

INTER PARFUMS INC  
Form 10-Q  
May 08, 2013

UNITED STATES

**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

**FORM 10-Q**

**(MARK ONE)**

Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended March 31, 2013.

**OR**

Transition Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission File No. **0-16469**

***INTER PARFUMS, INC.***

(Exact name of registrant as specified in its charter)

**Delaware** **13-3275609**  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)

**551 Fifth Avenue, New York, New York 10176**  
(Address of Principal Executive Offices) (Zip Code)

**(212) 983-2640**

(Registrants telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days: Yes x No "

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No "

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act).

Large accelerated Filer "

Non-accelerated filer " (Do not check if a smaller reporting company)

Accelerated filer x

Smaller reporting company "

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  
" No x

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

At May 6, 2013, there were 30,734,484 shares of common stock, par value \$.001 per share, outstanding.

*INTER PARFUMS, INC. AND SUBSIDIARIES*

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*INTER PARFUMS, INC. AND SUBSIDIARIES*

**Part I. Financial Information**

**Item 1. Financial Statements**

In our opinion, the accompanying unaudited consolidated financial statements contain all adjustments (consisting only of normal recurring adjustments) necessary to present fairly our financial position, results of operations and cash flows for the interim periods presented. We have condensed such financial statements in accordance with the rules and regulations of the Securities and Exchange Commission ("SEC"). Therefore, such financial statements do not include all disclosures required by accounting principles generally accepted in the United States of America. In preparing these consolidated financial statements, the Company has evaluated events and transactions for potential recognition or disclosure through the date the consolidated financial statements were issued by filing with the SEC. These financial statements should be read in conjunction with our audited financial statements for the year ended December 31, 2012 included in our annual report filed on Form 10-K.

The results of operations for the three months ended March 31, 2013 are not necessarily indicative of the results to be expected for the entire fiscal year.

**INTER PARFUMS, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

(In thousands except share and per share data)

(Unaudited)

|   | March 31,<br>2013 | December 31,<br>2012 |
|---|-------------------|----------------------|
| <b>ASSETS</b>   |                   |                      |
| Current assets:   |                   |                      |
| Cash and cash equivalents   | \$ 146,205        | \$ 307,335           |
| Short-term investments  | 166,891           | —                    |
| Accounts receivable, net  | 190,217           | 149,340              |
| Inventories   | 110,825           | 142,614              |
| Receivables, other  | 2,001             | 2,534                |
| Other current assets  | 4,744             | 5,897                |
| Income taxes receivable   | 204               | 1,968                |
| Deferred tax assets   | 6,687             | 13,132               |
| <b>Total current assets</b>   | <b>627,774</b>    | <b>622,820</b>       |
| Equipment and leasehold improvements, net   | 11,597            | 12,289               |
| Trademarks, licenses and other intangible assets, net   | 108,583           | 113,041              |
| Goodwill  | 931               | 954                  |
| Other assets  | 10,713            | 10,816               |
| <b>Total assets</b>   | <b>\$ 759,598</b> | <b>\$ 759,920</b>    |
| <b>LIABILITIES AND EQUITY</b>   |                   |                      |
| Current liabilities:  |                   |                      |
| Loans payable – banks   | \$ 26,688         | \$ 27,776            |
| Accounts payable - trade  | 60,540            | 73,113               |
| Accrued expenses  | 49,149            | 68,768               |
| Income taxes payable  | 90,549            | 84,030               |
| Dividends payable   | 3,683             | 2,453                |
| <b>Total current liabilities</b>  | <b>230,609</b>    | <b>256,140</b>       |
| Deferred tax liability  | 3,678             | 3,799                |
| Equity:   |                   |                      |
| Inter Parfums, Inc. shareholders' equity:   |                   |                      |
| Preferred stock, \$.001 par; authorized 1,000,000 shares; none issued   |                   |                      |
| Common stock, \$.001 par; authorized 100,000,000 shares; outstanding 30,702,159 and 30,680,834 shares at March 31, 2013 and December 31, 2012, respectively | 31                | 31                   |

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|  |            |            |
|--|------------|------------|
| Additional paid-in capital   | 55,058     | 54,679     |
| Retained earnings  | 377,724    | 349,672    |
| Accumulated other comprehensive income   | 2,118      | 12,498     |
| Treasury stock, at cost, 9,976,524 common shares at March 31, 2013 and December 31, 2012 | (35,404 )  | (35,404 )  |
| Total Inter Parfums, Inc. shareholders' equity   | 399,527    | 381,476    |
| Noncontrolling interest  | 125,784    | 118,505    |
| Total equity   | 525,311    | 499,981    |
| Total liabilities and equity   | \$ 759,598 | \$ 759,920 |

*See notes to consolidated financial statements.*

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**INTER PARFUMS, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF INCOME**

(In thousands except per share data)

*(Unaudited)*

|   | Three months ended<br>March 31, |           |
|---|---------------------------------|-----------|
|   | 2013                            | 2012      |
| Net sales   | \$213,810                       | \$165,368 |
| Cost of sales   | 79,167                          | 58,690    |
| Gross margin  | 134,643                         | 106,678   |
| Selling, general and administrative expenses                        | 67,667                          | 74,924    |
| Income from operations  | 66,976                          | 31,754    |
| Other expenses (income):  |                                 |           |
| Interest expense  | 457                             | 362       |
| Loss on foreign currency  | 1,443                           | 248       |
| Interest and dividend income  | (1,189 )                        | (524 )    |
|   | 711                             | 86        |
| Income before income taxes  | 66,265                          | 31,668    |
| Income taxes  | 23,323                          | 11,414    |
| Net income  | 42,942                          | 20,254    |
| Less: Net income attributable to the noncontrolling interest        | 11,246                          | 4,757     |
| Net income attributable to Inter Parfums, Inc.                      | \$31,696                        | \$15,497  |
| Net income attributable to Inter Parfums, Inc. common shareholders: |                                 |           |
| Basic   | \$1.03                          | \$0.51    |
| Diluted   | \$1.03                          | \$0.51    |



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Weighted average number of shares outstanding:

|         |        |        |
|---------|--------|--------|
| Basic   | 30,687 | 30,551 |
| Diluted | 30,847 | 30,686 |

|                              |        |        |
|------------------------------|--------|--------|
| Dividends declared per share | \$0.12 | \$0.08 |
|------------------------------|--------|--------|

*See notes to consolidated financial statements.*

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**INTER PARFUMS, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

(In thousands)

*(Unaudited)*

|  | Three months ended<br>March 31, |          |
|--|---------------------------------|----------|
|  | 2013                            | 2012     |
| Comprehensive income:  |                                 |          |
| Net income   | \$42,942                        | \$20,254 |
| Other comprehensive income:  |                                 |          |
| Net derivative instrument gain, net of tax                         | 9                               | 102      |
| Translation adjustments, net of tax                                | (14,371 )                       | 9,517    |
| Comprehensive income   | 28,580                          | 29,873   |
| Comprehensive income attributable to the noncontrolling interests: |                                 |          |
| Net income   | 11,246                          | 4,757    |
| Other comprehensive income:  |                                 |          |
| Net derivative instrument gain, net of tax                         | 5                               | 25       |
| Translation adjustments, net of tax                                | (3,987 )                        | 2,403    |
| Comprehensive income attributable to the noncontrolling interests  | 7,264                           | 7,185    |
| Comprehensive income attributable to Inter Parfums, Inc.           | \$21,316                        | \$22,688 |

*See notes to consolidated financial statements.*

*INTER PARFUMS, INC. AND SUBSIDIARIES**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**(In thousands)**(Unaudited)*

|   | Three months ended<br>March 31, |               |
|---|---------------------------------|---------------|
|   | 2013                            | 2012          |
| Common stock, beginning and end of period                   | \$31                            | \$31          |
| Additional paid-in capital, beginning of period             | 54,679                          | 50,883        |
| Shares issued upon exercise of stock options                | 256                             | 247           |
| Stock-based compensation                                    | 123                             | 134           |
| <b>Additional paid-in capital, end of period</b>            | <b>55,058</b>                   | <b>51,264</b> |
| Retained earnings, beginning of period                      | 349,672                         | 228,164       |
| Net income  | 31,696                          | 15,497        |
| Dividends   | (3,686 )                        | (2,444 )      |
| Stock-based compensation                                    | 42                              | 42            |
| Retained earnings, end of period                            | 377,724                         | 241,259       |
| Accumulated other comprehensive income, beginning of period | 12,498                          | 7,747         |
| Foreign currency translation adjustment                     | (10,384 )                       | 7,114         |
| Net derivative instrument gain, net of tax                  | 4                               | 77            |
| Accumulated other comprehensive income, end of period       | 2,118                           | 14,938        |
| Treasury stock, beginning and end of period                 | (35,404 )                       | (34,151 )     |
| Noncontrolling interest, beginning of period                | 118,505                         | 71,676        |
| Net income  | 11,246                          | 4,757         |
| Foreign currency translation adjustment                     | (3,987 )                        | 2,403         |
| Net derivative instrument gain, net of tax                  | 5                               | 25            |
| Sale of subsidiary shares to noncontrolling interest        | —                               | 145           |
| Stock-based compensation                                    | 15                              | 14            |
| Noncontrolling interest, end of period                      | 125,784                         | 79,020        |
| Total equity  | \$525,311                       | \$352,361     |

