INTER PARFUMS INC
Form 10-Q
August 07, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(MARK ONE)

x Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended June 30, 2013.

OR

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

Commission File No. **0-16469**

INTER PARFUMS, INC.

(Exact name of registrant as specified in its charter)

Delaware	**13-3275609**
(State or other jurisdiction of incorporation or organization)	(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 x No ¨

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

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

Large accelerated Filer ¨	Accelerated filer x
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

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

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

At August 5, 2013, there were 30,796,914 shares of common stock, par value $.001 per share, outstanding.

INTER PARFUMS, INC. AND SUBSIDIARIES

INDEX

	Page Number
Part I. Financial Information	1
Item 1. Financial Statements	
Consolidated Balance Sheets as of June 30, 2013 and December 31, 2012	2
Consolidated Statements of Income for the Three and Six Months Ended June 30, 2013 and June 30, 2012	3
Consolidated Statements of Comprehensive Income for the Three and Six Months Ended June 30, 2013 and June 30, 2012	4
Consolidated Statements of Changes in Equity for the Six Months Ended June 30, 2013 and June 30, 2012	5
Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2013 and June 30, 2012	6
Notes to Consolidated Financial Statements	7
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	15
Item 3. Quantitative and Qualitative Disclosures About Market Risk	29
Item 4. Controls and Procedures	30
Part II. Other Information	31
Item 6. Exhibits	31
Signatures	31

INTER PARFUMS, INC. AND SUBSIDIARIES

Part I. Financial Information

Item 1. Financial Statements

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

The results of operations for the six months ended June 30, 2013 are not necessarily indicative of the results to be expected for the entire fiscal year.

INTER PARFUMS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands except share and per share data)

(Unaudited)

	June 30, 2013	December 31, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	$142,117	$ 307,335
Short-term investments	119,682	—
Accounts receivable, net	124,098	149,340
Inventories	112,641	142,614
Receivables, other	1,818	2,534
Other current assets	5,018	5,897
Income tax receivable	590	1,968
Deferred tax assets	7,167	13,132
Total current assets	513,131	622,820
Equipment and leasehold improvements, net	9,336	12,289
Goodwill	947	954
Trademarks, licenses and other intangible assets, net	110,344	113,041
Other assets	11,062	10,816
Total assets	$644,820	$ 759,920
LIABILITIES AND EQUITY		
Current liabilities:		
Loans payable – banks	$394	$ 27,776
Accounts payable, trade	58,911	73,113
Accrued expenses	43,261	68,768
Income taxes payable	7,161	84,030
Dividends payable	3,695	2,453
Total current liabilities	113,422	256,140
Deferred tax liability	3,424	3,799
Equity:		
Inter Parfums, Inc. shareholders’ equity:		
Preferred stock, $.001 par; authorized 1,000,000 shares; none issued		

Common stock, $.001 par; authorized 100,000,000 shares; outstanding 30,787,894 and 30,680,634 shares at June 30, 2013 and December 31, 2012, respectively	31	31
Additional paid-in capital	56,122	54,679
Retained earnings	377,887	349,672
Accumulated other comprehensive income	8,377	12,498
Treasury stock, at cost, 9,976,524 common shares at June 30, 2013 and December 31, 2012	(35,404)	(35,404)
Total Inter Parfums, Inc. shareholders' equity	407,013	381,476
Noncontrolling interest	120,961	118,505
Total equity	527,974	499,981
Total liabilities and equity	$644,820	$ 759,920

See notes to consolidated financial statements.

Page 2

INTER PARFUMS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(In thousands except per share data)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Net sales	$117,485	$145,555	$331,296	$310,923
Cost of sales	53,878	57,099	133,045	116,389
Gross margin	63,607	88,456	198,251	194,534
Selling, general and administrative expenses	55,708	75,828	123,376	150,152
Income from operations	7,899	12,628	74,875	44,382
Other expenses (income):				
Interest expense	416	442	874	805
(Gain) loss on foreign currency	(461)	931	982	1,178
Interest income	(1,064)	(311)	(2,254)	(835)
	(1,109)	1,062	(398)	1,148
Income before income taxes	9,008	11,566	75,273	43,234
Income taxes	4,487	4,085	27,810	15,499
Net income	4,521	7,481	47,463	27,735
Less: Net income attributable to the noncontrolling interest	706	1,473	11,952	6,230
Net income attributable to Inter Parfums, Inc.	$3,815	$6,008	$35,511	$21,505
Earnings per share:				
Net income attributable to Inter Parfums, Inc. common shareholders:				
Basic	$0.12	$0.20	$1.16	$0.70
Diluted	$0.12	$0.20	$1.14	$0.70
Weighted average number of shares outstanding:				
Basic	30,748	30,563	30,717	30,557
Diluted	30,953	30,688	30,900	30,687

Dividends declared per share	$0.12	$0.08	$0.24	$0.16

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 June 30, 2013	Three Months Ended June 30, 2012	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
Comprehensive income (loss):				
Net income	$ 4,521	$ 7,481	$ 47,463	$ 27,735
Other comprehensive income:				
Net derivative instrument gain (loss), net of tax	(9)	(56)	—	46
Reclassification from OCI into earnings, net	(327)	—	(327)	—
Translation adjustments, net of tax	9,392	(17,644)	(4,979)	(8,127)
Comprehensive income (loss)	13,577	(10,219)	42,157	19,654
Comprehensive income attributable to the noncontrolling interests:				
Net income	706	1,473	11,952	6,230
Other comprehensive income:				
Net derivative instrument gain (loss), net of tax	(5)	(9)	—	16
Reclassification from OCI into earnings, net	(87)	—	(87)	—
Translation adjustments, net of tax	2,889	(4,535)	(1,098)	(2,132)
Comprehensive income (loss) attributable to the noncontrolling interests	3,503	(3,071)	10,767	4,114
Comprehensive income (loss) attributable to Inter Parfums, Inc.	$ 10,074	$ (7,148)	$ 31,390	$ 15,540

See notes to consolidated financial statements.

