

INTER PARFUMS INC  
Form 10-Q  
May 09, 2011

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

FORM 10-Q

( MARK ONE )

Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended March 31, 2011.

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  
(State or other jurisdiction of  
incorporation or organization)

13-3275609  
(I.R.S. Employer  
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  Accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

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

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

At May 6, 2011, there were 30,482,281 shares of common stock, par value \$.001 per share, outstanding.

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## INTER PARFUMS, INC. AND SUBSIDIARIES

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INTER PARFUMS, INC. AND SUBSIDIARIES

Part I. Financial Information

Item 1. Financial Statements

In our opinion, the accompanying unaudited consolidated financial statements contain all adjustments (consisting only of normal recurring adjustments) necessary to present fairly our financial position, results of operations and cash flows for the interim periods presented. We have condensed such financial statements in accordance with the rules and regulations of the Securities and Exchange Commission ("SEC"). Therefore, such financial statements do not include all disclosures required by accounting principles generally accepted in the United States of America. In preparing these consolidated financial statements, the Company has evaluated events and transactions for potential recognition or disclosure through the date the consolidated financial statements were issued by filing with the SEC. These financial statements should be read in conjunction with our audited financial statements for the year ended December 31, 2010 included in our annual report filed on Form 10-K.

The results of operations for the three months ended March 31, 2011 are not necessarily indicative of the results to be expected for the entire fiscal year.

## INTER PARFUMS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS  
(In thousands except share and per share data)  
(Unaudited)

|   | March 31,<br>2011 | December 31,<br>2010 |
|---|-------------------|----------------------|
| <b>ASSETS</b>   |                   |                      |
| Current assets:   |                   |                      |
| Cash and cash equivalents   | \$40,979          | \$ 37,548            |
| Short-term investments  | 43,100            | 49,391               |
| Accounts receivable, net  | 122,295           | 97,593               |
| Inventories   | 141,848           | 109,840              |
| Receivables, other  | 1,554             | 3,688                |
| Other current assets  | 6,775             | 4,635                |
| Deferred tax assets   | 7,710             | 7,230                |
| Total current assets  | 364,261           | 309,925              |
| Equipment and leasehold improvements, net   | 13,958            | 11,207               |
| Goodwill  | 3,875             | 3,654                |
| Trademarks, licenses and other intangible assets, net   | 116,693           | 111,402              |
| Other assets  | 1,821             | 1,917                |
| Total assets  | \$500,608         | \$ 438,105           |
| <b>LIABILITIES AND EQUITY</b>   |                   |                      |
| Current liabilities:  |                   |                      |
| Loans payable – banks   | \$6,368           | \$ 5,250             |
| Current portion of long-term debt   | 10,428            | 11,090               |
| Accounts payable - trade  | 78,365            | 52,694               |
| Accrued expenses  | 45,883            | 47,413               |
| Income taxes payable  | 12,358            | 7,905                |
| Dividends payable   | 2,439             | 1,979                |
| Total current liabilities   | 155,841           | 126,331              |
| Long-term debt, less current portion  | 3,631             | 5,039                |
| Deferred tax liability  | 7,041             | 6,789                |
| 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 30,482,281 and 30,445,881 shares at March 31, 2011 and December 31, 2010, respectively | 30                | 30                   |
| Additional paid-in capital  | 49,721            | 48,887               |
| Retained earnings   | 215,818           | 205,453              |
| Accumulated other comprehensive income  | 27,873            | 14,757               |
| Treasury stock, at cost, 10,009,492 common shares at March 31, 2011 and December 31, 2010   | (34,151 )         | (34,151 )            |
| Total Inter Parfums, Inc. shareholders' equity  | 259,291           | 234,976              |
| Noncontrolling interest   | 74,804            | 64,970               |
| Total equity  | 334,095           | 299,946              |
| Total liabilities and equity  | \$500,608         | \$ 438,105           |

See notes to consolidated financial statements.

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## INTER PARFUMS, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF INCOME

(In thousands except per share data)

(Unaudited)

|   | Three months ended<br>March 31, |           |
|---|---------------------------------|-----------|
|   | 2011                            | 2010      |
| Net sales   | \$133,363                       | \$119,373 |
| Cost of sales   | 46,772                          | 47,652    |
| Gross margin  | 86,591                          | 71,721    |
| Selling, general and administrative expenses                        | 61,049                          | 55,698    |
| Income from operations  | 25,542                          | 16,023    |
| Other expenses (income):  |                                 |           |
| Interest expense  | 440                             | 589       |
| (Gain) loss on foreign currency                                     | (419 )                          | 2,382     |
| Interest income   | (317 )                          | (255 )    |
|   | (296 )                          | 2,716     |
| Income before income taxes  | 25,838                          | 13,307    |
| Income taxes  | 8,498                           | 4,357     |
| Net income  | 17,340                          | 8,950     |
| Less: Net income attributable to the noncontrolling interest        | 4,581                           | 2,400     |
| Net income attributable to Inter Parfums, Inc.                      | \$12,759                        | \$6,550   |
| Earnings per share:   |                                 |           |
| Net income attributable to Inter Parfums, Inc. common shareholders: |                                 |           |
| Basic   | \$0.42                          | \$0.22    |
| Diluted   | \$0.41                          | \$0.22    |
| Weighted average number of shares outstanding:                      |                                 |           |
| Basic   | 30,474                          | 30,192    |
| Diluted   | 30,634                          | 30,291    |
| Dividends declared per share  | \$0.08                          | \$0.065   |

See notes to consolidated financial statements.





