

INTER PARFUMS INC
Form 10-Q
November 07, 2012

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 September 30, 2012.

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 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 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 <input type="checkbox"/> | Accelerated filer <input type="checkbox"/> |
| Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company) | Smaller reporting company <input type="checkbox"/> |

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

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

At November 5, 2012, there were 30,584,751 shares of common stock, par value \$.001 per share, outstanding

INTER PARFUMS, INC. AND SUBSIDIARIES

INDEX

| | Page Number |
|---|-------------|
| Part I. Financial Information | 1 |
| Item 1. Financial Statements | |
| Consolidated Balance Sheets as of September 30, 2012 and December 31, 2011 | 2 |
| Consolidated Statements of Income for the Three and Nine Months Ended September 30, 2012 and September 30, 2011 | 3 |
| Consolidated Statements of Comprehensive Income for the Three and Nine Months Ended September 30, 2012 and September 30, 2011 | 4 |
| Consolidated Statements of Changes in Equity for the Nine Months Ended September 30, 2012 and September 30, 2011 | 5 |
| Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2012 and September 30, 2011 | 6 |
| Notes to Consolidated Financial Statements | 7 |
| Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations | 16 |
| Item 3. Quantitative and Qualitative Disclosures About Market Risk | 30 |
| Item 4. Controls and Procedures | 31 |
| Part II. Other Information | 32 |
| Item 6. Exhibits | 32 |
| Signatures | 32 |

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, 2011 included in our annual report filed on Form 10-K.

The results of operations for the nine months ended September 30, 2012 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)

| | September 30, 2012 | December 31, 2011 |
|---|--------------------------|-------------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 25,851 | \$ 35,856 |
| Accounts receivable, net | 167,207 | 175,223 |
| Inventories | 161,058 | 164,077 |
| Receivables, other | 1,726 | 3,258 |
| Other current assets | 6,376 | 4,258 |
| Income tax receivable | 677 | 1,404 |
| Deferred tax assets | 9,641 | 7,270 |
| Total current assets | 372,536 | 391,346 |
| Equipment and leasehold improvements, net | 15,911 | 14,525 |
| Goodwill | 2,761 | 2,763 |
| Trademarks, licenses and other intangible assets, net | 103,162 | 105,750 |
| Other assets | 2,176 | 1,650 |
| Total assets | \$ 496,546 | \$ 516,034 |
| LIABILITIES AND EQUITY | | |
| Current liabilities: | | |
| Loans payable – banks | \$ 1,385 | \$ 11,826 |
| Current portion of long-term debt | — | 4,480 |
| Accounts payable, trade | 69,644 | 112,726 |
| Accrued expenses | 49,860 | 52,042 |
| Income taxes payable | 8,670 | 2,099 |
| Dividends payable | 2,446 | 2,443 |
| Total current liabilities | 132,005 | 185,616 |
| Deferred tax liability | 5,605 | 6,068 |

Edgar Filing: INTER PARFUMS INC - Form 10-Q

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 30,576,426 and 30,541,506 shares at September 30, 2012 and December 31, 2011, respectively | 31 | 31 |
| Additional paid-in capital | 52,408 | 50,883 |
| Retained earnings | 252,471 | 228,164 |
| Accumulated other comprehensive income | 7,854 | 7,747 |
| Treasury stock, at cost, 10,009,492 common shares at September 30, 2012 and December 31, 2011 | (34,151) | (34,151) |
| Total Inter Parfums, Inc. shareholders' equity | 278,613 | 252,674 |
| Noncontrolling interest | 80,323 | 71,676 |
| Total equity | 358,936 | 324,350 |
| Total liabilities and equity | \$ 496,546 | \$ 516,034 |

See notes to consolidated financial statements.

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

(In thousands except per share data)

(Unaudited)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|-------------------------------------|------------|------------------------------------|------------|
| | 2012 | 2011 | 2012 | 2011 |
| Net sales | \$ 166,264 | \$ 171,706 | \$ 477,187 | \$ 426,132 |
| Cost of sales | 65,146 | 64,323 | 181,535 | 158,173 |
| Gross margin | 101,118 | 107,383 | 295,652 | 267,959 |
| Selling, general and administrative expenses | 79,039 | 85,838 | 229,190 | 210,026 |
| Income from operations | 22,079 | 21,545 | 66,462 | 57,933 |
| Other expenses (income): | | | | |
| Interest expense | 391 | 687 | 1,195 | 1,517 |
| (Gain) loss on foreign currency | 1,405 | (1,239) | 2,584 | (1,091) |
| Interest income | (52) | (241) | (887) | (947) |
| | 1,744 | (793) | 2,892 | (521) |
| Income before income taxes | 20,335 | 22,338 | 63,570 | 58,454 |
| Income taxes | 7,158 | 9,054 | 22,658 | 21,402 |
| Net income | 13,177 | 13,284 | 40,912 | 37,052 |
| Less: Net income attributable to the noncontrolling interest | 3,159 | 2,851 | 9,389 | 8,867 |
| Net income attributable to Inter Parfums, Inc. | \$ 10,018 | \$ 10,433 | \$ 31,523 | \$ 28,185 |
| Earnings per share: | | | | |
| Net income attributable to Inter Parfums, Inc. common shareholders: | | | | |
| Basic | \$0.33 | \$0.34 | \$1.03 | \$0.92 |
| Diluted | \$0.33 | \$0.34 | \$1.03 | \$0.92 |

Edgar Filing: INTER PARFUMS INC - Form 10-Q

| | | | | |
|--|--------|--------|--------|--------|
| Weighted average number of shares outstanding: | | | | |
| Basic | 30,570 | 30,539 | 30,561 | 30,506 |
| Diluted | 30,717 | 30,698 | 30,697 | 30,676 |
| Dividends declared per share | \$0.08 | \$0.08 | \$0.24 | \$0.24 |

See notes to consolidated financial statements

Page 3

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

(In thousands except per share data)

(Unaudited)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|-------------|------------------------------------|-----------|
| | 2012 | 2011 | 2012 | 2011 |
| Comprehensive income (loss): | | | | |
| Net income | \$ 13,177 | \$ 13,284 | \$ 40,912 | \$ 37,052 |
| Other comprehensive income: | | | | |
| Net derivative instrument gain (loss), net of tax | (91) | (87) | (45) | 15 |
| Translation adjustments, net of tax | 8,279 | (19,036) | 152 | 2,346 |
| Comprehensive income (loss) | 21,365 | (5,839) | 41,019 | 39,413 |
| Comprehensive income attributable to the noncontrolling interests: | | | | |
| Net income | 3,159 | 2,851 | 9,389 | 8,867 |
| Other comprehensive income: | | | | |
| Net derivative instrument gain (loss), net of tax | (26) | (19) | (10) | 3 |
| Translation adjustments, net of tax | 2,142 | (4,755) | 10 | 373 |
| Comprehensive income (loss) attributable to the noncontrolling interests | 5,275 | (1,923) | 9,389 | 9,243 |
| Comprehensive income (loss) attributable to Inter Parfums, Inc. | \$ 16,090 | \$ (3,916) | \$ 31,630 | \$ 30,170 |

See notes to consolidated financial statements.

