Portions of the Registrant's definitive proxy statement for its 2005 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 29, 2005, are hereby incorporated by reference in Part III of this Annual Report on Form 10-K

TABLE OF CONTENTS

PART I.

ITEM 1. BUSINESS

GENERAL

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

Perfumania is a leading specialty retailer and wholesale distributor of a wide range of brand name and designer fragrances. As of January 29, 2005, Perfumania operated a chain of 223 retail stores specializing in the sale of fragrances at discounted prices up to 75% below the manufacturers' suggested retail prices. Perfumania's wholesale division distributes fragrances and related products primarily to an affiliate. Perfumania.com offers a selection of the Company's more popular products for sale over the Internet and serves as an alternative shopping experience to the Perfumania retail stores.

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 generally 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 29, 2005, January 31, 2004, and February 1, 2003 were 223, 232 and 238, 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.

Our executive offices are located at 251 International Parkway, Sunrise, Florida 33325, our telephone number is (954) 335-9100, our retail internet address is www.perfumania.com. and our business internet address is www.ecomv.com. Through our business website, we make available, free of charge, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports as soon as is reasonably practicable after we electronically file them with, or furnish them to, the Securities and Exchange Commission. In addition, we have made our Code of Business Conduct and Ethics available through our website under "about ECOMV - corporate compliance." The reference to our website does not constitute incorporation by reference of the information contained on our website, and the information contained on the website is not part of this Form 10-K.

The Company's fiscal year ends on the Saturday closest to January 31. Fiscal year 2004 ended on January 29, 2005, fiscal year 2003 ended on January

31, 2004 and fiscal year 2002 ended on February 1, 2003. Each of the fiscal years presented contain fifty-two weeks.

RETAIL DIVISION

STRATEGY

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).

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 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.

3

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, regional and 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 for store associates, designed to achieve higher levels of 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 fiscal year 2003, a new point of sale system was implemented in all stores. This system enabled improved communication, pricing and promotion programs, time and attendance reporting, and enhanced inventory control.

STORE LOCATION AND EXPANSION

Perfumania's stores are located in 34 states, the District of Columbia and Puerto Rico, including 41 locations in Florida, 19 in both New York and California, 17 in Texas and 16 in Puerto Rico. 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 whether to open additional stores in markets where it already has a presence or whether to expand into additional markets that it believes have a population density to support a cluster of stores.

In fiscal years 2004, 2003 and 2002, Perfumania opened 14 stores, 11 stores and 4 stores, respectively. Perfumania continuously monitors store performance and from time to time closes under-performing stores, which typically have been older stores in less trafficked locations. During fiscal years 2004, 2003 and 2002, Perfumania closed 27 stores, 17 and 13 stores, respectively. For fiscal year 2005, Perfumania will continue to focus on improving the profitability of its existing stores and management expects to open approximately 25 stores and close approximately 4 stores.

WHOLESALE DIVISION

During fiscal year 2004 Perfumania distributed fragrances on a wholesale basis primarily to Quality King Distributors, Inc. ("Quality King"). During fiscal years 2003 and 2002, the wholesale division sold to approximately 5 customers. Our current President and Chief Executive Officer, Michael Katz and our principal shareholders, Stephen Nussdorf, the Chairman of our Board of Directors and Glenn Nussdorf, his brother, are affiliates of Quality King. Quality King accounted for 100%, 81% and 47% of net wholesale sales during fiscal years 2004, 2003 and 2002, respectively. See further discussion at Note 5 to our Consolidated Financial Statements included in Item 8, hereof.

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, we believe the ability to physically sense the fragrance product is not critical to the purchasing decision. Perfumania.com's online store provides its customers with value, selection, pricing and convenience.

CHANGE OF CONTROL

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

As of May 10, 2004, Mr. Lekach had exercised his options from the Company to acquire 443,750 shares and the Nussdorfs had acquired all 720,954 shares pursuant to the Nussdorf Option Agreement. Currently, the Nussdorfs own an aggregate of 1,113,144 shares of the Company's common stock outstanding. The Nussdorfs also collectively have the right to acquire an additional 444,445 shares of the Company's common stock upon conversion of their Convertible Debenture. See further discussion in Note 5 to our Consolidated Financial Statements.

SOURCES OF SUPPLY

During fiscal years 2004 and 2003, Perfumania purchased fragrances from approximately 120 and 100 different suppliers, respectively, including national and international manufacturers, distributors, wholesalers, importers and retailers. Perfumania generally makes its purchases based on a 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 27% and 5% of Perfumania's total merchandise purchased in fiscal years 2004 and 2003, respectively, was from our affiliate, Quality King. Approximately 26% and 23% of Perfumania's total merchandise purchased in fiscal years 2004 and 2003, respectively, was from another 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 principal shareholders with approximately 10% of our outstanding common stock, is the Chairman of the Board and Chief Executive Officer of Parlux which also owns approximately 13% of our outstanding common stock. No other supplier accounted for more than 10% of our merchandise purchases during 2004 or 2003.

A portion of Perfumania's merchandise is purchased from secondary sources such as distributors, wholesalers, importers and retailers. Merchandise purchased from secondary sources includes trademarked and copyrighted products that were manufactured in the United States, sold to foreign distributors and then re-imported into the United States, as well as trademarked and copyrighted products manufactured and intended for sale in foreign countries. From time to time, U.S. trademark and copyright owners and their licensees and trade associations have initiated litigation or administrative agency proceedings, based on U.S. Customs Service regulations or trademark or copyright laws, seeking to halt the importation into the United States of such "gray market" merchandise or to restrict its resale in the United States, and some of these actions have been successful. However, the U.S. courts remain divided on the extent to which trademark, copyright or other existing laws or regulations can be used to restrict the importation or sale of "gray market" merchandise. In addition, from time to time federal legislation to restrict the importation or sale of "gray market" merchandise has been proposed, but 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. Retail store deliveries generally are made weekly, with more frequent deliveries during the holiday season. Such deliveries permit the stores to minimize inventory storage space and increase the space available for display and sale of merchandise. To expedite delivery of merchandise to its customers, Perfumania sometimes instructs its suppliers to ship merchandise directly to wholesale division customers. Sales of perfumania.com are shipped through national carriers and are typically delivered within a few days of being ordered.

COMPETITION

Retail and wholesale perfume businesses are highly competitive. Perfumania's retail competitors include department stores, regional and national retail chains, independent drug stores, duty-free shops and other specialty retail stores. We believe Perfumania is the largest specialty retailer of discounted fragrances in the United States in terms of number of stores. Some of Perfumania's competitors sell fragrances at discount prices and some are part of large national or regional chains that have substantially greater resources and name recognition than Perfumania. Perfumania's stores compete on the basis of selling price, promotions, customer service, merchandise variety, store location and ambiance. Perfumania believes that its perfumery concept, full-service sales staff, discount prices, large and varied selection of brand name and designer fragrances and attractive shopping environment are important to its competitive position.

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 29, 2005, we had 1,363 employees, of whom 1,202 were employed in Perfumania's retail stores, 59 were employed in Perfumania's warehouse and distribution operations and 102 were employed in executive, administrative and other positions. Temporary and part-time employees are added between Thanksgiving and Christmas. None of our employees are covered by a collective bargaining agreement and we consider our relationship with our employees to be good.