*See notes to consolidated financial statements.*



**INTER PARFUMS, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS**

(In thousands)

*(Unaudited)*

|   | Three months ended<br>March 31, |           |
|---|---------------------------------|-----------|
|   | 2013                            | 2012      |
| Cash flows from operating activities:   |                                 |           |
| Net income  | \$42,942                        | \$20,254  |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: |                                 |           |
| Depreciation and amortization   | 3,663                           | 3,691     |
| Provision for doubtful accounts   | 29                              | 75        |
| Noncash stock compensation  | 212                             | 220       |
| Deferred tax provision  | 6,262                           | 31        |
| Change in fair value of derivatives   | —                               | (30 )     |
| Changes in:   |                                 |           |
| Accounts receivable   | (46,281 )                       | 16,008    |
| Inventories   | 29,260                          | (15,155 ) |
| Other assets  | 1,332                           | (370 )    |
| Accounts payable and accrued expenses   | (28,878 )                       | (29,220 ) |
| Income taxes, net   | 10,983                          | 3,411     |
| Net cash provided by (used in) operating activities   | 19,524                          | (1,085 )  |
| Cash flows from investing activities:   |                                 |           |
| Purchases of short-term investments   | (172,118)                       | —         |
| Purchases of equipment and leasehold improvements   | (1,425 )                        | (3,953 )  |
| Payment for intangible assets acquired  | (518 )                          | (2,341 )  |
| Net cash used in investing activities   | (174,061)                       | (6,294 )  |
| Cash flows from financing activities:   |                                 |           |
| Proceeds from (repayments of) loans payable – banks, net                                    | (278 )                          | 1,443     |
| Repayment of long-term debt   | —                               | (1,418 )  |
| Proceeds from exercise of options   | 256                             | 247       |
| Proceeds from sale of stock of subsidiary   | —                               | 145       |
| Dividends paid  | (2,453 )                        | (2,443 )  |
| Net cash used in financing activities   | (2,475 )                        | (2,026 )  |

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|   |            |           |
|---|------------|-----------|
| Effect of exchange rate changes on cash           | (4,118 )   | 959       |
| Net decrease in cash and cash equivalents         | (161,130)  | (8,446 )  |
| Cash and cash equivalents - beginning of period   | 307,335    | 35,856    |
| Cash and cash equivalents - end of period         | \$ 146,205 | \$ 27,410 |
| Supplemental disclosure of cash flow information: |            |           |
| Cash paid for:                                    |            |           |
| Interest  | \$446      | \$369     |
| Income taxes                                      | 8,273      | 8,062     |

*See notes to consolidated financial statements.*

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***INTER PARFUMS, INC. AND SUBSIDIARIES***

**Notes to Consolidated Financial Statements**

**1. Significant Accounting Policies:**

The accounting policies we follow are set forth in the notes to our financial statements included in our Form 10-K which was filed with the Securities and Exchange Commission for the year ended December 31, 2012. We also discuss such policies in Part I, Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations, included in this Form 10-Q.

**2. Recent Accounting Pronouncements:**

There are no recent accounting pronouncements issued but not yet adopted that would have a material effect on our consolidated financial statements.

**3. Termination of Burberry License:**

Burberry exercised its option to buy-out the license rights effective December 31, 2012. On October 11, 2012 the Company and Burberry entered into a transition agreement that provided for certain license rights and obligations to continue through March 31, 2013. The Company continued to operate certain aspects of the business for the brand including product development, testing, and distribution. The transition agreement provided for non-exclusivity for manufacturing, a cap on sales of Burberry products, a reduced advertising requirement and no minimum royalty amounts.

Accounts receivables and accounts payables will be collected and paid in the ordinary course of business. The transition agreement provided that Burberry inventories at March 31, 2013 should be less than \$20.0 million in the aggregate. Actual Burberry inventory as of March 31, 2013 aggregated approximately \$18 million. Burberry also agreed to purchase, at cost, Burberry Beauty finished goods subject to a \$4.0 million maximum, and all or part of Burberry fragrance and Burberry Beauty raw materials and components subject to a \$6.5 million maximum. The Company and Burberry initiated discussions regarding inventory to be purchased by Burberry in April 2013. The Company has until June 30, 2013 to sell-off any remaining inventory not purchased by Burberry as of March 31, 2013. The Company believes that its inventory reserves are adequate to cover any remaining inventory at June 30, 2013. As of December 31, 2012, the Company reported a gain of \$198.8 million from the termination of the license and tax on the gain at approximately 36% was paid in April 2013.

**4. Inventories:**

Inventories consist of the following:

(In thousands)

|                                   | March 31,<br>2013 | December 31,<br>2012 |
|-----------------------------------|-------------------|----------------------|
| Raw materials and component parts | \$ 35,786         | \$ 47,732            |
| Finished goods                    | 75,039            | 94,882               |
|                                   | \$ 110,825        | \$ 142,614           |

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*INTER PARFUMS, INC. AND SUBSIDIARIES***Notes to Consolidated Financial Statements****5. Fair Value Measurement:**

The following tables present our financial assets and liabilities that are measured at fair value on a recurring basis and are categorized using the fair value hierarchy. The fair value hierarchy has three levels based on the reliability of the inputs used to determine fair value.

| (In thousands)   | Fair Value Measurements at March 31, 2013 |  |   |   |
|--|---|--|---|---|
|  | Total                                     | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| <b>Assets:</b>   |   |  |   |   |
| Short-term investments   | \$ 166,891                                | \$ —   | \$ 166,891                                    | \$ —                                      |
| <b>Liabilities:</b>  |   |  |   |   |
| Foreign currency forward exchange contracts not accounted for using hedge accounting | \$ 2,868                                  | \$ —   | \$ 2,868                                      | \$ —                                      |

| (In thousands)   | Fair Value Measurements at December 31, 2012 |  |                                     |                                 |
|--|--|--|-------------------------------------|---------------------------------|
|  | Total  | Quoted Prices in Active Markets for Identical Assets | Significant Other Observable Inputs | Significant Unobservable Inputs |
| <b>Assets:</b>   |  |  |                                     |                                 |
| Short-term investments   | \$ 166,891                                   | \$ —   | \$ 166,891                          | \$ —                            |
| <b>Liabilities:</b>  |  |  |                                     |                                 |
| Foreign currency forward exchange contracts not accounted for using hedge accounting | \$ 2,868                                     | \$ —   | \$ 2,868                            | \$ —                            |

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|  | Total | (Level 1) | (Level 2) | (Level 3) |
|--|-------|-----------|-----------|-----------|
| Assets:  |       |           |           |           |
| Foreign currency forward exchange contracts not accounted for using hedge accounting | \$784 | \$ —      | \$ 784    | \$ —      |

The carrying amount of cash and cash equivalents including money market funds, short-term investments, accounts receivable, other receivables, accounts payable and accrued expenses approximates fair value due to the short terms to maturity of these instruments. The carrying amount of loans payable approximates fair value as the interest rates on the Company's indebtedness approximate current market rates.

Foreign currency forward exchange contracts are valued based on quotations from financial institutions.

**INTER PARFUMS, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements****6. Derivative Financial Instruments:**

The Company enters into foreign currency forward exchange contracts to hedge exposure related to receivables denominated in a foreign currency and occasionally to manage risks related to future sales expected to be denominated in a foreign currency. The Company had no cash flow hedges during the three month periods ended March 31, 2013 and 2012.