## INTER PARFUMS, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(In thousands)

(Unaudited)

|   | Inter Parfums, Inc. shareholders |                                  |                      |                      |            |                            | Total                   |
|---|----------------------------------|----------------------------------|----------------------|----------------------|------------|----------------------------|-------------------------|
|   | Common<br>stock                  | Additional<br>paid-in<br>Capital | Retained<br>earnings | Accumulated<br>other |            | Noncontrolling<br>interest |                         |
|   |                                  |                                  |                      |                      |            |                            | comprehensive<br>income |
| Balance – January 1, 2010                             | \$30                             | \$45,126                         | \$186,611            | \$28,022             | \$(33,043) | \$60,667                   | \$287,413               |
| Comprehensive income:                                 |                                  |                                  |                      |                      |            |                            |                         |
| Net income  | —                                | —                                | 6,550                | —                    | —          | 2,400                      | 8,950                   |
| Foreign currency translation adjustment               | —                                | —                                | —                    | (12,998)             | —          | (4,038)                    | (17,036)                |
| Net derivative instrument gain (loss), net of tax     | —                                | —                                | —                    | (15)                 | —          | 74                         | 59                      |
| Shares issued upon exercise of stock options          | —                                | 437                              | —                    | —                    | —          | —                          | 437                     |
| Sale of subsidiary shares to noncontrolling interests | —                                | 961                              | —                    | —                    | —          | 2,862                      | 3,823                   |
| Dividends   | —                                | —                                | (1,964)              | —                    | —          | —                          | (1,964)                 |
| Stock compensation                                    | —                                | 148                              | 44                   | —                    | —          | 26                         | 218                     |
| Balance – March 31, 2010                              | \$30                             | \$46,672                         | \$191,241            | \$15,009             | \$(33,043) | \$61,991                   | \$281,900               |
| Balance – January 1, 2011                             | \$30                             | \$48,887                         | \$205,453            | \$14,757             | \$(34,151) | \$64,970                   | \$299,946               |
| Comprehensive income:                                 |                                  |                                  |                      |                      |            |                            |                         |
| Net income  | —                                | —                                | 12,759               | —                    | —          | 4,581                      | 17,340                  |
| Foreign currency translation adjustment               | —                                | —                                | —                    | 13,097               | —          | 4,322                      | 17,419                  |
| Net derivative instrument gain, net of tax            | —                                | —                                | —                    | 19                   | —          | 1                          | 20                      |
| Shares issued upon exercise of stock options          | —                                | 445                              | —                    | —                    | —          | —                          | 445                     |
| Sale of subsidiary shares to noncontrolling interests | —                                | 213                              | —                    | —                    | —          | 915                        | 1,128                   |
| Dividends   | —                                | —                                | (2,439)              | —                    | —          | —                          | (2,439)                 |
| Stock compensation                                    | —                                | 176                              | 45                   | —                    | —          | 15                         | 236                     |
| Balance – March 31, 2011                              | \$30                             | \$49,721                         | \$215,818            | \$27,873             | \$(34,151) | \$74,804                   | \$334,095               |

See notes to consolidated financial statements.

INTER PARFUMS, INC. AND SUBSIDIARIES  
 CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
 (In thousands except per share data)  
 (Unaudited)

|  | Three months ended<br>March 31, |            |
|--|---------------------------------|------------|
|  | 2011                            | 2010       |
| Net income   | \$17,340                        | \$8,950    |
| Other comprehensive income:  |                                 |            |
| Net derivative instrument gain, net of tax                         | 20                              | 59         |
| Translation adjustments, net of tax                                | 17,419                          | (17,036 )  |
|  | 17,439                          | (16,977 )  |
| Comprehensive income   | 34,779                          | (8,027 )   |
| Comprehensive income attributable to the noncontrolling interests: |                                 |            |
| Net income   | 4,581                           | 2,400      |
| Net derivative instrument gain, net of tax                         | 1                               | 74         |
| Translation adjustments, net of tax                                | 4,322                           | (4,038 )   |
|  | 8,904                           | (1,564 )   |
| Comprehensive income attributable to Inter Parfums, Inc.           | \$25,875                        | \$(6,463 ) |

See notes to consolidated financial statements.

INTER PARFUMS, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(In thousands)  
(Unaudited)

|   | Three months ended<br>March 31, |           |
|---|---------------------------------|-----------|
|   | 2011                            | 2010      |
| <b>Cash flows from operating activities:</b>  |                                 |           |
| Net income  | \$17,340                        | \$8,950   |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: |                                 |           |
| Depreciation and amortization   | 2,980                           | 2,393     |
| Provision for doubtful accounts   | 980                             | (188 )    |
| Noncash stock compensation  | 266                             | 260       |
| Deferred tax (benefit)  | (297 )                          | (1,789 )  |
| Change in fair value of derivatives   | (119 )                          | (32 )     |
| Changes in:   |                                 |           |
| Accounts receivable   | (19,458 )                       | (15,354 ) |
| Inventories   | (25,269 )                       | (7,205 )  |
| Other assets  | 687                             | 1,269     |
| Accounts payable and accrued expenses   | 17,285                          | 18,080    |
| Income taxes payable, net   | 3,773                           | 2,185     |
| Net cash provided by (used in) operating activities   | (1,832 )                        | 8,569     |
| <b>Cash flows from investing activities:</b>  |                                 |           |
| Purchases of short-term investments   | (3,930 )                        | (8,297 )  |
| Proceeds from sale of short-term investments  | 12,996                          | —         |
| Purchases of equipment and leasehold improvements   | (3,287 )                        | (1,340 )  |
| Payment for intangible assets acquired  | (286 )                          | (463 )    |
| Net cash provided by (used in) investing activities   | 5,493                           | (10,100 ) |
| <b>Cash flows from financing activities:</b>  |                                 |           |
| Proceeds from loans payable – banks, net  | 756                             | 2,327     |
| Repayment of long-term debt   | (2,856 )                        | (2,792 )  |
| Proceeds from exercise of options   | 445                             | 437       |
| Proceeds from sale of stock of subsidiary   | 1,128                           | 3,823     |
| Dividends paid  | (1,979 )                        | (996 )    |
| Net cash provided by (used in) financing activities   | (2,506 )                        | 2,799     |
| Effect of exchange rate changes on cash   | 2,276                           | (6,473 )  |
| Net increase (decrease) in cash and cash equivalents  | 3,431                           | (5,205 )  |
| Cash and cash equivalents - beginning of period   | 37,548                          | 100,467   |

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|   |          |          |
|---|----------|----------|
| Cash and cash equivalents - end of period         | \$40,979 | \$95,262 |
| Supplemental disclosure of cash flow information: |          |          |
| Cash paid for:                                    |          |          |
| Interest  | \$447    | \$580    |
| Income taxes                                      | 3,792    | 2,357    |

See notes to consolidated financial statements.

