E COM VENTURES INC
Form DEFM14A
July 25, 2008
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934

Filed by the Registrant x
Filed by a Party other than the Registrant ¨

Check the appropriate box:

¨ Preliminary Proxy Statement
x Definitive Proxy Statement
¨ Definitive Additional Materials
¨ Soliciting Material Pursuant to §240.14a-12

¨ **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

E Com Ventures, Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

¨ No fee required.

x Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:
Common Stock, $0.01 par value

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(2) Aggregate number of securities to which transaction applies:
7,400,000

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(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

Transaction Value of $155,770,000 calculated by multiplying $21.05, the average of the high and low sales price of the registrant s common stock on March 10, 2008, as reported on the NASDAQ Stock Market, by 7,400,000, the number of shares issuable in the transaction described in this proxy statement. In accordance with Section 14(g) of the Securities Exchange Act of 1934, as amended, the filing fee was determined by multiplying 0.0000393 by the amount determined in the preceding sentence.

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(4) Proposed maximum aggregate value of transaction: $155,770,000

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(5) Total fee paid: $6,121.76

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x Fee paid previously with preliminary materials.

¨ Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

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(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

E Com Ventures, Inc.

251 International Parkway

Sunrise, Florida 33325

July 25, 2008

To our Shareholders:

You are invited to attend a special meeting of E Com Ventures shareholders to be held at 8:30 a.m. on August 8, 2008, at the offices of Edwards Angell Palmer & Dodge LLP, 750 Lexington Avenue, New York, NY 10022. We have signed an agreement to merge our business with Model Reorg, Inc., a diversified U.S. wholesale and retail fragrance company that had unaffiliated net revenues of $302.5 million for its fiscal year ended October 31, 2007 and $156.9 million for the first six months of its fiscal 2008. The combination will create a large, independent, national, vertically integrated wholesale distributor and specialty retailer of perfumes and fragrances that we expect will be well-positioned to compete in the marketplace and drive growth, as well as to benefit from increased operating scale. The principal purpose of the special meeting is to take actions necessary to complete the merger, including approving the issuance of shares of our common stock and warrants in the merger and approving an amendment to our Amended and Restated Articles of Incorporation to increase the authorized number of shares of our common stock.

In the merger, we will issue 5,900,000 shares of our common stock and warrants (not exercisable for the first three years) to purchase 1,500,000 shares at an exercise price of $23.94 per share in exchange for all the capital stock of Model Reorg. These would represent approximately 66% of our outstanding shares upon the closing of the merger, or approximately 71% assuming exercise of all warrants. Model Reorg s majority owners are Stephen L. Nussdorf and Glenn H. Nussdorf and their sister, Arlene Nussdorf. Stephen and Glenn Nussdorf currently beneficially own approximately 44.5% of our common stock and will beneficially own approximately 53.7% of our common stock after the merger, exclusive of shares issuable upon exercise of the warrants. Including shares received by Arlene Nussdorf in the merger, these Nussdorf family members would beneficially own approximately 72.3% of our capital stock in aggregate, or 75.7% assuming exercise of their warrants. Our other existing shareholders will continue to own the same number of shares as before the merger.

Our Board of Directors formed a special committee of independent directors to review the proposed merger. The special committee retained its own legal counsel, obtained valuation advice and a fairness opinion from an independent investment bank, and negotiated the terms of the merger with Model Reorg. On the special committee s recommendation, our Board determined that the terms of the merger are fair to our shareholders (other than those who are Model Reorg shareholders). The Board believes that combining Model Reorg with E Com Ventures will create valuable synergies and scale that will benefit all shareholders and recommends that you approve the proposals described in the accompanying Proxy Statement.

Our Board also approved changing our corporate name to Perfumania Holdings, Inc. to capitalize on the market recognition of our most important tradename, and we are also asking for your approval of this change at the special meeting.

The attached Proxy Statement describes the proposed merger and the actions to be taken at the special meeting. Please read the entire Proxy Statement carefully, including the Risk Factors section, before voting.

We are very excited about the opportunities this merger brings to our shareholders, and we thank you for your consideration and continued support.

Sincerely,

Michael W. Katz
President and Chief Executive Officer

YOUR VOTE IS IMPORTANT PLEASE SIGN, DATE AND RETURN THE ENCLOSED

PROXY CARD OR VOTING INSTRUCTION FORM

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E Com Ventures, Inc.

251 International Parkway

Sunrise, Florida 33325

NOTICE OF SPECIAL MEETING OF SHAREHOLDERS

To our Shareholders:

A Special Meeting of shareholders of E Com Ventures, Inc. will be held at 8:30 a.m. on Friday, August 8, 2008 at the offices of Edwards Angell Palmer & Dodge LLP, 750 Lexington Avenue, New York, NY 10022 for the purpose of considering and acting upon the following:

1. Approving the issuance of shares of common stock and warrants under the Agreement and Plan of Merger dated as of December 21, 2007 by and among E Com Ventures, Inc., Model Reorg, Inc., the shareholders of Model Reorg, and Model Reorg Acquisition LLC, as amended, and the issuance of our common stock upon exercise of such warrants;

2. Approving an amendment to E Com Ventures Articles of Incorporation to increase the number of shares of common stock we are authorized to issue from 6,250,000 shares to 20,000,000 shares;

3. Approving an amendment to E Com Ventures Articles of Incorporation to change our corporate name to Perfumania Holdings, Inc.;

4. If necessary or appropriate, approving a proposal to postpone or adjourn the Special Meeting to enable us to solicit additional proxies in favor of the foregoing proposals; and

5. Such other business as may properly come before the Special Meeting.

Any action may be taken on the foregoing proposals at the Special Meeting on the date specified above or on any date or dates to which the Special Meeting may be postponed or adjourned.

Shareholders of record at the close of business on June 24, 2008 are entitled to notice of, and to vote at, the Special Meeting or at any postponements or adjournments of the Special Meeting.

By Order of the Board of Directors,

Donovan Chin
Chief Financial Officer and Secretary

Sunrise, Florida

July 25, 2008

YOUR VOTE IS IMPORTANT

IT IS IMPORTANT THAT PROXIES BE RETURNED PROMPTLY. THEREFORE, WHETHER OR NOT YOU EXPECT TO ATTEND THE SPECIAL MEETING IN PERSON, PLEASE SIGN, DATE AND RETURN THE ENCLOSED PROXY CARD OR VOTING INSTRUCTION FORM AS SOON AS POSSIBLE IN THE ENCLOSED POSTAGE PRE-PAID ENVELOPE.

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E COM VENTURES, INC.

SPECIAL MEETING OF SHAREHOLDERS

PROXY STATEMENT

This Proxy Statement contains information about the Special Meeting of Shareholders of E Com Ventures, Inc. (E Com) to be held on Friday, August 8, 2008, beginning at 8:30 a.m., at the offices of Edwards Angell Palmer & Dodge LLP, 750 Lexington Avenue, New York, NY 10022. The approximate date that this Proxy Statement, the accompanying Notice of Special Meeting and the enclosed form of proxy are first being sent to shareholders is July 25, 2008.

QUESTIONS AND ANSWERS ABOUT THE MERGER

AND THE SPECIAL SHAREHOLDERS MEETING

Overview of the Merger

We entered into an Agreement and Plan of Merger on December 21, 2007 (the Original Merger Agreement) with Model Reorg, Inc. (Model Reorg), the shareholders of Model Reorg, and our subsidiary, Model Reorg Acquisition LLC (Merger Sub). On July 8, 2008, the parties executed a First Amendment to the Original Merger Agreement (the First Amendment). Copies of the Original Merger Agreement and the First Amendment, which we refer to together as the Merger Agreement, appear in Annex I to this Proxy Statement. The Merger Agreement provides that, subject to the conditions set forth therein, at the closing:

- Model Reorg will merge with and into Merger Sub (the Merger) and the merged entity will continue as our wholly-owned subsidiary; and

- we will issue to the Model Reorg shareholders 5,900,000 shares of our common stock and warrants exercisable for the purchase of 1,500,000 shares of our common stock at an exercise price of $23.94 per share (the Warrants), which we refer to collectively as the Merger Consideration.

The shares issued to the Model Reorg shareholders will represent approximately 66% of our outstanding shares immediately after the closing and approximately 71% assuming exercise of all the Warrants. Further details of the Merger and the Merger Consideration are provided under Approval to Issue Shares and Warrants Terms of the Merger Agreement and The Warrants.

When we use the term combined company in this Proxy Statement, we are referring to E Com together with Model Reorg, which, following the Merger, will be owned and operated by E Com as a wholly-owned subsidiary. The combined company will be called Perfumania Holdings, Inc. if shareholders approve the name change proposal described below.

This section provides brief answers to questions you may have about the Merger and the Special Meeting. For more complete responses to these questions and for additional information, please read this Proxy Statement in its entirety.

Q: Why am I receiving this Proxy Statement?

A: In order for us to complete the Merger, our shareholders must vote to approve (i) the issuance of our common stock and Warrants to the owners of Model Reorg, including the issuance of common stock upon exercise of the Warrants, and (ii) an amendment to our Amended and Restated Articles of Incorporation, as amended to date (which we refer to as our Articles of Incorporation), to increase the number of authorized shares of our common stock so that we have enough shares to issue in connection with the Merger and for future business purposes.

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We are also seeking shareholder approval to change our corporate name to Perfumania Holdings, Inc.

We are sending this Proxy Statement and the enclosed proxy card to our shareholders to solicit their vote on these proposals at the Special Meeting. This Proxy Statement contains important information about the Merger and the proposals to be approved.

Q: What is the total value of the Merger Consideration?

A: Because the Merger Consideration consists of our common stock and warrants, its value fluctuates with changes in the trading price of our common stock on NASDAQ. There is no trading market for the Warrants; accordingly, we calculate their value using the Black-Scholes pricing model, which involves making certain assumptions about the anticipated volatility of our stock price, future interest rates, and other matters. Since these assumptions are inherently variable and uncertain, they also contribute to fluctuations in the value of the Merger Consideration. Based on the closing market prices of our common stock and the assumptions we used to value the Warrants as of the respective dates, we determined that the total value of the Merger Consideration as of December 20, 2007 (the trading day before the date of the Original Merger Agreement) would have been $161,586,000, and that as of June 12, 2008, it would have been $138,969,000. The value of the Merger Consideration actually received by the Model Reorg shareholders at the closing will not be determined until the closing. You should note that the Special Committee s review of the fairness of the proposed Merger Consideration focused primarily on the estimated relative values of the two companies, rather than on the absolute value of the Merger Consideration as of any particular time.

Q: How will the share ownership of E Com s largest shareholders change in the Merger?

A: Stephen L. Nussdorf and Glenn H. Nussdorf will remain our largest shareholders. They currently own in the aggregate approximately 36.4% of our outstanding common stock, or approximately 44.5% assuming conversion into shares of a $5.0 million subordinated convertible promissory note we issued for a loan they made to us in 2004, which we refer to as the Convertible Note. Stephen and Glenn Nussdorf and their sister, Arlene Nussdorf, also own an aggregate of 88.8% of the outstanding shares of Model Reorg. After the Merger, Stephen and Glenn Nussdorf would beneficially own an aggregate of approximately 53.7% of our outstanding common stock, assuming conversion of the Convertible Note, and they would hold Warrants that would, upon exercise, result in their beneficially owning an aggregate of approximately 57.7% of our shares. Including shares to be received by Arlene Nussdorf in the Merger, these Nussdorf family members would beneficially own approximately 72.3% of our capital stock in aggregate, or 75.7% assuming exercise of their Warrants.

Q: What will happen to the other E Com shareholders?

A: You will continue to own the same number of shares of our common stock that you owned immediately before the Merger. Because we will issue new shares to the current shareholders of Model Reorg, the percentage interest of E Com that your shares represent will be reduced. However, we will be a bigger company as a result of acquiring Model Reorg. See Selected Historical and Pro Forma Combined Financial Data Comparative Historical and Unaudited Pro Forma Combined Per Share Data for more information on the effect of the Merger on our shareholders ownership.

Q: Should I send in my share certificates?

A: No. Your share certificates will not be exchanged in the Merger.

Q: Do I have appraisal rights?

A: No. Our shareholders do not have appraisal rights under Florida law in connection with the Merger.

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Q: Has the E Com Board of Directors made a recommendation on how I should vote?

A: Yes. Our Board of Directors appointed a committee of independent directors, who have no interest in Model Reorg, to review and negotiate the terms of the Merger. We refer to them in this Proxy Statement as the Special Committee. Based on the Special Committee s recommendation, our Board of Directors has recommended that you vote FOR the issuance of the Merger Consideration and the increase in our authorized shares. The reasons for our Board s recommendations are discussed in detail in Approval to Issue Shares and Warrants Reasons for the Merger and Authorization of Additional Shares Reasons for and Effect of the Amendment. The Board also recommends approval of the name change as discussed in Name Change Reasons for the Change below.

Q: Have the Model Reorg shareholders approved the Merger?

A: Yes. In addition, those Model Reorg shareholders who also own shares of our common stock have agreed to vote their E Com shares in favor of the Merger.

Q: When do you expect the Merger to be completed?

A: We are working towards completing the Merger as quickly as possible. We hope to complete it by early in the third quarter of our 2008 fiscal year.

Q: Where can I find more information about the companies?

A: In addition to the descriptions under Information about E Com and Information about Model Reorg, you can find more information about E Com from the sources described under Where You Can Find More Information. Because Model Reorg is a private company that does not file reports with the Securities and Exchange Commission (SEC), there is limited information publicly available about Model Reorg other than what has been provided in this Proxy Statement.

Q: Are there risks I should consider in deciding whether to vote to approve the issuance of the Merger Consideration pursuant to the Merger Agreement?

A: Yes. In evaluating the issuance of the Merger Consideration under the Merger Agreement, you should carefully consider the information discussed in Risk Factors and Forward-Looking Statements and the other considerations described in this Proxy Statement.

Q: Who will be the Board of Directors and management of the combined company after the Merger?

A: We do not anticipate that our Board of Directors will change at the time of the Merger. Model Reorg officers will join our management team as the larger Model Reorg business is absorbed into ours. More information about our Board and our and Model Reorg s present management appears under Approval to Issue Shares and Warrants Management Following the Merger.

Q: Why am I being asked to approve amendments to E Com s Articles of Incorporation?

A: An amendment to our Articles of Incorporation increasing the number of shares we may issue is necessary for us to complete the Merger. We need our shareholders to approve Proposal 2 for the share increase so that we will have enough authorized shares to issue to Model Reorg s shareholders as required by the Merger Agreement, and for future business purposes. Therefore, the Merger depends on our shareholders approving both Proposals 1 and 2.

Proposal 2 is not conditioned on approval of any other proposal, since we are seeking approval of the increase whether or not the Merger issuances are approved.

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In order to change our name to Perfumania Holdings, Inc., we also need to amend our Articles of Incorporation as described in Proposal 3. This proposal also is not conditioned on approval of any other proposal.

Q: When and where is the Special Meeting and who is entitled to vote?

A: The Special Meeting will take place on Friday, August 8, 2008 at 8:30 a.m., at the offices of Edwards Angell Palmer & Dodge LLP, 750 Lexington Avenue, New York, NY 10022. Holders of record of our common stock as of the close of business on June 24, 2008 are entitled to vote at the Special Meeting or any postponement or adjournment of the Special Meeting.

Q What shareholder approvals are required to approve the proposals?

A: The affirmative vote of a majority of the votes cast is required to approve each proposal.

Q: What do I need to do now?

A: You should carefully read and consider the information contained in this Proxy Statement, including the Annexes. You should then complete, sign, and return the enclosed proxy card or voting instruction form in accordance with the accompanying instructions.

Q: If my E Com shares are held in street name by a broker or bank, will it vote my shares for me?

A: If you do not provide your broker or bank with instructions on how to vote your shares, it will not be permitted to vote them at the Special Meeting. You should be sure to return the enclosed voting instruction form with instructions on how to vote your shares.

Q: May I vote in person?

A: If your shares of common stock are registered directly in your name with our transfer agent, you are considered a shareholder of record and we have sent the Proxy Statement and proxy card directly to you. If you are a shareholder of record, you may attend the Special Meeting and vote your shares in person.

If your shares of common stock are held in the name of your broker or other financial institution, which is usually the case if you hold them in a brokerage or similar account, your shares are held in street name and your broker or other financial institution is the shareholder of record. It has sent the Proxy Statement to you with a voting instruction form. As the beneficial owner, you are also invited to attend the Special Meeting. However, only your broker or other financial institution is authorized to vote or grant a proxy for those shares. Accordingly, if you wish to vote those shares in person at the Special Meeting, you must contact your broker or other financial institution to obtain a proxy, which you must bring to the meeting.

Whether or not you intend to vote in person at the Special Meeting, please sign and return the enclosed proxy card or voting instruction form in the enclosed envelope in case you are unable to attend. This will not prevent you from voting in person if you do attend.

Q: Can I vote by telephone or electronically?

A. We have not established procedures to allow telephone or electronic voting by shareholders of record. Owners of shares held in street name may vote by telephone or the Internet if their bank or broker makes those methods available, in which case it will have enclosed the instructions with this Proxy Statement.

Q: What happens if I do not return a proxy card or otherwise provide voting instructions?

A: If you are in favor of the Merger, you should return your proxy card or voting instruction form. Your failure to return your proxy card or otherwise provide voting instructions with respect to any of the proposals will not have the effect of a vote for or against the proposal.

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Q: What do I do if I want to change my vote?

A: A shareholder giving a proxy has the power to revoke it at any time before the vote is taken at the Special Meeting by:

- if you are a shareholder of record, submitting to our Corporate Secretary (at 251 International Parkway, Sunrise, Florida 33325) a written instrument revoking the proxy;
- if you are a beneficial owner of shares held in street name, following the instructions you received;
- submitting a duly executed proxy card or voting instruction form bearing a later date; or
- voting in person at the Special Meeting.

Q: Who should I call if I have questions about the Special Meetings or the Merger?

A: You may call The Proxy Advisory Group at (212) 616-2180.

Q: How can I find out the results of the voting at the Special Meeting?

A: Preliminary voting results will be announced at the Special Meeting. Final voting results will be published in our public filings with the SEC after the date of the Special Meeting.

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SUMMARY

This summary highlights selected information from this Proxy Statement and may not contain all of the information that is important to you. For a more complete description of the terms of the Merger and the proposals to be approved at the Special Meeting, you should read this entire Proxy Statement carefully.

The Companies

E Com Ventures, Inc.

251 International Parkway

Sunrise, Florida 33325

(954) 335-9100

E Com is a retailer and wholesaler of fragrances and related products and other specialty items. It does business through two wholly-owned subsidiaries, Perfumania, Inc. (Perfumania) and perfumania.com, Inc. (perfumania.com) Perfumania is a specialty retailer and wholesale distributor of a wide range of brand name and designer fragrances. It operates a chain of retail stores selling fragrances at discounted prices, which are generally located in regional malls, manufacturers outlet malls, lifestyle centers, airports and suburban strip shopping centers. Perfumania s wholesale division distributes fragrances and related products, primarily to Model Reorg. Also, perfumania.com offers a selection of E Com s more popular products for sale over the Internet and serves as an alternative shopping experience for Perfumania retail customers.

E Com is a publicly-traded corporation. Its common stock is traded on the NASDAQ Capital Market under the symbol ECMV. Refer to Information About E Com and Security Ownership of Certain Beneficial Owners and Management for more information. You may also find more information about us and our subsidiaries at www.ecomv.com and www.perfumania.com. The information at these websites is not incorporated by reference into this Proxy Statement.

Model Reorg, Inc.

35 Sawgrass Drive, Suite 2

Bellport, New York 11713

(631) 866-4100

Model Reorg is a privately-owned, diversified fragrance company that manufactures and distributes nationally advertised designer fragrances through its subsidiaries. The wholesale subsidiary, which we refer to as Quality Fragrance Group, primarily distributes fragrances to mass merchandisers, drug store chains, specialty outlets, including Perfumania, and distributors. The retail subsidiary, which we refer to as Scents of Worth, sells products in retail stores on a consignment basis. The manufacturing subsidiary, which we refer to as Five Star, owns and licenses designer fragrance brands and contracts with third parties for the manufacture of owned and licensed brands. Refer to Information About Model Reorg and Security Ownership of Certain Beneficial Owners and Management for more information.

Recommendation of our Board of Directors and Special Committee; Reasons for the Merger

(see pp. 36 and 60)

The Special Committee of our Board of Directors unanimously approved the Merger, and our Board of Directors unanimously determined that the terms of the Merger are fair to our shareholders, other than those who also hold securities of Model Reorg. The Board has recommended that you vote FOR the share and Warrant issuance and the amendments to our Articles of Incorporation. The Board and the Special Committee believe that the Merger will improve our competitive position and ability to grow, as well as permit us to benefit from

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increased operating scale. The factors the Board and the Special Committee relied on to approve the Merger and related transactions and to recommend shareholder approval are described in more detail under Approval to Issue Shares and Warrants Reasons for the Merger and Recommendations of the Special Committee and our Board of Directors.

Opinion of Financo

(see p. 37)

In considering whether to recommend approval of the Merger, the Special Committee received a written opinion of Financo, Inc., which we refer to as Financo, that the Merger Consideration is fair, from a financial point of view, to our shareholders (other than those who own, or whose affiliates own, securities of Model Reorg), as of December 21, 2007, the date the Original Merger Agreement was signed. The full text of the Financo opinion is attached to this Proxy Statement as Annex II. You are encouraged to read the opinion carefully and in its entirety for a description of the assumptions made, matters considered and limitations on the review undertaken. Financo s opinion was delivered to the Special Committee and addresses only the fairness, from a financial point of view, of the Merger Consideration. The opinion does not constitute a recommendation to any shareholder as to how a shareholder should vote at the Special Meeting. See Approval to Issue Shares and Warrants Opinion of Financo.

Overview of the Merger and the Merger Agreement

(see pp. 48, 57 and 58)

At the closing under the Merger Agreement, Model Reorg will merge into Merger Sub, and the merged entity will continue Model Reorg s business as our wholly-owned subsidiary. At that time, all issued and outstanding shares of Model Reorg common stock will be exchanged for an aggregate of 5,900,000 shares of our common stock and Warrants to purchase 1,500,000 shares of our common stock at an exercise price of $23.94 per share. The Warrants will not be exercisable until the third anniversary of the closing of the Merger (except upon a change of control of E Com), after which they will be exercisable until the tenth anniversary. The Merger Consideration will be allocated among the Model Reorg shareholders in accordance with their interests in Model Reorg. We will retain in escrow 295,000 shares from the Merger Consideration in order to secure our indemnification rights under the Merger Agreement. We currently expect the Merger to occur early in the third quarter of our 2008 fiscal year. At that time, we will enter into certain agreements and Model Reorg will restructure and refinance certain debt it currently owes to an affiliated company, as described below under Approval to Issue Shares and Warrants Terms of the Merger Agreement, Post-Merger Financing and Affiliate Debt.

Increase in Authorized Shares

(see p. 61)

Our Board of Directors has approved increasing our authorized number of shares of common stock to 20,000,000, subject to shareholder approval, in order to have enough shares to complete the Merger and for future business purposes. Our Articles of Incorporation currently authorize the issuance of up to 6,250,000 shares of common stock. On June 24, 2008, 3,059,041 shares of our common stock were outstanding, 147,696 shares were reserved for issuance upon exercise of stock options, 444,445 shares were reserved for issuance upon conversion of the Convertible Note and 661,523 shares were reserved for future awards under our stock option plan. We will issue 5,900,000 shares to the Model Reorg shareholders at the closing of the Merger, and will issue up to an additional 1,500,000 shares if all the Warrants are exercised. The proposed amendment to our Articles of Incorporation will authorize a sufficient number of shares for these purposes, as well as a reasonable additional

number of shares for future issuances pursuant to benefit plans, for financings or acquisitions, or otherwise. This proposed amendment is not conditioned on approval of any other proposal. Except for issuances pursuant to our equity compensation plans for directors, employees and independent contractors, we have no current plans to issue any additional shares of common stock.

Name Change

(see p. 62)

Our Board of Directors has approved changing our corporate name from E Com Ventures, Inc. to Perfumania Holdings, Inc., subject to shareholder approval. Perfumania is the distinctive tradename by which we are known in the marketplace and will provide a strong corporate and commercial identification for the combined company. If this proposal is approved by the shareholders, we anticipate that our ticker symbol on the NASDAQ Capital Market will be changed to PERF.

Date, Time and Place of the Special Meeting

(see p. 24)

The Special Meeting will be held at the offices of Edwards Angell Palmer & Dodge LLP, 750 Lexington Avenue, New York, NY 10022, at 8:30 a.m. on Friday, August 8, 2008.

Record Date and Voting Rights for the Special Meeting

(see p. 25)

Only holders of record of our common stock at the close of business on June 24, 2008 (the Record Date) will be entitled to vote at the Special Meeting or any postponement or adjournment of the Special Meeting. On the Record Date, there were 3,059,041 shares of common stock outstanding and entitled to vote. Each share of our common stock is entitled to one vote on each matter to be voted upon at the Special Meeting. The presence at the Special Meeting, in person or by proxy, of holders of a majority of the issued and outstanding shares of our common stock is required for a quorum.

Required Votes

(see p. 25)

Approval of each proposal requires the affirmative vote of a majority of the total votes cast on the proposal. Accordingly, abstentions and broker non-votes will have no effect on the vote on any proposal. Glenn and Stephen Nussdorf, who held an aggregate of 36.4% of our outstanding common stock on the Record Date, have agreed to vote their shares in favor of all the proposals.

Adjournment

(see p. 62)

If necessary or appropriate, shareholders will be asked to approve a proposal to postpone or adjourn the Special Meeting to a later time in order for us to solicit additional proxies in favor of any of the proposals. In any event, the Special Meeting may be adjourned if a quorum is not present.

No Appraisal or Preemptive Rights

(see p. 58)

Our shareholders will not be entitled to demand appraisal of, or exercise dissenters rights with respect to, their shares in connection with the matters to be approved at the Special Meeting. Our shareholders do not have preemptive rights to purchase any of the shares or Warrants to be issued in connection with the Merger.

Management Following the Merger

(see p. 58)

We do not anticipate that our Board of Directors will change at the time of the Merger. We expect that the Model Reorg management team will be integrated with our management team as the larger Model Reorg business is absorbed into ours.

Interests of Certain Directors and Officers of E Com

(see p. 47)

Some of our directors and officers have interests in the Merger that are in addition to those of our other shareholders and that may influence them to support the Merger without regard to your interests. See Approval to Issue Shares and Warrants Interests of Certain Persons in the Merger for more information.

Risk Factors

(see p. 19)

We and Model Reorg are subject to various risks associated with our respective businesses and industries. In addition, the Merger, including the possibility that it may not be completed, poses a number of risks to us and our shareholders, including the following:

- The Merger may be completed despite material adverse changes resulting from economic or industry changes or other causes that could reduce the value of the Merger to our shareholders.

- Even if the Merger is completed, the costs to do so may be higher than projected for any of a number of reasons, reducing the anticipated benefit to our shareholders.

- If the combined company does not realize the anticipated benefits from the Merger, the market price of our common stock may decline, and our shareholders may not realize a benefit despite the ownership dilution they will experience in connection with the Merger.

These and other risks are discussed in greater detail under Risk Factors. In addition, risks related to our current business, which will continue to exist whether or not the Merger occurs, are described in our periodic reports filed with the SEC. You are encouraged to read and consider all of these risks carefully before you vote.

U.S. Federal Income Tax Consequences to E Com and its Shareholders

(see p. 59)

Because our shareholders will not be exchanging their shares in the Merger, the closing of the Merger and related transactions under the Merger Agreement will not have any U.S. federal income tax consequences to the holders of our common stock. As a tax-free reorganization under the Internal Revenue Code of 1986, as amended

(the Internal Revenue Code), the Merger will not be taxable to us or Model Reorg for U.S. federal income tax purposes. The Merger will have the effect of limiting our ability to use our net operating losses from prior periods to reduce taxable income in the future.

Anticipated Accounting Treatment

(see p. 59)

We expect to treat the Merger as a reverse acquisition under the purchase method of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP). For accounting purposes, Model Reorg is considered to be acquiring us in the Merger, so Model Reorg s financial statements, showing its acquisition of us, will be the combined company s financial statements from and after the Merger. However, the combined company will continue to use our fiscal year end, the Saturday closest to January 31, which is conventional for retailing businesses.

Regulatory Approvals

(see p. 60)

In order to complete the Merger we and Model Reorg were required to make certain filings with the Federal Trade Commission and wait until the applicable period for review had expired or been terminated. We and Model Reorg filed the required notification on January 24, 2008 and, on February 1, 2008, the Federal Trade Commission granted early termination of the waiting period.

NASDAQ Capital Market Listing

(see p. 59)

We have received a preliminary, oral notice that we will not be required to reapply for listing on the NASDAQ Capital Market under NASDAQ s reverse merger rules. Accordingly, we expect that our common stock will continue to be listed on the NASDAQ Capital Market following the closing of the Merger. However, since it is a condition to closing the Merger that we continue to be listed, if the application is eventually required but is not accepted, the Merger will not occur unless we and Model Reorg waive that condition.

Projections

(see p. 108)

Neither we nor Model Reorg, as a matter of course, generally publish our respective business plans and strategies or make public projections as to future sales, earnings, or other results. However, we and Model Reorg prepared our respective prospective financial information set forth under Selected Financial Projections to present certain projections of financial performance that were provided to the Special Committee and Financo. This prospective financial information was not prepared with a view toward public disclosure or with a view toward complying with the guidelines established by the American Institute of Certified Public Accountants with respect to prospective financial information, but, in the view of our and Model Reorg s management, was prepared on a reasonable basis, reflects the best estimates and judgments available as of the date of their preparation, and presents, to the best of each management s knowledge and belief, the expected course of action and the expected future financial performance of the respective company. However, this information is not fact and should not be relied upon as being necessarily indicative of future results, and readers of this Proxy Statement are cautioned not to place undue reliance on the prospective financial information.

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Neither the Company s independent auditors, nor any other independent accountants, have compiled, examined, or performed any procedures with respect to the prospective financial information contained herein, nor have they expressed any opinion or any other form of assurance on such information or its achievability, and assume no responsibility for, and disclaim any association with, the prospective financial information.

The assumptions and estimates underlying the prospective financial information are inherently uncertain and, though considered reasonable by our and Model Reorg s management, respectively, as of the date of its preparation, are subject to a wide variety of significant business, economic, and competitive risks and uncertainties that could cause actual results to differ materially from those contained in the prospective financial information, including, among others, the risks and uncertainties described in Risk Factors and Forward-Looking Statements. Accordingly, there can be no assurance that the prospective results are indicative of our future performance or that of the combined company or that actual results will not differ materially from those presented in the prospective financial information. Inclusion of the prospective financial information in this Proxy Statement should not be regarded as a representation by any person that the results contained in the prospective financial information will be achieved.

Neither we nor Model Reorg intends to update or otherwise revise the prospective financial information to reflect circumstances existing or events occurring, including changes in general economic or industry conditions, since its preparation, even if any or all of the underlying assumptions are shown to be in error.

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SELECTED HISTORICAL AND PRO FORMA COMBINED FINANCIAL DATA

The following tables present selected historical financial data, selected unaudited pro forma combined financial data, and comparative historical and unaudited pro forma per share data.

Selected Historical Financial Data of E Com

The selected historical financial data provided below for our fiscal years ended February 2, 2008, February 3, 2007 and January 28, 2006, and as of February 2, 2008 and February 3, 2007 have been taken or derived from our audited Consolidated Financial Statements included in this Proxy Statement beginning on page F-3. The selected historical financial data provided below for and as of the thirteen week periods ended May 3, 2008 and May 5, 2007 have been taken or derived from our unaudited condensed consolidated financial statements included in this Proxy Statement. Our financial statements for the reporting periods ending before 2008 have been restated as described in Note 3 to our Consolidated Financial Statements beginning on page F-14. These unaudited consolidated historical financial statements include all adjustments (consisting only of normal recurring adjustments) that in the opinion of our management are necessary for a fair presentation of our financial position and results of operations for these interim periods. Historical operating results of interim fiscal periods are not necessarily indicative of results that may be expected for the full year, particularly since our sales have been significantly higher in the fourth fiscal quarter than in the other quarters due primarily to increased purchases of fragrances as gift items during the holiday season. The selected financial data for the fiscal years ended January 29, 2005 and January 31, 2004, and as of January 28, 2006, January 29, 2005, and January 31, 2004 have been taken or derived from our audited consolidated financial statements for those years, which are not included in this Proxy Statement. This information is only a summary and you should read it together with our Management s Discussion and Analysis of Financial Condition and Results of Operations and historical financial statements and related notes contained elsewhere in this Proxy Statement. These historical results are not necessarily indicative of results to be expected in any future period.

Our fiscal year results are based on a fifty-two or fifty-three week retail calendar ending on the Saturday closest to January 31. All references herein to fiscal years are to the calendar year in which the fiscal year begins; for example, fiscal year 2007 refers to the fiscal year that began on February 4, 2007 and ended on February 2, 2008. With the exception of fiscal year 2006, which contained fifty-three weeks, all fiscal years presented below contain fifty-two weeks. Our comparable store sales relate to retail stores that had been open for one year or more at the end of the period presented. For fiscal year 2006, this comparison has been adjusted to a fifty-two week basis by excluding the sales of the fifty-third week.

	Thirteen Weeks Ended			Fiscal Year Ended			
	May 3, 2008	May 5, 2007 *(Restated)*	February 2, 2008	February 3, 2007 *(Restated)*	January 28, 2006 *(Restated)*	January 29, 2005 *(Restated)*	January 31, 2004 *(Restated)*
	($ in thousands, except weighted average and per share amounts)						
Statement of Operations Data:							
Net sales, retail division	$ 46,710	$ 42,488	$ 244,020	$ 229,783	$ 215,841	$ 201,425	$ 198,479
Net sales, wholesale division	9,819	5,651	$ 57,815	13,826	17,853	23,578	14,089
Total net sales	56,529	48,139	301,835	243,609	233,694	225,003	212,568
Gross profit, retail division	21,867	19,882	108,614	102,976	95,354	90,049	81,923
Gross profit, wholesale division	641	441	3,251	954	1,147	1,288	1,454
Total gross profit	22,508	20,323	111,865	103,930	96,501	91,337	83,377
Selling, general and administrative expenses	24,541	21,128	99,974	89,004	81,006	78,892	82,999
Depreciation and amortization	1,776	1,447	6,197	4,797	4,830	5,680	5,858
Expenses incurred in connection with change of control							4,931
Total operating expenses	26,317	22,575	106,171	93,801	85,836	84,572	93,788
Income (loss) from operations	(3,809)	(2,252)	5,694	10,129	10,665	6,765	(10,411)
Other expenses:							
Interest expense	(871)	(1,088)	(4,728)	(4,495)	(3,877)	(3,326)	(2,153)
Realized loss on investments							(172)
Income (loss) before income taxes	(4,680)	(3,340)	$ 966	5,634	6,788	3,439	(12,736)
Income tax benefit (provision)	1,778	1,269	(960)	(1,244)	8,471	(150)	
Net income (loss)	$ (2,902)	$ (2,071)	$ 6	$ 4,390	$ 15,259	$ 3,289	$ (12,736)
Weighted average shares outstanding:							
Basic	3,059,041	3,058,170	3,058,797	3,000,471	2,949,146	2,832,107	2,454,340
Diluted	3,059,041	3,058,170	3,058,797	3,505,890	3,463,480	3,001,844	2,454,340
Basic net income (loss) per share	$ (0.95)	$ (0.68)	$ 0	$ 1.46	$ 5.17	$ 1.16	$ (5.19)
Diluted net income (loss) per share	$ (0.95)	$ (0.68)	$ 0	$ 1.38	$ 4.51	$ 1.11	$ (5.19)

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	May 3, 2008	May 5, 2007	February 2, 2008	February 3, 2007	January 28, 2006	January 29, 2005	January 31, 2004
Selected Operating Data as of:							
Number of stores open at end of period	313	272	303	267	239	223	232
Comparable store sales increase (decrease)	3.1%	(2.9)%	2.9%	2.3%	5.8%	1.8%	1.1%

	As of May 3, 2008	February 2, 2008	February 3, 2007 (Restated)	As of January 28, 2006 (Restated)	January 29, 2005 (Restated)	January 31, 2004 (Restated)
		($ in thousands)				
Balance Sheet Data:						
Working capital (deficiency)	$ (7,604)	$ (2,722)	$ 10,528	$ 12,033	$ 1,909	$ (9,364)
Total assets	177,766	159,835	124,722	112,758	105,459	89,909
Long-term debt, excluding current portion	7,090	7,190	12,553	12,898	12,972	7,746
Total shareholders equity	32,959	35,861	35,742	30,543	12,370	7,394

Selected Historical Financial Data of Model Reorg

The selected historical statement of income data provided below for the fiscal years ended October 31, 2007, 2006 and 2005 and the balance sheet data as of October 31, 2007 and 2006 have been taken or derived from Model Reorg s audited consolidated financial statements included in this Proxy Statement beginning on page F-38. The statement of operations data for the six-month periods ended April 30, 2008 and 2007 and the balance sheet data as of April 30, 2008 have been taken or derived from Model Reorg s unaudited financial information included in this Proxy Statement beginning on page F-53. The selected historical statement of income data provided below for the fiscal years ended October 31, 2004 and 2003 and the balance sheet data as of October 31, 2005, 2004 and 2003 have been taken or derived from Model Reorg s audited consolidated financial statements for those years, which are not included in this Proxy Statement. This information is only a summary and you should read it together with Model Reorg s Management s Discussion and Analysis of Financial Condition and Results of Operations and historical financial statements and related notes contained elsewhere in this Proxy Statement. These historical results are not necessarily indicative of results to be expected in any future period.

Model Reorg s fiscal year ends on October 31. All references in discussions of Model Reorg s financial results to a particular year, with or without the word fiscal, are to the twelve-month period ending on October 31 of that year.