The following table presents gains and losses in derivatives not designated as hedges and the location of those gains and losses in the financial statements (in thousands):

| Derivatives not designated<br>as hedging instruments | Location of gain (loss) recognized<br>in Income on Derivative | March 31, 2013 | March 31, 2012 |
|--|---|----------------|----------------|
| Interest rate swaps                                  | Interest income   | \$ —           | \$ 30          |
| Foreign exchange contracts                           | Gain (loss) on foreign currency                               | \$ (25         | ) \$ 114       |

All derivative instruments are reported as either assets or liabilities on the balance sheet measured at fair value. The valuation of foreign currency forward exchange contracts not accounted for using hedge accounting as of March 31, 2013 resulted in a liability and is included in accrued expenses and at December 31, 2012 such valuation resulted in an asset and is included in other current assets on the accompanying balance sheets. Generally, increases or decreases in the fair value of derivative instruments will be recognized as gains or losses in earnings in the period of change. If the derivative instrument is designated and qualifies as a cash flow hedge, the changes in fair value of the derivative instrument will be recorded as a separate component of shareholders' equity.

At March 31, 2013, we had foreign currency contracts in the form of forward exchange contracts in the amount of approximately U.S. \$61 million and GB pounds £5.2 million which all have maturities of less than one year.

**7. Goodwill and Other Intangible Assets:**

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The following table presents our assets and liabilities that are measured at fair value on a nonrecurring basis and are categorized using the fair value hierarchy.

| Description        | Total   | Fair Value Measurements at March 31, 2013                      |   |   |
|--------------------|---------|--|---|---|
|                    |         | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Trademark - Nickel | \$2,240 | \$ —   | \$ —  | \$ 2,240                                  |
| Goodwill           | \$931   | \$ —   | \$ —  | \$ 931                                    |

**INTER PARFUMS, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

| Description        | Total   | Fair Value Measurements at December 31, 2012  |  |  |
|--------------------|---------|---|--|--|
|                    |         | Quoted<br>Prices<br>in<br>Active<br>Markets<br>for<br>Identical<br>Assets<br>(Level<br>1) | Significant Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| Trademark - Nickel | \$2,308 | \$ —  | \$ —   | \$ 2,308   |
| Goodwill           | \$954   | \$ —  | \$ —   | \$ 954   |

The goodwill and trademarks referred to above relate to the Company's Nickel skin care business which is primarily a component of our European operations. The Company has determined that it may be inclined to sell the Nickel business within the next few years. As a result, the Company has determined that as of December 31, 2012, the carrying amount of the goodwill exceeded fair value resulting in an impairment loss of \$1.8 million. A similar evaluation is performed every year and in 2011, the Company recorded an impairment loss of \$0.8 million. Accumulated impairment losses relating to goodwill aggregated \$6.1 million as of December 31, 2012.

To determine fair value of indefinite-lived intangible assets, the Company uses an income approach, including the relief-from-royalty method. This method assumes that, in lieu of ownership, a third party would be willing to pay a royalty in order to obtain the rights to use the comparable asset. The relief-from-royalty calculations require us to make a number of assumptions and estimates concerning future sales levels, market royalty rates, future tax rates and discount rates. The Company uses this method to determine if an impairment charge is required relating to the Nickel trademarks. Although impairment charges have been taken in the past, no impairment charge relating to the Nickel trademarks was required in 2012, 2011 or 2010. The Company assumed a market royalty rate of 6% and a discount rate of 7.6%.

**8. Share-Based Payments:**

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The Company maintains a stock option program for key employees, executives and directors. The plans, all of which have been approved by shareholder vote, provide for the granting of both nonqualified and incentive options. Options granted under the plans typically have a six year term and vest over a four to five-year period. The fair value of shares vested during the three months ended March 31, 2013 and 2012 aggregated \$0.04 million and \$0.51 million, respectively. Compensation cost is recognized on a straight-line basis over the requisite service period for the entire award. It is generally our policy to issue new shares upon exercise of stock options.

The following table sets forth information with respect to nonvested options for the three month period ended March 31, 2013:

|   | Number of Shares | Weighted Average<br>Grant Date Fair Value |
|---|------------------|---|
| Nonvested options – beginning of period | 346,075          | \$ 5.02                                   |
| Nonvested options granted               | 9,000            | \$ 6.17                                   |
| Nonvested options vested or forfeited   | (11,275)         | ) \$ 4.16                                 |
| Nonvested options – end of period       | 343,800          | \$ 5.08                                   |

**INTER PARFUMS, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

Share-based payment expense decreased income before income taxes by \$0.21 million and \$0.22 million for the three months ended March 31, 2013 and 2012, respectively, and decreased net income attributable to Inter Parfums, Inc. by \$0.12 million for both the three months ended March 31, 2013 and 2012.

The following table summarizes stock option information as of March 31, 2013:

|                                     | Shares    | Weighted Average<br>Exercise Price |
|-------------------------------------|-----------|------------------------------------|
| Outstanding at January 1, 2013      | 716,235   | \$ 14.41                           |
| Options granted                     | 9,000     | 21.95                              |
| Options cancelled                   | (400 )    | 19.33                              |
| Options exercised                   | (21,325 ) | 11.98                              |
| Outstanding at March 31, 2013       | 703,510   | \$ 14.57                           |
| Options exercisable                 | 359,710   | \$ 12.25                           |
| Options available for future grants | 584,075   |                                    |

As of March 31, 2013, the weighted average remaining contractual life of options outstanding is 3.18 years (1.85 years for options exercisable), the aggregate intrinsic value of options outstanding and options exercisable is \$6.9 million and \$4.4 million, respectively, and unrecognized compensation cost related to stock options outstanding of Inter Parfums, Inc. aggregated \$1.5 million. The amount of unrecognized compensation cost related to stock options outstanding of our majority-owned subsidiary, Interparfums SA, was approximately \$.42 million. Options under Interparfums SA plans vest over a four-year period.

Cash proceeds, tax benefits and intrinsic value related to stock options exercised during the three months ended March 31, 2013 and March 31, 2012 were as follows:

| (In thousands) | March 31,<br>2013 | March 31,<br>2012 |
|----------------|-------------------|-------------------|
|----------------|-------------------|-------------------|

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|  |        |        |
|--|--------|--------|
| Cash proceeds from stock options exercised | \$ 256 | \$ 247 |
| Tax benefits                               | 21     | 25     |
| Intrinsic value of stock options exercised | 235    | 78     |

The weighted average fair values of the options granted by Inter Parfums, Inc. during the three months ended March 31, 2013 and 2012 were \$6.17 and \$4.99 per share, respectively, on the date of grant using the Black-Scholes option pricing model to calculate the fair value of options granted. The assumptions used in the Black-Scholes pricing model for the periods ended March 31, 2013 and 2012 are set forth in the following table:



**INTER PARFUMS, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

|  | March<br>31,<br>2013 |   | March 31,<br>2012 |   |
|--|----------------------|---|-------------------|---|
| Weighted-average expected stock-price volatility | 38                   | % | 40                | % |
| Weighted-average expected option life            | 5 years              |   | 4.5 years         |   |
| Weighted-average risk-free interest rate         | 0.89                 | % | 0.84              | % |
| Weighted-average dividend yield                  | 2                    | % | 1.7               | % |

Expected volatility is estimated based on historic volatility of the Company's common stock. The expected term of the option is estimated based on historic data. The risk-free rate is based on the U.S. Treasury yield curve in effect at the time of the grant of the option and the dividend yield reflects the assumption that the dividend payout as authorized by the Board of Directors would increase as the earnings of the Company and its stock price continue to increase.

**9. Net Income Attributable to Inter Parfums, Inc. Common Shareholders:**

Net income attributable to Inter Parfums, Inc. per common share ("basic EPS") is computed by dividing net earnings attributable to Inter Parfums, Inc. by the weighted average number of shares outstanding. Net earnings attributable to Inter Parfums, Inc. per share assuming dilution ("diluted EPS"), is computed using the weighted average number of shares outstanding, plus the incremental shares outstanding assuming the exercise of dilutive stock options using the treasury stock method.

The reconciliation between the numerators and denominators of the basic and diluted EPS computations is as follows:

| (In thousands)                                 | Three months ended |           |
|--|--------------------|-----------|
|  | March 31,<br>2013  | 2012      |
| Numerator:                                     |                    |           |
| Net income attributable to Inter Parfums, Inc. | \$ 31,696          | \$ 15,497 |
| Denominator:                                   |                    |           |
| Weighted average shares                        | 30,687             | 30,551    |

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Effect of dilutive securities:

|  |        |        |
|--|--------|--------|
| Stock options                              | 160    | 135    |
| Denominator for diluted earnings per share | 30,847 | 30,686 |

Earnings per share:

Net income attributable to Inter Parfums, Inc.  
common shareholders:

|         |         |         |
|---------|---------|---------|
| Basic   | \$ 1.03 | \$ 0.51 |
| Diluted | 1.03    | 0.51    |

Not included in the above computations is the effect of antidilutive potential common shares which consist of outstanding options to purchase 0.13 million and 0.23 million shares of common stock for the three month periods ended March 31, 2013 and 2012, respectively.