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

| | Inter Parfums, Inc. shareholders | | | | | | |
|--|----------------------------------|----------------------------------|----------------------|---|-------------------|----------------------------|-----------|
| | Common stock | Additional paid-in Capital | Retained earnings | Accumulated other comprehensive income | Treasury Stock | Noncontrolling interest | Total |
| Balance – January 1, 2011 | \$30 | \$48,887 | \$205,453 | \$14,757 | \$(34,151) | \$64,970 | \$299,946 |
| Comprehensive income: | | | | | | | |
| Net income | — | — | 28,185 | — | — | 8,867 | 37,052 |
| Foreign currency translation adjustment | — | — | — | 1,973 | — | 373 | 2,346 |
| Net derivative instrument gain, net of tax | — | — | — | 12 | — | 3 | 15 |
| Shares issued upon exercise of stock options | 1 | 957 | — | — | — | — | 958 |
| Purchase of subsidiary shares from noncontrolling interests | — | (417) | — | — | — | (333) | (750) |
| Sale of subsidiary shares to noncontrolling interests | — | 611 | — | — | — | 2,233 | 2,844 |
| Dividends | — | — | (7,324) | — | — | (3,149) | (10,473) |
| Stock compensation | — | 528 | 136 | — | — | 48 | 712 |
| Balance – September 30, 2011 | \$31 | \$50,566 | \$226,450 | \$16,742 | \$(34,151) | \$73,012 | \$332,650 |
| Balance – January 1, 2012 | \$31 | \$50,883 | \$228,164 | \$7,747 | \$(34,151) | \$71,676 | \$324,350 |
| Comprehensive income: | | | | | | | |
| Net income | — | — | 31,523 | — | — | 9,389 | 40,912 |
| Foreign currency translation adjustment | — | — | — | 142 | — | 10 | 152 |
| Net derivative instrument loss, net of tax | — | — | — | (35) | — | (10) | (45) |
| Shares issued upon exercise of stock options | — | 416 | — | — | — | — | 416 |
| Sale of subsidiary shares to noncontrolling interests | — | 737 | — | — | — | 2,547 | 3,284 |
| Dividends | — | — | (7,336) | — | — | (3,333) | (10,669) |
| Stock compensation | — | 372 | 120 | — | — | 44 | 536 |
| Balance – September 30, 2012 | \$31 | \$52,408 | \$252,471 | \$7,854 | \$(34,151) | \$80,323 | \$358,936 |

See notes to consolidated financial statements.

Page 5

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

(In thousands)

(Unaudited)

| | Nine months ended September 30, | |
|---|------------------------------------|----------|
| | 2012 | 2011 |
| Cash flows from operating activities: | | |
| Net income | \$40,912 | \$37,052 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 11,408 | 9,624 |
| Provision for doubtful accounts | 8 | 1,332 |
| Noncash stock compensation | 627 | 806 |
| Deferred tax (benefit) | (2,798) | (713) |
| Change in fair value of derivatives | (68) | (230) |
| Changes in: | | |
| Accounts receivable | 7,819 | (73,248) |
| Inventories | 2,904 | (73,966) |
| Other assets | (1,161) | 4,787 |
| Accounts payable and accrued expenses | (44,347) | 50,111 |
| Income taxes payable, net | 7,136 | (4,629) |
| Net cash provided by (used in) operating activities | 22,440 | (49,074) |
| Cash flows from investing activities: | | |
| Purchases of short-term investments | — | (10,961) |
| Proceeds from sale of short-term investments | — | 55,880 |
| Purchases of equipment and leasehold improvements | (7,633) | (7,578) |
| Payment for intangible assets acquired | (2,690) | (3,498) |
| Net cash provided by (used in) investing activities | (10,323) | 33,843 |
| Cash flows from financing activities: | | |
| Proceeds from (repayments of) loans payable – banks, net | (10,328) | 15,686 |
| Repayment of long-term debt | (4,364) | (8,846) |
| Proceeds from exercise of options | 416 | 958 |
| Proceeds from sale of stock of subsidiary | 3,284 | 2,844 |
| Payment for noncontrolling interests acquired | — | (750) |
| Dividends paid | (7,336) | (6,861) |
| Dividends paid to noncontrolling interest | (3,333) | (3,149) |

Edgar Filing: INTER PARFUMS INC - Form 10-Q

| | | |
|---|----------|----------|
| Net cash used in financing activities | (21,661) | (118) |
| Effect of exchange rate changes on cash | (461) | 986 |
| Net decrease in cash and cash equivalents | (10,005) | (14,363) |
| Cash and cash equivalents - beginning of period | 35,856 | 37,548 |
| Cash and cash equivalents - end of period | \$25,851 | \$23,185 |
| Supplemental disclosure of cash flow information: | | |
| Cash paid for: | | |
| Interest | \$1,315 | \$1,686 |
| Income taxes | 12,136 | 23,795 |

See notes to consolidated financial statements.

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, 2011. 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. New Accounting Pronouncements:

In May 2011, new accounting guidance on fair value measurements was issued, which requires updates to fair value measurement disclosures to conform US GAAP and International Financial Reporting Standards. This guidance includes additional disclosure requirements about Level 3 fair value measurements and is effective for interim and annual periods beginning after December 15, 2011. The adoption of the new guidance did not affect the Company's financial position, results of operations and cash flows.

In September 2011, new accounting guidance on testing goodwill for impairment was issued, which allows an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount, as a basis for determining whether it is necessary to perform the two-step goodwill impairment test described in ASC Topic 350. This guidance is effective for interim and annual goodwill impairment tests for interim and annual periods beginning after December 15, 2011. The adoption of the new guidance did not affect the Company's financial position, results of operations and cash flows.

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

3. Status of Burberry License:

In December 2011, the Company and Burberry began discussions regarding the potential establishment of a new operating structure for the Burberry fragrance and beauty business. On July 16, 2012, while discussions were still

underway, Burberry exercised its option to buy out the license rights effective December 31, 2012. On July 26, 2012, discussions with Burberry on the creation of a new operating model were discontinued as we were unable to agree on final terms. On October 11, 2012 the Company and Burberry entered into a transition agreement in order to facilitate a smooth transition. The transition agreement provides for an extension of certain license rights and obligations for an additional three months period ending on March 31, 2013. The Company will continue to operate certain aspects of the business for the brand including product development, testing, and distribution. The transition agreement also provides for non-exclusivity for manufacturing, a cap on sales of Burberry products, a reduced advertising requirement and no minimum royalty amounts.

