E COM VENTURES INC
Form 10-Q
December 12, 2006
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended October 28, 2006

OR

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

For the transition period from ______ to ______.

Commission file number: 0-19714

E COM VENTURES, INC.

(Exact name of Registrant as specified in its charter)

Florida	**65-0977964**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
251 International Parkway	**33325**

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

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

Yes x No ¨

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

Large Accelerated Filer ¨ Accelerated Filer ¨ Non-Accelerated Filer x

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

Yes ¨ No x

The number of shares outstanding of the registrant s common stock, as of the latest practicable date: At December 8, 2006 there 3,040,855 outstanding shares of its common stock, $0.01 par value.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

E COM VENTURES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

	October 28, 2006	January 28, 2006
ASSETS:		
Current assets:		
Cash and cash equivalents	$ 1,478,372	$ 1,260,444
Trade receivables, no allowance required	1,099,133	819,072
Deferred tax asset	6,570,744	5,343,839
Inventories, net	99,297,869	72,976,845
Prepaid expenses and other current assets	729,203	950,146
Total current assets	109,175,321	81,350,346
Property and equipment, net	28,983,207	25,308,899
Goodwill	1,904,448	1,904,448
Deferred tax asset	4,935,161	4,935,161
Other assets, net	359,221	457,627
Total assets	$ 145,357,358	$ 113,956,481
LIABILITIES AND SHAREHOLDERS EQUITY:		
Current liabilities:		
Bank line of credit	$ 39,656,621	$ 20,147,978
Accounts payable, non-affiliates	23,844,235	13,470,670
Accounts payable, affiliates	31,613,467	26,905,433
Accrued expenses and other liabilities	7,637,794	7,973,168
Current portion of obligations under capital leases	336,577	322,284
Total current liabilities	103,088,694	68,819,533
Subordinated convertible note payable - affiliate	5,000,000	5,000,000
Long-term portion of obligations under capital leases	7,642,673	7,898,354
Total liabilities	115,731,367	81,717,887
Commitments and contingencies (see Note 5)		
Shareholders equity:		
Preferred stock, $.10 par value, 1,000,000 shares authorized, none issued		
Common stock, $.01 par value, 6,250,000 shares authorized; 3,938,540 and 3,857,216 shares issued in fiscal years 2006 and 2005, respectively	39,386	38,572
Additional paid-in capital	78,876,768	78,260,686
Treasury stock, at cost, 898,249 shares	(8,576,944)	(8,576,944)
Accumulated deficit	(40,713,219)	(37,483,720)

Total shareholders equity		29,625,991		32,238,594
Total liabilities and shareholders' equity	$	145,357,358	$	113,956,481

See accompanying notes to condensed consolidated financial statements.

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E COM VENTURES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Thirteen Weeks Ended October 28, 2006	Thirteen Weeks Ended October 29, 2005	Thirty-Nine Weeks Ended October 28, 2006	Thirty-NineWeeks Ended October 29, 2005
Net sales	$ 53,904,014	$ 48,657,395	$ 150,023,265	$ 146,133,940
Cost of goods sold	32,068,582	28,128,186	87,019,388	86,219,889
Gross profit	21,835,432	20,529,209	63,003,877	59,914,051
Operating expenses:				
Selling, general and administrative	21,078,668	19,377,544	60,516,097	56,456,442
Depreciation and amortization	1,224,602	1,257,564	3,531,540	4,027,130
Total operating expenses	22,303,270	20,635,108	64,047,637	60,483,572
Loss from operations	(467,838)	(105,899)	(1,043,760)	(569,521)
Interest expense, net	(1,189,503)	(1,008,585)	(3,284,806)	(2,833,302)
Loss before income taxes	(1,657,341)	(1,114,484)	(4,328,566)	(3,402,823)
Income tax benefit	319,067		1,099,067	
Net loss	$ (1,338,274)	$ (1,114,484)	$ (3,229,499)	$ (3,402,823)
Net loss per common share:				
Basic	$ (0.45)	$ (0.38)	$ (1.08)	$ (1.15)
Diluted	$ (0.45)	$ (0.38)	$ (1.08)	$ (1.15)
Weighted average number of common shares outstanding:				
Basic	3,001,847	2,952,903	2,984,070	2,946,959
Diluted	3,001,847	2,952,903	2,984,070	2,946,959

See accompanying notes to condensed consolidated financial statements.

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E COM VENTURES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Thirty-Nine Weeks Ended October 28, 2006	Thirty-Nine Weeks Ended October 29, 2005
Cash flows from operating activities:		
Net loss	$ (3,229,499)	$ (3,402,823)
Adjustments to reconcile net loss to net cash used in operating activities:		
Addition to deferred tax assets	(1,226,905)	
Provision for impairment of assets and store closing	64,737	132,916
Depreciation and amortization	3,531,540	4,027,130
Change in operating assets and liabilities:		
Trade receivables	(280,061)	(1,005,059)
Inventories	(26,321,023)	(10,786,311)
Prepaid expenses and other assets	318,840	451,516
Accounts payable, non-affiliates	9,745,573	(6,079,803)
Accounts payable, affiliates	4,708,034	11,822,669
Accrued expenses and other liabilities	(335,375)	277,625
Net cash used in operating activities	(13,024,139)	(4,562,140)
Cash flows from investing activities:		
Additions to property and equipment	(6,642,084)	(5,620,386)
Net cash used in investing activities	(6,642,084)	(5,620,386)
Cash flows from financing activities:		
Net borrowings under bank line of credit	19,508,643	13,351,674
Principal payments under capital lease obligations	(241,388)	(193,422)
Proceeds from exercise of stock options	616,896	234,994
Net cash provided by financing activities	19,884,151	13,393,246
Increase in cash and cash equivalents	217,928	3,210,720
Cash and cash equivalents at beginning of period	1,260,444	1,249,543
Cash and cash equivalents at end of period	$ 1,478,372	$ 4,460,263

See accompanying notes to condensed consolidated financial statements.