	Six Months Ended April 30		Fiscal Year Ended October 31				
	2008	2007	2007	2006 *(Restated)*	2005 *(Restated)*	2004 *(Restated)*	2003 *(Restated)*
	($ in thousands, except weighted average and per share amounts)						
Statement of Income Data:							
Net sales, Quality Fragrance Group	$ 128,297	$ 120,140	$ 245,493	$ 257,826	$ 244,128	$ 169,831	$ 97,183
Net sales, Scents of Worth	45,661	45,170	76,369	73,990	68,971	69,329	66,941
Net sales, Five Star	2,629	2,022	5,850	6,545	3,808	4,041	1,489
Total net sales	176,587	167,332	327,712	338,361	316,907	243,201	165,613
Gross profit, Quality Fragrance Group	32,022	29,764	57,584	59,886	51,292	36,888	25,559
Gross profit, Scents of Worth	17,642	17,341	30,040	29,945	27,941	28,838	35,446
Gross profit, Five Star	913	831	2,885	3,206	2,227	2,174	740
Total gross profit	50,577	47,936	90,509	93,037	81,460	67,900	61,745
Selling, warehouse, delivery and administrative expenses	32,950	29,509	60,113	57,548	54,694	43,908	38,411
Depreciation and amortization	713	822	1,411	1,721	2,464	2,346	1,833
(Recovery) provision on vendor advances			(2,367)	2,367			
Total operating expenses	33,663	30,331	59,157	61,636	57,158	46,254	40,244
Income from operations	16,914	17,605	31,352	31,401	24,302	21,646	21,501
Interest expense	5,300	6,104	12,749	14,506	11,179	5,509	3,846
Income before income taxes	11,614	11,501	18,603	16,895	13,123	16,137	17,655
Income taxes	4,860	4,600	7,353	6,854	5,121	5,879	5,047
Net income	$ 6,754	$ 6,901	$ 11,250	$ 10,041	$ 8,002	$ 10,258	12,608
Weighted average shares outstanding:							
Basic and diluted(1)	5,900,000	5,900,000	5,900,000	5,900,000	5,900,000	5,900,000	5,900,000
Basic and diluted net income per share(1)	$ 1.14	$ 1.17	$ 1.91	$ 1.70	$ 1.36	$ 1.74	$ 2.14

	As of April 30		As of October 31			
	2008	2007	2006 *(Restated)*	2005 *(Restated)*	2004 *(Restated)*	2003 *(Restated)*
	($ in thousands)					
Balance Sheet Data:						
Working capital	$ 235,288	$ 267,174	$ 238,922	$ 266,963	$ 233,395	$ 137,643
Total assets	306,537	344,988	306,844	318,931	311,388	167,021
Long-term debt, excluding current portion	179,644	215,227	197,521	231,995	204,757	110,194
Total shareholders equity	91,366	84,611	61,635	51,594	43,591	34,286

(1) See Footnotes (1) and (3) to the table beginning on page 17 for an explanation of the calculation of weighted average shares outstanding and basic and diluted net income per share.

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Selected Unaudited Pro Forma Condensed Combined Financial Data

The following selected unaudited pro forma condensed combined financial data have been derived from and should be read with the Unaudited Pro Forma Condensed Combined Financial Statements and related notes beginning on page 101. This information is based on our and Model Reorg s historical statements of operations and balance sheets, giving effect to the Merger. The Merger will be accounted for under the purchase method of accounting. For accounting purposes, Model Reorg is considered to be acquiring us in this transaction. Accordingly, the purchase price is allocated among the fair values of our assets and liabilities, while the assets and liabilities of Model Reorg are reflected at historical cost in the combined pro forma balance sheet. The unaudited pro forma combined financial data are based on the estimates and assumptions set forth in the notes to such statements, which are preliminary and have been made solely for the purposes of developing such pro forma information. This information is for illustrative purposes only. The results might have been different had the companies always been combined. You should not rely on these data as being indicative of the historical results that would have been achieved had the companies always been combined or of the future results that the combined company will experience after the Merger.

The following unaudited pro forma combined statement of income combines the results of operations of E Com and Model Reorg, respectively, for the twelve months ended October 31, 2007, and the six months ended April 30, 2008, as if the transaction had occurred as of November 1, 2006. E Com s fiscal year end is the Saturday closest to January 31. The results of operations for E Com for the twelve months ended October 31, 2007 represent the 12-month period beginning October 29, 2006 and ending November 3, 2007, and those for the six months ended April 30, 2008 represent the six-month period beginning November 4, 2007 and ending May 3, 2008.

	Pro Forma Combined Model Reorg and E Com	
	Six Months Ended April 30, 2008	Twelve Months Ended October 31, 2007
	($ in thousands, except weighted average and per share amounts)	
Statement of Income Data:		
Total net sales	$ 302,565	$ 538,619
Cost of goods sold	187,712	339,337
Gross profit	114,853	199,282
Selling, warehouse, delivery and administrative expenses	88,718	156,096
Depreciation and amortization	4,153	7,258
Recovery on vendor advance		(2,367)
Income from operations	21,982	38,295
Interest expense	7,198	17,661
Income before income taxes	14,784	20,634
Income tax expense	5,914	8,254
Net income	$ 8,870	$ 12,380
Weighted Average Shares Outstanding:		
Basic(1)	8,959,041	8,955,510
Diluted(1)	9,478,899	9,469,706
Basic net income per share(1)	$ 0.99	$ 1.38
Diluted net income per share(1)	$ 0.96	$ 1.36

	As of April 30, 2008
Balance Sheet Data:	
Working capital	$ 268,655

Total assets	$	435,340
Long-term debt - excluding current portion	$	229,325
Total shareholders equity	$	117,489

(1) See Footnotes (1) and (3) to the table beginning on page 17 for an explanation of the calculation of weighted average shares outstanding and basic and diluted net income per share.

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Comparative Historical and Unaudited Pro Forma Combined Per Share Data

The information below reflects the historical net income and book value per share of our common stock and the unaudited pro forma net income and book value per share of the combined company after giving effect to the Merger. Our historical net income for the twelve months ended October 31, 2007 combines the results of the fourth quarter of our 2006 fiscal year with those of the first nine months of our 2007 fiscal year, and our historical net income for the six months ended April 30, 2008 combines the results of the fourth quarter of our 2007 fiscal year with those of the first quarter of our 2008 fiscal year.

You should read the tables below in conjunction with our and Model Reorg s historical financial statements, and the respective related notes, beginning on page F-37 of this Proxy Statement, and the unaudited pro forma condensed combined financial information and notes related to such financial information beginning on page 101 of this Proxy Statement.

	Historical				Pro Forma Combined Model Reorg and E Com	
	Twelve Months Ended October 31, 2007 *(Restated)*		Six Months Ended April 30, 2008		Twelve Months Ended October 31, 2007	Six Months Ended April 30, 2008
	E Com	Model Reorg	E Com	Model Reorg		
Basic net income per share(1)(2)	$ 1.28	$ 1.91	$ 0.29	$ 1.14	$ 1.38	$ 0.99
Diluted net income per share(1)(2)	$ 1.23	$ 1.91	$ 0.29	$ 1.14	$ 1.36	$ 0.96
Shares used in the computation of basic net income per share(3)(4)	3,055,510	5,900,000	3,059,041	5,900,000	8,955,510	8,959,041
Shares used in the computation of diluted net income per share(3)(4)	3,569,706	5,900,000	3,059,041	5,900,000	9,469,706	9,478,899

As of April 30, 2008	Historical E Com	Historical Model Reorg	Pro Forma
Book value per share	$ 10.77	$ 15.49	$ 13.11
Shares used in the computation of book value per share(3)(4)	3,059,041	5,900,000	8,959,041

(1) Basic net income per share is computed by dividing net income by the weighted average number of common shares outstanding during the period. In computing diluted net income per share, the weighted average number of common shares outstanding includes all common stock equivalents with exercise prices at or below the average market price for the respective period.

(2) Pro forma combined net income per share reflects certain pro forma adjustments resulting from accounting for the Merger as a reverse acquisition that are set forth in the footnotes to the Unaudited Pro Forma Condensed Combined Statements of Operations, beginning on page 104. These adjustments, in total, decrease combined pro forma net income by approximately $2.8 million, or $0.31 basic income per share and $0.29 diluted net income per share, for the twelve months ended October 31, 2007 and increase combined pro forma net income by approximately $1.2 million, or $0.14 basic and diluted net income per share, for the six months ended April 30, 2008.

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(3) Model Reorg share numbers represent the 5.9 million shares issuable in the Merger in exchange for the common shares of Model Reorg. They do not include the 1.5 million shares issuable upon exercise of the Warrants issuable in the Merger since they would be antidilutive as E Com s average market price has historically been lower than the Warrant exercise price during each relevant period (including the fiscal periods shown in Selected Historical Financial Data of Model Reorg on page 14). Since Model Reorg has only 96.9 shares outstanding, this treatment permits a more realistic comparison of historical net income per share between E Com and Model Reorg.

(4) Pro forma share numbers represent the weighted average shares outstanding of E Com for the respective periods, assuming in each case the issuance of the 5.9 million shares issuable in the Merger. Pro forma share numbers used in the computation of diluted net income per share also assume the issuance of 69,751 and 75,413 shares issuable upon exercise of stock options for the twelve months ended October 31, 2007 and the six months ended April 30, 2008, respectively, and 444,445 shares of our common stock upon conversion of the Convertible Note. The 1.5 million Warrant shares are not included in the pro forma share numbers since they would be antidilutive.

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RISK FACTORS

Our shareholders should consider the following factors carefully in evaluating whether to approve the issuance of the Merger Consideration and the other proposals in this Proxy Statement. These factors should be considered in conjunction with the other information included in this Proxy Statement, including the forward-looking statements made herein. The following do not include all risks that the combined company will face as a result of the Merger. Additional risks related to our existing business and markets, which will continue to confront us whether or not the Merger occurs, are described in our public filings with the SEC, including our Forms 10-K and Forms 10-Q.

The Merger may be completed even though economic or industry changes or other causes may have a material adverse effect on the business of either company that could cause a decline in the combined company s earnings or stock price and reduce the value of the Merger to our shareholders.

In general, either we or Model Reorg may refuse to complete the Merger if there is an event or change having a material adverse effect on the other party between December 21, 2007, the date of the Original Merger Agreement, and the closing. However, certain types of events or changes do not permit either party to refuse to complete the Merger, even if they would have a material adverse effect on us or Model Reorg. These include the effects of (i) changes in conditions in the United States or global economy or capital or financial markets generally, including changes in interest or exchange rates, (ii) changes in general legal, regulatory, political, economic or business conditions or changes in GAAP, unless they disproportionately affect one of the parties, or (iii) any decline in the market price, or change in trading volume, of our common stock, or any failure to meet publicly announced revenue or earnings projections. If adverse changes occur but we must still complete the Merger, our stock price may suffer. This may in turn reduce the value of the Merger to our shareholders.

We may not be able to obtain the post-merger financing necessary to complete the Merger or such financing may be more expensive than we anticipate.

Consummation of the Merger is subject to a number of conditions, including the availability of a new third party $250 million secured credit facility to replace our and Model Reorg s existing third party credit facilities. As described in Post-Merger Financing, we have received a commitment for such a facility. It expires on August 16, 2008 and is subject to certain conditions, including negotiation of acceptable loan documentation with the third party lender and documentation of the related party debt restructuring described in Approval to Issue Shares and Warrants Affiliate Debt with subordination terms acceptable to the third party lender. If the conditions are not met, the Merger could not happen without a waiver of the financing condition by the parties to the Merger Agreement. Such a waiver would be subject to the considerations described under Post-Merger Financing.

Certain of our directors, executive officers and shareholders have interests that are in addition to those of other shareholders, which may influence them to support the Merger.

Certain of our directors, executive officers and shareholders have interests in the Merger that are in addition to yours, which may influence them to support the Merger or seek to waive certain conditions in the Merger Agreement without regard to your interests. These are described under Approval to Issue Shares and Warrants Interests of Certain Persons in the Merger. You should consider whether these directors, executive officers and shareholders are more likely to support approval of the Merger, or the waiver of conditions that might benefit our shareholders, than if they did not hold these interests.

The combined company may not qualify for listing on NASDAQ after the Merger.

We currently expect that our shares will continue to be listed on the NASDAQ Capital Market following the Merger. However, we may be required to reapply for listing, and NASDAQ may not accept the listing. If it is not accepted, the Merger will not occur without a waiver from the parties to the Merger Agreement, since it is a condition to closing the Merger that we continue to be listed on the NASDAQ Capital Market.

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We have incurred and will incur significant costs in connection with the Merger, whether or not we complete it.

We have incurred significant costs related to the Merger and we expect to incur significant additional costs. These costs include financial advisory, legal and accounting fees and expenses and other charges. We may also incur additional unanticipated costs for any of a number of reasons. Such costs will reduce the assets that either company would have if the Merger is not consummated or that the combined company would have to operate its business after the Merger.

Completion of the Merger will result in substantial and immediate dilution to the voting power of our current shareholders.

Issuing shares of our common stock to the Model Reorg shareholders in the Merger will significantly dilute the voting power of our existing shareholders (from 63.3% of the outstanding shares held by our current shareholders other than Model Reorg shareholders before the Merger to 21.7% afterwards), and the issuance of additional shares upon exercise of the Warrants would cause further dilution (potentially reducing the ownership of our current shareholders other than the Nussdorfs to 18.6% of the outstanding shares). If the combined company does not realize the benefits from the Merger anticipated by our Board when they set the Merger Consideration, the market price of our common stock may decline as a result and our shareholders may not realize a benefit despite the ownership dilution they will experience.

Because the lack of a public market for Model Reorg s capital stock makes it difficult to evaluate the value of the Model Reorg stock, the Model Reorg shareholders may receive Merger Consideration that is greater than the fair market value of Model Reorg.

The outstanding capital stock of Model Reorg is privately held and is not traded in any public market. The lack of a public market makes it difficult to determine the fair value of Model Reorg. Since the percentage of our equity to be issued to Model Reorg s shareholders was determined based on negotiations between the parties, it is possible that the value of our common stock to be issued in the Merger will be greater than the fair value of Model Reorg.

The market price of our common stock may fluctuate significantly and the Merger Consideration will not be adjusted for such changes.

At the closing of the Merger, the outstanding Model Reorg common stock will be converted into the Merger Consideration. The number of shares of our common stock and Warrants issuable to the Model Reorg shareholders will not be adjusted for changes in the value of Model Reorg or E Com or in the market price of our common stock. We cannot abandon the Merger or resolicit the vote of our shareholders solely because of any such changes.

The market price and trading volume of our common stock has and may vary significantly between the date of the Original Merger Agreement and the completion of the Merger. These variations may be caused by, among other factors, responses to the risk factors described in this Proxy Statement, market expectations of the likelihood that the Merger will be completed and the timing of its completion, the market s perception of the merits of the Merger or the prospects for the combined company s post-Merger operations, or reasons unrelated to the combined company s performance, such as reports by industry analysts, investor perceptions, or announcements by our or Model Reorg s customers, competitors or suppliers regarding their own performance, as well as general economic and industry conditions. There can be no assurance that the market price or the trading volume of the combined company s common stock after the Merger will be at or above the market price and trading volume of our common stock on the dates of the Original Merger Agreement, this Proxy Statement, the Special Meeting, or the Merger.

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Our remedy for losses arising out of Model Reorg s breach of the Merger Agreement is limited.

Pursuant to the indemnification provisions in the Merger Agreement, we are entitled to indemnification for certain losses and expenses that are sustained in connection with any breach of Model Reorg s representations, warranties and covenants. The combined company must bear the amount of any such losses and expenses up to $1 million. To compensate for losses and expenses above that amount, the combined company will retain in escrow 295,000 shares of the total Merger Consideration. Except with respect to claims for taxes, these escrowed shares of our common stock are the sole and exclusive remedy for any losses arising out of claims related to the Merger Agreement. These shares will be valued at a total of $7,062,300 for this purpose, but the shares may actually be worth less at the time. If the combined company incurs losses as a result of any breach beyond the value of those shares, it will not be able to seek additional compensation from the former Model Reorg shareholders.

Successful integration of the E Com and Model Reorg businesses may be difficult.

After the Merger, we and Model Reorg will integrate our respective operations. Delays and other unforeseen difficulties may impede the combined company in its efforts to integrate the E Com and Model Reorg operations successfully. Even if the two companies are able to integrate their operations, there can be no assurance that anticipated synergies will be achieved. (See Approval to Issue Shares and Warrants Reasons for the Merger.) Any failure or delay in integrating operations or achieving such synergies could have a material adverse effect on the business, results of operations, financial condition and cash flows of the combined company, and our shareholders may not realize a benefit despite the ownership dilution they will experience in the Merger.

After the Merger, control of our management and policies will remain with our principal shareholders, who could take actions that are not in the best interest of the other shareholders.

Stephen L. Nussdorf and Glenn H. Nussdorf currently beneficially own approximately 44.5% of our common stock, assuming conversion of the Convertible Note. They also own approximately 59% of Model Reorg s common stock. Immediately after the Merger, Stephen and Glenn Nussdorf will beneficially own an aggregate of approximately 53.7% of our outstanding common stock, assuming conversion of the Convertible Note, or 57.7%, assuming exercise of their Warrants. As a result, they will be able to direct our corporate policies, being able to act unilaterally to approve most actions requiring shareholder approval under law or our governing documents. In addition, Arlene Nussdorf, who is the sister of Stephen and Glenn Nussdorf, owns approximately 29% of Model Reorg s common stock. Including shares received by Arlene Nussdorf in the Merger, these Nussdorf family members (collectively, the Nussdorfs) would beneficially own approximately 72.3% of our capital stock in aggregate, or 75.7% assuming exercise of their Warrants. (See Security Ownership of Certain Beneficial Owners and Management.) The Nussdorfs collective stock ownership may have the effect of delaying or preventing policies or actions deemed desirable by our Board of Directors, such as a business combination that might be in the interests of our other shareholders, which in turn could materially and adversely affect the market price of our common stock. Conversely, such ownership may cause us to implement policies that are not in the best interests of our other shareholders.

Furthermore, after the Merger, the combined company will have approximately $92.3 million of indebtedness to the Nussdorfs and their affiliates. (See Approval to Issue Shares and Warrants Affiliate Debt and Certain Relationships and Related Person Transactions Relationships and Transactions between Model Reorg or E Com and Other Affiliates.). As significant creditors, the Nussdorfs will have the ability to refuse consent to actions our Board may consider necessary or to demand repayment of the debt in the event of default.

After the Merger, we will be a controlled corporation under the NASDAQ rules. Accordingly, although there is no present intention to reduce the number of independent directors, we will no longer be required to have a board of directors with a majority of independent directors, to have executive compensation determined by an independent compensation committee, or to have our directors nominated by a majority of the independent directors. This could increase the extent to which the principal shareholders are able to control our operations. (See Approval to Issue Shares and Warrants Management Following the Merger.)

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We may need additional funds that, if available, could result in increased interest expenses or additional dilution to our shareholders. If additional funds are needed and are not available, the business of the combined company could be negatively impacted.

We will be a substantially larger company following the Merger, with a substantially increased debt burden. If the combined company is unable to generate sufficient cash flows from operations to service its obligations, it could face liquidity and working capital constraints, which could adversely impact its future operations and growth. If the combined company needs to raise additional funds to support its operations, it may not be able to do so on favorable terms, or at all. Without such funding, it may need to modify or abandon its growth strategy or eliminate product offerings, any of which could negatively impact its financial position. If such funds are raised through the issuance of equity securities, the percentage ownership of its shareholders will be reduced even further, and the holders of new equity securities may have rights, preferences or privileges senior to those of the holders of common stock.

We will incur substantial new indebtedness in order to close the Merger, which may adversely affect our cash flow and business operations.

It is a condition to closing the Merger that the combined company obtain a replacement senior secured credit facility of up to $250 million to replace our and Model Reorg s existing facilities. (see Post-Merger Financing). Having this amount of indebtedness, in addition to the related party debt discussed above, may (i) make the combined company more vulnerable to adverse changes in general economic, industry and competitive conditions and (ii) place the combined company at a disadvantage compared to any of its competitors that may have less debt. Furthermore, during any period that the new credit facility bears interest at floating rates, the interest expense would increase if interest rates rise. The combined company may be required to dedicate a substantial portion of its cash flow to pay interest and principal on its debt. If the combined company does not have earnings to service the debt, it may need to refinance all or part of that debt, sell assets, borrow more money or sell securities, which it may not be able to do on commercially reasonable terms, or at all.

The terms of the new credit facility will include events of default and covenants that will limit the combined company from taking certain actions without obtaining the consent of the lenders. In addition, the credit facility will require the combined company to maintain certain financial ratios and will restrict its ability to incur additional indebtedness. These covenants and restrictions may limit the combined company s ability to respond to changing business and economic conditions and may prevent it from engaging in transactions that might otherwise be considered beneficial.

A breach of the provisions of the credit facility, including any inability to comply with the required financial ratios, could result in an event of default. If an event of default occurs (after any applicable notice and cure periods), the lenders will be entitled to terminate any commitment to make further extensions of credit under the credit facility and to accelerate the repayment of amounts outstanding (including accrued and unpaid interest and fees). Upon a default under the credit facility, the lenders could also foreclose against any collateral securing such obligations, which may be all or substantially all of the combined company s assets. If that occurred, the combined company may not be able to continue to operate as a going concern.

The Registration Rights Agreement may limit the combined company s ability to obtain financing.

As a condition to closing the Merger, we will agree, in certain circumstances, to register with the SEC the resale of the shares of our common stock that the Model Reorg shareholders receive as part of the Merger Consideration. (See Approval to Issue Shares and Warrants Registration Rights.) The Registration Rights Agreement will permit the Model Reorg shareholders to require that, in the event of any marketing limitation on the number of shares included in an applicable registration statement, their shares be registered on a pro rata basis with shares being registered for parties that have obtained registration rights in connection with providing financing to the combined company. This may limit our ability to obtain financing in the future.

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The absence of contracts with Model Reorg s retail store customers or suppliers could result in loss of key customers or suppliers, which would have a material adverse effect on the combined company s business.

Model Reorg has not had long-term or exclusive contracts with any of its retail store customers or with the suppliers of distributed brands. Suppliers of distributed brands generally can, at any time after the Merger, choose to reduce or eliminate the volume of their products distributed by the combined company, including by supplying products to Model Reorg s retail store customers directly or through another distributor. Retail store customers are generally able to cancel orders or delay the delivery of products on short notice. In addition, they may decide not to purchase products from Model Reorg for any reason, including because Model Reorg has become a subsidiary of E Com, their competitor. Moreover, our and Model Reorg s expense levels are based in part on expectations of future sales and, if expectations regarding future sales are inaccurate, the combined company may be unable to reduce costs in a timely manner to adjust for sales shortfalls. The loss of any key suppliers or customers, or a change in Model Reorg s relationship with any one of them, could have a material adverse effect on the combined company s business, prospects, and financial condition after the Merger.

If Model Reorg is unable to effectively manage the inventory it sells on consignment, the combined company will not achieve its expected results.

Model Reorg s business includes a significant portion of consigned sales, and its revenue recognition policy defers recognition of revenue for this type of sales. Consignment sales remain in inventory until the products are sold to end users and, if not sold, the inventory may be returned to Model Reorg upon termination of the consignment relationships. The turnover frequency of Model Reorg s inventory on consignment is critical to generating regular cash flow in amounts necessary to keep financing costs to targeted levels and to purchase additional inventory. If this turnover is not sufficiently frequent, the combined company s financing costs may exceed targeted levels and it may be unable to generate regular cash flow in amounts necessary to purchase additional inventory to meet the demand for other products. In addition, slow inventory turnover may force the combined company to reduce prices and accept lower margins to sell consigned products.

Any weakness in internal control over financial reporting or disclosure controls and procedures could result in a loss of investor confidence in our financial reports and lead to a stock price decline.

We will be required to evaluate our internal control over financial reporting under Section 404 of the Sarbanes-Oxley Act of 2002 and report the results in our annual reports on Form 10-K. We are also required to maintain effective disclosure controls and procedures. After the Merger, our Section 404 evaluation will need to include the internal controls of Model Reorg, a substantially larger business, and our disclosure controls and procedures will need to expand to encompass the activities of the Model Reorg business. Model Reorg has not previously had to evaluate and publicly report on its internal control over financial reporting. If management identifies any material weakness in Model Reorg s internal controls that are not remedied, we will be unable to assert that our internal controls are effective. Any failure to have effective internal control over financial reporting or disclosure controls and procedures covering the business of the combined company could cause investors to lose confidence in the accuracy and completeness of the combined company s financial reports, limit its ability to raise financing or lead to regulatory sanctions, any of which could result in a material adverse effect on the combined company s business or a decline in the market price of its common stock.

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FORWARD-LOOKING STATEMENTS

Some of the statements in this Proxy Statement, including those that contain the words anticipate, believe, plan, estimate, expect, should, and other similar expressions, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, as amended. Those forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements or those of our industry to be materially different from any future results, performance or achievements expressed or implied by those forward-looking statements. Among the factors that could cause actual results, performance or achievement to differ materially from those described or implied in the forward-looking statements are:

- our ability to service our obligations;
- our ability to comply with the covenants in our credit facilities;
- general economic conditions, including the level of discretionary spending by consumers;
- competition;
- the consummation of the Merger;
- our ability to integrate the Model Reorg business and operations into ours;
- our ability to maintain and expand supplier and customer relationships;
- our ability to raise additional capital to finance expansion;
- the risks inherent in new product introductions or our entry into new geographic markets; and
- other factors described under Risk Factors in this Proxy Statement and in our filings with the SEC.

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, other than as required by law.

THE SPECIAL MEETING OF SHAREHOLDERS

Date, Time and Place

This Proxy Statement and the accompanying form of proxy are being furnished on or about July 25, 2008 to holders of our common stock of record at the close of business on June 24, 2008 in connection with the solicitation of proxies by our Board of Directors for use at the Special Meeting of our shareholders to be held on Friday, August 8, 2008 at the offices of Edwards Angell Palmer & Dodge LLP, 750 Lexington Avenue, New York, NY 10022, commencing at 8:30 a.m., including at any postponement or adjournment of the Special Meeting.

Purposes of the Special Meeting

At the Special Meeting, we will ask our shareholders to approve the following:

1. The issuance of shares of our common stock and the Warrants under the Merger Agreement and the issuance of shares of our common stock upon exercise of the Warrants;

2. An amendment to our Articles of Incorporation to increase the number of shares of common stock we are authorized to issue from 6,250,000 shares to 20,000,000 shares;

3. An amendment to our Articles of Incorporation to change our corporate name to Perfumania Holdings, Inc.;

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4. If necessary or appropriate, a proposal to postpone or adjourn the Special Meeting to a later time to enable us to solicit additional proxies in favor of the foregoing proposals; and

5. Such other business as may properly come before the Special Meeting.

Implementation of Proposal 1 is conditioned on the approval of Proposal 2. The Merger cannot be completed unless our shareholders approve both proposals. Therefore, you should consider Proposals 1 and 2 together. However, implementation of Proposal 2 is not conditioned on approval of any other proposal, since we are seeking approval of the increase in authorized shares whether or not the Merger issuances are approved. Implementation of Proposal 3 also is not conditioned on approval of any other proposal.

Record Date; Shares Entitled to Vote; Quorum Requirement

Our Board of Directors has fixed the close of business on June 24, 2008 as the Record Date for the determination of shareholders entitled to notice of and to vote at the Special Meeting. At the Record Date, 3,059,041 shares of our common stock were outstanding and entitled to vote.

Each holder of shares of our common stock on the Record Date is entitled to cast one vote per share on each proposal submitted for a vote of shareholders at the Special Meeting. Votes may be cast either in person or by properly executed proxy.

The presence in person or by properly executed proxy of the holders of a majority of the outstanding shares of common stock on the Record Date is necessary to constitute a quorum for the transaction of business at the Special Meeting. If a quorum is not present at the Special Meeting, the meeting may be postponed or adjourned from time to time, without notice other than by announcement at the meeting, until a quorum is present or represented. Shares represented by proxies that are marked ABSTAIN, as well as broker non-votes, with respect to any matter, will be counted as present for the purpose of determining whether a quorum is present at the meeting.

Required Votes

Under the NASDAQ Capital Market listing criteria, approval of the issuance of the Merger Consideration and the shares issuable upon exercise of the Warrants requires the affirmative vote of a majority of the total votes cast on the proposal. Under the Florida Business Corporation Act, approval of each of the amendments to our Articles of Incorporation requires that the number of votes cast in favor of approval exceeds the number cast in opposition. These two standards are the same in operation. Accordingly, abstentions and broker non-votes will not be counted in the voting and will not have the effect of votes against any of the proposals.

Voting by Our Directors, Officers, and Affiliates

Glenn and Stephen Nussdorf, who held an aggregate of 1,113,144 shares (36.4%) of our outstanding common stock) on the Record Date, have agreed to vote their shares of our common stock in favor of all the proposals at the Special Meeting.

Miscellaneous

You may vote by proxy or in person at the Special Meeting.

Voting by Proxy

Shares of our common stock represented by properly executed proxies received at or before the Special Meeting and not revoked before being voted will be voted in the manner specified on such proxies. Properly executed proxies that do not contain voting instructions on a proposal will be voted FOR that proposal. If any

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matters not described above are properly brought before the Special Meeting, it is the intention of the persons named in the enclosed proxy card to vote the proxy in accordance with their best judgment. Properly executed proxies marked ABSTAIN, although counted for purposes of determining whether there is a quorum at the Special Meeting, will not be voted.

The voting instruction form enclosed with this Proxy Statement permits you to vote FOR, AGAINST or ABSTAIN with respect to each of the proposals. Our Board of Directors recommends that you vote FOR each of the proposals.

Voting in Person

If your shares of our common stock are registered directly in your name with our transfer agent, you are considered a shareholder of record and we have sent the Proxy Statement and proxy card directly to you. If you are a shareholder of record, you may attend the Special Meeting and vote your shares in person.

If your shares of common stock are held in the name of your broker or other financial institution, which is usually the case if you hold them in a brokerage or similar account, your shares are held in street name and your broker or other financial institution is the shareholder of record. It has sent the Proxy Statement to you with a voting instruction form. As the beneficial owner, you are also invited to attend the Special Meeting. However, only your broker or other financial institution is authorized to vote or grant a proxy for your shares. Accordingly, if you wish to vote your shares in person at the Special Meeting, you must contact your broker or other financial institution to obtain a proxy, which you must bring to the meeting.

Whether or not you intend to vote in person at the Special Meeting, we request that you sign and return the enclosed proxy card or voting instruction form in the enclosed envelope in case you are unable to attend. This would not prevent you from voting in person if you do attend.

Revocation of Proxies

A shareholder giving a proxy has the power to revoke it at any time before the vote is taken at the Special Meeting by:

- if you are a stockholder of record, submitting to our Corporate Secretary (at 251 International Parkway, Sunrise, Florida 33325) a written instrument revoking the proxy;
- if you are a beneficial owner of shares held in street name, following the instructions you received;
- submitting a duly executed proxy card or voting instruction form bearing a later date; or
- voting in person at the Special Meeting.

Solicitation of Proxies

Proxies are being solicited on behalf of our Board of Directors. We will pay the costs and expenses incurred in connection with the printing and mailing of this Proxy Statement and the solicitation of the enclosed proxy. In addition to solicitation by mail, our directors, officers and employees may solicit proxies in person or by other means of communication. Our directors, officers and employees will receive no additional compensation for such services, but we may reimburse them for reasonable out-of-pocket expenses in connection with such solicitation. Some of these directors and executive officers may have interests in the Merger that differ from yours, as described in Approval to Issue Shares and Warrants Interests of Certain Persons in the Merger. Brokers and other nominees will be requested to forward proxy solicitation materials to the beneficial owners of shares held of record by them, and we will reimburse them for the reasonable, out-of-pocket expenses they incur in doing so. We have engaged The Proxy Advisory Group, LLC, to assist in the solicitation of proxies and provide related advice and informational support for a services fee and the reimbursement of customary disbursements that are not expected to exceed $10,000 in the aggregate.

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Assistance

If you need assistance in completing your proxy card or have questions regarding the Special Meeting, please contact:

The Proxy Advisory Group, LLC

18 East 41st Street, Suite 2000

New York, New York 10017

(212) 616-2180

PROPOSAL 1 APPROVAL TO ISSUE SHARES AND WARRANTS

We are asking you to approve the issuance of the shares of our common stock and the Warrants to the Model Reorg shareholders in accordance with the Merger Agreement, as well as the issuance of additional shares of our common stock upon exercise of the Warrants, so we may complete the Merger.

The following describes the Merger and the Merger Agreement. Although we believe that this description covers the material terms of the Merger and the Merger Agreement, it may not contain all of the information that is important to you. We encourage you to read carefully this entire Proxy Statement, including the Merger Agreement, which is attached as Annex I, for a more complete understanding of the Merger. The following description is subject to, and is qualified in its entirety by reference to, the Merger Agreement.

General

In the Merger, Model Reorg will merge into Merger Sub, and the surviving entity will continue Model Reorg s business as our wholly-owned subsidiary. As consideration for the Merger, we will issue to Model Reorg s shareholders an aggregate of 5,900,000 shares of our common stock and Warrants to purchase an aggregate of 1,500,000 shares of our common stock, exercisable beginning on the third anniversary of the Merger at an exercise price of $23.94 per share. These shares will represent approximately 65.9% of our outstanding common stock immediately after the Merger, and 70.8% assuming exercise of all the Warrants.

Background of the Merger

Glenn H. Nussdorf and Stephen L. Nussdorf have owned a substantial interest in E Com since 2003, and we and Model Reorg and our respective affiliated persons and entities have engaged in significant commercial dealings. Those relationships are described in Certain Relationships and Related Person Transactions. The following describes the discussions and events specifically relating to the Merger and leading up to the signing of the Merger Agreement.

The Nussdorfs began considering the possibility of a business combination between us and one or more of their affiliated companies in 2003. After February 2004, when Stephen Nussdorf and Michael Katz were elected to our Board, the Board periodically discussed the possibility of a business combination with Model Reorg. However, the idea did not receive serious consideration until the summer of 2005, when Messrs. Nussdorf and Katz indicated in Board discussions that they believed that our growth potential and earnings prospects could be enhanced by such a combination.

In September 2005, Model Reorg engaged Wachovia Capital Markets LLC (Wachovia) as its financial advisor and to help arrange for financing to fund the operation and growth of the combined company. Later that month, Model Reorg held an organizational conference call including Wachovia, its counsel, Mr. Katz and representatives of Edwards Angell Palmer & Dodge LLP (EAPD), representing Model Reorg, regarding potential deal structuring and Florida legal considerations.

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Thereafter, one of our independent directors, Paul D. Garfinkle, on our behalf, and Mr. Katz, on behalf of Model Reorg, had several informal discussions regarding possible transaction structures and financing needs. Wachovia also commenced its due diligence review of our business and financial affairs, including holding a meeting on November 14, 2005 with Messrs. Katz and Garfinkle and other members of our and Model Reorg s management.

At a meeting of our Board on October 6, 2005, Mr. Katz discussed Model Reorg s intent to evaluate a possible combination with us. He outlined the possibility of obtaining improved terms from vendors, as well as the savings that might result from operating synergies in administrative functions and warehouse operations, and there was a general discussion. The Board authorized the execution of a confidentiality agreement with Model Reorg to permit Model Reorg to review and evaluate our business. The Board also authorized Mr. Garfinkle to investigate law and investment banking firms to help us evaluate the possible combination. Our general outside counsel, Akerman Senterfitt, advised us that Mr. Katz s role in any substantive consideration of such a combination should be solely in his capacity as an officer of Model Reorg and that communications by Model Reorg with respect to any such combination should be directed only to our independent directors.

Informal discussions to explore the benefits and risks of such a transaction, and Model Reorg s due diligence investigation, occurred during the remainder of 2005 and 2006. During this period, our independent directors periodically reviewed the business and financial impacts of combining the companies.

At its meeting on September 6, 2006, our Board reviewed the discussions to that date and determined to establish the Special Committee to consider the possible transaction. The Special Committee consists of Joseph Bouhadana, Carole Ann Taylor, and Mr. Garfinkle, the three members of our Board who are not our employees or consultants, who are independent under NASDAQ and SEC rules, and who are not shareholders of Model Reorg. None of the members of the Special Committee directly own any of our securities other than options to purchase shares of our common stock granted under our 2000 Directors Stock Option Plan (an aggregate of 9,500 shares between them). None has any interest in Model Reorg or otherwise in the proposed transaction. The Special Committee was authorized to consider and evaluate any proposed combination, assess and make a recommendation to our Board whether it would be in our best interests and those of our shareholders to effectuate the proposed combination, conduct discussions and negotiations on our behalf concerning the proposed combination, including negotiating a definitive acquisition agreement, and incur appropriate expenses in connection with its work, including retaining, at our expense, an independent investment banking firm, legal counsel and such other advisors as the Special Committee deemed necessary, useful or advisable to assist and advise it in its work. Members of the Special Committee received a fee of $10,000 for their services in considering the Merger and Merger Agreement.

The Special Committee thereupon held its first meeting and appointed Mr. Garfinkle as its Chairman.

On November 10, 2006, Model Reorg proposed to our Board that we acquire Model Reorg in exchange for our issuing an aggregate of 6,396,649 shares of our common stock to the Model Reorg shareholders. As a result, we would remain a publicly-traded company with the Model Reorg shareholders owning approximately 81% of our issued and outstanding common stock, assuming conversion of the Convertible Note. The offer letter also contemplated that:

- the combined company would obtain additional senior third party credit facilities to finance its ongoing operations and growth;

- obligations due from Model Reorg to Quality King Distributors, Inc. (Quality King), a separate company that is wholly-owned by Stephen and Glenn Nussdorf and their sister, Arlene Nussdorf, would be repaid, refinanced and/or converted into preferred stock of the combined company in the transaction; and

- the transaction would be subject to the approval of (a) an independent committee of our Board and (b) our shareholders other than shareholders of Model Reorg.

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Model Reorg also delivered a draft merger agreement,

On November 17, 2006, we issued a press release announcing Model Reorg s offer and the formation of the Special Committee to review and evaluate the proposal.

On December 5, 2006, the Special Committee interviewed Troutman Sanders LLP (Troutman Sanders) to serve as its legal advisor. The Troutman Sanders representative discussed with the members of the Special Committee their duties and responsibilities. The Special Committee then authorized Mr. Garfinkle to obtain proposals from investment banking firms to provide financial advice to the Special Committee. The Special Committee also authorized Mr. Garfinkle to explore the retention of an accounting firm to assist with its due diligence investigation of Model Reorg. Thereafter, the Special Committee retained Troutman Sanders as its special counsel.

Beginning December 6, 2006, the Special Committee obtained proposals from four investment banking firms, two contacted by Troutman Sanders and two recommended by members of the Special Committee. One of these firms was Financo, which had been recommended based on its specialized experience and reputation in providing investment banking, consulting and financial advice to retailers. None of these firms had previously been engaged by us, Model Reorg, or any of their affiliates in any capacity. The Special Committee considered the proposed engagement terms of the four firms and met with two of them.

The discussions between Mr. Garfinkle, on our behalf, and Mr. Katz, on behalf of Model Reorg, continued during this period, clarifying the terms of the offer and considering the timing and process to consummate a merger, due diligence, potential financing and other matters germane to the contemplated merger. In addition, on December 19, 2006, we entered into a confidentiality agreement with Model Reorg allowing us to perform a due diligence investigation on Model Reorg.

Thereafter, the Special Committee reviewed information about Model Reorg, including its financial statements, negotiated an engagement letter with Financo, and engaged in discussions with an accounting firm regarding providing due diligence services.