**INTER PARFUMS, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements****10. Segment and Geographic Areas:**

The Company manufactures and distributes one product line, fragrances and fragrance related products. The Company manages its business in two segments, European based operations and United States based operations. The European assets are located, and operations are primarily conducted, in France. European operations primarily represent the sale of prestige brand name fragrances and United States operations primarily represent the sale of prestige brand and specialty retail fragrance and fragrance related products. Information on our operations by geographical areas is as follows:

| (In thousands)                                  | Three months ended |              |
|---|--------------------|--------------|
|   | March 31,<br>2013  | 2012         |
| Net sales:                                      |                    |              |
| United States                                   | \$ 18,549          | \$ 21,352    |
| Europe  | 195,203            | 145,197      |
| Eliminations                                    | 58                 | (1,181 )     |
|   | \$ 213,810         | \$ 165,368   |
| Net income attributable to Inter Parfums, Inc.: |                    |              |
| United States                                   | \$ 662             | \$ 1,564     |
| Europe  | 31,021             | 13,981       |
| Eliminations                                    | 13                 | (48 )        |
|   | \$ 31,696          | \$ 15,497    |
|   |                    |              |
|   | March              | December 31, |
|   | 31,                | 2012         |
|   | 2013               |              |
| Total Assets:                                   |                    |              |
| United States                                   | \$ 66,038          | \$ 64,278    |
| Europe  | 702,610            | 704,464      |
| Eliminations of investment in subsidiary        | (9,050 )           | (8,822 )     |
|   | \$ 759,598         | \$ 759,920   |

**11. Accrued Expenses:**

Accrued expenses include approximately \$9.8 million and \$24.4 million in advertising liabilities as of March 31, 2013 and December 31, 2012, respectively.

*INTER PARFUMS, INC. AND SUBSIDIARIES*

**Item 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**Forward Looking Information**

Statements in this report which are not historical in nature are forward-looking statements. Although we believe that our plans, intentions and expectations reflected in such forward-looking statements are reasonable, we can give no assurance that such plans, intentions or expectations will be achieved. In some cases you can identify forward-looking statements by forward-looking words such as "anticipate," "believe," "could," "estimate," "expect," "intend," "may," "should," "will" and "would" or similar words. You should not rely on forward-looking statements because actual events or results may differ materially from those indicated by these forward-looking statements as a result of a number of important factors. These factors include, but are not limited to, the risks and uncertainties discussed under the headings "Forward Looking Statements" and "Risk Factors" in Inter Parfums' annual report on Form 10-K for the fiscal year ended December 31, 2012 and the reports Inter Parfums files from time to time with the Securities and Exchange Commission. Inter Parfums does not intend to and undertakes no duty to update the information contained in this report.

**Regulation G**

Regulation G, "Conditions for Use of Non-GAAP Financial Measures," prescribes the conditions for use of non-GAAP financial information in public disclosures. We believe that our presentation of the non-GAAP financial information included on page 21 of this Form 10-Q is important supplemental measures of operating performance to investors.

**Overview**

We operate in the fragrance business, and manufacture, market and distribute a wide array of fragrances and fragrance related products. We manage our business in two segments, European based operations and United States based operations. Certain prestige fragrance products are produced and marketed by our European operations through our 73% owned subsidiary in Paris, Interparfums SA, which is also a publicly traded company as 27% of Interparfums SA shares trade on the NYSE Euronext. Prestige cosmetics and prestige skin care products represent less than 2% of consolidated net sales.

We produce and distribute our European based prestige products primarily under license agreements with brand owners, and European based prestige product sales represented approximately 91% and 88% of net sales for the three months ended March 31, 2013 and 2012, respectively. We have built a portfolio of prestige brands, which includes Lanvin, Jimmy Choo, Van Cleef & Arpels, Montblanc, Paul Smith, Boucheron, S.T. Dupont, Balmain, Karl Lagerfeld and Repetto, whose products are distributed in over 100 countries around the world.

Burberry was our most significant license, as sales of Burberry products represented 51% and 43% of net sales for the three months ended March 31, 2013 and 2012, respectively. (See Note 3 “Termination of Burberry License” in notes to consolidated financial statements on page 7 of this Form 10-Q). In addition, we own the Lanvin brand name for our class of trade and license the Jimmy Choo and Montblanc brand names; sales of product for these three brands represented 11.4%, 10.9% and 9.4% of net sales for the three months ended March 31, 2013, respectively.

***INTER PARFUMS, INC. AND SUBSIDIARIES***

Through our United States operations we also market prestige brand as well as specialty retail fragrance and fragrance related products. United States operations represented 9% and 12% of net sales for the three months ended March 31, 2013 and 2012, respectively. These fragrance products are sold under trademarks owned by us or pursuant to license or other agreements with the owners of the *Anna Sui*, *Alfred Dunhill*, *Gap*, *Banana Republic*, *Brooks Brothers*, *bebe*, *Betsey Johnson*, *Nine West*, and *Lane Bryant* brands.

Historically, seasonality has not been a major factor for our Company as quarterly sales fluctuations were more influenced by the timing of new product launches than by the third and fourth quarter holiday season. However, in certain markets where we now sell directly to retailers, seasonality is more evident. We have operated our European distribution subsidiaries in Italy, Germany, Spain and the United Kingdom since 2007, and in January 2011, we commenced operations of our U. S. distribution subsidiary. In addition, our specialty retail product lines sold to U. S. retailers are also concentrated in the second half of the year.

We grow our business in two distinct ways. First, we grow by adding new brands to our portfolio, either through new licenses or other arrangements or out-right acquisitions of brands. Second, we grow through the introduction of new products and supporting new and established products through advertising, merchandising and sampling as well as phasing out existing products that no longer meet the needs of our consumers. The economics of developing, producing, launching and supporting products influence our sales and operating performance each year. Our introduction of new products may have some cannibalizing effect on sales of existing products, which we take into account in our business planning.

Our business is not capital intensive, and it is important to note that we do not own manufacturing facilities. We act as a general contractor and source our needed components from our suppliers. These components are received at one of our distribution centers and then, based upon production needs, the components are sent to one of several third party fillers which manufacture the finished product for us and then deliver them to one of our distribution centers.

As with any global business, many aspects of our operations are subject to influences outside our control. We believe we have a strong brand portfolio with global reach and potential. As part of our strategy, we plan to continue to make investments behind fast-growing markets and channels to grow market share.

During the three month period ended March 31, 2013, the economic uncertainty and financial market volatility taking place in certain European countries did not have a significant impact on our business, and at this time we do not believe it will have a significant impact on our business for the foreseeable future. This is due in part to our belief that we are well positioned as a result of our strategy to manage our business effectively and efficiently. However, if the

degree of uncertainty or volatility worsens or is prolonged, then there will likely be a negative effect on ongoing consumer confidence, demand and spending and as a result, our business. Currently, we believe general economic and other uncertainties still exist in select markets in which we do business and we continue to monitor global economic uncertainties and other risks that may affect our business.



***INTER PARFUMS, INC. AND SUBSIDIARIES***

Our reported net sales are impacted by changes in foreign currency exchange rates. A weak U.S. dollar has a positive impact on our net sales. However, our earnings are negatively affected by a weak dollar because approximately 44% of net sales of our European operations are denominated in U.S. dollars, while all costs of our European operations are incurred in euro. Our Company addresses certain financial exposures through a controlled program of risk management that includes the use of derivative financial instruments. We primarily enter into foreign currency forward exchange contracts to reduce the effects of fluctuating foreign currency exchange rates.

**Recent Important Events**

***Burberry***

Burberry exercised its option to buy-out the license rights effective December 31, 2012. On October 11, 2012, the Company and Burberry entered into a transition agreement that provided for certain license rights and obligations to continue through March 31, 2013. The Company continued to operate certain aspects of the business for the brand including product development, testing, and distribution. The transition agreement provided for non-exclusivity for manufacturing, a cap on sales of Burberry products, a reduced advertising requirement and no minimum royalty amounts.

Accounts receivables and accounts payables will be collected and paid in the ordinary course of business. The transition agreement provided that inventories at March 31, 2013 should be less than \$20.0 million in the aggregate. Actual Burberry inventory as of March 31, 2013 aggregated approximately \$18 million. Burberry also agreed to purchase, at cost, Burberry Beauty finished goods subject to a \$4.0 million maximum, and all or part of Burberry fragrance and Burberry Beauty raw materials and components subject to a \$6.5 million maximum. The Company and Burberry initiated discussions regarding inventory to be purchased by Burberry in April 2013. The Company has until June 30, 2013 to sell-off any remaining inventory not purchased by Burberry as of March 31, 2013. The Company believes that its inventory reserves are adequate to cover any remaining inventory at June 30, 2013. As of December 31, 2012, the Company reported a gain of \$198.8 million from the termination of the license and tax on the gain at approximately 36% was paid in April 2013.