The transition agreement confirms that the exit payment of €181 million (approximately \$230 million at current exchange rates excluding receivables, inventories and other tangible assets), will be made by December 31, 2012, subject to the Company's continued compliance with the provisions of the existing license agreement. Accounts receivables will be collected in the ordinary course of business and it is anticipated that inventories at March 31, 2013 will be less than €15 million in the aggregate. Burberry has agreed to purchase, at cost, all Burberry Beauty finished goods subject to a €3 million maximum, and all Burberry fragrance and Burberry Beauty raw materials and components subject to a €5 million maximum. The Company will have until June 30, 2013 to sell-off any remaining inventory not purchased by Burberry and no loss is anticipated in connection with the sell-off of inventories.

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

At December 31, 2012, intangible assets are expected to include approximately €4 million, net of deferred taxes, which are to be written off against the gain on sale of assets. In addition, Burberry has agreed to buy all tangible assets related to the license at 50% of book value and the expected loss on the sale of tangible assets of approximately €3 million together with approximately €2 million of other negotiated settlements between the Company and Burberry will also be written off against the gain on sale of assets.

4. Inventories:

Inventories consist of the following:

| (In thousands) | September 30, 2012 | December 31, 2011 |
|-----------------------------------|-----------------------|----------------------|
| Raw materials and component parts | \$ 52,066 | \$ 64,411 |
| Finished goods | 108,992 | 99,666 |
| | \$ 161,058 | \$ 164,077 |

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. In measuring the fair value of our assets and liabilities, we use market data or assumptions that we believe market participants would use in pricing an asset or liability including assumptions about risk when appropriate. 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 September 30, 2012 | | |
|----------------|--|--|--|
| | Quoted Prices for Identical Assets (Level 1) | Significant Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| | Total | | |

Edgar Filing: INTER PARFUMS INC - Form 10-Q

Assets:

| | | | | |
|--|--------|------|--------|------|
| Foreign currency forward exchange contracts not accounted for using hedge accounting | \$ 654 | \$ — | \$ 654 | \$ — |
|--|--------|------|--------|------|

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

| | Total | Fair Value Measurements at December 31, 2011 | | |
|--|---------|--|---|---|
| | | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Liabilities: | | | | |
| Foreign currency forward exchange contracts not accounted for using hedge accounting | \$3,532 | \$ — | \$ 3,532 | \$ — |
| Interest rate swaps | 69 | — | 69 | — |
| | \$3,601 | \$ — | \$ 3,601 | \$ — |

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. The fair value of the Company's long-term debt was estimated based on the current rates offered to companies for debt with the same remaining maturities and is approximately equal to its carrying value. Foreign currency forward exchange contracts are valued based on quotations from financial institutions and the value of interest rate swaps are the discounted net present value of the swaps using third party quotes obtained from financial institutions.

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. Before entering into a derivative transaction for hedging purposes, it is determined that a high degree of initial effectiveness exists between the change in value of the hedged item and the change in the value of the derivative instrument from movement in exchange rates. High effectiveness means that the change in the cash flows of the derivative instrument will effectively offset the change in the cash flows of the hedged item. The effectiveness

of each hedged item is measured throughout the hedged period and is based on the dollar offset methodology and excludes the portion of the fair value of the foreign currency forward exchange contract attributable to the change in spot-forward difference which is reported in current period earnings. Any hedge ineffectiveness is also recognized as a gain or loss on foreign currency in the income statement. For hedge contracts that are no longer deemed highly effective, hedge accounting is discontinued and gains and losses accumulated in other comprehensive income are reclassified to earnings. If it is probable that the forecasted transaction will no longer occur, then any gains or losses accumulated in other comprehensive income are reclassified to current-period earnings. The Company had no cash flow hedges during the three and nine month periods ended September 30, 2011 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):

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

| Derivatives Not Designated as Hedging Instruments | Location of Gain (Loss) recognized in Income on Derivative | Nine months ended September 30, 2012 | Nine months ended September 30, 2011 |
|--|--|---|---|
| Interest rate swaps | Interest expense | \$ 68 | \$ 230 |
| Foreign exchange contracts | Gain (loss) on foreign currency | \$ (590 |) \$ (181) |

| Derivatives Not Designated as Hedging Instruments | Location of Gain (Loss) recognized in Income on Derivative | Three months ended September 30, 2012 | Three months ended September 30, 2011 |
|--|--|--|--|
| Interest rate swaps | Interest expense | \$ 12 | \$ 37 |
| Foreign exchange contracts | Gain (loss) on foreign currency | \$ (733 |) \$ (138) |

All derivative instruments are reported as either assets or liabilities on the balance sheet measured at fair value. The valuation of interest rate swaps resulted in a liability at December 31, 2011 which is included in long-term debt on the accompanying balance sheets. The valuation of foreign currency forward exchange contracts not accounted for using hedge accounting as of September 30, 2012 resulted in an asset and is included in other current assets and at December 31, 2011 such valuation resulted in a liability and is included in accrued expenses 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 September 30, 2012, we had foreign currency contracts in the form of forward exchange contracts in the amount of approximately U.S. \$67 million and GB pounds 7.1 million which all have maturities of less than one year.

7. Goodwill and Other Intangible Assets:

We review goodwill and trademarks with indefinite lives for impairment at least annually, and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. When testing goodwill for

impairment the Company performs a qualitative assessment before calculating the fair value of a reporting unit in the first step of the goodwill impairment test. If we determine, 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 is performed. Otherwise, further testing is not needed. No triggering events have been identified in 2012. 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.

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

| Description | Total | Fair Value Measurements at September 30, 2012 | | |
|--------------------|---------|---|---|--|
| | | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Trademark - Nickel | \$2,261 | \$ — | \$ — | \$ 2,261 |
| Goodwill | \$2,761 | \$ — | \$ — | \$ 2,761 |

| Description | Total | Fair Value Measurements at December 31, 2011 | | |
|--------------------|---------|---|---|--|
| | | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Trademark - Nickel | \$2,263 | \$ — | \$ — | \$ 2,263 |
| Goodwill | \$2,763 | \$ — | \$ — | \$ 2,763 |

Goodwill relates to our Nickel skin care business, which is primarily a component of our European operations. Testing goodwill for impairment requires us to estimate the fair value of the reporting unit using significant estimates and assumptions. The assumptions we make will impact the outcome and ultimate results of the testing. In making our assumptions and estimates, we use industry accepted valuation models and set criteria that are reviewed and approved by management. We have determined that we may be inclined to sell the Nickel business within the next few years and therefore, we engaged a third party valuation specialist to advise us and assist in a potential transaction. As a

result, the Company has determined that as of December 31, 2011, the carrying amount of the goodwill exceeded fair value resulting in an impairment loss of \$0.8 million. We expect Nickel brand sales to remain steady over the next few years as the result of new product initiatives. In estimating future sales, we use our internal budgets developed from recent sales data for existing products and planned timing of new product launches. If sales for the reporting unit decreased 10%, we could incur an additional goodwill impairment charge of \$0.5 million.