On April 12, 2007, there was a meeting of the Special Committee, at which the Committee:

- approved the letter dated April 9, 2007 engaging Financo to provide an initial valuation analysis, to determine whether the consideration for the proposed Merger was fair from a financial point of view to our shareholders (other than those shareholders who own, or whose affiliates own, securities of Model Reorg) and to render an opinion to the Special Committee as to its conclusion, and

- authorized the engagement of an accounting firm to provide tax and financial preacquisition due diligence analysis and inquiries, tax and financial structuring assistance with contract and financing issues, and assistance with post-transaction transition issues.

The Special Committee then met with representatives of Troutman Sanders and Wachovia, Messrs. Stephen Nussdorf and Katz, and Model Reorg and E Com management. Model Reorg management, with Wachovia s assistance, made presentations about the structure of the combined company and the savings and synergies foreseen. In particular, Model Reorg management described the contemplated relocation of warehousing and certain other functions from Florida to New York and the consolidation of systems, which they expected would save payroll and other overhead costs. Representatives of Financo then joined the meeting and the representatives of Model Reorg management and Wachovia answered questions from the Special Committee members and Financo and discussed possible financing.

During April, May and June 2007, Wachovia and Financo exchanged information about us and Model Reorg, and Troutman Sanders, Akerman Senterfitt and EAPD held several conference calls in which they discussed the draft merger agreement and the terms of the proposed Merger. During this period, Troutman

Sanders communicated with the members of the Special Committee about the terms of the proposed merger and the draft merger agreement, the members engaged in discussions among themselves, and Messrs. Garfinkle and Katz had periodic conversations.

On June 1, 2007, Mr. Garfinkle, Mr. Katz, and Troutman Sanders held a telephone conference to discuss substantive issues regarding the proposed Merger and draft merger agreement. Among other things, the Special Committee had requested that we not be required to make any representations and warranties in the merger agreement with respect to our operations and that the merger agreement require the Model Reorg shareholders to indemnify us against potential losses arising from misrepresentations and breaches of warranties made by Model Reorg in the merger agreement. During a later call, EAPD communicated to Troutman Sanders that Model Reorg was unwilling to agree that the Merger should be conditioned on the approval of a majority of our shareholders other than shareholders of Model Reorg, as had been proposed in Model Reorg s November 10, 2006 letter. They expressed the concern that, given the composition of our shareholder base and the likelihood that some shareholders would not vote at all, an unreasonably small number of shareholders might have the power to block the Merger, possibly for their own purposes, notwithstanding the Special Committee s approval and the desire of a majority of our shareholders to complete the proposed combination. In the following weeks, Troutman Sanders and EAPD continued to discuss the draft merger agreement.

On June 11, 2007, the Special Committee held a meeting by conference telephone call with Troutman Sanders in which it reviewed the substantive issues in the draft merger agreement, financial information about us and Model Reorg, and the accounting treatment of, and financial reporting requirements for the combined company following, the proposed Merger.

On June 25, 2007, the Special Committee held a meeting by conference telephone and received a report from Mr. Garfinkle and Troutman Sanders concerning the negotiations over the terms of the transaction, the refinancing of Model Reorg s obligations to Quality King, the status of the due diligence investigation and the initial valuation analysis being prepared by Financo.

On June 27, 2007, EAPD and Troutman Sanders held a conference telephone call concerning issues in the draft merger agreement of concern to the Special Committee, including the number of shares to be issued, the terms on which the Quality King obligations would be refinanced, a proposed escrow fund for indemnification, and the extent of our required representations. Model Reorg determined to accept the principal changes requested by the Special Committee on June 1 on condition that the transaction not be subject to the separate approval of our shareholders other than those who are also Model Reorg shareholders. EAPD provided a revised draft of the merger agreement reflecting the changes, which was distributed to the Special Committee. At that time, management of both companies provided certain projections to the Special Committee.

On July 5, 2007, the Special Committee held a meeting by conference telephone to review and discuss the revised draft of the merger agreement, the status of the due diligence investigation, and the progress of Financo s work on valuation. Among other things, the Special Committee discussed the lack of a requirement for separate approval of a majority of the shares held by shareholders other than Model Reorg shareholders. The Special Committee also discussed alternatives for the refinancing of the obligations of Model Reorg to Quality King and the effects of Model Reorg s operation of licensed stores.

On July 9, 2007, the Special Committee received the accounting firm s diligence report. The report was provided to Financo, and it was discussed by the members of the Special Committee.

On July 30, 2007, Troutman Sanders and Akerman Senterfitt held a conference call to review the draft merger agreement with EAPD. On August 3, 2007, Troutman Sanders held a conference call with EAPD to negotiate the draft merger agreement.

From April 2007 until late July 2007, Mr. Katz engaged in negotiations with a financial institution, seeking a commitment to provide senior credit facilities to the combined company. They reached a substantially final agreement in principle in July 2007 but, before execution of a commitment letter, the lenders withdrew from the

discussions, reportedly due to what had become the generally unsettled state of the credit markets. Since the terms of any such financing would be an important factor in determining the feasibility of a combination, we and Model Reorg then pursued other financing options.

On August 9, 2007, Troutman Sanders, Mr. Katz, and EAPD held a telephone conference to discuss the issue of shareholder voting and the status of the proposed senior financing for the ongoing operations of the combined company.

On August 10, 2007, the Special Committee held a conference call with Mr. Katz and Troutman Sanders in which Mr. Katz discussed the status of the proposed financing, describing his discussions regarding alternative financing with another lender and the refinancing of the Quality King obligations, and explained Model Reorg s position with respect to the disinterested shareholder voting condition. After Mr. Katz left the call, and after discussions with Troutman Sanders, the Special Committee determined that, while counsel should continue to seek inclusion of such a provision, its absence alone should not be the reason for rejecting a transaction if the Special Committee determines that the transaction is in our best interests and is fair to our shareholders other than those who are also Model Reorg shareholders.

On August 29, 2007, the new lender issued a commitment letter to us providing for a fully-underwritten $250 million senior secured revolving credit facility and a $30 million senior secured first-in-last-out term loan facility, and contemplating the refinancing of Model Reorg s obligations to Quality King on a subordinated basis. That commitment letter provided that it would expire in November 2007.

EAPD and Troutman Sanders discussed the proposed terms of the transaction by telephone on a number of occasions throughout September and October.

On September 12, 2007, Financo submitted to the Special Committee its initial preliminary valuation materials regarding us and Model Reorg based upon, among other factors, the respective earnings before interest, taxes, depreciation and amortization (EBITDA) for the twelve months ended April 30, 2007, and the debt for borrowed monies, net of cash on hand (net debt) as of April 30, 2007, of each of the companies.

On September 17, 2007, the Special Committee held a meeting by conference telephone with Financo and Troutman Sanders in which Financo discussed with the Special Committee the various valuation methodologies used and comparable companies considered by Financo in preparing the valuation information concerning the two companies, including assumptions used, inherent limitations in, and results of the analysis. The Special Committee requested Financo to update the data used in these preliminary valuation materials.

On September 19, 2007, Mr. Garfinkle and Mr. Katz discussed the Special Committee s position on several aspects of the proposed Merger in a telephone call, in particular the requisite shareholder vote, the number of shares issuable to the Model Reorg shareholders and the anticipated timing of Model Reorg s year-end audit.

On September 23, 2007, the Special Committee held a meeting by conference telephone in which the members discussed Model Reorg s position with respect to separate voting by our disinterested shareholders and other considerations relating to the proposed transaction.

On September 24, 2007, Financo provided the Special Committee with updated preliminary valuation material setting forth information regarding the valuations of both companies based on forward-looking information furnished by each company for the twelve months ending December 31, 2007, in addition to the historical information previously considered.

On October 5, 2007, the Special Committee held a meeting by conference telephone with Financo and Troutman Sanders in which Financo discussed with the Special Committee its updated preliminary valuation materials and there was a general discussion of the information relied on and Financo s analytical approach.

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Following Financo s participation in the meeting, the Special Committee reviewed information prepared by Troutman Sanders with respect to the number of shares of our common stock that would be issued to the shareholders of Model Reorg under the different methodologies and at various relative ranges of valuations contained in Financo s preliminary valuation materials.

Also on October 5, 2007, Model Reorg acquired by merger 100% of Jacavi LLC (Jacavi), an independent fragrance distributor, as had been contemplated during the Merger negotiations. As a result, the former owners of Jacavi acquired an 11.25% interest in Model Reorg and members of the Nussdorf family continued to hold the remaining ownership interest.

On October 8, 2007, the Special Committee held a meeting by conference telephone with Troutman Sanders, in which it was agreed that Financo should further update the historical information it had used in its valuations to the most current information provided by both companies and update the forward-looking analysis through the end of our current fiscal year in order to reflect more comparable information and to conform to the conventional retail fiscal year end.

On October 16, 2007, EAPD distributed revised drafts of the proposed merger agreement and the related Model Reorg disclosure schedules.

On October 19, 2007, Financo provided the Special Committee revised preliminary valuation materials, including historical information based on the actual EBITDA of both companies for the twelve months ended August 31, 2007 and projected EBITDA for both companies and the combined company for the twelve months ending January 31, 2008. The projected figures for Model Reorg included results of Jacavi on a pro forma basis for periods following Model Reorg s acquisition of Jacavi.

On October 23, 2007, the Special Committee held a meeting by conference telephone with Troutman Sanders to review and analyze Financo s October 19, 2007 preliminary valuation materials. The Special Committee also reviewed information prepared by Troutman Sanders computing the number of shares of our common stock that would be issued to the shareholders of Model Reorg if issued in proportion to the respective valuations of the two companies contained in Financo s preliminary valuation materials, with certain adjustments. The Special Committee also reviewed certain provisions of the draft merger agreement with Troutman Sanders and the proposed refinancing of Model Reorg s obligations to Quality King.

Based on these reviews and discussions, the Special Committee determined to make a counter-proposal, subject to final resolution of open issues in the draft merger agreement, acceptable terms for the financing of the obligations of Model Reorg to Quality King, completion of the proposed senior financing set forth in the August 9, 2007 commitment letter and completion of our due diligence investigation of Model Reorg.

Mr. Garfinkle and Mr. Katz had a telephone conversation on October 24, 2007 in which Mr. Garfinkle communicated the Special Committee s proposed revised terms for the combination, including:

- decreasing the number of shares to be issued to the Model Reorg shareholders from 6,396,649 to 5,500,000;
- the Model Reorg shareholders indemnifying us for any tax liability of Model Reorg for periods before the consummation of the Merger; and
- the number and valuation of the shares of our common stock to be held in the escrow fund.

In a November 5, 2007 telephone conversation, EAPD advised Troutman Sanders of Model Reorg s counter-proposal that, due to perceived changes in the two companies businesses since the November 2006 merger proposal, we issue enough shares of our common stock for the Model Reorg shareholders to beneficially own an aggregate of 85% of our common stock (inclusive of shares presently owned by Stephen and Glenn Nussdorf and giving effect to the conversion of the Convertible Note), or approximately 9,500,000 shares.

Troutman Sanders thereupon communicated this counter-offer to each Special Committee member and, later that day, the Special Committee held a meeting by conference telephone in which it discussed the counter-offer and requested that Mr. Garfinkle confirm its accuracy and the reasons for it. On the next day, Mr. Garfinkle and Mr. Katz had a telephone conversation about the counter-offer.

On November 7, 2007, the Special Committee held a meeting by conference telephone in which Mr. Garfinkle reported that he had spoken with Mr. Katz, who had confirmed the accuracy of Model Reorg s counter-offer. The Special Committee determined that, based on the preliminary valuations materials it had previously received, this proposal was not fair to our shareholders. It also expressed concern that, under Florida Law, stock ownership above 80% would permit the Model Reorg shareholders to acquire us by a short form merger with a company they control and without the approval of our shareholders. The Special Committee requested a meeting with Stephen Nussdorf and Mr. Katz.

On November 8, 2007, the members of the Special Committee held a conference telephone call with Stephen Nussdorf and Mr. Katz. The members of the Special Committee requested that Model Reorg reconsider its position or provide the Special Committee with information that Model Reorg had received from its financial advisors that supported Model Reorg s counter-offer.

On November 20, 2007, the August 29, 2007 financing commitment described above expired in accordance with its terms.

On November 26, 2007, the Special Committee met with Glenn Nussdorf and Mr. Katz to negotiate the economic terms of the proposed Merger, including the terms of the refinancing of Model Reorg s obligations to Quality King. During this meeting, Mr. Garfinkle stated that the Special Committee would not agree to increase the number of our shares issuable to the Model Reorg shareholders as proposed by Model Reorg but that, in addition to the issuance of 5,500,000 shares, the Special Committee would consider the issuance of warrants to purchase 500,000 shares at a price above the current market price of our common stock.

EAPD and Troutman Sanders continued to discuss the negotiations between Model Reorg and the Special Committee in periodic telephone conversations during November and December.

On December 4, 2007, Model Reorg responded with a proposal for the issuance of 6,400,000 of our shares and Warrants to purchase 1,500,000 additional shares at an exercise price equal to the market price of our common stock on that date.

On December 5, 2007, the Special Committee held a meeting by conference telephone to consider Model Reorg s revised offer and the refinancing of its obligations to Quality King. The members determined to make a counter-offer, that we issue 5,900,000 shares of common stock and Warrants to purchase 1,500,000 shares, exercisable at a price of $1.00 above the market price of our common stock on the date of the Original Merger Agreement. On that basis, the Model Reorg shareholders would beneficially own approximately 78.3% of our outstanding common stock immediately after the Merger, or 82.2% assuming the exercise of their Warrants (inclusive of shares presently owned by Stephen and Glenn Nussdorf and giving effect to the conversion of the Convertible Note). Troutman Sanders communicated this counterproposal to EAPD.

On December 6, 2007 Mr. Katz advised Mr. Garfinkle that the Model Reorg shareholders agreed in principle to the Special Committee s counter-offer, other than with respect to the exercise price of the Warrants.

Over the succeeding days, Mr. Katz and Mr. Garfinkle negotiated the exercise price of the Warrants, resulting in an understanding that it would be equal to the average closing price of our common stock on NASDAQ for the 50 trading days ending immediately before the date of execution of the Original Merger Agreement. Model Reorg also agreed with the Special Committee s position that the Warrants not be exercisable for three years after the date of issuance and not be transferable, with limited exceptions. In addition, the terms

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on which the existing obligations of Model Reorg to Quality King would be satisfied were negotiated, with the Special Committee taking the position that the terms should be at least as favorable to us as those in the original senior credit facilities proposed in July 2007. Such terms were agreed to by Model Reorg as described under Terms of the Merger Agreement Affiliated Debt.

On December 10, 2007, EAPD provided a revised draft of the merger agreement and drafts of the form of Warrant and Registration Rights Agreement.

On December 12, 2007, Troutman Sanders, Akerman Senterfitt and EAPD held a conference call to discuss the new drafts of the Merger documents, and Model Reorg agreed to make certain changes, including eliminating the provision for net exercise of the Warrants.

From December 12, 2007 through December 20, 2007, EAPD, Troutman Sanders, and Akerman Senterfitt continued their telephone discussions of comments to the Merger documents, and EAPD prepared and distributed revised drafts. Merger Sub was organized in Delaware on December 13, 2007 to be our wholly-owned subsidiary into which Model Reorg would merge.

On December 17 and 18, 2007, the Special Committee held meetings by conference telephone with Troutman Sanders to review the current drafts of the merger agreement, reflecting changes requested by the Special Committee and agreed to by Model Reorg, including the following:

- the indemnification provisions of the draft merger agreement had been bifurcated so that claims, if any, relating to tax liabilities above those accrued on Model Reorg s financial statements would be paid in cash by the Model Reorg shareholders without limitation;

- the Model Reorg shareholders would agree that, notwithstanding any ability to do so under Florida law, they would not effect a short form merger of us with a company they control while their combined ownership of our outstanding shares was less than 90% of our outstanding common stock; and

- the Model Reorg shareholders would agree to vote the shares of our common stock they hold for the proposals in this Proxy Statement needed to implement the Merger.

The Special Committee also reviewed Model Reorg s updated disclosure schedules, the Warrants and the Registration Rights Agreement.

On December 21, 2007, Model Reorg s Board of Directors and shareholders each approved the Original Merger Agreement and the proposed Merger on behalf of Model Reorg.

On December 21, 2007, the Special Committee met in person at our headquarters. Financo, whose representatives participated by conference telephone, presented its final valuation report to the Special Committee and responded to questions from the members. Financo then rendered its oral opinion (later confirmed in writing) to the Special Committee that, as of December 21, 2007, the Merger Consideration was fair from a financial point of view to our shareholders (other than those of our shareholders who own, or whose affiliates own, securities of Model Reorg). A copy of Financo s opinion is included as Annex II to this Proxy Statement and a discussion of the bases for that opinion is described under Opinion of Financo in this Proxy Statement.

The Special Committee then discussed the proposal in depth, considering the Financo report and opinion, as well as the factors described under Reasons for the Merger, among others. After discussion, the Special Committee unanimously approved the Merger and the related transactions and recommended the adoption of the Original Merger Agreement to our Board of Directors, subject to the Special Committee s right to withdraw, modify or amend such recommendation if the Special Committee determines, in good faith, that failure to take such action would be reasonably likely to result in a breach of its fiduciary duties to our shareholders under applicable law.

Following the Special Committee meeting on December 21, 2007, our Board of Directors held a meeting that was attended by all members of the Board, with Stephen Nussdorf attending by conference telephone. The interests of Messrs. Nussdorf and Katz in the proposed Merger were noted. After discussion, based in part on the recommendation of the Special Committee and the fairness opinion the Special Committee received from Financo, and for reasons including those described under Reasons for the Merger, the Board unanimously:

determined that the terms of the Merger are fair from a financial point of view to the holders of our common stock (other than shareholders who own, or whose affiliates own, securities of Model Reorg);

adopted the Original Merger Agreement and declared the Original Merger Agreement and the related transactions to be advisable;

approved amendments of our Articles of Incorporation, subject to shareholder approval, (a) increasing the number of authorized shares of common stock to 20,000,000 and (b) changing our name to Perfumania Holdings, Inc.; and

recommended that our shareholders approve (a) the issuance of the Merger Consideration and the issuance of our common stock upon exercise of the Warrants, subject to the Board s right to withdraw, modify or amend its recommendation to the extent that it determines, in good faith, that failure to take such action would be reasonably likely to result in a breach of its fiduciary duties to our shareholders under applicable law, and (b) the foregoing amendments of our Articles of Incorporation.

After the Board meeting on December 21, 2007, the Original Merger Agreement was executed by us, Model Reorg and Merger Sub, and by the shareholders of Model Reorg. Later in the day we issued a press release announcing its execution.

After the execution of the Original Merger Agreement, we restated our historical amortization of rent expense and leasehold improvements as described in Note 3 to our audited Consolidated Financial Statements on page F-14, which resulted in an increase in net income of $1.0 million in fiscal year 2005, a decrease in net income of $100,000 in fiscal year 2006, and a decrease in net income of $270,000 for the twelve months ended September 30, 2007. In addition, Model Reorg restated amounts reported in its fiscal 2005 and 2006 years related to inventory reserves, deferred revenue (included in accrued expenses) and federal and state income taxes as described in Note 1 to Model Reorg s audited Consolidated Financial Statements on page F-42, which resulted in increases in Model Reorg s net income in fiscal 2006 and 2005 of $290,000 and $370,000, respectively, and a decrease in net income of $715,000 for the twelve months ended September 30, 2007 from the projected amounts previously provided to Financo and the Special Committee.

During the Spring of 2008, as contemplated by the Original Merger Agreement, we and Model Reorg negotiated with institutional lenders for a senior secured credit facility. We obtained an updated commitment on May 16, 2008 for the Senior Credit Facility described in Post-Merger Financing from the same institutional lender that had provided the August 29, 2007 financing commitment.

On May 30, 2008, EAPD and Troutman Sanders discussed possible revisions to the Original Merger Agreement to reflect the terms of the proposed Senior Credit Facility, changes to the restructuring of Model Reorg s related party debt required by that facility, and an extended deadline for consummation of the Merger. On June 3, 2008, members of Model Reorg management discussed the terms of the proposed debt arrangements with Troutman Sanders and EAPD. After a telephone conversation on June 5, 2008 among EAPD, Troutman Sanders and Akerman Senterfitt, EAPD distributed a draft of the First Amendment on June 9, 2008. On June 13, 2008, Troutman Sanders responded with its comments. During the following three weeks, EAPD and Troutman Sanders, in consultation with their clients, finalized the language of the First Amendment.

On June 17, 2008, the Special Committee met by conference call to consider the First Amendment. We and Model Reorg provided the Special Committee with interest expense projections regarding the proposed new Senior Credit Facility and affiliate debt arrangements showing that the combined company s aggregate interest expense, based on anticipated debt levels, is expected to be less on an overall basis than was projected under the arrangements contemplated by the Original Merger Agreement.

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We and Model Reorg also provided the Special Committee with certain modified historical financial results and projections taking into account the restatements of our and Model Reorg s financial statements described above. Compared to the historical financial results previously considered by the Special Committee and Financo, the restatements resulted in a decrease in our EBITDA for the twelve-month period ending September 30, 2007 of $267,000, or 1.85%, and a decrease in Model Reorg s EBITDA for the same period of $1 million, or 2.57%. The cumulative effect of the restatements on EBITDA for the five years ending October 31, 2007 was a decrease of $744,000, or 1.6%, for us and an increase of $4.36 million, or 2.91%, for Model Reorg. The Special Committee was advised that our restatement will have an immaterial impact in future years, while Model Reorg s restatement will have no future impact.

In addition, we and Model Reorg provided the Special Committee with updated business forecasts for the twelve months ending October 31, 2008, reflecting the current economic environment. These and the related assumptions are described in Selected Financial Projections, beginning on page 108. Taking these factors into account, including the effect of the restatements described above, we and Model Reorg advised the Special Committee that our EBITDA for the twelve months ending October 31, 2008 is projected to decline by 32.8% compared with the projections we originally provided the Special Committee and Financo, while Model Reorg s EBITDA for the same period is projected to decline by only 15.4%.

A factor in Financo s financial analysis of the fairness of the Merger Consideration was the EBITDAs of E Com and Model Reorg for the twelve months ended September 30, 2007 and their projected EBITDAs for the twelve months ending October 31, 2008 (see Opinion of Financo on page 37). The Special Committee considered the effects of the restatements on each company s historical and projected EBITDA to be immaterial. The Special Committee s review of the fairness of the proposed Merger Consideration focused primarily on the estimated relative values of us and Model Reorg, rather than the absolute value of the Merger Consideration as of any particular time. The Special Committee noted that the percentage decline in our projected EBITDA for the twelve months ending October 31, 2008 was twice the projected decline of Model Reorg s EBITDA for the same period. The Special Committee also concluded that the reasons for the Merger described under Reasons for the Merger below remained valid. Accordingly, after considering the First Amendment, the restatements and the other information described above, the Special Committee determined for these reasons and those described in Reasons for the Merger not to seek an update of Financo s fairness opinion nor modify its recommendation.

On July 7, 2008, our Board of Directors held a meeting that was attended by all the directors except Ms. Taylor to discuss the First Amendment and the Merger. The Board held another meeting on July 8, 2008, by conference telephone call, that was attended by all the directors. The interests of Messrs. Stephen Nussdorf and Michael Katz in the proposed Merger were noted. After discussion, based in part on the recommendation of the Special Committee, and for the reasons described in Reasons for the Merger, the Board unanimously approved the execution of the First Amendment.

Reasons for the Merger

Our Board of Directors believes that the Merger will provide substantial benefits to our shareholders. The combination with Model Reorg will create a large, independent, national, vertically integrated wholesale distributor and specialty retailer of perfumes and fragrances that we expect will be well-positioned to compete in the marketplace and drive growth, as well as to benefit from increased operating scale.

In making its determination to recommend approval of the Original Merger Agreement, the Special Committee consulted with our and Model Reorg s officers regarding the strategic and operational aspects of the combination and received reports of our diligence review of Model Reorg. In addition, the Special Committee consulted with representatives of Financo regarding valuations of each company and with respect to the fairness of the transaction from a financial point of view, and with special counsel to the Special Committee regarding legal matters. In the course of reaching its determinations, the Special Committee and our Board considered a variety of factors, including the following:

- the anticipated benefits of vertical integration and diversification of our business;

- the increased cash flow that is expected to be available to support an acceleration of the growth of E Com s retail operations;

- the higher consolidated capitalization, revenues and earnings base of the combined company that should result in both improved bank and private financing capability and afford us greater access to public capital markets;

- the greater scale and stronger financial position that is expected to result in additional bargaining power and improved terms with suppliers and landlords;

- the availability to us of more extensive, modern warehouse facilities that will provide better and more direct access to vendors and the ability to make more timely deliveries;

- the addition of experienced management and purchasing personnel;

- the Special Committee s belief that risks inherent in distribution businesses, such as that of Model Reorg, are lower than those in retail operations, such as that of E Com;

- the accretion in earnings per share for our existing shareholders expected to result from the Merger; and

- synergies anticipated to result from the Merger, including those discussed below.

The anticipated synergies include the ability to combine both companies warehouse, shipping, information technology and administration functions into a single, modern facility, reducing overhead and minimizing redundancies, and other efficiencies, partially offset by increased costs of auditing and internal control and freight costs. Based on our estimates, we anticipate that these synergies will reduce the projected aggregate annual operating expenses of the two companies by approximately $3.5 to $4.0 million on a pre-tax basis, with a nominal impact on the twelve months ending October 31, 2008. See also Selected Financial Projections. No assurance can be given that we will achieve synergies of any particular magnitude.

Potential negative factors addressed by the Special Committee and the Board during the period that the transaction was under consideration included:

- the Nussdorfs acquisition of majority ownership and, thus, the ability to exercise legal control over most matters to be determined by the combined company s shareholders;

- concern over possible Model Reorg customer perceptions of competition from the combined company; and

- the greater leverage to be incurred by the combined company.

However, in the judgment of the Special Committee and the Board, these concerns were outweighed by the anticipated benefits for E Com and its shareholders.

In considering the First Amendment, the Special Committee and the Board reexamined the principal factors supporting its earlier decision as described above and concluded that the reasons for the Merger remain valid.

Opinion of Financo

Pursuant to a letter agreement dated as of April 9, 2007, Financo was engaged to provide a fairness opinion to the Special Committee. The Special Committee selected Financo based on Financo s reputation and experience in the retail and consumer industries in particular. Financo focuses on providing investment banking services, including merger and acquisition advisory services, to retail and consumer companies. In this capacity, Financo is continually engaged in valuing these businesses and maintains an extensive database regarding mergers and acquisitions in these industries for comparative purposes. At the meeting of the Special Committee on December 21, 2007, Financo rendered its opinion that, as of such date, and based upon and subject to the various assumptions and limitations set forth in its written opinion, the Merger Consideration was fair, from a financial point of view, to holders of our common stock (other than those who own, or whose affiliates own, securities of Model Reorg).

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Financo s opinion, which describes the assumptions made, matters considered and limitations on the review undertaken by Financo, is attached as Annex II to this Proxy Statement. Holders of our common stock are urged to, and should, read the Financo opinion carefully and in its entirety. The Financo opinion is directed to the Special Committee and addresses only the fairness of the Merger Consideration from a financial point of view to holders of our common stock (other than those who own, or whose affiliates own, securities of Model Reorg) as of the date of the opinion. The Financo opinion does not address any other aspect of the Merger and does not constitute a recommendation to any holder of our common stock as to how to vote at the Special Meeting. The summary of the Financo opinion set forth in this Proxy Statement is qualified in its entirety by reference to the full text of such opinion.

Financo s opinion does not address the underlying business decision to enter into the Merger Agreement or the Merger, nor does it evaluate alternative transaction structures or other financial or strategic alternatives.

In reading the discussion of the fairness opinion set forth below, you should be aware that Financo reviewed and considered such financial and other matters as Financo deemed relevant, including, among other things:

- drafts of the Original Merger Agreement, the Warrants and the Registration Rights Agreement, each dated December 20, 2007, which, for purposes of this opinion, Financo assumed to be in all material respects identical to the forms of such agreements to be executed;

- certain publicly available financial and other information for E Com, including its Annual Report on Form 10-K for the fiscal year ended February 3, 2007 and Quarterly Reports on Form 10-Q for the quarters ended May 5 and August 4, 2007 and certain other relevant financial and operating data furnished to Financo by our management;

- historical financial information of Model Reorg, prepared and furnished to Financo by management of Model Reorg;

- certain internal financial analyses, financial forecasts, reports and other information concerning E Com prepared and furnished to Financo by our management and management and representatives of Model Reorg;

- certain internal financial analyses, financial forecasts and other information concerning Model Reorg furnished to Financo by management and representatives of Model Reorg;

- discussions Financo had with certain members of our management concerning the historical and current business operations and strategy, financial condition and prospects of E Com and such other matters as Financo deemed relevant;

- discussions Financo had with certain members of Model Reorg management concerning the historical and current business operations and strategy, financial condition and prospects of Model Reorg and such other matters as Financo deemed relevant;

- certain operating results, the reported prices and historical trading activity of our common stock, and the operating results, reported prices and historical trading activity of the securities of certain publicly traded companies Financo deemed relevant;

- certain financial terms of the Merger as compared to the financial terms of certain selected business combinations Financo deemed relevant; and

such other information, financial studies, analyses and investigations and such other factors that Financo deemed relevant for the purposes of its opinion.

In conducting its review and arriving at its opinion, Financo assumed and relied, with the consent of the Special Committee and without independent investigation, upon the accuracy and completeness of the information publicly available about E Com and Model Reorg, and the financial and other information provided to Financo or otherwise made available to, discussed with, or reviewed by or for Financo. Financo assumed no

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responsibility for the accuracy or completeness, and did not independently verify, any such information. Financo relied on the assurance provided by our management that they are unaware of any facts that would make such information incomplete or misleading. With respect to the transaction process conducted on our behalf, Financo assumed and relied upon, without assuming any responsibility for independent verification of, the accuracy and completeness of the information supplied, summarized or otherwise made available to, discussed with, or reviewed by or for Financo, including as to the completeness of the process. Financo s analyses were based, among other things, on the financial projections of E Com (the E Com Financial Projections) prepared by our management and the financial projections of Model Reorg prepared by management of Model Reorg (the Model Reorg Financial Projections and collectively with the E Com Financial Projections, the Financial Projections). With respect to the Financial Projections, which were furnished to, discussed with or reviewed for Financo by management of E Com or Model Reorg, as the case may be, Financo assumed that they were reasonably prepared on bases reflecting the best currently available estimates and good faith judgments of management of E Com or Model Reorg, as the case may be, as to the future competitive, operating and regulatory environments and related financial performance of E Com or Model Reorg, as the case may be, and that the assumptions derived therefrom provided a reasonable basis for Financo s opinion. Financo expressed no view as to such Financial Projections, or the assumptions on which they were based.

For purposes of rendering its opinion, Financo assumed in all respects material to its analysis that the representations and warranties of each party contained in the Original Merger Agreement were true and correct, that each party would perform all of the covenants and agreements required to be performed by it under the Original Merger Agreement and that all conditions to the consummation of the Merger will be satisfied without waiver or modification thereof. Financo also assumed that in the course of obtaining the necessary regulatory and third party approvals, consents and releases for the Merger, no modification, delay, restriction or condition will be imposed that will have a material adverse effect on the Merger and that the Merger will be consummated in accordance with applicable laws and regulations and the terms of the Original Merger Agreement, without delay, waiver, amendment or modification of any material term, condition or agreement. Financo relied without independent verification upon the views of our management concerning the business, operational and strategic benefits and implications of the Merger. Financo did not express any view on, and its opinion did not address, the fairness of the amount or nature of any compensation to be paid or payable to any of the officers, directors or employees of E Com or Model Reorg, or any class of such person, whether relative to the Merger Consideration or otherwise.

Financo was not asked to pass upon, and expressed no opinion with respect to, any matters, including any agreements between E Com and Model Reorg or any of their respective affiliates, other than the fairness from a financial point of view of the Merger Consideration to holders of our common stock (other than those who own, or whose affiliates own, securities of Model Reorg). In connection with its engagement, Financo did not evaluate, nor did we or the Special Committee request Financo to evaluate, alternative transaction structures or financial alternatives other than the Merger, and Financo did not otherwise participate in the transaction process. Financo s opinion does not address our underlying business decision to effect the Merger.

Financo did not make or obtain any independent evaluations, valuations or appraisals of the assets or liabilities of E Com or Model Reorg nor was Financo furnished with such materials. In addition, Financo has not conducted, nor has Financo assumed any obligation to conduct, any physical inspection of the properties or facilities of E Com or Model Reorg. Financo assumed with the consent of the Special Committee that there are no legal issues with regard to E Com or Model Reorg that would affect its opinion, and Financo relied on this assumption without undertaking any independent investigation or inquiry. Financo s opinion was necessarily based upon economic and market conditions and other circumstances as they existed and could be evaluated by it on the date it rendered its opinion. It should be understood that although subsequent developments may affect Financo s opinion, Financo did not have any obligation to update, revise or reaffirm Financo s opinion and Financo expressly disclaimed any responsibility to do so. Financo s opinion did not address the relative merits of the Merger as compared to other business strategies that might be available to E Com, nor did it address our underlying business decision to proceed with the Merger. Financo expressed no view as to the federal, state or local tax consequences of the Merger. Financo s opinion was approved by a fairness committee of Financo.

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The following is a summary explanation of the various sources of information and valuation methodologies employed by Financo in rendering its opinion. These analyses were presented to the Special Committee at its meeting on December 21, 2007. This summary describes the financial analyses used by Financo and deemed to be material, but does not purport to be a complete description of analyses performed by Financo in arriving at its opinion. Financo did not explicitly assign any relative weights to the various factors or analyses considered. This summary of financial analyses includes information presented in tabular format. In order to fully understand the financial analyses used by Financo, the tables must be read together with the text of each summary. The tables alone do not constitute a complete description of the financial analyses.

For purposes of its analysis, Financo evaluated on a standalone basis each of E Com, Model Reorg and the combined company.

E Com Valuation

E Com Comparable Companies Analysis

Financo compared E Com to a group of comparable public specialty retailing companies referred to as the E Com Comparable Companies. The E Com Comparable Companies are public companies that Financo deemed comparable to E Com s limited universe. Financo selected public companies competing in the specialty retailing industry selling third party brands at value prices with net sales for the trailing twelve months publicly available at the time of the analysis of between $478 million and $672 million. Financo also included in this group public companies competing in the specialty retailing of personal care products of a threshold size, with net sales for the trailing twelve months publicly available at the time of the analysis of between $870 million and $10,996 million.

The E Com Comparable Companies are:

Buckle, Inc.

Casual Male Retail Group, Inc.

Limited Brands, Inc.

Sally Beauty Holdings, Inc.

Shoe Carnival, Inc.

Ulta Salon, Cosmetics & Fragrance, Inc. and

The Wet Seal, Inc.

Financo considered the ratio of equity market capitalization, adjusted for cash and debt when appropriate, to reflect enterprise value, which we refer to as EV, to earnings before interest, taxes, depreciation and amortization, which we refer to as EBITDA, and the ratio of price to earnings, which we refer to as P/E, to derive multiples that indicate the value public equity markets place on companies in a particular market segment. In order to perform this analysis, Financo compared financial information of E Com with publicly available information for the E Com Comparable Companies. Financo considered the entire range of multiples yielded by the E Com Comparable Companies in establishing a more limited reference range of multiples which it used for its analysis. For this analysis, as well as other analyses, Financo examined publicly available information, as well as a range of estimates based on equity research reports.

The following table presents, based on closing prices as of December 20, 2007, the reference range of multiples for the E Com Comparable Companies of EV divided by EBITDA, and P/E:

	Reference Range of Multiples
9/30/07 EV/ EBITDA	8.0x - 9.5x
9/30/07 P/E	10.0x - 16.0x
Projected 10/31/08 EV/EBITDA	6.5x - 8.0x
Projected 10/31/08 P/E	8.0x - 14.0x

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The comparables imply the following reference ranges for E Com s per share value:

	Reference Range of Values
9/30/07 EV/ EBITDA	$17.51 - $23.43
9/30/07 P/E	$12.32 - $19.71
Projected 10/31/08 EV/ EBITDA	$12.15 - $18.23
Projected 10/31/08 P/E	$7.93 - $13.88

No company utilized in the public company comparables analysis as a comparison to E Com is identical to E Com. In evaluating the comparables, Financo made numerous assumptions with respect to the specialty retailing industry s performance and general economic conditions, many of which are beyond the control of E Com. Mathematical analysis, such as determining the median, average or range, is not in itself a meaningful method of using comparable company data.

E Com Comparable Transactions Analysis

Financo considered ratios of EV to sales and EBITDA to derive multiples that strategic and financial acquirers have been willing to pay for companies in this particular market segment. In order to perform this analysis, Financo reviewed a number of transactions, including those involving companies deemed by Financo to be comparable to E Com based on financial performance, market focus and business model. Financo reviewed eighteen comparable merger and acquisition transactions announced from July 31, 2003 through September 18, 2007 involving companies in the specialty retailing industry. For this analysis, as well as other analyses, Financo examined publicly available information, as well as information from Financo s proprietary database of published and confidential merger and acquisition transactions in the retail and consumer industries.

The E Com comparable transactions consisted of the acquisitions of:

Factory Card & Party Outlet by Amscan Holdings, Inc.

United Retail Group by Red Cats USA, Inc.

Deb Shops, Inc. by Lee Equity Partners

Cutter & Buck, Inc. by New Wave Group AB

American Apparel by Endeavor Acquisition Corp.

Golf Galaxy, Inc. by Dick s Sporting Goods, Inc.

Yankee Candle Co. Inc. by Madison Dearborn Partners Inc.

Sally Beauty Holdings, Inc. by Clayton, Dubilier & Rice, Inc.

The Body Shop International PLC by L Oreal SA

Pacific Sales Kitchen & Bath Centers, Inc. by Best Buy Co., Inc.

Party City Corporation by Berkshire Partners & Weston Presidio

OshKosh B Gosh Inc. by William Carter Co.

Brookstone, Inc. by J.W. Childs Associates, Osim International and Temasek Holdings

Maurices Inc. by Dress Barn Inc.

Galyan s Trading Company, Inc. by Dick s Sporting Goods, Inc.

Loehmann s Holdings Inc. by Crescent Capital Investments, Inc.

InterTAN Inc. by Circuit City Stores Inc. and

The White House, Inc. by Chico s FAS Inc.