***Alfred Dunhill***

In December 2012, we entered into a 10-year exclusive worldwide license to create, produce and distribute perfumes and fragrance related products under the Alfred Dunhill Limited (“Alfred Dunhill”) brand. Our rights under the agreement commenced on April 3, 2013 when we took over production and distribution of the existing Alfred Dunhill fragrance collections. The agreement is subject to certain minimum sales, advertising expenditures and royalty payments as are customary in our industry. We have paid an upfront entry fee of \$0.9 million for this license on the commencement date.

## ***INTER PARFUMS, INC. AND SUBSIDIARIES***

### ***Karl Lagerfeld***

In October 2012, we entered into a 20-year exclusive worldwide license to create, produce and distribute perfumes under the Karl Lagerfeld brand. Our rights under such license agreement are subject to certain minimum sales, advertising expenditures and royalty payments as are customary in our industry. In connection with our entry into this license, the Company paid a license entry fee to the licensor of €9.6 million, (approximately \$12.5 million). In addition, the Company has made an advance royalty payment to the licensor of €9.6 million, (approximately \$12.5 million). This advance royalty payment is to be credited against future royalty payments as follows: every year in which the royalties due are higher than €0.5 million, the amount of royalties exceeding €0.5 million will be credited up to €0.5 million in each such year. The advance royalty has been discounted to its net present value which is included in other assets on the accompanying balance sheet and the resulting discount of approximately \$4.4 million has been added to intangible assets and is being amortized together with the license entry fee, over the initial term of the license.

### **Discussion of Critical Accounting Policies**

We make estimates and assumptions in the preparation of our financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ significantly from those estimates under different assumptions and conditions. We believe the following discussion addresses our most critical accounting policies, which are those that are most important to the portrayal of our financial condition and results of operations. These accounting policies generally require our management's most difficult and subjective judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. Management of the Company has discussed the selection of significant accounting policies and the effect of estimates with the Audit Committee of the Board of Directors.

### ***Revenue Recognition***

We sell our products to department stores, perfumeries, specialty retailers, mass-market retailers, supermarkets and domestic and international wholesalers and distributors. Sales of such products by our domestic subsidiaries are denominated in U.S. dollars and sales of such products by our foreign subsidiaries are primarily denominated in either euro or U.S. dollars. We recognize revenues when merchandise is shipped and the risk of loss passes to the customer. Net sales are comprised of gross revenues less returns, trade discounts and allowances.

*Accounts Receivable*

Accounts receivable represent payments due to the Company for previously recognized net sales, reduced by allowances for sales returns and doubtful accounts. Accounts receivable balances are written-off against the allowance for doubtful accounts when they become uncollectible. Recoveries of accounts receivable previously recorded against the allowance are recorded in the consolidated statement of income when received. We generally grant credit based upon our analysis of the customer's financial position as well as previously established buying patterns.

## ***INTER PARFUMS, INC. AND SUBSIDIARIES***

### ***Sales Returns***

Generally, we do not permit customers to return their unsold products. However, commencing in January 2011, we took over U.S. distribution of our European based prestige products and for U.S. based customers we allow customer returns if properly requested, authorized and approved. We regularly review and revise, as deemed necessary, our estimate of reserves for future sales returns based primarily upon historic trends and relevant current data including information provided by retailers regarding their inventory levels. In addition, as necessary, specific accruals may be established for significant future known or anticipated events. The types of known or anticipated events that we have considered, and will continue to consider, include, but are not limited to, the financial condition of our customers, store closings by retailers, changes in the retail environment and our decision to continue to support new and existing products. We record estimated reserves for sales returns as a reduction of sales, cost of sales and accounts receivable. Returned products are recorded as inventories and are valued based upon estimated realizable value. The physical condition and marketability of returned products are the major factors we consider in estimating realizable value. Actual returns, as well as estimated realizable values of returned products, may differ significantly, either favorably or unfavorably, from our estimates, if factors such as economic conditions, inventory levels or competitive conditions differ from our expectations.

### ***Promotional Allowances***

We have various performance-based arrangements with certain retailers. These arrangements primarily allow customers to take deductions against amounts owed to us for product purchases. The costs that we incur for performance-based arrangements, shelf replacement costs and slotting fees are netted against revenues on our Company's consolidated statement of income. Estimated accruals for promotions and advertising programs are recorded in the period in which the related revenue is recognized. We review and revise the estimated accruals for the projected costs for these promotions. Actual costs incurred may differ significantly, either favorably or unfavorably, from estimates if factors such as the level and success of the retailers' programs or other conditions differ from our expectations.

### ***Inventories***

Inventories are stated at the lower of cost or market value. Cost is principally determined by the first-in, first-out method. We record adjustments to the cost of inventories based upon our sales forecast and the physical condition of the inventories. These adjustments are estimates, which could vary significantly, either favorably or unfavorably, from actual requirements if future economic conditions or competitive conditions differ from our expectations.

*Equipment and Other Long-Lived Assets*

Equipment, which includes tools and molds, is recorded at cost and is depreciated on a straight-line basis over the estimated useful lives of such assets. Changes in circumstances such as technological advances, changes to our business model or changes in our capital spending strategy can result in the actual useful lives differing from our estimates. In those cases where we determine that the useful life of equipment should be shortened, we would depreciate the net book value in excess of the salvage value, over its revised remaining useful life, thereby increasing depreciation expense. Factors such as changes in the planned use of equipment, or market acceptance of products, could result in shortened useful lives.

**INTER PARFUMS, INC. AND SUBSIDIARIES**

We evaluate goodwill and indefinite-lived intangible assets for impairment at least annually during the fourth quarter, or more frequently when events occur or circumstances change, such as an unexpected decline in sales, that would more likely than not (i) reduce the carrying value of the reporting unit below its fair value or (ii) indicate that the carrying value of an indefinite-lived intangible asset may not be recoverable. Impairment of goodwill is evaluated using a two-step process. The first step involves a comparison of the estimated fair value of the reporting unit to the carrying value of that unit to determine if there is an indication of impairment. In accordance with ASU 2011-08, the Company has the option of performing a qualitative assessment before calculating the fair value of a reporting unit in the first step of the goodwill impairment test. If the Company determines, on the basis of qualitative factors, that the fair value of a reporting unit is more likely than not less than the carrying amount, the two-step impairment test would be required. Otherwise, further testing would not be needed. If the carrying value of the reporting unit exceeds the fair value of the reporting unit, the second step of the process involves comparison of the implied fair value of goodwill with its carrying value. If the carrying value of the reporting unit's goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized as an amount equal to the excess.

For indefinite-lived intangible assets, the evaluation requires a comparison of the estimated fair value of the asset to the carrying value of the asset. If the carrying value of an indefinite-lived intangible asset exceeds its fair value, impairment is recorded. To determine fair value of indefinite-lived intangible assets, we use an income approach, including the relief-from-royalty method. This method assumes that, in lieu of ownership, a third party would be willing to pay a royalty in order to obtain the rights to use the comparable asset. The relief-from-royalty calculations require us to make a number of assumptions and estimates concerning future sales levels, market royalty rates, future tax rates and discount rates. We use this method to determine if an impairment charge is required relating to our Nickel brand trademarks.

The following table presents the impact a change in the following significant assumptions would have had on the calculated fair value in 2012 assuming all other assumptions remained constant:

| In thousands                     | Change | Increase (decrease)<br>to fair value |
|----------------------------------|--------|--------------------------------------|
| Weighted average cost of capital | +10 %  | \$ (301 )                            |
| Weighted average cost of capital | -10 %  | \$ 396                               |
| Future sales levels              | +10 %  | \$ 255                               |
| Future sales levels              | -10 %  | \$ (255 )                            |

The fair values used in our evaluations are also estimated based upon discounted future cash flow projections using a weighted average cost of capital of 7.6%. The cash flow projections are based upon a number of assumptions, including, future sales levels and future cost of goods and operating expense levels, as well as economic conditions,

changes to our business model or changes in consumer acceptance of our products which are more subjective in nature. We believe that the assumptions we have made in projecting future cash flows for the evaluations described above are reasonable. However, if future actual results do not meet our expectations, we may be required to record an impairment charge, the amount of which could be material to our results of operations.