E COM VENTURES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 1 - OPERATIONS AND BASIS OF PRESENTATION

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

Perfumania is a leading specialty retailer and wholesale distributor of a wide range of brand name and designer fragrances. As of October 28, 2006, Perfumania operated a chain of 257 retail stores specializing in the sale of fragrances at discounted prices up to 75% below the manufacturers' suggested retail prices. Perfumania's wholesale division distributes fragrances and related products primarily to an affiliate. Perfumania.com offers a selection of the Company s more popular products for sale over the Internet and serves as an alternative shopping experience to the Perfumania retail stores.

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

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission (the SEC). Certain information and note disclosures normally included in annual financial statements, prepared in accordance with accounting principles generally accepted in the United States of America, have been condensed or omitted pursuant to those rules and regulations. The financial information presented herein, which is not necessarily indicative of results to be expected for the current fiscal year, reflect all adjustments which, in the opinion of management, are necessary for a fair presentation of the interim unaudited condensed consolidated financial statements. It is suggested that these condensed consolidated financial statements be read in conjunction with the financial statements and the notes thereto included in our Annual Report on Form 10-K for the fiscal year ended January 28, 2006, filed with the SEC on April 28, 2006.

NOTE 2 - ACCOUNTING FOR SHARE-BASED PAYMENT

The Company has two stock option plans which provide for equity-based awards to its employees and directors (collectively, the Plans). Under the Plans, the Company has reserved approximately 1,000,000 shares of common stock, of which approximately 582,000 options have been granted and 158,000 options are outstanding. All stock options have an exercise price that is equal to the fair market value of the Company s stock on the date the options were granted. The term of the stock option awards is ten years from the date of grant. All options are fully vested. Prior to the January 29, 2006 adoption of Statement of Financial Accounting Standards (SFAS) No. 123R Share Based Payment (SFAS 123R), the Company accounted 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). Accordingly, because the stock option price equaled the market price on the date of grant, no compensation expense was recognized by the Company for stock-based compensation. As permitted by SFAS No. 123, Accounting for Stock-Based Compensation (SFAS No. 123), stock-based compensation was included as a pro forma disclosure in the notes to the consolidated financial statements. SFAS No. 123R revises SFAS No. 123 and supersedes APB 25.

Effective January 29, 2006, the beginning of the Company s first fiscal quarter of 2006, the Company adopted the fair value recognition provisions of SFAS No. 123R, using the modified-prospective transition method. Under this transition method, share based compensation expense is required to be recognized in the consolidated financial statements for stock options which are granted, modified or vested subsequent to January 29, 2006. The compensation expense recognized will include the estimated expense for stock options granted on and subsequent to January 29, 2006, based on the grant date fair value estimated in accordance with the

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provisions of SFAS No. 123R, and the estimated expense for the portion vesting in the period for options granted prior to, but not vested as of January 28, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123. Results for prior periods have not been restated, as provided for under the modified-prospective method.

During the thirteen and thirty-nine weeks ended October 28, 2006, the Company did not recognize any share based compensation expense in the consolidated financial statements since no stock options were granted nor were there any modifications of outstanding stock options. In addition, all stock options outstanding as of January 28, 2006 were fully vested.

The following table shows the effect on net loss and net loss per common share in fiscal year 2005 had compensation cost been recognized based upon the estimated fair value on the grant date of stock options in accordance with SFAS No 123.

	Thirteen Weeks Ended October 29, 2005	Thirty-Nine Weeks Ended October 29, 2005
Net loss	$ (1,114,484)	$ (3,402,823)
Deduct: Total stock based employee compensation expense determined under fair market value based method, net of tax		(1,357,121)
Proforma net loss	$ (1,114,484)	$ (4,759,944)
Proforma net loss per share:		
Basic	$ (0.38)	$ (1.62)
Diluted	$ (0.38)	$ (1.62)

The fair value for these stock options was estimated at the date of grant using the Black-Scholes option valuation model with the following weighted average assumptions:

	Thirteen Weeks Ended October 29, 2005	Thirty-Nine Weeks Ended October 29, 2005
Expected life (years)	7	7
Expected volatility	164%	164%
Risk-free interest rates	3.85%	3.86%
Dividend yield	0%	0%

The expected life of the options represents the estimated period of time until exercise and is based on historical experience of similar awards, giving consideration to the contractual terms, vesting schedules and expectations of future employee behavior. The expected volatility is estimated using the historical volatility of the Company s stock. The risk-free interest rate is based on the implied yield available on U.S. Treasury zero coupon issues with a term equal to the option s expected life. The Company has not paid dividends in the past and does not intend to in the foreseeable future.

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The following is a summary of the stock option activity during the thirty-nine weeks ended October 28, 2006:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
Outstanding as of January 28, 2006	239,788	$ 10.27	7.29	$ 1,549,028