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INTER PARFUMS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

1. Significant Accounting Policies:

The accounting policies we follow are set forth in the notes to our financial statements included in our Form 10-K which was filed with the Securities and Exchange Commission for the year ended December 31, 2010. 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 - adopted:

In January 2010, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2010-06, "Fair Value Measurements and Disclosures (ASC Topic 820): Improving Disclosures about Fair Value Measurements" which amends ASC Subtopic 820, "Fair Value Measurements and Disclosures" ("ASU 2010-06") to add new requirements for disclosures about transfers into and out of Levels 1 and 2 and separate disclosures about purchases, sales, issuances, and settlements relating to Level 3 measurements. ASU 2010-06 also clarifies existing fair value disclosures about the level of disaggregation and about inputs and valuation techniques used to measure fair value. The new disclosure and clarifications of existing disclosures are effective for interim and annual periods beginning after December 31, 2009, except for the disclosures about purchases, sales, issuances and settlements in the roll forward activity in Level 3 fair value measurements. Those disclosures are effective for interim and annual periods beginning after December 15, 2010. The adoption of the provisions of this guidance did not have a material impact on the Company's consolidated financial statements.

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

3. Recent Agreements:

Lane Bryant

In March 2011, we entered into an exclusive agreement with a unit of Charming Shoppes, Inc. for its flagship brand, Lane Bryant. Under the agreement, Inter Parfums will design and manufacture personal care products for the Lane Bryant brand, while Lane Bryant is responsible for marketing, promoting and selling these products. The initial term of the contract, which may be extended by mutual consent, runs through December 31, 2015.

S. T. Dupont

In April 2011 we renewed our license agreement with S.T. Dupont for the creation, development and distribution of fragrance lines through December 31, 2016 on mutually favorable terms and conditions. Our initial eleven year license agreement with S.T. Dupont was signed in June 1997, and had previously been extended in 2006 for an additional three years until June 2011.

## INTER PARFUMS, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

## 4. Inventories:

Inventories consist of the following:

| (In thousands)                    | March 31,<br>2011 | December 31,<br>2010 |
|-----------------------------------|-------------------|----------------------|
| Raw materials and component parts | \$ 50,381         | \$ 40,809            |
| Finished goods                    | 91,467            | 69,031               |
|                                   | \$ 141,848        | \$ 109,840           |

## 5. Fair Value Measurement:

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

| (In thousands)   | Fair Value Measurements at March 31, 2011 |  |   |  |
|--|---|--|---|--|
|  | Total                                     | Quoted<br>Prices in<br>Active<br>Markets for<br>Identical<br>Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| <b>Assets:</b>   |   |  |   |  |
| Short-term investments   | \$ 43,100                                 | \$ —   | \$ 43,100   | \$ —   |
| Foreign currency forward<br>exchange contracts not accounted<br>for using hedge accounting | 1,480                                     | —  | 1,480   | —  |
|  | \$ 44,580                                 | \$ —   | \$ 44,580   | \$ —   |
| <b>Liabilities:</b>  |   |  |   |  |
| Interest rate swaps  | \$ 230                                    | \$ —   | \$ 230  | \$ —   |

| (In thousands) | Fair Value Measurements at December 31, 2010 |  |   |  |
|----------------|--|--|---|--|
|                | Total  | Quoted<br>Prices in<br>Active<br>Markets for<br>Identical<br>Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| <b>Assets:</b> |  |  |   |  |

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|  |           |      |           |      |
|--|-----------|------|-----------|------|
| Short-term investments   | \$ 49,391 | \$ — | \$ 49,391 | \$ — |
| Foreign currency forward exchange contracts not accounted for using hedge accounting | 1,024     | —    | 1,024     | —    |
|  | \$ 50,415 | \$ — | \$ 50,415 | \$ — |
| Liabilities:   |           |      |           |      |
| Interest rate swaps  | \$ 333    | \$ — | \$ 333    | \$ — |

INTER PARFUMS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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 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. Cash-flow hedges were highly effective, in all material respects.

The following table presents gains and losses in derivatives designated as hedges and the location of those gains and losses in the financial statements (in thousands):

| Derivatives Designated as Hedging Instruments | Location of Gain (Loss) Recognized from Accumulated OCI on Derivative (Effective Portion) |                | Amount of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) |                | Location of Gain (Loss) Recognized in Income |                                 |      |          |
|---|---|----------------|---|----------------|--|---------------------------------|------|----------|
|   | Reclassified from Accumulated OCI into Income (Effective Portion)                         |                | Reclassified from Accumulated OCI into Income (Effective Portion)                       |                | Recognized in Income                         |                                 |      |          |
|   | March 31, 2011  | March 31, 2010 | March 31, 2011  | March 31, 2010 | March 31, 2011                               | March 31, 2010                  |      |          |
| Foreign exchange contracts                    | \$ —  | —              | Gain (loss) on foreign currency   | \$ —           | —  | Gain (loss) on foreign currency | \$ — | (2,679 ) |

(A) The amount of gain (loss) recognized in income represents the amount excluded from the assessment of hedge effectiveness.





## INTER PARFUMS, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

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

| Derivatives Not Designated<br>as Hedging Instruments | Location of Gain (Loss)<br>recognized in Income on<br>Derivative | March 31, 2011 | March 31, 2010 |
|--|--|----------------|----------------|
|  |  |                |                |
| Interest rate swaps                                  | Interest expense   | \$ 119         | \$ 32          |
| Foreign exchange contracts                           | Gain (loss) on foreign currency                                  | \$ 36          | \$ (58 )       |

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 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 March 31, 2011 and December 31, 2010 resulted in an asset and are included in other current assets on the accompanying balance sheet. Generally, increases or decreases in the fair value of derivative instruments will be recognized as gains or losses in earnings in the period of change. If the derivative instrument is designated and qualifies as a cash flow hedge, the changes in fair value of the derivative instrument will be recorded as a separate component of shareholders' equity.

At March 31, 2011, we had foreign currency contracts in the form of forward exchange contracts in the amount of approximately U.S. \$26 million and GB pounds 4.3 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.