TRADE NAME AND SERVICE MARK

Perfumania's stores use the trade name and service mark Perfumania(R); Perfumania also operates under the trade names, Also Perfumania, Class Perfumes, Touch at Perfumania, Perfumania Too and Perfumania Plus. Perfumania has common law rights to its trade names and service mark in those general areas in which its existing stores are located and has registered the service mark Perfumania(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.

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 statement of operations for fiscal year 2002.

RISK FACTORS THAT MAY AFFECT FUTURE RESULTS

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

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

Failure to comply with covenants in our 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. If our actual results deviate significantly from our projections, we may not be in compliance with the covenants and might not be allowed to borrow under the credit facility. If we were not able to borrow under our credit facility, we would be required to develop an alternative source of liquidity, or to sell additional securities which would result in dilution to existing shareholders. 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 and be forced to curtail our then current operations.

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 fiscal quarters. Purchases of fragrances as gift items increase during the Holiday season, which results in significantly higher fourth fiscal quarter retail sales. If our quarterly operating results are below expectations of stock market analysts, our stock price might decline. Sales levels of new and existing stores are affected by a variety of factors, including the retail sales environment, the level of competition, the effect of marketing and promotional programs, acceptance of new product introductions, adverse weather conditions 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.

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

Perfumania's success depends to a large degree on our ability to provide an extensive assortment of brand name and designer fragrances. Perfumania has no long-term purchase contracts or other contractual assurance of continued supply, pricing or access to new products. If Perfumania is unable to obtain merchandise from one or more key suppliers on a timely basis or acceptable terms, or if there is a material change in Perfumania's ability to obtain necessary merchandise, our results of operations could be seriously harmed.

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

Approximately 53% and 28%, respectively, of Perfumania's total merchandise purchased in fiscal years 2004 and 2003 were from our affiliates Quality King and Parlux. While we believe the terms of these purchases are more favorable to us than the terms of third party arrangements, there may be a conflict of interest between our interest in purchasing at the best price and those of our principal shareholders and affiliates in obtaining the best price for their respective companies.

Perfumania needs to successfully manage its growth

Perfumania may not be able to sustain growth in revenues. Perfumania's growth is somewhat dependent upon opening and operating new retail stores on a profitable basis, which in turn is subject to, among other things, securing suitable store sites on satisfactory terms, hiring, training and retaining qualified management and other personnel, having adequate capital resources and successfully integrating new stores into existing operations. 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:

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

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;

- the need for additional financing;
- strain on managerial and operational resources as management tries to oversee larger operations; and
- exposure to unforeseen liabilities of acquired companies.

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

ITEM 2. PROPERTIES

Our executive offices and distribution center are located in a 179,000 square foot facility in Sunrise, Florida. The facility is leased through December 2017 pursuant to a lease which currently provides for monthly rent of approximately $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 its proportionate share of 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 14, 2004, we held our annual meeting of shareholders. At the annual meeting, the shareholders elected Michael W. Katz, Stephen Nussdorf, Carole Ann Taylor, Joseph Bouhadana, and Paul Garfinkle to 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:

ELECTION OF DIRECTORS:

TOTAL	SHARES VOTED	SHARES VOTED FOR	SHARES VOTED AGAINST	ABSTAIN/ WITHHELD	NON
Michael W. Katz	2,316,120	2,278,782	--	37,338	9
Stephen Nussdorf	2,316,120	2,308,646	--	7,474	9
Carole Ann Taylor	2,316,120	2,314,396	--	1,724	9
Joseph Bouhadana	2,316,120	2,308,596	--	7,524	9

Paul Garfinkle	2,316,120	2,314,446	--	1,674	9

RATIFICATION OF AUDITORS:

TOTAL	SHARES VOTED	SHARES VOTED FOR	SHARES VOTED AGAINST	ABSTAIN/ WITHHELD	NON
Ratify Appointment of Deloitte & Touche LLP	2,316,120	2,314,030	2,090	--	9

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 President and Chief Executive Officer.

PART II.

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

MARKET INFORMATION

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

FISCAL 2004	HIGH	LOW
First Quarter	$14.70	$9.92
Second Quarter	12.16	6.85
Third Quarter	12.04	8.35
Fourth Quarter	15.42	10.02

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

As of April 19, 2005, there were 63 holders of record which excluded common stock held in street name. The closing sales price for the common stock on April 19, 2005 was $12.00 per share.

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, 2002 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 and Congress Financial Corporation.

EQUITY COMPENSATION PLAN INFORMATION

The following table sets forth information as of January 29, 2005, 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	Number of remainin for futu under compensa excluding reflecte (a
Plan Category:	(a)	(b)	
Equity compensation plans approved by stockholders	212,032	$9.46	
Equity compensation plans not approved by stockholders	--	--	
Total	212,032	$9.46	

(1) The number of shares available under our 2000 Stock Option Plan automatically increases 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 2004 refers to the fiscal year that began on February 1, 2004 and ended on January 29, 2005. All fiscal years presented below contain fifty-two weeks, except fiscal year 2000, which contains fifty-three weeks.

	FISCAL YEAR ENDED		
	JANUARY 29, 2005	JANUARY 31, 2004	FEBRUARY 1, 2003
	(IN THOUSANDS, EXCEPT FOR SHARE AND		
STATEMENT OF OPERATIONS DATA:			
Net sales, retail division	$ 201,425	$ 198,479	$ 199,369
Net sales, wholesale division	23,578	14,089	2,145
Total net sales	225,003	212,568	201,514
Gross profit, retail division	90,049	81,923	84,159
Gross profit, wholesale division	1,288	1,454	435
Total gross profit	91,337	83,377	84,594
Selling, general and administrative expenses	78,521	82,297	76,178
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	314	593	663
Depreciation and amortization	5,875	6,103	6,024
Total operating expenses	84,710	93,924	84,826
Income (loss) from operations	6,627	(10,547)	(232)
Other income (expense)			
Interest expense, net	(3,326)	(2,153)	(1,883)
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	--	--	--
Income (loss) before income taxes	3,301	(12,872)	(2,826)
Benefit (provision) for income taxes	(150)	--	--
Net income (loss)	$ 3,151	$ (12,872)	$ (2,826)

Weighted average shares outstanding:			
Basic	2,832,107	2,454,340	2,528,326
Diluted	3,001,844	2,454,340	2,528,326
Basic income (loss) per share	$ 1.11	$ (5.24)	$ (1.12)
Diluted income (loss) per share	$ 1.06	$ (5.24)	$ (1.12)
SELECTED OPERATING DATA:			
Number of stores open at end of period	223	232	238
Comparable store sales increase	1.8%	1.1%	10.2%
BALANCE SHEET DATA:			
Working capital (deficiency)	$ 2,240	$ (9,090)	$ 1,804
Total assets	107,817	92,463	103,423
Long-term debt, less current portion	12,972	7,746	7,752
Total shareholders' equity	15,060	10,222	21,853