***INTER PARFUMS, INC. AND SUBSIDIARIES***

Intangible assets subject to amortization are evaluated for impairment testing whenever events or changes in circumstances indicate that the carrying amount of an amortizable intangible asset may not be recoverable. If impairment indicators exist for an amortizable intangible asset, the undiscounted future cash flows associated with the expected service potential of the asset are compared to the carrying value of the asset. If our projection of undiscounted future cash flows is in excess of the carrying value of the intangible asset, no impairment charge is recorded. If our projection of undiscounted future cash flows is less than the carrying value of the intangible asset, an impairment charge would be recorded to reduce the intangible asset to its fair value. The cash flow projections are based upon a number of assumptions, including future sales levels and future cost of goods and operating expense levels, as well as economic conditions, changes to our business model or changes in consumer acceptance of our products which are more subjective in nature. We believe that the assumptions we have made in projecting future cash flows for the evaluations described above are reasonable and currently no impairment indicators exist for our intangible assets subject to amortization. In those cases where we determine that the useful life of long-lived assets should be shortened, we would depreciate the net book value in excess of the salvage value (after testing for impairment as described above), over the revised remaining useful life of such asset thereby increasing amortization expense.

In determining the useful life of our Lanvin brand names and trademarks, we applied the provisions of ASC topic 350-30-35-3. The only factor that prevented us from determining that the Lanvin brand names and trademarks were indefinite life intangible assets was Item c. “Any legal, regulatory, or contractual provisions that may limit the useful life”. The existence of a repurchase option in 2025 may limit the useful life of the Lanvin brand names and trademarks to the Company. However, this limitation would only take effect if the repurchase option were to be exercised and the repurchase price was paid. If the repurchase option is not exercised, then the Lanvin brand names and trademarks are expected to continue to contribute directly to the future cash flows of our Company and their useful life would be considered to be indefinite.

With respect to the application of ASC topic 350-30-35-8, the Lanvin brand names and trademarks would only have a finite life to our Company if the repurchase option were exercised, and in applying ASC topic 350-30-35-8 we assumed that the repurchase option is exercised. When exercised, Lanvin has an obligation to pay the exercise price and the Company would be required to convey the Lanvin brand names and trademarks back to Lanvin. The exercise price to be received (Residual Value) is well in excess of the carrying value of the Lanvin brand names and trademarks, therefore no amortization is required.

***Derivatives***

We account for derivative financial instruments in accordance with ASC topic 815, which establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts,

and for hedging activities. This topic also requires the recognition of all derivative instruments as either assets or liabilities on the balance sheet and that they are measured at fair value.

**INTER PARFUMS, INC. AND SUBSIDIARIES**

We currently use derivative financial instruments to hedge certain anticipated transactions and interest rates, as well as receivables denominated in foreign currencies. We do not utilize derivatives for trading or speculative purposes. Hedge effectiveness is documented, assessed and monitored by employees who are qualified to make such assessments and monitor the instruments. Variables that are external to us such as social, political and economic risks may have an impact on our hedging program and the results thereof.

**Income Taxes**

The Company accounts for income taxes using an asset and liability approach that requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in its financial statements or tax returns. The net deferred tax assets assume sufficient future earnings for their realization, as well as the continued application of currently anticipated tax rates. Included in net deferred tax assets is a valuation allowance for deferred tax assets, where management believes it is more-likely-than-not that the deferred tax assets will not be realized in the relevant jurisdiction. If the Company determines that a deferred tax asset will not be realizable, an adjustment to the deferred tax asset will result in a reduction of net earnings at that time. In addition, the Company follows the provisions of uncertain tax positions as addressed in ASC topic 740-10-65-1.

**Results of Operations****Three Months Ended March 31, 2013 as Compared to the Three Months Ended March 31, 2012**

| Net Sales<br>(in millions)        | Three months ended March 31, |          |           |          |      |         |
|-----------------------------------|------------------------------|----------|-----------|----------|------|---------|
|                                   | 2013                         | % Change | 2012      | % Change | 2011 |         |
| European based product sales      | \$195.1                      | 34       | % \$145.2 | 19       | %    | \$121.6 |
| United States based product sales | 18.7                         | (8       | )% 20.2   | 71       | %    | 11.8    |
| Total net sales                   | \$213.8                      | 29       | % \$165.4 | 24       | %    | \$133.4 |

After increasing 24% in the 2012 period as compared to 2011, net sales for the three months ended March 31, 2013 increased 29% to \$213.8 million, as compared to \$165.4 million for the corresponding period of the prior year. At comparable foreign currency exchange rates, net sales in 2012 also increased 29%. Our association with Burberry ended on a high note with Burberry product sales up 54% aggregating \$109.7 million, as compared to \$71.2 million for the corresponding period of the prior year.

See information regarding Regulation G on page 14 of this Form 10-Q. European based prestige product sales increased 34% to \$195.1 million, as compared to \$145.2 million for the corresponding period of the prior year. Excluding Burberry sales from both the current and prior year's first quarter, European-based product sales increased 15.5% to \$85.5 million for the three months ended March 31, 2013, as compared to \$74.0 million for the corresponding period of the prior year. Our major ongoing brands performed very well in the quarter. Jimmy Choo introduced its second fragrance line, Jimmy Choo Flash, which contributed to the 50% increase in first quarter 2013 sales reaching \$23.3 million in the period. With the continued growth of *Eclat d'Arpège* along with the launch of *Lanvin Me* and the steady performance of the *Jeanne Lanvin* line, Lanvin product sales increased 18% to \$24.3 million for the three months ended March 31, 2013, as compared to \$21.0 million for the corresponding period of the prior year. Sales of Montblanc Legend fragrances also performed exceptionally well with first quarter 2013 sales up 39% to \$20.2 million, as compared to \$14.7 million for the corresponding period of the prior year.

**INTER PARFUMS, INC. AND SUBSIDIARIES**

Future sales within our European operations will be significantly affected as a result of the buy out of the Burberry license. However, we are confident in our future. This new situation will allow us to strengthen investments supporting all portfolio brands and to accelerate their development. Our expectations reflect our plans to continue to build upon the strength of our brands and worldwide distribution network. While we are not expecting any contribution in 2013 from our newest brand, Karl Lagerfeld, as we are in the midst of the product development process, we do expect strong performances from the Lanvin, Jimmy Choo, Montblanc and Boucheron brands as well as initial sales from the launch of fragrances under the Repetto brand. In addition, the Company is expected to benefit from its substantial resources to potentially acquire one or more brands, either on a proprietary basis or as a licensee.

With respect to our United States prestige brand and specialty retail products, after increasing 71% in the 2012 period as compared to 2011, our U.S. based product sales declined 8% for the three months ended March 31, 2013, as compared to the corresponding period of the prior year. Last year's first quarter included initial sales of Anna Sui fragrances as well as the initial launch of *Love Fury* by Nine West and *Wildbloom* for Banana Republic making for a very difficult quarterly comparison. During the first quarter of 2013, we launched *Desire* by bebe and initial reaction has been very good. In April, our U.S. based operations took over the manufacture and distribution of Alfred Dunhill fragrances and we have several other new product launches planned for the remainder of 2013.

In addition, we are actively pursuing other new business opportunities. However, we cannot assure that any new licenses, acquisitions or specialty retail agreements will be consummated.

**Consolidated Net Sales to Customers by Region**

(in millions)

|                           | Three months ended March 31, |          |
|---------------------------|------------------------------|----------|
|                           | 2013                         | 2012     |
| North America             | \$ 59.6                      | \$ 49.0  |
| Western Europe            | 52.0                         | 40.9     |
| Eastern Europe            | 20.3                         | 10.4     |
| Central and South America | 18.4                         | 13.0     |
| Middle East               | 19.8                         | 18.2     |
| Asia                      | 41.5                         | 32.0     |
| Other                     | 2.2                          | 1.9      |
|                           | \$ 213.8                     | \$ 165.4 |

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For the three months ended March 31, 2013, top line growth was strong in all major markets. Our largest markets, North America, Western Europe, and Asia saw sales increases of 22%, 27% and 29%, respectively. While Eastern Europe, Middle East, and Central and South America reported sales increases of 96%, 9% and 41%, respectively.