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

| Description        | Fair Value Measurements at March 30, 2011 |  |   |  |
|--------------------|---|--|---|--|
|                    | Total                                     | Quoted<br>Prices in<br>Active<br>Markets for<br>Identical<br>Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| Trademark - Nickel | \$ 2,485                                  | \$ —   | \$ —  | \$ 2,485   |
| Goodwill           | \$ 3,875                                  | \$ —   | \$ —  | \$ 3,875   |



## INTER PARFUMS, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

| Description        | Total    | Fair Value Measurements at December 31, 2010                                     |   |  |
|--------------------|----------|--|---|--|
|                    |          | Quoted<br>Prices in<br>Active<br>Markets for<br>Identical<br>Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| Trademark - Nickel | \$ 2,337 | \$ —   | \$ —  | \$ 2,337   |
| Goodwill           | \$ 3,654 | \$ —   | \$ —  | \$ 3,654   |

The goodwill and trademarks referred to above relate 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 and, in certain instances, we engage third party valuation specialists to advise us. There was no change to the carrying amount of the intangible assets referred to above during the three month periods ended March 31, 2011 and 2010 other than for the effect of changes in foreign currency translation rates.

#### 8. Share-Based Payments:

We maintain a stock option program for key employees, executives and directors. The plans, all of which have been approved by shareholder vote, provide for the granting of both nonqualified and incentive options. Options granted under the plans typically have a six year term and vest over a four to five-year period. The fair value of shares vested during the three months ended March 31, 2011 and 2010 aggregated \$0.05 million and \$0.03 million, respectively. Compensation cost is recognized on a straight-line basis over the requisite service period for the entire award. It is generally our policy to issue new shares upon exercise of stock options.

The following table sets forth information with respect to nonvested options for the three month period ended March 31, 2011:

|   | Number of Shares | Weighted Average<br>Grant Date Fair Value |
|---|------------------|---|
| Nonvested options – beginning of period | 480,843          | \$ 4.32                                   |
| Nonvested options granted               | 3,500            | \$ 5.27                                   |
| Nonvested options vested or forfeited   | (15,060)         | \$ 3.94                                   |
| Nonvested options – end of period       | 469,283          | \$ 4.34                                   |

Share-based payment expense decreased income before income taxes by \$0.27 million and \$0.26 million for the three months ended March 31, 2011 and 2010, respectively and decreased net income attributable to Inter Parfums, Inc. by \$0.15 million and \$0.13 million for the three months ended March 31, 2011 and 2010, respectively.



## INTER PARFUMS, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

The following table summarizes stock option information as of March 31, 2011:

|                                     | Shares    | Weighted Average<br>Exercise Price |
|-------------------------------------|-----------|------------------------------------|
| Outstanding at January 1, 2011      | 807,620   | \$ 12.78                           |
| Options granted                     | 3,500     | 17.94                              |
| Options cancelled                   | (2,810 )  | 14.51                              |
| Options exercised                   | (36,400 ) | 12.22                              |
| Outstanding at March 31, 2011       | 771,910   | \$ 12.82                           |
| Options exercisable                 | 297,078   | \$ 12.28                           |
| Options available for future grants | 822,385   |                                    |

As of March 31, 2011, the weighted average remaining contractual life of options outstanding is 3.26 years (2.35 years for options exercisable), the aggregate intrinsic value of options outstanding and options exercisable is \$4.4 million and \$1.9 million, respectively and unrecognized compensation cost related to stock options outstanding of Inter Parfums, Inc. aggregated \$1.4 million. The amount of unrecognized compensation cost related to stock options outstanding of our majority-owned subsidiary, Inter Parfums S.A., was €0.62 million. Options under Inter Parfums, S.A. plans vest over a four-year period.

Cash proceeds, tax benefits and intrinsic value related to stock options exercised during the three months ended March 31, 2011 and March 31, 2010 were as follows:

| (In thousands)                             | March 31,<br>2011 | March 31,<br>2010 |
|--|-------------------|-------------------|
| Cash proceeds from stock options exercised | \$ 445            | \$ 437            |
| Tax benefits                               | —                 | —                 |
| Intrinsic value of stock options exercised | 228               | 163               |

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

The weighted average fair values of the options granted by Inter Parfums, Inc. during the three months ended March 31, 2011 and 2010 were \$5.27 and \$5.26 per share, respectively, on the date of grant using the Black-Scholes option pricing model to calculate the fair value of options granted. The assumptions used in the Black-Scholes pricing model for the periods ended March 31, 2011 and 2010 are set forth in the following table. Expected volatility is estimated based on historic volatility of our common stock. We use the simplified method in developing its estimate of the expected term of the option as historic data regarding employee exercise behavior is incomplete for the new vesting parameters we instituted. 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 in place at the time of stock-based award grant would continue with no anticipated increases.



## INTER PARFUMS, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

|  | March 31,<br>2011 |       | March 31,<br>2010 |       |
|--|-------------------|-------|-------------------|-------|
| Weighted-average expected stock-price volatility | 38                | %     | 49                | %     |
| Weighted-average expected option life            | 4.5               | years | 4.18              | years |
| Weighted-average risk-free interest rate         | 2.0               | %     | 2.5               | %     |
| Weighted-average dividend yield                  | 1.7               | %     | 2.0               | %     |

## 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:

| (In thousands)  |    | March 31,<br>2011 |   | March 31,<br>2010 |
|---|----|-------------------|---|-------------------|
| <b>Numerator:</b>   |    |                   |   |                   |
| Net income attributable to Inter Parfums, Inc.                      | \$ | 12,759            |   | \$ 6,550          |
| Effect of dilutive securities of consolidated subsidiary            |    | (54               | ) | (5 )              |
| Numerator for diluted earnings per share                            | \$ | 12,705            |   | \$ 6,545          |
| <b>Denominator:</b>   |    |                   |   |                   |
| Weighted average shares   |    | 30,474            |   | 30,192            |
| <b>Effect of dilutive securities:</b>                               |    |                   |   |                   |
| Stock options and warrants  |    | 160               |   | 99                |
| Denominator for diluted earnings per share                          |    | 30,634            |   | 30,291            |
| <b>Earnings per share:</b>  |    |                   |   |                   |
| Net income attributable to Inter Parfums, Inc. common shareholders: |    |                   |   |                   |
| Basic   | \$ | 0.42              |   | \$ 0.22           |
| Diluted   |    | 0.41              |   | 0.22              |

Not included in the above computations is the effect of antidilutive potential common shares which consist of outstanding options to purchase 0.12 million and 0.48 million shares of common stock for the three month periods ended March 31, 2011 and 2010, respectively, as well as outstanding warrants to purchase 0.15 million shares of common stock for the three month period ended March 31, 2010.