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. No impairment charges have been required since 2009. We assumed a market royalty rate of 6% and a discount rate of 7.7%.

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

The following table presents the impact a change in the following significant assumptions would have had on the calculated fair value in 2011 assuming all other assumptions remained constant:

| In thousands | | | | Increase (decrease) Change to fair value |
|----------------------------------|-----|---|----|---|
| Weighted average cost of capital | +10 | % | \$ | (272) |
| Weighted average cost of capital | -10 | % | \$ | 365 |
| Future sales levels | +10 | % | \$ | 273 |
| Future sales levels | -10 | % | \$ | (273) |

8. Share-Based Payments:

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 nine months ended September 30, 2012 and 2011 aggregated \$0.52 million and \$0.05 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 nine month period ended September 30, 2012:

| | Number of Shares | Weighted Average Grant Date Fair Value |
|---|------------------|---|
| Nonvested options – beginning of period | 456,923 | \$ 4.40 |
| Nonvested options granted | 4,500 | \$ 4.99 |
| Nonvested options vested or forfeited | (141,593) | \$ 3.92 |
| Nonvested options – end of period | 319,830 | \$ 4.62 |

Edgar Filing: INTER PARFUMS INC - Form 10-Q

Share-based payment expense decreased income before income taxes by \$0.20 million and \$0.63 million for the three and nine month periods ended September 30, 2012, respectively, as compared to \$0.27 million and \$0.81 million for the corresponding periods of the prior year. Share-based payment expense decreased income attributable to Inter Parfums, Inc. by \$0.11 million and \$0.35 million for the three and nine month periods ended September 30, 2012, respectively, as compared to \$0.14 million and \$0.45 million for the corresponding periods of the prior year. The following table summarizes stock option information as of September 30, 2012:

| | Shares | Weighted Average Exercise Price |
|-------------------------------------|-----------|------------------------------------|
| Outstanding at January 1, 2012 | 823,275 | \$ 13.20 |
| Options granted | 4,500 | 17.07 |
| Options cancelled | (9,730) | 15.37 |
| Options exercised | (34,920) | 11.91 |
| Outstanding at September 30, 2012 | 783,125 | \$ 13.25 |
| Options exercisable | 463,295 | \$ 12.18 |
| Options available for future grants | 717,025 | |

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

As of September 30, 2012, the weighted average remaining contractual life of options outstanding is 2.39 years (1.32 years for options exercisable), the aggregate intrinsic value of options outstanding and options exercisable is \$4.0 million and \$2.8 million, respectively and unrecognized compensation cost related to stock options outstanding of Inter Parfums, Inc. aggregated \$1.1 million. The amount of unrecognized compensation cost related to stock options outstanding of our majority-owned subsidiary, Interparfums SA, was \$0.61 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 nine months ended September 30, 2012 and September 30, 2011 were as follows:

| (In thousands) | September 30, 2012 | September 30, 2011 |
|--|-----------------------|-----------------------|
| Cash proceeds from stock options exercised | \$ 416 | \$ 1,184 |
| Tax benefits | 55 | — |
| Intrinsic value of stock options exercised | 154 | 708 |

No tax benefit was realized or recognized from stock options exercised in 2011 as valuation reserves were allocated to those potential benefits.

The weighted average fair values of the options granted by Inter Parfums, Inc. during the nine months ended September 30, 2012 and 2011 were \$4.99 and \$5.27 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 September 30, 2012 and 2011 are set forth in the following table:

| | September 30, 2012 | September 30, 2011 |
|--|-----------------------|-----------------------|
| Weighted average expected stock-price volatility | 40% | 38% |
| Weighted average expected option life | 4.5 years | 4.5 years |
| Weighted average risk-free interest rate | .84% | 2.0% |

| | | |
|---------------------------------|------|------|
| Weighted average dividend yield | 1.7% | 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 increases.

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 and warrants using the treasury stock method. The reconciliation between the numerators and denominators of the basic and diluted EPS computations is as follows:

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

| (In thousands) | Three months ended | | Nine months ended | |
|--|-----------------------|-----------|-----------------------|-----------|
| | September 30, 2012 | 2011 | September 30, 2012 | 2011 |
| Numerator: | | | | |
| Net income attributable to Inter Parfums, Inc. | \$ 10,018 | \$ 10,433 | \$ 31,523 | \$ 28,185 |
| Effect of dilutive securities of consolidated subsidiary | (31) | (22) | (31) | (81) |
| Numerator for diluted earnings per share | \$ 9,987 | \$ 10,411 | \$ 31,492 | \$ 28,104 |
| Denominator: | | | | |
| Weighted average shares | 30,570 | 30,539 | 30,561 | 30,506 |
| Effect of dilutive securities: | | | | |
| Stock options and warrants | 147 | 159 | 136 | 170 |
| Denominator for diluted earnings per share | 30,717 | 30,698 | 30,697 | 30,676 |
| Earnings per share: | | | | |
| Net income attributable to Inter Parfums, Inc. common shareholders: | | | | |
| Basic | \$ 0.33 | \$ 0.34 | \$ 1.03 | \$ 0.92 |
| Diluted | 0.33 | 0.34 | 1.03 | 0.92 |

Not included in the above computations is the effect of antidilutive potential common shares which consist of outstanding options to purchase 0.23 million shares of common stock for both the three and nine month periods ended September 30, 2012, and 0.1 million shares of common stock for both the three and nine month periods ended September 30, 2011.