.

INTER PARFUMS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(In thousands)

(Unaudited)

	Six months ended June 30, 2013	2012
Common stock, beginning and end of period	$31	$31
Additional paid-in capital, beginning of period	54,679	50,883
Shares issued upon exercise of stock options	1,198	311
Sale of subsidiary shares to noncontrolling interests	—	737
Stock-based compensation	245	253
Additional paid-in capital, end of period	56,122	52,184
Retained earnings, beginning of period	349,672	228,164
Net income	35,511	21,505
Dividends	(7,378)	(4,889)
Stock-based compensation	82	80
Retained earnings, end of period	377,887	244,860
Accumulated other comprehensive income, beginning of period	12,498	7,747
Foreign currency translation adjustment	(3,881)	(5,995)
Net derivative instrument gain (loss), net of tax	(240)	30
Accumulated other comprehensive income, end of period	8,377	1,782
Treasury stock, beginning and end of period	(35,404)	(34,151)
Noncontrolling interest, beginning of period	118,505	71,676
Net income	11,952	6,230
Foreign currency translation adjustment	(1,098)	(2,132)
Net derivative instrument gain (loss), net of tax	(87)	16
Sale of subsidiary shares to noncontrolling interest	—	2,508
Dividends	(8,341)	(3,333)
Stock-based compensation	30	30
Noncontrolling interest, end of period	120,961	74,995
Total equity	$527,974	$339,701

See notes to consolidated financial statements.

INTER PARFUMS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Six months ended June 30, 2013	2012
Cash flows from operating activities:		
Net income	$47,463	$27,735
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	6,003	7,455
Provision for doubtful accounts	118	472
Noncash stock compensation	421	425
Deferred tax (benefit)	5,560	(1,353)
Change in fair value of derivatives	—	(56)
Changes in:		
Accounts receivable	24,181	32,056
Inventories	29,212	(15,861)
Other assets	876	(55)
Accounts payable and accrued expenses	(39,465)	(43,321)
Income taxes, net	(75,437)	3,784
Net cash provided by (used in) operating activities	(1,068)	11,281
Cash flows from investing activities:		
Purchases of short-term investments	(199,722)	—
Proceeds from sale of short-term investments	79,098	—
Purchases of equipment and leasehold improvements	(2,328)	(5,968)
Proceeds from sale of equipment	2,801	—
Payment for intangible assets acquired	(1,804)	(2,337)
Net cash used in investing activities	(121,955)	(8,305)
Cash flows from financing activities:		
Repayments of loans payable – banks, net	(27,356)	(7,272)
Repayment of long-term debt	—	(2,860)
Proceeds from exercise of options	1,197	311
Proceeds from sale of stock of subsidiary	—	3,245
Dividends paid	(6,137)	(4,889)
Dividends paid to noncontrolling interest	(8,341)	(3,333)
Net cash used in financing activities	(40,637)	(14,798)
Effect of exchange rate changes on cash	(1,558)	(904)

Net decrease in cash and cash equivalents	(165,218)	(12,726)
Cash and cash equivalents - beginning of period	307,335	35,856
Cash and cash equivalents - end of period	$142,117	$23,130
Supplemental disclosure of cash flow information:		
Cash paid for:		
Interest	$887	$838
Income taxes	96,604	9,793

See notes to consolidated financial statements.

INTER PARFUMS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

1. Significant Accounting Policies:

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

2. Recent Accounting Pronouncements:

In July 2013, new accounting guidance was issued regarding financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit exists. This guidance is effective for interim and annual periods beginning after December 15, 2014. The adoption of this new guidance is not expected to have a material affect the Company’s financial position, results of operations or cash flows.

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

3. Termination of Burberry License:

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

The transition agreement provided that Burberry inventories at March 31, 2013 should be less than $20.0 million in the aggregate. Actual Burberry inventory as of March 31, 2013 aggregated approximately $18 million. During the second quarter of 2013, the Company and Burberry reached an agreement regarding inventory. Burberry agreed to purchase $7.8 million of inventory at cost. Remaining inventories were sold off in the ordinary course of business pursuant to our sell-off rights, destroyed or given to Burberry at no charge.

As of June 30, 2013, the $10 million inventory reserve, recorded in December upon recognition of the license termination gain of $198.8 million, was fully consumed by the costs incurred for inventories given to Burberry at no charge, sold below cost and destroyed, together with commercial rebates and free merchandise given to customers over the sell-off period.

Accounts receivables and accounts payables were collected and paid in the ordinary course of business. In addition, Burberry purchased fixed assets for $2.8 million as agreed in the transition agreement.