## INTER PARFUMS, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

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

| (In thousands)  | Three months ended |                   |
|---|--------------------|-------------------|
|   | 2011               | March 31,<br>2010 |
| Net income attributable to Inter Parfums, Inc.  | \$ 12,759          | \$ 6,550          |
| Increase (decrease) in Inter Parfums, Inc.'s additional paid-in capital for subsidiary share transactions | 213                | 961               |
| Change from net income attributable to Inter Parfums, Inc. and transfers from noncontrolling interest     | \$ 12,972          | \$ 7,511          |

## 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:

| (In thousands)   | Three months ended |                      |
|--|--------------------|----------------------|
|  | 2011               | March 31,<br>2010    |
| Net sales:   |                    |                      |
| United States  | \$ 11,794          | \$ 11,078            |
| Europe   | 121,569            | 108,295              |
|  | \$ 133,363         | \$ 119,373           |
| Net income (loss) attributable to Inter Parfums, Inc.: |                    |                      |
| United States  | \$ (294 )          | \$ (537 )            |
| Europe   | 13,053             | 7,087                |
|  | \$ 12,759          | \$ 6,550             |
|  | March 31,<br>2011  | December 31,<br>2010 |
| Total Assets:  |                    |                      |
| United States  | \$ 40,719          | \$ 40,896            |
| Europe   | 461,227            | 398,547              |
| Eliminations of investment in subsidiary               | (1,338 )           | (1,338 )             |
|  | \$ 500,608         | \$ 438,105           |



INTER PARFUMS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

12. Accrued Expenses:

Accrued expenses include approximately \$13.9 million and \$14.7 million in advertising liabilities as of March 31, 2011 and December 31, 2010, respectively.

13. Reclassification:

Certain prior year amounts in the accompanying consolidated statements of cash flows have been reclassified to conform to current period presentation. More specifically, proceeds from sale of stock of subsidiary and payments for acquisition of noncontrolling interests have been reclassified from net cash provided by (used in) investing activities to net cash provided by (used in) financing activities.

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, 2010 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. Our prestige fragrance products are produced and marketed by our European operations through our 74% owned subsidiary in Paris, Inter Parfums, S.A., which is also a publicly traded company as 26% of Inter Parfums, S.A. shares trade on the Euronext. Prestige cosmetics and prestige skin care products represent less than 1% of consolidated net sales.

We produce and distribute our prestige products primarily under license agreements with brand owners, and prestige product sales represented approximately 91% of net sales for the three months ended March 31, 2011 and 2010. We have built a portfolio of prestige brands, which include Burberry, Lanvin, Van Cleef & Arpels, Jimmy Choo, Montblanc, Paul Smith, S.T. Dupont, Nickel and Boucheron, whose products are distributed in over 120 countries around the world. Shipments to our distribution subsidiaries are not recognized as sales until that merchandise is sold by our distribution subsidiary to its customers.

Burberry is our most significant license, as sales of Burberry products represented 50% and 61% of net sales for the three months ended March 31, 2011 and 2010, respectively. In addition, we own the Lanvin brand name for our class of business and sales of Lanvin product represented 14% and 12% of net sales for the three months ended March 31, 2011 and 2010, respectively.

Our specialty retail and mass-market fragrance and fragrance related products are marketed through our United States operations and represented 9% of sales for the three months ended March 31, 2011 and 2010. 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, Brooks Brothers, bebe, Betsey Johnson, Nine West, Lane Bryant and Jordache trademarks.

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 launches than by the third and fourth quarter holiday season. However, in certain markets where we now sell direct 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 United States distribution subsidiary. In addition, the introduction of our specialty retail product lines for U. S. retailers has also contributed to a concentration of sales 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 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 good for us which are then delivered to one of our distribution centers.

As with any business, many aspects of our operations are subject to influences outside our control. Since late 2009, our business continued to rebound from the global economic uncertainties that had an impact on our business in early 2009. Despite these conditions, some of which continue to exist, our results for the three months ended March 31, 2011 exceeded the net sales and profitability expectations that we had at the beginning of the year. 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.

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 in excess of 35% of net sales of our European operations are denominated in U.S. dollars, while all costs of our European operations are incurred in euro. Our Company addresses certain financial exposures through a controlled program of risk management that includes the use of derivative financial instruments. We primarily enter into foreign currency forward exchange contracts to reduce the effects of fluctuating foreign currency exchange rates.

Recent Important Events

Lane Bryant

In March 2011, we entered into an exclusive agreement with a unit of Charming Shoppes, Inc. for its flagship brand, Lane Bryant. Under the agreement, Inter Parfums will design and manufacture personal care products for the Lane Bryant brand, while Lane Bryant is responsible for marketing, promoting and selling these products. The initial term of the contract, which may be extended by mutual consent, runs through December 31, 2015.

INTER PARFUMS, INC. AND SUBSIDIARIES

S. T. Dupont

In April 2011 we renewed our license agreement with S.T. Dupont for the creation, development and distribution of fragrance lines through December 31, 2016 on mutually favorable terms and conditions. Our initial eleven year license agreement with S.T. Dupont was signed in June 1997, and had previously been extended in 2006 for an additional three years until June 2011.

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.

The judgments used by management in applying critical accounting policies could be affected by a further and prolonged general deterioration in the economic environment, which could negatively influence future financial results and availability of continued financing. Specifically, subsequent evaluations of our accounts receivables, inventories, and deferred tax assets in light of the factors then prevailing, could result in significant changes in our allowance and reserve accounts in future periods, which in turn could generate significant additional charges. Similarly, the valuation of certain intangible assets could be negatively impacted by prolonged and severely depressed market conditions thus leading to the recognition of impairment losses. The following is a brief discussion of the more critical accounting policies that we employ.

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. Accounts receivable reflect the granting of credit to these customers. We generally grant credit based upon our analysis of the customer's financial position as well as previously established buying patterns. 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.

INTER PARFUMS, INC. AND SUBSIDIARIES

Sales Returns

Generally, we do not permit customers to return their unsold products. However, on a case-by-case basis we occasionally allow customer returns. 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. 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.

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 fair 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. 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 (based on industry purchase and sale transaction data) 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.