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 held by the Company which were restricted securities under Rule 144 of the Securities Act of 1933, as amended, and subject to a lock-up agreement as well as certain other restrictions including approval by an affiliate of EDC prior to the sale of shares by the Company. The lock-up agreement did not allow the Company to dispose of any of their EDC shares until May 2000, after which the Company was allowed to dispose of up to 50,000 shares per month from May through December 2000, up to 75,000 shares per month from January through July 2001 and up to 100,000 shares per month thereafter. Approval required by the affiliate of EDC allowing the Company to sell 50,000 shares in May 2000 was withheld and the Company believed that it would not obtain approval to sell such shares or any additional shares in subsequent months. 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 completed in December 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 was revised in the fiscal 2003 10-K from the previously reported amounts to reflect the accounting treatment that would result from using the quoted market price of the EDC shares on the acquisition date rather than the appraised value as the more clearly evident indicator of the value of the transaction. The market price of EDC shares on the acquisition date was $70.25 per share and would have valued perfumania.com in the aggregate at approximately $28.1 million resulting in an increase in the gain on the sale of affiliate's common stock of $23.4 million, an increase in the acquisition price from $5.4 million to $28.8 million, and the recognition of additional goodwill of $23.4 million at the time of the transaction. Based on the results of the independent appraisal of the value of perfumania.com using the discounted cash flow method, goodwill would have been impaired by $23.4 million. Gross profit and net income remained unchanged for the fiscal year ended February 3, 2001.

GENERAL

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

PERCENTAGE OF NET SALES

	FISCAL YEAR 2004	2003	2002
Net sales, retail division	89.5%	93.4%	98.9%
Net sales, wholesale division	10.5	6.6	1.1
Total net sales	100.0	100.0	100.0
Gross profit, retail division	40.0	38.5	41.8
Gross profit, wholesale division	0.6	0.7	0.0
Total gross profit	40.6	39.2	42.0
Selling, general and administrative expenses	34.9	38.7	37.8
Change of control expenses	0.0	2.3	0.0
Provision for impairment of receivable from affiliate	0.0	0.0	1.0
Provision for impairment of assets and store closings	0.1	0.3	0.3
Depreciation and amortization	2.6	2.9	3.0
Total operating expenses	37.6	44.2	42.1
Income (loss) from operations before other expense	2.9	(5.0)	(0.1)
Other expense:			
Interest expense, net	(1.5)	(1.0)	(0.9)
Realized loss on investments	0.0	(0.1)	(0.4)
Loss before income taxes	1.5	(6.0)	(1.4)
(Provision) benefit from income taxes	(0.1)	0.0	0.0
Net income (loss)	1.4%	(6.1)%	(1.4)%

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 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 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 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 2004 AND 2003

Revenues:

	For the year ended ($ in thousands)			
	January 29, 2005	Percentage of Revenues	January 31, 2004	Percentage of Revenues
Wholesale	$23,578	10.5%	$14,089	6.6%
Retail	201,425	89.5%	198,479	93.4%
Total Revenues	$225,003	100.0%	$212,568	100.0%

In fiscal year 2004 net sales increased for both wholesale and retail sales. The increase in wholesale sales was due to purchases made by Quality King. The Company, through its supplier relationships, is able to obtain certain merchandise at better prices and quantities than Quality King. Overall retail sales increased by 1.5% and comparable store sales increased by 1.8%. Comparable store sales measure the sales from stores that have been open for one year or more. The average number of stores operated decreased from 235 during fiscal year 2003 to 230 in fiscal year 2004 primarily due to the closure of older, underperforming stores. We believe that Perfumania's retail sales were negatively impacted in fiscal year 2004 by the overall soft United States economy earlier in the year and management transition following the change in control. However, the later months of fiscal 2004 were improved due to greater availability of merchandise brands, quantity of product and as new management programs, which are discussed below, took effect.

Cost of Goods Sold:

	For the year ended ($ in thousands)
	Percentage

	January 29, 2005	January 31, 2004	Increase (Decrease)
Wholesale	$22,291	$12,635	76.4%
Retail	111,376	116,556	(4.4%)
Total cost of goods sold	$133,667	$129,191	3.5%

Gross Profit:

	For the year ended ($ in thousands)		
	January 29, 2005	January 31, 2004	Percentage Increase (Decrease)
Wholesale	$1,288	$1,454	(11.4%)
Retail	90,049	81,923	9.9%
Total gross profit	$91,337	$83,377	9.5%

Gross profit for the retail division increased principally as a result of lower cost of inventory purchases and marginal adjustments to sales prices. Total gross profit increased as a result of higher sales and profit margins in the retail division offset by higher sales and lower profit margins in the wholesale division.

Gross Profit Margin Percentages:

	For the year ended	
	January 29, 2005	January 31, 2004
Wholesale	5.6%	10.3%
Retail	44.7%	41.3%
Gross profit margin	40.6%	39.2%

The decrease in gross margin on wholesale sales resulted from an increase in the cost of the wholesale goods which were sold to Quality King. We were unable to offset this higher cost by increasing sales prices to Quality King. See Note 5 to our Consolidated Financial Statements for further discussion.

Operating Expenses and Income (loss) from Operations:

	For the year ended ($ in thousands)		
	January 29, 2005	January 31, 2004	Percentage Increase (Decrease)
Selling, general and administrative	$78,521	$82,297	(4.6%)
Change of control expenses	--	4,931	--
Asset impairment charges	314	593	(47.1%)
Depreciation and amortization	5,875	6,103	(3.7%)
Total operating expenses	84,710	93,924	(9.8%)
Income (loss) from operations	$6,627	($10,547)	--

The decrease in selling, general and administrative expenses is attributable primarily to lower store associate compensation costs, better control of store operating costs and a result of the reduction of our average number of stores. During fiscal 2004 we improved our method of scheduling store associates, modified our sales incentive programs and refocused our advertising and promotional efforts at lower costs. The majority of our selling, general and administrative expenses relate to the retail division.

Change of control expenses described in the comparison of fiscal years 2003 and 2002 did not affect fiscal 2004. The asset impairment charges in both fiscal years relate to retail store locations with negative cash flows that were either closed or targeted for closure. The asset impairment charges were reduced as we do not expect more than 4 closures during fiscal year 2005.

Other Expense:

For the year ended

($ in thousands)

	January 29, 2005	January 31, 2004	Percentage Increase (Decrease)
Interest expense, net	$3,326	$2,153	54.5%
Loss on investments	--	172	--
Total other expense	$3,326	$2,325	43.1%

The increase in interest expense resulted from higher loan balances on our new expanded revolving line of credit, higher interest rates and a new $5 million convertible note payable to the Nussdorfs.

Provision for Income Taxes:

	For the year ended ($ in thousands)		
	January 29, 2005	January 31, 2004	Percentage Increase
Provision for income taxes	$150,000	--	--

The tax provision resulted primarily from alternative minimum taxes due to the utilization of net operating loss carry forwards.

Net Income (Loss):

	For the year ended ($ in thousands)		
	January 29, 2005	January 31, 2004	Percentage Increase
Net Income (loss)	$3,151	($12,872)	--

As a result of our increase in sales and gross profit and the reduction in expenses described above, we realized net income compared to a net loss in the prior year.

COMPARISON OF FISCAL YEARS 2003 AND 2002

Revenues:

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

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. See Note 5 to our Consolidated Financial Statements 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 Goods Sold:

	For the year ended ($ in thousands)		
	January 31, 2004	February 1, 2003	Percentage Increase (Decrease)
Wholesale	$12,635	$1,710	638.9%
Retail	116,556	115,210	1.2%
Total cost of goods sold	$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)%

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%

The decrease in wholesale gross profit margins was primarily attributable to larger number of units per wholesale transaction in fiscal 2004 compared to fiscal 2003. Large unit orders yield lower margins than small orders.