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**INTER PARFUMS, INC. AND SUBSIDIARIES**

| Gross margin<br>(in millions)    | Three months<br>ended March 31, |         |
|----------------------------------|---------------------------------|---------|
|                                  | 2013                            | 2012    |
| Net sales                        | \$213.8                         | \$165.4 |
| Cost of sales                    | 79.2                            | 58.7    |
| Gross margin                     | \$134.6                         | \$106.7 |
| Gross margin as a % of net sales | 63.0 %                          | 64.5 %  |

Gross margin was 63.0% of net sales for the three months ended March 31, 2013, as compared to 64.5% for the corresponding period of the prior year. The 150 basis point decline in gross margin for the 2013 period as compared to the 2012 period is primarily the result of commercial rebates granted to certain customers as part of a planned effort to reduce the level of inventory. In addition, we carefully monitor movements in foreign currency exchange rates as approximately 44% of our European based operations net sales are denominated in dollars, while our costs are incurred in euro. From a profit standpoint, a stronger U.S. dollar has a positive effect on our gross margin while a weak dollar has a negative effect. The average dollar/euro exchange rate for the three months ended March 31, 2013 was 1.32, as compared to 1.31 for the 2012 period. As such, there was no discernible effect on gross margin in 2013 from changes in currency exchange rates.

Generally, we do not bill customers for shipping and handling costs and such costs, which aggregated \$2.0 million for both the three month period ended March 31, 2013 and 2012, respectively, are included in selling, general and administrative expenses in the consolidated statements of income. As such, our Company's gross profit may not be comparable to other companies which may include these expenses as a component of cost of goods sold.

| Selling, general and administrative expenses<br>(in millions)    | Three months ended March 31, |         |
|--|------------------------------|---------|
|  | 2013                         | 2012    |
| Selling, general and administrative expenses                     | \$ 67.7                      | \$ 74.9 |
| Selling, general and administrative expenses as a % of net sales | 32 %                         | 45 %    |

Selling, general and administrative expenses decreased 10% for the three months ended March 31, 2013, as compared to the corresponding period of the prior year. As a percentage of sales, selling, general and administrative expenses were 32% and 45% for the three month period ended March 31, 2013 and 2012, respectively.

Promotion and advertising included in selling, general and administrative expenses aggregated approximately \$14.7 million (6.7% of net sales) and \$26.7 million (16.2% of net sales) for the three month period ended March 31, 2013 and 2012, respectively. In 2013, pursuant to the requirements of the transition agreement with Burberry, advertising requirements were reduced. Lower first quarter 2013 promotional spending, when combined with a 54% increase in Burberry brand sales and a 15.5% increase in sales for our ongoing European based prestige brands, created significant leverage of selling, general and administrative expenses during the three months ended March 31, 2013.



***INTER PARFUMS, INC. AND SUBSIDIARIES***

Royalty expense included in selling, general and administrative expenses aggregated \$18.0 million (8.4% of net sales) and \$13.7 million (8.3% of net sales), for the three month periods ended March 31, 2013 and 2012, respectively. In addition service fees, which are fees paid to third parties relating to the activities of our distribution subsidiaries, aggregated \$6.5 million (3.1% of net sales) and \$5.7 million (3.5% of net sales), for the three month periods ended March 31, 2013 and 2012, respectively.

As a result of the above analysis, income from operations increased 111% to \$67.0 million for the three months ended March 31, 2013, as compared to \$31.8 million for the corresponding period of the prior year. Operating margins were 31.2% of net sales in the current period as compared to 19.2% for the corresponding period of the prior year. We had an exceptional first quarter, where profits were extraordinarily strong as the result of substantially increased sales, coupled with lower than typical promotional expense. As we build our business in this new post Burberry era, we are investing in our on-going brands, and we anticipate higher promotional expense in succeeding quarters, particularly in the second half as we launch our new Repetto, Van Cleef & Arpels and Boucheron scents, as well as support our first quarter new product launches.

Interest expense aggregated \$0.5 million and \$0.4 million for the three months ended March 31, 2013 and 2012, respectively. We use the credit lines available to us, as needed, to finance our working capital needs as well as our financing needs for acquisitions. Loans payable – banks and long-term debt including current maturities aggregated \$27.8 million as of December 31, 2012, as compared to \$16.3 million as of December 31, 2011. In October 2012, the Company entered into a one year, €20 million short-term credit facility to finance payments required pursuant to the Karl Lagerfeld license.

Foreign currency losses aggregated \$1.4 million and \$0.2 million for the three months ended March 31, 2013 and 2012, respectively. We enter into foreign currency forward exchange contracts to manage exposure related to receivables denominated in a foreign currency and occasionally to manage risks related to future sales expected to be denominated in a foreign currency. Approximated 44% of net sales of our European operations are denominated in U.S. dollars. The weakening euro relative to the dollar in 2013 accounts for the foreign currency losses in 2013.

Our effective income tax rate was 35% and 36% for the three months ended March 31, 2013 and 2012, respectively. Our effective tax rates differ from statutory rates due to the effect of state and local taxes and tax rates in foreign jurisdictions. Our foreign tax rate had been declining as a result of the 2008 formation of Interparfums (Suisse) SARL and the 2010 formation of Interparfums Singapore Pte., Ltd., an Asian sales and marketing office, which receive favorable tax rates on a portion of Interparfums SA taxable income.



**INTER PARFUMS, INC. AND SUBSIDIARIES****Net Income and Earnings per Share**

| (in thousands except per share data)                                | Three months ended |           |
|---|--------------------|-----------|
|   | March 31,<br>2013  | 2012      |
| Net income  | \$ 42,942          | \$ 20,254 |
| Less: Net income attributable to the noncontrolling interest        | 11,246             | 4,757     |
| Net income attributable to Inter Parfums, Inc.                      | \$ 31,696          | \$ 15,497 |
| Earnings per share:   |                    |           |
| Net income attributable to Inter Parfums, Inc. common shareholders: |                    |           |
| Basic   | \$ 1.03            | \$ 0.51   |
| Diluted   | \$ 1.03            | \$ 0.51   |
| Weighted average number of shares outstanding:                      |                    |           |
| Basic   | 30,687             | 30,551    |
| Diluted   | 30,847             | 30,686    |

Net income increased 112% to \$42.9 million for the three months ended March 31, 2013, as compared to \$20.3 million for the corresponding period of the prior year. Net income attributable to the noncontrolling interest aggregated 26.2% of net income in 2013 and 23.5% in 2012. The increase is the result of fluctuations in the interim financial results of our 51% owned distribution subsidiaries in the United Kingdom and Germany. Net income attributable to Inter Parfums, Inc. increased 105% to \$31.7 million for the three months ended March 31, 2013, as compared to \$15.5 million for the corresponding period of the prior year.

Diluted earnings per share increased 102% to \$1.03 for the three months ended March 31, 2013, as compared to \$0.51 for the corresponding period of the prior year. Weighted average shares outstanding increased slightly as a result of the exercise of employee stock options and aggregated 30.7 million and 30.6 million for the three months ended March 31, 2013 and 2012, respectively. On a diluted basis, average shares outstanding were 30.8 million for the three months ended March 31, 2013, as compared to 30.7 million for the corresponding period of the prior year. The increase in shares outstanding is primarily due to shares issued pursuant to options exercised.

**Liquidity and Capital Resources**

Having received the proceeds in December 2012 from the termination of the Burberry license, our financial position remains strong. At March 31, 2013, working capital aggregated \$397 million and we had a working capital ratio of 2.7 to 1. Cash and cash equivalents and short-term investments aggregated \$313 million. In connection with the termination of the Burberry license and the transition agreement with Burberry, it was agreed that accounts receivables and accounts payables would be collected and paid in the ordinary course of business and it anticipated that inventories at March 31, 2013 would be less than \$20.0 million in the aggregate. Actual Burberry inventory as of March 31, 2013 aggregated approximately \$18 million. Burberry also agreed to purchase, at cost, Burberry Beauty finished goods subject to a \$4.0 million maximum, and all or part of Burberry fragrance and Burberry Beauty raw materials and components subject to a \$6.5 million maximum. The Company and Burberry initiated discussions regarding inventory to be purchased by Burberry in April 2013. The Company has until June 30, 2013 to sell-off any remaining inventory not purchased by Burberry as of March 31, 2013. The Company has until June 30, 2013 to sell-off any remaining inventory not purchased by Burberry as of March 31, 2013. The Company believes that its inventory reserves are adequate to cover any remaining inventory at June 30, 2013. As of December 31, 2012, the Company reported a gain of \$198.8 million from the termination of the license and tax on the gain at approximately 36% was paid in April 2013.

***INTER PARFUMS, INC. AND SUBSIDIARIES***

With only limited reorganization measures needed, the Company's business model is expected to continue to demonstrate its effectiveness. This new situation will allow us to strengthen investments supporting all portfolio brands and to accelerate their development. In addition, the Company will benefit from its substantial resources to potentially acquire one or more brands, either on a proprietary basis or as a licensee. Opportunities for external growth will be examined without urgency, with the priority of maintaining the quality and homogeneous nature of our portfolio. However, we cannot assure you that any new license or acquisition agreements will be consummated.