10. Net Income Attributable to Inter Parfums, Inc. and Transfers From the Noncontrolling Interest:

| (In thousands) | Three months ended | | Nine months ended | |
|---|-----------------------|-----------|-----------------------|-----------|
| | September 30, 2012 | 2011 | September 30, 2012 | 2011 |
| Net income attributable to Inter Parfums, Inc. | \$ 10,018 | \$ 10,433 | \$ 31,523 | \$ 28,185 |
| Increase in Inter Parfums, Inc.'s additional paid-in capital for subsidiary share transactions | — | 132 | 737 | 194 |
| Change from net income attributable to Inter Parfums, Inc. and transfers from noncontrolling interest | \$ 10,018 | \$ 10,565 | \$ 32,260 | \$ 28,379 |

11. 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 specialty retail and mass market fragrances. Information on our operations by geographical areas is as follows:

Page 14

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

| (In thousands) | Three months ended | | Nine months ended | |
|---|-----------------------|-----------|-----------------------|-----------|
| | September 30, 2012 | 2011 | September 30, 2012 | 2011 |
| Net sales: | | | | |
| United States | \$17,817 | \$16,994 | \$59,066 | \$43,326 |
| Europe | 148,610 | 154,712 | 419,423 | 382,806 |
| Eliminations of intercompany sales | (163) | — | (1,302) | — |
| | \$166,264 | \$171,706 | \$477,187 | \$426,132 |
| Net income attributable to Inter Parfums, Inc.: | | | | |
| United States | \$733 | \$812 | \$3,218 | \$748 |
| Europe | 9,278 | 9,621 | 28,300 | 27,437 |
| Eliminations of intercompany profits | 7 | — | 5 | — |
| | \$10,018 | \$10,433 | \$31,523 | \$28,185 |

| | September 30, 2012 | December 31, 2011 |
|--|-----------------------|----------------------|
| Total Assets: | | |
| United States | \$ 64,958 | \$ 59,841 |
| Europe | 440,527 | 465,747 |
| Eliminations of investment in subsidiary | (8,939) | (9,554) |
| | \$ 496,546 | \$ 516,034 |

12. Accrued Expenses:

Accrued expenses include approximately \$19.7 million and \$16.4 million in advertising liabilities as of September 30, 2012 and December 31, 2011, respectively.

13. Reclassification:

Certain prior year amounts in the accompanying consolidated statements of income have been reclassified to conform to current period presentation. More specifically, \$1.2 million and \$2.2 million of selling, general and administrative

expenses for the three and nine months ended September 30, 2011 have been reclassified to cost of sales.

14. Subsequent Event:

In October 2012, the Company entered into a 20-year worldwide license agreement with Karl Lagerfeld B.V. to create, produce and distribute perfumes under the Karl Lagerfeld brand, which replaces a previous license that was terminated by mutual consent. 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 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.

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, 2011 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.

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 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 88% and 90% of net sales for the nine months ended September 30, 2012 and 2011, respectively. We have built a portfolio of prestige brands, which include Burberry, 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.

Edgar Filing: INTER PARFUMS INC - Form 10-Q

Burberry is our most significant license, as sales of Burberry products represented 45% and 50% of net sales for the nine months ended September 30, 2012 and 2011, respectively. See “Recent Important Events” on page 18 of this Quarterly Report on Form 10-Q for a status on the buyout of the Burberry license. In addition, we own the Lanvin brand name for our class of trade and sales of Lanvin product represented 12% and 13% of net sales for the nine months ended September 30, 2012 and 2011, respectively.

Through our United States operations we market specialty retail and mass market fragrance and fragrance related products, which represented 12% and 10% of net sales for the nine months ended September 30, 2012 and 2011, respectively. These fragrance products are sold under trademarks owned by us or pursuant to license or other agreements with the owners of the *Gap*, *Banana Republic*, *Anna Sui*, *Brooks Brothers*, *bebe*, *Betsey Johnson*, *Nine West*, *Lane Bryant* and *Jordache* brands.

INTER PARFUMS, INC. AND SUBSIDIARIES

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. In 2007 we commenced operations of our European distribution subsidiaries in Italy, Germany, Spain and the United Kingdom, 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 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.

At this time, we do not believe the recent economic uncertainty and financial market volatility taking place in certain European countries will have a significant impact on our business. 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. We continue to monitor global economic uncertainties and other risks that may affect our business.

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, earnings are negatively affected by a weak dollar because over 40% 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.

INTER PARFUMS, INC. AND SUBSIDIARIES

Recent Important Events

Burberry to Buy Out License on December 31, 2012

In December 2011, the Company and Burberry began discussions regarding the potential establishment of a new operating structure for the Burberry fragrance and beauty business. On July 16, 2012, while discussions were still underway, Burberry exercised its option to buy out the license rights effective December 31, 2012. On July 26, 2012, discussions with Burberry on the creation of a new operating model were discontinued as we were unable to agree on final terms. On October 11, 2012 the Company and Burberry entered into a transition agreement in order to facilitate a smooth transition. The transition agreement provides for an extension of certain license rights and obligations for an additional three months period ending on March 31, 2013. The Company will continue to operate certain aspects of the business for the brand including product development, testing, and distribution. The transition agreement also provides for non-exclusivity for manufacturing, a cap on sales of Burberry products, a reduced advertising requirement and no minimum royalty amounts.

The transition agreement confirms that the exit payment of €181 million (approximately \$230 million at current exchange rates excluding receivables, inventories and other tangible assets), will be made by December 31, 2012, subject to the Company's continued compliance with the provisions of the existing license agreement. Accounts receivables will be collected in the ordinary course of business and it is anticipated that inventories at March 31, 2013 will be less than €15 million in the aggregate. Burberry has agreed to purchase, at cost, all Burberry Beauty finished goods subject to a €3 million maximum, and all Burberry fragrance and Burberry Beauty raw materials and components subject to a €5 million maximum. The Company will have until June 30, 2013 to sell-off any remaining inventory not purchased by Burberry and no loss is anticipated in connection with the sell-off of inventories.

At December 31, 2012, intangible assets are expected to include approximately €4 million, net of deferred taxes, which are to be written off against the gain on sale of assets. In addition, Burberry has agreed to buy all tangible assets related to the license at 50% of book value and the expected loss on the sale of tangible assets of approximately €3 million together with approximately €2 million of other negotiated settlements between the Company and Burberry will also be written off against the gain on sale of assets.

Future sales and earnings will be significantly affected as a result of this buy out. However, the Company is confident in its future. Based on current growth rates for all of our brands, the preliminary full-year sales target for 2013 is expected to reach approximately \$400 million at current exchange rates excluding any potential contribution from sales of Burberry products during the transition period. 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, while maintaining an estimated operating margin of more than 10%. 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.

INTER PARFUMS, INC. AND SUBSIDIARIES

Karl Lagerfeld

In October 2012, the Company entered into a 20-year worldwide license agreement with Karl Lagerfeld B.V. to create, produce and distribute perfumes under the Karl Lagerfeld brand, which replaces a previous license that was terminated by mutual consent. 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 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 launch of a new fragrance under the Karl Lagerfeld brand is scheduled for 2014.

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 our Company incurs 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 fair values used in our evaluations are also estimated based upon discounted future cash flow projections using a weighted average cost of capital of 7.7%. 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.

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.