Operating Expenses and Loss from Operations:

	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 amortization	--	1,961	--
Depreciation and amortization	6,103	6,024	1.3%
Total operating expenses	93,924	84,826	10.7%
Loss from operations	$10,547	$ 232	4446.1%

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 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.

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 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.

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

As a result of the foregoing our net loss was increased 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 2004 and 2003, we financed these requirements primarily through cash flows from operations, borrowings under our line of credit, issuance of convertible notes and other short-term borrowings. We believe we will have adequate liquidity in fiscal year 2005 to operate our business and to meet our cash requirements.

A summary of our cash flows is as follows:

	For the year ended January 29, 2005
	($ in thousands)
Summary Cash Flow Information:	
Cash used in operating activities	$ (4,369)
Cash used in investing activities	(4,148)
Cash provided by financing activities	7,806
Decrease in cash and cash equivalents	(711)
Cash and cash equivalents, February 1, 2004	1,961
Cash and cash equivalents. January 29, 2005	$ 1,250

In May 2004, we entered into a three-year amended and restated senior secured credit facility with GMAC Commercial Finance LLC and Congress Financial Corporation. The line of credit provides for borrowings of up to $60 million, increased from $40 million in our previous credit facility, of which $31.5 million was outstanding under our line of credit and $12.6 million was available as of January 29, 2005, to support normal working capital requirements and other general corporate purposes. Advances under the line of credit are based on a formula of eligible inventories and bears interest at a floating rate ranging from (a) prime to prime plus 1.25% or (b) LIBOR plus 2.5% to 3.75% depending on a financial ratio test. Advances are secured by a first lien on all assets of Perfumania. The credit facility contains limitations on additional borrowings, capital expenditures and other items, and contains various covenants including a fixed charge coverage ratio, a leverage ratio and capital expenditure limits as defined. As of January 29, 2005, we were in compliance with all covenant requirements.

In March 2004, the Nussdorfs made a $5,000,000 subordinated secured demand loan to Perfumania. The demand loan bore interest at the prime rate plus 1%, required quarterly interest payments and was secured by a security interest in Perfumania's assets pursuant to a Security Agreement, by and among Perfumania and the Nussdorfs. There were no prepayment penalties and the loan was subordinate to all bank related indebtedness. On December 9, 2004, we issued a Subordinated Convertible Note (the "Convertible Note") in exchange for the $5,000,000 subordinated secured demand loan. The Convertible Note bears interest at the prime rate plus 1%, requires quarterly interest payments and is secured by a security interest in the Company's assets pursuant to a Security Agreement, by and among the Company and the Nussdorfs. There are no prepayment penalties and the Convertible Note is subordinate to all bank related indebtedness. The Convertible Note is payable in January 2007 and allows the Nussdorfs to convert the Convertible Note into shares of our common stock at a conversion price of $11.25, which equals the closing market price of the Company's common stock on December 9, 2004.

On June 30, 2003, Perfumania signed a $5.0 million subordinated note agreement with Parlux. The note was in consideration for the reduction of $5.0

million in trade payables due to Parlux in that year. The note was due on February 29, 2004, with various periodic principal payments, bore interest at prime plus 1% and was subordinated to all bank related indebtedness. As of January 31, 2004, the outstanding principal balance due on the note was $250,000. The note was repaid in full in February 2004 in accordance with its terms.

In fiscal year 2004, net cash used in operating activities was approximately $4.4 million compared with net cash provided of $10.2 million in fiscal year 2003. Net cash used in operating activities in fiscal year 2004 was primarily to fund the net change in our inventories, accounts payable to affiliates, accrued expenses and other liabilities. In January 2004 we incurred and accrued approximately $4.9 million in change of control expenses. Approximately $2.6 million of these expenses represented amounts paid to certain of our executive officers and a consultant pursuant to employment and consulting agreements during fiscal 2004 and approximately $2.3 million represented a non-cash charge for stock option expenses, also relating to these same employment and consulting agreements. As a result of the anticipated change in management, which would follow the change in control, inventory purchases were delayed at fiscal year-end 2003 resulting in the comparative large increase in inventory levels at fiscal year-end 2004.

Net cash used in investing activities in fiscal year 2004 was approximately $4.1 million, compared with $5.7 million for fiscal year 2003. Investing activities generally represent spending for the renovation of existing stores and new store openings. During fiscal year 2004 we opened 14 new stores and remodeled/relocated 7 stores. Approximately $1.1 million of the $5.7 million used in investing activities during fiscal year 2003 was attributable to the relocation of the Company's corporate office and distribution center to Sunrise, Florida. We intend to focus on continuing to improve the profitability of our existing stores and growing the number of stores. We anticipate that we will open approximately 25 stores in fiscal 2005.

In fiscal year 2004, net cash provided by financing activities was approximately $7.8 million compared with $5.5 million used in fiscal year 2003. Cash provided by financing activities in fiscal year 2004 was principally due to $5 million in proceeds from a subordinated secured demand loan from the Nussdorfs, $1.1 million of net bank borrowings and $1.7 million from the proceeds of stock option exercises.

In December 1999, our Board of Directors approved the repurchase by 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. There were no repurchases of our common stock during fiscal year 2004.

Management believes that Perfumania's borrowing capacity under it's current 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)			
Contractual Obligations	Total	less than 1 year	1-3 years	3-5 yea
Capital Lease Obligations	$16,243	$1,165	$2,285	$2,3
Operating Lease Obligations	44,868	11,496	16,605	8,5
Total	$61,111	$12,661	$18,890	$10,9

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

On December 16, 2004 the Financial Accounting Standards Board ("FASB") issued Statement No. 123 (revised 2004)("SFAS 123(R)"), "Share-Based Payment," which is effective for reporting periods beginning after June 15, 2005. SFAS 123(R) requires an entity to recognize compensation expense in an amount equal to the fair value of share-based payments granted to employees. On April 14, 2005, the Securities and Exchange Commission ("SEC") amended the compliance date for SFAS 123(R). The SEC's new rule allows implementation of SFAS 123(R) at the beginning of an entity's next fiscal year that begins after June 15, 2005. Accordingly, we will adopt SFAS 123(R) at the beginning of fiscal year 2006 and apply the standard using the modified prospective method, which requires compensation expense to be recorded for new and modified awards. For any unvested portion of previously issued and outstanding awards, compensation expense is required to be recorded based on the previously disclosed SFAS 123 methodology and amounts. Prior periods presented are not required to be restated. We are in the process of assessing the impact on our results of operations and financial position upon the adoption of SFAS 123(R).

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 and reacting to changes in LIBOR and prime rates. As a result of borrowings associated with our operating and investing activities, we are exposed to interest rate risk. As of January 29, 2005 and January 31, 2004, our primary source of funds for working capital and other needs is a line of credit that provides for borrowings up to $60 million and $40 million, respectively.