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The following table presents, as of December 20, 2007, the reference range of multiples of adjusted price (defined as equity price plus total debt minus cash and cash equivalents) divided by the seller s EBITDA in the last reported twelve months prior to acquisition for the transactions listed above:

	Reference Range of Multiples
EV/ EBITDA	9.0x - 11.0x

These comparables imply the following reference range for per share value:

	Reference Range of Values
EV/ EBITDA	$21.46 - $29.36

No transaction utilized as a comparable in the transaction comparables analysis is identical to the Merger. In evaluating the comparable transactions, Financo made numerous assumptions with respect to the specialty retailing industry s performance and general economic conditions, many of which are beyond the control of E Com. Mathematical analysis, such as determining the average, median or range, is not in itself a meaningful method of using comparable transaction data.

Consideration of the Discounted Cash Flow Methodology

While discounted cash flow is a commonly used valuation methodology, Financo did not employ such an analysis of E Com for the purposes of its opinion. Discounted cash flow analysis is most appropriate for companies that exhibit relatively steady or somewhat predictable streams of positive future cash flow. The E Com Financial Projections assume a heightened level of capital expenditures in the short term, significantly reducing free cash flow, and do not extend for a sufficient period to reflect potential benefits from such expenditures. Because of these factors, and the inherent uncertainty in forecasting operating performance, future cash flows and a sustainable long-term growth rate for E Com, Financo considered a discounted cash flow analysis inappropriate for valuing E Com.

Model Reorg Valuation

Model Reorg Comparable Companies Analysis

Financo compared Model Reorg to a group of companies focused on the beauty industry and companies that distribute consumer products that we refer to as the Model Reorg Comparable Companies. The Model Reorg Comparable Companies are public companies that Financo deemed comparable to Model Reorg. Financo selected companies competing in the beauty industries, as well as consumer products distributors with net sales for the trailing twelve months publicly available at the time of the analysis between $360 million and $7,154 million.

The Model Reorg Comparable Companies are:

Beauty Companies

Alberto-Culver Company

Elizabeth Arden, Inc.

The Estee Lauder Companies, Inc.

Inter Parfums, Inc.

Revlon, Inc. and

Sally Beauty Holdings, Inc.

Consumer Products Distributors

AMCON Distributing Company

Core-Mark Holding Company, Inc. and

Nash Finch Co.

Financo considered the ratio of EV to EBITDA of the Model Reorg Comparable Companies to derive multiples that indicate the value public equity markets place on companies in a particular market segment. In order to perform this analysis, Financo compared financial information of Model Reorg with publicly available information for the Model Reorg Comparable Companies. Financo considered the entire range of multiples yielded by the Model Reorg Comparable Companies in establishing a more limited reference range of multiples which it used for its analysis. For this analysis, as well as other analyses, Financo examined publicly available information, as well as a range of estimates based on equity research reports.

The following table presents, based on closing prices as of December 20, 2007, the range of multiples for the Model Reorg Comparable Companies of EV divided by EBITDA:

	Reference Range of Multiples
9/30/07 EV/ EBITDA	8.0x - 10.5x
Projected 10/31/08 EV/ EBITDA	6.5x - 9.0 x

The comparables imply the following reference ranges for equity value of Model Reorg:

	Reference Range of Values ($ in millions)
9/30/07 EV/ EBITDA	$94.1 - $191.3
Projected 10/31/08 EV/ EBITDA	$60.8 - $167.5

No company utilized in the public company comparables analysis as a comparison to Model Reorg is identical to Model Reorg. In evaluating the comparables, Financo made numerous assumptions with respect to the beauty and consumer product distribution industries performance and general economic conditions, many of which are beyond the control of Model Reorg. Mathematical analysis, such as determining the median, average or range, is not in itself a meaningful method of using comparable company data.

Model Reorg Comparable Transactions Analysis

Financo considered ratios of EV to sales and EBITDA to derive multiples that strategic and financial acquirers have been willing to pay for companies in comparable transactions. In order to perform this analysis, Financo reviewed a number of transactions, including those involving companies deemed by Financo to be comparable to Model Reorg based on financial performance, market focus and business model. Financo reviewed four comparable merger and acquisition transactions announced from April 29, 2002 through June 19, 2006 involving companies in the beauty and consumer products distribution business. For this analysis, as well as other analyses, Financo examined publicly available information, as well as information from Financo s proprietary database of published and confidential merger and acquisition transactions in the retail and consumer industries.

The Model Reorg comparable transactions consisted of the acquisitions of:

Sally Beauty Holdings, Inc. by Clayton, Dubilier & Rice, Inc.

Unilever Cosmetics International by Coty, Inc.

Cosmetic Essence by Onex Corp. and

Core-Mark International, Inc. by Fleming Companies Inc.

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The following table presents, as of December 20, 2007, the reference range of multiples of adjusted price (defined as equity price plus total debt minus cash and cash equivalents) divided by the seller s EBITDA in the last reported twelve months prior to acquisition for the transactions listed above:

	Reference Range of Multiples
EV/ EBITDA	8.0x - 11.0x

These comparables imply the following reference range for equity value of Model Reorg:

	Reference Range of Values ($ in millions)
EV/ EBITDA	$94.1 - $210.7

No transaction utilized as a comparable in the transaction comparables analysis is identical to the Merger. In evaluating the comparable transactions, Financo made numerous assumptions with respect to the beauty and consumer products distribution industry s performance and general economic conditions, many of which are beyond the control of Model Reorg. Mathematical analysis, such as determining the average, median or range, is not in itself a meaningful method of using comparable transaction data.

Model Reorg Discounted Cash Flow Analysis

Financo examined the value of Model Reorg on a standalone basis, based on projected free cash flow estimates that were derived from its discussions with management of Model Reorg and the Model Reorg Financial Projections. The free cash flow estimates were generated by applying financial projections from October 31, 2007 through October 31, 2010.

Based on a range of terminal EBITDA exit multiples from 7.5x to 10.5x and a range of discount rates from 7.8% to 8.8%, Financo calculated for Model Reorg implied total EVs ranging from $336.4 million to $462.8 million, and implied equity values ranging from $119.7 million to $246.0 million.

Combined Company Valuation

Combined Company Comparable Companies Analysis

Financo compared the combined company to the E Com Comparable Companies and the Model Reorg Companies, taken as a group, which we refer to as the Combined Comparable Companies. For this purpose, Financo performed the same analyses for the Combined Comparable Companies as a group as it did for the E Com Comparable Companies and the Model Reorg Companies in connection with its standalone analyses of E Com and Model Reorg.

The following table presents, based on closing prices as of December 20, 2007, the reference range of multiples for the Combined Comparable Companies of EV divided by EBITDA, and P/E:

	Reference Range of Multiples
9/30/07 EV/ EBITDA	8.0x - 10.5x
9/30/07 P/E	12.0x - 18.0x
Projected 10/31/08 EV/ EBITDA	6.5x - 9.0x
Projected 10/31/08 P/E	10.0x - 11.0x

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The comparables imply the following reference ranges for per share value for the combined company:

	Reference Range of Values
9/30/07 EV/ EBITDA	$16.59 - $30.54
9/30/07 P/E	$22.36 - $33.53
Projected 10/31/08 EV/ EBITDA	$12.79 - $28.50
Projected 10/31/08 P/E	$21.77 - $34.83

No company utilized in the public company comparables analysis as a comparison to the combined company is identical to the combined company. In evaluating the comparables, Financo made numerous assumptions with respect to the performance of the specialty retailing, beauty and consumer product distribution industries and general economic conditions, many of which will be beyond the control of the combined company. Mathematical analysis, such as determining the median, average or range, is not in itself a meaningful method of using comparable company data.

Combined Company Comparable Transactions Analysis

Financo performed the same analysis for purpose of its valuation of the combined company, and reviewed the same comparable transactions taken as a group, as it did in connection with its valuations of E Com and Model Reorg on a standalone basis.

The Combined Company comparable transactions consisted of the acquisitions of:

Specialty Retailers

Factory Card & Party Outlet by Amscan Holdings, Inc.

United Retail Group by Red Cats USA, Inc.

Deb Shops, Inc. by Lee Equity Partners

Cutter & Buck, Inc. by New Wave Group AB

American Apparel by Endeavor Acquisition Corp

Golf Galaxy, Inc. by Dick s Sporting Goods, Inc.

Yankee Candle Co. Inc. by Madison Dearborn Partners Inc.

Sally Beauty Holdings, Inc. by Clayton, Dubilier & Rice, Inc.

The Body Shop International PLC by L Oreal SA

Pacific Sales Kitchen & Bath Centers, Inc. by Best Buy Co., Inc.

Party City Corporation by Berkshire Partners & Weston Presidio

OshKosh B Gosh Inc. by William Carter Co.

Brookstone Inc. by J.W. Childs Associates, Osim International and Temasek Holdings

Maurices Inc. by Dress Barn Inc.

Galyan s Trading Company, Inc. by Dick s Sporting Goods, Inc.

Loehmann s Holdings Inc. by Crescent Capital Investments, Inc.

InterTAN Inc. by Circuit City Stores Inc. and

The White House, Inc. by Chico s FAS Inc.

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Beauty/Distribution Companies

- Sally Beauty Holdings, Inc. by Clayton, Dubilier & Rice; Inc.
- Unilever Cosmetics International by Coty, Inc.
- Cosmetic Essence by Onex Corp. and
- Core-Mark International, Inc. by Fleming Companies Inc.

The following table presents, as of December 20, 2007, the reference range of multiples of adjusted price (defined as equity price plus total debt minus cash and cash equivalents) divided by the seller s EBITDA in the last reported twelve months prior to acquisition for the transactions listed above:

	Reference Range of Multiples
EV/ EBITDA	9.0x - 11.0x

These comparables imply the following reference range for per share value for the combined company:

	Reference Range of Values
EV/ EBITDA	$22.17 - $33.33

No transaction utilized as a comparable in the transaction comparables analysis is identical to the Merger. In evaluating the comparable transactions, Financo made numerous assumptions with respect to the specialty retailing and distribution industries performance and general economic conditions, many of which are beyond the control of the combined company. Mathematical analysis, such as determining the average, median or range, is not in itself a meaningful method of using comparable transaction data.

Combined Company Discounted Cash Flow Analysis

Financo examined the value of the combined company on a standalone basis, based on projected free cash flow estimates that were derived from the Financial Projections. The free cash flow estimates were generated by applying financial projections from October 31, 2007 through October 31, 2010.

Based on a range of terminal EBITDA exit multiples from 7.5x to 10.5x and a range of discount rates from 9.7% to 10.7%, Financo calculated for the combined company implied total EVs ranging from $448.1 million to $623.6 million, and implied equity values ranging from $178.6 million to $354.1 million.

The preparation of a fairness opinion is a complex process involving determinations as to the most appropriate and relevant methods of financial analysis and the application of these methods to the particular circumstances and, therefore, is not necessarily susceptible to partial analysis or summary description. Selecting portions of the analysis or the summary set forth above, without considering the analysis as a whole, could create an incomplete view of the processes underlying the opinion of Financo. In arriving at its fairness determination, Financo considered the results of all these constituent analyses and did not attribute any particular weight to any particular factor or analysis considered by it; rather, Financo made its determination as to fairness on the basis of its experience and professional judgment after considering the results of all such analyses. Certain Financo analyses are based upon forecasts of future results and are not necessarily indicative of actual future results, which may be significantly more or less favorable than suggested by such analyses. The foregoing summary does not purport to be a complete description of the analyses performed by Financo. Additionally, analyses relating to the value of businesses or securities are not appraisals. Accordingly, such analyses and estimates are inherently subject to substantial uncertainty.

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In performing its analyses, Financo made numerous assumptions with respect to industry performance and general business and economic conditions and other matters, many of which are beyond our control. The analyses performed by Financo are not necessarily indicative of actual values or actual future results, which may be significantly more or less favorable than suggested by such analyses. The Merger Consideration and other terms of the Merger Agreement were determined through arm s length negotiations between us and Model Reorg, and were approved by our Board of Directors subsequent to the determinations and recommendation of the Special Committee. In addition, Financo s opinion and presentation to the Special Committee was one of many factors taken into consideration by the Special Committee in making its decision to approve the Merger. Consequently, the Financo analyses as described above should not be viewed as determinative of the opinion of the Special Committee with respect to the value of E Com, Model Reorg or the combined company or whether the Special Committee would have been willing to agree to different consideration.

Based upon and subject to the qualifications and limitations set forth in its written opinion, a copy of which is attached as Annex II, Financo was of the opinion that, as of December 21, 2007, the Merger Consideration was fair, from a financial point of view, to holders of our common stock (other than those who owned, or whose affiliates owned, securities of Model Reorg).

Following the delivery of Financo s opinion and the execution of the Original Merger Agreement, both E Com and Model Reorg restated their historical financial statements and modified their earlier projections for the Special Committee, as described above in Background of the Merger. The Special Committee did not engage Financo to update its fairness opinion as a result of the First Amendment and, accordingly, Financo did not consider the updated projections that were prepared for the Special Committee in connection with the First Amendment.

Financo was retained to represent the Special Committee to give an opinion as to the fairness of the Merger Consideration, from a financial point of view, to the holders of our common stock (other than those who own, or whose affiliates own, securities of Model Reorg). Financo received an initial fee of $100,000 in connection with its services upon engagement, a fee of $125,000 upon delivery of valuation metrics to the Special Committee, a fee of $50,000 upon delivery of updated valuation metrics as requested by the Special Committee, and a fee of $225,000 upon advising the Special Committee that Financo was prepared to deliver its opinion, for a total of $500,000. No portion of Financo s fee is contingent upon the consummation of the Merger.

Model Reorg Board and Shareholder Approval

The Board of Directors of Model Reorg approved the Merger Agreement and the Merger. By their execution of the Merger Agreement, the Model Reorg shareholders unanimously consented to the Merger Agreement and the Merger. This consent effectively waived their rights under New York law to dissent from the Merger and seek appraisal of the shares of Model Reorg capital stock they own.

Interests of Certain Persons in the Merger

In considering the recommendation of our Board to approve the issuance of the Merger Consideration and the other matters described in this Proxy Statement, our shareholders should be aware that certain members of our Board and certain of our officers have interests in the transaction that are different from, or in addition to, the interests of our other shareholders generally.

In particular, Stephen Nussdorf, Chairman of our Board of Directors, is a principal shareholder, director and executive officer of Model Reorg and will receive a proportionate share of the Merger Consideration in the Merger. Together with his brother, Glenn Nussdorf, Stephen Nussdorf currently beneficially owns in the aggregate approximately 36.4% of our outstanding common stock, or approximately 44.5% assuming conversion of the Convertible Note. After the Merger, Stephen and Glenn Nussdorf would beneficially own an aggregate of approximately 53.7% of our outstanding common stock, assuming conversion of the Convertible Note, and they would hold Warrants that would, upon exercise, result in their beneficially owning up to an aggregate of approximately 57.7% of our shares. In addition, although they are not shareholders of Model Reorg, Michael W. Katz, our President and Chief Executive Officer and also one of our directors, is a director and the Executive Vice President of Model Reorg and Raymond Piergiorgi, Model Reorg s Chief Operating Officer, has been consulting with E Com management on operations matters. However, Messrs. Nussdorf, Katz and Piergiorgi were not members of the Special Committee of independent directors that reviewed and recommended approval of the Merger.

The Merger Agreement requires Model Reorg to restructure and refinance debt owed by Model Reorg and its subsidiaries to Quality King, a company that is wholly-owned by Stephen and Glenn Nussdorf and their sister, Arlene Nussdorf. The balance of principal and accrued interest at April 30, 2008 was $76.9 million. The restructuring and refinancing are to be accomplished through a term loan of $52.3 million from Glenn, Stephen and/or Arlene Nussdorf or trusts for the benefit of their families, which will be used in part to pay the Quality King Debt down to $35 million. Including the Convertible Note, the combined company will be obligated to the Nussdorfs and their affiliates in the amount of up to $92.3 million upon the closing of the Merger. See Affiliate Debt below for more information about the terms of the proposed related party debt restructuring.

The relationships among the shareholders and officers of Model Reorg, their affiliated companies, and E Com are discussed in more detail under Certain Relationships and Related Person Transactions beginning on page 63 below. As described in that section, other transactions involving affiliated parties are also expected to occur in connection with the Merger. In particular, Model Reorg and Quality King currently share in various operational arrangements under which each may benefit from economies of scale and additional convenience, and we expect those arrangements to continue after the Merger. In addition, Model Reorg subleases office and warehouse space from Quality King in a leased facility in Bellport, NY, where we expect a significant portion of our operations to be consolidated with Model Reorg s operations.

Terms of the Merger Agreement

The following is a summary of selected provisions of the Merger Agreement. While we believe this description covers the material terms of the Merger Agreement, it may not contain all of the information that is important to you and it is qualified in its entirety by reference to the Merger Agreement. The Merger Agreement is attached as Annex I to this Proxy Statement and is considered part of this document. The forms of Warrant and Registration Rights Agreement are included as exhibits to the Merger Agreement in Annex I. We urge you to read the Merger Agreement and its exhibits carefully in their entirety for a more complete understanding of the Merger.

General

At the closing under the Merger Agreement, Model Reorg will merge into Merger Sub, and the surviving entity (which will own Model Reorg s assets, assume its obligations, and conduct its operations) will continue as our wholly-owned subsidiary. The outstanding capital stock of Model Reorg will be canceled, and the Model Reorg shareholders will receive the Merger Consideration in exchange. The closing of the Merger is agreed to occur no later than two business days following the satisfaction or waiver of all of the conditions to the Merger, or at another such time as we and Model Reorg may agree in writing (the Closing Date). However, because the Merger is subject to a number of conditions, we cannot predict exactly when the closing will occur or if it will occur at all.

Merger Consideration

The Merger Consideration issuable to the Model Reorg shareholders in the Merger will consist of an aggregate of 5,900,000 shares of our common stock and Warrants to acquire an aggregate of 1,500,000 shares of our common stock at an exercise price of $23.94 per share. The Warrants may not be exercised until the third anniversary of the Closing Date and will then remain exercisable until the tenth anniversary. They are not transferable with certain limited exceptions.

The Merger Consideration consists of our securities, so its value fluctuates with changes in the trading price of our common stock on NASDAQ. There is no trading market for the Warrants; accordingly, we calculate their value using the Black-Scholes pricing model, which involves making certain assumptions about the anticipated volatility of our stock price, future interest rates, and other matters. Since these assumptions are inherently uncertain, they also contribute to fluctuations in the value of the Merger Consideration. Based on the respective closing market prices of our common stock and those assumptions as of the respective dates, we determined that,

as of December 20, 2007 (the trading day before the date of the Original Merger Agreement), the value of the Warrants was $20,340,000 and the total value of the Merger Consideration was $161,586,000 and that, as of June 12, 2008, the value of the Warrants was $15,600,000 and the total value of the Merger Consideration was $138,969,000. These values fall within the reference ranges for equity value of Model Reorg provided by Financo, as described above in Opinion of Financo Model Reorg Valuation. The value of the Merger Consideration actually received by the Model Reorg shareholders in the Merger will not be determined until the Merger closes. You should note that the Special Committee s review of the fairness of the proposed Merger Consideration focused primarily on the estimated relative values of the two companies, rather than on the absolute value of the Merger Consideration as of any particular time.

Representations and Warranties

The Merger Agreement contains customary representations and warranties by us and by Model Reorg relating to, among other things, corporate organization and similar corporate matters, capitalization, authority to enter into the Merger Agreement and transactions contemplated thereby, and enforceability of the Merger Agreement. In addition, we represented and warranted to Model Reorg that the Special Committee had recommended the adoption of the Merger Agreement to our Board of Directors, that the Special Committee had received the opinion of Financo as to the fairness of the Merger Consideration, from a financial point of view, to our shareholders (other than those who own, or whose affiliates own, securities of Model Reorg), and that our Board of Directors had duly adopted resolutions:

- determining that the terms of the Merger are fair from a financial point of view to the holders of our common stock (other than our shareholders who own, or whose affiliates own, securities of Model Reorg),
- adopting the Merger Agreement and declaring advisable the Merger Agreement and the related transactions, and
- recommending that our shareholders approve the issuance of the shares of our common stock and the Warrants pursuant to the Merger and the issuance of our common stock upon exercise of the Warrants, subject to the right of our Board to withdraw, modify or amend such recommendation to the extent that the Board determines, in good faith, that failure to take such action would be reasonably likely to result in a breach of its fiduciary duties to our shareholders under applicable law.

In addition, the Merger Agreement includes representations and warranties by Model Reorg to us as to:

- approval by the board of directors and shareholders of Model Reorg;
- whether the Merger or the execution of the Merger Agreement will result in any conflict with or violation of any material agreements of Model Reorg and its subsidiaries;
- the preparation and accuracy of the financial statements of Model Reorg and its subsidiaries;
- any undisclosed liabilities of Model Reorg and its subsidiaries;
- the accounts receivables and inventories of Model Reorg and its subsidiaries;
- title to the assets of Model Reorg and its subsidiaries;

material changes or events affecting Model Reorg and its subsidiaries;

litigation matters affecting Model Reorg and its subsidiaries;

compliance with legal requirements by Model Reorg and its subsidiaries;

filing of tax returns and payment of taxes by Model Reorg and its subsidiaries;

labor and employee benefits relating to the employees of Model Reorg and its subsidiaries;

environmental matters affecting Model Reorg and its subsidiaries;

- insurance maintained by Model Reorg and its subsidiaries;

- brokerage, financial advisor s or finder s fees or commissions payable by Model Reorg and its subsidiaries in connection with the Merger;

- material contracts to which Model Reorg and its subsidiaries are parties and any violation, default or breach of those contracts;

- leased property of Model Reorg and its subsidiaries;

- intellectual property of Model Reorg and its subsidiaries; and

- transactions with affiliates of Model Reorg.

The representations and warranties of Model Reorg are, in many respects, qualified by materiality and limited to the knowledge of the person making the representation and warranty, but their accuracy forms the basis of one of the conditions to our obligation to complete the Merger. Please note, however, that these representations and warranties were made only for purposes of the Merger Agreement and as of specific dates, were solely for the benefit of the parties thereto, and are subject to limitations agreed to between the parties, including that they are qualified by disclosures between the parties that are not included with this Proxy Statement. Accordingly, investors and third parties should not rely on these representations and warranties as independent characterizations of the actual state of facts at the time they were made or otherwise but should consider them together with the other information in this Proxy Statement or that we have disclosed in other filings with the SEC.

The representations and warranties of Model Reorg will survive the Merger until thirty days following the filing of our first Annual Report on Form 10-K with the SEC following the Merger that includes audited financial statements that reflect at least six months of post-Merger operations of the combined company. In addition, Model Reorg s representations and warranties as to taxes will survive until the respective statutes of limitations as to taxes expire.

Covenants; Conduct of Business Pending the Merger

We and Model Reorg each agreed, until the closing of the Merger, to conduct our respective businesses in the ordinary course in accordance with past practices, to preserve current material relationships with customers, vendors, suppliers and other persons, and to avoid taking any action that would cause any of our respective representations and warranties to be untrue in any material respect. Subject to certain limited exceptions, Model Reorg agreed that it will not, during the period before the closing of the Merger:

- change its authorized, issued or outstanding shares of capital stock or issue any options, warrants, convertible or exchangeable securities or other rights that may result in the issuance of shares of capital stock, voting securities, or equity interests of Model Reorg;

- effect any event or change that would reasonably be expected to have a material adverse effect on its business;

- sell, transfer, distribute, abandon or otherwise dispose of, or mortgage, pledge or impose any encumbrance on, any property (including real estate) or other of its assets and those of its subsidiaries that are material to Model Reorg and its subsidiaries taken as a whole, except for (i) sales of inventory in the ordinary course of business consistent with past practice or (ii) dispositions of obsolete or worthless assets in the ordinary course of business consistent with past practice;

declare, set aside or pay any dividend or other distribution (whether in cash, stock or property) with respect to any class of its capital stock or that of its subsidiaries (other than dividends or other distributions paid to Model Reorg by its subsidiaries), or repurchase, redeem or otherwise acquire any capital stock or other securities of, or other ownership interest in, Model Reorg or any of its subsidiaries;

split, combine or reclassify any of its capital stock;

change its financial or tax accounting methods, principles or practices, except insofar as may have been required by a change in GAAP or applicable law;

make a tax election or revoke or change any material tax election inconsistent with past practices or the settle or compromise any material tax liability of Model Reorg or any of its subsidiaries;

grant to any director or employee any award or bonus or other compensation, except to the extent accrued on its balance sheet;

grant to any employee an increase in (or acceleration of vesting or payment of) severance or termination pay, except as required under any employment, severance or termination agreements as previously disclosed to us;

enter into any (or amend in any material respect of any existing) employment, severance or termination agreement with any employee;

enter into any consulting agreement;

accelerate the vesting of any option issued by Model Reorg or any of its subsidiaries to acquire its capital stock;

make any capital expenditure, taken as a whole, in excess of $1.5 million individually or in the aggregate;

establish, amend or terminate any collective bargaining agreement;

accelerate any accounts receivable other than in the ordinary course of business consistent with past practice;

generally delay any payments by Model Reorg or any of its subsidiaries to vendors or others to whom Model Reorg owes payments (except for disputed payments);

make loans to any persons other than in the ordinary course of business consistent with past practice or loans to any officers or directors of us or any of our subsidiaries;

settle any action, complaint, claim, petition, investigation, suit or other proceeding, whether civil or criminal, in law or in equity, before any arbitrator or governmental entity, to which it or any of its subsidiaries are a party or any of their respective properties is subject;

accelerate the payment, right to payment or vesting under any benefit, retirement, profit sharing or deferred compensation plan or other compensation arrangement of Model Reorg or any of its subsidiaries;

incur any indebtedness in an amount in excess of $500,000 in the aggregate;

grant any license or sublicense of any rights under or with respect to any material intellectual property;

establish, amend or contribute to any pension, retirement, profit sharing, stock bonus, multi-employer or other benefit plan covering any of the current or former employees, officers, directors or consultants, except as required by law or pursuant to such benefit plan;

establish, enter into, financially commit, contribute to, amend the terms of, or terminate, any joint venture, partnership agreement or similar arrangement or any contract involving a sharing of profits, losses, business or opportunities with any other person; or

enter into any agreement or commitment to do any of the foregoing.

No Solicitation

The Merger Agreement provides that, except as described below, we and our subsidiaries will not, and will not authorize any of our agents to, directly or indirectly, encourage, solicit, initiate, or take other action to facilitate any inquiries or the making of any proposal that constitutes or may reasonably be expected to lead to an acquisition proposal (as defined below), participate in any way in any discussions or negotiations relating to or in furtherance of an acquisition proposal, or accept any acquisition proposal, or enter into any agreement, arrangement or understanding to abandon, terminate or fail to consummate the Merger.

An acquisition proposal is any offer to acquire all or any substantial part of our business or properties, or the capital stock or membership interests of us or any of our subsidiaries, whether by merger, consolidation, sale of assets, tender offer, or similar transaction or series of transactions involving us or any of our subsidiaries.

However, in the exercise of and as required by its fiduciary duties, our Board of Directors, acting in good faith, may:

- furnish information (including, without limitation, confidential information) concerning us to a third person who makes an unsolicited request for such information for the purpose of making an acquisition proposal , and

- engage in discussions or negotiations with a third party in making an acquisition proposal that our Board believes is reasonably capable of being consummated;

provided that we notify Model Reorg in writing of such request for information or acquisition proposal, including the identity of the third party and the principal financial terms and conditions of such proposal. Our Board of Directors is entitled to withdraw or modify its recommendation of the Merger to our shareholders and approve and recommend to its shareholders an acquisition proposal that our Board of Directors reasonably believes is likely to be superior from a financial point of view to the Merger and is capable of being consummated in a reasonable period of time.

Other Agreements

Under the Merger Agreement, we and Model Reorg have each agreed to use our commercially reasonable efforts to:

- file or otherwise submit all applications, notices, reports and other documents reasonably required to be filed with a governmental entity with respect to the Merger;

- file listing applications with NASDAQ with respect to the shares to be issued pursuant to the Merger and upon exercise of the Warrants;

- take all actions necessary to complete the Merger;

- take all actions necessary to ensure that no state takeover or similar law is applicable to the Merger; and

- obtain all consents, approvals or waivers reasonably required in connection with the transactions contemplated by the Merger Agreement.

We and Model Reorg also agreed in the Merger Agreement to consult and agree with each other about any public statement either will make concerning the Merger, subject to certain exceptions, and to provide each other with reasonable access to our respective officers, employees, representatives, books and records and facilities.

The Merger Agreement requires Merger Sub, as the surviving entity of the Merger, for a period of six years after the Merger, to indemnify each person, who at the time of the Merger, was a director, officer or employee of Model Reorg to the fullest extent permitted under its charter, the Business Corporation Law of the State of New York and the Delaware Limited Liability Company Act.

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Between the date of the execution of the Merger Agreement and the completion of the Merger, Model Reorg is required to prepare and deliver monthly and other financial statements to us.

In addition, the Model Reorg shareholders agreed with us that, even if permitted to do so under Florida Law, they would not effect a short form merger of us with a company they control while their combined ownership of our outstanding shares was less than 90% of our outstanding common stock.

The Model Reorg shareholders who currently own shares of our common stock agreed in the Merger Agreement to vote those shares in favor of the matters for which approval of our shareholders is sought in this Proxy Statement.

Conditions to the Completion of the Merger

Under the Merger Agreement, as amended by the First Amendment, each party s obligation to complete the Merger is subject to the satisfaction or waiver by each of the parties, at or before the Merger, of various conditions, including the following:

- our shareholders must have approved the issuance of the Merger Consideration and the issuance of shares of common stock upon exercise of the Warrants and the amendment to our Articles of Incorporation increasing the authorized shares of common stock;

- no law, injunction, judgment or ruling enacted, promulgated, issued, entered, amended or enforced by any governmental entity shall be in effect enjoining, restraining, preventing or prohibiting consummation of the Merger or making the consummation of the Merger illegal;

- the effectiveness of any listing applications with the NASDAQ and under state securities laws;

- asset based loans in amounts and on terms substantially similar to the Senior Credit Facility contemplated in the May 16, 2008 commitment described in Post-Merger Financing shall have been obtained by us and/or Merger Sub and funds shall have been advanced and/or be available thereunder; and

- the restructuring and refinancing of the obligations of Model Reorg to Quality King and the subordinated loan from certain Nussdorf family members or family trusts, as described below in Affiliate Debt, shall have been put in place

In addition, the obligation of Model Reorg to complete the Merger is further subject to the satisfaction or waiver by Model Reorg of the following conditions:

- all our representations and warranties in the Merger Agreement shall be true and correct on the date of the Merger Agreement and on the Closing Date of the Merger with the same force and effect as if made on the date on which the Merger is to be completed or, if such representations and warranties address matters as of a particular date, then as of that particular date, except where the failure of these representations and warranties to be true and correct, disregarding any materiality qualifications, individually or in the aggregate, would not reasonably be expected to have a material adverse effect on us, and we shall have delivered an officer s certificate to this effect;

- we shall have performed or complied in all material respects with all covenants and obligations required to be performed or complied with by us on or before the closing of the Merger, and we shall have delivered an officer s certificate to this effect;

we and Merger Sub shall have delivered all consents necessary or advisable to be obtained for the closing of the Merger except where the failure to do so is not reasonably expected to have a material adverse effect on the combined company;

we shall have executed and delivered a Registration Rights Agreement with the Model Reorg shareholders providing piggyback registration rights as further described below in Terms of the Merger Agreement Registration Rights;

- we shall have executed and delivered the Warrants; and
- there shall have been no effect, event or change that, with certain exceptions, has a material adverse effect on our business, operations, assets, liabilities, results of operations, prospects, or financial condition, taken as a whole with our subsidiaries, since December 21, 2007, the date of the Original Merger Agreement.

In addition, our obligation to complete the Merger is further subject to the satisfaction or our waiver of the following conditions:

- all representations and warranties of Model Reorg in the Merger Agreement being true and correct as of December 21, 2007 and as of the Closing Date of the Merger with the same force and effect as if made on the date on which the Merger is to be completed or, if such representations and warranties address matters as of a particular date, then as of that particular date, except where the failure of these representations and warranties to be true and correct, disregarding any materiality qualifications, individually or in the aggregate, would not reasonably be expected to have a material adverse effect on Model Reorg, and Model Reorg shall have delivered an officer s certificate to this effect;
- Model Reorg shall have performed or complied in all material respects with all covenants and obligations required to be performed or complied with by Model Reorg on or before the closing of the Merger and Model Reorg shall have delivered an officer s certificate to this effect;
- Model Reorg shall have delivered the consents required under the Merger Agreement for the closing of the Merger, including those from third parties, governmental entities, and landlords;
- Model Reorg shall, and shall cause Quality King to, have executed and delivered a Services Agreement on the terms described in Certain Relationships and Related Person Transactions; and
- Model Reorg shall have caused each of its shareholders to execute and deliver a certificate of representations as described in the Merger Agreement.

We and Model Reorg each have the right to waive compliance by the other with any of the agreements contained in the Merger Agreement or the other s conditions, and our Board may or may not waive any particular condition in its discretion. Our Board has made no determination about whether or not it would waive any particular condition. It would make such a decision, if necessary, based on the best interests of our shareholders in the circumstances existing at the time.

Termination

The Merger Agreement may be terminated at any time before the completion of the Merger, whether before or after the required approval of our shareholders has been obtained, as set forth below:

- by mutual written consent of us and Model Reorg, duly authorized by our respective boards of directors;
- by either us or Model Reorg, if:
  - the Merger has not been completed by August 31, 2008, but this right to terminate the Merger Agreement will not be available to any party whose action or failure to act has been the cause of, or resulted in, the failure of the Merger to be completed by August 31, 2008;

a law prohibiting the Merger or making the Merger illegal has been enacted or an injunction, judgment, order, decree or ruling or any other action, in each case, permanently enjoining, restraining, preventing or prohibiting the Merger has become final and non-appealable; provided, that neither party may terminate the Merger if the injunction, judgment, order, decree or ruling was primarily due to the failure of such party to perform any of its obligations under the Merger Agreement;

- we enter into an agreement for an acquisition proposal that our Board of Directors reasonably believes is likely to be superior from a financial point of view to the Merger and is capable of being consummated in a reasonable time; or

- our shareholders fail to approve the issuance of the shares of our common stock and the Warrants and the amendment of our charter to increase our authorized shares of common stock at the Special Meeting;

provided, however, that neither party may terminate this Agreement if its failure (or that of any of its affiliates) to fulfill any obligation or condition under the Merger Agreement has been the cause of, or resulted in, the failure to obtain approval;

- by us, if:

  - the representations and warranties of Model Reorg set forth in the Merger Agreement shall not be true and correct and as a result the condition described above at Terms of the Merger Conditions to the Completion of the Merger with respect to representations and warranties of Model Reorg will not be satisfied; or

  - before the Closing Date, Model Reorg has breached or failed in any material respect to perform or comply with the Merger Agreement and such breach has not been cured within twenty business days after Model Reorg has received written notice of such breach; or

- by Model Reorg, if:

  - our Board or any committee thereof shall have withdrawn or modified its approval or recommendation of the Merger;

  - our representations and warranties of set forth in the Merger Agreement shall not be true and correct and, as a result, the condition described above at Terms of the Merger Conditions to the Completion of the Merger with respect to our representations and warranties will not be satisfied; or

  - before the Closing Date, we have breached or failed in any material respect to perform or comply with the Merger Agreement and such breach has not been cured within twenty business days after we have received written notice of such breach.

Escrow and Indemnification

Pursuant to the indemnification provisions in the Merger Agreement, we are entitled to indemnification for individual losses and expenses exceeding $10,000 that exceed $1 million in the aggregate that are sustained in connection with any breach of Model Reorg s representations, warranties and covenants. We will retain and deposit into escrow on the Closing Date 295,000 shares of the total Merger Consideration. Except with respect to claims for taxes, these escrowed shares of our common stock are the sole and exclusive remedy for any losses arising out of claims related to the Merger Agreement. For this purpose, the escrowed shares will be valued at $23.94 per share, which is equal to the average closing price of our common stock on NASDAQ for the 50 trading days ending immediately before the date of execution of the Merger Agreement. On the thirtieth day following the filing of our first Annual Report on Form 10-K with the SEC that includes audited financial statements that reflect at least six months of the post-Merger operations of the combined company, we will release any remaining escrow shares, subject to any amounts then in dispute relating to indemnification, to the Model Reorg shareholders based on their allocation of the Merger Consideration.

The Model Reorg stockholders have agreed to indemnify us against any taxes for periods before the closing of the Merger not arising from the Merger transactions that are not paid before the Merger or were not accrued for in Model Reorg s September 30, 2007 balance sheet. Any such indemnification must be paid in cash.

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Amendment

The Merger Agreement may be amended by written agreement of the parties at any time before the effective time of the Merger, except that after the Merger Agreement has been adopted by our shareholders, no amendment that, by law, requires further approval by our shareholders may be made without such further approval.

The Warrants

At the closing of the Merger, we will issue Warrants to purchase an aggregate of 1,500,000 shares of our common stock to the Model Reorg shareholders as part of the Merger Consideration. Each Warrant will entitle the holder to purchase shares of our common stock at an exercise price of $23.94 per share, payable in cash. The number of shares issuable upon exercise of the Warrants and the exercise price may be adjusted from time to time to reflect stock splits, stock dividends, combinations, reclassifications, mergers and other recapitalization transactions affecting our common stock.

The Warrants will not be exercisable until the third anniversary of the closing of the Merger, provided that the Warrants will become exercisable earlier in the event of any (a) merger, share exchange or consolidation of the combined company, (b) sale of all or substantially all of the combined company s assets, or (c) tender offer or exchange offer pursuant to which not less than 90% of the then outstanding shares of our common stock are tendered or exchanged for other securities, cash or property, other than any such transaction that does not result in a transfer of majority ownership of our combined voting power or assets. Once exercisable, the Warrants will remain exercisable until the tenth anniversary. The holders of Warrants may not sell or transfer them without our consent except upon death or, during the holder s lifetime, to members of the holder s family for estate planning purposes.

The foregoing description of the terms of the Warrants is qualified in its entirety by reference to the full text of the form of Warrant, which appears as Exhibit A to the Merger Agreement in Annex I to this Proxy Statement.

Registration Rights

At the closing of the Merger, we and the Model Reorg shareholders will execute a piggyback Registration Rights Agreement under which the former Model Reorg shareholders will have the right to require us, at our expense, to include the shares received in the Merger (but not those issuable upon exercise of the Warrants), and any shares of common stock issued in respect thereof, in certain registration statements that we may file with the SEC under the Securities Act of 1933, as amended. The shareholders registration rights do not apply to registration statements we file to sell securities (a) issued pursuant to bona fide compensatory arrangements or as consideration for certain acquisitions of businesses or assets or (b) that are solely debt securities or nonconvertible preferred stock, including those issuable upon conversion of such debt securities.