INTER PARFUMS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

4. Inventories:

Inventories consist of the following:

(In thousands)	June 30, 2013	December 31, 2012
Raw materials and component parts	$36,946	$ 47,732
Finished goods	75,695	94,882
	$112,641	$ 142,614

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 June 30, 2013		
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Short-term investments	$119,682	$ —	$ 119,682	$ —
Foreign currency forward exchange contracts not accounted for using hedge accounting	182	—	182	—
	$119,864	$ —	$ 119,864	$ —

(In thousands)		Fair Value Measurements at December 31, 2012		
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Foreign currency forward exchange contracts not accounted for using hedge accounting	$784	$ —	$ 784	$ —

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

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

INTER PARFUMS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

6. <u>Derivative Financial Instruments:</u>

The Company enters into foreign currency forward exchange contracts to hedge exposure related to receivables denominated in a foreign currency and occasionally to manage risks related to future sales expected to be denominated in a foreign currency. The Company had no cash flow hedges during the three and six month periods ended June 30, 2013 and 2012.

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

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) recognized in Income on Derivative	Six months ended June 30, 2013	Six months ended June 30, 2012
Interest rate swaps	Interest expense	$ —	$ 56
Foreign exchange contracts	Gain (loss) on foreign currency	$ 15	$ 143

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) recognized in Income on Derivative	Three months ended June 30, 2013	Three months ended June 30, 2012
Interest rate swaps	Interest expense	$ —	$ 26
Foreign exchange contracts	Gain (loss) on foreign currency	$ (10)	$ 29

All derivative instruments are reported as either assets or liabilities on the balance sheet measured at fair value. The valuation of foreign currency forward exchange contracts not accounted for using hedge accounting as of June 30, 2013 and December 31, 2012, resulted in an asset and is included in other current assets on the accompanying balance sheets. Generally, increases or decreases in the fair value of derivative instruments will be recognized as gains or losses in earnings in the period of change. If the derivative instrument is designated and qualifies as a cash flow hedge, the changes in fair value of the derivative instrument will be recorded as a separate component of shareholders' equity.

At June 30, 2013, we had foreign currency contracts in the form of forward exchange contracts in the amount of approximately U.S. $48 million and GB pounds £5.2 million which all have maturities of less than one year.

INTER PARFUMS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

7. Goodwill and Other Intangible Assets:

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.

		Fair Value Measurements at June 30, 2013		
Description	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Trademark - Nickel	$2,288	$ —	$ —	$ 2,288
Goodwill	$947	$ —	$ —	$ 947

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

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

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

INTER PARFUMS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

8. Share-Based Payments:

The Company maintains a stock option program for key employees, executives and directors. The plans, all of which have been approved by shareholder vote, provide for the granting of both nonqualified and incentive options. Options granted under the plans typically have a six year term and vest over a four to five-year period. The fair value of shares vested during the six months ended June 30, 2013 and 2012 aggregated $0.04 million and $0.52 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 six month period ended June 30, 2013:

	Number of Shares	Weighted Average Grant Date Fair Value
Nonvested options – beginning of period	346,075	$ 5.02
Nonvested options granted	9,000	$ 6.17
Nonvested options vested or forfeited	(12,455)	$ 4.25
Nonvested options – end of period	342,620	$ 5.08

Share-based payment expense decreased income before income taxes by $0.21 million and $0.42 million for the three and six month periods ended June 30, 2013, respectively, as compared to $0.20 million and $0.43 million for the corresponding periods of the prior year. Share-based payment expense decreased income attributable to Inter Parfums, Inc. by $0.11 million and $0.23 million for the three and six month periods ended June 30, 2013 and 2012, respectively.

The following table summarizes stock option information as of June 30, 2013:

	Shares	Weighted Average Exercise Price
Outstanding at January 1, 2013	716,235	$ 14.41
Options granted	9,000	21.95
Options cancelled	(2,100)	16.54
Options exercised	(107,060)	11.19

Outstanding at June 30, 2013	616,075	$	15.07
Options exercisable	273,455	$	12.65
Options available for future grants	585,775		

As of June 30, 2013, the weighted average remaining contractual life of options outstanding is 3.18 years (1.76 years for options exercisable), the aggregate intrinsic value of options outstanding and options exercisable is $8.3 million and $4.3 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, Interparfums SA, was $0.34 million. Options under Interparfums SA plans vest over a four-year period.

INTER PARFUMS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Cash proceeds, tax benefits and intrinsic value related to stock options exercised during the six months ended June 30, 2013 and June 30, 2012 were as follows:

(In thousands)	June 30, 2013	June 30, 2012
Cash proceeds from stock options exercised	$ 1,197	$ 311
Tax benefits	275	34
Intrinsic value of stock options exercised	1,785	105

The weighted average fair values of the options granted by Inter Parfums, Inc. during the six months ended June 30, 2013 and 2012 were $6.17 and $4.99 per share, respectively, on the date of grant using the Black-Scholes option pricing model to calculate the fair value of options granted. The assumptions used in the Black-Scholes pricing model for the periods ended June 30, 2013 and 2012 are set forth in the following table:

	June 30, 2013		June 30, 2012	
Weighted-average expected stock-price volatility	38	%	40	%
Weighted-average expected option life	5 years		4.5 years	
Weighted-average risk-free interest rate	0.89	%	0.84	%
Weighted-average dividend yield	2.0	%	1.7	%