Of the $44.7 million and $38.7 million of short-term and long-term borrowings on our balance sheet as of January 29, 2005 and January 31, 2004, respectively, approximately 18.4% and 20.7%, respectively, represented fixed rate instruments. The line of credit bears interest at a floating rate ranging from (a) prime to prime plus 1.25%, or (b) LIBOR plus 2.5% to 3.75% depending on financial ratio tests. For fiscal year 2004, the credit facility bore interest at an average rate of 4.7%. A hypothetical 10% adverse move in interest rates would increase fiscal years 2004 and 2003 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

Supplemental schedules have been omitted, as all required information is disclosed or not applicable.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
E Com Ventures, Inc.
Sunrise, Florida

We have audited the accompanying consolidated balance sheets of E Com Ventures, Inc. and subsidiaries (the "Company") as of January 29, 2005 and January 31, 2004, 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 29, 2005. 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 the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 29, 2005 and January 31, 2004, and the results of their operations and their cash flows for each of the three years in the period ended January 29, 2005, in conformity with accounting principles generally accepted in the United States of America.

/s/ DELOITTE & TOUCHE LLP
Certified Public Accountants

Miami, Florida
April 27, 2005

E COM VENTURES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

ASSETS:	JANUARY 29, 2005	JANUARY 31, 20

Current assets:		
Cash and cash equivalents	$ 1,249,543	$ 1,961,31
Trade receivables, net	695,812	777,18
Inventories	78,929,639	60,877,45
Prepaid expenses and other current assets	1,149,723	1,461,49
Notes and interest receivable from shareholder and officer	--	327,31
Total current assets	82,024,717	65,404,75
Property and equipment, net	23,070,723	24,414,62
Goodwill	1,904,448	1,904,44
Other assets, net	817,156	739,57
Total assets	$ 107,817,044	$ 92,463,39
LIABILITIES AND SHAREHOLDERS' EQUITY:		
Current liabilities:		
Bank line of credit	$ 31,528,212	$ 30,472,02
Accounts payable	18,111,196	16,459,78
Accounts payable, affiliates	23,228,325	17,440,49
Accrued expenses and other liabilities	6,685,494	9,614,28
Subordinated note payable, affiliate	--	250,00
Current portion of obligations under capital leases	231,353	258,70
Total current liabilites	79,784,580	74,495,29
Convertible note payable - affiliate	5,000,000	-
Long-term portion of obligations under capital leases	7,972,455	7,746,26
Total liabilities	92,757,035	82,241,55
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; 3,834,684 and 3,285,758 shares issued in fiscal years 2004 and 2003, respectively	38,347	32,85
Additional paid-in capital	75,347,588	73,666,19
Treasury stock, at cost, 898,249 shares in fiscal years 2004 and 2003	(8,576,944)	(8,576,94
Accumulated deficit	(51,748,982)	(54,900,26
Total shareholders' equity	15,060,009	10,221,84
Total liabilities and shareholders' equity	$ 107,817,044	$ 92,463,39

See accompanying notes to consolidated financial statements.

E COM VENTURES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

	FOR THE FISCAL YEARS ENDED	
	January 29, 2005	January 31, 2004
Net sales	$ 225,003,201	$ 212,567,569
Cost of goods sold	133,666,605	129,190,549
Gross profit	91,336,596	83,377,020
Operating expenses:		
Selling, general and administrative expenses	78,521,215	82,297,031
Change of control expenses	--	4,931,221
Provision for receivables from an affiliate	--	--
Provision for impairment of assets and store closings	313,888	593,109
Depreciation and amortization	5,874,591	6,102,823
Total operating expenses	84,709,694	93,924,184
Income (loss) from operations	6,626,902	(10,547,164)
Other income (expense):		
Interest expense:		
Affiliates	(248,124)	(109,217)
Other	(3,079,695)	(2,070,034)
	(3,327,819)	(2,179,251)
Interest income:		
Affiliates	--	15,707
Other	2,198	10,687
	2,198	26,394
Realized loss on investments	--	(171,679)
Total other expense	--	(171,679)
Income (loss) before income taxes	3,301,281	(12,871,700)
Provision for income taxes	150,000	--
Net income (loss)	$ 3,151,281	$ (12,871,700)
Basic income (loss) per common share	$ 1.11	$ (5.24)
Diluted income (loss) per common share	$ 1.06	$ (5.24)

Weighted average number of shares outstanding:

Basic	2,832,107	2,454,340
Diluted	3,001,844	2,454,340

See accompanying notes to consolidated financial statements.

E COM VENTURES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE FISCAL YEARS ENDED JANUARY 29, 2005, JANUARY 31, 2004
AND FEBRUARY 1, 2003

	Common Stock		Additional Paid-In Capital
	Shares	Amount	
Balance at February 2, 2002	2,980,305	$ 29,803	$ 71,455,401
Components of comprehensive loss:			
Net loss	--	--	--
Unrealized gain on investments	--	--	--
Total comprehensive loss	--	--	--
Exercise of stock options	59,808	598	112,949
Purchase of treasury stock	--	--	--
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
Components of comprehensive loss:			
Net loss	--	--	--
Unrealized loss on investments	--	--	--
Total comprehensive loss	--	--	--
Exercise of stock options	69,997	700	235,805
Purchase of treasury stock	--	--	--

Stock Compensation	--	--	2,285,640
Net change in notes and interest receivable 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
Net income and comprehensive income	--	--	--
Exercise of stock options	548,926	5,489	1,681,395
Balance at January 29, 2005	3,834,684	$ 38,347	$ 75,347,588

	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Notes and Interest Receivable From Shareholders and Officers
Balance at February 2, 2002	$ 241,334	$(39,202,863)	$ (2,881,624)
Components of comprehensive loss:			
Net loss	--	(2,825,700)	--
Unrealized gain on investments	(381,738)	--	--
Total comprehensive loss	--	--	--
Exercise of stock options	--	--	--
Purchase of treasury stock	--	--	--
Conversion of debt and accrued interest to common stock	--	--	--
Net change in notes and interest receivable from shareholder and officer	--	--	2,570,020
Premium repayment of convertible notes payable	--	--	--
Balance at February 1, 2003	(140,404)	(42,028,563)	(311,604)
Components of comprehensive loss:			
Net loss	--	(12,871,700)	--
Unrealized loss			

on investments	140,404	--	--
Total comprehensive loss	--	--	--
Exercise of stock options	--	--	--
Purchase of treasury stock	--	--	--
Stock Compensation	--	--	--
Net change in notes and interest receivable from shareholder and officer	--	--	311,604
Premium repayment of convertible notes payable	--	--	--
Balance at January 31, 2004	--	(54,900,263)	--
Net income and comprehensive income	--	3,151,281	--
Exercise of stock options	--	--	--
Balance at January 29, 2005	$ --	$(51,748,982)	$ --

References to share amounts in the schedule above for periods ended prior to March 20, 2002 reflect the effect of the one for four reverse stock-split.

See accompanying notes to consolidated financial statements.