## INTER PARFUMS, INC. AND SUBSIDIARIES

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 and, in certain instances, we engage third party valuation specialists to advise us. We have determined that we may be inclined to sell the Nickel business within the next few years. Therefore, as of December 31, 2009, we measured fair value of the business to be equal to the average amount offered by several potential purchasers of the Nickel business. As a result, the carrying amount of the goodwill exceeded its implied fair value resulting in an impairment loss of \$1.7 million in 2009. The same evaluation was performed in 2010 and no further impairment was noted. We expect Nickel brand sales to remain steady over the next few years as the result of new product launches in combination with an economic recovery. 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. For the year ended December 31, 2009, an impairment charge relating to the Nickel trademark in the amount of \$0.54 million was recorded. No impairment charge was required in 2010. We assumed a market royalty rate of 6% and a discount rate of 7.4%.

The following table presents the impact a change in the following significant assumptions would have had on the calculated fair value in 2010 assuming all other assumptions remained constant:

| In thousands                     | Change | Increase (decrease)<br>to fair value |
|----------------------------------|--------|--------------------------------------|
| Weighted average cost of capital | +10%   | \$ (219 )                            |
| Weighted average cost of capital | -10%   | \$ 280                               |
| Future sales levels              | +10%   | \$ 266                               |
| Future sales levels              | -10%   | \$ (266 )                            |

INTER PARFUMS, INC. AND SUBSIDIARIES

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 7.4%. 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 that we have made in projecting future cash flows for the evaluations described above are reasonable and currently no impairment indicators exist for our indefinite-lived assets other than the Nickel trademarks referred to above. 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.

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.

## INTER PARFUMS, INC. AND SUBSIDIARIES

## 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.

## 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.

The Company follows the provisions of uncertain tax positions as addressed in FASB Accounting Standards Codification 740-10-65-1.

## Results of Operations

Three Months Ended March 31, 2011 as Compared to the Three Months Ended March 31, 2010

| Net Sales                         | Three months ended March 31, |          |   |          |          |   | 2009    |
|-----------------------------------|------------------------------|----------|---|----------|----------|---|---------|
|                                   | 2011                         | % Change |   | 2010     | % Change |   |         |
|                                   | (in millions)                |          |   |          |          |   |         |
| European based product sales      | \$ 121.6                     | 12       | % | \$ 108.3 | 32       | % | \$ 82.0 |
| United States based product sales | 11.8                         | 6        | % | 11.1     | 32       | % | 8.4     |
| Total net sales                   | \$ 133.4                     | 12       | % | \$ 119.4 | 32       | % | \$ 90.4 |

After increasing 32% in the 2010 period as compared to 2009, net sales for the three months ended March 31, 2011 increased 12% to \$133.4 million, as compared to \$119.4 million for the corresponding period of the prior year. At comparable foreign currency exchange rates, net sales in 2011 also increased 12%. Following a downturn in our business in 2009 due in great part to the global economic crisis, throughout 2010 and continuing in 2011, our business rebounded. Our results for the three months ended March 31, 2011 exceeded the net sales and profitability expectations that we had at the beginning of the year.



INTER PARFUMS, INC. AND SUBSIDIARIES

European based prestige product sales increased 12% to \$121.6 million, as compared to \$108.3 million for the corresponding period of the prior year. First quarter sales growth was due to a number of factors, including the commencement of prestige product distribution in the U.S. by our subsidiary, Interparfums Luxury Brands as of January 1, 2011. Taking over U.S. prestige product distribution contributed to the increase of 35% in first quarter North American prestige product sales in local currency. Other markets that were especially strong during the period include South America and Eastern Europe, where comparable quarter prestige product sales in local currency were up 97% and 37%, respectively.

From a product standpoint, the Jimmy Choo signature fragrance debuted with limited distribution in the first quarter. With strong demand on order renewals plus broader distribution anticipated in the second half, we are increasing our production forecast for the year. Also contributing to the top line growth were Lanvin brand sales which, in local currency, were 35% ahead of last year's first quarter. Based upon sales of Montblanc's historic lines and the launch of Legend for men, brand sales are also running well ahead of budget. In local currency, comparable quarter Burberry brand sales declined a modest 8%, in line with expectations, as last year's first quarter benefited from the worldwide launch of Burberry Sport. Similarly in local currency, first quarter Van Cleef & Arpels sales were 19% below those of last year's first quarter which included the launch of Oriens.

We are gearing up for a very active 2011 reflecting several factors, including the continued strength of our brands and worldwide distribution network. Our growth expectations for 2011 reflect the impact of our taking control over U.S. distribution for our prestige brands and the inclusion of the Montblanc fragrance business for a full year. In addition, we have a strong line-up of new product launches and brand extensions to drive sales growth. In addition to the Jimmy Choo launch discussed above, distribution of the signature scent will roll out to wider distribution in the Spring. Also early in 2011 we began the integration of existing fragrance lines under our newest licensed brand, Boucheron. In March 2011, we debuted Legend, our first new Montblanc fragrance for men as well as a new men's and women's scent for Paul Smith fragrances. Most importantly, to further strengthen the Burberry brand's potential for sustained growth in the years ahead a major new women's line will be launched in Fall 2011. Finally, with respect to Burberry Beauty, the color cosmetics collection, plans call for additional products to be rolled out throughout the year and distribution is expected to be expanded by approximately 30 additional retail outlets. We are currently reviewing Burberry Beauty results, as well as the anticipated financial commitment which may be necessary, in order to determine the appropriate level of distribution for the Burberry Beauty in the years to come.

With respect to our United States specialty retail and mass-market products, net sales increased 6% for the first quarter of 2011 following an increase of 32% for the first quarter of 2010. International distribution of specialty retail products continues to benefit from the economic recovery. In addition, our bebe signature fragrance has done especially well in overseas markets and we expanded bebe distribution into additional third party retail outlets.

For the Banana Republic brand, a new women's scent Wildbloom, is now in stores and brand extensions for the Discover and Republic of Men and Republic of Women collections are being prepared. Building upon the success of the Gap brand's Close and Stay fragrances, a third women's signature scent and a new men's scent are planned for later this year. We will also add more lip color and lip care products into the Gap beauty mix, along with their first nail color products. We are also in the development stage for several new fragrance concepts and line extensions for our other specialty retail brands. Most of the new product introductions, including the debut of products for Betsey Johnson and Nine West, are timed for the second half of 2011.