The Registration Rights Agreement contains customary provisions allocating rights and responsibilities in the event the registration involves an underwritten offering and obligating us and the selling shareholders to indemnify each other against certain liabilities arising from any registration of securities. The Registration Rights Agreement limits our ability to grant superior registration rights to others in the future, except that we may grant registration rights to persons providing financing and/or selling businesses or assets to us as long as any such rights are of equal priority and pro rata with the registration rights of the former Model Reorg shareholders.

The right of any former Model Reorg shareholder to request registration pursuant to the Registration Rights Agreement will terminate when that shareholder holds less than the greater of (a) 1% of the outstanding shares of our common stock or (b) the current weekly trading volume of our common stock and is not an affiliate (a control person) with respect to us.

The foregoing description of the Registration Rights Agreement is qualified in its entirety by reference to the full text of that agreement, which appears as Exhibit B to the Merger Agreement in Annex I to this Proxy Statement.

Post-Merger Financing

In May 2008, we obtained a commitment (the Financing Commitment) from an institutional lender to provide senior credit facilities to us and our subsidiaries in an aggregate amount of up to $250,000,000 (the Senior Credit Facility). The Financing Commitment is scheduled to expire on August 16, 2008. It is a condition to closing under the Merger Agreement that funds be available under asset-based loans in the amount and on terms substantially similar to the Financing Commitment. This condition may only be waived by agreement of all parties, including us and Model Reorg. As a further condition to the closing of the Senior Credit Facilities and the Merger, we will be required to refinance a portion of the Model Reorg indebtedness to Quality King as described in Affiliate Debt below. Proceeds of the Senior Credit Facility will be used to pay amounts incurred in connection with the Merger and our and Model Reorg s existing senior credit facilities, and for working capital and general corporate purposes.

The Senior Credit Facility will consist of a revolving credit facility of up to $250 million, which will include revolving loans that may be drawn, repaid and reborrowed up to the amount available under a borrowing base calculated with reference to a specified percentage of the combined company s eligible accounts and a specified percentage of the combined company s eligible inventory from time to time. The proposed Senior Credit Facility would also include a sub-limit of $25 million for letters of credit and a sub-limit of $12.5 million for swingline loans (that is, same-day loans from the lead or agent bank). The Financing Commitment provides for the Senior Credit Facility to have a term of three years and for there to be a prepayment and early termination fee of 1.00% of the principal amount pre-paid during the first year after the closing of the Senior Credit Facility and 0.50% of the principal amount pre-paid during the second year.

Interest under the proposed Senior Credit Facility will, at our election unless an Event of Default exists, be at either (i) the higher of The Wall Street Journal corporate base rate or the federal funds rate plus 0.50% (the Base Rate) or (ii) the applicable London interbank offered rate (LIBOR), plus in each case, specified margins. Such margins are determined based upon our excess availability (that is, at any time, an amount equal to (a) the lesser of the aggregate revolving commitments and the borrowing base at such time minus (b) the revolving exposure of all lenders) from time to time. The Financing Commitment provides for the interest rate margins (i) to be initially set at 2.50% per annum for LIBOR borrowings and 1.25% for Base Rate borrowings and (ii) after the first fiscal quarter ending at least six months after the closing of the Senior Credit Facility, to range from 2.25% to 2.75% for LIBOR borrowings and from 1.00% to 1.50% for Base Rate borrowings. Pursuant to the Financing Commitment, the lender reserves the right to increase the interest rate margins by up to 0.75% per annum if necessary in order to achieve a successful syndication of the Senior Credit Facility. We will also be required to pay fees based on the unused amount of the Revolving Credit Facility and the outstanding amount of letters of credit under that facility.

All obligations of the combined company under the Senior Credit Facility and under any interest rate protection or other hedging arrangements will be secured by a first priority perfected security interests in all our existing and after-acquired personal property and owned real property, including, without limitation, 100% (or, in the case of excluded foreign subsidiaries, 66%) of the outstanding equity interests in their subsidiaries.

The Senior Credit Facility will be subject to customary conditions, will require that we have $20 million in unused availability at closing, and will require us to make customary representations and warranties at the closing date and upon each borrowing. We will be required to comply with certain customary financial covenants, including maximum total leverage ratio, minimum fixed charge coverage ratio and minimum inventory turnover, in each case with levels to be determined. The facility will also entail reporting requirements and impose affirmative and negative covenants, including without limitation, restrictions on additional debt, liens, distributions, mergers, acquisitions and other investments.

The Senior Credit Facility will also be subject to standard events of default, including the following: failure to pay principal, interest or any other amount when due; breach of representations and warranties or covenants; cross-default to other indebtedness; failure to satisfy or stay execution of judgments; bankruptcy or insolvency;

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and change of ownership or control. Upon an event of default under the Senior Credit Facility, the agent for the lenders will have the right to terminate any commitment to lend under the Senior Credit Facility, the right to accelerate the amounts outstanding under the Senior Credit Facility and all rights available to a secured creditor under applicable law, including the right to foreclose on the collateral.

Affiliate Debt

The Merger Agreement, as amended by the First Amendment, also requires Model Reorg to repay a portion of the debt owed by Model Reorg and its subsidiaries to Quality King, modify the terms of the remaining debt due to Quality King, and obtain a new subordinated loan from Glenn, Stephen and/or Arlene Nussdorf or trusts for the benefit of their families (collectively, the Nussdorf Lenders). The debt to Quality King relates to advances by Quality King to Model Reorg and its subsidiaries for working capital. The balance of principal and accrued interest at April 30, 2008 was $76.9 million. At the closing of the Merger, the Nussdorf Lenders will loan approximately $52.3 million to Model Reorg, which will use a portion of the loan proceeds to pay down the principal amount of the Quality King debt to $35 million.

Both the new Nussdorf loan and the remaining Quality King debt will be subordinated to the new Senior Credit Facility described in Post-Merger Financing and neither will be secured by the combined company s assets. Subject to the requirements of the Senior Credit Facility, the maturity date of the new Nussdorf loan will be at least six months beyond the maturity date of the Senior Credit Facility and the remaining Quality King debt will amortize quarterly beginning in January 2009 at the rate of $2.5 million per quarter, with the balance due six months following the scheduled maturity date of the Senior Credit Facility. The new Nussdorf loan will bear interest at a rate equal to 2% over the rate in effect from time to time under the revolving credit facility included in the Senior Credit Facility, and the remaining Quality King debt will bear interest at a rate equal to 1% over the rate in effect from time to time under that revolving credit facility. No interest payments will be required on either the Nussdorf loan or the Quality King debt until January 2009. The First Amendment eliminated the provisions of the Original Merger Agreement for satisfying a portion of the Quality King debt by the consignment of merchandise.

No Appraisal or Preemptive Rights

Our shareholders will not be entitled to demand appraisal of, or exercise any dissenters rights under Florida law with respect to, their shares in connection with the actions to be taken at the Special Meeting. Neither Florida law nor our Articles of Incorporation provide preemptive rights to our shareholders with respect to the shares or Warrants we will issue to the Model Reorg shareholders in the Merger.

Management Following the Merger

Our Board of Directors is not expected to change at the time of the Merger. Most members of our senior management will continue in their current roles. In addition, Model Reorg officers will join our management team as we integrate the Model Reorg business into what will be a significantly larger company. We do not expect to enter into any executive employment agreements in connection with the Merger, nor that any of the executive officers of either company will terminate their employment as a result of the Merger. The following are expected to be our directors and executive officers immediately following the Merger:

Name	Age	Position
Stephen L. Nussdorf	57	Chairman of the Board of Directors
Michael W. Katz	60	President, Chief Executive Officer and Director
Joseph Bouhadana(1)(2)(3)	37	Director
Paul Garfinkle(1)	67	Director; Chairman of the Audit Committee
Carole Ann Taylor(1)(2)(3)	60	Director
Donna Dellomo	43	Chief Financial Officer
Raymond Piergiorgi	50	Chief Operating Officer
Donovan Chin	41	Chief Financial Officer, Perfumania, Inc.

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(1) Member of the Audit Committee

(2) Member of the Compensation Committee

(3) Member of the Stock Option Committee

Messrs. Bouhadana and Garfinkle and Ms. Taylor are independent directors in accordance with the requirements of the NASDAQ Stock Market and (with respect to our Audit Committee) SEC regulations under the Sarbanes-Oxley Act of 2002. After the Merger, we will be a controlled corporation under the NASDAQ rules. Accordingly, although there is no present intention to reduce the number of independent directors, we will no longer be required to have a board of directors with a majority of independent directors, to have executive compensation determined by an independent compensation committee, or to have our directors nominated by a majority of the independent directors. This could increase the extent to which the principal shareholders are able to control our operations. We will, however, still be required to have an audit committee consisting of three members, all of whom are independent under NASDAQ and SEC requirements.

Mr. Garfinkle was a partner of BDO Seidman, LLP, Model Reorg s independent registered public accounting firm, until his retirement in 2000, and he receives retirement benefits from that firm. Our management has not yet engaged an accounting firm to audit the combined company s financial statements after fiscal 2007. However, under SEC rules, BDO Seidman, LLP would not be independent with respect to us unless Mr. Garfinkle resigns from our Board upon the closing of the Merger. No action has been taken with respect to any such resignation.

Material U.S. Federal Income Tax Consequences of the Merger to E Com and Its Shareholders

We expect the Merger to qualify as a tax-free reorganization under Section 368 of the Internal Revenue Code. As such, the Merger will not be taxable to us, Merger Sub or Model Reorg for U.S. federal income tax purposes. Because our shareholders will not be exchanging their shares in the Merger, the closing of the Merger and related transactions under the Merger Agreement will not have U.S. federal income tax consequences to our shareholders. The Merger will, when considered with other acquisitions of shares of our common stock occurring before the Merger, result in an ownership change of E Com, as that term is described under Section 382 of the Internal Revenue Code. As a result, our ability to use our net operating losses from pre-Merger periods to reduce taxable income in post-Merger periods would be subject to an annual limitation. In general, the annual limitation would equal our value immediately before the ownership change multiplied by the federal long-term tax-exempt interest rate.

Anticipated Accounting Treatment

We expect to treat the Merger as a reverse acquisition under the purchase method of accounting in accordance with GAAP. For accounting purposes, Model Reorg is considered to be acquiring us in the Merger. Accordingly, the Merger Consideration will be allocated among the fair values of our assets and liabilities, based upon a valuation that has not yet been determined. E Com s results will be reflected in the results of the combined company from the date of the Merger going forward. Historical financial condition and results of operations shown for comparative purposes in periodic filings subsequent to the completion of the transaction will reflect Model Reorg. However, the combined company will continue to use our fiscal year end, the Saturday closest to January 31, which is conventional for retail businesses.

NASDAQ Capital Market Listing

Our common stock is currently listed on the NASDAQ Capital Market and we expect it to continue to be so listed following the Merger. However, because the Merger will be deemed a reverse acquisition, we may be required to reapply for listing with NASDAQ to continue that listing. We have received a preliminary, oral notice that we will not be required to reapply. If we were in fact required to reapply, and if the application were accepted, which we expect, our common stock would continue to be traded on the NASDAQ Capital Market

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following the closing of the Merger. If it were not accepted, the Merger would not occur without a waiver from the parties to the Merger Agreement, since it is a condition to closing the Merger that E Com continue to be listed on the NASDAQ Capital Market. Our Board has made no determination as to whether it would waive that condition. It would make such a decision, if necessary, based on what it believes to be the best interests of our shareholders in the circumstances existing at the time. Even if our Board waived this condition, Model Reorg might decide not to waive it, in which case the Merger would not occur.

Regulatory Matters

Under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and the rules and regulations promulgated thereunder (the HSR Act), the Merger could not be completed until we and Model Reorg had made certain filings with the Federal Trade Commission and the United States Department of Justice and the applicable waiting period under the HSR Act had expired or been terminated. We and Model Reorg filed the required notification on January 24, 2008 and, on February 1, 2008, the Federal Trade Commission granted early termination of the waiting period.

Status of Shares Issued in Merger

The issuance of shares of our common stock and Warrants to the shareholders of Model Reorg in the Merger, and the issuance of shares of our common stock upon exercise of the Warrants, will not be registered under the Securities Act of 1933, as amended, in reliance on an exemption for the issuance of shares not involving a public offering. Accordingly, SEC rules provide that the shares may not be resold in the public market for at least six months after the Merger or the Warrant exercise, as the case may be. Thereafter, (i) any sales of those shares in the public market by a shareholder who is a director, executive officer or controlling shareholder of E Com will be subject to public availability of certain financial and other information about us, and the volume and manner of sale limitations in SEC Rule 144, and (ii) sales by non-affiliates will be subject for six months to our having made certain financial and other information publicly available, but to no further restrictions thereafter.

Recommendations of the Special Committee and our Board of Directors

On December 21, 2007, the Special Committee unanimously approved the Merger and the related transactions and recommended the adoption of the Original Merger Agreement to our Board of Directors, subject to the Special Committee s right to withdraw, modify or amend such recommendation if the Special Committee determines, in good faith, that failure to take such action would be reasonably likely to result in a breach of its fiduciary duties to our shareholders under applicable law.

Having received the recommendation of the Special Committee, for reasons including those described above, on December 21, 2007, our Board unanimously:

- determined that the terms of the Merger are fair from a financial point of view to the holders of our common stock (other than shareholders who own, or whose affiliates own, securities of Model Reorg);

- adopted the Original Merger Agreement and declared it and the related transactions to be advisable; and

- recommended that our shareholders approve the issuance of the Merger Consideration in the Merger, and the issuance of our common stock upon exercise of the Warrants, subject to the Board s right to withdraw, modify or amend such recommendation to the extent that the Board determines, in good faith, that failure to take such action would be reasonably likely to result in a breach of its fiduciary duties to our shareholders under applicable law.

On June 17, 2008, the Special Committee considered the First Amendment and determined not to modify its recommendation to our Board of Directors. The Board subsequently approved execution of the First Amendment on July 8, 2008.

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Our Board recommends that you vote FOR the issuance of the Merger Consideration in the Merger and the issuance of shares upon exercise of the Warrants.

PROPOSAL 2 AUTHORIZATION OF ADDITIONAL SHARES

Description of the Amendment

Our Board of Directors has approved, subject to shareholder approval, an amendment to our Articles of Incorporation to increase the number of authorized shares of our common stock from 6,250,000 to 20,000,000. A copy of the proposed certificate of amendment is attached as Annex III to this Proxy Statement. You should read the certificate of amendment carefully as it is the legal document that governs the amendment to the Articles of Incorporation.

Reasons for and Effect of the Amendment

Our Articles of Incorporation currently authorize the issuance of up to 6,250,000 shares of common stock and 1,000,000 shares of preferred stock, $0.10 par value. On the Record Date, 3,059,041 shares of our common stock were outstanding, 147,696 shares were reserved for issuance upon exercise of outstanding stock options, 444,445 shares were reserved for issuance upon conversion of the Convertible Note, and 661,523 shares were reserved for future awards under our stock option plan. We will issue 5,900,000 shares to the Model Reorg shareholders in the Merger and an additional 1,500,000 shares if and when the Warrants are exercised. We are required by the Merger Agreement to have sufficient authorized but unissued shares available to complete the Merger. The proposed amendment to our Articles of Incorporation will authorize a sufficient number of shares for the Merger as well as a reasonable additional number of shares for future issuances by the combined company pursuant to benefit plans, for financings or acquisitions, or otherwise. If the amendment is not approved, we will not be able to complete the Merger and the other transactions contemplated by the Merger Agreement. Therefore, the Merger depends on our shareholders approving both Proposal 1 and this Proposal 2. However, this proposed amendment does not depend on approval of any other proposal as we are seeking approval of the increase whether or not the Merger issuance is approved.

The increased number of authorized and unissued shares could, in certain circumstances, have an anti-takeover effect. For example, it would permit issuances that could substantially dilute the stock ownership of a person seeking to effect a change in the composition of our Board of Directors or contemplating a tender offer or other business combination transaction with us. However, the share increase is not being proposed in response to any effort by a third party of which we are aware to accumulate shares of our common stock or obtain control of us, nor is it part of a plan to recommend to the stockholders a series of provisions to address takeover concerns. Other than the share increase proposal, our Board does not currently contemplate recommending the adoption of any other amendments to our Articles of Incorporation that could be construed to affect the ability of third parties to take over or change the control of E Com. Other than for issuances pursuant to our existing equity compensation arrangements for directors, employees and independent contractors, we have no current plans to issue any shares of our common stock.

Description of our Common Stock

The holders of outstanding shares of our common stock are entitled to receive dividends out of assets legally available therefor at such times and in such amounts as the Board may determine from time to time. The shares of common stock are not convertible into any other securities, and the holders thereof have no preemptive or subscription rights to purchase any of our securities. Upon liquidation, dissolution or winding up of E Com, the holders of common stock would be entitled to receive pro rata the assets that are legally available for distribution to them after payment of all debts and other liabilities. Each outstanding share of common stock is entitled to one vote on all matters submitted to a vote of the stockholders, including election of directors. There is no cumulative voting in the election of directors.

Recommendation of our Board of Directors

On December 21, 2007, our Board of Directors concluded unanimously that the Merger is in the best interests of our shareholders and that the number of authorized shares should be increased. The Board recommends that you vote FOR this amendment to our Articles of Incorporation.

PROPOSAL 3 NAME CHANGE

Description of the Amendment

Our Board of Directors has approved, subject to shareholder approval, an amendment to our Articles of Incorporation to change our corporate name to Perfumania Holdings, Inc. If the name change is approved by our shareholders, we anticipate that our ticker symbol on the NASDAQ Capital Market will be changed to PERF. A copy of the proposed certificate of amendment is attached as Annex IV to this Proxy Statement.

Reasons for the Change

The primary reason for the corporate name change is that we believe it will promote increased brand recognition of our products. As the name of our primary operating subsidiary, Perfumania is the distinctive tradename by which we are known in the marketplace. It will provide a strong corporate and commercial identification for the combined company, allowing us to capitalize on the existing market recognition.

Recommendation of our Board of Directors

Our Board of Directors unanimously recommends that you vote FOR this amendment to our Articles of Incorporation.

PROPOSAL 4 ADJOURNMENT OF SPECIAL MEETING

If necessary or appropriate in the circumstances at the Special Meeting, we may ask our shareholders to authorize the named proxies to approve one or more postponements or adjournments of the Special Meeting if sufficient votes have not yet been cast to approve Proposals 1, 2 or 3 at the time of the Special Meeting, in order to enable us to solicit additional proxies. This proposal relates only to a postponement or adjournment of the Special Meeting for purposes of soliciting additional proxies to obtain the requisite shareholder approval to approve Proposals 1, 2 or 3. Our Board of Directors retains full authority to postpone or adjourn the Special Meeting for any other purpose, including the absence of a quorum, or to postpone the Special Meeting before it is convened, without the consent of the shareholders.

If the Special Meeting is postponed or adjourned, we would not be required to give notice of the time and place of the adjourned meeting unless our Board of Directors fixed a new record date for the Special Meeting.

Recommendation of our Board of Directors

Our Board of Directors unanimously recommends that you vote FOR this Proposal.

CERTAIN RELATIONSHIPS AND RELATED PERSON TRANSACTIONS

The following describes relationships and transactions that exist now, or that are proposed to exist as a result of our acquisition of Model Reorg in the Merger, involving us and in which any of our principal shareholders, directors, executive officers and/or members of their immediate families has a direct or indirect material interest. Ordinary compensatory arrangements with our directors or officers that have been or are expected to be approved by the Compensation Committee of our Board of Directors are not included. Our Audit Committee reviews quarterly, on an aggregate basis, the related party transactions pursuant to which we purchase or sell merchandise from or to companies in which the Nussdorfs are affiliated to determine the reasonableness of the transactions as compared to third party transactions. We do not have any written policies or procedures specifically addressing related party transactions with those companies. In reviewing these transactions, our Audit Committee considers, among other factors, the gross margin of product sales, the payment and credit terms of the transactions, and the turnover of inventory of product purchases. In ratifying these transactions, our Audit Committee has considered the commercial reasonableness of their terms.

Shareholder Relationships

Stephen L. Nussdorf, the Chairman of our Board, and Glenn H. Nussdorf, his brother, currently own an aggregate of 1,113,144, or 36.4%, of the outstanding shares of our common stock. They also hold the Convertible Note, which is convertible into 444,445 shares. Upon conversion of the Convertible Note, they would own an aggregate of 1,557,589 shares, or approximately 44.5%. Stephen and Glenn Nussdorf also own an aggregate of 59.2% the outstanding shares of capital stock of Model Reorg. After the Merger, Stephen and Glenn Nussdorf would beneficially own an aggregate of approximately 53.7% of our outstanding common stock, assuming conversion of the Convertible Note, and they would hold Warrants that would, upon exercise, result in their beneficially owning up to an aggregate of approximately 57.7% of our shares. Their sister, Arlene Nussdorf, who is not a shareholder of E Com, also owns 29.6% of the Model Reorg shares. Stephen and Glenn Nussdorf have agreed to vote all of their shares of our common stock in favor of the proposals being presented at the Special Meeting. Trusts benefiting Stephen, Glenn and Arlene Nussdorf and members of their families also own 100% of the outstanding shares of Quality King.

At the closing of the Merger, we will execute an agreement providing certain piggyback registration rights to the former Model Reorg shareholders with respect to the shares of our common stock they receive at the closing. In addition, the former Model Reorg shareholders will have a continuing obligation to indemnify us against certain liabilities (subject to certain limitations) in connection with the Merger. (See Approval to Issue Shares and Warrants Terms of the Merger Escrow and Indemnification and Registration Rights for further details.)

Management Relationships

Stephen and Glenn Nussdorf serve as directors of Model Reorg and its subsidiaries. Stephen, Glenn and Arlene Nussdorf serve as directors and principal officers of Quality King and its subsidiaries. Our President and Chief Executive Officer, Michael W. Katz, is also a director of Model Reorg and a senior executive of both Model Reorg and Quality King. In addition, because we do not currently have a Chief Operating Officer, Raymond Piergiorgi, Model Reorg s Chief Operating Officer, has been consulting with E Com management on operations matters. With the following exceptions, any compensation for such services has been paid by the respective entity for which the services were performed. Mr. Piergiorgi has received no compensation from us. Mr. Katz s compensation for his service with Model Reorg has been paid by Quality King. He is expected to continue after the Merger to serve as an officer of Quality King, which will pay any related compensation.

Under a Stockholder Agreement dated as of January 1, 2003, Model Reorg issued shares of its common stock to Mr. Katz, subject to vesting. Model Reorg repurchased the shares from Mr. Katz on July 1, 2004 pursuant to the agreement for a total of $1,002,250, which was paid over thirty-three months. Pursuant to the

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Agreement, Model Reorg will pay Mr. Katz an additional amount in the event of termination of his employment in certain circumstances, or his death or disability of 3% of the increase in book value of Model Reorg, excluding certain amounts, over $17.6 million, the book value of Model Reorg as of June 30, 2002. At October 31, 2007, Model Reorg had accrued $1.5 million with respect to this liability. Mr. Katz has an obligation under this Agreement not to compete with Model Reorg, its subsidiaries or its affiliates or to solicit their employees for one year following the termination of his employment.

Rene A. Garcia, a shareholder of Model Reorg, will acquire beneficial ownership of more than 5% of our common stock as a result of the Merger. Mr. Garcia and trusts benefiting members of his family contributed certain fragrance businesses they owned to Jacavi LLC, which Model Reorg acquired by merger on October 5, 2007 in exchange for approximately 11.25% of its common stock. Mr. Garcia and the trusts have escrowed their Model Reorg shares until October 5, 2008 to secure their obligation to indemnify Jacavi against damages for certain breaches of their agreement with Jacavi. If the Merger is completed, the Merger Consideration issuable to Mr. Garcia and his family trusts will be held in escrow by EAPD until that date. Model Reorg also agreed to indemnify Mr. Garcia and his family trusts for losses in excess of $200,000 in the event of a breach of certain representations and warranties made by Model Reorg in the Jacavi acquisition agreement. Model Reorg s indemnification obligation is unsecured and is limited to $4.0 million.

In connection with the Jacavi merger agreement, Mr. Garcia entered into an employment agreement, dated as of October 5, 2007, with Jacavi. This agreement provides for Mr. Garcia s employment as president and chief executive officer of Jacavi and its subsidiary, Distribution Concepts, LLC, at an initial annual base salary of $300,000. The term of his employment is until December 31, 2010, but may be terminated earlier by either party subject to payment to Mr. Garcia of an amount equal to one year s base salary if his employment is terminated by Jacavi without Cause or by Mr. Garcia for Good Reason, or his employment terminates due to his Disability, each as defined in the agreement. In the event of termination due to Disability, he also would continue to receive for one year those fringe benefits to which he was entitled at the time of termination. Mr. Garcia is bound by noncompetition obligations with respect to Jacavi and Distribution Concepts for twelve months following termination of his employment unless termination is without Cause or by him for Good Reason and he provides Jacavi with a general release of liability.

Relationships and Transactions between Model Reorg and E Com

The following are relationships and transactions between a subsidiary of ours, on one hand, and subsidiaries of Model Reorg, on the other, that currently exist or have existed during our past three fiscal years. We expect that these relationships and transactions will substantially continue after the Merger, although they will be between our wholly-owned subsidiaries and will be eliminated in consolidation, and therefore will not appear in our consolidated financial statements.

Product Purchases and Sales

Substantially all wholesale sales by Perfumania (our subsidiary) in recent years have been to Quality Fragrance Group (a Model Reorg subsidiary). The bulk of these are sales of product that Perfumania can obtain through a supplier relationship that is not available to Quality Fragrance Group. These sales stem also from Perfumania s ability to obtain certain merchandise at better prices and in greater quantities than Quality Fragrance Group is able to obtain. Sales by Perfumania to Quality Fragrance Group totaled approximately $57.7 million, $13.6 million, $17.9 million during our 2007, 2006, and 2005 fiscal years.

Similarly, Perfumania purchases product from Quality Fragrance Group and Five Star Fragrance (another Model Reorg subsidiary). These include brands for which Five Star Fragrance is the owner or licensee and other product that Quality Fragrance Group can obtain at better prices and in greater quantities than Perfumania can obtain. They also include certain product for which Perfumania owns the brand and contracts with Five Star Fragrance for manufacturing. Over the past three fiscal years, such purchases ranged from 23% to 28% of E

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Com s total merchandise purchases. These purchases totaled approximately $32.1 million, $32.4 million, and $30.5 million, during our 2007, 2006, and 2005 fiscal years. At the end of our 2007, 2006, and 2005 fiscal years, the net amounts due from us to Model Reorg s subsidiaries were approximately $36.1 million, $16.9 million, and $17.2 million, respectively.

These purchase and sale transactions are undertaken on a purchase order basis and without long-term or exclusive contracts, similar to the way each company conducts business with unaffiliated third parties. However, the prices charged to us by the Model Reorg subsidiaries in such purchases are typically lower than it charges unaffiliated customers. The receivables are generally payable in 90 days but, due to the seasonality of our business, Model Reorg generally extends those terms. These amounts are non-interest bearing, and we are dependent upon these extended terms for much of our liquidity during the year.

Information Technology Services Agreement

Under an Information Technology Services Agreement dated August 2, 2007 with Model Reorg, we manage and monitor Model Reorg s IT systems and provide related services, including data center operations, network support, security, electronic data interchange processing, systems planning, and various development and support activities, for which Model Reorg pays us a monthly service fee of $25,000 plus expenses. The agreement will terminate by its terms in connection with the Merger, or either party may terminate it on 30 days notice.

Relationships and Transactions between Model Reorg or E Com and Other Affiliates

The following relationships and transactions between either Model Reorg and its subsidiaries or us and our subsidiaries, on one hand, and other affiliates of either company, on the other, currently exist or have existed during our past three fiscal years. Except as discussed below, these will not be directly affected by the Merger.

Quality King Distributors, Inc.

Quality King holds a promissory note issued by Model Reorg on December 20, 2002 in order to supplement a revolving line of credit entered into jointly by Model Reorg and Quality King with an unaffiliated syndicate of lenders. The balance owed under this promissory note fluctuates based on Model Reorg s cash flow requirements. The Note bears interest based on the monthly blended borrowing rates selected by Quality King under the syndicate s revolving line of credit, which fluctuate with LIBOR and the prime rate. Average interest rates and Model Reorg s interest expense on the promissory note for Model Reorg s 2007 and 2006 fiscal years were 7.6% ($4.5 million) and 7.4% ($6.4 million), respectively, and for the six months ended April 30, 2008 were 5.4% ($1.96 million). Interest expense charged to operations relating to the note payable was $4,571 for fiscal year 2007 and $1,961 for the six months ended April 30, 2008.

The balance of principal and accrued interest at April 30, 2008 was $76.9 million. The Merger Agreement requires Model Reorg to repay a portion of this debt and restructure the balance as a condition to closing. (See Approval to Issue Shares and Warrants Affiliate Debt for further details of the debt restructuring and refinancing.)

Model Reorg and Quality King share in various operational arrangements under which each may benefit from economies of scale and additional convenience. In the case of joint participation in third party arrangements, e.g., 401(k), medical, dental, and flex spending plans, a portion of the costs and overhead is allocated to Model Reorg based on the specific services provided and the number of employees involved. Until June 2008, Model Reorg s subsidiaries obtained other payroll and human resources services from Quality King, for which Model Reorg was allocated a proportionate share of the costs and overhead, based, for example, on payroll dollars, number of employees involved or number of transactions processed. Model Reorg also obtains legal services, for which it pays an agreed hourly rate. Model Reorg s management has determined that the costs for these services are comparable to those it would have paid to unaffiliated suppliers. At the closing of the Merger Agreement, we will execute a Services Agreement with

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Quality King providing for the continuation of Model Reorg s participation in the third party arrangements at our respective share of Quality King s cost, including allocated overhead, plus a 2% administrative fee, and the provision of legal services, subject to termination with respect to any such service on 30 days notice by either party. Quality King and one of its affiliates also provide trucking services to Model Reorg, which we expect to continue to obtain after the Merger. Since May 2007, they have billed Model Reorg at the same rates they charge third parties for trucking services, rather than allocating expenses. Amounts allocated to or paid by Model Reorg under the foregoing arrangements during its 2007, 2006, and 2005 fiscal years were $3.7 million, $5.1 million, and $4.7 million, respectively.

Quality King occupies a leased 560,000 square foot office and warehouse facility in Bellport, NY. Model Reorg has been occupying approximately half of this facility since December 2007 under a sublease that terminates on September 30, 2027. Model Reorg is making sublease payments of $191,565 per month, increasing by 3% annually, which is equivalent to current market rates, plus a proportionate share of costs attributable to the premises. We expect that a significant portion of our operations will be consolidated in this facility after the Merger.

Parlux Fragrances, Inc.

Parlux owned more than 10% of the outstanding shares of our common stock for a number of years, disposing of its entire interest during fiscal 2006. Ilia Lekach, our Chairman and Chief Executive Officer until February 2004, was Chairman and Chief Executive Officer of Parlux until February 2007. He was also the beneficial owner of more than 10% of our common stock until disposing of his entire interest during fiscal 2006. Since February 2007, Glenn Nussdorf has owned approximately 12% of the outstanding shares of common stock of Parlux. At that time, Mr. Nussdorf entered into an agreement with Parlux under which three persons agreed upon between Mr. Nussdorf and Parlux comprise 50% of Parlux s board of directors. One of those persons now serves as Parlux s Chief Executive Officer.

Perfumania purchased product from Parlux amounting to approximately $44.7 million, $17.6 million and $23.0 million, during our 2007, 2006, and 2005 fiscal years, respectively. These represented approximately 21%, 12%, and 18%, respectively, of our total inventory purchases during those periods. The amounts due to Parlux at February 2, 2008 and February 3, 2007 were approximately $12.5 million and $7.2 million, respectively. According to Parlux s Form 10-K, Perfumania is one of its largest customers. Similar to our purchases from Model Reorg described above, Parlux provides extended payment terms to us that, according to Parlux, take into consideration the opportunity to sell Parlux products in Perfumania s many retail outlets, the lengthy relationship between the companies, the volume of Perfumania s purchases, its policy of no returns, Parlux s reduced spending for advertising and promotion and reduced distribution costs applicable to Perfumania orders. The amounts owed to Parlux are non-interest bearing, and we have been dependent upon the extended terms for liquidity during the year.

For the three years ending July 31, 2006, Parlux and Five Star were parties to an agreement under which Parlux distributed product acquired from Five Star on terms comparable to those charged to third parties. Parlux s payments under this agreement totaled approximately $1.0 million.

Principal Shareholders

We issued the Convertible Note in the principal amount of $5,000,000 to Stephen and Glenn Nussdorf on December 9, 2004 in exchange for a $5,000,000 subordinated secured demand loan they had made to us in March 2004. The Convertible Note matures in January 2009. It bears interest at the prime rate plus 1%, requires quarterly interest payments and is secured by a security interest in our assets. There are no prepayment penalties, and the Convertible Note is subordinate to all bank related indebtedness. The Nussdorfs may convert the amounts due under the Convertible Note into an aggregate of 444,445 shares of our common stock at a conversion price of $11.25, the closing market price of our common stock on the date the Convertible Note was issued.

INFORMATION ABOUT E COM VENTURES

Business of E Com

General

We were incorporated under Florida law in 2000. We operate through two wholly-owned subsidiaries: Perfumania, which is a specialty retailer and wholesaler of fragrances and related products, and perfumania.com, which is an Internet retailer of fragrances and other specialty items.

Perfumania is a specialty retailer and wholesale distributor of a wide range of brand name and designer fragrances. Perfumania operates a chain of retail stores specializing in the sale of fragrances at discounted prices up to 75% below the manufacturers suggested retail prices. Perfumania s wholesale division distributes fragrances and related products primarily to Model Reorg s subsidiary, Quality Fragrance Group. Perfumania.com offers a selection of our more popular products for sale over the Internet and serves as an alternative shopping experience for Perfumania retail customers. Approximately 83% of our net sales and 97% of our gross profit during the quarter ended May 3, 2008 were provided by our retail division.

Perfumania operates its wholesale business directly. The retail business is principally operated through Magnifique Parfumes and Cosmetics, Inc. (Magnifique), a wholly-owned subsidiary of Perfumania, although the stores are generally operated under the name Perfumania. Perfumania s retail stores are generally located in regional malls, manufacturers outlet malls, lifestyle centers, airports and suburban strip shopping centers. The number of retail stores in operation at February 2, 2008, February 3, 2007 and January 28, 2006 were 303, 267 and 239, respectively.

Sales of perfumania.com are reported with those of our retail business. For ease of reference, our retail and wholesale businesses are referred to as segments. See further discussion of segment information in Notes 13 and 9 to our Consolidated Financial Statements for fiscal 2007 and first quarter of fiscal 2008, respectively.

Our fiscal year ends on the Saturday closest to January 31. We refer to a fiscal year by the calendar year in which it begins. Accordingly, fiscal year 2007 ended on February 2, 2008, fiscal year 2006 ended on February 3, 2007 and fiscal year 2005 ended on January 28, 2006. With the exception of fiscal year 2006, which contained fifty-three weeks, each of the fiscal years presented contains fifty-two weeks.

References to our Consolidated Financial Statements are to our audited consolidated financial statements for the fiscal years ended February 2, 2008, February 3, 2007, January 28, 2006, and as of February 2, 2008 and February 3, 2007, that are included in this Proxy Statement beginning on page F-3.

Retail Division

Strategy

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

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

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

Perfumania relies on its distinctive store design and window displays to attract the attention of prospective customers. In addition, Perfumania distributes advertising flyers and brochures by mail in and around its stores and in the malls in which its stores are located. Radio and television advertising is done occasionally in certain geographic regions that have a cluster of stores. The amount of advertising varies due to the seasonality of the business with the greatest portion in the fourth fiscal quarter. (See further discussion in Note 14 to our Consolidated Financial Statements for fiscal 2007.)

Retail Stores

Perfumania s standard store design includes signs and merchandise displays that are designed to enhance customer recognition of Perfumania s stores. Perfumania s stores average approximately 1,500 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. Regional and district managers visit stores on a regular basis in an effort to ensure knowledgeable and attentive customer service and compliance with operational policies and procedures.

Store Location and Expansion

Perfumania s current business strategy focuses on maximizing sales by raising the average dollar sale per transaction, increasing transactions per hour, reducing expenses at existing stores, opening new stores in proven geographic markets and selectively closing under-performing stores. When opening new stores, Perfumania seeks locations primarily in regional and manufacturers outlet malls, lifestyle centers and, selectively, on a stand-alone basis in suburban shopping centers in metropolitan areas. To achieve economies of scale with respect to advertising and management costs, Perfumania evaluates whether to open additional stores in markets where it already has a presence or whether to expand into additional markets that it believes have a population density and demographics to support a cluster of stores.

As of May 3, 2008, Perfumania operated 313 stores in 35 states and Puerto Rico, with the highest concentrations being 50 locations in Florida, 37 in Texas, 25 in California, 19 in New York and 18 in Puerto Rico. In fiscal years 2007, 2006 and 2005, Perfumania opened 39, 36 and 23 stores, respectively, with another 11 opened during the thirteen weeks ended May 3, 2008. Perfumania continuously monitors store performance and from time to time closes under-performing stores, which typically have been older stores in less trafficked locations. Perfumania has closed 19 stores since the beginning of fiscal 2005. During fiscal year 2008, Perfumania will continue to focus on improving the profitability of its existing stores, and management expects to open approximately 45 stores and close approximately 3 stores.

Information Systems

Perfumania has an integrated information system including retail outlet and corporate systems. Perfumania.com has a completely integrated e-commerce system. These systems encompass significant phases of our operations, providing 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. Daily compilation of sales, gross margin, and inventory levels enables management to analyze profitability and sell-through by item and product line as well as monitor the success of sale promotions. Inventory is tracked through its entire life cycle. Perfumania s point of sale system is standard in all its stores. The system enables communication, pricing and promotion programs, time and attendance reporting, and inventory control.

Perfumania.com

Perfumania.com provides a number of advantages for retail fragrance sales. Internet fragrance sales are highly competitive and we compete on the basis of selling price, merchandise variety, ease of selection and cost of delivery. Our Internet site enables us to display a larger number of products than traditional store-based or catalog sellers. In addition, the ability to frequently adjust featured selections and edit content and pricing provides significant merchandising flexibility. Our Internet site benefits from the ability to reach a large group of customers from a central location. 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 product is not critical to the purchasing decision. Perfumania.com s online store provides its customers with value, selection, pricing and convenience.

Seasonality

Our retail business follows a seasonal pattern, with sales peaking over approximately five weeks during the December holiday period. During fiscal 2007, the holiday period accounted for approximately 26% of our net retail sales.

Wholesale Division

Perfumania distributes fragrances on a wholesale basis to Model Reorg s subsidiary, Quality Fragrance Group, which accounted for substantially all of our net wholesale sales in fiscal years 2007, 2006 and 2005, and the first thirteen weeks of fiscal 2008. (For more information, see Notes 6 and 8 to our Consolidated Financial Statements for fiscal 2007 and the first quarter of fiscal 2008, respectively.)