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

	FOR THE FISCAL YE	
	January 29, 2005	January 31, 2
Cash flows from operating activities:		
Net income (loss)	$ 3,151,281	$(12,871,70
Adjustments to reconcile net loss to net cash provided by operating activities:		
Provision for receivables from affiliate	--	-
Provision for impairment of assets and store closings	313,388	593,10
Writeoff of inventories	188,035	897,87
Depreciation and amortization	5,874,591	6,102,82
Writeoff of discontinued inventory	185,088	2,558,80
Realized loss on investments	--	171,67
Stock compensation	--	2,285,64

Change in operating assets and liabilities:		
Trade receivables	81,374	(32,73
Inventories	(18,425,311)	4,383,03
Prepaid expenses and other current assets	311,770	1,507,25
Due from affiliate	--	-
Other assets	(309,799)	368,36
Accounts payable, non-affiliate	1,651,410	(4,446,04
Accounts payable, affiliate	5,537,833	4,258,77
Accrued expenses and other liabilities	(2,928,793)	4,445,65
Net cash (used in) provided by operating activities	(4,369,133)	10,222,54
Cash flows from investing activities:		
Additions to property and equipment	(4,148,335)	(5,907,01
Proceeds from investments available for sale	--	179,33
Net cash used in investing activities	(4,148,335)	(5,727,68
Cash flows from financing activities:		
Net borrowings and (repayments) under bank line of credit and notes payable	1,056,185	(1,641,66
Principal payments under capital lease obligations	(264,679)	(1,143,76
Net advances to shareholders and officers	--	-
Proceeds from note and interest receivable, shareholder and officer	327,311	-
Proceeds from subordinated secured demand loan, affiliate	5,000,000	-
Repayments of convertible notes payable	--	(1,458,26
Proceeds from exercise of stock options	1,686,884	236,50
Purchases of treasury stock	--	(1,491,00
Net cash provided by (used in) financing activities	7,805,701	(5,498,19
(Decrease) increase in cash and cash equivalents	(711,767)	(1,003,33
Cash and cash equivalents at beginning of period	1,961,310	2,964,64
Cash and cash equivalents at end of period	$ 1,249,543	$ 1,961,31
Cash paid during the period for:		
Interest	$ 3,139,425	$ 2,034,66

See accompanying notes to consolidated financial statements.

29

E COM VENTURES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JANUARY 29, 2005, JANUARY 31, 2004
AND FEBRUARY 1, 2003

NOTE 1 - NATURE OF BUSINESS

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'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 29, 2005, January 31, 2004, and February 1, 2003 were 223, 232 and 238, respectively.

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 2004, 2003 and 2002 refer to the years ended January 29, 2005, January 31, 2004 and February 1, 2003, respectively. The fiscal years presented each contain fifty-two weeks.

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.

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 delivered to customers. 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.

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 $0.4 million and $3.5 million for the years ended January 29, 2005 and January 31, 2004, respectively.

30

In fiscal year 2003 management had identified approximately 3,400 of the Company's 25,000 stock keeping units ("skus"). The Company intends to sell through its existing on hand inventory of these skus during fiscal year 2005. The total cost of this inventory as of January 31, 2004 was approximately $9.4 million. The Company recorded an income statement charge of approximately $2.6 million in fiscal 2003, which represented the difference between the estimated selling value and the weighted average cost of this inventory. These charges were included in cost of goods sold on the accompanying consolidated statement of operations for the year ended 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 renewal periods that are reasonably assured, 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. Goodwill is tested annually for impairment at the end of the Company's fiscal year. No impairment occurred as a result of the annual tests.

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 amortization of intangible assets amounted to approximately $0.2 million in fiscal years 2004 and 2003. Amortization of intangible assets in the amount of approximately $140,000 is anticipated during fiscal year 2005, 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 more likely than not 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 fiscal years 2003 and prior in the accompanying consolidated statements of operations, 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		
	2004	2003	2002
Numerator:			
Net income (loss) - basic	$ 3,151,281	$(12,871,700)	$ (2,825,70
Add: interest on convertible note	44,131	--	-
Net income (loss) - diluted	$ 3,195,412	$(12,871,700)	$ (2,825,70
Denominator:			
Weighted average number of shares for basic income (loss) per share	2,832,107	2,454,340	2,528,32
Options to purchase common stock	105,024	--	-
Convertible note	64,713	--	-
Denominator for dilutive income (loss) per share	3,001,844	2,454,340	2,528,32
Basic income (loss) per share	$ 1.11	$ (5.24)	$ (1.1
Diluted income (loss) per share	$ 1.06	$ (5.24)	$ (1.1
Antidilutive securities not included in the diluted income (loss) per share computation:			
Options to purchase common stock	86,256	696,436	666,50
Range of exercise prices	$12.52 - $21.52	$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.

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 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 2004, 2003 and 2002. 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 and 2002:

Basic and diluted loss per share are computed as follows:

	FISCAL YEAR		
	2004	2003	2002
Net income (loss) as reported	$ 3,151,281	$(12,871,700)	$ (2,825,700)
Add: Total fair value of stock based employee compensation expense not included in reported net income (loss)	(94,731)	(1,425,284)	(478,449)
Proforma net income (loss)	$ 3,056,550	$(14,296,984)	$ (3,304,149)

Proforma net income (loss) per share:			
Basic	$ 1.08	$ (5.83)	$ (1.31)
Diluted	$ 1.03	$ (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.

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.

ADVERTISING COSTS

Advertising expense for the fiscal years 2004, 2003 and 2002 was approximately $1,441,000, $1,876,000 and $1,286,000, respectively, and charged to expense when incurred. Cooperative advertising amounts received from vendors for fiscal years 2004, 2003 and 2002 were $0, $200,000 and $200,000, respectively, and recorded as an offset to advertising expense.

RECLASSIFICATION

Certain fiscal year 2003 and 2002 amounts have been reclassified to conform with the fiscal 2004 presentation.

RECENT ACCOUNTING PRONOUNCEMENTS

On December 16, 2004 the Financial Accounting Standards Board ("FASB") issued Statement No. 123 (revised 2004)("SFAS 123(R)"), "Share-Based Payment," which is effective for reporting periods beginning after June 15, 2005. SFAS 123(R) requires an entity to recognize compensation expense in an amount equal to the fair value of share-based payments granted to employees. On April 14, 2005, the Securities and Exchange Commission ("SEC") amended the compliance date for SFAS 123(R). The SEC's new rule allows implementation of SFAS 123(R) at the beginning of an entity's next fiscal year that begins after June 15, 2005. Accordingly, we will adopt SFAS 123(R) at the beginning of fiscal year 2006 and apply the standard using the modified prospective method, which requires compensation expense to be recorded for new and modified awards. For any unvested portion of previously issued and outstanding awards, compensation expense is required to be recorded based on the previously disclosed SFAS 123 methodology and amounts. Prior periods presented are not required to be restated. We are in the process of assessing the impact on our results of operations and financial position on the adoption of SFAS 123(R).

NOTE 3 - NON-CASH TRANSACTIONS

Supplemental disclosures of non-cash investing and financing activities:

	FISCAL YEAR ENDED		
NON-CASH TRANSACTIONS	January 29, 2005	January 31, 2004	Febr
Equipment and building under capital leases	$ 463,525	$ 414,630	
Unrealized gain (loss) on investments	--	140,404	
Subordinated debt issued to affiliate	--	5,000,000	
Conversion of debt and accrued interest payable in exchange for common stock	--	--	
Subordinated debt exchanged for convertible note payable, affiliate	5,000,000	--	

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment consisted of:

	FISCAL YEAR ENDED		Estimat
	January 29, 2005	January 31, 2004	(
Furniture, fixtures and equipment	$ 24,945,705	$ 21,221,687	
Leasehold improvements	27,055,275	25,369,583	
Equipment under capital leases	521,161	6,774,897	shorter of
Building under capital lease	8,188,945	7,725,420	
	60,711,086	61,091,587	
Less:			
Accumulated depreciation and amortization	(37,640,363)	(36,676,963)	
	$ 23,070,723	$ 24,414,624	

See Note 11 for further discussion of capital leases.