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

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

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

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

Page 12

INTER PARFUMS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(In thousands)	Three months ended June 30, 2013	Three months ended June 30, 2012	Six months ended June 30, 2013	Six months ended June 30, 2012
Numerator:				
Net income attributable to Inter Parfums, Inc.	$ 3,815	$ 6,008	$ 35,511	$ 21,505
Effect of dilutive securities of consolidated subsidiary	(176)	—	(176)	—
Numerator for diluted earnings per share	$ 3,639	$ 6,008	$ 35,335	$ 21,505
Denominator:				
Weighted average shares	30,748	30,563	30,717	30,557
Effect of dilutive securities:				
Stock options	205	125	183	130
Denominator for diluted earnings per share	30,953	30,688	30,900	30,687
Earnings per share:				
Net income attributable to Inter Parfums, Inc. common shareholders:				
Basic	$ 0.12	$ 0.20	$ 1.16	$ 0.70
Diluted	0.12	0.20	1.14	0.70

Not included in the above computations is the effect of antidilutive potential common shares which consist of outstanding options to purchase 0.07 million shares of common stock for the six month periods ended June 30, 2013, and 0.23 million shares of common stock for both the three and six month periods ended June 30, 2012.

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

(In thousands)	Three months ended June 30, 2013	Three months ended June 30, 2012	Six months ended June 30, 2013	Six months ended June 30, 2012
Net income attributable to Inter Parfums, Inc.	$ 3,815	$ 6,008	$ 35,511	$ 21,505
Increase in Inter Parfums, Inc.'s additional paid-in capital for subsidiary share transactions	—	737	—	737
Change from net income attributable to Inter Parfums, Inc. and transfers from noncontrolling interest	$ 3,815	$ 6,745	$ 35,511	$ 22,242

11. <u>Segment and Geographic Areas:</u>

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

INTER PARFUMS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(In thousands)	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
Net sales:				
United States	$24,805	$19,897	$43,354	$41,249
Europe	92,778	125,616	287,981	270,813
Eliminations	(98)	42	(39)	(1,139)
	$117,485	$145,555	$331,296	$310,923
Net income attributable to Inter Parfums, Inc.:				
United States	$12,855	$921	$13,517	$2,485
Europe	2,274	5,041	33,295	19,022
Eliminations of intercompany profits	(11,314)	46	(11,301)	(2)
	$3,815	$6,008	$35,511	$21,505

	June 30, 2013	December 31, 2012
Total Assets:		
United States	$77,465	$ 64,278
Europe	576,451	704,464
Eliminations of investment in subsidiary	(9,096)	(8,822)
	$644,820	$ 759,920

12. <u>Accrued Expenses:</u>

Accrued expenses include approximately $10.2 million and $24.4 million in advertising liabilities as of June 30, 2013 and December 31, 2012, respectively.

13. <u>Subsequent Events:</u>

In July 2013, the Company created a wholly-owned Hong Kong subsidiary, Inter Parfums USA Hong Kong Limited, which entered into a 12-year exclusive worldwide license to create, produce and distribute perfumes and related products under China’s leading luxury brand, Shanghai Tang. The agreement commenced on July 1, 2013 and is subject to certain minimum sales, advertising expenditures and royalty payments as are customary in our industry. The Company plans to launch its first fragrance under the Shanghai Tang brand in Spring 2014.

On July 25, 2013, the Company entered into a 10.5-year exclusive worldwide license to create, produce and distribute perfumes and related products under London-based luxury lingerie brand, Agent Provocateur. The agreement commences on August 1, 2013 and is subject to certain minimum advertising expenditures as is customary in our industry. The Company plans to launch its first fragrance under the Agent Provocateur brand in 2014. In addition, Inter Parfums will take over distribution of selected fragrances within the brand’s current perfume portfolio and plans to revitalize the Agent Provocateur signature scent.

INTER PARFUMS, INC. AND SUBSIDIARIES

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

Forward Looking Information

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

Regulation S-K Item 10(e)

Regulation S-K Item 10(e), "Use of non-GAAP financial measures in commission filings," prescribes the conditions for use of non-GAAP financial information in commission filings. We believe that our presentation of the non-GAAP financial information included in this Form 10-Q is important supplemental measures of operating performance to investors.

Overview

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

We produce and distribute our European based prestige products primarily under license agreements with brand owners, and European based prestige product sales represented approximately 87% of net sales for the six months ended June 30, 2013 and 2012. We have built a portfolio of prestige brands, which include *Lanvin, Jimmy Choo, Van Cleef & Arpels, Montblanc, Paul Smith, Boucheron, S.T. Dupont, Balmain, Karl Lagerfeld and Repetto*, whose products are distributed in over 100 countries around the world.

Burberry was our most significant license, and sales of Burberry products represented 39% and 43% of net sales for the six months ended June 30, 2013 and 2012, respectively. (*See* Note 3 "Termination of Burberry License" in notes to consolidated financial statements on page 7 of this Form 10-Q). In addition, we own the Lanvin brand name for our class of trade, and license the Montblanc and Jimmy Choo brand names; sales of products for these three brands represented 13.5%, 11.2% and 10.8% of net sales for the six months ended June 30, 2013, respectively, as compared to 12.3%, 9.2% and 7.8% respectively, for the corresponding period of the prior year.

INTER PARFUMS, INC. AND SUBSIDIARIES

Through our United States operations we also market prestige brand as well as specialty retail fragrance and fragrance related products. United States operations represented 13% of net sales for the six months ended June 30, 2013 and 2012. These fragrance products are sold under trademarks pursuant to license or other agreements with the owners of the *Anna Sui, Alfred Dunhill, Shanghai Tang, Agent Provocateur, Gap*, *Banana Republic, Brooks Brothers, bebe, Betsey Johnson, Nine West, and Lane Bryant* brands.