Sources of Supply

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

Approximately 15%, 23% and 22% of Perfumania s total merchandise purchased in fiscal years 2007, 2006 and 2005, respectively, and approximately 17% in the first thirteen weeks of fiscal 2008, was from subsidiaries of Model Reorg. Approximately 21%, 12% and 18% of Perfumania s total merchandise purchased in fiscal years 2007, 2006 and 2005, respectively, and approximately 23% in the first thirteen weeks of fiscal 2008 was from another affiliate, Parlux, a manufacturer and distributor of prestige fragrances and related beauty products. (See Certain Relationships and Related Person Transactions Shareholder Relationships.) Besides Model Reorg and Parlux, no other supplier accounted for more than 10% of our merchandise purchases during fiscal years 2007, 2006 or 2005.

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

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

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

Distribution

Perfumania utilizes independent national trucking companies to deliver merchandise to its stores. Retail store deliveries generally are made weekly, with more frequent deliveries during the holiday season. Such deliveries permit the stores to minimize inventory storage space and increase the space available for display and sale of merchandise. To expedite delivery of merchandise to its wholesale customers, Perfumania sometimes instructs its suppliers to ship merchandise directly to its wholesale customers. Sales of perfumania.com are shipped through national carriers and are typically delivered within a few days of being ordered.

Competition

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

Employees

At May 3, 2008, we had 1,756 employees, of whom 1,552 were employed in Perfumania s retail stores, 70 were employed in Perfumania s warehouse and distribution operations and 134 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 Names and Service Marks

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

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 that currently provides for monthly rent of approximately $89,000 with specified increases. We anticipate that a significant portion of our operations will be consolidated into Model Reorg s Bellport, NY facility following the merger, as described in Certain Relationships and Related Person Transactions.

All of Perfumania s retail stores are located in leased premises. Most of the store leases provide for the payment of a fixed amount of base rent plus a percentage of sales, ranging from 3% to 15%, over certain minimum sales levels. Store leases typically require Perfumania to pay its proportionate share of common area expenses, real estate taxes, utility charges, insurance premiums and certain other costs. Some of Perfumania s leases permit the termination of the lease if specified minimum sales levels are not met. (See Note 12 to our audited Consolidated Financial Statements for additional information with respect to our store leases.)

Legal Proceedings

We are involved in legal proceedings in the ordinary course of business. Management cannot presently predict the outcome of these matters, although management believes that the ultimate resolution of these matters will not have a materially adverse effect on our financial position, operations or cash flows.

Management s Discussion and Analysis of Financial Condition and Results of Operations

Restatement of Financial Statements

Since the issuance of our 2006 financial statements, we identified errors in our prior accounting for operating leases and the period of amortization of leasehold improvements and have restated our financial statements for fiscal years 2006 and 2005.

Under GAAP, rent expense is amortized on a straight-line basis over the term of the lease. In prior periods, we had determined that the term of the lease begins on the commencement date of the lease, which generally coincides with the store opening date. We have re-evaluated FASB Technical Bulletin No. 85-3, Accounting for Operating Leases with Scheduled Rent Increases and other guidance provided by the SEC and determined that the lease term for amortization purposes should commence on the date we take physical possession of the leased space to commence construction of leasehold improvements, which is generally two months prior to a store opening date. We have restated our previously reported financial statements in connection with our accounting for rent expense. Rent expense is included in selling, general and administrative expenses on our consolidated statements of operations.

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We have also reviewed our leasehold improvements to ensure amortization over the shorter of their economic lives or their lease term. In prior periods, in determining the lease terms, in addition to the initial term, we had included one anticipated renewal term even if the lease did not have a stated renewal option. We have adjusted our lease terms for purposes of calculating amortization of leasehold improvements to include a renewal term only if that renewal option is specified in the lease agreement and we have concluded that exiting the lease after the initial term would result in economic loss and therefore normally we would anticipate exercising the respective renewal option.

The restatement resulted in a decrease in net income of $0.1 million in fiscal year 2006, an increase in net income of $1.0 million in fiscal year 2005 and an aggregate decrease in net income of $2.7 million for all years prior to fiscal year 2005, with a corresponding increase to the accumulated deficit as of January 29, 2005. The majority of the adjustments relate to periods prior to fiscal year 2005.

See Notes 3 and 2 to our Consolidated Financial Statements for fiscal 2007 and the first quarter of fiscal 2008, respectively, for a summary of the effects of the restatement. This Management s Discussion and Analysis of Financial Condition and Results of Operation gives effect to the restatement.

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 purchase a wide assortment of merchandise at favorable prices, 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 selected items from our Consolidated Statements of Operations expressed as a percentage of total net sales for the periods indicated:

	13 Weeks Ended		Fiscal Year		
	May 3, 2008	May 5, 2007	2007	2006	2005
Total net sales	100.00%	100.0%	100.0%	100.0%	100.0%
Total gross profit	39.8	42.2	37.1	42.7	41.3
Selling, general and administrative expenses	43.4	43.9	33.1	36.5	34.6
Depreciation and amortization	3.1	3.0	2.1	2.0	2.1
Total operating expenses	46.6	46.9	35.2	38.5	36.7
Income (loss) from operations	(6.7)	(4.7)	1.9	4.2	4.6
Other expense:					
Interest expense	(1.5)	(2.3)	(1.6)	(1.9)	(1.7)
Income (loss) before income taxes	(8.3)	(6.9)	0.3	2.3	2.9
Income tax benefit (provision)	3.1	2.6	(0.3)	(0.5)	3.6
Net (loss) income	(5.1)%	(4.3)%	0.0%	1.8%	6.5%

Critical Accounting Estimates

Our Consolidated Financial Statements have been prepared in accordance with GAAP. 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 our Consolidated Financial Statements for the year ending February 2, 2008.

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

Inventory Adjustments and Writeoffs

Inventories are stated at the lower of cost or market, with 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 adjustments to reduce the carrying value of inventory to the lower of cost or market in accordance with our assessment. If there are material changes to these estimates, additional writeoffs could be necessary. Inventory shrinkage is estimated and accrued between physical inventory counts.

Impairment of Long-Lived Assets

When events or changes in circumstances indicate that the carrying values of long-lived assets 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, we recognize an impairment loss as a charge against current operations. Property and equipment assets are grouped at the lowest level for which there are identifiable cash flows when assessing impairment. Cash flows for retail assets are identified at the individual store level. Factors that could trigger an impairment review include a significant underperformance relative to expected historical or projected future operating results, or a significant negative industry or economic trend. 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.

Valuation of Deferred Tax Assets

Statement of Financial Accounting Standard (SFAS) No. 109, *Accounting for Income Taxes,* requires that deferred tax assets be evaluated for future realization and reduced by a valuation allowance to the extent we believe it is more likely than not that a portion of these assets will not be realized. We consider many factors when assessing the likelihood of future realization of our deferred tax assets, including our recent cumulative earnings experience by taxing jurisdiction, expectations of future taxable income, the carry-forward periods available to us for tax reporting purposes, and other relevant factors. The range of possible judgments relating to the valuation of our deferred tax assets is very wide. Significant judgment is required in making these assessments, and it is very difficult to predict when, if ever, our assessment may conclude that the remaining portion of our deferred tax assets is realizable.

Fiscal Year 2007 Compared to Fiscal Year 2006

Management Overview

During fiscal year 2007 we realized our fourth consecutive year of net income. We have achieved these positive operating results due to increases in retail and wholesale sales, an improvement in the product mix and selection at our retail stores, opening new stores and closing underperforming stores. In addition, at the retail level, in order to increase sales we have focused our efforts on increasing the average dollar sale per transaction and the number of units sold per transaction. We had an accumulated deficit of approximately $34.8 million at February 2, 2008.

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Our goal is to continue to increase the number of our stores, either by opening new ones in markets that present opportunities for growth or by acquiring smaller fragrance retailers. We believe there are numerous opportunities for retail locations domestically and are focused on expansion in markets where we either have a presence or in new geographic regions where the population density and the demographics support a cluster of stores.

Revenues:

	For the year ended (*$ in thousands*)				
	February 2, 2008	**Percentage of Revenues**	**February 3, 2007**	**Percentage of Revenues**	**Percentage Increase**
Retail	$ 244,020	80.8%	$ 229,783	94.3%	6.2%
Wholesale	57,815	19.2%	13,826	5.7%	318.2%
Total Revenues	$ 301,835	100.0%	$ 243,609	100.0%	23.9%

In fiscal year 2007, our total revenues increased by $58.2 million or 23.9% compared with the prior year. Retail sales increased by $14.2 million or 6.2%, primarily as a result of the increase in the number of retail stores in operation. Fiscal year 2007 had fifty-two weeks compared with fifty-three weeks in fiscal year 2006. Retail sales numbers for fiscal year 2006 include this additional week. The average number of stores operated increased from 250 during fiscal year 2006 to 283 in fiscal year 2007. Comparable store sales increased by 2.9%. The comparable store sales calculation measures sales results from stores that have been open for one year or more. We exclude stores that are closed for renovation from comparable store sales from the month during which renovation commences until the first full month after reopening. Comparable store sales growth percentages were calculated excluding the extra week of fiscal year 2006. While the average retail price per unit sold during fiscal year 2007 increased 6.3% versus 2006, the total number of units sold remained virtually unchanged. We attribute the increase in the average retail price per unit sold to changes in our product mix and increases in the retail selling prices on selected merchandise. The number of units sold was affected by softness in the United States economy and resulting weak mall traffic in 2007.

Wholesale sales increased by $44.0 million or 318.2% from $13.8 million in fiscal year 2006 to $57.8 million in fiscal year 2007. Virtually all wholesale sales were made to Quality Fragrance Group, a subsidiary of Model Reorg. The increase in wholesale sales is due to significantly more merchandise availability at better prices than had been available from our suppliers during fiscal year 2006 and an increase in the demand from Model Reorg s subsidiaries. Through our supplier relationships, we are able to obtain certain merchandise at better prices and quantities than Quality Fragrance Group can. Wholesale sales are expected to fluctuate due to market conditions, the availability of desirable merchandise and the demand of our wholesale customers, including Model Reorg. The volume of wholesale sales in fiscal year 2007 was significantly higher than any of our most recent five years, and should not necessarily be considered indicative of wholesale sales volume to be expected in future quarters or years. See further discussion at Note 6 to our Consolidated Financial Statements for fiscal 2007.

Cost of Goods Sold:

Cost of goods sold include the cost of merchandise sold, inventory valuation adjustments, inventory shortages, damages and freight charges.

	For the year ended (*$ in thousands*)		
	February 2, 2008	**February 3, 2007**	**Percentage Increase**
Retail	$ 135,405	$ 126,808	6.8%
Wholesale	54,564	12,871	323.9%
Total cost of goods sold	$ 189,969	$ 139,679	36.0%

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Gross Profit:

	For the year ended ($ in thousands)		
	February 2, 2008	February 3, 2007	Percentage Increase
Retail	$ 108,614	$ 102,975	5.5%
Wholesale	3,251	954	240.7%
Total gross profit	$ 111,865	$ 103,929	7.6%

Total gross profit increased principally as a result of higher sales in both the wholesale and retail divisions. In calculating gross profit, we exclude the costs related to our distribution center. These costs are included in selling, general and administrative expenses. Our gross profit and gross profit percentages may not be comparable to those of other retailers, which may include the costs related to their distribution network in costs of goods sold, rather than selling, general and administrative expenses.

Gross Profit Margin Percentages:

	For the year ended	
	February 2, 2008	February 3, 2007
Retail	44.5%	44.8%
Wholesale	5.6%	6.9%
Gross profit margin	37.1%	42.7%

Wholesale sales yield a lower gross margin than retail sales. The decrease in gross margin on retail sales resulted principally from increased promotional activities during the fourth quarter of fiscal year 2007, offset to a lesser extent by increases in retail selling prices on selected merchandise. Promotional activities were increased during the fourth quarter due to an anticipated decrease in mall traffic as economic conditions slowed.

Operating Expenses:

Selling, general and administrative expenses include payroll and related benefits for our store operations, field management, distribution center and corporate office; rent, common area maintenance, real estate taxes and utilities for our stores, distribution center and corporate office; advertising, insurance, supplies, professional fees and other administrative expenses. Distribution center costs included in selling, general and administrative expenses in fiscal years 2007 and 2006 were approximately $2.8 million and $2.6 million, respectively.

	For the year ended ($ in thousands)		
	February 2, 2008	February 3, 2007	Percentage Increase (Decrease)
Selling, general and administrative	$ 99,974	$ 89,004	12.3%
Depreciation and amortization	6,197	4,797	29.2%
Total operating expenses	106,171	93,801	13.2%
Income from operations	$ 5,694	$ 10,129	(43.8)%

The majority of our selling, general and administrative expenses relate to the retail division. The increase in selling, general and administrative expenses is attributable primarily to the increase in the number of new stores and the additional payroll, occupancy and store opening expenses

needed to operate these stores. Of the total $11.0 million increase in selling, general and administrative expenses in fiscal year 2007, $4.4 million related to stores that opened during 2007 and $3.6 is attributable to stores that opened during 2006 were open for a full year

in 2007. In addition, $1.2 million relates to Merger expenses incurred in fiscal year 2007. These expenses consist primarily of financial advisory, legal and due diligence fees. As a percentage of retail sales, selling, general and administrative expenses increased from 38.7% to 41.0%, largely due to the opening of these new stores and these Merger expenses. In fiscal 2007, the 75 new stores that were opened during fiscal years 2007 and 2006 in the aggregate negatively impacted income from operations, in part as a result of lower than expected sales.

Depreciation and amortization expenses in fiscal year 2007 increased by $1.4 million from fiscal year 2006 primarily as a result of property and equipment additions associated with the opening of new retail stores.

Other Expenses

	For the year ended (*$ in thousands*)		
	February 2, 2008	**February 3, 2007**	**Percentage Increase**
Interest expense	$ 4,728	$ 4,495	5.2%

The increase in interest expense is due to higher interest rates on average in 2007 compared with 2006. The interest rates on the majority of our borrowings are at variable rates. Also, the average balance on our credit facility increased to $40.3 million in 2007 compared to $34.3 million in 2006, while the balance on the Convertible Note was unchanged.

Income Tax Provision:

	For the year ended (*$ in thousands*)		
	February 2, 2008	**February 3, 2007**	**Percentage Decrease**
Income tax provision	$ (960)	$ (1,244)	(22.8)%

The effective tax rate in fiscal year 2007 differs from the federal statutory rate due to non-deductible permanent items, primarily expenses incurred related to the Merger.

Fiscal Year 2006 Compared to Fiscal Year 2005

Revenues:

	For the year ended ($ in thousands)				
	February 3, 2007	**Percentage of Revenues**	**January 28, 2006**	**Percentage of Revenues**	**Percentage Increase (Decrease)**
Retail	$ 229,783	94.3%	$ 215,841	92.4%	6.5%
Wholesale	13,826	5.7%	17,853	7.6%	(22.6)%
Total Revenues	$ 243,609	100.0%	$ 233,694	100.0%	4.2%

In fiscal year 2006 total revenue increased by $9.9 million or 4.2%, compared with the prior year. Total retail sales increased by $13.9 million or 6.5%, of which 1.3% related to the fifty-third week of fiscal year 2006. Excluding the effect of the fifty-third week, total retail sales increased 5.2%, which included comparable store sales increases of 2.3%. The average number of stores operated increased from 234 during fiscal year 2005 to 250 in fiscal year 2006. The improvements in retail sales during fiscal year 2006 were due to the greater availability of merchandise brands, the quantity of products available for sale, and the offer to our customers of more competitive retail prices. The result was an increase in the number of customer transactions, the average dollar sale per transaction and the retail selling prices on selected merchandise.

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Wholesale sales decreased by $4.0 million or 22.6% as demand for certain wholesale products were less than anticipated and less than the prior year. Virtually all wholesale sales were made to Quality Fragrance Group. Through our supplier relationships, we were able to obtain certain merchandise at better prices and quantities than Quality Fragrance Group.

Cost of Goods Sold:

Cost of goods sold include the cost of merchandise sold, inventory valuation adjustments, inventory shortages, damages, and freight charges.

	For the year ended ($ in thousands)		Percentage Increase
	February 3, 2007	January 28, 2006	(Decrease)
Retail	$ 126,808	$ 120,487	5.2%
Wholesale	12,872	16,706	(23.0)%
Total cost of goods sold	$ 139,680	$ 137,193	1.8%

Gross Profit:

	For the year ended ($ in thousands)		Percentage Increase
	February 3, 2007	January 28, 2006	(Decrease)
Retail	$ 102,975	$ 95,354	8.0%
Wholesale	954	1,147	(16.8)%
Total gross profit	$ 103,929	$ 96,501	7.7%

Total gross profit increased principally as a result of higher sales and gross profit in the retail division, offset by the lower sales and lower gross profit in the wholesale division. In calculating gross profit, we exclude the costs related to our distribution center. These costs are included in selling, general and administrative expenses.

Gross Profit Margin Percentages:

	For the year ended	
	February 3, 2007	January 28, 2006
Retail	44.8%	44.2%
Wholesale	6.9%	6.4%
Gross profit margin	42.7%	41.3%

The increase in gross margin on retail sales resulted principally from increases in retail selling prices on selected merchandise as well as lower cost of merchandise realized over the past twelve months.

Operating Expenses:

Selling, general and administrative expenses include payroll and related benefits for our store operations, field management, distribution center and corporate office; rent, common area maintenance, real estate taxes and utilities for our stores, distribution center and corporate office; advertising, insurance, supplies, professional fees and other administrative expenses. Distribution center costs included in selling, general and administrative expenses in fiscal years 2006 and 2005 were approximately $2.6 million and $2.4 million, respectively.

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	For the year ended ($ in thousands)		Percentage Increase (Decrease)
	February 3, 2007	January 28, 2006	
Selling, general and administrative	$ 89,004	$ 81,006	9.9%
Depreciation and amortization	4,797	4,830	(0.7)%
Total operating expenses	93,801	85,836	9.3%
Income from operations	$ 10,129	$ 10,665	(5.0)%

The majority of our selling, general and administrative expenses relate to the retail division. The increase in selling, general and administrative expenses is attributable primarily to the increase in the number of new stores and the additional payroll, occupancy and store opening expenses needed to operate these stores. As a percentage of retail sales, selling, general and administrative expenses increased from 37.5% to 38.7%, largely due to the opening of these new stores. In fiscal 2006, the 36 new stores that were opened in the aggregate negatively impacted income from operations, in part as a result of lower than expected sales, whereas in fiscal 2005, the 23 new stores opened in that year in the aggregate contributed positive income from operations. Increases in wholesale sales volume generally result in nominal increases in selling, general and administrative expenses. Also, in fiscal 2006 we accrued $0.8 million for the settlement of a legal complaint filed against us.

Depreciation and amortization expenses in fiscal year 2006 were reduced by $0.3 million from fiscal year 2005 primarily as a result of property and equipment associated with older retail stores and software costs associated with year 2000 upgrades that have become fully amortized.

Other Expenses:

	For the year ended ($ in thousands)		Percentage Increase
	February 3, 2007	January 28, 2006	
Interest expense	$ 4,495	$ 3,877	15.9%

The increase in interest expense is due to higher interest rates in 2006 compared with 2005, as the average balance on our credit facility decreased and the balance on the Convertible Note was unchanged. The interest rates on the majority of our borrowings are at variable rates.

Income Tax (Provision) Benefit:

	For the year ended ($ in thousands)	
	February 3, 2007	January 28, 2006
Income tax (provision) benefit	$ (1,244)	$ 8,471

In fiscal year 2006, management determined that it is more likely than not that certain deferred tax assets of our Puerto Rican subsidiary, which previously had a full valuation allowance, will be realized. Accordingly, the reversal of the valuation allowance on these assets of approximately $2.7 million has been reflected as a benefit in the tax provision for fiscal year 2006. Also, in fiscal year 2006, we recorded an adjustment to the net operating losses of our Puerto Rican subsidiary of approximately $1.8 million as a result of an ongoing Puerto Rican tax audit, which resulted in a decrease to the gross deferred tax asset for the Puerto Rican net operating loss but also resulted in a corresponding decrease to the valuation allowance for this item.

Income tax benefits recorded in fiscal year 2005 resulted from management s assessment that it was more likely than not that we would realize the benefit of certain deferred tax assets. The prior year s valuation allowance was reduced by approximately $11.9 million during the year ending January 28, 2006 due to

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management s determination that approximately $10.3 million of our deferred tax assets would be utilized. As a result of the reversal of the valuation allowance from the prior fiscal year, a net tax benefit of $8.5 million was reflected in our financial statements for fiscal year 2005.

Comparison of the Thirteen Weeks Ended May 3, 2008 with the Thirteen Weeks Ended May 5, 2007.

Net sales increased 17.4% from $48.1 million in the thirteen weeks ended May 5, 2007 to $56.5 million in the thirteen weeks ended May 3, 2008. The increase in sales was due to increases of $4.2 million in each of wholesale and retail sales.

Retail sales increased 9.9% from $42.5 million in the thirteen weeks ended May 5, 2007 to $46.7 million in the thirteen weeks ended May 3, 2008. The average number of stores operated increased to 308 in the first quarter of fiscal 2008 from 271 in the prior year period, which resulted in a portion of the increase in retail sales. Perfumania s comparable store sales increased by 3%. The average retail price per unit sold during the thirteen weeks ended May 3, 2008 increased 9.1% compared with the prior year period and the total number of units sold increased by 1.1%. We attribute the increase in the average retail price per unit sold to increases in the retail selling prices on selected merchandise as well as changes in our product mix. The number of units sold was affected by increasing softness in the United States economy and the resulting weak mall traffic.

Wholesale sales increased 73.8% from $5.6 million in the thirteen weeks ended May 5, 2007 to $9.8 million in the thirteen weeks ended May 3, 2008. Substantially all wholesale sales during the first quarter of fiscal years 2008 and 2007 were made to Model Reorg s subsidiaries. The increase in wholesale sales is due to significantly more merchandise availability at better prices than had been available from our suppliers in the first quarter of 2007, and an increase in the demand of Model Reorg and its subsidiaries product needs. Quarterly wholesale sales are expected to fluctuate due to market conditions, the availability of desirable merchandise and the demand of our wholesale customers, including Model Reorg. The volume of wholesale sales in the thirteen weeks ended May 3, 2008 should not necessarily be considered indicative of wholesale sales volume to be expected in future quarters. See further discussion at Note 8 to our Consolidated Financial Statements for the first quarter of fiscal 2008.

Gross profit increased 10.8% from $20.3 million in the thirteen weeks ended May 5, 2007 (42.2% of total net sales) to $22.5 million in the thirteen weeks ended May 3, 2008 (39.8% of total net sales). Of the $2.2 million increase in gross profit, $2.0 related to retail sales and $0.2 million related to wholesale sales. The increase in gross profit was due to increases in both retail and wholesale sales volume as discussed above. As a percentage of net sales, total gross profit in the thirteen weeks ended May 3, 2008 decreased as compared to the thirteen weeks ended May 5, 2007 due to the higher ratio of wholesale sales as a percentage of net sales in the thirteen weeks ended May 3, 2008 versus the comparable period last year. Retail gross profit as a percentage of retail sales was 46.8% for both thirteen week periods ended May 3, 2008 and May 5, 2007. Wholesale gross profit as a percentage of wholesale sales was 6.5% and 7.8% for the thirteen weeks ended May 3, 2008 and May 5, 2007, respectively. Gross margin on wholesale sales decreased due to the change in the product assortment sold in the thirteen weeks ended May 3, 2008 compared to the comparative thirteen week period in fiscal 2007.

Selling, general and administrative expenses increased 16.2% from $21.1 million in the thirteen weeks ended May 5, 2007 to $24.5 million in the thirteen weeks ended May 3, 2008. The increase was largely attributable to the increase in new stores and the additional payroll, occupancy and store opening expenses needed to operate these stores. Included in selling, general and administrative expenses for the thirteen weeks ended May 3, 2008 are $0.2 million of expenses related to the Merger. Depreciation and amortization was approximately $1.8 million in the thirteen weeks ended May 3, 2008 compared to $1.4 million for the thirteen weeks ended May 5, 2007. The increase is attributable to depreciation incurred on new stores that have opened over the past twelve months offset by lower depreciation on certain stores that became fully depreciated during the same time period.

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Interest expense was approximately $0.9 million for the thirteen weeks ended May 3, 2008, compared with approximately $1.1 million in the comparable period of 2007. The decrease in interest expense was due to lower interest rates on our borrowings offset by a higher average balance on our bank line of credit during the thirteen weeks ended May 3, 2008 compared with the comparable period of 2007. The majority of our borrowings incur interest based on either prime or Libor and these interest rates have decreased over the past year.

An income tax benefit of $1.8 million was recorded as a result of the Company s net loss during the thirteen weeks ended May 3, 2008, compared with a tax benefit of $1.3 million during the comparable period of 2007. The Company s effective tax rate for each of the thirteen-week periods ended May 3, 2008 and May 5, 2007 was a tax benefit of 38%.

As a result of the foregoing, our net loss increased to approximately ($2.9) million in the thirteen weeks ended May 3, 2008, compared to a net loss of ($2.1) million in the thirteen weeks ended May 5, 2007. Net loss per share for the first fiscal quarter of 2008 and 2007 was ($0.95) and ($0.68), respectively.

Liquidity and Capital Resources

Our principal funding requirements are for inventory purchases, opening new stores and renovation of existing stores. During fiscal years 2007 and 2006, we financed these requirements primarily through cash flows from operations, borrowings under our line of credit and credit terms from our vendors, including extended terms from our affiliates. During the first thirteen weeks of fiscal 2008, these capital requirements generally were satisfied through borrowings under our credit facility.

A summary of our cash flows for the year ended February 2, 2008 and the thirteen-week period ended May 3, 2008 is as follows:

	Thirteen Weeks Ended		Year Ended	
	May 3, 2008	May 5, 2007	February 2, 2008	February 3, 2007
	($ in thousands)			
Summary Cash Flow Information:				
Cash provided by (used in) operating activities	$ (6,388)	$ (6,271)	$ 8,734	$ 2,625
Cash used in investing activities	(3,024)	(2,563)	(14,593)	(9,797)
Cash provided by financing activities	9,657	9,398	5,611	7,194
(Decrease) increase in cash and cash equivalents	245	564	(248)	22
Cash and cash equivalents, beginning of period	1,035	1,283	1,283	1,261
Cash and cash equivalents, end of period	$ 1,280	$ 1,847	$ 1,035	$ 1,283

Perfumania s senior secured credit facility provides for borrowings of up to $60 million, depending on our levels of eligible inventories. The credit facility expired on May 12, 2008. In May 2008, we obtained a ninety day extension of our current facility to August 11, 2008, and the lender also made available to us a commitment to extend the facility through May 2009 that we did not execute. Advances under the line of credit are based on a formula of eligible inventories and bear interest at a floating rate ranging from (a) prime to prime plus 1.25% or (b) LIBOR plus 2.5% to 3.75% depending on a financial ratio test. As of May 3, 2008, $42.6 million was outstanding under the line of credit and $12.0 million was available to support normal working capital requirements and other general corporate purposes based upon our eligible borrowing base, net of the restrictions

concerning minimum undrawn availability discussed below. 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 also prohibits us from paying cash dividends. We are required to maintain, at all times, a minimum undrawn availability of not less than $5,000,000 and a monthly average undrawn availability, as defined, of not less than $7,500,000. In May 2008, the fixed charge covenant and the covenant concerning the limitation on capital expenditures were amended with an effective date of February 1, 2008. Perfumania was in compliance with all covenant requirements as of May 3, 2008 and expects to be in compliance through the extension period discussed above.

The Merger is subject to a number of terms, one of which includes the requirement that the combined company obtain an asset-based credit facility substantially as described in Post-Merger Financing. Failure of the Merger to close prior to the expiration of our current credit facility on August 11, 2008 will result in our having to obtain an additional extension to the term of this facility or an alternative source of financing. Management believes that we would be able to obtain either; however no assurance can be given that our efforts would be successful.

We also have outstanding the Convertible Note in the principal amount of $5.0 million, payable to Stephen and Glenn Nussdorf, as described in Certain Relationships and Related Person Transactions. The Convertible Note matures in January 2009. If we are unable to extend its due date beyond January 2009, without considering the impact of the Merger, we may be unable to finance our business.

At May 3, 2008, we had a working capital deficit of approximately $7.6 million, compared to working capital deficit of approximately $2.7 million at February 2, 2008. The change since February 2, 2008 was primarily due to the net loss during the current period and increased spending on store construction in the first thirteen weeks of fiscal 2008. Our business follows a seasonal pattern as purchases of fragrances as gift items increases during the holiday season, resulting in significantly higher fourth quarter retail sales. The seasonality of our operations leads to significant fluctuations in certain asset and liability accounts, primarily inventories, accounts payable, affiliates and non-affiliates and bank line of credit, between fiscal year end and subsequent interim periods.

Net cash used in operating activities during the thirteen weeks ended May 3, 2008 was approximately $6.4 million, compared with approximately $6.3 million used in operating activities during the same period of the prior year. Our accounts payable to affiliates and non-affiliates increased due to the timing of payments to our merchandise vendors and because of increased inventory purchases during the thirteen weeks ended May 3, 2008 compared with the same period last year. The increase in inventory is due to planned purchases for store growth and selective opportunistic purchases of desirable merchandise. Our purchases from related parties, including Model Reorg s subsidiaries, are generally payable in 90 days; however due to the seasonality of our business these terms are generally extended. Related party accounts are historically brought closer to terms at the end of the holiday season; however we are dependant upon these extended terms for much of our liquidity during the year.

In fiscal year 2007, net cash provided by operating activities was approximately $8.7 million and was generated primarily by net earnings adjusted for non-cash depreciation and amortization expenses, an increase in accounts payable, affiliates, due to the timing of payments to affiliates, offset by an increase in our inventory levels. Our inventory levels increased primarily due to the opening of 39 new stores in fiscal year 2007 as well as new vendor relationships developed with direct manufacturers in 2007 that have resulted in increased availability of additional desirable fragrance brands.

Investing activities generally represent spending for new store openings and the renovation of existing stores. Net cash used in investing activities was approximately $3.0 million in the first thirteen weeks ended May 3, 2008, compared to $2.6 million in the thirteen weeks ended May 5, 2008. The current period s investing

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activities primarily represented spending for renovation of existing stores and new stores that either opened during the thirteen weeks ended May 3, 2008 or that are scheduled for completion during fiscal year 2008. During the thirteen weeks ended May 3, 2008, Perfumania opened 11 new stores and relocated two existing stores, compared to five new store openings and four store relocations during the comparable period in fiscal 2007. Net cash used in investing activities in fiscal year 2007 was approximately $14.6 million. During fiscal year 2007 we opened 39 new stores and remodeled 52 stores. At May 3, 2008, Perfumania operated 313 stores, compared to 272 stores as of May 5, 2007. We currently plan to open approximately 40 new stores and close one store during the remainder of fiscal year 2008. We also intend to continue improving the appearance of our existing stores and opening new stores in markets that present opportunities for growth. We expect capital expenditures (without giving effect to the Merger) to be in the range of $14 to $16 million in fiscal year 2008 and we believe that these capital requirements will be satisfied by borrowings under any new credit facility and from cash flows from operations.

Net cash provided by financing activities during the first thirteen weeks of fiscal 2008 was approximately $9.7 million, primarily from borrowings under our line of credit, compared with approximately $9.4 million for the same period in the prior year. In fiscal year 2007, net cash provided by financing activities was approximately $5.6 million, primarily due to the increase in our net bank borrowings. The increase was primarily due to the increase in vendor payments at year-end 2007 compared with 2006. Payments to vendors are funded by bank borrowings, which increases our cash provided by financing activities.

Based on past performance and current expectations, we believe that our cash balances and the available borrowing capacity under either the replacement Senior Credit Facility to be established upon the closing of the Merger or, should the Merger not occur, our existing credit facility (providing an additional maturity date extension is received), continued extended terms from our affiliates and our projected future operating results will generate sufficient liquidity to support our working capital needs, capital expenditures and debt service for the next twelve months. However, there can be no assurance that management s plans and expectations will be successful.

The following table provides a summary of our future contractual obligations as of February 2, 2008. Certain of these obligations are reflected in our consolidated balance sheet as of February 2, 2008, while others are disclosed as future obligations. See also Approval to Issue Shares and Warrants - Post-Merger Financing for a discussion of the Senior Credit Facility we expect that the combined company will enter into upon the closing of the Merger.

	Payments due by period ($ in thousands)				
Contractual Obligations	**Total**	**less than 1 year**	**1-3 years**	**3-5 years**	**more than 5 years**
Bank line of credit	$ 32,841	$ 32,841			
Subordinated convertible note payable affiliate(1)	5,323	5,323			
Capital lease obligations(1)	12,858	1,210	2,472	2,653	6,523
Operating lease obligations(2)	110,371	19,129	33,156	25,172	32,914
Total	$ 161,393	$ 58,503	$ 35,628	$ 27,825	$ 39,437

(1) Debt amounts include principal maturities and expected interest payments. Rates utilized to determine interest payments for variable rate debt are based on an estimate of future interest rates.

(2) Maintenance, real estate taxes and contingent rent obligations are excluded.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements as defined by Item 303(a)(4) of SEC Regulation S-K.

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Recent Accounting Standards

In March 2008, the FASB issued SFAS 161, *Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133* (SFAS 161). SFAS 161 requires enhanced disclosures regarding derivatives and hedging activities, including: (a) the manner in which an entity uses derivative instruments; (b) the manner in which derivative instruments and related hedged items are accounted for under Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities* ; and (c) the effect of derivative instruments and related hedged items on an entity s financial position, financial performance, and cash flows. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. As SFAS 161 relates specifically to disclosures, it will have no impact on our results of operations, financial position or cash flows.

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations* (SFAS 141(R)). SFAS 141(R) establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, the goodwill acquired, and any noncontrolling interest in the acquiree. This statement also establishes disclosure requirements to enable the evaluation of the nature and financial effect of the business combination. SFAS 141(R) is effective for fiscal years beginning after December 15, 2008. We are in the process of evaluating the effect that the adoption of SFAS 141(R) will have on our results of operations, financial position, and cash flows.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51* (SFAS 160). SFAS 160 amends ARB 51 to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. SFAS 160 is effective for fiscal years beginning on or after December 15, 2008. We are in the process of evaluating the effect that the adoption of SFAS 160 will have on our results of operations, financial position, and cash flows.

In February 2007, the FASB issued SFAS 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115* (SFAS 159). SFAS 159 permits entities to choose to measure eligible items at fair value at specified election dates and report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. SFAS 159 is effective for fiscal 2008. The adoption of SFAS 159 did not have any effect on our results of operations, financial position or cash flows.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosure of fair value measurements. SFAS 157 applies under other accounting pronouncements that require or permit fair value measurements and, accordingly, does not require any new fair value measurements. SFAS 157 is effective for the first interim period beginning in fiscal 2008 for financial assets and liabilities, as well as for any other assets and liabilities that are carried at fair value on a recurring basis in financial statements. In November 2007, the FASB provided a one year deferral for the implementation of SFAS 157 for other nonfinancial assets and liabilities. The adoption of SFAS 157 did not have a material effect on our results of operations, financial position or cash flows.

Changes in Foreign Exchange Rates; Inflation

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 denominated 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.

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Quantitative and Qualitative Disclosures about Market Risk

We conduct business primarily in the United States, and the functional currency for our overseas transactions is the United States dollar. As a result, we are not at risk of 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 February 2, 2008 and February 3, 2007, our primary source of funds for working capital and other needs was a line of credit that provides for borrowings up to $60 million.

Of the $45.4 million and $39.8 million of short-term and long-term borrowings on our balance sheet as of February 2, 2008 and February 3, 2007, respectively, approximately 16.7% and 19.9%, 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 2007, the credit facility accrued interest at an average rate of 8.1%. A hypothetical 10% adverse move in interest rates would have increased fiscal year 2007 interest expense by approximately $0.3 million.

During the quarter ended May 3, 2008, there were no material changes in our market risks as described above.

INFORMATION ABOUT MODEL REORG

Business of Model Reorg

General

Model Reorg, Inc., a New York corporation, was incorporated in 1997. Model Reorg operates as a wholesaler, retailer and manufacturer of designer fragrances through wholly-owned subsidiaries that include Quality King Fragrance, Inc. (Quality Fragrance Group), Scents of Worth, Inc., Five Star Fragrance Company, Inc., and Jacavi, a fragrance distributor that Model Reorg acquired in October 2007. The wholesale division primarily distributes nationally advertised designer fragrances to mass merchandisers, drug store chains, specialty outlets, distributors and Perfumania. The retail division sells products in retail stores on a consignment basis. The manufacturing division owns and licenses designer fragrance brands and contracts to third parties the manufacture of owned and licensed brands.

Information for each of the three industry segments in which Model Reorg operates (wholesale distribution, retail and manufacturing) is provided in Note 16 and Note 5 to Model Reorg s Consolidated Financial Statements for October 31, 2007 and April 30, 2008, respectively. Each of the segments has its own assets, liabilities, revenues, and operating expenses. All intersegment transactions are eliminated in consolidation.

In recent years Model Reorg has purchased an increasing portion of its product directly from manufacturers rather than from distributors. This has increased product offerings and opened up more sales channels because of competitive pricing and because certain retailers deal only with companies that purchase product direct from the manufacturer.

Wholesale Business

The wholesale division, which operates through Quality Fragrance Group, distributes designer fragrances to mass market retailers, drug and other chain stores, retail wholesale clubs, traditional wholesalers, and other distributors throughout the United States. It buys designer fragrances principally from the brand owner /

manufacturer. Quality Fragrance Group strives to increase its selection of brands, sizes and price points in order to be a one stop shop for its customers. Its scope was expanded with the acquisitions of Northern Group, Inc. (Northern) in 2004 and Jacavi in 2007, which provided new relationships with manufacturers of several major fragrance brands.

Quality Fragrance Group s sales are principally to retailers such as Wal-Mart, Walgreens, Kohl s, Sears, Marshalls, JCPenney, Target, TJ Maxx, and E Com s subsidiary, Perfumania. Quality Fragrance Group also operates a direct sales department that services over 10,000 pharmacies and specialty stores, such as AmerisourceBergen and Cardinal Health, throughout the United States.