Cash provided by (used in) operating activities aggregated \$19.5 million and (\$1.1) million for the three months ended March 31, 2013 and 2012, respectively. For the three months ended March 31, 2013, working capital items used \$33.6 million in cash from operating activities, as compared to \$25.3 million in the 2012 period. The 32% increase in accounts receivable is consistent with the 29% increase in sales and reflects strong collection activity as day's sales outstanding continues to hover around the 90 day mark. The \$29.3 million decrease in inventories for the three months ended March 31, 2013, as shown on the statement of cash flows, is in line with our expectations resulting from the termination of the Burberry license. As previously mentioned, as we look towards the remainder of 2013, accounts receivables and accounts payables relating to Burberry activities will be collected and paid in the ordinary course of business. Remaining inventories will be liquidated and tax on the gain reported in 2012 at approximately 36% was paid in April 2013.

Cash flows used in investing activities in 2013 reflect the purchase, in France, of short-term investments aggregating \$172.1 million. These investments are primarily certificates of deposit with maturities greater than three months. Approximately \$38 million of such certificates of deposit contain penalties where we would forfeit a portion of the interest earned in the event of early withdrawal. Our business is not capital intensive as we do not own any manufacturing facilities. However, on a full year basis, we spend upwards of \$4 million on tools and molds, depending on our new product development calendar. Capital expenditures also include amounts for office fixtures, computer equipment and industrial equipment needed at our distribution centers.

Our short-term financing requirements are expected to be met by available cash on hand at March 31, 2013, cash generated by operations and short-term credit lines provided by domestic and foreign banks. The principal credit facilities for 2013 consist of a \$15.0 million unsecured revolving line of credit provided by a domestic commercial bank and approximately \$50.0 million in credit lines provided by a consortium of international financial institutions. As of March 31, 2013, short-term borrowings aggregated \$26.7 million.

**INTER PARFUMS, INC. AND SUBSIDIARIES**

In January 2013, our Board of Directors authorized a 50% increase in the annual dividend to \$0.48 per share for 2013. The first quarterly dividend of \$0.12 per share was paid on April 15, 2013 to shareholders of record on March 29, 2013. The annual cash dividend for 2013 represents a small part of our cash position and is not expected to have any significant impact on our financial position.

We believe that funds provided by or used in operations can be supplemented by our present cash position and available credit facilities, so that they will provide us with sufficient resources to meet all present and reasonably foreseeable future operating needs.

Inflation rates in the U.S. and foreign countries in which we operate did not have a significant impact on operating results for the three month period ended March 31, 2013.

**Contractual Obligations**

The following table summarizes our contractual obligations as of December 31, 2012 over the periods indicated, as well as our total contractual obligations (\$ in thousands).

| Contractual Obligations   | Payments due by period |                     |              |              |                      |
|---|------------------------|---------------------|--------------|--------------|----------------------|
|   | Total                  | Less than<br>1 year | Years<br>2-3 | Years<br>4-5 | More than<br>5 years |
| Long-Term Debt  |                        |                     |              |              |                      |
| Capital Lease Obligations   |                        |                     |              |              |                      |
| Operating Leases  | \$30,080               | \$ 4,527            | \$7,872      | \$7,383      | \$ 10,298            |
| Purchase obligations <sup>(1)</sup>   | \$974,670              | \$ 88,704           | \$189,695    | \$189,101    | \$ 507,170           |
| Other Long-Term Liabilities Reflected on the Registrant's<br>Balance Sheet under GAAP |                        |                     |              |              |                      |
| Total   | \$1,004,750            | \$ 93,231           | \$197,567    | \$196,484    | \$ 517,468           |

Consists of purchase commitments for advertising and promotional items, minimum royalty guarantees, including fixed or minimum obligations, and estimates of such obligations subject to variable price provisions. Future (1) advertising commitments were estimated based on planned future sales for the license terms that were in effect at December 31, 2012, without consideration for potential renewal periods and do not reflect the fact that our distributors share our advertising obligations.

**Item 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

**General**

We address certain financial exposures through a controlled program of risk management that primarily consists of the use of derivative financial instruments. We primarily enter into foreign currency forward exchange contracts in order to reduce the effects of fluctuating foreign currency exchange rates. We do not engage in the trading of foreign currency forward exchange contracts or interest rate swaps.

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*INTER PARFUMS, INC. AND SUBSIDIARIES*

**Foreign Exchange Risk Management**

We periodically enter into foreign currency forward exchange contracts to hedge exposure related to receivables denominated in a foreign currency and to manage risks related to future sales expected to be denominated in a currency other than our functional currency. We enter into these exchange contracts for periods consistent with our identified exposures. The purpose of the hedging activities is to minimize the effect of foreign exchange rate movements on the receivables and cash flows of Interparfums SA, our French subsidiary, whose functional currency is the Euro. All foreign currency contracts are denominated in currencies of major industrial countries and are with large financial institutions, which are rated as strong investment grade.

All derivative instruments are required to be reflected as either assets or liabilities in the balance sheet measured at fair value. Generally, increases or decreases in fair value of derivative instruments will be recognized as gains or losses in earnings in the period of change. If the derivative is designated and qualifies as a cash flow hedge, then the changes in fair value of the derivative instrument will be recorded in other comprehensive income.

Before entering into a derivative transaction for hedging purposes, we determine that the change in the value of the derivative will effectively offset the change in the fair value of the hedged item from a movement in foreign currency rates. Then, we measure the effectiveness of each hedge throughout the hedged period. Any hedge ineffectiveness is recognized in the income statement.

At March 31, 2013, we had foreign currency contracts in the form of forward exchange contracts in the amount of approximately U.S. \$61 million and GB pounds 5.2 million which all have maturities of less than one year. We believe that our risk of loss as the result of nonperformance by any of such financial institutions is remote.

**Interest Rate Risk Management**

We mitigate interest rate risk by monitoring interest rates, and then determining whether fixed interest rates should be swapped for floating rate debt, or if floating rate debt should be swapped for fixed rate debt. We entered into an interest rate swap in September 2007 on €22 million of debt, effectively exchanging the variable interest rate of 0.6% above the three month EURIBOR to a fixed rate of 4.42%. As of December 31, 2012, this loan had been paid in full. The derivative instrument had been recorded at fair value and changes in fair value are reflected in the accompanying consolidated statements of income.



#### **Item 4. CONTROLS AND PROCEDURES**

##### **Evaluation of Disclosure Controls and Procedures**

Our Chief Executive Officer and Chief Financial Officer have reviewed and evaluated the effectiveness of our disclosure controls and procedures (as defined in the Securities Exchange Act of 1934 Rule 13a-15(e)) as of the end of the period covered by this quarterly report on Form 10-Q (the "Evaluation Date"). Based on their review and evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that as of the Evaluation Date, our Company's disclosure controls and procedures were effective.

***INTER PARFUMS, INC. AND SUBSIDIARIES***

**Changes in Internal Control Over Financial Reporting**

There has been no change in our internal control over financial reporting (as defined in Rule 13a-15(f) of the Securities Exchange Act of 1934) that occurred during the quarterly period covered by this report on Form 10-Q that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

**Part II. Other Information**

Items 1. Legal Proceedings, 1a. Risk Factors, 2. Unregistered Sales of Equity Securities and Use of Proceeds, 3. Defaults Upon Senior Securities, 4. Mine Safety Disclosures and 5. Other Information, are omitted as they are either not applicable or have been included in Part I.

**Item 6. Exhibits.**

The following documents are filed herewith:

| Exhibit No. | Description  | Page Number |
|-------------|--|-------------|
| 31.1        | Certifications required by Rule 13a-14(a) of Chief Executive Officer                       | 31          |
| 31.2        | Certifications required by Rule 13a-14(a) of Chief Financial Officer                       | 32          |
| 32.1        | Certification required by Section 906 of the Sarbanes-Oxley Act of Chief Executive Officer | 33          |
| 32.2        | Certification required by Section 906 of the Sarbanes-Oxley Act of Chief Financial Officer | 34          |
| 101*        | Interactive data files   |             |

\* XBRL (Extensible Business Reporting Language) information is furnished and not filed or a part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these Sections.

***INTER PARFUMS, INC. AND SUBSIDIARIES***

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized on the 8th day of May 2013.

**INTER PARFUMS, INC.**

By: /s/ Russell Greenberg  
Executive Vice President and  
Chief Financial Officer