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

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

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

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

During the six months ended June 30, 2013, the economic uncertainty and financial market volatility taking place in certain European countries did not have a significant impact on our business, and at this time we do not believe it will have a significant impact on our business for the foreseeable future. This is due in part to our belief that we are well positioned as a result of our strategy to manage our business effectively and efficiently. However, if the degree of uncertainty or volatility worsens or is prolonged, then there will likely be a negative effect on ongoing consumer confidence, demand and spending and as a result, our business. Currently, we believe general economic and other uncertainties still exist in select markets in which we do business, and we continue to monitor global economic uncertainties and other risks that may affect our business.

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 approximately 40% of net sales of our European operations are denominated in U.S. dollars, while all costs of our European operations are incurred in euro. Our Company addresses certain financial exposures through a controlled program of risk management that includes the use of derivative financial instruments. We primarily enter into foreign currency forward exchange contracts to reduce the effects of fluctuating foreign currency exchange rates.

Recent Important Events

Burberry

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

The transition agreement provided that Burberry inventories at March 31, 2013 should be less than $20.0 million in the aggregate. Actual Burberry inventory as of March 31, 2013 aggregated approximately $18 million. During the second quarter of 2013, the Company and Burberry reached an agreement regarding inventory. Burberry agreed to purchase $7.8 million of inventory at cost. Remaining inventories were sold off in the ordinary course of business pursuant to our sell-off rights, destroyed or given to Burberry at no charge.

As of June 30, 2013, the $10 million inventory reserve, recorded in December upon recognition of the license termination gain of $198.8 million, was fully consumed by the costs incurred for inventories given to Burberry at no charge, sold below cost and destroyed, together with commercial rebates and free merchandise given to customers over the sell-off period.

Accounts receivables and accounts payables were collected and paid in the ordinary course of business. In addition, Burberry purchased fixed assets for $2.8 million as agreed in the transition agreement.

INTER PARFUMS, INC. AND SUBSIDIARIES

Shanghai Tang

In July 2013, the Company created a wholly-owned Hong Kong subsidiary, Inter Parfums USA Hong Kong Limited, which entered into a 12-year exclusive worldwide license to create, produce and distribute perfumes and related products under China's leading luxury brand, Shanghai Tang. The agreement commenced on July 1, 2013 and is subject to certain minimum sales, advertising expenditures and royalty payments as are customary in our industry. The Company plans to launch its first fragrance under the Shanghai Tang brand in Spring 2014.

Agent Provocateur

On July 25, 2013, the Company entered into a 10.5-year exclusive worldwide license to create, produce and distribute perfumes and related products under London-based luxury lingerie brand, Agent Provocateur. The agreement commences on August 1, 2013 and is subject to certain minimum advertising expenditures as is customary in our industry. The Company plans to launch its first fragrance under the Agent Provocateur brand in 2014. In addition, Inter Parfums will take over distribution of selected fragrances within the brand's current perfume portfolio and plans to revitalize the Agent Provocateur signature scent.

Discussion of Critical Accounting Policies

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

Revenue Recognition

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

Net sales are comprised of gross revenues less returns, trade discounts and allowances.

Accounts Receivable

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

INTER PARFUMS, INC. AND SUBSIDIARIES

Sales Returns

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

Promotional Allowances

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

Inventories

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

INTER PARFUMS, INC. AND SUBSIDIARIES

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 carrying value of the reporting unit below its fair value or (ii) indicate that the carrying value of an indefinite-lived intangible asset may not be recoverable. Impairment of goodwill is evaluated using a two-step process. The first step involves a comparison of the estimated fair value of the reporting unit to the carrying value of that unit to determine if there is an indication of impairment. In accordance with ASU 2011-08, the Company has the option of performing a qualitative assessment before calculating the fair value of a reporting unit in the first step of the goodwill impairment test. If the Company determines, on the basis of qualitative factors, that the fair value of a reporting unit is more likely than not less than the carrying amount, the two-step impairment test would be required. Otherwise, further testing would not be needed. If the carrying value of the reporting unit exceeds the fair value of the reporting unit, the second step of the process involves comparison of the implied fair value of goodwill with its carrying value. If the carrying value of the reporting unit's goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized as an amount equal to the excess.

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

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

In thousands	Change	Increase (decrease) to fair value

Weighted average cost of capital	+10%	$	(301)
Weighted average cost of capital	-10%	$	396
Future sales levels	+10%	$	255
Future sales levels	-10%	$	(255)

Page 20

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 7.6%. The cash flow projections are based upon a number of assumptions, including, future sales levels and future cost of goods and operating expense levels, as well as economic conditions, changes to our business model or changes in consumer acceptance of our products which are more subjective in nature. We believe that the assumptions we have made in projecting future cash flows for the evaluations described above are reasonable. However, if future actual results do not meet our expectations, we may be required to record an impairment charge, the amount of which could be material to our results of operations.

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. In addition, the Company follows the provisions of uncertain tax positions as addressed in ASC topic 740-10-65-1.