Mass market retail sales were approximately 40% and 42% of Model Reorg s total sales in fiscal 2007 and 2006, respectively, while wholesale sales were approximately 35% in both years. Approximately 20% and 17% of Quality Fragrance Group s net revenues in fiscal 2007 and fiscal 2006, respectively, were derived from sales to other Model Reorg subsidiaries, and approximately 7% and 9%, respectively, from sales to Perfumania. One Quality Fragrance Group customer, Wal-Mart, accounted for approximately 16% of Model Reorg s total unaffiliated revenues in fiscal 2007. Quality Fragrance Group provides extended payment terms to Perfumania, which has had a material impact on Model Reorg s working capital. Inventory practices do not significantly affect working capital, and Quality Fragrance Group invests working capital in inventory on an opportunistic basis to meet anticipated customer needs or to capture advantageous prices.

Retail Business

Scents of Worth has operated Model Reorg s retail business since 1997. It is the largest national designer fragrance consignment program, with contractual relationships to sell products on a consignment basis in approximately 3,000 stores, including nearly 1,400 Kmart locations, nationwide. Its other retail customers include Burlington Coat Factory, Filene s Basement, Loehmann s, Fred Meyer, Daffy s and Duane Reade. Scents of Worth was designated a critical vendor to Kmart following Kmart s reorganization in 2003. Scents of Worth determines the pricing and the products displayed in each of its retail consignment locations and pays a percentage of the sales proceeds to the retailer for its profit and overhead applicable to these sales. Overhead includes sales associate payroll and benefits, rental of fragrance space and, in some instances, an inventory shrink allowance. Consignment fees vary depending in part on whether Scents of Worth or the retailer absorbs inventory shrinkage. Scents of Worth s total sales represented approximately 23% and 22% of Model Reorg s total sales for fiscal 2007 and fiscal 2006, respectively.

Manufacturing Business

The manufacturing division is operated by Five Star, which owns and licenses designer and other fragrance brands, paying royalties to the licensors based on a percentage of sales. Certain licenses contain minimum royalty provisions. Five Star manufactures, on behalf of Perfumania, Perfumania s Jerome Privee product line, which includes bath and body products and scented candles. Five Star s manufacturing is sub-contracted out to third party manufacturers. Its owned and licensed brands are sold principally through Model Reorg s wholesale and retail divisions. Approximately 68% and 66% of Five Star s fiscal 2007 and fiscal 2006 revenues, respectively, were derived from sales to other Model Reorg subsidiaries, and approximately 29% and 30%, respectively, were derived from sales to Perfumania. The majority of the unrelated party sales are to international customers. The rising cost of oil in recent years has had a direct impact on the cost of raw materials, as oil is used in the production of the plastic packaging materials Five Star purchases. In reaction to this, Five Star has increased its sourcing of components from the Far East in order to keep the cost of goods as low as possible.

Seasonality and Quarterly Results

Model Reorg s business is highly seasonal, with the most significant activity occurring from September through December each year. Quality Fragrance Group s sales to retailers are stronger during the months of September through November, since retailers need to receive merchandise well before the holiday season begins,

with 35% of its total revenues being generated during these three months. Scents of Worth s revenues are the greatest in December, with approximately 25% of its revenues being generated this month, as is typical for a retail operation. Historically, Model Reorg has typically generated income from operations during all 12 months of the fiscal year. However, depending on outstanding debt levels, interest on debt financing may exceed income from operations in a particular month. This may happen in one of the lower revenue months for Model Reorg, such as February.

Strategy

Model Reorg s business strategy is to use its experience in the fragrance industry, knowledge of the fragrance market, and business relationships to procure products on favorable terms, enabling it to distribute its products to customers or its consignment retail locations at competitive prices. In addition, Model Reorg supplements its offerings with owned or licensed prestige designer fragrances brands. It seeks to increase the portfolio of brands for both wholesale distribution and retail sale by presenting a diverse sales opportunity for a designer s brand, thereby enhancing its purchasing opportunities.

Model Reorg emphasizes future growth by broadening its product offering to wholesale customers while also growing the Scents of Worth retail consignment business. It also expects to take advantage of opportunities for the Five Star manufacturing business to license or purchase mature designer brands that do not require significant additional expenditure to create retail market demand.

Suppliers

In recent years, Model Reorg has purchased approximately 70% of its fragrances directly from brand owners / manufacturers and 30% from distributors. Its suppliers include most of the dozen largest fragrance manufacturers in the United States. The distributors represent, for the most part, long-standing relationships and many are also customers of Model Reorg. Model Reorg maintains a regular dialogue with all designer fragrance brand manufacturers directed toward broadening its product offering to both wholesale and consignment retail customers. Model Reorg believes that having both wholesale and retail customers is desirable to most designer fragrance brand manufacturers and enhances its opportunities to further expand these relationships. In addition, Model Reorg s success in obtaining product at favorable prices has been enhanced by its ability to commit significant capital quickly to any single purchase and purchase in bulk quantities or, in the right circumstances, to prepay vendors for products purchased in exchange for a substantial discount. In addition, to take advantage of market opportunities Model Reorg often purchases products in excess of anticipated short term demand, which it holds in inventory for a longer-than-average time.

Marketing and Sales

Model Reorg s marketing activities largely involve advertising in trade publications that focus on the proprietary brands. Quality Fragrance Group and Scents of Worth work with retailers to develop in store promotions employing signage, displays or unique packaging to merchandise and promote products. Both companies also work with retailers to develop ad campaigns for specific events as required by the retailers, e.g., mailers, inserts and national print advertising.

Sales representatives maintain regular dialogue with customers to generate selling opportunities and to assist them in finding scarce products at low prices. All sales personnel have access to current inventory information that is generally updated with each order, allowing immediate order confirmation to customers and ensuring that ordered products are in stock for prompt shipment. Model Reorg s proprietary management information system affords customers access to current information on price and product availability to enable them to better plan inventory investments. Customers may elect to receive this information in a variety of electronic formats that are updated daily, and can transmit orders electronically directly to Model Reorg s data processing system. The reports generated for customers by the management information system also provide information on

manufacturers special price offerings and promotional programs to demonstrate the savings that can be generated so that customers can validate the value of purchasing from Model Reorg compared to other sources. Model Reorg believes that this gives its salespeople a competitive advantage in customer interactions.

Intellectual Property Rights

Model Reorg s portfolio of fragrance brands is of great importance to its business. Five Star owns the Lutece, Norell, Pavlova, Realm, Raffinee and Royal Secret brands, among others. It licenses designer and other fragrance brands, such as Bijan, Gale Hayman, Michael Jordan, Pierre Cardin, Royal Copenhagen, and Vicky Tiel, often acquiring exclusive worldwide distribution rights. Some of these licenses are renewable on a year-to-year basis, while the rest have terms that typically run from two to five years.

Model Reorg primarily relies on trademark law to protect its intellectual property rights. In addition to using registered trademarks covering licensed brands, Model Reorg has a proprietary portfolio of more than 40 U.S. registered trademarks and applications and more than 150 foreign registered trademarks and applications. All of the brands listed in the preceding paragraph are registered trademarks that are owned by Model Reorg or its licensors. U.S. trademark rights are generally renewable for as long as the mark is used. Model Reorg occasionally registers the copyright to packaging materials, and it also relies on trade secret and other contractual restrictions. From time to time, Model Reorg brings litigation against those who, in its opinion, infringe its proprietary rights, but there can be no assurance that either such efforts, or any contractual restrictions used, will be adequate or effective. Also, owners of other brands may, from time to time, allege that Model Reorg has violated their intellectual property rights, which may lead to litigation and material expense.

Competition

Competition varies among the markets in which Model Reorg competes. In selling to retailers, Model Reorg competes with a wide range of chains and large and small stores, as well as manufacturers, including some of Model Reorg s suppliers. In the wholesale business, Model Reorg competes with many distributors, of which Elizabeth Arden is the largest. Generally, the basis of competition is brand recognition, quality and price. Model Reorg believes that the most important reasons for its competitive success include its established relationships with manufacturers and large customers, popular recognition of its proprietary and licensed brands, and its efficient, low-cost sourcing strategy and ability to deliver products to consumers at competitive prices. Some of its competitors may enjoy competitive advantages, including greater financial resources that can be devoted to competitive activities, such as sales and marketing, brand development and strategic acquisitions.

Legal Proceedings

Model Reorg is subject to the same risks of litigation and administrative proceedings as described in Information about E Com Business of E Com Sources of Supply. In addition, Model Reorg is currently involved in other legal proceedings in the ordinary course of business. Management cannot presently predict the outcome of any these matters, although management believes that the ultimate resolution of these matters will not have a materially adverse effect on its financial condition, operations or cash flows.

Employees and Properties

At April 30, 2008, Model Reorg had 283 employees, of which 210 were involved in warehousing, 50 in marketing, sales and operations, and 23 in finance and administration. Substantially all the warehouse employees are represented by a union. Model Reorg has never experienced a work stoppage, strike or other interruption in business as a result of a labor dispute.

Model Reorg s principal executive offices are located at 35 Sawgrass Drive, Suite 2, Bellport, New York 11713, and its telephone number is (631) 866-4100. Model Reorg subleases 280,000 square feet of this new, 560,000 square foot facility from Quality King (see Certain Relationships and Related Person Transactions) and began using this space in December 2007.

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Management s Discussion and Analysis of Financial Condition and Results of Operations

General

In October 2007, Model Reorg acquired by merger all of the equity of Jacavi in exchange for the issuance of 10.9 shares of Model Reorg common stock (11.25% of the outstanding shares after the transaction), valued at approximately $10.8 million, to the former shareholders of Jacavi. The acquisition was accounted for as a purchase and the results of operations of Jacavi for the month of October 2007 are consolidated with Quality Fragrance Group and are reflected in Model Reorg s financial statements for the year ended October 31, 2007. The impact on overall results was immaterial.

Model Reorg continues to expand its manufacturer vendor relationships, which is expected to increase revenues by improving product mix for existing customers as well as attracting new customers. Model Reorg has implemented cost saving measures by sourcing components for the manufacturing process from overseas vendors and decreasing the use of outside consultants. It has realized synergies from the consolidation of Northern s and Jacavi s operations into Five Star and Quality Fragrance Group.

Model Reorg s revenues for the three and six-month periods ending April 30, 2008 decreased by 4.3% and increased by 5.5% respectively, compared with the same periods in fiscal 2007. The decrease in sales for the second quarter of fiscal 2008 was the result of the tightening of credit resources available to wholesale customers and a reduction in consumer retail spending. The increase in sales for the six months ended April 30, 2008 as compared to the same period in the prior year was related to sales to Perfumania of new product offering resulting from Model Reorg s additional manufacturer relationships established in fiscal 2008.

The following table sets forth selected items from Model Reorg s consolidated statements of income expressed as a percentage of total net sales for the periods indicated:

	Six Months Ended April 30,		FISCAL YEAR		
	2008	**2007**	**2007**	**2006**	**2005**
Total net sales	100.0%	100.0%	100.0%	100.0%	100.0%
Total gross profit	28.6	28.6	27.6	27.5	25.7
Selling, warehouse, delivery and administrative expenses	18.6	17.6	18.4	17.0	17.3
Depreciation and amortization	0.4	0.5	0.4	0.5	0.8
(Recovery) provision on vendor advances			(0.7)	0.7	
Total operating expenses	19.0	18.1	18.1	18.2	18.1
Income from operations	9.6	10.5	9.5	9.3	7.6
Interest expense	3.0	3.6	3.9	4.3	3.5
Income before income taxes	6.6	6.9	5.6	5.0	4.1
Income taxes	2.8	2.8	2.2	2.0	1.6
Net income	3.8%	4.1%	3.4%	3.0%	2.5%

Critical Accounting Policies and Estimates

Model Reorg s consolidated financial statements have been prepared in accordance with GAAP. Preparation of these statements requires management to make judgments and estimates that affect the reported amounts of assets, liabilities, revenues and expenses. On an on-going basis, management evaluates its estimates, including those related to bad debts, inventories, asset impairments, sales returns and allowances, and other contingent asset and liabilities. As such, some accounting policies have a significant impact on amounts reported in these financial statements. The judgments and estimates can significantly affect financial results. Materially different amounts would be reported under different conditions or by using different assumptions. Model Reorg considers

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an accounting policy to be critical if it is both important to the portrayal of Model Reorg s financial condition and results of operations, and requires significant judgment and estimates by management in its application. Model Reorg has identified certain critical accounting policies that affect the significant estimates and judgments used in the preparation of its financial statements.

Revenue Recognition

Sales are recognized when title passes, which occurs either upon shipment of products, delivery to the customer or sale to the ultimate customers from consignment inventories. Allowances for estimated returns, rebate incentives and pricing adjustments are provided when sales are recognized and are recorded as either a reduction of sales or as selling expenses. Accruals and allowances are estimated based on available information from third party data.

Allowance for Doubtful Accounts

Each Model Reorg subsidiary maintains an allowance for doubtful accounts for the estimated losses resulting from the inability of its customers to make the required payments. Management reviews its receivables on a daily basis and monitors its receivable balances to ensure they are within the credit limits assigned to customers. Quality Fragrance Group insures its unrelated party receivables under a credit insurance policy. Management works very closely with the insurance company to ensure that all customers credit is assigned within the guidelines of the policy limiting maximum annual loss exposure to the policy deductible. The policy is subject to a $150,000 annual deductible. There are certain customers that are specifically insured and are assigned an insurable credit limit. All other accounts are insured up to 1.5 times their highest trailing 12 month credit, not to exceed $700,000. Management reviews receivables to ensure they are collectible. If any accounts are deemed uncollectible, they are fully reserved. During fiscal 2007, uncollectible accounts totaled less than $100,000.

Inventory and Reserves

Inventories are valued at the lower of cost or market with cost being determined using the weighted average cost method, which approximates first-in, first-out (FIFO). The cost of inventory includes product costs only. Model Reorg reviews its inventory on a regular basis for excess or potentially slow moving inventory based on prior sales, forecasted demands, historical experience and the identification of obsolete or damaged merchandise. It records adjustments to the carrying value of inventory to the lower of cost or market in accordance with management s assessment. If there are material changes to these estimates, additional write-offs could be necessary. Inventory shrinkage is estimated and reserved for at the end of each accounting period by reviewing past adjustments for inventory shrinkage as a percentage of total inventory. Inventory reserves as a percentage of total inventory for fiscal 2007 represented less than 1.5% of total inventory, which is a decrease of approximately 1% from fiscal 2006. This is a result of more detailed reviews of inventory obsolescence, increased cycle counts, and better management of inventory purchases. If reserves are not accounted for properly, inventories and cost of goods sold could be understated or overstated.

Impairment of Long-Lived Assets

When events or changes in circumstances indicate that the carrying values of long-lived assets may be impaired, an evaluation of recoverability is performed by comparing the carrying value of the assets to the projected future cash flows in addition to other quantitative and qualitative analysis. Inherent in this process is significant management judgment as to the projected cash flows and fair value of the assets and liabilities. Upon indication that the carrying value of such assets may not be recoverable, management will recognize an impairment loss as a charge against current operations. Factors that could trigger an impairment review include a significant underperformance relative to expected historical or projected future operating results or a negative industry or economic trend. Intangibles related to brand acquisitions are tested annually for impairment. The

projected income from operations by brand over the next ten years have indicated that there is no impairment adjustment necessary. If any of these brands are either sold or discontinued prior to the intangible being fully amortized, it would require the write-off of the net book value of the intangible to the statement of income.

Goodwill

Statement of Financial Accounting Standard (SFAS) No. 142, Goodwill and Other Intangible Assets specifies that management must test goodwill for impairment whenever changes in circumstances suggest that the carrying amount may not be recoverable, but at least annually. There is a two step process for impairment testing of goodwill. The first step compares the fair value of the reporting unit with its carrying amount including goodwill. The second step, if necessary, measures the amount of the impairment. As of October 31, 2007, Model Reorg s balance sheet reflects two goodwill assets, one from the acquisition of Northern in October 2004 and the other from the acquisition of Jacavi in October 2007.

Sales Returns and Allowance

Quality Fragrance Group sells seasonal merchandise to specific mass market retailers on a guaranteed sales basis. Management estimates the potential returns liability for these sales and records a returns accrual as the sales are being made. Once management believes that all returns have been processed, any remaining accrual balance will be adjusted to the financials in the current period as a change resulting from the change in management s estimate. The sales returns and allowance reserves requires management to make significant estimates and judgments regarding the sell through of merchandise. These estimates are done by evaluating returns history and sales of similar products sold to the retailers during the prior year. If the potential returns are not accounted for in the period of the original sale, the sales may be overstated or understated in the period of reporting.

Many mass market retailers are given allowances for co-op advertising, markdowns, defective merchandise, new store opening and freight. Model Reorg requires all allowances to be documented for the period to which they relate and the basis of calculation, including proof of performance. When authorizing allowances, the profitability of each customer is reviewed to ensure that the allowance will not affect net profitability below approved guidelines. If promotional allowances are not accounted for in the proper period, this could cause a misstatement of sales and selling expenses between accounting periods.

Fiscal Year 2007 Compared to Fiscal Year 2006

Revenues

	For the year ended October 31, ($ in thousands)				
	2007	Percentage of Revenue	2006	Percentage of Revenue	Percentage (Decrease) Increase
Quality Fragrance Group	$ 245,493	74.9%	$ 257,826	76.2%	(4.8)%
Scents of Worth	76,369	23.3%	73,990	21.9%	3.2%
Five Star	5,850	1.8%	6,545	1.9%	(10.6)%
Total revenues	$ 327,712	100.0%	$ 338,361	100.0%	(3.1)%

Sales to unaffiliated purchasers represented 92.3% of total revenues in fiscal 2007, compared with 90.4% in fiscal 2006. Quality Fragrance Group s annual decrease in revenues was attributable to decreases in sales to Perfumania of $6.7 million, a decrease of 25.0% compared to the prior year, and to wholesale customers of $5.6 million, a decline of 11.2%. Perfumania has continued to increase its sourcing of products direct from manufacturers, and wholesale distributors were affected by the slowdown in the economy, which has caused lenders to tighten their available credit resources.

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Five Star also saw a decrease of $0.5 million, or 9.6%, in sales to Perfumania as there were fewer new product launches in 2007. The decrease in wholesale sales relates to a tightening of the credit resources available for some of the wholesale customers, which decreases the amounts they are able to purchase. Related party sales to Perfumania were $25.2 million and $32.4 million in fiscal 2007 and 2006, respectively.

Direct Cost of Goods Sold

Direct cost of goods sold includes the cost of merchandise, inventory reserve adjustments and freight charges. Individual components of cost of goods sold were relatively consistent from 2006 to 2007, with the exception of a $250,000 reduction in Scents of Worth s inventory reserve in 2006.

	For the year ended October 31, ($ in thousands)		
	2007	**2006**	**Percentage (Decrease) Increase**
Quality Fragrance Group	$ 187,909	$ 197,940	(5.1)%
Scents of Worth	46,330	44,045	5.2%
Five Star	2,964	3,339	(11.2)%
Total cost of goods sold	$ 237,203	$ 245,324	(3.3)%

Gross Profit

	For the year ended October 31, ($ in thousands)		
	2007	**2006**	**Percentage (Decrease) Increase**
Quality Fragrance Group	$ 57,584	$ 59,886	(3.8)%
Scents of Worth	30,040	29,945	0.3%
Five Star	2,885	3,206	(10.0)%
Total gross profit	$ 90,509	$ 93,037	(2.7)%

The change in total gross profit was attributable to the decrease in total sales for 2007. In addition, Scents of Worth s gross profit dollars for fiscal 2007 reflect a greater amount of markdown dollars and promotions during fiscal 2007 than in fiscal 2006.

Gross Profit Percentages

	For the year ended October 31,	
	2007	**2006**
Quality Fragrance Group	23.5%	23.2%
Scents of Worth	39.3%	40.5%
Five Star	49.3%	49.0%
Gross profit percentage	27.6%	27.5%

Total gross profit percentage for Model Reorg remained consistent in fiscal 2007 as compared to fiscal 2006.

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Operating Expenses

Selling, warehouse, delivery and administrative expenses include payroll and benefits for warehouse, sales, purchasing and other administrative personnel, rent, utilities, shipping supplies, freight out, consignment fees, advertising and sales promotion, sales commissions, insurance and other administrative expenses.

	For the year ended October 31, ($ in thousands)		
	2007	2006	Percentage Increase (Decrease)
Selling, warehouse, delivery and administrative	$ 60,113	$ 57,548	4.5%
Depreciation and amortization	1,411	1,721	(18.0)%
(Recovery) provision on vendor advances	(2,367)	2,367	(200.0)%
Total operating expense	$ 59,157	$ 61,636	(4.0)%
Income from operations	$ 31,352	$ 31,401	(0.2)%

The increase in selling, warehouse, delivery and administrative expenses for fiscal 2007 relates to the increase in consignment fees as related to the increase in Scents of Worth sales and the increase in rental and warehousing costs due to delays in the relocation and consolidation of Model Reorg s warehouses to the new Bellport facility.

In fiscal 2007, a provision on vendor advances of $2.4 million to entities controlled by the shareholders of Jacavi that had been recorded in fiscal 2006 was reversed as the advance became realizable.

Model Reorg receives services from Quality King pursuant to a service agreement. The agreement provides for the allocation of expenses, which are calculated based on various assumptions and methods. (See Certain Relationships and Related Person Transactions.) The methods employed utilize various allocation bases including the number of transactions processed, estimated delivery miles, warehouse square footage, payroll dollars and sales and inventory ratios. Allocated operating expenses for fiscal 2007 were $4.1 million, or 6.9% of total operating expenses, as compared to $5.4 million or 8.7% for 2006.

In May 2007, Model Reorg began receiving invoices for its freight services from Quality King, rather than an allocation. The freight charges are comparable to those charged by unrelated third party carriers.

In August 2007, Model Reorg entered into a service agreement with E Com whereby E Com provides information technology management support services for all of Model Reorg s computer systems at a rate of $25,000 per month, plus out-of-pocket expenses. July 2007 was the last month Model Reorg was allocated any IT service charges from Quality King.

Depreciation and amortization expenses in fiscal year 2007 decreased $0.3 million from fiscal 2006, primarily as a result of property and equipment becoming fully depreciated and intangible costs for certain licenses becoming fully amortized.

Interest Expense

	For the year ended October 31, ($ in thousands)		
	2007	2006	Percentage Decrease
Interest expense	$ 12,749	$ 14,506	(12.1)%

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The decrease in interest expense relates to a decrease in average outstanding borrowings of approximately $21 million for fiscal 2007 as compared to fiscal 2006. Average interest rates on borrowings remained relatively unchanged year over year.

Income Tax Provision

	For the year ended October 31, *($ in thousands)*		
	2007	**2006**	**Percentage Increase**
Income taxes	$ 7,353	$ 6,854	7.3%

The increase in the tax provision is a result of the increase in income before taxes of $1.7 million for fiscal 2007 as compared to fiscal 2006. Model Reorg is a C corporation and has an effective tax rate of approximately 40% of pretax income each year. See Recent Accounting Standards below for a discussion of the anticipated impact of the adoption of FASB Interpretation No. (FIN) 48, *Accounting for Uncertainty in Income Taxes- an interpretation of FASB Statement No. 109.*

Fiscal Year 2006 Compared to Fiscal Year 2005

Revenues

	For the year ended October 31, ($ in thousands)				
	2006	**Percentage of Revenue**	**2005**	**Percentage of Revenue**	**Percentage Increase**
Quality Fragrance Group	$ 257,826	76.2%	$ 244,128	77.0%	5.6%
Scents of Worth	73,990	21.9	68,971	21.8	7.3%
Five Star	6,545	1.9	3,808	1.2	71.9%
Total Revenues	$ 338,361	100.0%	$ 316,907	100.0%	6.8%

In fiscal 2006, Quality Fragrance Group s increase in revenues was attributable to a wider variety of product mix and availability, which resulted in an increase in sales for existing and new customers. The increase for Scents of Worth was also a result of improved product mix, product availability and new consignment opportunities with retailers. Five Star s increase was attributable to new product launches.

Related party sales to Perfumania were $32.2 million and $38.2 million in fiscal 2006 and 2005, respectively, including a decrease of $9.0 million, or 25.8%, for Quality Fragrance Group and an increase of $3.0 million, or 129.0%, for Five Star. The decrease in Quality Fragrance Group sales resulted from Perfumania s increased sourcing of certain products direct from manufacturers. The increase in Five Star sales was the result of the launch of a Mattese makeup line and the introduction of Jerome Privee Moments Bath and Body products and candles. These products are being manufactured for and sold exclusively to Perfumania.

Direct Cost of Goods Sold

Direct cost of goods sold includes the cost of merchandise, inventory reserve adjustments and freight in charges. Individual components of cost of goods sold were consistent from 2005 to 2006, except that a $1.4 million increase in Quality Fragrance Group s inventory reserve for slow-moving inventory in 2005 was not required in 2006.

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	For the year ended October 31, ($ in thousands)		
	2006	2005	Percentage Increase
Quality Fragrance Group	$ 197,940	$ 192,836	2.6%
Scents of Worth	44,045	41,030	7.3%
Five Star	3,339	1,581	111.2%
Total cost of goods sold	$ 245,324	$ 235,447	4.2%

Gross Profit

	For the year ended October 31, ($ in thousands)		
	2006	2005	Percentage Increase
Quality Fragrance Group	$ 59,886	$ 51,292	16.8%
Scents of Worth	29,945	27,941	7.2%
Five Star	3,206	2,227	44.0%
Total gross profit	$ 93,037	$ 81,460	14.2%

Gross profit increased for Quality Fragrance Group, Scents of Worth and Five Star principally as a result of increased sales.

Gross Profit Percentages

	For the year ended October 31,	
	2006	2005
Quality Fragrance Group	23.2%	21.0%
Scents of Worth	40.5%	40.5%
Five Star	49.0%	58.5%
Gross profit percentage	27.5%	25.7%

The increase in Quality Fragrance Group gross profit percentage relates to an increase in the amount of inventory being purchased from manufacturers, which lowers the cost of merchandise, a decrease in related party sales to Perfumania, which are at a lower margin than other unaffiliated sales, and the 2005 Quality Fragrance Group inventory reserve of $1.4 million described above relating to a lower of cost or market adjustment. The decrease in gross profit percentage for Five Star related to the increase in sales to Perfumania, which are at a lower margin than sales to international customers.

Operating Expenses

	For the year ended October 31, ($ in thousands)		
	2006	2005	Percentage Increase (Decrease)
Selling, warehouse, delivery and administrative	$ 57,548	$ 54,694	5.2%
Depreciation and amortization	1,721	2,464	(30.2)%
Provision on vendor advances	2,367		100.0%
Total operating expense	$ 61,636	$ 57,158	7.8%

Income from operations	$ 31,401	$ 24,302	29.2%

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The increase in selling, warehouse, delivery and administrative expenses is a result of the increase in sales. The expenses that are directly attributable to sales are shipping supplies, freight out, sales commissions, consignment fees, advertising and sales promotion. These expenses increased 3.6% over the prior year.

During fiscal 2006, Model Reorg recorded an estimated provision for losses of $2.4 million, or approximately 50% of total advances made to entities controlled by the shareholders of Jacavi, as management was uncertain that 100% of these advances were collectible.

Allocated operating expenses under the Quality King service agreement for fiscal 2006 were $5.4 million, or 8.7% of total operating expenses, compared with $4.8 million, or 8.3% of operating expenses, for fiscal 2005.

Depreciation and amortization expenses in fiscal year 2006 decreased $0.7 million from fiscal 2005, primarily as a result of property and equipment becoming fully depreciated and intangible costs for certain licenses becoming fully amortized.

Interest Expense

	For the year ended October 31, ($ in thousands)		
	2006	2005	Percentage Increase
Interest expense	$ 14,506	$ 11,179	29.8%

The increase in interest expense is due to higher interest rates in 2006 as compared to 2005, as average debt year over year remained relatively unchanged.

Income Tax Provision

	For the year ended October 31, ($ in thousands)		
	2006	2005	Percentage Increase
Income tax provision	$ 6,854	$ 5,121	33.8%

The increase in the tax provision is a direct result of the increase in income before income taxes. Model Reorg is a C Corporation and has an effective tax rate of approximately 40% of pretax income each year.

Three And Six-Month Periods Ended April 30, 2008 Compared To Three And Six-Month Periods Ended April 30, 2007

Net Revenues

	For the three months ended April 30, ($ in thousands)			For the six months ended April 30, ($ in thousands)		
	2008	2007	Percentage (Decrease) Increase	2008	2007	Percentage Increase
Quality Fragrance Group	$ 45,730	$ 49,141	(6.9)%	$ 128,297	$ 120,140	6.8%
Scents of Worth	15,299	14,705	4.0%	45,661	45,170	1.1%
Five Star	1,004	1,005	(0.1)%	2,629	2,022	30.0%
Total net revenues	$ 62,033	$ 64,851	(4.3)%	$ 176,587	$ 167,332	5.5%

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Included in net revenues are related party sales to Perfumania of $6.4 million and $5.7 million for the three months ended April 30, 2008 and 2007, respectively, or 10.3% and 8.8% of total revenues, an increase of $0.7 million or 12.3%. Sales to Perfmania were $19.7 million and $11.2 million for the six months ended April 30, 2008 and 2007, respectively, or 11.2% and 6.7% of total revenues, an increase of $8.5 million or 75.9%. In the second quarter of fiscal 2008, Quality Fragrance Group s decrease in net revenues of approximately $4.0 million was attributable to declines in both wholesale and retail sales. The decrease in wholesale revenues is the result of tightening credit resources generally, which decreases customers ability to purchase. The retail accounts were adversely affected by the national reduction in consumer spending as the economy continues to soften. The increase in Scents of Worth sales is attributable to an increase of approximately 152 store locations, an increase of 5% from the second quarter of fiscal 2007 to the second quarter of fiscal 2008.

The increase in sales to Perfumania accounted for substantially all of the increase in revenues for Model Reorg for the six months ended April 30, 2008 as compared to the same period in 2007. This was the result of additional manufacturer relationships established during fiscal 2008, an increase in product offerings with existing manufacturers and new product launches by Five Star.

Direct Cost of Goods Sold

Direct cost of goods sold includes the cost of merchandise, inventory reserve adjustments and freight in charges. Individual components of cost of goods sold were consistent for the three and six months ended April 30, 2008 as compared to the same periods in the prior year.

	For the three months ended April 30, ($ in thousands)			For the six months ended April 30, ($ in thousands)		
	2008	2007	Percentage Increase (Decrease)	2008	2007	Percentage Increase
Quality Fragrance Group	$ 34,814	$ 34,500	0.9%	$ 96,275	$ 90,376	6.5%
Scents of Worth	9,415	8,894	5.9%	28,019	27,829	0.7%
Five Star	669	712	(6.0)%	1,716	1,191	44.1%
Total cost of goods sold	$ 44,898	$ 44,106	1.8%	$ 126,010	$ 119,396	5.5%

Gross Profit

	For the three months ended April 30, ($ in thousands)			For the six months ended April 30, ($ in thousands)		
	2008	2007	Percentage (Decrease) Increase	2008	2007	Percentage Increase
Quality Fragrance Group	$ 10,916	$ 14,640	(25.4)%	$ 32,022	$ 29,764	7.6%
Scents of Worth	5,884	5,811	1.3%	17,642	17,341	1.7%
Five Star	335	294	13.9%	913	831	9.9%
Total gross profit	$ 17,135	$ 20,745	(17.4)%	$ 50,577	$ 47,936	5.5%

The change in total gross profit dollars for the second quarter of fiscal 2008 as compared to the second quarter of fiscal 2007 was primarily attributable to the decrease in Quality Fragrance Group sales. Also contributing to the change were lower margins resulting from increases in manufacturer pricing and from sales of discontinued brands at lower prices than while the respective distribution arrangements were in effect.

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Gross Profit Percentages

	For the three months ended April 30,		For the six months ended April 30,	
	2008	2007	2008	2007
Quality Fragrance Group	23.9%	29.8%	25.0%	24.8%
Scents of Worth	38.5%	39.5%	38.6%	38.4%
Five Star	33.4%	29.3%	34.7%	41.1%
Gross profit percentage	27.6%	32.0%	28.6%	28.6%

Gross profit percentages for Model Reorg remained consistent for the six months ended April 30, 2008, as compared to the same period in the prior year, but they decreased during the three months ended April 30, 2008 compared to the same period in the prior year due to Quality Fragrance Group selling a larger portion of lower margin products and Scents of Worth offering greater discounts in 2008 to sell through holiday merchandise remaining in the stores. Five Star s increase in margin relates to product launches during the second quarter of fiscal 2008, which typically are sold at higher margins than existing brands.

Operating Expenses

	For the three months ended April 30, ($ in thousands)			For the six months ended April 30, ($ in thousands)		
	2008	2007	Percentage Increase (Decrease)	2008	2007	Percentage Increase (Decrease)
Selling, warehouse, delivery and administrative	$ 13,417	$ 12,334	8.8%	$ 32,950	$ 29,509	11.7%
Depreciation and amortization	373	407	(8.4)%	713	822	(13.3)%
Total operating expense	$ 13,790	$ 12,741	8.2%	$ 33,663	$ 30,331	11.0%
Income from operations	$ 3,345	$ 8,004	(58.2)%	$ 16,914	$ 17,605	(3.9)%

The increase in selling, warehouse, delivery and administrative expenses for the three months ended April 30, 2008 as compared to the three months ended April 30, 2007 relates to costs to relocate multiple warehouses into the new Bellport facility, as well as increased accounting, auditing and litigation costs. In addition to these costs, the increase for the six months ended April 30, 2008 as compared to the same period in the prior year includes an increase in shipping and warehousing costs related to the increase in sales for Quality Fragrance Group.

Included in operating expenses are allocated operating expenses under the Quality King services arrangements for the three months ended April 30, 2008, which were $1.8 million or 13.3% of total operating expenses as compared to $3.0 million or 23.8% of total operating expenses for the three months ended April 30, 2007. Allocated operating expenses for the six months ended April 30, 2008 were $4.9 million or 14.5% of total operating expenses, as compared to $6.0 million or 19.7% of total operating expenses for the six months ended April 30, 2007.

Interest Expense

	For the three months ended April 30, ($ in thousands)			For the six months ended April 30, ($ in thousands)		
	2008	2007	Percentage Decrease	2008	2007	Percentage Decrease
Interest expense	$ 2,135	$ 2,770	22.9%	$ 5,300	$ 6,104	13.2%

The decrease in interest expense relates to a decrease in the interest rates on the revolving credit facility and intercompany payable to Quality King of approximately 2.5% during the second quarter 2008 and 1.9% during the six months ended April 30, 2008, as compared to the same periods in the prior year.

Income Taxes

	For the three months ended April 30, ($ in thousands)			For the six months ended April 30, ($ in thousands)		
	2008	2007	Percentage Decrease	2008	2007	Percentage Increase
Income taxes	$ 505	$ 2,094	75.9%	$ 4,860	$ 4,600	5.7%

The decrease in income taxes for the three months ended April 30, 2008 as compared to the three months ended April 30, 2007 is principally the result of the decrease in income before taxes of $4.0 million. In addition, income taxes for both the three and six months ended April 30, 2008 reflect additional taxes paid for state income tax audits.

Liquidity and Capital Resources

Model Reorg s principal capital requirements for operating purposes are to fund inventory purchases, finance extended terms on accounts receivable, specifically related party receivables from E Com, and pay down accounts payable and debt. During fiscal 2007, Model Reorg financed these requirements through net cash flows from financing activities, specifically the revolving credit borrowings, while during the first half of fiscal 2008, it relied primarily on reductions in inventory and collections of unaffiliated receivables.

A summary of Model Reorg s cash flows for the years ended October 31, 2007 and 2006, and the six months ended April 30, 2008 and 2007 are as follows:

	Six Months Ended April 30,		Year Ended October 31,	
	2008	2007	2007	2006
	($ in thousands)			
Summary Cash Flow Information:				
Cash provided by (used in) operating activities	$ 41,502	$ 37,886	$ (12,307)	$ 39,234
Cash used in investing activities	(3,771)	(1,241)	(2,115)	(4,610)
Cash (used in) provided by financing activities	(35,583)	(37,175)	14,673	(34,408)
Increase (decrease) in cash	2,148	(530)	251	216
Cash at beginning of period	2,988	2,737	2,737	2,521
Cash at end of period	$ 5,136	$ 2,207	$ 2,988	$ 2,737

Management expects to continue to finance fiscal 2008 requirements primarily through operating activities.

Model Reorg, along with Quality King, is part of a $500 million revolving line of credit with a syndicate of lenders that expires on April 30, 2010. As of April 30, 2008 and October 31, 2007, $102.2 million and $138.9 million, respectively, was outstanding for Model Reorg under this line of credit. The credit agreement provides for borrowing based on eligible accounts receivable and inventories and is secured by Model Reorg s accounts receivable and inventories. The interest rate applicable to borrowings under the credit agreement is based on the monthly blended borrowing rates, which are based on, at Quality King s option, the LIBOR rate or the prime rate plus an applicable spread based on availability. At April 30, 2008 and October 31, 2007, substantially all of the revolving credit borrowings were at LIBOR plus the applicable spread, the effective rate of which approximated 4.4% and 6.6%, respectively. The borrowings under the credit agreement are classified as long term based on the expiration date of the facility.

Model Reorg has a note payable to Quality King which is classified as long-term since Quality King will not require payment of the loan within one year. This note supplements Model Reorg s borrowings under the line of credit described above. Model Reorg is charged interest by Quality King based on the monthly blended borrowing rates, which are based on the LIBOR and prime rates, plus a spread based on excess availability. Interest rates on the note for the six months ended April 30, 2008 and fiscal year ended October 31, 2007 averaged 5.4% and 7.6%, respectively. Interest expense charged to operations relating to the note payable was $4,571 for fiscal year 2007 and $1,961 for the six months ended April 30, 2008.

For the six months ended April 30, 2008, net cash provided by operating activities was approximately $41.5 million, resulting from a decrease in accounts receivable and inventory after the holiday season. Net cash used in investing activities for the six months ended April 30, 2008 was approximately $3.8 million. These were primarily purchases of property, plant and equipment for the relocation to the Bellport warehouse and capitalized Merger-related expenses. Net cash used in financing activities of $35.6 million principally relates to the decrease in the revolving credit borrowings and pay down of affiliated note payable from the funds provided by operating activities.

In fiscal 2007, net cash used in operating activities was approximately $12.3 million, compared to $39.2 million provided by operating activities in fiscal 2006. The variance of approximately $51.5 million between the two years principally resulted from increases of $7.5 million in accounts receivable relating to the timing of sales, $12.6 million in extended receivable terms to Perfumania, and $18.8 million in inventory purchases resulting from additional manufacturer relationships and product availability, as well as an increase in the payments on accounts payable of $12.0 million related to the build of inventory and the terms on the purchases from manufacturers. Model Reorg funded these increased uses of cash in operating activities through increased borrowings under its revolving credit facility and from Quality King, as a result of which cash provided by financing activities increased approximately $49.1 million in fiscal 2007 as compared to fiscal 2006. Net cash used in investing activities in fiscal 2007 was approximately $2.1 million. Investing activities generally represent deposits made for property, plant and equipment for the relocation to the Bellport facility and capitalized transaction costs.