Approximately $4,164,000 of point of sale registers were reclassified from equipment under capital leases to furniture, fixtures and equipment in fiscal year 2004 as the leases matured and the Company exercised its option to purchase the registers. In addition, the Company disposed of approximately $2,090,000 of equipment under capital leases in fiscal year 2004, on equipment that was fully depreciated. There was no effect in the Company's consolidated statement of operations.

Depreciation and amortization expense for fiscal years 2004, 2003, and 2002 was $5,874,591, $6,102,823 and $6,024,400, respectively. Accumulated depreciation for building and equipment under capital leases was $1,238,231 and $5,428,802 as of January 29, 2005 and January 31, 2004, respectively.

NOTE 5 - RELATED PARTY TRANSACTIONS

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.

34

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 President and Chief Executive Officer.

As of April 26, 2004, Mr. Lekach exercised stock options to acquire 318,750 common shares resulting in proceeds to the Company of approximately $851,000 and the Nussdorfs acquired 595,954 shares from Mr. Lekach pursuant to the Nussdorf Option Agreement. Mr. Lekach had stock options for another 125,000 shares which were 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 were only to 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 were $500,000 when Mr. Lekach exercised the 125,000 options. The Nussdorfs exercised their option to acquire the remaining 125,000 shares subject to the Nussdorf Option Agreement and the Nussdorfs currently own an aggregate 1,113,144 shares of the Company's common stock or approximately 38% of the total number of shares of the Company's common stock as of January 29, 2005, excluding shares issuable upon conversion of the Convertible Note discussed below in Note 6.

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. See Note 6 for a discussion of the Convertible Note issued to the Nussdorfs.

The Nussdorfs are officers and principals of Quality King Distributors, Inc. ("Quality King"). During fiscal year 2004, the Company purchased approximately $39,317,000 of merchandise from Quality King and sold approximately $23,570,000 of different merchandise to Quality King. In fiscal year 2003, there were approximately $5,960,000 of purchases from Quality King and approximately $11,366,000 of merchandise sold to Quality King. The amounts due to Quality King and its affiliates at January 29, 2005 and January 31, 2004, were approximately $13,234,000 and $797,000 respectively.

Notes receivable from Ilia Lekach, the Company's former Chairman of the Board of Directors and Chief Executive Officer, was $327,311 as of January 31, 2004. The notes were unsecured, matured in five years and bore interest at prime plus 1% per annum. Principal and interest were payable in full at maturity. Total interest income recognized during fiscal years 2004 and 2003 was approximately $2,000 and $16,000, respectively. Accrued interest receivable was approximately $27,000 and $12,000 as of January 31, 2004 and February 1, 2003. The notes and all accrued interest were fully paid in March 2004.

Parlux Fragrances, Inc. ("Parlux") owns approximately 13% of the Company's outstanding common stock. Purchases of products from Parlux, whose Chairman of the Board of Directors and Chief Executive Officer is Ilia Lekach, amounted to approximately $38,360,000, $27,701,000 and $11,613,000 in fiscal years 2004, 2003 and 2002, representing approximately 20%, 23% and 10%, respectively, of the Company's total purchases. The amount due to Parlux on January 29, 2005 and January 31, 2004, was approximately $9,994,000 and $14,506,000, respectively. Accounts payable due to Parlux are non-interest bearing. The amounts due to Parlux, exclusive of the secured note payable described below, are included in the accounts payable affiliates in the accompanying consolidated balance sheets.

On June 30, 2003, Perfumania signed a $5,000,000 subordinated note agreement with Parlux. The note was in consideration for the reduction of $5,000,000 in trade payables due to Parlux in the same year. The note was due on February 29, 2004, with various periodic principal payments, bore interest at prime plus 1% and was subordinated to all bank related indebtedness. As of January 31, 2004 the outstanding principal balance due on the note was $250,000 and included in the amount due Parlux of $14,506,000 at January 31, 2004. The note was paid in full in February 2004, in accordance with its terms.

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 was approximately $1,617,000, and is 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 at January 31, 2004 and is included in accounts payable affiliates in the accompanying consolidated balance sheets.

NOTE 6 - BANK LINE OF CREDIT AND NOTES PAYABLE

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

	January 29, 2005	Janua
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)	$ 31,528,212	$
Convertible note payable affiliate - long term	$ 5,000,000	$

In May 2004, Perfumania entered into a three-year amended and restated senior secured credit facility with GMAC Commercial Finance LLC and Congress Financial Corporation. The line of credit provides for borrowings of up to $60 million, increased from $40 million in the previous credit facility, of which $31.5 million was outstanding under the line of credit and $12.6 million was available as of January 29, 2005, to support normal working capital requirements and other general corporate purposes. Advances under the line of credit are based on a formula of eligible inventories and bears interest at a floating rate ranging from (a) prime to prime plus 1.25% or (b) LIBOR plus 2.5% to 3.75% depending on a financial ratio test. Advances are secured by a first lien on all assets of Perfumania. The credit facility contains limitations on additional borrowings, capital expenditures and other items, and contains various covenants including a fixed charge coverage ratio, a leverage ratio and capital expenditure limits as defined. The credit facility expires in May 2007. As of January 29, 2005, Perfumania was in compliance with its covenant requirements.

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. On December 9, 2004, the Company issued a Subordinated Convertible Note (the "Convertible Note") in exchange for the $5,000,000 subordinated secured demand loan. The Convertible Note bears interest at the prime rate plus 1%, requires quarterly interest payments and is secured by a security interest in the Company's assets pursuant to a Security Agreement, by and among the Company and the Nussdorfs. There are no prepayment penalties and the Convertible Note is subordinate to all bank related indebtedness. The Convertible Note is payable in January 2007 and allows the Nussdorfs to convert the Convertible Note into shares of the Company's common stock at a conversion price of $11.25, which equals the closing market price of the Company's common stock on December 9, 2004.

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 $0.3 million, $0.6 million and $0.7 million during fiscal years 2004, 2003 and 2002, 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 provision for income taxes is comprised of the following amounts:

	FISCAL YEAR ENDED		
	January 29, 2005	January 31, 2004	February 1, 2003
Current:			
Federal	$ (75,000)	$ --	$ --
State	(75,000)	--	--
	(150,000)	--	--
Deferred:			
Federal	--	--	--
State	--	--	--
Provision for income taxes	$(150,000)	$ --	$ --

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

	FISCAL YEAR ENDED		
	January 29, 2005	January 31, 2004	February 1
Benefit (expense) at federal statutory rates	$(1,122,436)	$ 4,376,378	$ 960,
Non-deductible expenses	(1,527,156)	(1,504,335)	(283,
Change in the valuation allowance	3,101,821	(3,224,513)	(584,
Other	(602,229)	352,470	(93,
Provision for income taxes	$ (150,000)	$ --	$

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

	FISCAL YEAR ENDED	
	January 29,	January 31,

	2005	2004
Assets:		
Net operating loss & tax credit carryforwards	$ 6,482,224	$ 5,962,433
Capital loss carryforward	1,571,773	1,455,119
Inventories	1,257,747	1,708,735
Property and equipment	733,777	3,291,432
Reserves	143,911	167,436
Goodwill	296,382	306,002
Deferred compensation	--	715,983
Other	392,037	372,532
Total deferred tax assets	10,877,851	13,979,672
Valuation allowance	(10,877,851)	(13,979,672)
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 29, 2005, the Company has net operating loss carryforwards of approximately $17.0 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 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 Company subsequently disposed of its holding in Nimbus in open market transactions at a loss of approximately $172,000 in fiscal 2003.