Results of Operations

Three and Six Months Ended June 30, 2013 as Compared to the Three and Six Months Ended June 30, 2012

Net Sales

	Three months ended June 30,	Six Months Ended June 30,

	2013	2012	% Change		2013	2012	% Change	
	($ in millions)							
European-based product sales	$92.7	$125.6	-26.2	%	$287.9	$ 270.8	6.3	%
United States-based product sales	24.8	20.0	24.4	%	43.4	40.1	8.3	%
	$117.5	$145.6	-19.3	%	$331.3	$ 310.9	6.6	%

Net sales for the three months ended June 30, 2013 decreased 19.3% to $117.5 million, as compared to $145.6 million for the corresponding period of the prior year. At comparable foreign currency exchange rates, net sales decreased 20.6% for the period. Net sales for the six months ended June 30, 2013 increased 6.6% to $331.3 million, as compared to $310.9 million for the corresponding period of the prior year. At comparable foreign currency exchange rates, net sales increased 5.7% for the period. Our association with Burberry concluded during the second quarter of 2013. Burberry brand product sales aggregated $20.7 million and $130.3 million for the three and six months ended June 30, 2013, respectively, as compared to $62.8 million and $134.0 million for the corresponding periods of the prior year.

INTER PARFUMS, INC. AND SUBSIDIARIES

See information regarding Regulation S-K Item 10(e) on page 15 of this Form 10-Q. European based prestige product sales excluding Burberry brand product sales increased 15% for both three and six month periods ended June 30, 2013, as compared to the corresponding periods of the prior year. Our major ongoing brands have performed very well in the first half of 2013. Jimmy Choo introduced its second fragrance line, Jimmy Choo *Flash*, which contributed to the 43% and 48% increase in brand sales for the second quarter and first half, respectively. Sales of Montblanc *Legend* fragrances also performed exceptionally well spurring second quarter and first half brand sales up 20.3% and 30.2%, respectively. With the continued growth of *Eclat d'Arpège* along with the launch of *Lanvin Me* and the steady performance of the *Jeanne Lanvin* line, Lanvin product sales increased 14% and 16% in the second quarter and first half, respectively.

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

With respect to our United States prestige brand and specialty retail products, sales benefited from strong consumer demand and expanded retail distribution for Anna Sui fragrances. Initial sales of Anna Sui fragrances began in 2012 and we expect this brand to gain further momentum following the launch of *La Vie de Bohème* during the third quarter of 2013. Additionally, in April 2013, our U.S. based operations took over the manufacture and distribution of legacy Alfred Dunhill fragrances, which provided an incremental contribution to second quarter 2013 growth for our U.S. business.

Consolidated Net Sales to Customers by Region

(in millions)

	Six months ended June 30,	
	2013	2012
North America	$ 86.0	$ 83.6
Western Europe	93.6	78.6
Eastern Europe	27.8	21.5
Central and South America	27.0	28.3
Middle East	28.7	34.3
Asia	63.2	60.7
Other	5.0	3.9

$ 331.3	$ 310.9

Page 23

INTER PARFUMS, INC. AND SUBSIDIARIES

Gross margin	Three months ended June 30,		Six months ended June 30,	
(In millions)	2013	2012	2013	2012
Net sales	$ 117.5	$ 145.6	$ 331.3	$ 310.9
Cost of sales	53.9	57.1	133.0	116.4
Gross margin	$ 63.6	$ 88.5	$ 198.3	$ 194.5
Gross margin as a percent of net sales	54 %	61 %	60 %	63 %

Gross profit margin was 54% and 60% for the three and six month periods ended June 30, 2013, respectively, as compared to 61% and 63% for the corresponding periods of the prior year. The gross margin decline is directly related to the resolution of the Burberry inventory during the period. Although reserves were established and used to cover losses on the disposition of inventory, the sale to Burberry, at cost, resulted in lower gross margin during the periods.

In addition, we carefully monitor movements in foreign currency exchange rates as approximately 40% of our European based operations net sales are denominated in dollars, while our costs are incurred in euro. From a profit standpoint, a stronger U.S. dollar has a positive effect on our gross margin while a weak dollar has a negative effect. The average dollar/euro exchange rate for the six months ended June 30, 2013 was 1.32, as compared to 1.30 for the 2012 period. As such, there was only a minor effect on gross margin in 2013 from changes in currency exchange rates.

Generally, we do not bill customers for shipping and handling costs, and such costs, which aggregated $1.1 million and $3.1 million for the three and six month periods ended June 30, 2013, respectively, as compared to $1.9 million and $3.9 million for the corresponding periods of the prior year, are included in selling, general and administrative expenses in the consolidated statements of income. As such, our Company’s gross profit may not be comparable to other companies, which may include these expenses as a component of cost of goods sold.

Selling, general and administrative expenses	Three months ended June 30,		Six months ended June 30,	
(In millions)	2013	2012	2013	2012
Selling, general and administrative expenses	$ 55.7	$ 75.8	$ 123.4	$ 150.2
Selling, general and administrative expenses as a percent of net sales	47 %	52 %	37 %	48 %

Selling, general and administrative expenses decreased 26% and 18% for the three and six-month periods ended June 30, 2013, respectively, as compared to the corresponding periods of the prior year. Selling, general and administrative expenses were 47% and 37% of net sales for the three and six-month periods ended June 30, 2013, as compared to 52% and 48% for the corresponding periods of the prior year.