## INTER PARFUMS, INC. AND SUBSIDIARIES

We have been actively pursuing other new business opportunities and in March 2011, we entered into an exclusive agreement with a unit of Charming Shoppes, Inc. for its flagship brand, Lane Bryant. Under the agreement, Inter Parfums will design and manufacture personal care products for the Lane Bryant brand, while Lane Bryant is responsible for marketing, promoting and selling these products. The initial term of the contract, which may be extended by mutual consent, runs through December 31, 2015. We have worked with Lane Bryant to develop a line of performance-based bath, body and specialty products, which will be sold under Lane Bryant's Cacique® brand. The initial line of products will include a lip gloss collection, and will be launched at 150 Lane Bryant stores and at www.lanebryant.com in late spring, with chain wide rollout anticipated in early 2012. Additional products, including additional body care products and a fine fragrance, are contemplated for holiday 2011.

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

| Gross margin<br>(in millions)    | Three months ended March 31, |          |
|----------------------------------|------------------------------|----------|
|                                  | 2011                         | 2010     |
| Net sales                        | \$ 133.4                     | \$ 119.4 |
| Cost of sales                    | 46.8                         | 47.7     |
| Gross margin                     | \$ 86.6                      | \$ 71.7  |
| Gross margin as a % of net sales | 65 %                         | 60 %     |

Gross margin was 65% of net sales in 2011 and 60% of net sales in 2010. The gross margin improvement is primarily the result of us taking over, as of January 1, 2011, prestige product distribution in the U.S. by our subsidiary, Interparfums Luxury Brands. We now sell our prestige products in the U.S. direct to retailers rather than through a third party distributor which generates higher gross margins on our product sales.

We carefully watch movements in foreign currency exchange rates as approximately 35% of our European operations sales are denominated in dollars, while our costs are incurred in euro. Therefore, from a profit standpoint, a weaker U.S. dollar has a negative impact on our gross margin. The average exchange rate for the three months ended March 31, 2011 was substantially similar to that for the corresponding period of the prior year. We occasionally enter into foreign currency forward exchange contracts to reduce the effects of fluctuating foreign currency exchange rates.

Generally, we do not bill customers for shipping and handling costs and such costs, which aggregated \$1.4 million and \$1.3 million for the three month period ended March 31, 2011 and 2010, respectively, are included in selling, general and administrative expenses in the consolidated statements of income. As such, our Company's gross profit may not be comparable to other companies which may include these expenses as a component of cost of goods sold.

## INTER PARFUMS, INC. AND SUBSIDIARIES

| Selling, general and administrative expenses<br>(in millions)  | Three months ended March 31, |      |      |      |
|--|------------------------------|------|------|------|
|  | 2011                         |      | 2010 |      |
| Selling, general & administrative expenses                     | \$                           | 61.0 | \$   | 55.7 |
| Selling, general & administrative expenses as a % of net sales |                              | 46   | %    | 47   |
|  |                              |      | %    |      |

Selling, general and administrative expenses increased 10% for the three months ended March 31, 2011, as compared to the corresponding period of the prior year. As a percentage of sales selling, general and administrative expenses were 46% and 47% for the three month period ended March 31, 2011 and 2010, respectively.

Promotion and advertising included in selling, general and administrative expenses aggregated approximately \$18.3 million (13.7% of net sales) and \$18.9 million (15.8% of net sales) for the three month period ended March 31, 2011 and 2010, respectively. With the commencement in January 2011 of prestige product distribution in the U.S. by our subsidiary, Interparfums Luxury Brands, we are now responsible for 100% of the cost of advertising support for our prestige fragrance brands in the U.S. Prior to 2011 we shared such expenditures with our former U.S. distributor. During the three months ended March 31, 2011, there were no global launches and accordingly, our advertising and promotion expenditures were lower. Our plans call for a significant portion of our annual advertising budget to be incurred in the second half of 2011. As a result, profitability will be highly concentrated in the first half of 2011.

Royalty expense included in selling, general, and administrative expenses aggregated \$11.5 million (8.6% of net sales) and \$11.2 million (9.4% of net sales), for the three month periods ended March 31, 2011 and 2010, respectively. With the commencement in January 2011 of prestige product distribution in the U.S. by our subsidiary, Interparfums Luxury Brands, royalty expense as a percentage of sales is expected to decline.

Income from operations increased 59% to \$25.5 million for the three months ended March 31, 2011, as compared to \$16.0 million for the corresponding period of the prior year. Operating margins were 19.1% of net sales in the current period as compared to 13.4% for the corresponding period of the prior year.

Interest expense aggregated \$0.4 million for the three months ended March 31, 2011, as compared to \$0.6 million in 2010. We use the credit lines available to us, as needed, to finance our working capital needs as well as our financing needs for acquisitions. Loans payable – banks and long-term debt including current maturities aggregated \$21.4 million as of December 31, 2010, as compared to \$34.6 million as of December 31, 2009.

Foreign currency gains or (losses) aggregated \$0.4 million and (\$2.4) million for the three months ended March 31, 2011 and 2010, respectively. We enter into foreign currency forward exchange contracts to manage exposure related to certain foreign currency commitments. Hedge effectiveness 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 and resulted in most of the gains and losses referred to above.

## INTER PARFUMS, INC. AND SUBSIDIARIES

Our effective income tax rate was 33% for both the three month ended March 31, 2011 and 2010. Our effective tax rates differ from statutory rates due to the effect of state and local taxes and tax rates in foreign jurisdictions. On an annual basis, our effective tax rate has been between 34% and 35%. This rate has been declining as a result of beneficial foreign tax rates received on a portion of Inter Parfums, S.A. taxable income as a result of the formation of IP Suisse which holds certain intangible assets. In addition, the lower rates achieved during the first quarter of 2011 and 2010 are due to losses in our United States segment which carry a higher effective rate due to state and local taxes. No significant changes in tax rates were experienced nor were any expected in jurisdictions where we operate.