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 in the consolidated statement of operations for fiscal year 2002.

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 shareholders' approval. The Board of Directors is authorized to issue these shares in 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 29, 2005, 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. There were no additional repurchases during fiscal year 2004.

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 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 5, a change in control occurred which resulted in the issuance of 244,252 options which were immediately exercisable. The Company incurred a charge of approximately $2,286,000 in non-cash compensation expense in fiscal 2003 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 income (loss) per share for 2004, 2003 and 2002, 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 2004, 2003 and 2002:

	2004	2003	2002
Expected life (years)	7 years	7 years	7 years
Interest rate	4.08%	3.68%	4.88%
Volatility	168%	165%	148%
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.

A summary of the Company's option activity, and related information for each of the three fiscal years ended January 29, 2005 is as follows:

	2004		2003	
	Shares	Weighted Average Exercisable Price	Shares	Weighted Average Exercisabl Price
Outstanding at beginning of year	809,238	$ 4.99	666,501	$ 5.32
Granted	5,334	11.12	254,252	4.79
Exercised	(551,222)	3.08	(69,996)	3.38
Cancelled	(51,318)	7.65	(41,519)	11.93
Outstanding at end of year	212,032	$ 9.46	809,238	$ 4.99
Options exercisable at end of year	212,032	$ 9.46	696,436	$ 5.10
Weighted-average fair value of options granted during the year	5,334	$ 11.12	254,252	$ 4.79

The following table summarizes information about stock options outstanding at January 29, 2005:

	OPTIONS OUTSTANDING			OPTIONS EXER
RANGE OF	NUMBER	Weighted Average Exercise	Weighted Average Remaining Contractual	NUMBER

EXERCISE PRICES	OUTSTANDING	Price	Life	EXERCISABLE
$2.00 - $3.36	10,816	$ 2.47	5.17	10,816
$3.52 - $3.52	47,832	3.52	7.32	47,832
$3.60 - $8.24	42,876	7.57	7.26	42,876
$10.02 - $11.24	24,252	10.93	5.61	24,252
$12.52 - $21.52	86,256	14.16	5.42	86,256
	212,032	$ 9.46	6.23	212,032

39

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 $13,000, 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 did not match contributions during fiscal year 2004 and matching contributions during fiscal years 2003 and 2002 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 $2.1 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 incurred as of January 29, 2005. 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 29, 2005 and January 31, 2004 was approximately $426,000 and $441,000, 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.

Rent expense for fiscal years 2004, 2003, and 2002 was approximately $15,417,000, $15,559,000, and $15,879,000, respectively. Future minimum lease commitments under non-cancelable operating leases at January 29, 2005 are as follows:

FISCAL YEAR	
2005	$ 11,495,511

2006	9,353,861
2007	7,251,154
2008	4,696,344
2009	3,836,922
Thereafter	8,233,977
Total future minimum lease payments	$ 44,867,769

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 29, 2005:

FISCAL YEAR	
2005	$ 1,165,086
2006	1,148,423
2007	1,137,116
2008	1,145,012
2009	1,231,779
Thereafter	10,415,633
Total future minimum lease payments	16,243,049
Less: Amount representing interest	(8,039,241)
Present value of minimum lease payments	8,203,808
Less: Current portion	(231,353)
	$ 7,972,455

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

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. Retail sales include sales through our Internet site, perfumania.com. Financial information for these segments is summarized in the following table.

	FISCAL YEARS		
	2004	2003	2002
Net sales:			
Retail	$201,424,708	$198,478,506	$199,369,331
Wholesale	23,578,493	14,089,063	2,144,566
	$225,003,201	$212,567,569	$201,513,897
Gross profit:			
Retail	$ 90,048,875	$ 81,923,375	$ 84,159,461
Wholesale	1,287,721	1,453,645	435,051
	$ 91,336,596	$ 83,377,020	$ 84,594,512

NOTE 13- QUARTERLY FINANCIAL DATA (UNAUDITED)

Unaudited summarized financial results for fiscal years 2004 and 2003 follows (in thousands, except for per share data):

2004 QUARTER	FIRST	SECOND	THIRD	FOURTH
Net sales	$ 43,571	$ 48,471	$ 50,803	$ 82,158
Gross profit	17,505	20,868	19,740	33,224
Net income (loss)	(2,638)	(529)	(1,103)	7,421
Net income (loss) per basic share	(1.00)	(0.18)	(0.38)	2.54
Net income (loss) per diluted share	(1.00)	(0.18)	(0.38)	2.30

2003 QUARTER	FIRST	SECOND	THIRD	FOURTH
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)

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 write-down of inventory which the Company intended to discontinue offering for sale in its stores.

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 29, 2005, that our disclosure controls and procedures are effective. There have been no changes in our internal control over financial reporting during the quarter ended January 29, 2005 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III.

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 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.

42

PART IV.

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(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 29, 2005, January 31, 2004 and February 1, 2003 appears on page 24.

(2) Financial Statement Schedules

None

(3) Exhibits

EXHIBIT	DESCRIPTION
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*
10.18	Nussdorf Subordinated Secured Convertible Note
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

----

* Management contract or compensatory plan or arrangement

(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 Statement (filed April 16, 2004).

(11) Incorporated by reference to the exhibit of the same description filed with the Company's Form 8-K (filed in December 14, 2004).

44

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, April 27, 2005.

E Com Ventures, Inc.

By: /s/ MICHAEL W. KATZ
Michael W. Katz,
President and Chief Executive Officer
(Principal Executive Officer)

By: /s/ A. MARK YOUNG
A. Mark Young,
Chief Financial Officer
(Principal Accounting Officer)

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	President and Chief Executive Officer (Principal Executive Officer)	April 27, 2005
/s/ STEPHEN NUSSDORF Stephen Nussdorf	Chairman of the Board of Directors	April 27, 2005
/s/ A. MARK YOUNG A. Mark Young	Chief Financial Officer, (Principal Accounting Officer)	April 27, 2005

/s/ DONOVAN CHIN ------------------------------ Donovan Chin	Chief Financial Officer Perfumania, Inc.,	April 27, 2005
/s/ CAROLE ANN TAYLOR ------------------------------ Carole Ann Taylor	Director	April 27, 2005
/s/ JOSEPH BOUHADANA ------------------------------ Joseph Bouhadana	Director	April 27, 2005
/s/ PAUL GARFINKLE ------------------------------ Paul Garfinkle	Director	April 27, 2005