INTER PARFUMS, INC. AND SUBSIDIARIES

Promotion and advertising included in selling, general and administrative expenses aggregated $22.4 million and $37.1 million for the three and six-month periods ended June 30, 2013, respectively, as compared to $30.4 million and $57.1 million for the corresponding periods of the prior year. Promotion and advertising represented 19% and 11% of net sales for the three and six months ended June 30, 2013, as compared to 21% and 18% of net sales for the corresponding period of the prior year. In 2013, pursuant to the requirements of the transition agreement with Burberry, advertising requirements were reduced. For the three months ended June 30, 2013, promotional spending on continuing brands aggregated approximately 20.6% of net sales, which is consistent with that of the prior year. We plan to invest heavily in the second half of 2013 to support new product launches and invest in the continued worldwide development of our brand portfolio.

Royalty expense included in selling, general and administrative expenses aggregated $6.8 million and $24.8 million for the three and six month periods ended June 30, 2013, respectively, as compared to $12.4 million and $26.1 million for the corresponding periods of the prior year. Royalty expense represented 5.8% and 7.5% of net sales for the three and six months ended June 30, 2013, as compared to 8.5% and 8.4% of net sales for the corresponding period of the prior year. In addition, service fees relating to the activities of our distribution subsidiaries aggregated $2.8 million and $9.4 million for the three and six month periods ended June 30, 2013, respectively, as compared to $5.2 million and $10.9 million for the corresponding periods of the prior year. The declines in both royalties and service fees are directly related to the termination of the Burberry license.

As a result of the above analysis, income from operations decreased to $7.9 million for the three-month period ended June 30, 2013, as compared to $12.6 million for the corresponding period of the prior year. Income from operations increased to $74.9 million for the six month period ended June 30, 2013, as compared to $44.4 million for the corresponding period of the prior year. Operating margins were 6.7% and 22.6% of net sales for the three and six month periods ended June 30, 2013, respectively, as compared to 8.7% and 14.3% for the corresponding periods of the prior year. Results for the six months ended June 30, 2013 were influenced by an exceptional first quarter where profits were extraordinarily strong due to a substantial increase in sales, coupled with low promotional expenses. Second quarter results were influenced by lower sales and profitability relating to the termination of the Burberry license. As we build our business in this new post Burberry era, we are investing in our on-going brands, and we anticipate higher promotional expense in succeeding periods.

Interest expense aggregated $0.4 million and $0.9 million for the three and six-month periods ended June 30, 2013, respectively, as compared to $0.4 million and $0.8 million for the corresponding periods of the prior year. We use the credit lines available to us, as needed, to finance our working capital needs. In October 2012, the Company entered into a one year, €20 million short-term credit facility to finance payments required pursuant to the Karl Lagerfeld license. This credit facility was repaid in full as of June 30, 2013.

Interest income aggregated $1.1 million and $2.3 million for the three and six-month periods ended June 30, 2013, respectively, as compared to $0.3 million and $0.8 million for the corresponding periods of the prior year. Cash and cash equivalents and short-term investments are primarily invested in certificates of deposit.

Our effective income tax rate was 50% and 37% for the three and six-month periods ended June 30, 2013, respectively, as compared to 35% and 36% for the corresponding periods of the prior year. In 2013, the company incurred a new tax levied by the French Government equal to 3% on any dividend paid by a French company to its shareholders. This new tax aggregated approximately $1.3 million for the three and six months ended June 30, 2013. Excluding this new tax our effective income tax rate was 36% and 35% for the three and six-month periods ended June 30, 2013, respectively. Our effective tax rates differ from statutory rates due to the effect of state and local taxes and tax rates in foreign jurisdictions.

INTER PARFUMS, INC. AND SUBSIDIARIES

Net income and earnings per share

(In thousands except per share data)	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Net income	$ 4,521	$ 7,481	$ 47,463	$ 27,735
Less: Net income attributable to the noncontrolling interest	706	1,473	11,952	6,230
Net income attributable to Inter Parfums, Inc.	$ 3,815	$ 6,008	$ 35,511	$ 21,505
Earnings per share:				
Net income attributable to Inter Parfums, Inc. common shareholders:				
Basic	$ 0.12	$ 0.20	$ 1.16	$ 0.70
Diluted	$ 0.12	$ 0.20	$ 1.14	$ 0.70
Weighted average number of shares outstanding:				
Basic	30,748	30,563	30,717	30,557
Diluted	30,953	30,688	30,900	30,687

Net income decreased to $4.5 million for the three months ended June 30, 2013, as compared to $7.5 million for the corresponding period of the prior year. Net income increased to $47.5 million for the six-months ended June 30, 2013, as compared to $27.7 million for the corresponding period of the prior year.

Net income attributable to the noncontrolling interest aggregated 16% and 25% of net income for the three and six month periods ended June 30, 2013, respectively, as compared to 20% and 22% for both corresponding periods of the prior year. The fluctuations are primarily the effect of changes in the percentage of profit contributed by our 100% owned U.S. operating segment.

Net income attributable to Inter Parfums, Inc. decreased to $3.8 million for the three months ended June 30, 2013, as compared to $6.0 million for the corresponding period of the prior year. Net income attributable to Inter Parfums, Inc. increased to $35.5 million for the six months ended June 30, 2013, as compared to $21.5 million for the corresponding period of the prior year.

Diluted earnings per share were $0.12 and $0.20 for the three months ended June 30, 2013 and 2012, respectively, and diluted earnings per share were $1.14 and $0.70 for the six months ended June 30, 2013 and 2012, respectively.