## Net Income and Earnings per Share

| (in thousands except per share data)                                | Three months ended |         |
|---|--------------------|---------|
|   | March 31,<br>2011  | 2010    |
| Net income  | \$17,340           | \$8,950 |
| Less: Net income attributable to the noncontrolling interest        | 4,581              | 2,400   |
| Net income attributable to Inter Parfums, Inc.                      | \$12,759           | \$6,550 |
| Earnings per share:   |                    |         |
| Net income attributable to Inter Parfums, Inc. common shareholders: |                    |         |
| Basic   | \$0.42             | \$0.22  |
| Diluted   | \$0.41             | \$0.22  |
| Weighted average number of shares outstanding:                      |                    |         |
| Basic   | 30,474             | 30,192  |
| Diluted   | 30,634             | 30,291  |

Net income increased 94% to \$17.3 million for the three months ended March 31, 2011, as compared to \$9.0 million for the corresponding period of the prior year. Net income attributable to the noncontrolling interest aggregated 26.4% of net income in 2011 and 26.8% in 2010. Net income attributable to Inter Parfums, Inc. increased 95% to \$12.8 million for the three months ended March 31, 2011, as compared to \$6.6 million for the corresponding period of the prior year.

Diluted earnings per share increased 86% to \$0.41 for the three months ended March 31, 2011, as compared to \$0.22 for the corresponding period of the prior year. Weighted average shares outstanding aggregated 30.5 million and 30.2 million for the three months ended March 31, 2011 and 2010, respectively. On a diluted basis, average shares outstanding were 30.6 million for the three months ended March 31, 2011, as compared to 30.3 million for the corresponding period of the prior year.

## Liquidity and Capital Resources

Our financial position remains strong. At March 31, 2011, working capital aggregated \$208 million and we had a working capital ratio of 2.3 to 1. Cash and cash equivalents and short-term investments aggregated \$84 million.



INTER PARFUMS, INC. AND SUBSIDIARIES

Cash provided by (used in) operating activities aggregated (\$1.8) million and \$8.6 million for the three months ended March 31, 2011 and 2010, respectively. For the three months ended March 31, 2011, working capital items used \$23 million in cash from operating activities, as compared to \$1.0 million in the 2010 period. The increase in accounts receivable of \$19.5 million or 20% from December 31, 2010 is reasonable considering sales were up 12% for the period and accounts receivable balances are typically at their lowest at year end. The \$25.3 million increase in inventories for the three months ended March 31, 2011, as shown on the statement of cash flows, reflects the needed inventory build to support sales growth and upcoming product launches.

Cash flows provided by (used in) investing activities in 2011 reflect the net redemption of \$9.1 million in short-term investments which are certificates of deposit with maturities slightly greater than three months. We also spent approximately \$3.3 million for capital items. Our business is not capital intensive as we do not own any manufacturing facilities. However, we typically spend between \$2.5 million and \$3.5 million per year on tools and molds, depending on our new product development calendar. The balance of capital expenditures is for office fixtures, computer equipment and industrial equipment needed at our distribution centers. Capital expenditures in 2011 are expected to be in the range of \$6.0 million to \$6.5 million, considering our 2011 launch schedule.

Our short-term financing requirements are expected to be met by available cash on hand at March 31, 2011, cash generated by operations and short-term credit lines provided by domestic and foreign banks. The principal credit facilities for 2011 consist of a \$15.0 million unsecured revolving line of credit provided by a domestic commercial bank and approximately \$23.0 million in credit lines provided by a consortium of international financial institutions. As of March 31, 2011, short-term borrowings aggregated \$6.4 million.

Our long-term credit facilities provide for principal and interest to be repaid in 20 quarterly installments. As of March 31, 2011, total long-term debt including current maturities aggregated \$14.1 million. Proceeds from sale of stock of subsidiary reflect the proceeds from shares issued by our French subsidiary Inter Parfums, S.A. pursuant to options exercised in 2011.

In January 2011, the board of directors authorized an approximate 23% increase in the annual dividend to \$0.32 per share. The first quarterly dividend of \$0.08 per share was paid on April 15, 2011 to shareholders of record on March 31, 2011. The annual cash dividend for 2011 represents a small part of our cash position and is not expected to have any significant impact on our financial position.

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

Inflation rates in the U.S. and foreign countries in which we operate did not have a significant impact on operating results for the three month period ended March 31, 2011.

## INTER PARFUMS, INC. AND SUBSIDIARIES

## Contractual Obligations

The following table sets forth, as of December 31, 2010, our contractual obligations over the periods indicated in the table, as well as our total contractual obligations (\$ in thousands).

| Contractual Obligations   | Total       | Payments due by period |              |              |                      |
|---|-------------|------------------------|--------------|--------------|----------------------|
|   |             | Less than<br>1 year    | Years<br>2-3 | Years<br>4-5 | More than<br>5 years |
| Long-Term Debt (2)  | \$16,800    | \$11,600               | \$5,200      |              |                      |
| Capital Lease Obligations   |             |                        |              |              |                      |
| Operating Leases  | \$29,700    | \$6,900                | \$8,200      | \$5,500      | \$9,100              |
| Purchase obligations(1)   | \$1,240,600 | \$140,400              | \$294,800    | \$311,100    | \$494,300            |
| Other Long-Term Liabilities Reflected on the<br>Registrant's Balance Sheet under GAAP |             |                        |              |              |                      |
| Total   | \$1,287,100 | \$158,900              | \$308,200    | \$316,600    | \$503,400            |

(1) 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 advertising commitments were estimated based on planned future sales for the license terms that were in effect at December 31, 2010, without consideration for potential renewal periods and do not reflect the fact that our distributors share our advertising obligations.

(2) 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 \$0.21 million and \$0.47 million in 2011 and 2012, respectively.

## 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 Inter Parfums, S.A., 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 March 31, 2011, we had foreign currency contracts in the form of forward exchange contracts in the amount of approximately U.S. \$27 million and GB pounds 4.3 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%. The remaining balance owed pursuant to this facility is as of March 31, 2011 was €6.6 million. This derivative instrument is 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 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  |
|-------------|--|
| 31.1        | Certifications required by Rule 13a-14(a) of Chief Executive Officer                       |
| 31.2        | Certifications required by Rule 13a-14(a) of Chief Financial Officer                       |
| 32.1        | Certification required by Section 906 of the Sarbanes-Oxley Act of Chief Executive Officer |
| 32.1        | Certification required by Section 906 of the Sarbanes-Oxley Act of Chief Financial Officer |

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 9th day of May 2011.

INTER PARFUMS, INC.

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