INTER PARFUMS, INC. AND SUBSIDIARIES**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 and Nine Months Ended September 30, 2012 as Compared to the Three and Nine Months Ended September 30, 2011**

| Net Sales | Three Months Ended | | | Nine Months Ended | | | | |
|-----------------------------------|-----------------------|---------|----------|-----------------------|---------|----------|------|---|
| | September 30, 2012 | 2011 | % Change | September 30, 2012 | 2011 | % Change | | |
| (In millions) | | | | | | | | |
| European-based product sales | \$148.6 | \$154.7 | (4.0) |)% | \$419.4 | \$382.8 | 10.0 | % |
| United States-based product sales | 17.7 | 17.0 | 4.0 | % | 57.8 | 43.3 | 33.4 | % |
| | \$166.3 | \$171.7 | (3.2) |)% | \$477.2 | \$426.1 | 12.0 | % |

Net sales for the three months ended September 30, 2012 decreased 3.2% to \$166.3 million, as compared to \$171.7 million for the corresponding period of the prior year. At comparable foreign currency exchange rates, net sales increased 2.0% for the period. Net sales for the nine months ended September 30, 2012 increased 12.0% to \$477.2 million, as compared to \$426.1 million for the corresponding period of the prior year. At comparable foreign currency exchange rates, net sales increased 16.9% for the period. The strength of the U.S. dollar has had, and is expected to continue to have, a significant effect on reported sales. The average dollar/euro exchange rate for the three and nine months ended September 30, 2012 was 1.25 and 1.28, respectively, as compared to 1.41 for both corresponding periods of the prior year.

European based product sales decreased 4.0% for the three months ended September 30, 2012 and increased 10% for the nine months ended September 30, 2012, respectively, as compared to the corresponding periods of the prior year. The launch of Burberry *Body* in the third quarter of 2011 made for a very difficult quarterly sales comparison. In local currency, although Burberry brand sales were down 3.2% for the three months ended September 30, 2012 they were up 10.6% for the nine months ended September 30, 2012, respectively, as compared to the corresponding periods of the prior year. Other brands in our portfolio performed extremely well during the period. In local currency, third quarter sales of Lanvin fragrances rose 12% with continuing gains by the *Eclat d'Arpège* line and the launch of the *Jeanne Lanvin Couture* line. Montblanc fragrance sales were 67% ahead of last year's third quarter due in great part to the continued success of the men's line, *Legend*. *Jimmy Choo* fragrances also showed gains, up 44% versus last year's third quarter based upon the signature scent that launched in 2011.

INTER PARFUMS, INC. AND SUBSIDIARIES

For the nine month period ended September 30, 2012, top line growth has been especially strong in North America where sales are running 38% ahead of last year. Growth continued in the Middle East which saw a greater than 30% increase in sales. Russia drove sales in Eastern Europe producing a 32% improvement in this region and Asia and South America achieved sales growth of 16% and 17%, respectively. Despite weaker consumer spending in selected countries in Western Europe, sales through the first nine months of this year were 6% ahead of the same period last year.

Our expectations for the remainder of 2012 for our European based product lines reflect our plans to continue to build upon the strength of our brands and worldwide distribution network. While we are not expecting any significant contributions in 2012 from our newest brands, Balmain, Karl Lagerfeld and Repetto, where we are just beginning the product development process, we do expect continued strong performances from Lanvin, Jimmy Choo and Montblanc.

With respect to our United States specialty retail and mass-market products, net sales for the three months ended September 30, 2012 increased 4.0% to \$17.7 million, as compared to \$17.0 million for the corresponding period of the prior year. Net sales for the nine months ended September 30, 2012 increased 33.4% to \$57.8 million, as compared to \$43.3 million for the corresponding period of the prior year.

The initial launch of our first Nine West fragrance and the commencement of sales pursuant to our Anna Sui license were the primary contributors to 2012 sales growth. In January 2012, *Love Fury*, a women's fragrance created for Nine West launched at over 650 Macy's stores and 282 Nine West stores in the U.S. and internationally. As this line was met with mixed reviews, we are reevaluating our Nine West sales plans for 2013.

In 2011, we entered into a ten-year exclusive worldwide fragrance license agreement to create, produce and distribute perfumes and fragrance-related products under the Anna Sui brand. Our rights under the agreement commenced on January 1, 2012 when we took over production and distribution of the existing Anna Sui fragrance collections. Sales of Anna Sui products have been strong since the beginning of the year with a high concentration to customers in the Far East. During the three months ended September 30, 2012 we took over all production responsibilities that were formerly being performed for us by the former licensee. While this switchover of production caused some inventory delays, which affected sales during the period, we are currently in stock and have sufficient quantities to meet our customers' needs.

For the Banana Republic brand, to complement the women's scent *Wildbloom*, introduced in 2011, we launched a brand extension *Wildbloom Vert*, in early 2012 and another men's fragrance, *Wildblue*, was introduced in the second

quarter of 2012. Building upon the success of the Gap brand's fragrances, a new fragrance concept was created for Gap in an effort to capture the heritage of the brand. The new scents for men and women, *Gap Established 1969*, launched in March 2012 at over 650 Gap stores in the U. S. and international distribution is now underway. We also introduced *Wishes & Dreams* for bebe and *Miss Madison* for Brooks Brothers during the spring of 2012 and we are in the development stage for several new fragrance concepts and line extensions for our other specialty retail brands.

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

INTER PARFUMS, INC. AND SUBSIDIARIES

| Gross margin (In millions) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|----------|------------------------------------|----------|
| | 2012 | 2011 | 2012 | 2011 |
| Net sales | \$ 166.3 | \$ 171.7 | \$ 477.2 | \$ 426.1 |
| Cost of sales | 65.2 | 64.3 | 181.5 | 158.2 |
| Gross margin | \$ 101.1 | \$ 107.4 | \$ 295.7 | \$ 267.9 |
| Gross margin as a percent of net sales | 61 % | 63 % | 62 % | 63 % |

Gross profit margin was 61% and 62% for the three and nine month periods ended September 30, 2012, respectively, as compared to 63% for both corresponding periods of the prior year.

We carefully watch movements in foreign currency exchange rates as over 40% of our European based operations net sales are denominated in dollars, while our costs are incurred in euro. Therefore, from a profit standpoint, a stronger U.S. dollar has a positive effect on our gross margin. The average dollar/euro exchange rate was up approximately 11% and 9% for the three and nine months ended September 30, 2012, respectively, as compared to the corresponding periods of the prior year. However, sales for the 2012 period continued to include an unusually high level of value sets, which carry a much higher cost of goods than everyday single unit merchandise. In addition, certain slow moving product lines were sold at a discount. These sales mitigated any gains obtained from currency fluctuation.