Management believes that Model Reorg s borrowing capacity under its current facility, projected cash flows from operations, affiliated borrowings and credit terms from vendors will provide sufficient liquidity to support its capital expenditures and debt service for the foreseeable future. There can be no assurance that management s plans and expectations will be successful.

Critical Accounting Policies and Estimates

There have been no material changes to our critical accounting policies and estimates from our fiscal year ended October 2007.

Contractual Obligations

Following is a summary of Model Reorg s contractual obligations as of October 31, 2007. See also Approval to Issue Shares and Warrants Post-Merger Financing for a discussion of the Senior Credit Facility we expect that the combined company will enter into upon the closing of the Merger.

		Payments due by period ($ in thousands)			
Contractual Obligations (1)	**Total**	**Less than 1 year**	**1-3 years**	**3-5 years**	**More than 5 years**
Revolving line of credit (2)	$ 138,278	$	$ 138,278	$	$
Operating lease obligations	64,066	2,735	8,760	7,959	44,612
Minimum royalty obligations	5,604	2,085	3,119	400	
Other	845	209	543	93	
Total	$ 208,793	$ 5,029	$ 150,700	$ 8,452	$ 44,612

(1) Affiliated borrowings from Quality King in the amount of $76.3 million at October 31, 2007 are not included in this schedule as there are no specified repayment terms on these borrowings.

(2) This balance represents principal only as the interest rate is variable and accrues on outstanding balances, which vary significantly throughout the year.

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Off-Balance Sheet Arrangements

Model Reorg has no off-balance sheet arrangements as defined in Item 303(a)(4) of SEC Regulation S-K.

Recent Accounting Standards

In June 2006, the FASB issued FIN 48, which clarifies the accounting for the uncertainty in income taxes recognized under SFAS No. 109, Accounting for Income Taxes. FIN 48 prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return and also provides guidance on various related matters such as derecognition, interest and penalties and disclosures. The effective date of FIN 48 for non-public enterprises is for annual periods beginning after December 15, 2007. Model Reorg has begun evaluating the financial impact of applying the provisions of FIN 48 to all tax provisions and it does not believe there will be a material financial impact upon the initial adoption of FIN 48.

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UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS

The following unaudited pro forma condensed combined financial statements give effect to the proposed Merger. Pursuant to the Merger Agreement, we will acquire all of the outstanding share capital of Model Reorg in exchange for the Merger Consideration. Two Model Reorg shareholders currently own 44.5% of our common stock on a fully-diluted basis. Following the Merger, the former shareholders of Model Reorg will hold an aggregate of approximately 79.3% of our outstanding common stock on a fully diluted basis. Due to a number of factors, including that the shares issued to Model Reorg s shareholders in the Merger will constitute a majority of the outstanding shares of our common stock after the transaction, Model Reorg is deemed to be the acquiring company for accounting purposes. Accordingly, the purchase price is allocated among the fair values of our assets and liabilities, while the assets and liabilities of Model Reorg are reflected at historical cost in the combined condensed pro forma balance sheet. The transaction will be accounted for under the purchase method of accounting in accordance with SFAS 141. Under the purchase method of accounting, since Model Reorg is deemed to be the acquiror for accounting purposes, the total estimated purchase price, calculated as described below in Note 1 to the unaudited pro forma condensed combined balance sheet, is allocated to the net tangible and intangible assets acquired and liabilities assumed of E Com in connection with the transaction, based on their estimated fair values as of the completion of the Merger.

The unaudited pro forma condensed combined financial statements presented below are based upon the historical financial statements of both companies, reflecting the restatement of our financial statements for reporting periods ending before 2008 as described in Note 3 to our Consolidated Financial Statements beginning on page F-14, adjusted to give effect to our acquisition by Model Reorg. The pro forma adjustments are described in the accompanying notes presented on the following pages. Because Model Reorg is considered to be the acquiring company, the statement of operations information is presented below as of October 31, 2007 and April 30, 2008, the last day of Model Reorg s most recently completed fiscal year and interim period, respectively, and the balance sheet information is presented as of April 30, 2008. However, going forward, the combined company will continue to use our fiscal year end, the Saturday closest to January 31, which is conventional for retail businesses, as well as the corresponding Saturdays as the end of each fiscal quarter.

The amounts in the unaudited pro forma condensed combined financial statements are subject to a final determination of the fair market value of our assets acquired and liabilities assumed. The final purchase price allocation may be materially different from the allocation used in calculating goodwill for the pro forma adjustments shown below. As a result, actual income from operations may differ significantly from the pro forma amounts included below. There can be no assurance that such adjustments will not be material to the combined financial statements.

All intercompany balances and transactions between Model Reorg and E Com, consisting primarily of sales, purchases, profits in ending inventory, receivables and payables, as of the dates and for the periods of these unaudited pro forma combined financial statements, have been eliminated in the unaudited pro forma combined financial statements. Certain reclassification adjustments have been made to conform our historical reported balances to Model Reorg s financial statement basis of presentation.

The unaudited pro forma condensed combined financial statements are provided for illustrative purposes only and do not purport to represent the financial condition or results of operations had the Merger been completed as of the dates indicated, nor are they necessarily indicative of future consolidated results of operations or financial position.

The unaudited pro forma condensed combined financial statements do not include the realization of cost savings from operating efficiencies, synergies, or other restructurings effects resulting from the Merger.

The unaudited pro forma condensed combined financial statements should be read in conjunction with our historical financial statements and accompanying notes and the historical financial statements and accompanying notes of Model Reorg, which are included elsewhere in this Proxy Statement.

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Unaudited Pro Forma Condensed Combined Balance Sheet

	As of April 30, 2008				
	Historical				Pro Forma
	E Com	Model Reorg	($ in thousands)	Pro Forma Adjustments	Combined Model Reorg and E Com
Assets					
Current:					
Cash	$ 1,280	$ 5,136		$	$ 6,416
Accounts receivable net	1,216	28,407			29,623
Receivables from an affiliate	235	35,844	(a)	(36,079)	
Inventories, net	118,857	193,620	(h)	(4,923)	306,172
			(i)	(1,382)	
Advances to suppliers for future purchases		2,085			2,085
Prepaids and other	8,527	5,724	(l)	(1,366)	12,885
Total current assets	130,115	270,816		(43,750)	357,181
Property and equipment, net	38,476	3,141			41,617
Goodwill	1,904	20,434	(g)	2,172	22,606
			(m)	(1,904)	
Other assets, net	7,273	12,147	(f)	(5,484)	13,936
	$ 177,768	$ 306,538		$ (48,966)	$ 435,340
Liabilities and Shareholders Equity					
Current:					
Accounts payable, non affiliates	22,899	22,965			45,864
Accounts payable, affiliates	55,891	144	(a)	(36,079)	19,956
Accrued expenses	10,974	12,211	(j)	(2,522)	17,134
			(l)	(3,529)	
Bank line of credit	42,590		(b)	(42,590)	
Current maturities of long-term debt	5,364	208			5,572
Total current liabilities	137,718	35,528		(84,720)	88,526
Long-term debt and other	7,090	102,733	(b)	32,502	142,325
Payable to affiliates		76,912	(b)	10,088	87,000
Total liabilities	144,808	215,173		(42,130)	317,851
Commitments and Contingencies					
Shareholders equity					
Common stock	40	1	(e)	59	99
			(d)	(1)	
Additional paid in capital	79,183	13,905	(e)	(59)	50,128
			(k)	(37,686)	
			(d)	1	
			(f)	(5,484)	
			(g)	2,172	
			(m)	(1,904)	
Retained earnings (deficit)	(37,686)	78,934	(k)	37,686	75,839
			(c)	(1,475)	
			(h)(i)(j)	(3,783)	
			(l)	2,163	

Treasury Stock	(8,577)	(1,475)	(c)	1,475	(8,577)
Total shareholders equity	32,960	91,365		(6,836)	117,489
	$ 177,768	$ 306,538		$ (48,966)	$ 435,340

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(a) Adjustment to eliminate intercompany payable and receivables between E Com and Model Reorg

(b) Adjustment to reflect the post-merger financing, which is expected to include a new a $250 million revolving credit facility and the pay down of related party debt. (See Approval to Issue Shares and Warrants Post-Merger Financing and Affiliate Debt.)

(c) Adjustment to record retirement of Model Reorg treasury stock

(d) Adjustment to record the cancellation of Model Reorg common stock

(e) Adjustment to record the issuance of additional 5,900,000 shares of E Com common stock

(f) Adjustment to record estimated transaction fees, which are reflected as a component of purchase price. (See Note 1 below.)

(g) Adjustment to record goodwill related to the Merger. Goodwill is calculated as the excess of purchase price over the fair value of the assets acquired and liabilities assumed. See Note 1 below.

(h) Adjustment to remove any affiliated profit in E Com inventory as of April 2008

(i) Adjustment to remove any affiliated profit in Model Reorg inventory as of April 2008

(j) Tax effect of the pro forma adjustments at 40%, which approximates Model Reorg s effective tax rate

(k) Adjustment to eliminate E Com s historical accumulated deficit

(l) Adjustment to reverse E Com s historical accrued straight line rent and deferred rent, which does not represent a legal obligation of the combined company, and will have no value, upon completion of the Merger, and its related Deferred Tax Asset, and to recognize post-Merger rent expense on a straight-line basis

(m) Adjustment to eliminate E Com s pre-merger goodwill of $1.9 million

Note 1: Since Model Reorg is deemed to be the acquirer for accounting purposes, in accordance with GAAP, the total purchase price will be determined based on the fair value of the outstanding shares of E Com prior to the Merger, plus the Model Reorg transaction costs. Preliminary estimated transaction costs and purchase price are as follows (the actual purchase price will be calculated based on the fair value of the E Com shares at the date the Merger is consummated and the actual transaction costs):

	($ in thousands)
Fair value of E Com common stock(x)	$ 62,037

Estimated transaction costs	5,484
	$ 67,521

(x) 3,059,041 E Com common shares outstanding as of April 30, 2008 at a closing market price of $20.28 per share.

Under the purchase method of accounting, for purposes of the table above, the total preliminary estimated purchase price is allocated to the E Com net tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values as of the completion date of the Merger. The preliminary estimated purchase price has been allocated based on estimates taking into account various factors as described in the introduction to these unaudited pro forma condensed combined financial statements. The allocation of the preliminary estimated purchase price is as follows:

	($ in thousands)
Current assets	$ 123,159
Property and equipment, net	38,476
Other assets	7,273
Goodwill	2,172
Liabilities assumed	(103,559)
	$ 67,521

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Unaudited Pro Forma Condensed Combined Statements Of Operations

	Twelve Months Ended October 31, 2007				
	Historical				Pro Forma Combined
	E Com*	Model Reorg		Pro Forma Adjustments	Model Reorg and E Com
	($ in thousands, except weighted average and per share amounts)				
Net sales, unaffiliated	$ 236,089	$ 302,530		$	$ 538,619
Net sales, affiliated	48,910	25,182	(a)	(74,092)	
Total net sales	284,999	327,712		(74,092)	538,619
Cost of goods sold	174,426	237,203	(a)	(74,092)	339,337
			(b)(c)	1,800	
Gross profit	110,573	90,509		(1,800)	199,282
Selling, warehouse, delivery and administrative expenses	95,812	60,113	(f)	171	156,096
Depreciation and amortization	5,847	1,411			7,258
Recovery on vendor advances		(2,367)			(2,367)
Income from operations	8,914	31,352		(1,971)	38,295
Interest expense	4,912	12,749			17,661
Income before income taxes	4,002	18,603		(1,971)	20,634
Income taxes	79	7,353	(d)(e)	822	8,254
Net income	$ 3,923	$ 11,250		$ (2,793)	$ 12,380
Weighted average shares					
Basic(h)	3,055,510	5,900,000			8,955,510
Diluted(h)	3,569,706	5,900,000			9,469,706
Net income (loss) per share					
Basic(h)	$ 1.28	$ 1.91		$ (0.31)	$ 1.38
Diluted(h)	$ 1.23	$ 1.91		$ (0.29)	$ 1.36

* E Com s historical statement of operations for the twelve months ended October 31, 2007 combines the results of the fourth quarter of E Com s 2006 fiscal year with those of the first nine months of its 2007 fiscal year.

(a) Adjustment to eliminate affiliated sales and purchases

(b) Adjustment to remove the increase in affiliated profit in E Com inventory in the amount of $800 as of October 31, 2007

(c) Adjustment to remove the increase in affiliated profit in Model Reorg inventory in the amount of $1,000 as of October 31, 2007

(d) Tax effect of the pro forma adjustments at 40%, which approximates Model Reorg s effective tax rate (See Note 1 below)

(e) To adjust tax expense to the combined companies effective tax rate of approximately 40% (See Note 1 below)

(f) Adjustment to reverse E Com s historical accrued straight line rent, which does not represent a legal obligation of the combined company, and will have no value, upon completion of the Merger, and to recognize post-Merger rent expense on a straight-line basis

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(g) Basic net income per share is computed by dividing net income by the weighted average number of common shares outstanding during the period. In computing diluted net income per share, the weighted average number of common shares outstanding includes all common stock equivalents with exercise prices at or below the average market price for the respective period. The calculations for the twelve months ended October 31, 2007 are as follows:

	E Com	Model Reorg	Pro Forma Adjustments	Pro Forma Combined Model Reorg and E Com
	($ in thousands, except weighted average and per share amounts)			
Numerator:				
Net income (loss) Basic	$ 3,923	$ 11,250	$(2,793)	$ 12,380
Add: Interest on Convertible Note	473			473
Net income (loss) Diluted	$ 4,396	$ 11,250	$ (2,793)	$ 12,853
Denominator:				
Weighted average number of shares for basic net income (loss) per share	3,055,510	5,900,000	8,955,510	8,955,510
Shares issuable upon exercise of stock options	69,751		69,751	69,751
Convertible Note	444,445		444,445	444,445
Denominator for dilutive net income (loss) per share	3,569,706	5,900,000	9,469,706	9,469,706
Basic net income (loss) per common share	$ 1.28	$ 1.91	$ (0.31)	$ 1.38
Diluted net income (loss) per common share	$ 1.23	$ 1.91	$ (0.29)	$ 1.36

Pro forma share numbers represent the weighted average shares outstanding of E Com for the twelve months ended October 31, 2007, assuming the issuance at the beginning of the period of the 5.9 million shares issuable in the Merger. Pro forma share numbers used in the computation of diluted net income per share also assume the issuance of 69,751 shares issuable upon exercise of stock options for the twelve months ended October 31, 2007 and 444,445 shares of our common stock upon conversion of the Convertible Note. The 1.5 million Warrant shares are not included in the pro forma share numbers since they would be antidilutive.

Note 1: The adjustment of $0.822 million to increase income tax expense consists of a provision for $1.542 million and a benefit of $0.72 million. The provision for $1.542 million results from the requirement to reflect the effective E Com income tax expense in this pro forma statement of operations for a period other than that of E Com s normal fiscal year and the $0.171 million to reverse E Com s historical accrued straight line rent, which will have no value upon completion of the Merger, and to recognize post-Merger rent expense on a straight-line basis. The benefit results from the reduction of the pro forma income tax expense as a result of the elimination of an aggregate of $1.8 million of affiliated profit in inventory.

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	Six Months ended April 30, 2008				
	Historical				Pro Forma
	E Com*	Model Reorg		Pro Forma Adjustments	Combined Model Reorg and E Com
	($ in thousands, except weighted average and per share amounts)				
Net sales, unaffiliated	$ 145,663	$ 156,902		$	$ 302,565
Net sales, affiliated	21,287	19,685	(a)	(40,972)	
Total net sales	166,950	176,587		(40,972)	302,565
Cost of goods sold	102,225	126,010	(a)	(40,972)	187,712
			(b)(c)	449	
Gross profit	64,725	50,577		(449)	114,853
Selling, warehouse, delivery and administrative expenses	56,990	32,950	(f)	(212)	88,718
			(h)	(1,434)	
Depreciation and amortization	3,440	713			4,153
Recovery on vendor advances					
Income from operations	4,295	16,914		773	21,982
Interest expense	1,898	5,300			7,198
Income before income taxes	2,397	11,614		773	14,784
Income tax expense	1,502	4,860	(d)(e)	(448)	5,914
Net income	$ 895	$ 6,754		$ 1,221	$ 8,870
Weighted Average shares					
Basic(g)	3,059,041	5,900,000			8,959,041
Diluted(g)	3,059,041	5,900,000			9,478,899
Net Income (loss) per share					
Basic(g)	$ 0.29	$ 1.14		$ 0.14	$ 0.99
Diluted(g)	$ 0.29	$ 1.14		$ 0.14	$ 0.96

* E Com s historical statement of operations for the six months ended April 30, 2008 combines the results of the last quarter of E Com s 2007 fiscal year with those of the first quarter of its 2008 fiscal year.

(a) Adjustment to eliminate affiliated sales and purchases

(b) Adjustment to remove the increase in affiliated profit in E Com Ventures inventory in the amount of $0.805 million as of April 30, 2008

(c) Adjustment to add the decrease in affiliated profit in Model Reorg inventory in the amount of $0.356 million as of April 30, 2008

(d) Tax effect of the pro forma adjustments at 40%, which approximates Model Reorg s effective tax rate

(e) To adjust tax expense to the combined company s effective tax rate of approximately 40% (See Note 1 below)

(f) Adjustment to reverse E Com s historical accrued straight line rent and deferred rent, which does not represent a legal obligation of the combined company, and will have no value, upon completion of the Merger, and to recognize post-Merger rent expense on a straight-line basis.

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(g) Basic net income per share is computed by dividing net income by the weighted average number of common shares outstanding during the period. In computing diluted net income per share, the weighted average number of common shares outstanding includes all common stock equivalents with exercise prices at or below the average market price for the respective period. The calculations for the six months ended April 30, 2008 are as follows:

	E Com	Model Reorg	Pro Forma Adjustments	Pro Forma Combined Model Reorg and E Com
	($ in thousands, except weighted average and per share amounts)			
Numerator:				
Net income Basic	$ 895	$ 6,754	$ 1,221	$ 8,870
Add: Interest on Convertible Note				187
Net income Diluted	$ 895	$ 6,754	$ 1,221	$ 9,057
Denominator:				
Weighted average number of shares for basic net income per share	3,059,041	5,900,000	8,959,041	8,959,041
Shares issuable upon exercise of stock options				75,413
Convertible Note				444,445
Denominator for dilutive net income per share	3,059,041	5,900,000	8,959,041	9,478,899
Basic net income per common share	$ 0.29	$ 1.14	$ 0.14	$ 0.99
Diluted net income per common share	$ 0.29	$ 1.14	$ 0.14	$ 0.96

Pro forma share numbers represent the weighted average shares outstanding of E Com for the six months ended April 30, 2008, assuming the issuance at the beginning of the period of the 5.9 million shares issuable in the Merger. Pro forma share numbers used in the computation of diluted net income per share also assume the issuance of 75,413 shares issuable upon exercise of stock options for the six months ended April 30, 2008 and 444,445 shares of our common stock upon conversion of the Convertible Note. The 1.5 million Warrant shares are not included in the pro forma share numbers since they would be antidilutive.

(h) Adjustment to reverse the writeoff of E Com transaction costs

Note 1: The adjustment of $0.448 million to decrease income tax expense consists of a provision for $0.574 million and a benefit of $1.022 million. The provision for $0.574 million results from the reversal of the writeoff of $1.431 million of E Com s transaction costs. The benefit results from the reduction of the pro forma tax expense as a result of the elimination of an aggregate of $0.449 million of affiliated profit in inventory; $0.212 million to reverse E Com s historical accrued straight-line rent and to recognize post-Merger rent expense on a straight-line basis; and an adjustment to realign tax expense to Model Reorg s estimated effective rate of 40%.

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SELECTED FINANCIAL PROJECTIONS

Neither we nor Model Reorg, as a matter of course, make public forecasts or projections as to future financial performance. However, during 2007, we and Model Reorg s management prepared prospective financial information to present certain projections of financial performance for the respective companies, and these projections were provided to the Special Committee, Financo and our Board in connection with their financial analyses of the proposed Merger. In June 2008, we and Model Reorg s management updated our projections for EBITDA for the twelve months ended October 31, 2008, which we provided to the Special Committee and our Board for use in their consideration of the First Amendment, together with projections of interest costs through October 31, 2010.

None of these projections were prepared with a view toward public disclosure, nor with a view toward complying with the guidelines of the American Institute of Certified Public Accountants with respect to prospective financial information, but, in the view of our management and Model Reorg management, they were prepared on a reasonable basis, reflect the best estimates and judgments available as of the date of their preparation, and present, to the best of each management s knowledge and belief as of the date of their preparation, the expected course of action and the expected future financial performance of the respective company. However, this information is not fact and should not be relied upon as being necessarily indicative of future results, and readers of this Proxy Statement are cautioned not to place undue reliance on this information. The projections are forward-looking statements inherently subject to the general risks that we and Model Reorg face in our businesses, including those discussed under Risk Factors in this Proxy Statement and the factors described under Forward-Looking Statements in this Proxy Statement.

Neither our nor Model Reorg s independent auditors, nor any other independent accountants, have compiled, examined, or performed any procedures with respect to the prospective financial information contained herein, nor have they expressed any opinion or any other form of assurance on such information or its achievability, and they assume no responsibility for, and disclaim any association with, this prospective financial information.

Set forth below are material projections of EBITDA for the respective companies on a standalone basis and for the combined company that we and Model Reorg prepared. All these projections other than the ones labelled Updated were provided to the Special Committee, Financo and our Board in 2007. Those labelled Updated were provided to the Special Committee and our Board in June 2008. These financial forecasts and the assumptions underlying them have not been updated since their respective dates of preparation.

	Twelve Months Ended October 31, *($ in thousands)*			
	2008			
	Original	***Updated***	**2009**	**2010**
EBITDA				
E Com	$ 14,743	$ 9,902	$ 16,424	$ 19,466
Model Reorg	42,694	36,118	47,066	49,081
Combined Company	57,437	46,020	63,490	68,547

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EBITDA consists of net income excluding income tax provision, interest expense, depreciation and amortization. Projected EBITDA for E Com and Model Reorg for the respective twelve-month periods ending October 31 is reconciled to net income as follows:

	2008			
	Original	*Updated*	2009	2010
E Com				
EBITDA	$ 14,743	$ 9,902	$ 16,424	$ 19,466
Interest expense	4,119	3,764	4,771	5,399
Income taxes	2,021	138	2,009	2,411
Depreciation and amortization expense	5,312	5,784	6,363	7,721
Net Income	$ 3,291	$ 216	$ 3,281	$ 3,935
Model Reorg				
EBITDA	$ 42,694	$ 36,118	$ 47,066	$ 49,081
Interest expense	11,744	11,318	15,527	15,151
Income taxes	12,106	9,364	12,190	13,134
Depreciation and amortization expense	1,319	1,389	1,364	1,396
Net Income	$ 17,525	$ 14,047	$ 17,985	$ 19,400
Combined Company				
EBITDA	$ 57,437	$ 46,020	$ 63,490	$ 68,547
Interest expense	15,863	15,082	20,298	20,550
Income taxes	14,127	9,502	14,199	15,545
Depreciation and amortization expense	6,631	7,173	7,727	9,117
Net Income	$ 20,816	$ 14,263	$ 21,266	$ 23,335

While presented with numeric specificity, the foregoing financial projections reflect numerous important assumptions, many of which are highly subjective, made by our and Model Reorg management in light of business, industry and market conditions at the time of their respective preparation. These assumptions include the following:

With respect to E Com:

- Opening of 50 (for the Updated 2008 EBITDA projections above, an increase from the 45 used for the Original projection), 45 and 50 new stores in 2008, 2009, 2010, respectively, and closing of an average of five stores per year.

- A calculated rate of average retail sales growth over the three years that is higher than our experience in recent years due to the greater number of new stores opened during the period, partially offset by the projected lower average sales volume derived from new stores generally.

- An additional amount of retail sales growth due to: increased marketing efforts leading to greater recognition of the Perfumania brand name, continuing improvement in merchandise assortment, a recent national trend of consumers favoring retail stores over department stores, a reduction in the number of department stores due to industry consolidation, and continuing remodeling of Perfumania stores to standardize and improve store design and appearance.

- A small increase in wholesale sales in 2008.

Capital expenditures of $15.1 million (for the Updated 2008 EBITDA projections above, an increase from the $12.9 million used for the Original projection), $14.9 million and $17.7 million in 2008, 2009 and 2010, respectively, relating primarily to opening of new stores, renovation of existing stores and replacement/upgrade of store point of sale register hardware and software.

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- Moderate increase in store operating expenses as a percentage of retail sales due to the projected increase in new store openings. (New stores tend to incur higher operating expenses as a percentage of sales in the first few years after opening compared with more mature stores due to new store lower initial sales contributions.)

- A gradual decrease in corporate office expenses as a percentage of retail sales.

- A moderate increase in interest expense due to assumed increased utilization of credit facility to support new store openings.

With respect to Model Reorg:

- The Original 2008 EBITDA projection above was based on the assumption of an increase in revenues of approximately 10% for fiscal 2008 relating to the establishment of two significant manufacturer relationships not previously available to Model Reorg. The assumed increase was reduced to 3.5% for purposes of the Updated 2008 EBITDA projection.

- While an increase of approximately 5% was projected for sales to existing retail customers during fiscal 2008 for purposes of the Original 2008 projection, the Updated 2008 EBITDA projection assumes no such increase.

- No net increase in the number of customers in fiscal 2009 and 2010, but a 4.5% annual increase in sales in those years due to more extensive merchandise offerings.

- Capital expenditures of $0.8 million, $1.7 million and $1.3 million in 2008, 2009 and 2010, respectively.

- Warehouse consolidation savings from combining seven warehouse locations into the single Bellport facility, such as rent, supplies, payroll and related benefits, were budgeted at $0.1 million per month beginning February 2008.

- Salaries were budgeted with a 4% cost of living increase each fiscal year.

We and Model Reorg also provided the Special Committee and our Board with interest expense projections regarding the proposed new Senior Credit Facility and Affiliate Debt arrangements showing that the combined company s aggregate interest expense, based on anticipated debt levels, is expected to be less than was projected under the arrangements contemplated by the Original Merger Agreement.

There can be no assurance that the assumptions made in preparing the financial projections will prove accurate. In addition, the financial projections do not take into account any of the costs of the transactions contemplated by the Merger Agreement, including the costs of the Merger, the related financing transactions, and any integration costs or savings from the Merger. Management cannot predict the actual integration costs or the savings, if any, that will be achieved when E Com and Model Reorg are combined.

EBITDA has limitations, including that it:

- is not necessarily comparable to other similarly titled financial measures of other companies due to the potential inconsistencies in the method of calculation;

- does not reflect actual cash expenditures, future requirements for capital expenditures or contractual commitments;

does not reflect the significant interest expense or cash requirements necessary to service interest or principal payments on our, Model Reorg s or the combined company s debt;

does not reflect any cash income taxes that we, Model Reorg or the combined company may be required to pay; and

although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future and these measures do not reflect any cash requirements for such replacements.

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Therefore, EBITDA should not be considered either in isolation or as a substitute for analysis of our results as reported under GAAP. Furthermore, EBITDA should not be considered as an alternative to operating income (loss) or net income (loss) as a measure of operating performance or to net cash provided by operating, investing or financing activities, or as a measure of the ability of any of us, Model Reorg or the combined company to meet cash needs.

The assumptions and estimates underlying the prospective financial information set forth above are inherently uncertain and, though considered reasonable by our and Model Reorg management, respectively, as of the date of its preparation, are subject to a wide variety of significant business, economic, and competitive risks and uncertainties that could cause actual results to differ materially from those contained in the prospective financial information, including, among others, the risks and uncertainties described in Risk Factors and Forward-Looking Statements. Accordingly, there can be no assurance that the prospective results are indicative of our future performance or that of the combined company or that actual results will not differ materially from those presented in the prospective financial information. Inclusion of the prospective financial information in this Proxy Statement should not be regarded as a representation by any person that the results contained in the prospective financial information will be achieved.

Neither we nor Model Reorg intends to update or otherwise revise the prospective financial information to reflect circumstances existing or events occurring, including changes in general economic or industry conditions, since its preparation, even if any or all of the underlying assumptions are shown to be in error.

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MARKET PRICE AND DIVIDEND INFORMATION; RELATED SHAREHOLDER MATTERS

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

	High	Low
Fiscal 2008		
First Quarter	$ 26.92	$ 14.02
Second Quarter (through July 24)	$ 23.25	$ 12.62
Fiscal 2007		
First Quarter	$ 31.53	$ 23.07
Second Quarter	27.87	21.95
Third Quarter	26.41	19.01
Fourth Quarter	27.31	18.99
Fiscal 2006		
First Quarter	$ 21.92	$ 16.00
Second Quarter	23.20	10.60
Third Quarter	16.65	8.83
Fourth Quarter	24.17	13.94

As of June 24, 2008, we had 46 shareholders of record, which excludes shareholders holding shares in street name. On November 16, 2006 and December 20, 2007, the last full trading days before the days on which we issued press releases announcing the proposed Merger and the execution of the Original Merger Agreement, respectively, the closing prices per share of our common stock as reported on the NASDAQ Capital Market was $18.08 and $23.94, respectively.

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. In addition, any third party senior credit facility that we obtain from time to time will restrict our payment of dividends.

There is currently no public market for Model Reorg common stock. Upon completion of the Merger, all outstanding shares of Model Reorg common stock will convert automatically into shares of our common stock in accordance with the Merger Agreement. There are seven holders of the outstanding shares of Model Reorg common stock.

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SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following tables set forth the beneficial ownership by the persons listed below of shares of our common stock and Model Reorg common stock, respectively, at the Record Date, June 24, 2008, and giving effect to the Merger. At the Record Date, we had 3,059,041 shares outstanding and Model Reorg had 96.9 shares outstanding. Beneficial ownership is determined under the rules of the SEC and includes voting or dispositive power over the securities. Shares of our common stock subject to the Convertible Note and the Warrants, and shares subject to options that are exercisable currently or within 60 days of the Record Date are considered beneficially owned by the person holding the Convertible Note, Warrants, and/or options, respectively, for the purpose of computing the percentage ownership of that person, but are not treated as outstanding for the purpose of computing the percentage ownership of any other person. Unless otherwise indicated, each person has sole voting and investment power over the shares shown or shares such power with his or her spouse.

Ownership of E Com Before the Merger

The following table sets forth the beneficial ownership of our common stock at the Record Date by each person that is the beneficial owner of more than five percent of our common stock, each of our current director and officers, and all such directors and executive officers as a group.

	Shares Owned	Percent of Class
Principal Shareholders		
Stephen L. Nussdorf and Glenn H. Nussdorf 35 Sawgrass Drive Bellport, New York 11713	1,557,589(1)	44.5%
Jeffrey L. Feinberg JLF Asset Management, L.L.C. 2775 Via de la Valle Suite 204 Del Mar, CA 92014	600,703(2)	19.6%
Steven L. Martin Slater Capital Management, L.L.C. 825 Third Avenue 33rd Floor New York, NY 10022	213,900(3)	7.0%
Other Directors and Executive Officers		
Michael W. Katz	100,000(4)	3.2%
Alan Grobman	0	
Joseph Bouhadana	5,000(4)	*
Paul Garfinkle	4,500(4)	*
Carole A. Taylor	3,000(4)	*
Donovan Chin	27,250(4)	*
All current directors and executive officers as a group (7 persons)	1,697,339(4)	46.6%

* Indicates less than 1%.

(1)

Includes 444,445 shares of common stock issuable upon conversion of the Convertible Note as to which Stephen and Glenn Nussdorf would share voting and investment power.

(2) As reported in a Schedule 13G filed with the SEC on February 13, 2008, Mr. Feinberg and JLF Asset Management, L.L.C. share voting and investment power over these shares. Mr. Feinberg is the Managing Member of JLF Asset Management, L.L.C., which controls JLF Partners I, L.P. and JLF Offshore Fund, Ltd., which share voting and investment power over their respective shares. As reported in a Form 4 filed on March 21, 2008, JLF Offshore Fund, Ltd. holds 334,558 of these shares (10.9% of the class) and the remaining 266,145 shares are held in accounts of private investment vehicles.

(3) As reported in a Schedule 13G filed with the SEC on February 15, 2008, Mr. Martin is the manager of Slater Capital Management, L.L.C., with which he shares voting and investment power over these shares, which are held in private investment funds for the benefit of clients. Additional information was provided in a Form 13F filed with the SEC by Slater Capital Management, L.L.C. on May 13, 2008.

(4) Includes shares of common stock issuable upon the exercise of stock options exercisable currently or within 60 days of the Record Date in the following amounts: Michael W. Katz (100,000); Joseph Bouhadana (5,000); Paul Garfinkle (4,500); Carole A. Taylor (3,000); Donovan Chin (27,250); and all current directors and executive officers as a group (139,750).

Ownership of Model Reorg Before the Merger

The following table sets forth the beneficial ownership of Model Reorg common stock at the Record Date by each person that is the beneficial owner of more than five percent of Model Reorg s common stock, each current director and executive officer of Model Reorg, and all such directors and executive officers as a group.

	Shares Owned	Percent of Class
Stephen L. Nussdorf	28 2/3	29.5838
Glenn H. Nussdorf	28 2/3	29.5838
Arlene Nussdorf	28 2/3	29.5838
Rene A. Garcia	10.9(1)	11.2486
Michael W. Katz	0	
All current directors and executive officers as a group (4 persons)	57 1/3	59.167

(1) Includes a total of 5.232 shares (5.4% of the class) held by trusts for the benefit of Mr. Garcia s children, for which Mr. Garcia and Rafael Villoldo serve as trustees and as to which they disclaim any pecuniary interest.

Pro Forma Ownership of Combined Company

The following table provides information, after giving pro forma effect to the Merger, with respect to the anticipated beneficial ownership of our common stock by each person expected to be the beneficial owner of more than five percent of our common stock anticipated to be outstanding after the Merger, each person expected to be a director or executive officer following the Merger, and all such directors and executive officers as a group (based on each such person s current beneficial ownership of our and/or Model Reorg shares). The amounts shown for the Model Reorg shareholders include the aggregate 295,000 shares that we will hold in escrow following the Merger.

	Shares Owned Excluding Warrants	Percent of Class	Shares Owned Assuming Exercise of Warrants(1)	Percent of Class
Principal Shareholders				
Stephen L. Nussdorf and Glenn H. Nussdorf	5,048,477(2)	53.7%	5,935,991(3)	57.7%
Arlene Nussdorf	1,745,444	19.5%	2,189,201(4)	23.3%
Rene A. Garcia	663,668(5)	7.4%	832,397(6)	9.1%
Jeffrey L. Feinberg	600,703(7)	6.7%	600,703(7)	6.7%
Other Directors and Executive Officers				
Michael W. Katz	100,000(8)	1.1%	100,000(8)	*
Joseph Bouhadana	5,000(8)	*	5,000(8)	*
Paul Garfinkle	4,500(8)	*	4,500(8)	*
Carole A. Taylor	3,000(8)	*	3,000(8)	*
Donna Dellomo		*		*
Raymond Piergiorgi		*		*
Donovan Chin	27,250(8)	*		*
All directors and executive officers as a group (8 persons)	5,188,227(8)	54.4%	6,075,741(8)(9)	58.2%

* Indicates less than 1%.

(1) Warrants are not exercisable until the third anniversary of the effective date of the Merger, subject to acceleration in certain circumstances (see Approval to Issue Shares and Warrants The Warrants).

(2) Includes 444,445 shares of common stock issuable upon conversion of the Convertible Note as to which Stephen and Glenn Nussdorf would share voting and investment power.

(3) Includes 443,757 shares issuable upon exercise of Warrants issuable to each of Stephen and Glenn Nussdorf.

(4) Includes 443,757 shares issuable upon exercise of Warrants.

(5) Includes a total of 318,561 shares held by trusts for the benefit of Mr. Garcia s children, for which Mr. Garcia and Rafael Villoldo serve as trustees and as to which they disclaim any pecuniary interest.

(6) Includes a total of 168,729 shares issuable upon exercise of Warrants issuable to Mr. Garcia and the trusts for the benefit of Mr. Garcia s children.

(7) As reported in a Schedule 13G filed with the SEC on February 13, 2008, Mr. Feinberg and JLF Asset Management, L.L.C. share voting and investment power over these shares. Mr. Feinberg is the Managing Member of JLF Asset Management, L.L.C., which controls JLF Partners I, L.P. and JLF Offshore Fund, Ltd., which share voting and investment power over their respective shares.

(8) Includes shares of common stock issuable upon the exercise of stock options exercisable currently or within 60 days of the Record Date in the following amounts: Michael W. Katz (100,000); Joseph Bouhadana (5,000); Paul Garfinkle (4,500); Carole A. Taylor (3,000); Donovan Chin (27,250); and all current directors and executive officers as a group (139,750).

(9) Includes an aggregate of 887,514 shares issuable upon exercise of Warrants beneficially owned by Stephen Nussdorf.

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WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and current reports, proxy statements and other information with the SEC. You may read and copy any document we file at the SEC s Public Reference Room at 100 F Street, N.E., Room 1580, Washington, D.C. 20549, and you may also obtain copies by mail, at prescribed rates, from the Public Reference Section of the SEC at the same address. You may call the SEC at 1-800-732-0330 for information on the Public Reference Room. The SEC maintains a website that contains annual, quarterly and current reports, proxy statements and other information that issuers, including us, file electronically with the SEC. The SEC s website is located at www.sec.gov.

We have supplied all information contained in this Proxy Statement relating to us, and Model Reorg has supplied all such information relating to Model Reorg.

You should rely only on the information contained in this Proxy Statement to vote on the proposals at the Special Meeting. We have not authorized anyone to provide you with information that is different from what is contained in this Proxy Statement. This Proxy Statement is dated July 25, 2008. You should not assume that the information contained in the Proxy Statement is accurate as of any date other than such date, and neither the mailing of this Proxy Statement to shareholders nor the issuance of our common stock in the Merger shall create any implication to the contrary.

SHAREHOLDER PROPOSALS FOR THE 2008 ANNUAL MEETING

Shareholder proposals intended to be presented at our 2008 Annual Meeting of Shareholders pursuant to the provisions of Rule 14a-8 of the Securities and Exchange Commission promulgated under the Securities Exchange Act of 1934, as amended, must be received by our Corporate Secretary at the address below by September 12, 2008 for inclusion in our Proxy Statement and form of proxy relating to such Annual Meeting. Any shareholder proposal submitted other than for inclusion in our proxy materials for that meeting must be delivered to us no later than November 26, 2008, or such proposal will be considered untimely. If a shareholder proposal is received after November 26, 2008, we may vote in our discretion as to the proposal all of the shares for which we have received proxies for the 2008 Annual Meeting of Shareholders.