INTER PARFUMS, INC. AND SUBSIDIARIES

Liquidity and Capital Resources

Having received the proceeds in December 2012 from the termination of the Burberry license, our financial position remains strong. At June 30, 2013, working capital aggregated $400 million and we had a working capital ratio of 4.5 to 1. Cash and cash equivalents and short-term investments aggregated $262 million.

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

The transition agreement provided that Burberry inventories at March 31, 2013 should be less than $20.0 million in the aggregate. Actual Burberry inventory as of March 31, 2013 aggregated approximately $18 million. During the second quarter of 2013, the Company and Burberry reached an agreement regarding inventory. Burberry agreed to purchase $7.8 million of inventory at cost. Remaining inventories were sold off in the ordinary course of business pursuant to our sell-off rights, destroyed or given to Burberry at no charge.

As of June 30, 2013, the $10 million inventory reserve, recorded in December upon recognition of the license termination gain of $198.8 million, was fully consumed by the costs incurred for inventories given to Burberry at no charge, sold below cost and destroyed, together with commercial rebates and free merchandise given to customers over the sell-off period.

Accounts receivables and accounts payables were collected and paid in the ordinary course of business. In addition, Burberry purchased fixed assets for $2.8 million as agreed in the transition agreement.

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

Cash provided by (used in) operating activities aggregated ($1.1) million and $11.3 million for the six months ended June 30, 2013 and 2012, respectively. For the six months ended June 30, 2013, working capital items used $60.6 million in cash from operating activities, as compared to $23.4 million in the 2012 period. The biggest factor contributing to the use of cash during the 2013 period is the payment of taxes relating to the gain on termination of license. The decline in accounts receivable, inventories and payables reflect the wind down associated with the termination of the Burberry license.

Cash flows used in investing activities in 2013 reflect the purchase and sales, in France, of short-term investments aggregating to a net position of $120.7 million. These investments are primarily certificates of deposit with maturities greater than three months. Approximately $39 million of such certificates of deposit contain penalties where we would forfeit a portion of the interest earned in the event of early withdrawal.

INTER PARFUMS, INC. AND SUBSIDIARIES

Our business is not capital intensive as we do not own any manufacturing facilities. However, on a full year basis, we spend upwards of $4 million on tools and molds, depending on our new product development calendar. Capital expenditures also include amounts for office fixtures, computer equipment and industrial equipment needed at our distribution centers. In addition, we generated proceeds of approximately $2.8 million from the sale of certain Burberry assets to Burberry.

Our short-term financing requirements are expected to be met by available cash on hand at June 30, 2013, cash generated by operations and short-term credit lines provided by domestic and foreign banks. The principal credit facilities for 2013 consist of a $15.0 million unsecured revolving line of credit provided by a domestic commercial bank and approximately $50.0 million in credit lines provided by a consortium of international financial institutions. As of June 30, 2013, short-term borrowings aggregated $0.4 million.

In January 2013, our Board of Directors authorized a 50% increase in the annual dividend to $0.48 per share for 2013. The next quarterly dividend of $0.12 per share will be paid on October 14, 2013 to shareholders of record on September 30, 2013. The annual cash dividend for 2013 represents a small part of our cash position and is not expected to have any significant impact on our financial position.

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

Inflation rates in the U.S. and foreign countries in which we operate did not have a significant impact on operating results for the three month period ended June 30, 2013.

Contractual Obligations

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

	Payments due by period				
Contractual Obligations	Total	Less than 1 year	Years 2-3	Years 4-5	More than 5 years
Long-Term Debt					
Capital Lease Obligations					

Operating Leases	$30,080	$ 4,527	$7,872	$7,383	$ 10,298
Purchase obligations(1)	$974,670	$ 88,704	$189,695	$189,101	$ 507,170
Other Long-Term Liabilities Reflected on the Registrant's Balance Sheet under GAAP					
Total	$1,004,750	$ 93,231	$197,567	$196,484	$ 517,468

(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, 2012, without consideration for potential renewal periods and do not reflect the fact that our distributors share our advertising obligations.

INTER PARFUMS, INC. AND SUBSIDIARIES

Item 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

General

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

Foreign Exchange Risk Management

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

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 June 30, 2013, we had foreign currency contracts in the form of forward exchange contracts in the amount of approximately U.S. $48 million and GB pounds £5.2 million which all have maturities of less than one year. We believe that our risk of loss as the result of nonperformance by any of such financial institutions is remote.

Interest Rate Risk Management

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

INTER PARFUMS, INC. AND SUBSIDIARIES

Item 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Control Over Financial Reporting

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

INTER PARFUMS, INC. AND SUBSIDIARIES

Part II. Other Information

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

Item 6. Exhibits.

The following documents are filed herewith:

Exhibit No.	Description	Page Number
4.21	2004 Nonemployee Director Stock Option Plan as amended	34
4.22	2004 Stock Option Plan as amended	40
31.1	Certifications required by Rule 13a-14(a) of Chief Executive Officer	52
31.2	Certifications required by Rule 13a-14(a) of Chief Financial Officer	53
32.1	Certification required by Section 906 of the Sarbanes-Oxley Act of Chief Executive Officer	54
32.2	Certification required by Section 906 of the Sarbanes-Oxley Act of Chief Financial Officer	55
101*	Interactive data files	

---

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

<u>SIGNATURES</u>

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized on the 7th day of August 2013.

INTER PARFUMS, INC.

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