Generally, we do not bill customers for shipping and handling costs, and such costs, which aggregated \$2.3 million and \$6.2 million for the three and nine month periods ended September 30, 2012, respectively, as compared to \$2.7 million and \$5.7 million for the corresponding periods of the prior year, 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 (In millions) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|---------|------------------------------------|----------|
| | 2012 | 2011 | 2012 | 2011 |
| Selling, general and administrative expenses | \$ 79.0 | \$ 85.8 | \$ 229.2 | \$ 210.0 |
| Selling, general and administrative expenses as a percent of net sales | 48 % | 50 % | 48 % | 49 % |

Selling, general and administrative expenses decreased 8% and increased 9% for the three and nine month periods ended September 30, 2012, respectively, as compared to the corresponding periods of the prior year. As a percentage

of sales, selling, general and administrative expenses were 48% of sales for both the three and nine month periods ended September 30, 2012, as compared to 50% and 49% for the corresponding periods of the prior year.

INTER PARFUMS, INC. AND SUBSIDIARIES

Promotion and advertising included in selling, general and administrative expenses aggregated \$31.2 million and \$88.3 million for the three and nine month periods ended September 30, 2012, respectively, as compared to \$37.2 million and \$78.0 million for the corresponding periods of the prior year. Promotion and advertising represented 18.8% and 18.5% of net sales for the three and nine months ended September 30, 2012, as compared to 21.6% and 18.3% of sales for the corresponding period of the prior year. The global launch of *Burberry Body* continues to be supported by strong visuals. Although the level of spending is not near what we incurred during the third and fourth quarters of 2011, we significantly increased our overall advertising budget for all brands to maintain the positive sales momentum which we believe will contribute to sustained growth in market share.

Royalty expense included in selling, general and administrative expenses aggregated \$14.7 million and \$40.7 million for the three and nine month periods ended September 30, 2012, respectively, as compared to \$14.3 million and \$36.6 million for the corresponding periods of the prior year. As a percentage of sales, royalty expense represented 8.8% and 8.5% of net sales for the three and nine months ended September 30, 2012, as compared to 8.3% and 8.6% of net sales for the corresponding period of the prior year. In addition, service fees relating to the activities of our distribution subsidiaries aggregated \$6.5 million and \$17.5 million for the three and nine month periods ended September 30, 2012, respectively, as compared to \$7.1 million and \$16.3 million for the corresponding periods of the prior year.

As a result of the above analysis, income from operations increased 2.5% to \$22.1 million for the three month period ended September 30, 2012, as compared to \$21.5 million for the corresponding period of the prior year. Income from operations increased 14.7% to \$66.5 million for the nine month period ended September 30, 2012, as compared to \$57.9 million for the corresponding period of the prior year. Operating margins were 13.3% and 13.9% of net sales for the three and nine month periods ended September 30, 2011, respectively, as compared to 12.6% and 13.6% for the corresponding periods of the prior year.

Interest expense aggregated \$0.4 million and \$1.2 million for the three and nine month periods ended September 30, 2012, respectively, as compared to \$0.7 million and \$1.5 million for the corresponding periods of the prior year. We use the credit lines available to us, as needed, to finance our working capital needs. Loans payable – banks and long-term debt including current maturities aggregated \$16.3 million as of December 31, 2011, as compared to \$21.4 million as of December 31, 2010.

Foreign currency losses aggregated \$1.4 million and \$2.6 million for the three and nine month periods ended September 30, 2012, respectively, as compared to gains of \$1.2 million and \$1.1 million for the corresponding periods of the prior year. We enter into foreign currency forward exchange contracts to manage exposure related to certain foreign currency commitments.

Our effective income tax rate was 35% and 36% for the three and nine month periods ended September 30, 2012, respectively, as compared to 41% and 37% for the corresponding periods of the prior year. Our effective tax rates differ from statutory rates due to the effect of state and local taxes and tax rates in foreign jurisdictions. Our effective tax rate is expected to be around 35% to 36% reflective of the tax rate increase enacted by the French Government retroactive to 2011. The higher rate during the three and nine months ended September 30, 2011 is primarily the result of an agreement in principle with the French Tax Authority on the consequences of the tax audit, which covered income and non-income tax items. As a result, the Company increased its income tax expense by \$1.7 million for the three and nine months ended September 30, 2011 and reduced its reserve for contingency related to non-income tax items recorded in 2010 by \$1.3 million as of September 30, 2011. Other than as discussed above, we did not experience any significant changes in tax rates, and none were expected in jurisdictions where we operate.

INTER PARFUMS, INC. AND SUBSIDIARIES**Net income and earnings per share**

| (In thousands except per share data) | Three Months | | Nine Months | |
|---|--------------------------------|-----------|--------------------------------|-----------|
| | Ended September 30, 2012 | 2011 | Ended September 30, 2012 | 2011 |
| Net income | \$ 13,177 | \$ 13,284 | \$ 40,912 | \$ 37,052 |
| Less: Net income attributable to the noncontrolling interest | 3,159 | 2,851 | 9,389 | 8,867 |
| Net income attributable to Inter Parfums, Inc. | \$ 10,018 | \$ 10,433 | \$ 31,523 | \$ 28,185 |
| Earnings per share: | | | | |
| Net income attributable to Inter Parfums, Inc. common shareholders: | | | | |
| Basic | \$0.33 | \$0.34 | \$1.03 | \$0.92 |
| Diluted | \$0.33 | \$0.34 | \$1.03 | \$0.92 |
| Weighted average number of shares outstanding: | | | | |
| Basic | 30,570 | 30,539 | 30,561 | 30,506 |
| Diluted | 30,717 | 30,698 | 30,697 | 30,676 |

Net income was \$13.2 million for the three months ended September 30, 2012, as compared to \$13.3 million for the corresponding period of the prior year. Net income increased 10.4% to \$40.9 million for the nine months ended September 30, 2012, as compared to \$37.1 million for the corresponding period of the prior year.

Net income attributable to the noncontrolling interest aggregated 23% of net income for the nine month period ended September 30, 2012, as compared to 24% for the corresponding periods of the prior year. The decline is primarily the effect of increased profits from our 100% owned U.S. operating segment.

Net income attributable to Inter Parfums, Inc. decreased 4% to \$10.0 million for the three months ended September 30, 2012, as compared to \$10.4 million for the corresponding period of the prior year. Net income attributable to Inter Parfums, Inc. increased 11.8% to \$31.5 million for the nine months ended September 30, 2012, as compared to \$28.2 million for the corresponding period of the prior year.

Diluted earnings per share were \$0.33 and \$0.34 for the three months ended September 30, 2012 and 2011, respectively, and diluted earnings per share were \$1.03 and \$0.92 for the nine months ended September 30, 2012 and 2011, respectively. Weighted average shares outstanding aggregated 30.6 million for both the three and nine months ended September 30, 2012, respectively, as compared to 30.5 million for both corresponding periods of the prior year. On a diluted basis, average shares outstanding were 30.7 million for both the three and nine month periods ended September 30, 2012 as well as for the corresponding periods of the prior year.

INTER PARFUMS, INC. AND SUBSIDIARIES

Liquidity and Capital Resources

Our financial position remains strong. At September 30, 2012, working capital aggregated \$241 million and we had a working capital ratio of 2.8 to 1. Cash and cash equivalents aggregated \$26 million and we had no long-term debt.

As previously mentioned, on July 16, 2012, while discussions were still underway, Burberry exercised its option to buy out the license rights effective December 31, 2012. On July 26, 2012, discussions with Burberry on the creation of a new operating model were discontinued as we were unable to agree on final terms. On October 11, 2012 the Company and Burberry entered into a transition agreement in order to facilitate a smooth transition. The transition agreement provides for an extension of certain license rights and obligations for an additional three months period ending on March 31, 2013. The Company will continue to operate certain aspects of the business for the brand including product development, testing, and distribution. The transition agreement also provides for non-exclusivity for manufacturing, a cap on sales of Burberry products, a reduced advertising requirement and no minimum royalty amounts.

The transition agreement confirms that the exit payment of €181 million (approximately \$230 million at current exchange rates excluding receivables, inventories and other tangible assets), will be made by December 31, 2012, subject to the Company's continued compliance with the provisions of the existing license agreement. Accounts receivables will be collected in the ordinary course of business and it is anticipated that inventories at March 31, 2013 will be less than €15 million in the aggregate. Burberry has agreed to purchase, at cost, all Burberry Beauty finished goods subject to a €3 million maximum, and all Burberry fragrance and Burberry Beauty raw materials and components subject to a €5 million maximum. The Company will have until June 30, 2013 to sell-off any remaining inventory not purchased by Burberry and no loss is anticipated in connection with the sell-off of inventories.

At December 31, 2012, intangible assets are expected to include approximately €4 million, net of deferred taxes, which are to be written off against the gain on sale of assets. In addition, Burberry has agreed to buy all tangible assets related to the license at 50% of book value and the expected loss on the sale of tangible assets of approximately €3 million together with approximately €2 million of other negotiated settlements between the Company and Burberry will also be written off against the gain on sale of assets.

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.

INTER PARFUMS, INC. AND SUBSIDIARIES

Cash provided by (used in) operating activities aggregated \$22.4 million and (\$49.1) million for the nine months ended September 30, 2012 and 2011, respectively. For the nine months ended September 30, 2012, working capital items used \$27.6 million in cash from operating activities, as compared to \$96.9 million in the 2011 period. The largest use of funds during the 2012 period was for payments made to our vendors for 2011 inventory purchases. The decline in accounts receivable reflects strong collection activity as days' sales outstanding continues to hover around the 90 day mark. The small decline in inventories for the nine months ended September 30, 2012, as shown on the statement of cash flows, reflects the inventory levels needed to support our sales growth and new licensing activities in both European operations and U.S. operations.

Cash flows used in investing activities through September 30, 2012 reflects \$7.6 million spent for capital items, most of which relates to display counters used for the *Burberry Beauty* line. 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. Payments for intangible assets aggregated \$2.7 million in the nine months of 2012 which is primarily the entry fee paid for the Anna Sui license. When acquiring new licenses for brands that have current distribution we may agree to pay an entry fee in connection with securing the license rights.

In October 2012, we entered into a 20-year worldwide license agreement with Karl Lagerfeld B.V. to create, produce and distribute perfumes under the Karl Lagerfeld brand. 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 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.

Our short-term financing requirements are expected to be met by available cash on hand at September 30, 2012, cash generated by operations and short-term credit lines provided by domestic and foreign banks. The principal credit facilities for 2012 consist of a \$15.0 million unsecured revolving line of credit provided by a domestic commercial bank and approximately \$25.0 million in credit lines provided by a consortium of international financial institutions. As of September 30, 2012, short-term borrowings aggregated \$1.4 million and we had no long-term debt.

In December 2011, our board of directors authorized the continuation of our cash dividend on an annual basis to \$0.32 per share for 2012. The next quarterly dividend of \$0.08 per share will be paid on January 15, 2013 to shareholders of record on December 31, 2012. The annual cash dividend for 2012 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.

INTER PARFUMS, INC. AND SUBSIDIARIES

Inflation rates in the U.S. and foreign countries in which we operate did not have a significant impact on operating results for the nine month period ended September 30, 2012.

Contractual Obligations

The following table sets for a schedule of our contractual obligations as of December 31, 2011 over the periods indicated in the table, as well as our total contractual obligations.

(\$ in thousands).

| Contractual Obligations | Payments due by period | | | | |
|---|------------------------|---------------------|--------------|--------------|----------------------|
| | Total | Less than 1 year | Years 2-3 | Years 4-5 | More than 5 years |
| Long-Term Debt ⁽¹⁾ | \$4,600 | \$ 4,600 | | | |
| Capital Lease Obligations | | | | | |
| Operating Leases | \$22,900 | \$ 4,600 | \$6,600 | \$5,100 | \$6,600 |
| Purchase Obligations ⁽²⁾ | \$1,268,700 | \$ 155,800 | \$343,800 | \$344,100 | \$425,000 |
| Other Long-Term Liabilities Reflected on the Registrant's Balance Sheet under GAAP | | | | | |
| Total | \$1,296,200 | \$ 165,000 | \$350,400 | \$349,200 | \$431,600 |

(1) Includes long-term debt and related interest costs including interest rate swap amounts. Interest due as the result of interest rate swaps is all at a fixed rate and is payable \$0.08 million in 2012.

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 (2) advertising commitments were estimated based on planned future sales for the license terms that were in effect at December 31, 2011, 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.

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.

INTER PARFUMS, INC. AND SUBSIDIARIES

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 September 30, 2012, we had foreign currency contracts in the form of forward exchange contracts in the amount of approximately U.S. \$67 million and GB pounds 7.1 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 September 30, 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.

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.

INTER PARFUMS, INC. AND SUBSIDIARIES

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 | 33 |
| 31.2 | Certifications required by Rule 13a-14(a) of Chief Financial Officer | 34 |
| 32.1 | Certification required by Section 906 of the Sarbanes-Oxley Act of Chief Executive Officer | 35 |
| 32.1 | Certification required by Section 906 of the Sarbanes-Oxley Act of Chief Financial Officer | 36 |
| 101 | Interactive data files | |

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 7th day of November 2012.

INTER PARFUMS, INC.

By: /s/ Russell Greenberg

Executive Vice President and
Chief Financial Officer

Page 32